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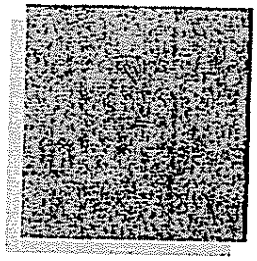

MERCATOR MOMENTUM FUND, L.P.

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

July, 2006

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No: _____

MERCATOR MOMENTUM FUND, L.P.

999 Interests at $100,000 per Interest
(10 Interest Minimum)

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

As amended July, 2006

Mercator Momentum Fund, L.P. (the "Partnership") was organized on July 12, 2002 as a private investment limited partnership that seeks to obtain short term returns by investing in various securities, issued by small public companies which have a market capitalization typically less than $500 million ("Portfolio Companies"). The Partnership's day-to-day operations are managed and its capital invested by M.A.G. Capital, LLC (formerly known as Mercator Advisory Group, LLC), a California limited liability company (the "General Partner").

The Partnership intends to make direct structured investments in publicly traded micro to small-cap companies. Also, the Fund may invest in private transactions in anticipation of such private companies possibly merging into public companies by means of a reverse subsidiary merger, such that the private company could ultimately become a publicly traded company. (Both such investment types collectively referred to as "Direct Investments.") See "Investment Objectives and Strategies." In addition to Direct Investments, the Partnership may also make interim investments in money market or equivalent instruments pending investment, extend loans secured by the borrowing company's securities and may from time to time invest in public equities in the open market, including in short, derivative or other positions designed to partially hedge other Partnership investments or commitments. (Along with Direct Investments, these investments are collectively referred to as an "Investment" or "Investments").

This Confidential Private Placement Memorandum (the "Memorandum") relates to an offering of limited partnership interests ("Interests") in the Partnership (the "Offering"). **Prospective investors should carefully read and retain this Memorandum.** The investors will be limited partners (the "Limited Partners") of the Partnership. The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

In making an investment decision, investors must rely upon their own examination of the Partnership and the terms of the offering, and must carefully review the Memorandum, especially the sections entitled "Certain Risk Factors," "Fees and Expenses" and "Investment Objectives and Strategies."

NOTICE TO ALL POTENTIAL INVESTORS

This Confidential Private Placement Memorandum (the "Memorandum") relates to an offering of limited partnership interests ("Interests") in the Partnership (the "Offering"). Prospective investors should carefully read and retain this Memorandum. The investors will be limited partners (the "Limited Partners") of the Partnership. The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

In making an investment decision, investors must rely upon their own examination of the Partnership and the terms of the offering, and must carefully review the Memorandum, especially the sections entitled "Certain Risk Factors," "Fees and Expenses" and "Investment Objectives and Strategies."

RISK FACTORS. THE LIMITED PARTNERSHIP INTERESTS OFFERED PURSUANT TO THIS MEMORANDUM ARE HIGHLY SPECULATIVE AND INVOLVE RISKS (SEE "CERTAIN RISK FACTORS"). NO ONE SHOULD INVEST IN THIS PARTNERSHIP UNLESS HE, SHE OR IT HAS REVIEWED THIS MEMORANDUM CAREFULLY AND IS PREPARED TO BEAR THE RISK OF THIS ILLIQUID INVESTMENT. PROSPECTIVE INVESTORS SHOULD ALSO CAREFULLY REVIEW THE COMPENSATION PAYABLE TO THE GENERAL PARTNER.

THIS IS AN OFFERING OF UNREGISTERED SECURITIES. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), NOR QUALIFIED, APPROVED OR DISAPPROVED UNDER ANY OTHER FEDERAL OR STATE SECURITIES LAWS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION ("SEC") NOR ANY OTHER FEDERAL OR STATE REGULATORY AUTHORITY HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

TRANSFERS AND WITHDRAWALS ARE SUBJECT TO SIGNIFICANT RESTRICTIONS. THE SECURITIES OFFERED HEREBY MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF BY AN INVESTOR EXCEPT WITH THE CONSENT OF THE GENERAL PARTNER AND UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT AND, WHERE REQUIRED, UNDER THE LAWS OF OTHER JURISDICTIONS, UNLESS SUCH PROPOSED SALE, TRANSFER OR DISPOSITION IS EXEMPT FROM SUCH REGISTRATION. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

LIMITED ABILITY TO RELY ON THIS MEMORANDUM. NO OFFERING LITERATURE OR ADVERTISING OR ORAL REPRESENTATIONS SHALL BE USED IN CONNECTION WITH THIS OFFERING OTHER THAN THE INFORMATION USED IN THE MEMORANDUM. THE DELIVERY OF THIS MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. NO PERSON HAS BEEN AUTHORIZED TO MAKE THE REPRESENTATIONS OTHER THAN THOSE CONTAINED HEREIN. EACH OFFEREE AND HIS, HER OR ITS AUTHORIZED REPRESENTATIVE IS OFFERED THE OPPORTUNITY TO ASK QUESTIONS AND RECEIVE ANSWERS FROM THE GENERAL PARTNER CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING AND TO OBTAIN SUCH ADDITIONAL INFORMATION AS HE, SHE OR IT SHALL DEEM NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION SET FORTH HEREIN TO THE EXTENT SUCH ADDITIONAL INFORMATION MAY BE OBTAINED BY THE GENERAL PARTNER WITHOUT UNREASONABLE EFFORT OR EXPENSE. DOCUMENTS REFERRED TO HEREIN ARE AVAILABLE FOR INSPECTION BY POTENTIAL INVESTORS OR THEIR REPRESENTATIVES UPON REQUEST.

TAX ADVICE: AS REQUIRED BY U.S. TREASURY REGULATIONS GOVERNING TAX PRACTICE, YOU ARE HEREBY ADVISED THAT ANY WRITTEN TAX ADVICE CONTAINED HEREIN WAS NOT WRITTEN OR INTENDED TO BE USED (AND CANNOT BE USED) BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

FORWARD LOOKING STATEMENTS: THIS MEMORANDUM CONTAINS FORWARD-LOOKING STATEMENTS BASED ON THE GENERAL PARTNER'S EXPERIENCE AND EXPECTATIONS ABOUT THE MARKETS IN WHICH THE PARTNERSHIP INVESTS AND THE METHODS BY WHICH THE GENERAL PARTNER EXPECTS TO CAUSE THE PARTNERSHIP TO INVEST IN THOSE MARKETS. THOSE STATEMENTS ARE SOMETIMES INDICATED BY WORDS SUCH AS "EXPECTS," "BELIEVES," "SEEKS," "MAY," "INTENDS," "ATTEMPTS," "WILL," AND SIMILAR EXPRESSIONS. THOSE FORWARD-LOOKING STATEMENTS ARE NOT GUARANTIES OF FUTURE PERFORMANCE AND ARE SUBJECT TO MANY RISKS, UNCERTAINTIES, AND ASSUMPTIONS THAT ARE DIFFICULT TO PREDICT. THEREFORE, ACTUAL RETURNS COULD BE MUCH LOWER THAN THOSE EXPRESSED OR IMPLIED IN ANY FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. THE SECTION TITLED

"CERTAIN RISK FACTORS" IN THIS MEMORANDUM DISCUSSES SOME OF THE IMPORTANT RISK FACTORS THAT MAY AFFECT THE PARTNERSHIP'S RETURNS. YOU SHOULD CAREFULLY CONSIDER THOSE RISKS AND OTHER INFORMATION IN THIS MEMORANDUM BEFORE DECIDING WHETHER TO INVEST IN THE PARTNERSHIP. NEITHER THE PARTNERSHIP NOR THE GENERAL PARTNER HAS ANY OBLIGATION TO REVISE OR UPDATE ANY FORWARD-LOOKING STATEMENT FOR ANY REASON.

IMPORTANT NOTICES

THIS IS A PRIVATE OFFERING. THIS IS A PRIVATE OFFERING MADE PURSUANT TO APPLICABLE FEDERAL AND STATE "PRIVATE PLACEMENT" EXEMPTIONS. THE INTERESTS MUST BE ACQUIRED FOR INVESTMENT PURPOSES ONLY AND ONCE ACQUIRED WILL NOT BE FREELY TRANSFERABLE.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS UNLAWFUL. THIS MEMORANDUM CONSTITUTES AN OFFER ONLY IF DELIVERY OF THIS MEMORANDUM IS PROPERLY AUTHORIZED BY THE GENERAL PARTNER. THIS MEMORANDUM HAS BEEN PREPARED BY THE GENERAL PARTNER SOLELY FOR THE BENEFIT OF PERSONS INTERESTED IN THE PROPOSED SALE OF THE INTERESTS, AND ANY DISTRIBUTION OR REPRODUCTION OF THIS MEMORANDUM, IN WHOLE OR IN PART, WITHOUT THE PRIOR WRITTEN CONSENT OF THE GENERAL PARTNER, IS PROHIBITED.

YOU SHOULD CONSULT WITH YOUR ADVISERS BEFORE INVESTING. THE CONTENTS OF THIS MEMORANDUM SHOULD NOT BE CONSTRUED AS INVESTMENT, LEGAL OR TAX ADVICE. A NUMBER OF FACTORS MATERIAL TO A DECISION WHETHER TO INVEST IN THE INTERESTS ARE PRESENTED IN THIS MEMORANDUM IN SUMMARY OR OUTLINE FORM ONLY AND ARE IN RELIANCE ON THE FINANCIAL SOPHISTICATION OF THE OFFEREES. EACH INVESTOR SHOULD CONSULT HIS/HER OWN COUNSEL, ACCOUNTANT AND OTHER PROFESSIONAL ADVISORS AS TO LEGAL, TAX AND OTHER RELATED MATTERS CONCERNING HIS/HER INVESTMENT.

CRITERIA TO BE AN INVESTOR. THIS OFFERING IS AVAILABLE ONLY TO "QUALIFIED CLIENTS" AS THAT TERM IS DEFINED PURSUANT TO RULE 205-3(d) UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED AND "ACCREDITED INVESTORS" AS THAT TERM IS DEFINED

PURSUANT TO REGULATION D OF THE SECURITIES ACT (SEE "SUITABILITY").

* * *

THE PARTNERSHIP INVESTMENT PROGRAM ENTAILS SUBSTANTIAL RISKS AND THERE CAN BE NO ASSURANCE THAT THE INVESTMENT OBJECTIVES WILL BE ACHIEVED. THE INVESTORS MAY LOSE ALL OF THEIR INVESTMENT. See "CERTAIN RISK FACTORS".

Directory

General Partner/ Investment Advisor	**MAG Capital, LLC** **555 South Flower Street** **Suite 4200** **Los Angeles, CA 90071**
Administrator	**Fitzgerald & Associates** **300 East State Street** **Suite 501** **Redlands, CA 92373**
Auditor	**Rothstein Kass Company, P.C.** **9171 Wilshire Boulevard** **Suite 500** **Beverly Hills, CA 90210**
Prime Broker	**Morgan Stanley** **555 California Street** **Suite 2200** **San Francisco, CA 94104**
Legal Counsel	***For the Investment Adviser*** **Sheppard, Mullin, Richter & Hampton, LLP** **333 South Hope Street, 48th Floor** **Los Angeles, CA 90071**

SUMMARY OF TERMS

The following is a summary of the terms and conditions of an investment in Mercator Momentum Fund, L.P. and is qualified in its entirety by the information appearing elsewhere in this Memorandum and the Partnership's Limited Partnership Agreement (the "Partnership Agreement"). The description of any document is qualified by reference to such document.

The Partnership

The Partnership (sometimes referred to herein as the "Fund") is a California limited partnership that was formed on July 12, 2002. The Partnership Agreement provides that the Partnership shall be for a term of 10 years from the date of the initial closing, which occurred on December 1, 2002.

The Master Fund

The General Partner may create a master fund, to which the assets of the Partnership may be transferred (the "Master Fund" and with the Partnership and any other affiliated pooled investment vehicles, the "Funds"). If a Master Fund is created, the Partnership will be a limited partner of the Master Fund. The Master Fund would be formed to serve as a centralized investment vehicle, commonly known as a "master fund."

Acting as a centralized investment vehicle, the Master Fund will seek to increase aggregate assets by attracting capital from "feeder funds," including the Partnership and a similar offshore fund (the "Offshore Feeder Fund" and with the Partnership, the "Feeder Funds"), for which the General Partner (defined below) serves as the investment adviser, as well as from other qualified investors.

The General Partner

M.A.G. Capital, LLC, a California Limited Liability company, is a Registered Investment Advisor under the Investment Advisors Act of 1940 with the Securities and Exchange Commission of the United States (the "General Partner").

M.A.G. Capital was formerly known as Mercator Advisory Group, LLC.

M.A.G. Capital serves as the General Partner of the Partnership (the "General Partner") and has exclusive power and authority with respect to the management of the Fund, including discretionary authority over the assets of the Fund and responsibility for managing the Fund's securities portfolio on a daily basis.

The Offering

The Partnership is offering to sell up to 999 Interests in the Partnership at $100,000 per Interest. The minimum investment is ten Interests per Investor, although the General Partner may accept a lesser sum in its sole discretion.

Investment Objectives and Strategies

The Fund's investment objective will be to achieve a superior rate of return, relative to the risks assumed.

The Fund currently intends to invest in various securities issued by publicly traded micro to small-cap companies with an emphasis on transactions involving Private Investments in Public Equities ("PIPES") and Controlled Equity Offerings (described below). Also, the Fund may invest in private transactions in anticipation of such private companies possibly merging into public companies by means of a reverse subsidiary merger, such that the private company could ultimately become a publicly traded company. The Fund may invest in securities issued by companies located in the United States or in foreign countries, although investments are typically made in companies traded on US Exchanges.

In a typical PIPEs transaction a public company will privately sell unregistered securities at a discount to the market price. Upon the completion of its securities offering, the company will register the securities with the Securities and Exchange Commission ("SEC") for resale to the public. The PIPEs process allows an issuer to raise capital more quickly than a traditional public financing in which the registration statement is filed first.

In a typical Controlled Equity Offerings transaction, the Fund will enter into a financing agreement with a Portfolio Company pursuant to which the Fund commits to purchase up to a specified dollar amount of a Portfolio Company's freely tradable common stock (typically one to three years after the SEC declares the registration statement registering such securities effective) over a specified term (usually 5-20 trading days). In an Equity Line transaction the purchase price will be calculated each time a company sells its shares to the Fund.

The Fund may also make interim investments in money market or equivalent instruments pending investment, make loans secured by securities and may from time to time invest in public equities in the open market including in short, derivative or other positions designed to partially hedge other Fund investments or commitments. (These investments are collectively referred to as an "Investment" or "Investments").

The investment strategies and methods set forth herein represent the General Partner's current intentions. Notwithstanding anything contained herein, the General Partner, in its sole discretion, may amend or cease following these investment strategies and methods.

Investment Selection Process

The General Partner's investment selection process includes research based on both public and private sources as well as a network of industry contacts. Potential Investments are reviewed based on macroeconomic industry trends combined with quantitative and qualitative analyses. The General Partner may adjust the portfolio based on ongoing risk analysis.

The General Partner's Role

The General Partner exercises ultimate authority over the Partnership. The General Partner is the "Tax Matters Partner" for Internal Revenue Service ("IRS") purposes. The General Partner will be reimbursed for all Direct Costs (as defined in the Partnership Agreement) incurred on behalf of the Partnership, but not for its Administrative Expenses (as defined in the Partnership Agreement).

The General Partner shall be responsible for the investment of the capital of the Partnership pursuant to an investment management agreement (the "Investment Management Agreement"). The General Partner will receive certain fixed fees, incentive fees, reimbursements of expenses incurred in the performance of services, due diligence fees and warrants as described in more detail below. See "Fees and Expenses." The Partnership will also bear expenses directly related to any Investments or liquidation or protection of Investments, including brokerage or professional fees. The Partnership will indemnify the General Partner and its principals to the maximum extent allowed by law.

Admissions of Limited Partners

The Partnership may admit new Limited Partners as of the first Business Day of each calendar quarter, or at such other times as the General Partner determines at its sole discretion. The term "Business Day" refers to any day when the banks in the United States are open for business. The General Partner may refuse to admit any investor to the Partnership, at its sole discretion.

Capital Account

A capital account ("Capital Account") will be established with respect to each Partner in the Partnership, the opening value of which will be the Partner's initial contribution. Each Capital Account will be (i) increased by capital contributions made by that Partner to the Partnership ("Capital Contributions") and income, profits and gains (both realized and unrealized) of the Partnership allocated to that Partner, and

(ii) decreased by Partnership expenses or losses (both realized and unrealized) allocated to such Partner and any withdrawals or distributions made to such Partner. Generally, such adjustments to the Capital Accounts will be determined and allocated among the Partners in

proportion to their respective Capital Account interests as of the first day of such accounting period.

Master Feeder Structure

The General Partner may decide to create a "Master Feeder" structure. Under this structure, all the assets of the Partnership would be held in a master fund, which would be either a US or a foreign based entity, depending on tax considerations. The investments of the Partnership, otherwise known as the feeder, will be made thru the Master Fund. The Partnership would be either a partner or shareholder in the Master Fund and would share in the income and loss of the Master Fund in proportion to its investment in the Master Fund.

A Master Fund would be beneficial, for example, if certain foreign investors are interested in investing with the Partnership. Such foreign investors may not want to invest directly into a United States partnership due to certain tax withholding rules and other considerations. Rather, foreign investors may want to invest thru an offshore entity. In such a situation, both the offshore entity holding the foreign source monies and the Partnership would contribute their monies to the Master Fund. All investments in Portfolio Companies would be made by the Master Fund, and the Partnership and the offshore entity would participate in these investments in proportion to their contributions to the Master Fund.

If a Master Fund is created, it would be managed by the General Partner or its affiliates, and its Investments would be managed by the General Partner. The Master Fund would be subject to the same investment strategy as described herein for the Partnership. All expenses, Incentive Allocations and Management Fees would continue to be governed by the terms of the Partnership Agreement. The Master Fund would not be charged any additional Management Fees or Incentive Allocation, although it may pay certain overhead and expenses incurred by the General Partner in connection with the operation of the Master Fund.

Funds Managed by the General Partner

The General Partner currently manages three funds, and may create additional funds in the future. Currently, all the Funds managed by the General Partner pursue generally the same investment strategy and objectives. In the event that such investment funds invest in any Portfolio Companies, such investments may, to the extent possible, be made proportionate to the respective assets under management of each fund.

Allocation of Gains and Losses

Generally, the Net Income or Net Loss (exclusive of Net Income or Net Loss attributable to Excluded Securities as defined in the Partnership Agreement) of the Partnership for each accounting period of the Partnership will be determined and allocated among the Partners

(General and Limited) in proportion to their respective Capital Account interests as of the first day of such accounting period. Net Income attributable to Excluded Securities and Net

Losses attributable to Excluded Securities will be allocated among the Unrestricted Partners (as defined in the Partnership Agreement) (General and Limited) in proportion to their respective Capital Account interests as of the first day of such accounting period.

Incentive Allocation

The Partnership Agreement calls for an Incentive Allocation to be made to the General Partner as of the close of each Fiscal Year equal to 20% of the Net Increase Amount (as defined below) for that Fiscal Year. An amount equal to the Incentive Allocation applicable to each Limited Partner will be charged to the Capital Account of the Limited Partner and then credited to the General Partner's Capital Account. The General Partner may, in its sole discretion, waive all or part of the Incentive Allocation otherwise due with respect to any Partner's investment, by rebate or otherwise. As defined in the Partnership Agreement, the "Net Increase Amount" is, generally, the amount by which (a) the Net Income, if any, credited during a Fiscal Year to the Capital Account of each Limited Partner exceeds (b) such Partner's Loss Carry forward, if any. "Loss Carry forward" is, generally, the amount, if any, by which (x) the cumulative sum of Net Losses charged to a Limited Partner's Capital Account for all Fiscal Years since the close of the most recent Fiscal Year when there was no Loss Carry forward at year end exceeds (y) the cumulative sum of the Net Income credited to such Limited Partner's Capital Account for all Fiscal Years (other than the Fiscal Year then ending) since the close of the most recent Fiscal Year when there was no Loss Carry forward at year end. A Partner's Loss Carry forward will be adjusted to account for partial withdrawals.

Compensation for Investment Management

The Partnership will pay the General Partner a quarterly Management Fee (the "Management Fee") in advance, equal to 1.75% per annum (0.4375% per quarter) of the quarter-beginning value of each Limited Partner's Capital Account. The payment will be charged to the Limited Partner's Capital Accounts when made, and will be calculated and charged before any Incentive Allocation is made. The Management Fee will be charged on a pro-rata basis to a Limited Partner's Capital Account ratably during each calendar quarter (or, for the quarter in which a Limited Partner first acquires an interest in the Partnership, the period beginning with the date of acceptance of such Partner's subscription).

