UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JOHN CARFAGNO, derivatively on behalf of CENTERLINE HOLDING COMPANY,	:	
Plaintiff,	:	
	:	08 Civ. 912 (SAS)
vs.	:	
MARC D. SCHNITZER, et al.,	:	
Defendants.	:	

NOTICE OF PROPOSED SETTLEMENT OF DERIVATIVE ACTION AND SETTLEMENT HEARING

TO: ALL PERSONS WHO OWNED SECURITIES OF CENTERLINE HOLDING COMPANY AT ANY TIME FROM AND INCLUDING DECEMBER 27, 2007 THROUGH AND INCLUDING FEBRUARY 4, 2008 ("SHAREHOLDERS"). PLEASE READ THIS NOTICE CAREFULLY.

This notice (the "Notice") advises you of the proposed settlement (the "Settlement") of derivative claims, described more fully below, that were asserted by Plaintiff, derivatively on behalf of nominal defendant Centerline Holding Company ("Centerline" or the "Company") against certain current and former directors and officers of Centerline. Plaintiff, Defendants and Centerline have entered into a Stipulation of Settlement (the "Stipulation"), which is subject to Court approval before becoming final, fully and completely resolving, discharging and settling those claims. As detailed below, the Plaintiff and Defendants believe that the proposed Settlement is in the best interests of the Company and Centerline Shareholders. If the Settlement is approved, all Released Claims against all of the Released Parties (as those terms are described herein) will be dismissed with prejudice.

A hearing (the "Settlement Hearing") is scheduled to be held on May 18, 2009 at 5:00 p.m. before the Honorable Shira A. Scheindlin in the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 15C, New York, New York 10007, for the purposes of determining whether to approve the Settlement, including the payment to Plaintiff's counsel of attorneys' fees and reimbursement of litigation expenses. This Notice summarizes the nature of the claims asserted in *Carfagno v. Schnitzer, et al.,* No. 08-Civ-912 (SAS) (S.D.N.Y.) (the "Action" or the "Derivative Action"), the terms of the proposed Settlement, and your rights in connection with the Settlement and the Settlement Hearing.

Nothing in this Notice constitutes a finding of the Court regarding the merits of the claims or defenses asserted by any party, the merits of the Settlement, or any other matter.

The Defendants (defined below) have denied and continue to deny each and every allegation of liability and wrongdoing on their part and contend that the claims asserted against them in the Action are without merit. Defendants deny that they have breached any duty, violated any law, or engaged in wrongdoing of any form.

This Notice reflects only the statements and opinions of the parties to the proposed Settlement, and not the views of the Court.

You should read the Notice carefully because your legal rights may be affected.

What Is the Derivative Action About?

The Action that is the subject of this Notice seeks recovery on behalf of Centerline based on claims asserted against the following present and former directors and officers of Centerline: Mark D. Schnitzer, Stephen M. Ross, Jeff T. Blau, Leonard W. Cotton, Robert J. Dolan, Nathan Gantcher, Jerome Y. Halperin, Robert L. Loverd, Robert A. Meister, Janice Cook Roberts and Thomas W. White (collectively, the "Defendants").

On January 25, 2008, Plaintiff filed this action in the United States District Court for the Southern District of New York (the "Action") derivatively on behalf of the Company and on behalf of a class of Company shareholders alleging Defendants breached their fiduciary duties to

the Company and its shareholders by entering into a series of transactions, including the securitization of its tax-exempt affordable housing bond portfolio, the sale of $131 million worth of convertible preferred shares to an affiliate of The Related Companies, L.P. (the "TRCLP Transaction") and the associated rights offering of convertible preferred shared (the "Rights Offering"), in order to transform the Company into an alternative asset manager.

In early March 2008, the Defendants entered into a settlement in a separate action pending in the Court of Chancery of the State of Delaware captioned *Off v. Ross, et al*., Civ. A. No. 3468-VCP (Del. Ch.) (the "Delaware Action"), seeking to release any and all claims arising out of or related to the TRCLP Transaction and the Rights Offering, including the claims asserted in the Action. Later that month, Plaintiff filed an Order to Show Cause against Defendants in the Action, challenging a stay entered in the Delaware Action against Plaintiff and seeking expedited discovery in the Action. In conference, the Court ordered that discovery begin in the Action on April 23, 2008.

In April 2008, Defendants began producing documents as part of the expedited discovery ordered in the Action, which documents Plaintiff reviewed and analyzed in an expedited but thorough manner. In late April 2008, Plaintiff filed a Verified Consolidated Amended Complaint in the Action based upon his review of the expedited discovery produced by Defendants and in early May 2008, Plaintiff filed objections to the proposed settlement in the Delaware Action.