The General Partner may, in its sole discretion, waive all or part of the Management Fee otherwise due with respect to any Partner's or employee's investment, by rebate or otherwise. The General Partner, its employees, and/or the family members of any of them, will not be subject to the Management Fee unless otherwise agreed to by the entity or person to be charged.

Due Diligence Fees and Warrants

Prior to directing the Partnership to make an investment in a Portfolio Company, either the General Partner or an affiliate of the General Partner will undertake an analysis of the Portfolio Company. This due diligence process usually includes several meetings with Portfolio Company's management, a review of the Portfolio Company's public filings with the Securities and Exchange Commission, the portfolio company's historical and forecasted financial performance, and an analysis of the Company's valuation relative to comparable companies, stock trading activity and industry trends. This information, in turn, is used by the General Partner or affiliates to structure an investment which meets the Fund's objectives. If the financing occurs, the General Partner may take a due diligence fee for its services. This fee is paid by the Portfolio Company, not by the Partnership. The amount of the due diligence fee, if any, will vary depending on the amount of investment and the type of transaction involved. The fee is typically paid by the Portfolio Company at the time of the closing.

The General Partner will allocate thirty percent (30%) of this due diligence fee to the Partnership; provided, however, in cases where the Partnership invests in a Portfolio Company along with other funds, whether or not managed by the General Partner, the General Partner may allocate the Funds' share of the due diligence fee on a pro rata basis based on the proportional amount of such investment relative to the overall financing of the Portfolio Company.

The amount of the due diligence fee may be payable in the form of cash, warrants to purchase common stock of the Portfolio Company or other securities.

Fees For Possible Post Investment Activity

The General Partner may seek to accomplish the Partnership's investment objectives by undertaking a variety of activities, where feasible and practical, including, without limitation, the following:

A. Help companies develop and implement sound business strategies

B. Help companies understand how they are perceived by investors and improve their investor relations

C. Help companies improve their corporate governance

The General Partner may receive a fee, typically payable in the form of cash, or warrants to purchase shares of Portfolio Company stock or other securities, for the possible provision of the activities described above. Such fee, if any, may be charged either concurrent with an investment in a Portfolio Company or subsequent to such investment, at the General Partners discretion. Such fee, if received in the form of

warrants, is designed to incentivize the General Partner to maximize the value of the underlying stock of the Portfolio Company. The exercise price of warrants typically will be greater than the fair market value of the underlying stock at the time of receipt of such warrants.

Expenses

The Partnership and the Master Fund, if any, will pay all of its accounting, legal and other operating expenses, including expenses of consultants, advisers and the expenses incurred in connection with the offering of Interests and the admission of Limited Partners. The Partnership will also pay all transactional expenses, brokerage commissions, custodial fees and other trading, administrative fees, research and investment charges, fees and expenses. In addition, the Partnership has paid all of its organizational expenses which are being expensed as required by applicable accounting rules. The General Partner may cause the Partnership to pay certain fees to parties that introduce the Partnership to Portfolio Companies (defined as companies in which the Partnership invests). Any such fees payable to affiliates of the General Partner will be no more favorable to such affiliates than the Partnership would pay in a negotiated arms-length transaction to an unaffiliated third party. In addition, the Partnership may compensate any Limited Partner, the General Partner or any of their respective affiliates for the provision of goods or services to the Partnership, as provided in the Partnership Agreement.

The Master Fund, if any, will bear the cost of all of its own organizational expenses by either paying such costs directly or reimbursing the General Partner therefor. On an ongoing basis, the Master Fund would bear the expenses of administering its own business, including, without limitation, auditing, accounting and tax preparation fees and expenses, ongoing legal and bookkeeping expenses, brokerage commissions and other securities transaction costs, custodial fees, governmental fees and taxes, the legal and accounting costs incurred in connection with an audit of the Master Fund's tax return, margin interest or interest on other borrowings, and the expenses of offering and selling its interests.

The General Partner may, in its sole and absolute discretion, pay or reimburse the Funds for any or all such expenses. The General Partner may also provide the Funds with office space, utilities, service contracts for quotation equipment, news wires and other information services, and certain clerical and administrative services at no charge to the Funds.

Additional Capital Contributions

Limited Partners may make additional capital contributions in such amounts and at such times as determined by the General Partner in its sole discretion.

Withdrawals

No early withdrawal of a Limited Partner's Capital Contribution will be permitted unless, in the case of hardship or other special circumstances of an investor, such withdrawal is allowed at the sole discretion of the General Partner. If such a withdrawal is allowed, it shall be based on an estimate of the General Partner of the net asset value of the Partnership. The General Partner, at its sole discretion, may (i) use the lower of the cost basis or estimated fair market value of Partnership assets, (ii) charge any reasonable costs or fees to the withdrawing Partner, and (iii) make adjustments and allocations to account for the tax implications of any such withdrawal.

Notice and Amounts of Withdrawals

If allowed at the discretion of the General Partner, 90 days' prior written notice is required for any withdrawal (unless the General Partner, in its sole discretion, approves a withdrawal on shorter notice). Subject to the General Partner's rights to establish reserves, the amount being withdrawn, up to 90% of the then value of the Partner's Capital Account, will be paid to the withdrawing Limited Partner within 90 days after the withdrawal date. Any remaining amount of the withdrawal shall be payable within a reasonable time after the completion of the Partnership's year-end audit. The General Partner may require a compulsory withdrawal of any Limited Partner from the Partnership. The General Partner may withdraw all or any part of its Capital Account at any time with notice to the Limited Partners within a reasonable time after such withdrawal has been made, provided however that notice to the Limited Partners shall not be required in connection with the distribution of any Incentive Allocation to the General Partner. If any principal or portfolio manager of the General Partner, or any of their family members or affiliates, (i) are Limited Partners and (ii) withdraw from the Partnership all or any portion of their respective Capital Accounts, then notice of such withdrawal shall be given to the Limited Partners within a reasonable time after such withdrawal has been made.

Transfers of Interests

No transfers of Interests may be made other than with the consent of the General Partner, which consent may be withheld at the General Partner's sole discretion, and the satisfaction of other requirements relating to legal opinions and payment of expenses, as provided in the Partnership Agreement.

Side Letters

Notwithstanding the provisions of the Partnership Agreement or any Subscription Agreement, the General Partner, on its own behalf or on behalf of the Partnership, and without the approval of any Limited Partner, may enter into a side letter or similar agreement to or with a Limited Partner which has the effect of establishing rights under, or altering or supplementing the terms of the Partnership Agreement or any Subscription

Agreement in order to meet certain requirements of such Limited Partner. Any terms contained in a side letter or similar agreement to or with a Limited Partner shall govern with respect to such Limited Partner notwithstanding the provisions of the Partnership Agreement or any Subscription Agreement.

ERISA Issues

Employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*") ("*ERISA-Covered Limited Partners*") and certain other employee benefit plans or retirement accounts, such as governmental plans, church plans, foreign plans, Keogh plans, or IRAs (together with ERISA-Covered Limited Partners, "Benefit Plan Limited Partners"), may purchase Interests only with the approval of the General Partner. To the extent that twenty-five percent (25%) or more of any class of equity interest in the Partnership is held by ERISA-Covered Limited Partners, the Partnership will be deemed to hold the Plan Assets of its ERISA Covered Limited Partners. In such event, the General Partner will require some or all ERISA-Covered Limited Partners to withdraw from or to reduce their Interests such that the aggregate Interests of ERISA-Covered Limited Partners shall be less than twenty-five percent (25%) of any class of equity interest in the Partnership.

Risk Factors

Investment in the Partnership is speculative and involves a high degree of risk. Past performance of the General Partner or its principal(s) in other endeavors is no guarantee of future performance. There is no assurance that the Partnership will be profitable. The risks of an investment in the Partnership include, but are not limited to, illiquidity, the speculative nature of the Partnership's strategies and the charges which the Partnership will incur regardless of whether any profits are earned. See "Certain Risk Factors."

Conflicts of Interest

The General Partner currently manages a total of three funds, which have many of the same investment objectives and strategies as the Partnership. The General Partner will endeavor to address any possible conflicts by following certain operating policies and procedures which are further described in "Conflicts of Interest."

Regulatory Matters

The Partnership Agreement may be amended by the General Partner without further notice to the Limited Partners so as to comply with any rule, regulation or statute. In addition, if not required by law, the General Partner may withdraw its registration as an investment adviser, reducing regulatory oversight.

Tax Consequences

A prospective investor is responsible for, and should consider carefully, all of the potential tax consequences of an investment in the Interests and should consult with his, her or its tax advisor before subscribing for the Interests. For a discussion of certain income tax consequences of this investment, see "Federal Income Tax Considerations." **Caution**: Tax-exempt entity investors may be exposed to unrelated business taxable income, notwithstanding their otherwise tax-exempt nature, depending upon the use of margin or other leverage by the Partnership.

Management

M.A.G. Capital is the General Partner of the Partnership and is responsible for the selection and management of the Partnership's portfolio of Investments. The General Partner and its principals engage in other activities and will only devote such of their time to the Partnership as they deem necessary, and may pursue activities in relation to their own investments and investments of other clients, including other funds. Principals of the General Partner may also directly or indirectly be involved in providing services to Portfolio Companies in which the Partnership invests, so long as the fees or consideration received in respect of those services are, in the good faith judgment of the General Partner, substantially the same that it or others receive for similar services. In the course of managing the affairs of the Partnership, the General Partner and its principals may have significant conflicts of interest, which are discussed to a greater extent in the section entitled "Conflicts of Interest."

Term

The term of the Partnership shall be 10 years from the date of the initial closing, which was on December 1, 2002 (the "Initial Closing"). The General Partner may extend the term for up to two additional years to properly divest the Partnership's Investments. The investment period shall be nine years and six months from the date of the Initial Closing. After this date, the Partnership will not make any new Investments but will commence liquidation and distribution as prudent.

Prime Broker and Other Brokerage

Generally, portfolio transactions involving the purchase and sale of securities for the Partnership will be cleared through brokerage accounts maintained at a prime broker chosen by the General Partner in its sole discretion (the "Prime Broker"). The Prime Broker is currently Morgan Stanley. Charges by brokers offering custodial or other customary prime broker services to the Partnership may be higher than those charged by other brokers who may not offer such services. While the Partnership intends to acquire many of its securities directly from Portfolio Companies, the General Partner will use brokers to sell securities and may pay commissions or direct brokerage to brokers who refer Portfolio Companies.

The General Partner has the sole power and authority to determine the broker or brokers to be used for each securities transaction for the Partnership. In selecting brokers or dealers to execute transactions, the General Partner need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, the General Partner may or may not negotiate commission rates based solely on the execution of orders; thus, the Partnership may be deemed to be paying for other services provided by the broker to the Partnership which is included in the commission rate. In negotiating commission rates, the General Partner will take into account the financial stability and reputation of brokerage firms as well as the brokerage, research and other services provided by such brokers to the Partnership.

The General Partner may also direct commissions to brokers who refer investors to the Partnership.

Soft Dollar Trading

The General Partner will select the Partnership's Prime Broker, and may select another Prime Broker(s) for the Partnership at any time, at its sole discretion. Portfolio assets may be held by someone other than a Prime Broker, such as a bank or other qualified custodian, from time to time. Portfolio transactions for the Partnership will be allocated to brokers in consideration of such factors as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and any research or investment management-related services and equipment provided by such brokers. Accordingly, if the General Partner determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research or investment management-related services and equipment provided by such broker, the Partnership may pay commissions to such broker in an amount greater than the amount another broker might charge.

Research or investment management-related services provided by brokers may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, on-line quotations, news and research services, and other services providing lawful and appropriate assistance to the General Partner in the performance of its investment decision-making responsibilities on behalf of the Partnership (collectively "soft dollar items").

Soft dollar items may be provided directly by brokers, by third parties at the direction of brokers or purchased by the Partnership with credits or rebates provided by brokers. Soft dollar items may arise from over-the-counter principal transactions, as well as exchange traded agency transactions. Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the

considerations described above. A broker will not be excluded from executing transactions for the Partnership because it has not been identified as providing soft dollar items.

Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the "1934 Act"), permits the use of soft dollar items in certain circumstances, provided that the Partnership does not pay a rate of commissions in excess of what is competitively available from comparable brokerage firms for comparable services, taking into account various factors, including commission rates, financial responsibility and strength and ability of the broker to efficiently execute transactions. Non-research products acquired by the Partnership through the use of "soft dollars", and "soft dollars" which are not generated through agency transactions in securities, are outside the parameters of Section 28(e)'s "safe harbor," as are transactions effected in futures, currencies or certain derivatives.

Soft dollar items within the Section 28(e) "safe harbor," whether provided directly or indirectly, as well as soft dollar items that fall outside of the Section 28(e) "safe harbor", may be utilized for the benefit of the General Partner's and its affiliates' other accounts. The General Partner expects to use soft dollars to acquire soft dollar items that the General Partner or its affiliates would otherwise be obligated to provide to, or acquire at their own expense for, the Partnership. Nonetheless, the General Partner and the Investment Manager believe that such soft dollar items may provide the Partnership with benefits by supplementing the research and services otherwise available to the Partnership.

Capital Contributions of General Partner

The General Partner has made Capital Contributions and may, but is not required to, make additional Capital Contributions in the future.

Diversification

The General Partner will use commercially reasonable efforts to assure that the Partnership will not invest any more than 35% of the final aggregate Capital Contributions in a single company or in one or more portfolio companies in the same industry, though such diversification will be more difficult to achieve if the Partnership does not raise substantially more than the minimum capital in this offering.

Investment Powers and Limitations

The General Partner will have broad, general discretion to make Investments and resolve any conflicts in good faith. The General Partner shall have the discretion to determine that any particular opportunity is inappropriate for the Partnership or that the Partnership should take less than the entire potential Investment. The Partnership may co-invest with existing or subsequently established Partnerships managed by the General Partner, principals or other clients of the General Partner or their affiliates, provided that the terms (other than the amount) are substantially identical and the investments are made simultaneously.

The Partnership will not participate in transactions solely involving the purchase of real estate, nor will it make hostile investments. The Partnership may make strategic investments aggregating up to 20% of its Capital Contributions in other unaffiliated investment partnerships.

Tax Distributions

The Partnership does not anticipate that any distributions (other than the Incentive Allocation) will be paid to Partners out of the Partnership's current profits, but rather that such income will be retained in the Partnership, although at the discretion of the General Partner partial distributions may be made in consideration of the tax impact on limited partners of income generated by the Partnership. Potential investors should keep this limitation in mind when determining whether or not an investment in the Partnership is suitable for their particular circumstances. The General Partner reserves the right to change this policy.

Formation Expense Reimbursement

The General Partner will be reimbursed by the Partnership for all expenses directly connected with this Offering, including, without limitation, printing expenses, filing fees, legal and accounting expenses and certain due diligence expenses, estimated to be approximately $100,000.

Financial Statements

At the end of each quarter, the General Partner will issue to each Limited Partner an unaudited account statement which will reflect the Limited Partners capital account value. The General Partner will issue to each Limited Partner audited financial statements at year end of each fiscal year. The financial statements are generally issued no later than the end of the second quarter following the fiscal year end closing by our Accountants, named below.

Accountants

Currently, Rothstein, Kass and Company, P.C., independent public accountants, audit and report upon the financial statements of the Partnership for each fiscal year.

Reports to Partners

The Partnership will furnish annually to all Partners an audited balance sheet and statement of income and changes in the Partnership's capital accounts, a statement of allocations and a statement of determination of the value of the Partnership's Investments and the net asset value of the Partnership, as well as such tax information as is necessary for the preparation of each Partner's federal income tax return.

Custodian; Conditions to Initial Closing; Offering Terms

All Investments received on behalf of the Partnership will be held by the Partnership's Custodian. The Partnership's Custodian is the Prime Broker. The General Partner shall follow procedures (utilizing an independent representative to, for example, verify all withdrawals for the General Partner's benefits) so as to avoid the imputation of custody of the Partnership's monies to the General Partner for purposes of the Investment Advisers Act of 1940. Please review the Plan of Distribution description below for the terms of the Offering of the Interests and the Minimum and Maximum Offering amounts.

Principal Office

The principal office of the Partnership will be 555 South Flower Street, Suite 4200, Los Angeles, California 90071, telephone 213-533-8288, facsimile 213-533-8285.

SECTION I.

INSTRUCTIONS

STEP ONE: **READ THIS ENTIRE MEMORANDUM BEFORE INVESTING**

A potential investor ("*you*") should carefully read this entire Confidential Private Placement Memorandum (the "*Memorandum*"), which contains a complete copy of the Limited Partnership Agreement (the "*Partnership Agreement*") of the Partnership, a California limited partnership as *Appendix A* attached hereto. However, the contents of this Memorandum should not be considered to be legal, tax or investment advice, and you should consult with your own legal counsel, tax advisers and investment advisers as to all matters concerning an investment in the Partnership.

- An Investment in the Partnership Involves Substantial Risk of Loss
- P/lease Review "Certain Risk Factors" Carefully

STEP TWO: **COMPLETE THE INVESTOR QUESTIONNAIRE**

The Confidential Investor Questionnaire (the "*Questionnaire*") is attached to the Subscription Booklet, which is attached hereto as *Appendix B*. Because the General Partner and Administrator will rely on the information provided in the Questionnaire, it is essential that you provide accurate, candid, and complete information on the Questionnaire. The General Partner and Administrator assume no obligation to independently verify any information provided in your Questionnaire.

STEP THREE: **READ AND SIGN THE SUBSCRIPTION AGREEMENT AND RELATED DOCUMENTS**

You will be required to make a number of important representations and warranties in the Subscription Agreement attached to the Subscription Booklet upon which the General Partner and Administrator will rely. Sign it only after reading it carefully.

STEP FOUR: **RETURN THE SUBSCRIPTION BOOKLET**

Once you have completed these instructions, return the entire Subscription Booklet and any additional agreements and documents required by the Subscription Booklet to the Administrator. If you have any questions regarding completion of subscription documents, you should contact Lance Kinkead of the General Partner at 213-533-8288.

If you invest, you should retain this Memorandum for your records.

SECTION II.

WHO MAY INVEST

Introduction

This is an illiquid investment in unregistered Interests. The Partnership will follow an investment strategy which, if unsuccessful, could involve substantial losses. The investment will have limited liquidity, there will not be any public market for the Interests, and the sale or transfer of the Interests will be severely restricted. An investment in the Partnership will entail substantial market and other risks and may not be appropriate for certain Limited Partners.

The Interests are designed to be exempt from registration under the Securities Act, pursuant to Regulation D thereunder and the Partnership is designed to be excluded from registration under the Investment Company Act, pursuant to Section 3(c)(1) thereunder. The Investment Adviser does not currently intend to register under the Investment Company Act of 1940.

Subscriptions that could jeopardize this exemption or exclusion will be rejected by the General Partner. Prospective Limited Partners generally will be required to satisfy the admission standards described in *Section B* below and to represent that such Limited Partner:

- is investing in the Partnership for its own account, for investment purposes only, and not with a view to distributing the Interests;
- is a sophisticated Limited Partner (or has a qualified purchaser representative) capable of evaluating the risks and merits of an investment in the Partnership;
- has had access to sufficient information needed to make an investment decision about the Partnership;
- can tolerate the illiquidity which is characteristic of Interests in general and this investment in particular;
- satisfies the standards of an "Accredited Limited Partner" as set forth in Regulation D under the Securities Act; and
- satisfies the "Qualified Client" standards under Rule 205-3(d) of the Investment Advisers Act of 1940.

The General Partner, in its sole discretion, may admit a limited number of Limited Partners who do not satisfy these standards.

Minimum Investment

Each Limited Partner will be required to make a minimum initial investment of $1 million. The General Partner may, in its sole discretion, permit reduced minimum investments or require greater minimum investments.

Capital contributions will be required in cash. Each Limited Partner will make a capital contribution pursuant to such Partner's Subscription Agreement equal to the amount of capital that such Partner has committed to contribute to the Partnership. The Management Fee payable to the General Partner will be based on the Limited Partner's Capital Account.

Admission Standards

Generally, the Interests will be sold only to Limited Partners who are Accredited Investors and Qualified Clients, and who provide information satisfactory to the General Partner, in its sole discretion, that the Limited Partner is not engaged in money laundering activities. The General Partner, in its sole and absolute discretion, may admit a limited number of Limited Partners who do not meet these standards. Executive Officers and so-called "Knowledgeable Employees" of the Partnership or the General Partner (as defined by Rule 3c-5 under the Investment Company Act) may invest in the Partnership without otherwise qualifying as Accredited Investors or Qualified Clients.

Suitability

Satisfaction of the Partnership's admission standards does not necessarily mean that Interests are a suitable investment for a prospective Limited Partner. The General Partner reserves the right to reject the Subscription Agreement of any prospective Limited Partner for whom it appears, in the exclusive discretion of the General Partner, that the Interests may not be a suitable investment. ***You should not, however, rely on the General Partner to determine the suitability of an investment in the Partnership for you.***

Each Limited Partner must, either alone or with the assistance of a "purchaser representative," have sufficient knowledge and experience in financial and business matters generally and in securities investing in particular to allow it to evaluate the merits and risks of investing in the Partnership. In addition, each Limited Partner should have sufficient assets, beyond those he, she or it intends to invest in the Partnership, to meet personal needs and contingencies. Limited Partners should expect that they will not have access to assets invested in the Partnership for extended periods and should be capable of absorbing a complete loss or substantial reduction in the value of their investment.

Finders Fees

The Partnership will pay no sales commissions in connection with sales of Interests. The General Partner, however, may pay finders fees at its own expense (including out of its Management Fee and/or Profit Allocation) to third parties that introduce Limited Partners to

the Partnership. The General Partner does not intend to direct the Funds' securities transactions to broker-dealers in exchange for, in consideration of, or otherwise based upon, referrals of prospective Limited Partners to the Funds.

Qualified Plans

The purchase of Interests may be suitable for Qualified Plans (as described in Section XII below), subject to their circumstances and investment objectives, and subject to the provisions of their plan documents. A fiduciary considering investing a portion of the assets of a Qualified Plan in the Partnership should consider, in consultation with tax and legal advisors, the particular facts and circumstances of such plan, and should also consider among other things (i) whether the relevant plan instruments permit investing in a limited partnership, (ii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), (iii) whether under Section 404(a)(1)(B) of ERISA, the investment is prudent, considering the nature of the investment in the Partnership, its compensation structure, and its relative illiquidity, and (iv) whether the Partnership or the General Partner or any of their affiliates is a fiduciary or a party in interest in the Qualified Plan.

POTENTIAL LIMITED PARTNERS ARE URGED TO CONSULT WITH THEIR LEGAL, INVESTMENT, AND TAX ADVISORS BEFORE INVESTING IN THE PARTNERSHIP.

SECTION III.

INVESTMENT OBJECTIVES AND STRATEGIES

Target Portfolio Company Profile

The Partnership's target Portfolio Companies will be micro to small public companies which have a market capitalization typically less than $500 million, and will be principally traded on the Nasdaq National Market System, the Nasdaq Small-Cap System, The American Stock Exchange or, occasionally, the OTC Bulletin Board. The General Partner believes that investment opportunities exist within the small capitalization market due to the: (i) large number of companies in the segment; (ii) future growth prospects of certain small capitalization technology and non-technology companies; and (iii) lack of attention paid to the small capitalization issuers by the primary financial services providers and institutional investors.

Examples of investment opportunities that would be attractive to the Partnership include public companies that have an event-driven use of growth capital to accelerate such company's performance, but would not find a secondary public offering to be a realistic option because, among other matters: (i) the time and cost involved in conducting a secondary public offering; (ii) the stock is not actively followed or written about by the Wall Street investment community; (iii) the company lacks the visibility for a public offering in the secondary market as a result of a premature initial public offering or inadequate public float or trading volume; (iv) the company is in an out-of-favor industry group; or (v) the amount of the proposed financing does not warrant the substantial effort associated with a public offering. The Partnership may make Investments in Portfolio Companies located in the United States or in foreign countries.

It is expected that the Partnership's Investments may include a broad spectrum of traditional industries and service businesses, as well as the technology, information services and energy sectors. The Partnership will have the flexibility to invest in many types of securities (e.g., common and preferred equity, debt instruments, convertible securities, and other instruments with imbedded options and derivative pricing). Once an Investment has been made, the Partnership may actively manage its portfolio through the use of a wide variety of trading strategies, including hedging its purchases and taking long and short positions in the securities.

Small-cap companies typically have poorer access to capital than their large-cap counterparts. Throughout the 1990s many regional and local investment banks were acquired by large multi-national investment banks, leaving little capital raising and advisory firms that finance and advise the small cap market segment. The General Partner believes that this market opportunity is growing and will sustain itself for some time. Given these observations, the General Partner believes its strategy of investing in small-cap companies,

whose capital needs typically fall below the mainstream investment bank's minimum, will provide the Partnership with a competitive advantage.

Investment Process

The General Partner will typically pursue an investment process as follows:

A. Locate possible target Portfolio Companies thru primary and secondary research, financial screening and modeling, and personal and industry contacts.

B. Meet with the company, conduct extensive due diligence and research, including:

1. An assessment of its market position, technology, industry dynamics, and competitive position

2. Financial modeling and valuation based on a company's profitability, cash flow and financial projections.

3. Evaluation of the management team, Board composition, and governance practices

C. Monitor the company's performance and results, stock performance and activity.

D. Evaluate a possible investment strategy, including size of position, timing of investment, and price targets.

E. Evaluate the company's willingness to make improvements and the corresponding probability of success.

F. Once a decision is made to invest, continue to meet with management to build trust, understand management's vision, provide support in defining, developing and articulating a shared vision, provide supporting analysis, and support to implement the strategy, and monitor progress.

Acquisition of Securities

The General Partner generally expects to cause the Partnership to acquire securities of a Portfolio Company directly from the Portfolio Company. It is expected that the securities generally will be acquired by the Partnership at either a discount to their current market price or with a reset provision to a negotiated floor price at a discount to the current market price and that the securities acquired will either be freely tradable or have registration rights relating thereto. In addition, the Partnership, in the sole and absolute discretion of the

General Partner, may cause the Partnership to acquire non-public securities of Portfolio Companies provided that such securities are expected by the General Partner to be redeemable and/or convertible into publicly traded securities. Investments in Portfolio Companies will generally be made via private placements. The structure of such investment will vary by issuer, but typically is made through the negotiated acquisition of the common stock of Portfolio Companies traded on a public exchange or market, or securities which are convertible into or exchangeable for the publicly traded shares of such Portfolio Companies. The General Partner may negotiate the purchase of common shares and conversion or exchange of convertible or exchangeable securities at a discount to the market price of the freely tradable shares of the issuing Portfolio Company. The General Partner may also seek to negotiate other terms and securities to reduce the risk to the Partnership of downturns in market price or to enhance the Partnership's ability to profit by virtue of the market price volatility of a stock. In addition, the Partnership may, in the sole and absolute discretion of the General Partner, acquire securities in open market purchases, make block purchases and negotiate private transactions.

Direct Investments

The Direct Investments utilized by the Partnership may be in the form of discounted common stock, convertible preferred stock, convertible debt or similar instruments (collectively, "structured investments"), and **may include warrants to purchase additional shares of common stock. A portion of the warrants (typically 50%) will be allocated by the Partnership to the General Partner, which receives such warrants of the Portfolio Company for possible post investment activities.** The exact structure of each Investment the Partnership will make will vary, in part, as a function of the Investment candidate's financial situation, the current business cycle and the capital market environment.

The General Partner will generally seek PIPE Investments in companies that have many of the following criteria or characteristics: (i) companies or industries that are currently "out-of-favor" with the investment community; (ii) publicly-traded companies with valuations typically less than $500 million; (iii) companies that require innovatively structured capital infusions; (iv) companies that have time-sensitive capital needs if they are to capitalize on growth opportunities; (v) companies where management has the potential of achieving its long-term strategy if adequate capital is available; (vi) companies that have timing or other issues that preclude a public equity offering; (vii) companies that are seeking capital in an amount below the minimums typically provided by the mainstream investment banking and financial communities; and (viii) companies receiving no or limited research coverage or trading activity from the mainstream investment banking and financial communities.

Caution: No assurance can be given that a particular PIPE Investment will have any or all of these characteristics, and no assurance can be given that the Partnership will achieve its objectives.

Controlled Equity Transactions

Portfolio Companies in which the General Partner will make Controlled Equity investments will typically be those with a market cap of $250 million or greater. Such transactions allow the Funds to purchase the Portfolio Company shares at a negotiated discount to the VWAP. This structure benefits the Portfolio Company in that it (i) may permit the Portfolio Company to take advantage of increases in its market valuation by selling shares when the market price of its shares is high, and (ii) is a much faster and less expensive way to raise capital than a traditional secondary offering.

Leverage

The Partnership is authorized to borrow money (up to 25% of the value of the Partnership's total assets) or securities in order to accommodate Partnership withdrawal requests and to enhance its leverage in Investments. Otherwise, there are no restrictions on the Partnership's borrowing capacity other than limitations imposed by lenders and any applicable credit regulations. Loans generally may be obtained from securities brokers and dealers or from other financial institutions; such loans are secured by securities or other capital of the Partnership pledged to such brokers or financial institutions. Loans of cash or securities may also be made from or to other capital investment entities on such terms as are commercially reasonable, including without limitation, from or to investment companies similar to the Partnership with respect to which the General Partner has an interest, either as general partner, sponsor, manager, investment adviser, administrator or otherwise.

Caution: Tax-exempt entity investors may be exposed to unrelated business taxable income, notwithstanding their otherwise tax-exempt nature, depending upon the use of margin or other leverage by the Partnership. See "Federal Income Tax Considerations."

The Partnership may engage in "short sales", that is, the practice of selling securities which are borrowed from a third party. In connection with such short sales, the Partnership will be required to return, to the lender, securities equivalent to those borrowed for the short sale. Pending the return of such securities, the Partnership will be required to deposit with the lender as collateral the proceeds of the short sale plus additional cash or securities; the amount of the required deposit will be adjusted periodically to reflect any change in the market price of the security which the Partnership is required to return to the lender. The Partnership will be required to pay brokerage commissions to execute short sales and may be required to pay a premium to the lender of the securities, which would increase the cost of the securities sold. Until the borrowed securities are replaced, the Partnership would generally be required to pay the lender amounts equal to any dividends or interest which accrue on the securities borrowed during the period of the loan. The Partnership expects to generate cash income from the interest on proceeds of short sales deposited with brokers as collateral.

Other Strategies; No Assurances

The descriptions contained herein of specific strategies that are or may be engaged in by the Partnership should not be understood as in any way limiting the Partnership's investment activities. The Partnership may engage in investment strategies not described herein that the General Partner considers appropriate. Specifically, the Partnership may make interim investments in money market or equivalent instruments pending investment and may from time to time invest in public equities in the open market. Since market risks are inherent in all securities to varying degrees, there can be no assurance that the investment objectives of the Partnership will be achieved.

Where applicable, the Partnership may hedge its long positions utilizing covered options or short positions in an effort to seek to optimize risk-adjusted returns and downside protection. However, such a strategy has its own risk and no assurance can be given that the strategy will succeed or not be hampered by Portfolio Company requirements. The Partnership may be limited in the use of debt instruments due to usury laws or state lender licensing laws that may limit the practical ability to use debt instruments, which may mean that the Partnership will not be able to avail itself of the potentially greater protections that can be structured into a debt instrument. In order to hedge the Partnership's downside, the Partnership may seek, if possible and where practical, to obtain: (i) significant discounts to market prices; (ii) floating conversion prices; (iii) rights to registration of securities on an expedited basis with penalties for delay; (iv) warrants to purchase additional shares of a Portfolio Company's common stock; (v) senior rights if a bankruptcy or other liquidation event should occur; (vi) representations and warranties from management regarding the accuracy of current company disclosure; (vii) Investments that match the market's ability to absorb new sellers; (viii) engage in post investment activities to legally promote awareness of the stock; and (ix) seek strategic alliance possibilities for the Portfolio Company.

Possible Post Investment Activity

The General Partner may seek to accomplish the Partnership's investment objectives by pursuing a variety of activities, where feasible and practical, including, without limitation, the following:

A. Help companies develop and implement sound business strategies:

1. Help senior management define their strategic focus;

2. Help companies understand their competitive market position;

3. Assist in identification of new businesses ideas;

4. Make introductions to potential partners and customers;

5. Help senior management structure programs to implement changes in their strategies;

6. Help identify merger and acquisition opportunities;

7. Advise companies on their capital structure, cash holdings and investment decisions; and

8. Advise companies on strategic exit opportunities.

B. Help companies understand how they are perceived by investors and improve their investor relations:

1. Interview people in the investment banking community and give feedback to the company about how they are perceived in the market;

2. Explain to companies how analysts value companies and make investment decisions; and

3. Help companies attract analyst coverage.

C. Help companies improve their corporate governance:

1. Find and recruit qualified outside board members;

2. Implement Board best practices; and

3. Establish appropriate Board and senior management compensation practices.

The General Partner may receive a fee, typically in cash or warrants to purchase shares of Portfolio Company stock, for the possible provision of the activities described above. Such fee, if any, may be charged either concurrent with an investment in a Portfolio Company or subsequent to such investment, at the General Partners discretion.

Portfolio Management After Investment

In developing exit (sell) strategies for the Partnership's Investments, the General Partner may use a wide variety of trading methods, including hedging its purchases and taking long and short positions in the securities. Given that most of the Partnership's Investments are expected to be in public companies, and the investment will generally be a relatively small position compared to the market capitalization of the portfolio company, the time to liquidity (exit) for the PIPE will be shorter than most venture investments, ideally ranging from 6-24 months, with some Investments being held longer as value continues to build or if there is a delay with registration rights or market liquidity.

Strategy And Methods May Change

The investment strategy and methods summarized above represent the General Partner's current intentions. Notwithstanding this investment strategy and methods, the Partnership Agreement and the Investment Management Agreement between the Funds and the General Partner (the "Investment Management Agreement" and together with the Partnership Agreement, the "Management Agreements") do not limit the Funds' investment strategy or the types of investments the Funds may make. The General Partner has very wide latitude to invest or trade the Partnership's assets, to pursue any particular strategy or tactic or to change the Partnership's emphasis, objectives, policies and strategy, all without obtaining the approval of Limited Partners. The Management Agreements impose no limits on the types of securities or other instruments in which the Partnership may take positions, the choice of sector or sectors within which the Partnership seeks to identify securities, the choice of markets (domestic or foreign) within which the Partnership may invest, the type of positions the Partnership may take, the investment or trading strategies the Partnership may use, or the concentration of the Partnership's investments. The General Partner has broad discretion to employ any securities trading investment techniques, whether or not contemplated by the expected investment strategies and criteria described above. The General Partner, in its sole discretion, may amend or cease following these investment strategies and methods.

SECTION IV.

PLAN OF DISTRIBUTION

The Partnership is offering (the "Offering"), through this Memorandum, by private placement Interests in the Partnership to a select group of investors. This Offering consists of 999 Interests (the "Maximum Offering") at $100,000 per Interest for an aggregate Maximum of $99,900,000. All subscription proceeds shall be deposited with Morgan Stanley FBO Mercator Momentum Fund, LP.

The minimum purchase by any investor is ten Interests or $1,000,000 (although the General Partner may waive this minimum amount if it deems the circumstances to merit such waiver). Once Capital Contributions have been received and accepted, the General Partner may elect to continue the Offering for an additional 6 months or until the Maximum Offering has been achieved. The General Partner may elect to have subsequent closings after the Initial Closing as each subscription is accepted. Only persons who satisfy the suitability standards stated in this Memorandum may purchase the Interests offered hereby. See "SUITABILITY".

The Partnership may utilize all collected Offering proceeds to make Investments. Investors who purchase Interests subsequent to the Partnership's Investment in a Portfolio Company will participate in the Partnership in the same manner as investors whose Interest was purchased prior to the Investment in that company, based upon the value of the Partnership assets at such time of investment. Each investor will pay its pro rata share of the organization expenses, regardless of whether such investor's subscription was received before or after the Initial Closing. The General Partner will use commercially reasonable efforts to assure that the Partnership will not invest any more than 35% of the final aggregate Capital Contributions in a single Investment or in multiple investments within the same industry (though this benchmark will be more difficult to achieve if the Partnership fails to attain sufficient capitalization). The investment period shall be nine years and six months after the Initial Closing, after which no new Investments in Portfolio Companies will be made.

An investment in Interests should be considered a speculative long-term investment, as there can be no assurance that a Partner will be able to sell, transfer or otherwise dispose of his or her Interests to the Partnership or other parties. Investors should consider the risk factors described in this Memorandum. See "Certain Risk Factors".

USE OF PROCEEDS

The net proceeds of the Offering will be invested in accordance with the policies set forth under "Investment Objectives and Strategy". Pending investment of proceeds from the Offering, the Partnership expects to invest the net proceeds of the offering in money market or similar instruments.

SECTION V.

MANAGEMENT OF THE PARTNERSHIP

General Partner

M.A.G. Capital, LLC, formerly known as Mercator Advisory Group, LLC, is a Registered Investment Advisor with the U.S. Securities and Exchange Commission under the Investment Advisors Act of 1940. M.A.G. Capital, LLC is the Partnership's General Partner. The principal of the General Partner is David Frederick Firestone.

David Firestone received his Bachelor of Arts degree from the University of Southern California in 1989. He was a managing partner at Brighton Advisors, LLC from December 2000 until April 2002 at which time he formed the General Partner. While at Brighton Advisors, Mr. Firestone managed a fund, Brighton Opportunity Fund, which made investments in small to middle capitalization public companies.

Todd Bomberg is the Chief Investment Officer of the General Partner. Mr. Bomberg is responsible for transaction origination, diligence, and the structuring and negotiation of all portfolio investments for the firm. Prior to M.A.G., Mr. Bomberg was an Executive Director in the Mergers & Acquisitions Group at UBS Investment Bank. Previously, he worked at Donaldson, Lufkin & Jenrette Securities and McKinsey & Company. Mr. Bomberg began his career as an Associate at the law firm of Latham & Watkins. He graduated Magna Cum Laude from Carleton College before attending law school at the University of Pennsylvania, where he graduated Order of the Coif.

Harry Aharonian is responsible for managing the invested capital in portfolio companies for the General Partner. Mr. Aharonian oversees the conversion, registration and fund accounting of portfolio positions, and the execution of trading activities. In his tenure for the General Partner, Mr. Aharonian has worked directly in over 100 investment transactions. Prior to the General Partner, Mr. Aharonian was a Senior Analyst at Brighton Advisors, LLC, a fund based in Los Angeles focusing on small to mid cap companies. He received his Bachelors in Science Degree in Business Economics and Financial Management from Gordon S. Marshall School of Business at the University of Southern California.

General Partner; Indemnification

The General Partner will be responsible for the investment of the Partnership's capital. The General Partner will perform its services pursuant to an investment management agreement with the Partnership (the "Investment Management Agreement"). The Investment Management Agreement provides for the indemnification of the General Partner and its principals to the fullest extent allowed by law.

Prime Broker; Commissions; Soft Dollar Trading

The General Partner will select the Partnership's Prime Broker, and may select another Prime Broker(s) for the Partnership at any time, at its sole discretion. Currently the Prime Broker is Morgan Stanley. Portfolio assets may be held by someone other than a Prime Broker, such as a bank or other qualified custodian, from time to time. Portfolio transactions for the Partnership will be allocated to brokers in consideration of such factors as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and any research or investment management-related services and equipment provided by such brokers. Accordingly, if the General Partner determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research or investment management-related services and equipment provided by such broker, the Partnership may pay commissions to such broker in an amount greater than the amount another broker might charge.

The General Partner will use brokers to buy and sell securities. The General Partner will have the sole power and authority to determine the broker or brokers to be used for each securities transaction for the Partnership. In selecting brokers or dealers to execute transactions, the General Partner need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, the General Partner may or may not negotiate commission rates based solely on the execution of orders; thus, the Partnership may be deemed to be paying for other services provided by the broker to the Partnership, the General Partner or the Investment Manager which is included in the commission rate. In negotiating commission rates, the General Partner will take into account the financial stability and reputation of brokerage firms and the brokerage, research and other services provided by such brokers. The General Partner may also direct commissions to brokers who refer clients to the Partnership but only on a best execution equivalent basis.

Research or investment management-related services provided by brokers may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, on-line quotations, news and research services, and other services providing lawful and appropriate assistance to the General Partner in the performance of its investment decision-making responsibilities on behalf of the Partnership (collectively "soft dollar items").

Soft dollar items may be provided directly by brokers, by third parties at the direction of brokers or purchased by the Partnership with credits or rebates provided by brokers. Soft dollar items may arise from over-the-counter principal transactions, as well as exchange-traded agency transactions. Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the

considerations described above. A broker will not be excluded from executing transactions for the Partnership because it has not been identified as providing soft dollar items.

Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the "1934 Act"), permits the use of soft dollar items in certain circumstances, provided that the Partnership does not pay a rate of commissions in excess of what is competitively available from comparable brokerage firms for comparable services, taking into account various factors, including commission rates, financial responsibility and strength and ability of the broker to efficiently execute transactions. Non-research products acquired by the Partnership through the use of "soft dollars", and "soft dollars" which are not generated through agency transactions in securities, are outside the parameters of Section 28(e)'s "safe harbor," as are transactions effected in futures, currencies or certain derivatives.