On May 12, 2008, the Defendants filed a motion to dismiss the Action. Thereafter, on May 23, 2008, Plaintiff appeared at the settlement hearing in the Delaware Action to argue his objections. At the hearing, the Delaware Court granted, over Defendants' and the Delaware plaintiff's objections, additional discovery relating to the fairness of the proposed settlement in the Delaware Action. In May and June 2008, the Parties conducted additional document and deposition discovery in both the Action and Delaware Action.

In early June 2008, Plaintiff opposed Defendants' motion to dismiss the Action. On June 19, 2008, Defendants withdrew (without prejudice) their motion to dismiss the Action. On June

26, 2008, Plaintiff filed supplemental objections to the proposed settlement in the Delaware Action. On July 3, 2008, Plaintiff moved to intervene and be appointed lead plaintiff in the Delaware Action and filed a complaint in intervention in the Delaware Action.

On July, 11, 2008, Defendants filed a reply to Plaintiff's supplemental objections in the Delaware Action. On July 15, 2008, the Court in the Delaware Action conducted an additional hearing on the fairness of the settlement in the Delaware Action. On July 15, 2008, Defendants filed an answer to the Verified Consolidated Amended Complaint in the Action.

In September and October 2008, Plaintiff deposed additional Defendants, and Defendants deposed Plaintiff in the Action. In October and November 2008, the Parties conducted expert discovery, including the exchange of expert reports and the depositions of expert witnesses, in the Action. And, on November 26, 2008, the Delaware Chancery Court denied approval of the proposed settlement in the Delaware Action, based upon the objections raised and discovery conducted by Plaintiff.

On December 16, 2008, Defendants moved for summary judgment in the Action. On January 26, 2009, Plaintiff filed oppositions to Defendants' motions for summary judgment. On February 13, 2009, Defendants filed replies in support of their motions for summary judgment. In light of the settlement, Defendants' motions for summary judgment have been withdrawn in the Action without prejudice to refiling.

What Is a Derivative Claim?

A derivative claim is a claim brought by a shareholder on behalf of a company and its shareholders rather than on his or her own behalf. The recovery sought in a derivative action is for the benefit of the Company rather than directly for individual shareholders.

What Are the Terms of the Proposed Settlement?

Within ten (10) business days of the Effective Date of the Settlement (as defined below), the terms of the convertible preferred securities ("Preferred Securities") previously issued by Centerline to an affiliate of The Related Companies, L.P. ("TRCLP") shall be amended, such that the conversion price shall be reset from $10.75 to $12.35, and the dividend rate shall be

lowered from 11.0% to 9.5%. In order to effect such revised terms, (i) Centerline shall issue a new series of preferred securities with terms substantially identical to the Preferred Securities except as aforesaid ("New Preferred Securities") and (ii) TRCLP shall exchange its Preferred Securities for the same number of shares of New Preferred Securities. Furthermore, the terms of any Preferred Securities held by any person other than TRCLP and its affiliates shall not be amended with respect to conversion price or dividend rate, but shall only be amended in order to maintain certain voting rights of the Preferred Securities held by such person(s) by treating them as one class for voting persons with the New Preferred Securities.

What Are the Reasons for the Settlement?

As detailed below, the Company and the Plaintiff believe that the proposed Settlement is fair, reasonable and adequate, and is in the best interests of Centerline and its shareholders.

The parties have engaged in intensive negotiations concerning this Settlement. The terms of the Settlement were not agreed on until the parties to the Settlement had several negotiating sessions in which the parties exchanged competing proposals. These negotiations took place over a period of many months with a view to achieving the benefits and relief set forth in terms of the Settlement, including a court-ordered mediation before Magistrate Judge James Francis in October 2008 and a second mediation before the Honorable John S. Martin in February 2009. The Parties also attended a settlement conference before the Judge presiding over the Action, the Honorable Shira A. Scheindlin, U.S. District Judge for the Southern District of New York. After multiple negotiating sessions over a period of months, the Parties hereto reached the agreement referenced herein.

Although Plaintiff believes his claims have merit, he recognizes the expense and length of continued proceedings necessary to prosecute such claims through trial and subsequent appeals. Plaintiff's counsel also have taken into account the costs and risks inherent in proceeding further in this Action. Moreover, Defendants, without an agreement to resolve the Action, will continue to vigorously challenge the claims. Therefore, Plaintiff and Plaintiff's

counsel believe that the Settlement, on the terms and conditions set forth herein, is reasonable, adequate and in the best interests of the Company and its shareholders.

Defendants in this action believe that the transactions announced on December 28, 2007, including the securitization of the Company's tax-exempt affordable housing bond portfolio and the sale of $131 million worth of convertible preferred shares to an affiliate of TRCLP in order to transform the Company into an alternative asset manager, and the reduction of Centerline's dividend, reflected reasonable business judgments by Trustees with no conflicts of interest. Defendants therefore believe that their motions for summary judgment would likely be granted and that in any event a trier of fact would ultimately conclude that the actions of the Defendants were carried out in the good faith, honest belief that these transactions were in the best interest of the Company. Moreover, Defendants believe that another significant obstacle to any recovery in this action is that Centerline's trust agreement and by-laws contain exculpation clauses effective under Delaware law that immunize the Trustees from liability to the Company or its shareholders in the absence of bad faith. Finally, Defendants believe that Centerline suffered no damages as a result of any of the conduct alleged in the lawsuit; Plaintiff's damages theory rests on a comparison of the TRCLP Transaction with two hypothetical transactions to which Centerline's counterparties never agreed.

What Attorneys' Fees and Expenses Will Be Paid?

The Plaintiff is represented by Scott + Scott, LLP. An additional term of the Settlement is Centerline's agreement that the Company and/or its insurer will pay to Plaintiff's counsel attorneys' fees and expenses of $1.3 million, inclusive, incurred in the prosecution and settlement of this Action. Plaintiff's counsel was retained by Plaintiff on a contingent fee basis and, thus, to date has not been paid anything for either their legal services or as reimbursement for expenses incurred in connection with the litigation of the Action.

The agreed-to attorneys' fees and expenses, which are subject to Court approval, were the subject of arm's-length negotiations among the parties, and were a matter of negotiation by

Centerline's insurance carrier. The agreed-to attorneys' fees and expenses were also the subject of the negotiations involving the mediator.

What Will Happen at the Settlement Hearing?

The Court has scheduled a Settlement Hearing for May 18, 2009 at 5:00 p.m.. At this hearing, the Court will hear any objections any Centerline Shareholder may raise as to any aspect of the Settlement. At or following the hearing, the Court will determine whether the Settlement is fair, reasonable, and adequate, and determine whether to enter the Final Judgment approving the Settlement. The Court will also consider, at the Settlement Hearing or thereafter, that part of the Settlement that provides for attorneys' fees and the reimbursement of expenses to Plaintiff's counsel. Pending final determination of whether the Settlement should be approved, Plaintiff, the Company and all Centerline Shareholders are each barred and enjoined from instituting or prosecuting any action that asserts any of the Released Claims against any Released Parties (as those terms are described below and defined in the Stipulation).

YOU ARE NOT REQUIRED TO PARTICIPATE OR ATTEND THE SETTLEMENT HEARING.

If you are a Centerline Shareholder and wish to object to any portion of the Settlement, you must send a signed letter or other signed written submission with proof of your current ownership and date of purchase of Centerline stating that you object to the Settlement in *Carfagno v. Schnitzer, et al.,* 08 Civ. 912 (SAS) (S.D.N.Y.). Be sure to include your name, address, telephone number, how many Centerline shares you own and the date you acquired them, a detailed description of your specific objections to any matter before the Court, all the grounds for your objections to the Settlement and any documents you wish the Court to consider. Mail the objection and any supporting papers to the Court and each of the attorneys listed at the addresses provided below to arrive no later than May 11, 2009. YOUR OBJECTION MUST BE IN WRITING AND RECEIVED BY THIS DATE TO BE CONSIDERED. If your objection is not received in a timely manner, the Court may not consider it.

Court:

Clerk of the Court
Daniel Patrick Moynihan United States Courthouse
500 Pearl Street
New York, NY 10007

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No one will be entitled to object to the proposed Settlement, to the Final Judgment to be entered in this Action, or to the payment of attorneys' fees or the reimbursement of expenses, except by filing and serving written objections in the form and manner, and by the date, required by this Notice. Any person who fails to object in the manner and by the date required shall be deemed to have waived any objections, and shall forever be barred in this or any other action or proceeding from raising such objections to the proposed Settlement.

The Court may consider your written objections whether or not you choose to attend the Settlement Hearing. You may also choose to retain your own lawyer at your own expense to represent you with respect to any objections you may have.

You or your lawyer may ask the Court for permission to speak at the Settlement Hearing. To seek permission, you must send a letter stating that it is your intention to appear at the Settlement Hearing in *Carfagno v. Schnitzer, et al.,* 08 Civ. 912 (SAS) (S.D.N.Y.), and state your position with respect to the Settlement, as well as the reasons you desire to appear and be heard. The letter must include the names of any witnesses you may call to testify at the Settlement Hearing and a summary of their proposed testimony, and must include any documents you intend to proffer into evidence at the Settlement Hearing. Be sure to also include your name, address, telephone number, how many Centerline shares you own and the date you acquired them, a detailed description of your specific objections to any matter before the Court, and all the grounds for your objections to the Settlement. Your notice of intention to appear must be received no later than May 11, 2009 by the Clerk of the Court and each of the counsel at their addresses provided above.