Soft dollar items within the Section 28(e) "safe harbor," whether provided directly or indirectly, as well as soft dollar items that fall outside of the Section 28(e) "safe harbor", may be utilized for the benefit of the General Partner's and its affiliates' other accounts. The General Partner expects to use soft dollars to acquire soft dollar items that the General Partner or its affiliates would otherwise be obligated to provide to, or acquire at their own expense for, the Partnership. Nonetheless, the General Partner believes that such soft dollar items may provide the Partnership with benefits by supplementing the research and services otherwise available to the Partnership.

Legal and Accounting Matters

No counsel or accountants have been engaged to represent the interests of the Limited Partners at this time. Potential investors should consult with their own counsel and advisers before investing.

Administrator

The Partnership has engaged Fitzgerald & Associates as the Administrator of the Partnership (the "Administrator"). The General Partner may change the Fund Administrator at any time, in its sole discretion. If a change in Administrator is made, the General Partner will so notify the Limited Partners as soon as practicable after such a change is effective.

Pursuant to an Administration Agreement (the "Administration Agreement") between the Administrator and the Partnership, and as may be amended from time to time in the sole discretion of the General Partner, the Administrator is responsible for, among other things: (i) maintaining the register of partners of the Partnership and generally performing all actions related to the issuance and transfer of interest in the Partnership; (ii) disseminating the net asset value of the Partnership; (iii) performing acts related to withdrawal of interests in the Partnership; (iv) keeping such books and records as are required by law or otherwise for the proper conduct of the affairs of the Partnership; and (v) performing other services as agreed in connection with the administration of the Partnership.

The Administration Agreement provides that the Administrator shall not, in the absence of the Administrator's gross negligence or willful misconduct of the Administrator, be responsible for any loss or damage which the Partnership may sustain or suffer as the result of or in the course of the discharge of its duties, and the Partnership shall indemnify and hold harmless the Administrator and any agent appointed by the Administrator to act as administrator, sub-administrator, or administrative service provider or otherwise (collectively, "agents"), against all claims and demands, judgments, fines, costs or damages and proper expenses in connection therewith which may be incurred by the Administrator or its agents or which may be made against the Administrator or its agents in respect of the same sustained or suffered by any third party, otherwise than by reason of the gross negligence or willful misconduct of the Administrator or its agents, provided that the Administrator shall have used reasonable care in the appointment, supervision and control of such agents.

The Partnership will pay the Administrator fees out of Partnership assets, based upon the size of the Partnership, in accordance with the Administrator's standard schedule for providing similar services.

The Administration Agreement may be terminated, among other things, at any time without penalty by either of the parties upon not less than thirty (30) days' written notice, or at any time without such notice if (i) the General Partner or Partnership shall commit any breach of its obligations under the Administration Agreement and shall fail within thirty (30) days of receipt of notice served by the Administrator, to cure such breach; (ii) the Partnership shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Administrator); (iii) a receiver of any of the assets of the Partnership is appointed; or (iv) the General Partner takes any action or omits to take any action and such action or omission, in the judgment of Administrator, violates or may violate applicable law, rules or regulations or any order, judgment or decree of any court or other agency of government.

The Administrator shall have no obligation to review, monitor or otherwise ensure compliance by the Partnership with the investment policies, restrictions or guidelines applicable to it or any other term or condition of the Partnership's offering document(s). The Administrator is a service provider to the Partnership and is not responsible for the preparation of this Memorandum or the activities of the Partnership and therefore accepts no responsibility for any information contained in this Memorandum.

SECTION VI.

SUBSCRIPTIONS, CAPITAL ACCOUNTS, ALLOCATIONS

Subscriptions

Terms and conditions of the subscription for Interests are described in the Subscription Agreement attached as an Exhibit hereto. **The Subscription Agreement contains representations of the investor, a power of attorney and other important information and should be reviewed carefully.** The minimum amount for an initial subscription is $1,000,000 or ten Interests. The General Partner may accept a lesser sum as an initial subscription, at its sole discretion.

The Partnership may admit new Limited Partners as of the first Business Day of each calendar quarter, or at such other times as the General Partner determines in its sole discretion.

Prior to executing a Subscription Agreement, each purchaser of an Interest is invited to ask questions of the General Partner concerning the Partnership and its intended operations and to obtain any additional information, to the extent the General Partner possesses such information or can acquire it without reasonable effort or expense, necessary to verify the accuracy of the information furnished in this Memorandum.

Capital Account Establishment

A capital account ("Capital Account") is established for each Partner which reflects the Partner's interest in the Partnership, the opening balance of which is the Partner's initial contribution. The Capital Account is then adjusted as provided herein and in accordance with the principles set forth in the Partnership Agreement.

Allocation of Gains and Losses

Generally, the Net Income or Net Loss (exclusive of Net Income or Net Loss attributable to Excluded Securities) of the Partnership for each Accounting Period (as defined in the Partnership Agreement) shall be determined and allocated among the Partners (General and Limited) in proportion to their respective Capital Account interests as of the first day of the Partnership's Accounting Period. Net Income attributable to Excluded Securities and Net Losses attributable to Excluded Securities shall be allocated among the Unrestricted Partners (as defined in the Partnership Agreement) (General and Limited) in proportion to their respective Capital Account interests as of the first day of such Accounting Period.

Incentive Allocation

In addition to the allocations above, the Partnership Agreement calls for an Incentive Allocation to be made to the General Partner as of the close of each Fiscal Year, in an

amount equal to 20% of the Net Increase Amount (as defined below). An amount equal to the Incentive Allocation applicable to each Limited Partner for that Fiscal Year shall be charged to the Capital Account of such Limited Partner and shall be credited to the General Partner's Capital Account (the "Incentive Allocation"). With respect to any Fiscal Year, "Net Increase Amount" refers to the amount by which (x) the Net Income (prior to the charge and payment of any Management Fee), if any, credited during such Fiscal Year to the Capital Account of a Limited Partner, less any Management Fees debited to such Limited Partner's Capital Account during such Fiscal Year, exceeds (y) such Limited Partner's Loss Carry forward (as defined below), if any. "Loss Carry forward" refers to the amount, if any, by which (x) the cumulative sum of Net Losses charged to a Limited Partner's Capital Account for all Fiscal Years since the close of the most recent Fiscal Year when there was no Loss Carry forward at year end exceeds (y) the cumulative sum of the Net Income credited to such Limited Partner's Capital Account for all Fiscal Years (other than the Fiscal Year then ending) since the close of the most recent Fiscal Year when there was no Loss Carry forward at year end. See the Partnership Agreement for other details of the Incentive Allocation.

The first Fiscal Year for which an Incentive Allocation will be made is the Fiscal Year beginning after the date of the Initial Closing. The General Partner may, in its sole discretion, waive all or part of the Incentive Allocation otherwise due with respect to any Partner's investment, by rebate or otherwise.

New Issue Allocation

In the event the General Partner decides to cause the Partnership to invest in Securities which are a "new issue," as that term is defined in Rule 2790 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings) ("Rule 2790") of the Conduct Rules of the National Association of Securities Dealers, Inc. (the "NASD"), such investment (an investment in an "Excluded Security") shall be made in accordance with the following provisions:

any investment in an Excluded Security made in a particular Accounting Period shall be made in a special account (the "IPO Account");

only those Partners who are not restricted persons under Rule 2790 ("Unrestricted Partners") shall have any beneficial interest in the IPO Account;

each Unrestricted Partner shall have a beneficial interest in the IPO Account for any Accounting Period in proportion to its respective Partner's Interest as of the first day of such Accounting Period;

funds required to make a particular investment shall be transferred to the IPO Account from the regular account of the Partnership. Excluded Securities

shall be purchased in the IPO Account, held in the IPO Account and eventually sold from the IPO Account; if such Excluded Securities are sold from the IPO Account, the proceeds of the sale shall be transferred from the IPO Account to the regular account of the Partnership; and

the General Partner shall obtain from each Limited Partner, and each Limited Partner shall provide to the General Partner promptly upon request, a representation as to the Limited Partners eligibility to purchase Excluded Securities; provided, however, that the General Partner's determination as to whether a particular Limited Partner is a restricted person under Rule 2790 shall be final.

The General Partner reserves the right to modify the procedures set forth in this Section in such manner as the General Partner, in its sole discretion, determines may be necessary or appropriate to comply with applicable laws or the rules or interpretations of any regulatory agency or self-regulatory organization (including the NASD). In addition, the General Partner reserves the right to adopt procedures that would permit Limited Partners that are restricted persons within the meaning of Rule 2790 to have beneficial ownership of up to ten percent (10%) of an account owning Restricted Securities, as currently permitted under Rule 2790, or to dispense with the procedures set forth in this Section at any time when all of the Limited Partners are Unrestricted Partners.

Withdrawals

No early withdrawal of a Limited Partner's Capital Contribution will be permitted unless, in the case of hardship or other special circumstances of an investor, such withdrawal is allowed at the sole discretion of the General Partner. If such a withdrawal is allowed, it shall be based on an estimate made by the General Partner of the net asset value of the Partnership. The General Partner, at its sole discretion, may use the lower of the cost basis or estimated fair market value of Partnership assets, and charge any reasonable costs or fees to the withdrawing Partner, any adjustments and allocations shall be made to account for the tax implications of any such withdrawal as the General Partner, in its sole discretion, shall deem appropriate.

Notice and Amounts of Withdrawals

If allowed at the discretion of the General Partner, 90 days' prior written notice is required for any withdrawal (unless the General Partner, in its sole discretion, approves a withdrawal on shorter notice). Subject to the General Partner's right to establish reserves, the amount being withdrawn, up to 90% of the then value of the Partner's Capital Account, will be paid to the withdrawing Partner within 90 days after the withdrawal date, any remaining amount of the withdrawal being payable within a reasonable time after the completion of the Partnership's year-end audit. The General Partner may withdraw all or any part of its Capital Account at any time with notice to the Limited Partners within a reasonable time

after such withdrawal has been made. If any principal or portfolio manager of the General Partner, or any of their family members or affiliates, (i) are Limited Partners and (ii) withdraw from the Partnership all or any portion of their respective Capital Accounts, then notice of such withdrawal shall be given to the Limited Partners within a reasonable time after such withdrawal has been made.

A person who has ceased to be a Partner may be liable to the Partnership for such person's proportionate share of certain Prior Accounting Period Items (as such term is defined in the Partnership Agreement) in excess of the reserve, if any, established upon such Partner's retirement, to the extent provided for in the Partnership Agreement.

The General Partner may require the compulsory withdrawal of all Interests held by a Partner as provided in the Partnership Agreement. In circumstances where the Partnership is unable to liquidate securities positions in an orderly manner in order to fund Partnership withdrawals or where the value of the assets and liabilities of the Partnership cannot reasonably be determined, the Partnership may take longer than ninety (90) days to effect settlements of withdrawals or it may even suspend withdrawals. A distribution may be in cash or in kind in the General Partner's sole discretion. In addition, the General Partner may withhold a portion of any redemption if necessary to comply with applicable tax or regulatory requirements.

Side Letters

Notwithstanding the provisions of the Partnership Agreement or any Subscription Agreement, the General Partner, on its own behalf or on behalf of the Partnership, and without the approval of any Limited Partner, may enter into a side letter or similar agreement to or with a Limited Partner which has the effect of establishing rights under, or altering or supplementing the terms of the Partnership Agreement or any Subscription Agreement in order to meet certain requirements of such Limited Partner. Any terms contained in a side letter or similar agreement to or with a Limited Partner shall govern with respect to such Limited Partner notwithstanding the provisions of the Partnership Agreement or any Subscription Agreement.

Miscellaneous

The Partnership Agreement may be amended by the General Partner to admit additional partners or in any manner that does not materially adversely affect any Limited Partner. The Partnership Agreement may also be amended by action taken by both (a) the General Partner and (b) the Limited Partners owning a majority of the Interests at the time of the amendment, provided that such amendment does not discriminate among the Limited Partners. The Partnership Agreement may also be amended by the General Partner without further notice to the Limited Partners so as to comply with any applicable rule, regulation or statute.

It should be noted that investments with performance based fees and arrangements, such as the Incentive Allocation, may be riskier than those without such fees or arrangements.

SECTION VII.

FEES AND EXPENSES

Compensation for Investment Management

The Partnership will pay the General Partner a quarterly Management Fee (the "Management Fee") in advance, equal to 1.75% per annum (0.4375% per quarter) of the quarter-beginning value of each Limited Partner's Capital Account. The payment will be charged to the Limited Partner's Capital Accounts when made, and will be calculated and charged before any Incentive Allocation is made. The Management Fee will be charged on a pro-rata basis to a Limited Partner's Capital Account ratably during each calendar quarter (or, for the quarter in which a Limited Partner first acquires an interest in the Partnership, the period beginning with the date of acceptance of such Partner's subscription).

The General Partner may, in its sole discretion, waive all or part of the Management Fee otherwise due with respect to any Partner's or employee's investment, by rebate or otherwise. The General Partner, its employees, and/or the family members of any of them, will not be subject to the Management Fee unless otherwise agreed to by the entity or person to be charged.

Due Diligence Fee and Warrants

Prior to directing the Partnership to make an investment in a Portfolio Company, either the General Partner or an affiliate of the General Partner will undertake an analysis of the Portfolio Company. This due diligence process usually includes several meetings with Portfolio Company's management, a review of the Portfolio Company's public filings with the Securities and Exchange Commission, the portfolio company's historical and forecasted financial performance, and an analysis of the Company's valuation relative to comparable companies, stock trading activity and industry trends. This information, in turn, is used by the General Partner or affiliates to structure an investment which meets the Fund's objectives. If the financing occurs, the General Partner may take a due diligence fee for its services. This fee is paid by the Portfolio Company, not by the Partnership. The amount of the due diligence fee, if any, will vary depending on the amount of investment and the type of transaction involved. The fee is typically paid by the Portfolio Company at the time of the closing.

The General Partner will allocate thirty percent (30%) of this due diligence fee to the Partnership; provided, however, in cases where the Partnership invests in a Portfolio Company along with other funds, whether or not managed by the General Partner, the General Partner may allocate the Funds' share of the due diligence fee on a pro rata basis based on the proportional amount of such investment relative to the overall financing of the Portfolio Company.

The amount of the due diligence fee may be payable in the form of cash, warrants to purchase common stock of the Portfolio Company or other securities.

Fees For Possible Post Investment Activity

The General Partner may seek to accomplish the Partnership's investment objectives by undertaking a variety of activities, where feasible and practical, including, without limitation, the following:

A. Help companies develop and implement sound business strategies;

B. Help companies understand how they are perceived by investors and improve their investor relations; and

C. Help companies improve their corporate governance.

The General Partner may receive a fee, typically payable in the form of cash, warrants to purchase shares of Portfolio Company stock or other securities, for the possible provision of the activities described above. Such fee, if any, may be charged either concurrent with an investment in a Portfolio Company or subsequent to such investment, at the General Partners discretion. Such fee, if received in the form of warrants, is designed to incentivize the General Partner to maximize the value of the underlying stock of the Portfolio Company. The exercise price of warrants typically will be greater than the fair market value of the underlying stock at the time of receipt of such warrants.

Direct Costs; Administrative Expenses

Direct Costs refers to costs directly incurred for the benefit of the Partnership and generally attributable to goods and services provided to the Partnership by parties other than the General Partner. Direct Costs shall include, but not be limited to, legal, audit and advisory expenses and other expenses such as commissions, securities processing charges, exchange fees, transfer taxes, research fees, accounting and administrative fees, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, electronic and office equipment, supplies, telephone, printing, stationery, postage, courier services, publications, subscriptions, memberships, service contracts for quotation equipment and news wires, data processing, software and support, data services and data bases, consulting services and any other expenses related to the purchase, sale or transmittal of Partnership assets as shall be determined by the General Partner in its sole discretion. In addition, Direct Costs shall include any legal fees and costs (including settlement costs) arising in connection with any litigation or regulatory investigation instituted against the Partnership or the General Partner in its capacity as such.

Administrative Expenses refers to the following administrative expenses of the General Partner: office rent, secretarial/administrative services, salaries, insurance, payroll taxes and

travel and entertainment expenses (other than travel for research purposes related to the Partnership).

The General Partner shall be reimbursed for all Direct Costs, but not for Administrative Expenses.

Organizational Costs

The General Partner will advance organizational costs of the Partnership, including the costs of the offering of the Interests. The General Partner shall be entitled to reimbursement from the Partnership out of the proceeds of the first closing, for all amounts expended by it on behalf of the Partnership in connection with the organization of the Partnership. The Partnership may amortize its organizational costs, including offering costs, over a 60-month period.

The Master Fund, if any, will bear the cost of all of its own organizational expenses by either paying such costs directly or reimbursing the General Partner therefor. On an ongoing basis, the Master Fund will bear the expenses of administering its own business, including, without limitation, auditing, accounting and tax preparation fees and expenses, ongoing legal and bookkeeping expenses, accounting and administrative fees, brokerage commissions and other securities transaction costs, custodial fees, governmental fees and taxes, the legal and accounting costs incurred in connection with an audit of the Master Fund's tax return, margin interest or interest on other borrowings, and the expenses of offering and selling its interests.

SECTION VIII.

SUITABILITY

Investor Suitability Standards

Each purchaser of an Interest must bear the economic risk of his, her or its investment for an indefinite period of time (subject to its limited right to withdraw capital from the Partnership as more specifically described in the Partnership Agreement) because the Interests have not been registered under the Securities Act, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act or an exemption from such registration is available. It is not contemplated that any such registration will ever be effected, or that certain exemptions provided by rules promulgated under the Securities Act (such as Rule 144) will be available. There is no public market for the Interests now nor is one expected to develop in the future. The Interests are being offered in reliance upon the exemption provided in Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder. The Interests have not been registered under the securities laws of any state or other jurisdiction and will not be offered in any state of the United States except pursuant to an exemption from registration. In addition, the Partnership is not registered under the Investment Company Act of 1940, as amended (the "Company Act"). The Partnership Agreement provides that a Partner may not assign its Interest (except by operation of law), nor substitute another person as a Partner, without the prior consent of the General Partner, which may be withheld for any reason. The foregoing restrictions on transferability must be regarded as substantial, and will be clearly reflected in the Partnership records.

Each purchaser of an Interest is required to represent that the Interest is being acquired for his, her or its own account, for investment, and not with a view to resale or distribution. The Interests are suitable investments only for sophisticated investors for whom an investment in the Partnership does not constitute a complete investment program and who fully understand, are willing to assume, and who have the financial resources necessary to withstand the risks involved in the Partnership's specialized investment program and to bear the potential loss of their entire investment in the Interests.

Each potential investor must qualify as an "accredited investor" within the meaning of Regulation D under the Securities Act and a "qualified client" within the meaning of Rule 205-3(d) under the Investment Advisers Act of 1940, as amended ("Advisers Act").

An accredited investor is:

1. Any U.S. bank or any banking institution organized under the laws of any state, territory or the District of Columbia, the business of which is substantially confined to banking and is supervised by the State or Territorial banking commission or similar official agency, any U.S. savings and loan association or other similar institution, whether acting in its Individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15

of the 1934 Act; any U.S. insurance company; any investment company registered under the Company Act or a business development company as defined in the Company Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under 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, as amended ("ERISA"), if the investment decision is made by a plan fiduciary, as defined in ERISA, 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 the persons that are accredited investors;

2. Any "private business development company" as defined in the Advisers Act;

3. Any organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total capital in excess of $5,000,000;

4. Any director, executive officer, or general partner of the Partnership, or any director, or executive officer of the general partner of the Partnership;

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

6. 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;

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 Regulation D; or

8. Any entity all of whose equity owners satisfy one or more of such requirements (1) through (7) above.

A qualified client is:

1. A natural person who or a company that immediately after entering into the contract has at least $750,000 under the management of the investment adviser;

2. A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to

entering into the contract, either: (a) has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than $1,500,000 at the time the contract is entered into; or (b) is a qualified purchaser as defined in Section 2(a)(51)(A) of the Company Act at the time the contract is entered into; or

3. A natural person who immediately prior to entering into the contract is: (a) an executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment adviser; or (b) an employee of the investment adviser (other than an employee performing solely clerical, secretarial or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

The foregoing suitability standards represent the minimum suitability requirement for prospective investors in the Partnership and satisfaction of these standards does not necessarily mean that an investment in the Partnership is a suitable investment for a prospective investor. Each prospective investor will represent in the applicable Subscription Agreement that the investor satisfies the above standards. In all cases, the General Partner shall have the right, in its sole discretion, to refuse a subscription for Interests for any reason including, but not limited to, its belief that the prospective investor does not meet the applicable suitability requirements or that such an investment is otherwise unsuitable for that investor.

Each prospective purchaser is urged to consult with his, her or its own advisers to determine the suitability of an investment in the Interests, and the relationship of such an investment to the purchaser's overall investment program and financial and tax position. Each purchaser of an Interest is required to further represent that, after all necessary advice and analysis, the purchaser's investment in an Interest is suitable and appropriate for the purchaser, in light of the foregoing considerations.

The method of subscription is described in the Subscription Agreement attached to this Memorandum.

Stricter State Standards

Residents of certain states may be subject to stricter suitability standards than those stated above and the General Partner may reject the Subscription Agreements of prospective investors not meeting such standards. Each prospective investor will represent in its Subscription Agreement that the investor satisfies the above standards.

Purchases by Employee Benefit Plans

An ERISA Fiduciary should give appropriate consideration to the facts and circumstances that are relevant to an investment in the Partnership, and the role such investment plays in the investment portfolio of that Fiduciary's employee benefit plan (a "Plan").

Investment by a Plan is subject to certain additional considerations because investments made or held by Plans are subject to ERISA, as well as certain restrictions imposed by Section 4975 of the Code. United States Department of Labor ("DOL") Regulation Section 2510.3-101 (the "Regulation") provides certain rules for determining whether an investment in the Partnership by a Plan will be treated as investment by such plans in the underlying capital of the Partnership. Accordingly, the General Partner may be compelled to require the withdrawal of some or all of the Capital Accounts held by such Plans or accounts if necessary to comply with such policy.

Acceptance of subscriptions on behalf of employee benefit plans is in no respect a representation by the Partnership or the General Partner that this investment meets all relevant legal requirements with respect to investments by any particular Plan or that this investment is appropriate for any particular Plan. The person with investment discretion should consult with his or her attorney as to the propriety of such an investment in light of the circumstances of the particular Plan.

SECTION IX.

CERTAIN RISK FACTORS

Prospective investors should consider the following risk factors in evaluating the merits and suitability of an investment in the Partnership. The following does not purport to be a summary of all the risks associated with an investment in the Partnership. Rather, the following are only certain particular risks to which the Partnership is subject that the General Partner wishes to encourage prospective investors to discuss in detail with their professional advisers.

Under the Management Agreements, to the fullest extent permitted by applicable law, the General Partner is not liable for any error in judgment and/or for any investment losses the Funds may experience, in the absence of fraud or willful misconduct. Nothing in the Investment Management Agreements is meant to constitute a waiver or limitation of any rights the Funds or the Investors might have under applicable state or federal securities laws. A copy of the Investment Management Agreement is available on request.

Investors should consider the Partnership as a supplement to an overall investment program and should only invest in the Partnership if they are willing to undertake the risks involved. In addition, Investors who are subject to income tax should be aware that investment in the Partnership may create taxable income or tax liabilities in excess of cash distributions to pay such liabilities.

Reliance on the General Partner

The management of the Funds will be vested exclusively with the General Partner. Persons should not invest in the Partnership unless they are willing to entrust all aspects of the management of the Partnership and its investments to the complete discretion of the General Partner. All decisions with respect to the Partnership's assets and Investments will be made by the General Partner, which relies on the services of its principal, David Firestone. Limited Partners will have no right or power to take part in the management of the Partnership. As a result, the success of the Partnership will depend largely upon the ability of the General Partner. There is no assurance that the strategies employed by the Partnership will achieve attractive returns or will be successful. Here are some of the risks an Investor should consider:

A. Limited Operating History. The Partnership commenced operations in 2003 and has limited operating history. However, the General Partner has significant prior experience operating and managing private investment funds with the same strategy as the Fund.

B. Investment Selection. The success of the Funds' investment strategy will depend on the management, skill, and acumen of the General Partner.

Investors will have no opportunity to select or evaluate in advance any of the Funds' investments or strategies.

C. Changes in Investment Strategies or Policies. The Management Agreements do not limit the Funds' investment strategy or policies to what is described in this Memorandum. The General Partner has wide latitude to invest or trade the Funds' assets, to pursue any particular strategy or tactic or to change the Funds' emphasis, objectives, policies and/or strategy, all without obtaining the approval of the Investors.

D. Profit Allocation. The allocation of twenty percent (20%) of the Partnership's net profit to the General Partner may create an incentive for the General Partner to cause the Funds to make investments that are riskier than it would otherwise make. In addition, because the General Partner's Profit Allocation is calculated on a basis which includes unrealized appreciation of the Funds' assets, the Profit Allocation may be greater than if that allocation were based solely on realized gains.

E. No Input into Funds Affairs. Investors will have no right to take part in the conduct, management, operation or control of the Funds or the Funds' business. In addition, Investors will have extremely limited voting rights. In particular, Investors will have no right to remove the General Partner or consent to the admission of an additional or successor General Partner.

F. Lack of Regulatory Oversight. Even though the General Partner is registered as an investment adviser with the SEC, the Funds' activities will generally not be subject to the same degree of regulatory oversight to which other investment vehicles are subject. While the Funds may be considered similar to an investment company, the Funds are not registered as such under the Investment Company Act in reliance upon exclusions available to privately offered investment companies. Accordingly, the provisions of the Investment Company Act are not applicable to the Funds.

In addition, the Interests offered pursuant to this Memorandum have not been registered under the Securities Act or the securities laws of any state. No state or federal authority has reviewed, passed on or endorsed the merits of this offering or the adequacy or accuracy of this Memorandum.

G. Limited Access to Fund Information. Investors have no right to obtain information about the Funds' current investments or strategies. If the General Partner, in its sole discretion, grants an Investor access to such information, such access may be subject to strict confidentiality provisions.

H. Valuations of Fund Investments. The Fund's investments will be valued on a monthly basis by the General Partner for purposes of calculating, among other things, the Fund's Management Fee and the Profit Allocation. The valuation will be performed by the General Partner's valuation committee in accordance with the General Partner's Valuation Policy. The value assigned to an investment at a certain time may differ from the value that the Funds are ultimately able to realize. In such a case, Management Fees paid and Profit Allocations made will not be subject to reversal.

I. Conflicts of Interest. Decisions made by the General Partner will be subject to a number of inherent conflicts of interests. Before investing, prospective Investors should review "Conflicts of Interest." The Partnership's General Partner manages three funds. Because of these other financial and business interests, the General Partner will have an inherent conflict of interest in allocating its time and investment opportunities. There can be no assurance that the Partnership's General Partner will resolve all conflicts of interest in favor of the Partnership.

Special Risks Associated With Investments in Target Portfolio Companies

Typically, each Portfolio Company will be managed by its own officers (who generally will not be affiliated with the Partnership or the General Partner). Portfolio Companies may have substantial variations in operating results from period to period, face intense competition, and experience failures or substantial declines in value at any stage. Portfolio Companies may need substantial additional capital to support growth or to achieve or maintain a competitive position. Such capital may not be available on attractive terms. The Partnership's capital is limited and may not be adequate to protect the Partnership from dilution in multiple rounds of Portfolio Company financing. At the time of the Partnership's investment, a Portfolio Company may lack one or more key attributes (e.g., proven technology, marketable product, complete management team, or strategic alliances) necessary for success. In certain cases, investments will be longer term in nature and factors may require years from the date of initial investment before disposition. The following highlight special aspects of the risks.

a. Small Capitalization. The Portfolio Companies that the Partnership expects to invest in are thinly capitalized and generally will have a market capitalization below $500 million.

b. Liquidity of Securities. It is expected that the securities of a significant number of the Portfolio Companies will be thinly traded. This could present a problem when the Partnership determines to liquidate its position to meet withdrawal requests and/or because the General Partner determines that it is in the best interest of the Partnership to liquidate such investment. The Partnership may not be able to sell the securities in the time frame and at the

price it would like. Furthermore, in certain situations, as a result of a security being thinly traded, the Partnership could experience a significant loss in value should the Partnership be forced to liquidate its investment as a result of rapidly changing market conditions or other factors.

c. Market Listing. Some of the securities of the Portfolio Companies may be listed for trading only on the OTC Bulletin Board which may provide little liquidity and market maker support. Most Portfolio Companies trade on the Nasdaq or AMEX, and are also subject to low trading volumes and a lack of market maker support.

d. Losses. It is expected that many if not most of the Portfolio Companies will have experienced consistent or recent losses.

e. "Restricted" Securities. It is expected that the Partnership will purchase a majority of securities from Portfolio Companies in transactions under Regulation D of the Securities Act, and receive rights to registration pursuant to a registration statement filed by the Portfolio Company. It is possible that one or more of the Portfolio Companies may not be able to effect registration of the securities purchased by the Partnership, or effect the registration of such securities in a timely manner. In such event, the Partnership would end up owning "restricted" securities subject to resale under SEC Rule 144, which has a minimum of a one year holding period.

f. Not Readily Marketable Securities. The Partnership may invest in securities that are initially, or that later become, not readily marketable. For example, the Partnership may acquire restricted securities of an issuer in a private placement pursuant to an arrangement whereby the issuer agrees to register the resale of those securities, or, in the case of an investment in convertible or exchangeable securities, the securities underlying such securities, within a certain period of time, commonly referred to as a PIPE. Such registration requires compliance with United States Federal and state securities laws as well as the possible review of the filing by the SEC. Unless and until such registration or compliance with applicable regulation occurs, there is likely to be no market for the restricted securities purchased by the Partnership. No assurance can be given that issuers will not breach their obligation to effect such registration or other compliance obligation. Similarly, securities that are at one time marketable may become unmarketable (or more difficult to market) for a number of reasons. For example, securities traded on a securities exchange or quotation system may become unmarketable if de-listed from such exchange or quotation system for among other reasons, failing to satisfy the requirements for continued listing, which may include minimum price requirements. In addition, the Partnership may acquire restricted securities, for which no market exists, which are convertible or exchangeable into

common stock of the issuer. The General Partner is aware of several instances in which issuers have breached their obligation to convert or exchange such securities upon demand. No assurances can be given that the Partnership will not experience similar problems with its investments in convertible securities, in which case the Partnership's liquidity may be adversely affected. In general, the stability and liquidity of the securities in which the Partnership invests will depend in large part on the creditworthiness of the issuers. Issuers' creditworthiness will be monitored on an ongoing basis by the General Partner. If there is a default by the issuer, the Partnership may have contractual remedies under the applicable transaction documents. However, exercising such contractual rights which may involve delays in liquidating the Partnership's position and the incurrence of additional costs.

g. Issuer Non-Compliance. The ability of the Partnership to generate profits from its investment activities may be adversely affected by a failure of Portfolio Companies to comply with registration, conversion, exchange or other obligations under the agreements pursuant to which such securities have been sold to the Partnership. The failure of an issuer to register the resale of its securities sold to the Partnership may decrease the amount of available capital with which the Partnership may pursue other investment opportunities or meet current liabilities, such as the timely payment of redemptions. Further, as described herein, the Partnership often invests in securities that are convertible into or exchangeable for common stock of the issuer, the resale of which by the Partnership is (or is to be) registered. If an issuer refuses, is unable to, or delays in timely honoring its obligation to issue conversion or exchange securities, the ability of the Partnership to liquidate its position will be adversely affected, and the profits of the Partnership may be adversely affected.

h. Options and Short Sales. The General Partner may utilize options and short selling in furtherance of the Partnership's investment strategy. Options positions may include both long positions, where the Partnership is the holder of put or call options, as well as short positions, where the Partnership is the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a relatively higher level of risk. The expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short-selling, a theoretically unlimited risk of an increase in the Partnership's cost of purchasing the underlying securities in the event of exercise of the option.

i. Investment Risk Related to Micro Cap Companies. A primary investment objective of the Partnership will be to make investments in the securities of

micro-cap public companies with market capitalizations typically less than $500 million. An investment in such companies often presents unique risks that do not otherwise affect larger publicly traded companies to the same extent, including limited trading volume, reduced visibility and public awareness, and lack of analyst research and institutional following. Furthermore, by virtue of their size, when small-cap companies experience financial difficulties they often have fewer available options for resolving such difficulties. Although the General Partner believes that investments in such "orphaned" companies present greater upside potential, investors need to carefully consider that an investment in the Partnership carries certain risks.

Limited Transferability of Interests

Prospective investors should be fully aware of the illiquid nature of their investment in the Partnership. The Interests will not be registered under the Securities Act and instead will be offered to investors pursuant to a specific exemption under the provisions of such Act, which depends in part upon the investment intent of the investors. Additionally, Limited Partners have no right to require such registration in the future. Accordingly, purchasers of the Interests will need to bear the economic risk of their investment for an indefinite period of time.

In addition, the Interests may be transferred only if certain requirements are satisfied and only with the consent of the General Partner, which may be withheld in its sole discretion. All persons acquiring Interests will be required to represent that they are purchasing such Interests for their own account for investment only and not with a view to resale or distribution thereof.

For the foregoing reasons, among others, it is not anticipated that any public market will develop for the purchase and sale of the Interests and Interests may not be readily acceptable as collateral for loans. Consequently, Partners may not be able to borrow against or liquidate their investment in the Partnership in the event of an emergency.

Risks Associated with Direct Investments

The Partnership expects to make private investments in public company securities that will subsequently be registered with the SEC for resale. Although the Partnership will acquire securities at a discount to market, it will not be able to sell any of such securities until such time as such securities (or the common stock underlying the securities) are registered on a registration statement which is filed with and deemed effective by the SEC. During the period between the acquisition of a Portfolio Company's securities and the effectiveness of its registration statement, the public market trading price for such securities could decline. Furthermore, because most small-cap companies have limited trading volume, it could take a considerable period of time for the Partnership to achieve liquidity in its Direct investments.

Possible Investments in Penny Stocks

The Partnership intends to target small-cap companies for investment opportunities. Some of these companies may trade on the smaller, less prestigious, public trading markets such as the Nasdaq OTC Bulletin Board or the Pink Sheets. Many companies whose securities trade on such exchanges are subject to the SEC's penny stock trading and disclosure rules. Because the penny stock rules place additional reporting and operating requirements on brokers and dealers, the securities for such companies are often illiquid and subject to volatile price fluctuations.

"Master-Feeder" Arrangement

The existence of multiple investment vehicles investing in the same Master Fund presents certain unique risks to Limited Partners. Smaller investment vehicles investing in the Master Fund may be materially adversely affected by the actions of larger investment vehicles investing in the Master Fund. For example, if a large investment vehicle withdraws from the Master Fund, the remaining funds may experience higher pro rata operating expenses, thereby producing lower returns, and significant withdrawals could significantly adversely affect the ability of the Master Fund to continue to operate. Similarly, the Master Fund's investment portfolio may become less diverse due to a withdrawal by a larger investment vehicle, resulting in increased portfolio risk. Furthermore, the Partnership may not in fact realize any efficiencies or other cost savings as a result of such participation and may actually incur additional expense.

Both the Funds and any investment vehicles in which the Funds may invest have expenses and management fees and costs that will be borne by the Funds. The expenses of the Funds (including the Funds' pro rata share of expenses of any investment vehicles in which the Funds invests) may be a higher percentage of net assets than those incurred by other investment funds or accounts.

Investment Criteria and Strategy Subject to Change

The General Partner in its discretion may without notice modify the Partnership's investment criteria and strategy to adapt to changes in market conditions, regulations, and/or the competitive landscape in order to maintain the Partnership's overall investment philosophy of maximizing returns while mitigating risk and preserving capital.

Federal Regulations

The General Partner will take any steps required to avoid the Partnership's being listed as a Registered Investment Company, as defined under the Company Act. However, certain provisions of the Company Act could become applicable to the Partnership and may affect its overall cost of operations. There is always the possibility, moreover, that future changes in the securities laws or the activities of the Partnership could create the need to comply

with the more burdensome laws and regulations applicable to other investment companies resulting in a greater cost of operation. Several states also have "Blue Sky" regulations or restrictions that may have an impact on the Partnership, its Limited Partners or its portfolio Investments.

Lack of Diversification

The size of the Partnership makes it unlikely that the General Partner will be able to commit the Partnership to the acquisition of securities of a large number of companies and, therefore, the Partnership may not be able to achieve the same type of diversification as larger entities engaged in such activities. This is particularly true if only the minimum number of Interests is sold in which case the Partnership would be restricted in the amount of capital available for investment in any opportunity. Investors are further cautioned that Partnership funds expended in capital investment activities are usually associated with a high degree of risk that is only partially offset by a wide diversification of Investments.

Lack of Regular Cash Flow

The General Partner does not anticipate regular cash flow distributions from the portfolio investments to the Partnership. Cash flow from operating businesses may be reinvested in the business at the discretion of the persons in control of each company in which the Partnership makes an Investment. The primary source of cash flow to Partners will be upon the disposition of any of the portfolio Investments and Partners should not anticipate regular operating cash flow from the Investments.

Limitation on General Partner Liability

The Partnership Agreement provides that the General Partner shall not be liable to the Partnership or the Limited Partners for the performance of any act or for its failure to act, so long as such act or failure to act was performed in a manner determined by it in good faith to be within the scope of its authority and in the best interests of the Partnership, provided that the act or failure to act did not constitute gross negligence, breach of fiduciary duty or actual fraud. Upon a determination by a court of law that the conduct of the General Partner did constitute actual fraud, breach of fiduciary duty or gross negligence, the Partnership will be indemnified by the General Partner for any losses sustained by the Partnership as a result of such conduct. The General Partner, however, may not have significant assets other than the fees it receives through its management of the Partnership. In addition, the General Partner may make distributions to the Partnership's Limited Partners on a periodic basis. In such event, to the extent that the General Partner has an obligation to indemnify or reimburse the Partnership for its conduct, there may not be sufficient assets to provide a recovery for the Partnership. The General Partner will only be personally responsible to the extent required under Delaware law for any unlawful distributions.

Arbitrary Offering Price

The offering price for the Interests has been arbitrarily determined by the General Partner. The offering price for the Interests is no indication of the value of such Interests. No assurance can be given that the Interests (if transferable) could be sold for the offering price or for any amount.

The Partners Will Not Be Represented by Independent Counsel

The Limited Partners as a group have not been represented by independent counsel in connection with the formation of the Partnership or this Offering of Interests. Limited Partners should seek independent advice from their professional advisers prior to investment.

Substantial Competition

There are established companies with greater capital resources, larger research staffs and more extensive marketing capabilities than those of the Partnership that may compete with the Partnership. The Partnership anticipates substantial competition for Investment candidates, as the business development and venture capital markets are intensely competitive. The Partnership may be at a disadvantage with other companies having larger staffs and greater financial and operational resources than the Partnership. There can be no assurance that the Partnership will be able to compete successfully.

Lack of Control over the Partnership

The Limited Partners have no right to manage the Partnership and, accordingly, cannot exercise any control with respect to Partnership business decisions, investments and operations. No person should subscribe for Interests unless he is willing to entrust all aspects of the management of the Partnership and its investments to the General Partner. The General Partner and its principals will only devote such time to the Partnership's affairs, as they deem necessary for the conduct of the business of the Partnership.

Use of Incentive Allocations

The General Partner will be paid Incentive Allocations on an ongoing basis. It is possible that earlier Investments will be more successful than later Investments. Therefore, the General Partner could receive Incentive Allocations for earlier gains that, at the cessation of the Partnership's Term, it would in retrospect be deemed not to have earned (as Partner Capital Accounts could be below the "high-water mark" at which the Incentive Allocations were calculated).

Risk of Material Agreements Not at Arm's Length

As described elsewhere in this Memorandum, the General Partner will be paid certain fees and other compensation and reimbursements by the Partnership for both present and future services rendered to the Partnership. The magnitude of these fees and the time and manner of their payment have been determined without the benefit of arm's length bargaining.

Failure to Achieve Significant Capitalization

If the Partnership achieves only the minimum capitalization, the Partnership will be limited in the kind and number of opportunities it may pursue, although the General Partner believes that the Partnership can be operated with minimum capitalization.

Risk of Early Losses

If market conditions result in substantial early losses for the Partnership, the risk of the Partnership having to terminate its investing activity will be substantially increased. The Partnership could experience substantial cash flow difficulties were its assets to be depleted early, particularly in view of the charges to which the Partnership is subject. The Partnership may commence operations at an unpropitious time resulting in significant initial losses.

Risk of Leverage

The Partnership may, in the sole discretion of the General Partner, leverage its investment positions by borrowing up to 25% of the total value of the Partnership's assets, which will typically be secured by the Partnership's securities and other assets, from securities broker-dealers, banks, or others. Borrowing money to purchase securities may provide the General Partner with the opportunity for greater capital appreciation but, at the same time, will increase the Partnership's exposure to capital risk and higher current expenses. Moreover, if the assets under management are not sufficient to pay the principal of, and interest on, the debt when due, the Partnership could sustain a total loss of its investment. The General Partner anticipates utilizing leverage in its investments. As such, the Partnership's exposure to capital risk is enhanced.