The date of the Settlement Hearing is subject to change without further notice to Centerline Shareholders. If you or your lawyer intends to attend the Settlement Hearing, you should confirm the date and time with Plaintiff's counsel.

What Is the Effect of the Court's Approval of the Proposed Settlement?

A full description of the Released Claims is set forth in the Stipulation. The following is only a summary. If the Court approves the Settlement, on the date the Judgment approving the Settlement becomes Final (as defined in the Stipulation), Plaintiff, Centerline, and all current and former Centerline Shareholders, on behalf of themselves, and their respective current, future and former heirs, executors, administrators, personal representatives, attorneys, agents, partners, successors and assigns, and any other Person claiming (now or in the future) to have acted through or on behalf of them, shall have, fully, finally, and forever, released, relinquished, settled and discharged the Released Parties from the Released Claims and shall be permanently barred

and enjoined from instituting, commencing, or prosecuting or asserting any Released Claim against any of the Released Parties.

The Released Parties are Defendants and each of their immediate family members, heirs, executors, administrators, successors and assigns; Defendants' present, former and future employees, insurers, officers, directors, partners, attorneys, legal representatives and agents; any person or entity in which any Defendant has or had a controlling interest; and the present, former and future parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, partners, attorneys, assigns, and agents of all of the foregoing.

The Released Claims are any and all actions, suits, claims, debts, demands, rights, or causes of action or liabilities of every nature and description whatsoever, whether based on federal, state, local, statutory or common law or any other law, rule, or regulation, whether foreign or domestic, including, without limitation, Unknown Claims and claims under Delaware statutory and/or common law, federal and/or state securities laws and claims under any law governing fiduciaries or the duties of fiduciaries, or for any remedy whether at equity or law, that were or could have been asserted against the Released Parties in the Action by Plaintiff, by Centerline, or by any Shareholder (claiming in the right of, or on behalf of, the Company), and that arise out of or are related, directly or indirectly, in any way to any of the facts, allegations, transactions, events, occurrences, acts, disclosures, representations, statements, omissions, failures to act, or matters set forth, alleged, referred to, and could have been asserted in the Action or in any other state or federal derivative actions by Plaintiff, Centerline or by any Shareholder (claiming in the right of, or on behalf of, the Company) against any of the Released Parties relating, in whole or in part, to the allegations in this Action, whether known or unknown, suspected or unsuspected, matured or not matured, contingent or non-contingent, accrued or unaccrued, whether or not concealed or hidden by the Released Parties. It is expressly understood that Released Claims do not release, relinquish, discharge or enjoin the prosecution of any claims, demands, rights, actions, causes of action arising under the federal securities laws or any other federal statute, whether known or unknown, contingent or absolute, suspected or

unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, that have been or could be asserted in the consolidated securities class actions pending in *In re Centerline Holding Securities Litigation,* 08 Civ. 00505 (SAS) (S.D.N.Y.).

The proposed settlement, if approved by the Court, would, by its terms, become effective immediately upon the Clerk of the Court of the Southern District of New York being furnished with notice that the Delaware Chancery Court has dismissed with prejudice the actions *Off* v. *Ross, et al.*, Civ. A. No 3468-VCP (Del. Ch.) and *Ciszerk* v. *Ross, et al.*, Civ. A. No. 3511-VCP (Del. Ch.) and that the orders of dismissal of the *Off v. Ross* and *Ciszerk v. Ross* actions are final. Upon final approval of the Settlement, all releasing parties will be enjoined and barred from bringing any Released Claims against any of the Released Parties.

How Do You Get More Information About the Action and the Proposed Settlement?

This Notice is a summary only and does not describe all of the details of the Stipulation. Nothing in this Notice can vary or supersede the terms of the Stipulation. For full details of the matters discussed in this Notice, you may desire to review the Stipulation filed with the Court, which may be inspected during normal business hours at the office of the Clerk of Court, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY 10007, or by requesting a copy of the relevant documents from Plaintiff's counsel. You may also review the Stipulation online at http://media.corporate-ir.net/media_files/irol/74/74331/settlement.pdf. If you have questions about the Settlement, you may contact Plaintiff's counsel listed above.

Please do not call the Court or the Company with questions or with requests for further information concerning the Settlement.