Investment Selection Information

The General Partner will select investments on the basis of information and data filed by the issuers of such securities with the SEC or made directly available to the General Partner by the issuers of the securities or through sources other than the issuers. Although the General Partner intends to evaluate all such information and data and seek independent corroboration when it considers it appropriate and when it is reasonably available, the General Partner will not be in a position to confirm the completeness, genuineness or accuracy of such information and data.

No General Partner Liability Beyond Partnership Assets

Subject to the General Partner's fiduciary responsibility to Limited Partners, the General Partner shall have no personal liability to the Limited Partners for the return of any capital contributions, it being understood that any such return shall be made solely from the Partnership assets.

Early Termination; Mandatory Retirement

The Partnership Agreement provides that the General Partner may compel a Limited Partner to retire or may dissolve the Partnership at any time. In the event of the early termination of the Partnership, the Partnership would have to distribute to the Limited Partners their pro-rated interest in the assets of the Partnership after payment of the Partnership's liabilities. Certain assets held by the Partnership may be highly illiquid and might have little or no marketable value. It is possible that at the time of such sale or distribution, certain securities held by the Partnership would be worth less than the initial cost of such securities, resulting in a loss to Limited Partners.

Effect of Substantial Withdrawals

The sale by the Partnership of portfolio securities in order to satisfy a complete or partial withdrawal from the Partnership may result in realized capital gains or losses which will be allocated to the Capital Accounts of the General Partner and the non-withdrawing Limited Partners. Substantial withdrawals by Limited Partners within a short period of time could require the General Partner to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of the Partnership's assets. The resulting reduction in the Partnership's assets could make it more difficult to generate a positive rate of return or to recoup losses due to a reduced equity base.

Regulation

M.A.G. Capital, LLC is a Registered Investment Advisor under the Investment Advisors Act of 1940 with the U.S. Securities and Exchange Commission, and serves as the Partnership's General Partner. The Partnership does not intend to register as an Investment Company under the Investment Company Act (or any similar state laws). Investors, therefore, will not be accorded the protective measures provided by such legislation. Registered investment companies are subject to extensive regulation.

Changes in Applicable Law

The Partnership must comply with various legal requirements, including requirements imposed by the securities laws, tax laws and pension laws in various jurisdictions. Should any of those laws change over the term of the Partnership, the legal requirements to which the Partnership and the Partners may be subject could differ materially from current

requirements and could effect the Partnership's investment strategy and ability to reach its investment objectives.

Reserve for Contingent Liabilities

Under certain circumstances, the General Partner may find it necessary to establish a reserve for contingent liabilities or withhold a portion of the Limited Partner's settlement proceeds at the time of redemption, in which case, the reserved portion would remain at risk in connection with the Partnership's activities.

Liquidation

If the Partnership should become insolvent, the Limited Partners may be required to return with interest any property distributed that represented a return of capital or distributions wrongfully made to them and forfeit undistributed profits.

General Economic Conditions

The success of any investment activity is influenced by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpected volatility or liquidity in the markets in which the Partnership directly or indirectly holds positions could impair the Partnership's ability to carry out its business and could cause it to incur losses.

Custodial Risks of Brokers

The General Partner may use brokers who would trade as a principal on behalf of the Partnership, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Partnership (for example, the transactions which the broker has entered into on behalf of the Partnership as principal as well as the margin payments which the broker has entered into as principal could default and the Partnership's assets could become part of the insolvent broker's estate), to the detriment of the Partnership.

Suspensions of Trading

Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension would render it impossible for the General Partner to liquidate positions and, accordingly, could expose the Partnership to losses.

Risks Associated With Taxation of the Partners

There are risks associated with the tax aspects of investment in the Partnership. The discussion of these risks in this Memorandum is not intended as a substitute for careful tax planning. The income tax consequences of an investment in the Partnership are complex and will not be the same for all taxpayers. ACCORDINGLY, EACH INVESTOR MUST DEPEND SOLELY UPON THE ADVICE OF HIS OWN PROFESSIONAL ADVISERS WITH RESPECT TO HIS INVESTMENT IN THE PARTNERSHIP AND THE POTENTIAL TAX CONSEQUENCES THEREOF.

Possible Changes in Law

There can be no assurance that the present income tax treatment of an investment in the Partnership may not be affected in a materially adverse manner at any time by legislative, judicial or administrative action.

Classification of the Partnership as a Partnership

The Partnership does not have and does not intend to request a ruling from the Internal Revenue Service that the Partnership will be taxable as a partnership rather than as an association which is taxable as a corporation.

State Taxation of the Partnership

Should the Partnership conduct business in states other than California, it will be subject to the state's income tax laws. There can be no guarantee that such states will follow the example of the Federal Government and treat the Partnership as a "passthrough" entity for state income tax purposes. It may be treated as a corporation, which is a tax paying entity, rather than a "pass-through" entity. In such events, the net operating income and available cash will be reduced by the amount of the tax imposed by such state(s) and the distributions to Interest holders will be taxed and reduced accordingly.

The Partnership believes that it will not be taxed for its activities in any state other than California even though those states may not presently have statutes exempting limited partnerships from taxation. Generally, state taxing statutes provide for the same tax treatment as that provided by the Federal taxing authority. Therefore, if the Partnership is treated as a "pass-through" entity for Federal tax purposes, states will generally treat the Partnership in the same manner. Certain states may levy fees or even taxes on the Partnership as a franchise tax or tax for doing business in that state. These forms of taxation may be measured by the sales activity, number of employees or revenues of the Partnership in that state.

Limitation of Liability and Indemnification of the General Partner

Under California law, a general partner is accountable to the limited partners as a fiduciary and, consequently, required to exercise good faith and integrity in handling Partnership matters. Under the Management Agreements to the extent permitted by applicable law, the General Partner, any affiliate of the General Partner, any person controlling the General Partner, and any person acting on behalf of such persons will be indemnified by the Funds from and against any cost, claim, liability, damage, loss or expense (including, without limitation, all legal and expert witness fees and expenses and costs of investigation) suffered by any such person by virtue of any such person's acting, as or on behalf of the General Partner, for the Funds in connection with the Funds' activities. In addition, the General Partner and such persons will not be liable to the Funds or any partner for any cost, claim, liability, damage, loss or expense suffered in connection with the Funds' activities, including, without limitation, any tax liability asserted against any partner by any federal, state or local authority as a result of any position taken by the Funds or any partner. Nevertheless, if such cost, claim, liability, damage, loss or expense arises out of any action or inaction of any such person, these provisions will be available only if the indemnitee believed at the time of such action or inaction, in good faith, that such course of conduct was in the interests of the Funds and such course of conduct must not have constituted a breach by the indemnitee of any fiduciary duty that the indemnitee may have to the Funds. In addition, the indemnification is available only as and to the extent that it is not prohibited by applicable law governing rights of indemnification (including ERISA). Recoveries under these provisions may be had only out of the assets of the Funds and not from the Investors.

A. The Management Agreements also provide that the Funds will advance funds for legal expenses and other costs incurred by those indemnified persons in connection with any such cost, claim, liability, damage, loss or expense if they undertake to repay the advanced funds to the Funds if it is finally determined by a court of competent jurisdiction that the indemnitee is not entitled to indemnification under the Management Agreements.

B. Investors may have a more limited right of action than they would ordinarily have as a result of these limitations in the Management Agreements. To the extent that such exculpatory provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, this indemnification is contrary to public policy and therefore unenforceable.

C. The Partnership's subscription documents require each Investor to indemnify and hold harmless the Partnership and the General Partner and each of their employees, agents, and attorneys, from and against any and all loss, liability, claims, damage, and expense (including any expense reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) related to any false representation or

warranty or any breach of agreement by the Investor contained in the subscription documents or in any other document furnished by the Investor to the Partnership in connection with the Investor's subscription for Interests.

Increased Regulatory Scrutiny

In the environment following the events of September 11, 2001, there has been increased scrutiny by government regulators, investigators, auditors, and law enforcement officials regarding the identities and sources of funds of investors in private investment funds such as the Partnership. In that connection, in the future the Partnership may become subject to additional obligations, such as reporting requirements regarding its partners, including, without limitation, such requirements and restrictions as may apply under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"). Upon the General Partner's request each Investor will be required to provide to the General Partner such information as may be required for the General Partner to enable the General Partner and/or the Partnership to comply with all applicable legal or regulatory requirements, including, without limitation, the requirements of the Patriot Act (and/or all rules and regulations related thereto), and each Investor will be required to acknowledge and agree that the General Partner may disclose such information to governmental and/or regulatory or self-regulatory authorities to the extent required by applicable law or regulation and may file such reports with such authorities as may be required by applicable law or regulation. If required by applicable law, regulation or interpretation thereof, the General Partner may suspend all activity with respect to an Investor's account with the Partnership, including suspending the Investor's right to withdraw funds or assets from the Partnership pending the General Partner's receipt of instructions regarding the Investor's account from the appropriate governmental or regulatory authority.

Securities and investment businesses generally are comprehensively and intensively regulated under state and federal laws and regulations. Any investigation, litigation or other proceeding undertaken by state or federal regulatory agencies or private parties could necessitate the expenditure of material amounts of the Partnership's resources for legal and other costs and could have other materially adverse consequences for the Partnership. Furthermore, the human and capital resources of the Partnership and the General Partner could be adversely affected by the need to defend actions under these laws, even if the Partnership is ultimately successful in its defense.

Duties of General Partner as ERISA Fiduciary

An undivided portion of the assets of the Partnership may be deemed to be Plan Assets subject to ERISA. In such event, the General Partner will be an ERISA fiduciary with respect to the assets of the ERISA-Covered Investors in the Partnership. As an ERISA fiduciary, the General Partner will be required to conform its decisions and actions in connection with such Plan Assets to the fiduciary duties and limitations imposed on ERISA

fiduciaries, notwithstanding anything contained herein to the contrary. In addition, restrictions imposed on the Partnership under ERISA could limit certain investment opportunities in select circumstances.

Private Offering Exemption

This offering has not been registered under the Securities Act, in reliance on the exemptive provisions of Section 4(2) of the Securities Act and Regulation D promulgated thereunder. Section 18(b)(4)(D) of the Securities Act, added by the National Securities Markets Improvement Act of 1996, preempts state registration of transactions in securities exempt pursuant to "rules and regulations issued by the SEC under Section 4(2) of the Securities Act." Preemption therefore applies to transactions exempt under Regulation D, but not to transactions exempt under Section 4(2) alone. Because of the lack of uniformity among the state's securities laws and their general complicated nature, the Partnership has chosen not to incur the expense and burden of reviewing exemptions under each state's laws, but rather rely on the uniform exemption provided by Regulation D.

No assurance can be given that the offering currently qualifies or will continue to qualify under the exemptive provisions of Regulation D because of, among other things, the adequacy of disclosure and the manner of distribution, the timeliness of filings, the existence of similar offerings in the past or in the future, or the retroactive change of any securities law or regulation. If the Regulation D exemption is lost, the Partnership may not be able to avail itself of other state exemptions and successful claims or suits for rescission may be brought and successfully concluded for failure to register these offerings or for acts or omissions constituting offenses under the Exchange Act or applicable state securities laws.

Tax Risks

The tax aspects of an investment in the Partnership are complicated and each prospective Investor should have them reviewed by professional advisors familiar with such Investor's personal tax situation and with the tax laws and regulations applicable to the Investor and private investment vehicles. The Partnership is not intended and should not be expected to provide any tax shelter, but is organized as a limited partnership to permit a single level of tax on earnings of the Partnership, *i.e.*, any distributions it might make will not be taxed as dividends. The tax considerations are more fully discussed in "Federal Income Tax Considerations."

A. <u>You May Not Be Able to Deduct Your Share of Partnership Fees and Expenses</u>. Under Section 67(c) of the Internal Revenue Code of 1986, as amended (the "Code"), temporary Treasury Regulations prevent taxpayers from deducting indirectly, through a passthrough entity such as a partnership, expenses that would not be deductible if paid or incurred directly by such taxpayers. The Code limits a number of deductions characterized as

"miscellaneous itemized deductions," including those for expenditures related to investment income or property, which are deductible under Code Section 212. Miscellaneous itemized deductions, including those related to investment income or property, are deductible only to the extent that the total of such deductions exceeds two percent (2%) of the taxpayer's adjusted gross income. The Management Fee payable to the General Partner and other expenses of the Partnership may be investment income expenditures. You would be able to deduct them only to the extent that they plus all other miscellaneous itemized deductions exceed two percent (2%) of your adjusted gross income in any taxable year. If the Partnership is deemed to be engaged in a trade or business, then the Management Fee and those other expenses will not be deemed to be such investment income expenditures and the limit on their deductibility will not apply. The General Partner, with the advice of the Partnership's independent public accountants, determines each year whether the Partnership is engaged in a trade or business for that year. The IRS may not agree with our determination.

B. Tax-Exempt Entities May Incur Tax Liability. Tax-exempt Partners may recognize unrelated business taxable income as a result of their investment in the Partnership. An investment in the Partnership may be inappropriate for a charitable remainder trust. Pursuant to Code Section 664(c), a charitable remainder trust that has any unrelated business taxable income in a taxable year is taxed on all of its income for that year.

C. You May Be Liable For State and Local Taxes. You may incur tax liabilities under state or local income tax laws of certain jurisdictions in which the Partnership operates as well as the jurisdiction of your residence or domicile. These laws vary from one locale to another and are complex and may change.

D. The General Partner May Liquidate the Partnership at a Time Not Advantageous to You. If the Partnership becomes insolvent, Investors may be required to return with interest any property distributed that represented a return of capital, repay any distributions wrongfully made to them and forfeit any undistributed profits.

THE ABOVE RISK FACTORS DO NOT COMPLETELY EXPLAIN THE RISKS OF INVESTING IN THE PARTNERSHIP. YOU MUST READ THE ENTIRE OFFERING MEMORANDUM, INCLUDING THE APPENDICES AND EXHIBITS, AND CONSULT WITH YOUR OWN ADVISERS BEFORE DECIDING TO INVEST IN INTERESTS.

SECTION X.

CONFLICTS OF INTEREST

General

The General Partner and its employees, principals and affiliates, may be subject to various conflicts of interest in their relationship with the Partnership. The agreements and arrangements between the Partnership and the General Partner are not the result of arms length negotiations.

The General Partner and its principals engage in other activities and will only devote such of their time to the Partnership as they deem necessary, and may pursue activities in relation to their own investments and investments of other clients, including other funds, and other business activities. Principals of the General Partner may also directly or indirectly be involved in providing services to Portfolio Companies in which the Partnership invests, so long as the fees or consideration received in respect of those services are, in the good faith judgment of the General Partner, the same that it or others receive for similar services. The General Partner and its principals will have significant conflicts of interest, discussed to a greater extent below.

Conflicts with Respect to Investment Opportunities

The Partnership has been formed by the General Partner for the purpose of locating suitable business opportunities in which to participate. The General Partner will be engaged in various other business activities. From time to time, in the course of such activities, the General Partner may become aware of investment and business opportunities suitable for the Partnership and may be faced with the issue of whether to bring such opportunities to the Partnership for its participation.

Except as otherwise noted herein, the General Partner will generally be required to bring business opportunities to the Partnership if the Partnership could financially undertake the opportunity and if the opportunity is within the Partnership's line of business. Potential conflicts may arise in the determinations by the General Partner as to whether these potential business opportunities are within the financial means and proposed business plans of the Partnership.

The General Partner has organized several investment funds, including Mercator Momentum Fund, L.P. and Mercator the Monarch Pointe Fund, Ltd. and may in the future organize other companies, partnerships or ventures of a similar nature and with similar purposes as the Partnership. The General Partner may have conflicts in the event that another company affiliated with the General Partner is actively seeking the acquisition of or investment in businesses that are identical or similar to those that the Partnership may seek. Conflicts may not be present to the extent that potential business opportunities are

appropriate for the Partnership but not for other affiliated enterprises (or vice versa), because of such factors as the difference in working capital available to the Partnership as compared to such other enterprise. However, at any time the Partnership and any other enterprises affiliated with the General Partner (e.g., Mercator Momentum Fund, L.P. or Monarch Pointe Fund, Ltd.) are simultaneously seeking business opportunities, the General Partner may face the conflict of whether to effect a potential business acquisition or investment for the Partnership or for such other enterprises.

The General Partner has adopted a Code of Ethics governing conflicts of interest, personal securities holdings, self-dealing and related issues. Copies of the Code of Ethics are available upon request.

Timing of Disposition of Partnership Investments

The General Partner's interest may, in some cases, be inconsistent with the interests of the Limited Partners with respect to the timing of disposition of the Partnership's Investments. However, the acts of the General Partner are subject to a fiduciary duty to the Partnership in evaluating decisions as to the retention and disposition of Partnership Investments.

It is the current intent of the General Partner to first review the potential liquidation of Investments in a 6-month-to-3-year time frame after acquisition, largely depending on the future prospects of the Portfolio Company, the Partnership's need for liquidity and diversification, the nature of the capital markets at the date of proposed disposition, and the status of the overall economy and the economy specific to the industry of the Portfolio Company at such date. There can be no assurance, however, that dispositions will be made or will be advisable at any particular time frame. If, however, any Investment has not been disposed of 4 years after the date of acquisition, the General Partner will aggressively attempt to pursue disposition opportunities.

Valuations and Calculations of Fees

Given the nature of some of the Partnership's potential investments, some discretion will be exercised in assigning values to the Partnership's investments. This will create a conflict of interest because the value assigned to an investment will also affect the Management Fee and Incentive Allocation owing to the General Partner and the value of the Capital Account of the General Partner. Investments will be valued in good faith based upon available information by the Investment Adviser's valuation committee in accordance with the Investment Adviser's valuation policy. However, there can be no assurance that the value assigned to an investment at a certain time will equal the value that the Funds are ultimately able to realize. Even if there is a difference, the Management Agreements do not require the General Partner to return past Management Fees or Incentive Allocations. Copies of the Investment Manager Valuation Policy are available upon request.

Other Matters

While the foregoing conflicts could result in materially adverse effects for the Limited Partners, the General Partner, in its sole judgment and discretion, will attempt to mitigate such potential adversity by the exercise of its business judgment in an attempt to fulfill its fiduciary obligations. There can be no assurance that such attempt will prevent adverse consequences resulting from the numerous conflicts of interest.

Avoidance of Conflicts of Interest

Co-investment with other Partnerships Managed by the General Partner. In addition to the three funds currently managed by the General Partner, the Partnership may co-invest with other Partnerships or investment funds established by the General Partner in the future. To the extent possible, and in the reasonable discretion of the General Partner, such co-investments will be made on a mathematical basis based on a percentage of available capital in each Partnership and the investment fund.

SECTION XI.

FIDUCIARY RESPONSIBILITY OF THE GENERAL PARTNER

In addition to the several duties and obligations of and the limitations on the General Partner set forth in the Partnership Agreement, the General Partner is accountable to the Partnership and to each Partner as a fiduciary, which means that the General Partner is required to exercise good faith and integrity in dealings with respect to Partnership affairs. Where the question has arisen, courts have held that a shareholder may institute legal action on behalf of himself and all other similarly situated shareholders (a class action) to recover damages for a breach by an officer or director of his fiduciary duty, or on behalf of the company (a company derivative action) to recover damages from third parties. Certain cases decided by the federal courts may be construed to support the right of a Limited Partner to bring such actions under the SEC Rule 10b-5 for the recovery of damages (including losses incurred in connection with the purchase or sale of a company interest) resulting from a breach by an officer of his fiduciary duty. The burden of proving such a breach and all or a portion of the expense of such lawsuit would be borne by the Partner bringing such action. The provisions of the Partnership Agreement may increase the difficulty of establishing such a breach. The General Partner may not be liable to the Partnership or the Partners for certain acts or omissions to act, since provision has been made in the Partnership Agreement for indemnification of the General Partner.

It should be noted that the foregoing summary describing in general terms the remedies available under state and federal law to Partners for breach of fiduciary duty by a General Partner is based on statutes, rules and decisions as of the date of this Memorandum. The law of fiduciary responsibility is a rapidly developing and changing area of the law and, therefore, any Limited Partner who believes that a breach of fiduciary duty by a General Partner has occurred, should consult with his own counsel as to the status of the law at such time.

It should also be noted that the cost of litigation against the General Partner for enforcement of fiduciary obligations may be prohibitively high and that any judgment obtained may not be collectible. Since the General Partner is not bonded as such, any judgment exceeding its net worth may not be collectible and various laws provide that certain assets of a judgment debtor are exempt from claims of creditors. An investment decision should be based on a prospective purchaser's judgment of the investment factors described in the Memorandum rather than upon reliance on the value of the right to bring legal actions against or to control the activities of the General Partner. Notwithstanding these fiduciary obligations, the General Partner has broad discretionary powers under the Partnership Agreement to manage the affairs of the Partnership with the assistance, if desirable, of others retained for the account of the Partnership by the General Partner. Generally, actions taken by the General Partner are not subject to a vote of the Partners except as provided in the Partnership Agreement.

SECTION XII.

ERISA CONSIDERATIONS FOR QUALIFIED PLANS

General

Most retirement and welfare benefit plans maintained by employers for employees are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA-covered plans include, among others, individual corporate employer-sponsored pension, profit-sharing, and retirement savings (e.g., "401(k)") plans, "simplified employee pension" (or "SEP") plans (which are individual retirement accounts to which employers contribute for the benefit of employees), jointly trusteed labor-management Taft-Hartley plans, and plans established or maintained by tax-exempt entities.

ERISA does not cover plans established or maintained by government entities, certain church plans, foreign plans covering nonresident aliens, and certain other plans excluded by statute.

Plans not sponsored and maintained by employers for "employees" also are not subject to ERISA. These include individual retirement accounts ("IRAs") not sponsored or contributed to by an employer, so-called "Keogh" or "H.R.-10" plans covering only self-employed individuals (i.e., sole proprietors, partners), and corporate- sponsored plans covering only the corporation's sole shareholder and his or her spouse. These plans, however, (as well as plans subject to ERISA) are subject to the prohibited transaction excise tax provisions of Section 4975 of the Internal Revenue Code of 1986 (the "Code").

Investment Considerations

The appropriate fiduciary of an employee benefit plan proposing to invest in the Partnership should consider whether that investment would be consistent with the terms of the plan's governing instrument and, if applicable, ERISA's fiduciary responsibility requirements. A fiduciary of a plan subject to ERISA should give appropriate consideration to, among other things, the role that an investment in the Partnership would play in the plan's portfolio, taking into consideration whether the investment is designed reasonably to further the plan's purposes, the risk and return factors associated with the investment, the composition of the plan's total investment portfolio with regard to diversification, the liquidity and current return of the plan's portfolio relative to its anticipated cash flow needs, the projected return of the plan's portfolio relative to its objectives, and limitations on the right of Limited Partners to withdraw all or any part of their Capital Accounts or to transfer their Interests.

In addition, ERISA prohibits a fiduciary from causing the plan to engage in a transaction if the fiduciary knows or should know that such transaction constitutes, among other things, a direct or indirect sale or exchange of property between the plan and a party in interest or a transfer of plan assets to, or use of plan assets by or for the benefit of, a party in interest.

Section 4975 of the Code imposes an excise tax on disqualified persons of plans subject to that Section (as described above) who participate in prohibited transactions substantially similar to those prohibited by ERISA. The General Partner believes that the Partnership itself should not be considered a party in interest (or disqualified person) with respect to investing plans. The General Partner or the Investment Manager (and certain entities affiliated with the General Partner), however, may be deemed a party in interest (or disqualified person) of a plan with respect to which it provides investment management, investment advisory, or other services. Since the application of ERISA and Section 4975 of the Code depends upon the particular facts and circumstances of each plan, the appropriate fiduciary should consult its own advisors to determine whether investment in the Partnership would be prohibited by ERISA or Section 4975 of the Code. An authorized fiduciary of each plan subject to the prohibited transaction restrictions of ERISA or Section 4975 of the Code will be required to represent, and by making an investment in the Partnership thereby does represent, that such investment will not violate such prohibited transaction restrictions.

The assets of the Partnership will be invested in accordance with the investment policies and objectives described in this Memorandum. The appropriate fiduciary of each plan is responsible for ensuring that an investment in the Partnership by such plan meets all applicable requirements of ERISA and Section 4975 of the Code in the specific context of the particular plan. An authorized fiduciary of each employee benefit plan proposing to invest in the Partnership will be required to represent, and by making an investment in the Partnership thereby does represent, that it has been informed of and understands the Partnership's investment objectives, policies, and strategies and that the decision to invest plan assets in the Partnership is consistent with the provisions of applicable law, including ERISA and Section 4975 of the Code. Plans should consult their own advisors regarding these matters before investing in the Partnership.

"Plan Assets"

The U.S. Department of Labor (the "Department") has published a regulation (the "Regulation") describing when the underlying assets of an entity, such as the Partnership, in which certain benefit plan investors invest constitute "plan assets" for purposes of ERISA and Section 4975 of the Code. Benefit plan investors include employee benefit plans as defined in ERISA (whether or not such plans actually are subject to ERISA), IRAs, Keogh plans, government plans, church plans, foreign plans, and entities (such as private investment limited partnerships), the underlying assets of which include plan assets by reason of significant participation therein by benefit plan investors ("Benefit Plan Investors").

The Regulation provides that, as a general rule, when a plan invests assets in another entity, the plan's assets include its investment, but do not, solely by reason of such investment, include any of the underlying assets of the entity. However, when a plan acquires an "equity interest" in an entity that is neither (i) a "publicly offered security," nor (ii) a

security issued by an investment company registered under the Investment Company Act, then the plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established that the entity is an "operating company" or the equity participation in the entity by Benefit Plan Investors is not "significant." Equity participation in an entity by Benefit Plan Investors is considered "significant" if twenty-five percent (25%) or more of the value of any class of equity interests in the entity is held by such Benefit Plan Investors.

If the assets of the Partnership were regarded as "plan assets," the General Partner would be a "fiduciary" (as defined in ERISA) with respect to any Limited Partner that is an employee benefit plan subject to ERISA and would be subject to the obligations and liabilities imposed on fiduciaries by ERISA. Moreover, the Partnership would be subject to various other requirements of ERISA and Section 4975 of the Code. In particular, the Partnership would be subject to prohibitions on transactions with parties in interest and disqualified persons, and the General Partner, as a plan fiduciary, would be subject to certain restrictions on self dealing and conflicts of interest. In such case, the Partnership or the General Partner may be precluded from engaging in certain transactions with a "party in interest" with respect to one or more investing plans that are subject to ERISA, unless an exemption applies.

Interests in the Partnership will not be publicly offered securities, the Partnership will not register as an investment company under the Investment Company Act, and the Partnership will not qualify as an "operating company" within the meaning of the Regulation. The General Partner, however, intends to monitor investments in the Partnership to ensure that aggregate investments in the Partnership by Benefit Plan Investors does not equal or exceed twenty-five percent (25%) of the aggregate value of the Interests in the Partnership. (The Regulation requires the General Partner, in making this computation, to disregard the value of Interests held by the General Partner and its affiliates or any other person having discretionary authority or control over the Partnership's assets, other than Interests held by any of such persons through a Benefit Plan Investor.)

Consequently, equity participation by Benefit Plan Investors will not be considered "significant" under the Regulation and, as a result, the underlying assets of the Partnership will not be deemed "plan assets" for purposes of ERISA or Section 4975 of the Code. The Partnership reserves the right, however, to waive the twenty-five percent (25%) limitation and thereafter comply with ERISA and Section 4975 of the Code.

Considerations For Non-Plan Investors

This summary does not include a discussion of any laws, regulations, or statutes that may apply to prospective Limited Partners that are not employee benefit plans, such as state statutes that impose fiduciary responsibility requirements in connection with the investment of assets of governmental plans and other plans not subject to ERISA. Such Limited Partners should consult their own professional advisors about these matters.

SECTION XIII.

FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain of the aspects of the federal income taxation of the Partnership and its Interests that a potential Investor should consider. The discussion is based on the Code, Treasury Regulations promulgated under the Code (the "*Regulations*"), and court decisions and published rulings of the IRS, all as in effect on the date of this Memorandum. It does not take into account the possible effect of future legislation, regulatory or administrative changes or court decisions. The Partnership will not seek any rulings from the IRS as to any particular tax consequences. If any particular matter were contested, a court might reach a conclusion contrary to those expressed below. Future legislation, administrative action, or court decisions may change this discussion significantly, and any such changes or decisions may have a retroactive effect as to the transactions contemplated herein. The General Partner's legal counsel has no continuing obligation to advise the General Partner, the Partnership, or any Investor of any changes in the law that may affect the Partnership or the Investors or that may otherwise cause any part of the following summary to be inaccurate. This summary does not purport to address all aspects of income taxation that may be relevant to a prospective Investor, nor is it intended to be applicable to all Investors, some of which, such as financial institutions, insurance companies, and foreign persons or entities, may be subject to special rules.

BECAUSE THE INCOME TAX LAWS APPLICABLE TO INVESTORS IN THE PARTNERSHIP AND SECURITIES TRANSACTIONS ARE EXTREMELY COMPLEX, THE FOLLOWING SUMMARY DOES NOT PURPORT TO BE AN EXHAUSTIVE OR COMPLETE DESCRIPTION OF ANY SUCH INCOME TAX CONSEQUENCES. PERSONS CONSIDERING AN INVESTMENT IN THE PARTNERSHIP SHOULD **CONSULT THEIR OWN TAX ADVISORS** TO UNDERSTAND FULLY THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF SUCH AN INVESTMENT IN LIGHT OF THEIR OWN PARTICULAR SITUATION.

Characterization of the Partnership

Under the "check-the-box" Regulations, a business entity formed as a limited partnership under state law will be classified as a partnership for federal income tax purposes (a "*Tax Partnership*") unless it affirmatively elects to be taxed as a corporation. The Partnership will not make such an election.

However, Tax Partnerships that are considered "publicly traded" will be treated as corporations for federal income tax purposes. Being so characterized would substantially and adversely affect Investors' after-tax income. Certain Regulations provide "safe harbors" in which Tax Partnerships may ensure that they are not "publicly traded." The Partnership expects to satisfy at least one of the safe harbors at all times. Under the Partnership Agreement, the General Partner may suspend Investors' withdrawal rights if the

General Partner determines that such withdrawals could cause the Partnership to be considered "publicly traded." In future years, the nature of the Partnership's income may enable the Partnership to qualify for an exception to the publicly traded partnership provisions of the Code, regardless of the level of withdrawals.

The remainder of this discussion assumes that the Partnership will be treated as a Tax Partnership, and not an association taxable as a corporation, for all U.S. federal, state and local tax purposes.

Taxation of the Partnership and Its Investors

A. General

The Partnership will not be subject to U.S. federal income tax. Instead, Investors will be required to report on their own income tax returns their allocable shares of the Partnership's net long-term capital gain or loss, net short-term capital gain or loss, net ordinary income or deduction, and various other categories of income, gain, loss, deduction and credit (collectively, "*tax items*"). An Investor's share of any tax item will be governed by the Partnership Agreement unless (i) the Partnership Agreement is silent as to the Investor's share of that item or (ii) the allocation provided by the Partnership Agreement is not considered to have "substantial economic effect" for tax purposes or is otherwise not in accordance with the Investors' interests in the Partnership (as described below). The Partnership has adopted the calendar year as its taxable year and will file an annual information return reporting the results of operations.

B. Partnership Allocations

The Partnership Agreement provides, in effect, that unless the General Partner chooses, in its sole discretion, to use a different method of allocating tax items it considers consistent with the economic arrangements among the Investors, the Partnership will use a method that complies with Regulations under Section 704(b) and Section 704(c) of the Code. If the Partnership were to deviate from the "safe harbor" methods as to certain items, it is possible that the IRS could consider the allocation inappropriate and require a different allocation of those tax items. This could result in an Investor recognizing a greater or smaller amount of income, gain, loss or deduction than was reported. In addition, an Investor that contributes property other than cash to the Partnership will be specifically allocated tax items attributable to such property to the extent of the difference, if any, between the book value and the adjusted tax basis at the time of such contribution.

To achieve tax results similar to those that would be achieved if the Partnership made a Section 754 election upon such events as an Investor's withdrawal (see "Section 754 Election" below), without actually making the election (thereby avoiding certain accounting costs and complexities), the Partnership Agreement allows the General Partner to allocate to a fully or partially withdrawing Investor income, gain and/or losses

equal to the difference between that Investor's Capital Account balance at the time of the withdrawal and the tax basis for its Interest at that time. To the extent such special allocations of income or gain are made, the withdrawing Investor will be allocated income or gain from the Partnership's activities in the year in which the withdrawal is effective, rather than recognizing a capital gain in the same amount in the year in which the payment for the withdrawal is received. This could result in some acceleration of taxable income if the withdrawal is close to the end of a taxable year, and could also result in the withdrawing Investor being taxed at ordinary income rates on some or all of the amounts that would otherwise be taxed at favorable long term capital gain rates. Furthermore, the IRS may challenge such an allocation as being without "substantial economic effect" and not in accordance with Investors' Interests. If such a challenge were successful, the remaining Investors could be considered to have underreported income and gains for the year for which the allocation was made, and the Partnership and those Investors could be subject to additional taxes as well as interest and penalties.

C. Characterization of Securities Activities

Under the Code, individuals or entities that buy securities for resale to customers (as market-makers do) are considered "dealers." Dealers must recognize gains and losses differently, and are entitled to different deductions, than others who buy and sell securities. The General Partner believes that the Partnership should not be considered a "dealer" for tax purposes.

If the IRS or a court were to disagree with the Partnership's characterization of its status in a particular year, the IRS could determine that some Investors had underreported their taxable income and the Partnership and those Investors could be subject to interest and penalties on the resulting tax deficiencies.

D. Character of Gains and Losses Generally

The Partnership expects that its recognized gains and losses from securities transactions will generally be characterized as capital gain or loss. Generally, gain or loss will be "long-term" and eligible for preferential long-term capital gain rates if assets are held for more than 12 months. For individuals, the rate currently applicable to those assets generally is fifteen percent (15%) or five percent (5%), depending on the level of taxable income. Many of the Partnership's investments will not be held for twelve (12) months. Income attributable to certain qualified corporate dividends will also be taxed at these rates.

The following rules may affect the Partnership's holding period for a security or may otherwise affect the characterization of certain gains and losses and the timing of realization.

1. Qualified Small Business Stock. Sections 1045 and 1202 provide special federal income tax benefits for certain holders

of "qualified small business stock." Section 1045 allows the rollover of gains from the sale of that stock held for more than six months into other qualified small business stock within 60 days from the date of sale. Section 1202 allows certain taxpayers to exclude fifty percent (50%) of gains on qualified small business stock held more than 5 years. The Partnership expects to use these provisions to reduce federal taxes payable by Investors to the extent appropriate and feasible in the General Partner's judgment.

2. Short Sales. Gains and losses from short sales are generally considered short-term capital gains and losses. However, under certain circumstances, it will be considered long-term if the Partnership covers the short position with securities it had held for the long-term holding period at the time it made the short sale. Making a short sale will terminate the holding period for "substantially identical property" (*e.g.*, securities of the same class) the Partnership holds long. Moreover, a loss on a short sale will be treated as a long-term capital loss if on the date of the short sale, "substantially identical property" has been held by the Partnership for more than one year.

3. Anti-Conversion Rules. What would otherwise be capital gain from certain types of transactions (such as "straddles") may be taxed at ordinary income rates to the extent the gain results primarily from the time value of the taxpayer's investment.

4. Effect of Straddle Rules on Investors' Securities Positions. Under the Code, the IRS may treat certain positions in securities held (directly or indirectly) by an Investor and its indirect interest in similar securities held by the Partnership as "straddles" for federal income tax purposes. The application of these "straddle" rules could affect an Investor's holding period for the securities involved and could defer the recognition of losses as to such securities.

5. Wash Sale Rules. Any loss realized on a disposition of a security will be disallowed by "wash sale" rules to the extent the security disposed of is replaced within a period of 61 days beginning 30 days before and ending 30 days after the disposition. In such a case, the federal income tax basis of the security acquired to replace the security disposed of will be adjusted to reflect the disallowed loss.

6. Constructive Sale Rules. The Code treats many common hedging transactions as constructive sales for tax purposes. In particular, if the Partnership holds a security that has appreciated in value and sells securities of the same class short, enters into a futures or forward contract as to such securities, or engages in similar transactions, it will be treated as if it had sold the appreciated securities.

7. Options. For options on certain broad-based stock indices, options on stock index futures, and certain other options (collectively "*Section 1256 Contracts*"), the Code generally applies a "mark-to-market" system of annually taxing unrealized gains and losses and otherwise provides for special rules of taxation. Under this system, Section 1256 Contracts held by the Partnership at the end of each taxable year will be treated for federal income tax purposes as if they were sold by the Partnership for their fair market value at that time. The net gain or loss, if any, resulting from such "deemed sales," together with any gain or loss resulting from actual sales of Section 1256 Contracts during the year, must be taken into account by the Partnership in computing its taxable income for that year. If a Section 1256 Contract held by the Partnership at the end of a taxable year is sold in the next year, the amount of any gain or loss realized on that sale will be adjusted to reflect the gain or loss previously taken into account under the "mark-to-market" rules. Forty percent (40%) of the aggregate net capital gain or loss for each year from such Section 1256 Contracts "deemed" sold is characterized as short-term capital gain or loss and sixty percent (60%) is characterized as long-term capital gain or loss. These gains and losses will be taxed under the general rules described above, and, in the case of losses, will be subject to the limitations generally applicable to capital losses.

The character of income and loss received in connection with stock options that are not Section 1256 Contracts involves a number of income tax rules. In general, gain or loss from the sale or exchange of an option has the same character as would gain or loss from a sale of the property underlying the option. The Partnership generally will treat options on securities as capital assets.

E. Contributions

Generally, a contribution of cash to the Partnership will not be a taxable event to the contributing Investor or to the Partnership. Although it may accept securities or any other property as a contribution to the Partnership, the General Partner generally does not expect to do so. An Investor that contributes securities to the Partnership could be subject to tax on any appreciation in those securities at the time of contribution; however, no loss would be allowed at the time of contribution if the securities had declined in value.

F. Basis

An Investor's adjusted basis for its Interest will equal its initial basis in the Interest (*i.e.*, cash contributed) increased by (a) any further capital contributions, (b) its distributive share of the Partnership's income (including tax-exempt income) and (c) any increase in its share of any debt of the Partnership and decreased (but not below zero) by (x) distributions (including withdrawals) made to it, (y) its distributive share of any Partnership deductions or losses, and (z) any decrease in its share of any debt of the Partnership.

G. Distributions

An Investor may be taxed on its "distributive" share of the Partnership's taxable income or gain regardless of whether he, she or it has received any corresponding distribution from the Partnership. Because no regular distributions are contemplated, an Investor may have to withdraw capital from the Partnership in order to pay tax liabilities arising from the allocation of its share of the Partnership's taxable income. Furthermore, in light of the restrictions on withdrawals imposed by the Partnership Agreement, and the possibility that a withdrawal may be completed with securities (which may be illiquid) rather than cash, it is possible that, notwithstanding the withdrawal provisions, the only source for payment of such tax liabilities would be from the Investor's funds from sources other than the Partnership.

Whether a particular distribution (generally upon a withdrawal of capital) causes the Investor receiving it to realize taxable income or tax loss depends on whether assets other than cash are distributed, whether the Investor remains an Investor after the distribution/withdrawal (*i.e.*, whether the distribution "liquidates" the Investor's Interest), and the relation of the cash distributed to the Investor's basis in its Interest in the Partnership.

1. Non-Liquidating Distributions. Where an Investor remains an Investor after a withdrawal or other distribution, a distribution generally will cause it to realize taxable income only if and to the extent the cash distributed exceeds the Investor's adjusted basis in its Interest. For these purposes, any decrease in an Investor's share of the Partnership's debt will be treated as a

distribution of cash to the Investor. Distributions to continuing Investors will not cause tax losses to be realized. Cash distributions will reduce the receiving Investor's basis in its Interest. Taxable gain upon a distribution would generally be taxable as short-term or long-term capital gain, depending on the Investor's holding period for the Interest. However, the Partnership may, upon a full or partial withdrawal, specially allocate income, gain and losses to the withdrawing Investor in a manner that could convert what would otherwise be capital gains to ordinary income or long-term capital gains into short-term capital gains. (See the discussion under the heading "Partnership Allocations" above). In addition, in the unlikely event the Partnership were deemed to have "unrealized receivables" (including unrealized income from certain bonds acquired at a discount) or "inventory" at the time of a distribution, Section 751 of the Code could require different treatment.

A distribution of property other than cash (*i.e.*, securities) to a continuing Investor should not result in taxable income or loss to the Partnership or to the receiving Investor (again, except to the extent Code Section 751 applies).[1]

The distributee Investor's basis in the distributed property will be the lesser of (i) the adjusted basis of the property in the hands of the Partnership and (ii) the adjusted basis of the Investor's Interest (after reduction for any cash he, she or it received as part of the distribution). The basis of an Investor's Interest will be reduced by the basis of the property distributed to that Investor.

2. Liquidating Distributions. When an Investor withdraws from the Partnership completely or its Interest is terminated because the Partnership is liquidated, as with non-liquidating distributions, he, she or it will recognize gain only to the extent the cash distributed exceeds the adjusted basis in its Interest in

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[1] Generally, for investors other than "investment companies," distributions of marketable securities are treated like distributions of cash and can result in taxable income. However, the Partnership expects to qualify as an "investment company" and Investors to be "eligible members" within the meaning of certain rules. This discussion is based on those expectations.

the Partnership. Unlike with non-liquidating distributions, loss may be recognized if no property other than cash is distributed and the cash distributed is less than the Investor's adjusted basis in its Interest. If property other than cash is distributed, although gain will be recognized to the extent the cash exceeds the Investor's adjusted basis, no loss will be recognized, regardless of the value of the non-cash property distributed. The Investor's basis in non-cash property so distributed will be equal to the adjusted basis of its Interest immediately before the distribution decreased (but not below zero) by any cash received in the liquidation.

H. Section 754 Election

Section 754 of the Code allows a Tax Partnership to elect to adjust the basis of its assets upon (a) certain distributions of money or property to an Investor or (b) a transfer of an Interest by sale or as a result of the death of an Investor. The general effect of making that election when an Investor has received a distribution of cash would be that the adjusted bases of the Partnership's capital assets would be increased by any capital gain (or decreased by any loss) recognized by the Investor who receives the distribution. Where other property is distributed, the adjustments would reflect the difference, if any, between the adjusted bases of the distributed property in the hands of the Partnership and the adjusted bases of the property in the hands of the Investor who receives it. There would be no effect on the Investor who receives the distribution in either event. In the case of a transfer of an Interest, when the Partnership later sells assets that were held at the time of the transfer, the transferee would be treated as if he, she or it had directly acquired a share of each of the Partnership's assets, with a basis for each of those assets equal in the aggregate to the bases of its Interest immediately after the transfer. In light of the nature and extent of the Partnership's expected buying and selling activities, and the likelihood that capital contributions and withdrawals will occur throughout the term of the Partnership, it could be impracticable for the Partnership to comply strictly with the basis adjustment rules that would apply if the Partnership were to make Section 754 elections. The General Partner has discretion whether or not to make a Section 754 election, but once such an election has been made, it remains in effect for all subsequent taxable years unless revoked with the consent of the IRS, and each subsequent distribution or transfer will result in the adjustments described above.

If the General Partner does not elect to make adjustments under Section 754 of the Code, any benefits that might be available to a transferee of an Interest, or to remaining Investors after a substantial withdrawal, by reason of a possible "step-up" in the basis of the Partnership's assets may not be available. However, in the case of withdrawals, the remaining Investors may receive a comparable benefit if the General Partner chooses to specifically allocate items of income and gain to the withdrawing Investor.

The General Partner may adopt an allocation methodology designed to reconcile tax allocations to economic allocations by allocating taxable gains and losses in a manner that reduces discrepancies between a Partner's Capital Account value and tax basis in the Partnership. In addition, the Partnership may allocate taxable gains, income and/or losses to a Partner who withdraws all or a portion of its Capital Account in the Partnership to the extent the capital withdrawn differs from the federal income tax basis of the capital withdrawn. However, no assurance can be given that the IRS will not challenge such allocations.

Finally, even if the Partnership does not make an election under Code Section 754, the Code does require mandatory adjustments (as if an election were in place) to the Partnership's basis in certain loss assets upon certain triggering events, such as a transfer of an interest in the Partnership. The mandatory adjustments in certain cases maybe avoided if the Partnership is an "electing investment partnership." The Partnership does not anticipate that it will elect to be an electing investment partnership.

I. Limitations on Deductions

The ability of certain Investors to deduct or otherwise utilize the Partnership's losses or deductions allocated to them may be limited by special provisions of the Code, including, but not limited to, the following:

1. Adjusted Basis of an Interest. An Investor may not deduct losses in excess of the adjusted basis of its Interest at the end of the year in which the loss is incurred. Losses in excess of an Investor's adjusted basis may be carried over to succeeding taxable years when the same limitation will apply. (See "Basis" above).

2. Amounts at Risk. The amount of loss an individual or a closely held "C" corporation may deduct is limited to the amount that an Investor is "at risk" as to the Partnership. Where such an Investor has financed an investment in the Partnership with certain types of nonrecourse borrowing, that Investor's amount "at risk" could be less than its adjusted basis in its Interest. In addition, in the unlikely event the Partnership borrowed on a nonrecourse basis, certain of those borrowings could increase an Investor's basis without increasing its amount at risk.

3. Capital Gains and Losses. Partnership net capital losses allocated to an Investor for a taxable year will be deductible by an Investor that is a corporation to the extent of the corporate Investor's capital gains and by an individual Investor to the extent of its capital gains plus $3,000. An individual Investor

may carry forward any unused capital loss indefinitely to succeeding taxable years and a corporate Investor generally will be entitled to a three-year carryback and a five-year carryforward of any unused capital loss.

4. Tax Exempt Use Property. If tax-exempt partners participate in the Partnership, then certain of the Partnership's assets may be subject to limitations that prevent using a loss from that asset to offset anything other than future income from that asset. If applicable, this is a Partnership-level limitation, and no taxable Investor will be able to take deductions based on such losses.

J. Passive Losses and Income

Income or loss of the Partnership should be characterized as "portfolio" income or loss and therefore as not arising from a "passive activity."

K. Limitations on Interest Deductions

An individual may deduct "investment interest" in a given year only to the extent of his or her "net investment income" for that year. Because an Interest should be considered to give rise to "portfolio" income or loss, interest on amounts an individual Investor borrows to buy an Interest should be considered "investment interest." An individual Investor may be denied a deduction for all or part of these types of interest expense unless the Investor has sufficient investment income from the Partnership and other sources. Income of the Partnership, such as dividend and interest income but excluding net capital gains and qualified dividend income (absent a special election in either case), allocable to an individual Investor should be treated as investment income for purposes of this limitation.

L. Limitations on Miscellaneous Itemized Deductions

In years in which the Partnership is treated as a "trader," each Investor should be allowed fully to deduct its allocable share of the ordinary and necessary expenses incurred by the Partnership in connection with the Partnership's "trade or business," including management expenses. If the Partnership were treated as an "investor" for any year, individual Investors would not be entitled to deduct their share of the Partnership's investment expenses, including the Partnership's advisory expenses and certain other expenses that relate to investment activities, unless, and only to the extent, their share of those expenses, together with their other "miscellaneous" itemized deductions; exceed two percent (2%) of their adjusted gross income for the year. This limitation would also apply to Investors that are "pass-through" entities, such as partnerships, to the extent the owners of those entities were individuals. Investment interests expense is not treated as a

"miscellaneous" itemized deduction. However, an Investor's investment interest expense deduction is limited to the Investor's investment income for the year.

In addition, the Code further restricts the ability of an individual with an adjusted gross income in excess of a specified amount (for the year 2006, $150,500, or $75,250 for a married person filing a separate return) to deduct such investment expenses. Under this provision, investment expenses in excess of two percent (2%) of adjusted gross income may only be deducted to the extent such expenses (along with certain other itemized deductions) exceed the lesser of (i) three percent (3%) of the excess of the individual's adjusted gross income over the specified amount or (ii) eighty percent (80%) of the amount of certain itemized deductions otherwise allowable for the taxable year. Moreover, such investment expenses are miscellaneous itemized deductions which are not deductible by a noncorporate taxpayer in calculating its alternative minimum tax liability.

M. Taxation of Foreign Investors

Foreign Investors should consider carefully the potential tax implications of an investment in the Partnership and discuss them with their own tax advisors. For purposes of determining the tax treatment of foreign Investors, a foreign Investor should not be deemed to be engaged in a U.S. trade or business solely by reason that it invests or trades in securities for its own account (unless it is a "dealer," which the General Partner does not expect the Partnership to be). As a result, a foreign Investor's allocable share of Partnership income (assuming it is not "effectively connected" with a U.S. trade or business in which the foreign Investor is otherwise engaged) should be subject to U.S. federal income tax only if it is fixed or determinable annual or periodical gains, profits and income (including dividends and certain interest income). Such income will be taxed at a rate of thirty percent (30%) and generally will be collected through withholding from distributions made by the Partnership. The tax and withholding rate may be reduced or eliminated by an applicable tax treaty; however, it should be noted that the Code may deny otherwise applicable treaty benefits to a foreign Investor if (i) an income item derived from the Partnership is not treated as an income item of the foreign Investor by the tax laws of the foreign country of residence of such foreign Investor, (ii) such foreign country does not impose tax on a distribution of such income item by the Partnership to the foreign Investor; and (iii) the treaty does not contain a provision addressing the applicability of the treaty in the case of an item of income derived through a partnership. Except as described below as to "United States real property interests," a foreign Investor's share of the Partnership's capital gains generally will not be subject to U.S. income tax (assuming it is not effectively connected with a U.S. trade or business in which the foreign Investor is otherwise engaged), unless the foreign Investor is an individual who has been present in the U.S. for an aggregate of 183 days or more during the taxable year.

1. FIRPTA. The Foreign Investment in Real Property Tax of 1980, as amended ("*FIRPTA*"), imposes a tax on gain realized on disposition by a foreign person of a "United States real

property interest" ("*USRPI*") by treating such gain as "effectively connected" with a U.S. trade or business, and thus subject to U.S. income tax at graduated rates applicable to U.S. persons. Withholding at the maximum ordinary tax rate is required with respect to a foreign Investor's allocable share upon a disposition of a USRPI by the Partnership. A USRPI generally includes both a direct investment in real estate and an investment in a real estate operating company if such corporation is a "United States real property holding company ("*USRPHC*"). A USRPHC generally includes any domestic corporation in which the fair market value of its USRPI represents one-half or more of the aggregate fair market value of its business assets and real property assets at any time during the preceding five years (or shorter period during which the Partnership has held an interest in the corporation). A USRPI held by a partnership is deemed to be owned proportionately by its partners. A partnership interest in certain circumstances can itself be deemed a USRPI for purposes of computing the withholding proceeds from a sale of such interest.

2. Special FIRPTA rules apply to any Partnership investment in a "real estate investment trust" ("*REIT*"). Specifically, (i) a distribution by a REIT attributable to gain from the disposition of a USRPI will be treated under FIRPTA as "effectively connected" with a U.S. trade or business; (ii) any other dividend distribution by a REIT will be subject to withholding in the manner described above applicable to dividends generally; (iii) a foreign Investor will not be taxable on any gain from the disposition of a Partnership investment in a REIT, provided that the REIT is "domestically controlled," *i.e.*, less than fifty percent (50%) of its stock is held (directly or indirectly) by foreign shareholders. Foreign Investors should be aware, however, that there is no assurance that the Partnership will be able to dispose of an investment in a domestically controlled REIT by selling its stock of such REIT (as opposed to causing the REIT to sell its shares).

3. U.S. Estate Tax. An individual foreign Investor's Interest in the Partnership may be included in his or her gross estate for U.S. federal estate tax purposes, thereby subjecting his or her estate to U.S. estate tax.

N. Unrelated Business Taxable Income

Generally, an exempt organization is exempt from federal income tax on certain categories of income, such as dividends, interest, capital gains and similar income realized from securities investment or trading activity, whether realized by the organization directly or indirectly through a partnership in which it is a partner. This type of income is exempt even if it is realized from securities trading activity which constitutes a trade or business.

This general exemption from tax does not apply to the "unrelated business taxable income" ("*UBTI*") of an exempt organization. Generally, except as noted above with respect to certain categories of exempt trading activity, UBTI includes income or gain derived (either directly or through partnerships) from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization's exempt purpose or function. UBTI also includes "unrelated debt-financed income," which generally consists of (i) income derived by an exempt organization (directly or through a partnership) from income-producing property with respect to which there is "acquisition indebtedness" at any time during the taxable year, and (ii) gains derived by an exempt organization (directly or through a partnership) from the disposition of property with respect to which there is "acquisition indebtedness" at any time during the twelve-month period ending with the date of such disposition. With respect to its investments in partnerships engaged in a trade or business, or in the funding of a plan of reorganization, the Partnership's income (or loss) from these investments may constitute UBTI.

The Partnership may incur "acquisition indebtedness" with respect to certain of its transactions, such as the purchase of securities on margin. Based upon published rulings issued by the IRS which generally hold that income and gain with respect to short sales of publicly traded stock do not constitute income from debt financed property for purposes of computing UBTI, the Partnership will treat its short sales of publicly traded stock as not involving "acquisition indebtedness" and therefore not resulting in UBTI. To the extent the Partnership recognizes income (*i.e.*, dividends and interest) from securities with respect to which there is "acquisition indebtedness" during a taxable year, the percentage of such income which will be treated as UBTI generally will be based on the percentage which the "average acquisition indebtedness" incurred with respect to such securities is of the "average amount of the adjusted basis" of such securities during the taxable year.

A prospective Investor should consult its tax advisor with respect to the tax consequences of receiving UBTI from the Partnership, including whether receipt of UBTI is permitted under the specific rules applicable to the prospective Investor.

O. Administrative Matters: Tax Audits

Each Investor must either report all Partnership items consistently with the treatment by the Partnership or disclose specifically in its tax return any differences between the manner in which the Partnership item is treated on its return and on the Partnership's return. Such disclosure may be necessary to avoid the penalty for understatement. Since the General Partner does not expect to notify Investors as to the basis for items reported on the Partnership's return or the Schedules K-1, Investors, or their tax advisors, may wish to ask the General Partner about significant reported items if they wish to make a systematic evaluation of their exposure to this penalty. If it is finally determined that a taxpayer has underpaid tax for any taxable year, the taxpayer must pay the amount of underpayment plus interest on the underpayment from the date the tax was originally due.

In general, the tax treatment of all Partnership items will be determined in a unified tax audit for the Partnership rather than in an audit of the individual Investors. Tax audits will generally be handled by the "tax matters partner" (the "*TMP*"), but other Investors will be entitled to participate in the audit and appellate conference. The General Partner will be the TMP for the Partnership. If a deficiency is proposed by the IRS, a notice of final partnership administrative adjustment will be issued. The TMP can contest that determination on behalf of the Partnership in the Tax Court or other court of its choice. If the TMP chooses to contest the deficiency, other Investors can join the proceeding but cannot bring separate actions. The legal and accounting costs incurred in connection with any audit of the Partnership's tax return will be borne by the Partnership. The cost of any audit of an Investor's tax return will be borne solely by the Investor.

The statute of limitations applicable to Partnership items differs from the statute applicable to each Investor's individual return. The TMP has the authority to extend the statute of limitations on behalf of the Partnership. Any extension will be binding on the Partners (as defined in the Partnership Agreement).

An audit of the Partnership's return may result in the disallowance, reallocation or deferral of deductions claimed by the Partnership. The audit may also result in transactions being treated as taxable which the Partnership treated as nontaxable, or in treatment as ordinary income or capital loss of items which the Partnership reported as long-term capital gain-or ordinary loss. Any such change may trigger additional tax and interest. An audit by the IRS also could affect an Investor's liability for state and local taxes.

If the IRS audits the Partnership's tax returns, an audit of the Investors' own returns may result, and adjustments may be made to items reported on the Investors' tax returns unrelated to the Partnership.

P. State and Local Taxes

California Tax Considerations. The Partnership expects to qualify as an "investment partnership" within the meaning of California tax laws. As a result, an Investor who is not a resident of California should not be subject to California taxes on income and gains derived from its investment in the Partnership, provided the investment is not interrelated with any trade or business activity of that Investor in California.'

Other State and Local Taxes. Prospective Investors should consult their own tax advisors as to the application of income and other taxes imposed in their states of residence, and in states where they are engaged in business, with respect to their investment in the Partnership.

Q. Foreign Taxes

The Partnership may invest in securities of entities that do business in foreign countries. Many foreign sovereigns impose a withholding tax (typically 10-35%) on payments of interest, dividends and capital gains to Investors residing in other countries and not otherwise subject to tax by that sovereign. Some potential withholding taxes may be reduced or eliminated under applicable tax treaties. Any withholding taxes imposed will be treated as distributions to the appropriate Investors in the period in which such taxes are withheld. The corresponding foreign tax payments will be allocated to Investors based on the deemed distribution for purposes of claiming a foreign tax credit or deduction.

R. Certain Issues Pertaining to Specific Exempt Organizations

1. Private Foundations

Private foundations and their managers are subject to excise taxes if they invest "any amount in such a manner as to jeopardize the carrying out of any of the foundation's exempt purposes." This rule requires foundation managers, in making an investment, to exercise "ordinary business care and prudence" under the facts and circumstances prevailing at the time of making the investment, in providing for the short-term and long-term needs of the foundation to carry out its exempt purposes. The factors that a foundation manager may take into account in assessing an investment include the expected rate of return (both income and capital appreciation), the risks of rising and falling price levels, and the needs for diversification within the foundation's portfolio.

In order to avoid the imposition of an excise tax, a private foundation may be required to distribute on an annual basis its "distributable amount," which includes, among other things, the private foundation's "minimum investment return," defined as five percent (5%) of the excess of the fair market value of its non-functionally related assets (assets not used or held for use in carrying out the foundation's exempt purposes), over certain indebtedness incurred by the foundation in connection with such assets. It appears

that a foundation's investment in the Partnership would most probably be classified as a nonfunctionally related asset. A determination that an Interest in the Partnership is a non-functionally related asset could conceivably cause cash flow problems for a prospective Investor which is a private foundation. Such an organization could be required to make distributions in an amount determined by reference to unrealized appreciation in the value of its interest in the Partnership. Of course, this fact would create less of a problem to the extent that the value of the investment in the Partnership is not significant in relation to the value of other assets held by a foundation.

In some instances, an investment in the Partnership by a private foundation may be prohibited by the "excess business holding" provisions of the Code. For example, if a private foundation (either directly or together with a "disqualified person") acquires more than twenty percent (20%) of the capital interest or profits interest of the Partnership, the private foundation may be considered to have an "excess business holding." If this occurs, such foundation may be required to divest itself of its interest in the Partnership in order to avoid the imposition of an excise tax.

A substantial percentage of investments of certain "private operating foundations" may be restricted to assets directly devoted to their tax-exempt purposes. Otherwise, generally, rules similar to those discussed above govern their operations.

2. Qualified Retirement Plans

Employee benefits plans subject to the provisions of ERISA, Individual Retirement Accounts ("*IRAs*") and Keogh Plans should consult their counsel as to the implications of such an investment under ERISA.

3. Endowment Funds

General Partners of endowment funds should consider whether the acquisition of an Interest is legally permissible. This is not a matter of federal law, but is determined under state statutes. It should be noted, however, that under the Uniform Management of Institutional Funds Act, which has been adopted, in various forms, by a large number of states, participation in investment partnerships or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board of the endowment fund is allowed.

4. Charitable Remainder Trusts

An investment in the Partnership may be inappropriate for a charitable remainder trust. Pursuant to Code Section 664(c), a charitable remainder trust that has any unrelated business taxable income in a taxable year is taxed on all of its income for that year. The General Partner anticipates that the Partnership may invest on margin and purchase other assets under circumstances that may be deemed to involve acquisition

indebtedness, and thus may generate unrelated business taxable income. See "Unrelated Business Taxable Income" above. A charitable remainder trust should consult with its own tax advisors before determining to invest in the Partnership.

S. Tax Shelter Reporting Regulations

Under recently promulgated Regulations, if an Investor recognizes a loss with respect to the Partnership's Interests of $2 million or more for an individual Investor or $10 million or more for a corporate Investor in any single taxable year (or a greater loss over a combination of years), the Investor must file with the IRS a disclosure statement on IRS Form 8886. Direct investors in securities are in many cases excepted from this requirement, but under current guidance investors in pass-through entities (such as the Partnership) are not so excepted. Future guidance may except such investors or investment partnerships in general. The reportability of a loss under these Regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Investors should consult their tax advisors to determine the applicability of these Regulations in light of their individual circumstances.

The Partnership and the General Partner have granted to each Investor the authority to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Partnership, and all materials of any kind (including opinions or other tax analyses) that are provided to the Investor relating to such tax treatment and tax structure.

As required by U.S. Treasury Regulations governing tax practice, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code of 1986, as amended.

The advice was prepared to support the promotion or marketing of the transactions or matters addressed by the written advice.

Any person reviewing this discussion should seek advice based on such person's particular circumstances from an independent tax advisor.

EXHIBIT A

MERCATOR MOMENTUM FUND, LP

LIMITED PARTNERSHIP AGREEMENT