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7 IN THE UNITED STATES BANKRUPTCY COURT
8 FOR THE DISTRICT OF ARIZONA

9 In re
10 MORTGAGES LTD.,
11 Debtor.

Chapter 11
Case No. 2:08-bk-07465-RJH

**NOTICE OF HEARING AND OBJECTION
DATE ON ALLOCATION MODEL**

**Hearing Date: Sept. 21, 2010
Hearing Time: 1:30 p.m.**

14 NOTICE IS GIVEN THAT ML Manager LLC (“ML Manager”) upon direction of
15 the Court has filed a “(1) Notice of Lodging Allocation Model to be Used with regard to
16 the Newman Loan Investors, (2) Notice that Allocation Model has General Applicability
17 to All Investors, and (3) Motion to Approve Allocation Model” (“Notice”) on September
18 1, 2010. A copy of the complete pleading can be found on the website maintained by ML
19 Manager located at www.mtg ltd.com. To the extent that there are objections, they must
20 be filed on or before September 10, 2010. A hearing will be held on the Notice and on any
21 objections on September 21, 2010 at 1:30 p.m. before the Honorable Randolph J. Haines,
22 230 N. First Ave., Courtroom 603, 6th floor, Phoenix, Arizona 85003. Any objections
23 must be timely filed with the Clerk of the Court, and a copy timely served by mail or
24 email on attorneys for ML Manager at the address above.

25 The Newman Loan No.7987S2 which has three investors has been paid in full by
26

1 the Borrower. The total principal amount received was \$222,235.60. The Court instructed
2 ML Manager to send out the initial net distribution check to the investors in this loan
3 indicating the amount that ML Manager thought it needed to withhold and an explanation
4 for the methodology. Attached to this notice is Exhibit A which states the amount of the
5 checks for the initial net distribution to be made to the investors in the loan. Exhibit B
6 states the Allocation Methodology which has been approved by the ML Manager to be
7 used for such calculations for all investor loans. It is a Step by Step Summary Narrative of
8 the Distribution Allocation Methodology. A more detailed description along with
9 definitions is included in the pleading which can be obtained on the website. Exhibit C
10 states the Step by Step application of the methodology to the Newman Loan. Because this
11 is the initial distribution and application of the Distribution Allocation Model and because
12 future decisions of the Court will impact who pays what, ML Manager, to be
13 conservative, has decided in its business judgment to withhold approximately 20% of the
14 total amount due to these investors. Checks in the amount of approximately 80% have
15 been sent to two of them. However, Morley Rosenfield MD PC Restated Profit Sharing
16 Plan's check for the approximately 80% is being held in a special escrow account because
17 there are pending claims for offset and recoupment from litigation involving Mr.
18 Rosenfield such as a pending application for fees which ML Manager asserts it can offset
19 or recoup against the funds owed to the entity.

20 As has been discussed in many different contexts in this matter, the question of the
21 "Allocation Model" for the payment of costs and expenses is an important predicate issue
22 prior to making distributions to Investors. Although this issue is generally applicable to
23 all ML Loans and all Investors, it has initial application in the distribution of proceeds to
24 the Investors in the Newman Loan. The borrower under the Newman Loan has paid off
25 all amounts due. The Plan and the Confirmation Order entered on May 20, 2009 requires
26 that before disbursing money to the Newman Loan Investors, or any other Investor, ML

1 Manager must first assess them their proportionate share of all costs and expenses,
2 including the Exit Financing, in a fair, equitable and non-discriminatory manner.

3 In determining a proportionate share of all Costs in a fair equitable and non-
4 discriminatory manner, there are many issues that arise. For example, the total amount of
5 Costs is not yet known and it is also not known for sure how many of the loans will
6 produce a recovery sufficient to cover their share of the Costs. There are many issues to
7 consider on what constitutes a "General Cost" that the Plan contemplates will be spread
8 across all Investors, and a loan "Specific Cost" that is to be allocated to particular loans.
9 ML Manager Board has invested literally hundreds of hours, sought the assistance of
10 accounting and legal professionals, and considered everything from small details or
11 implications to large macro philosophies. ML Manager, by unanimous vote of the ML
12 Manager Board, has now adopted a model to estimate and allocate all the Costs associated
13 with each of the ML Loans (the "Allocation Model") that it believes, in the exercise of its
14 business judgment, meets its obligations and is fair, equitable and non-discriminatory.
15 Once the Allocation Model has been approved, ML Manager can apply the Model to the
16 Newman Loan Investors. Until then, in order to provide for any contingencies that may
17 arise during the process of approving the Allocation Model, and pursuant to the Court
18 Order to disburse the undisputed amount, ML Manager has disbursed to most of the
19 Newman Loan Investors, approximately 80% of the amount received from the pay-off of
20 the Newman Loan. This should leave sufficient cushion for any adjustments that should
21 be made in the Allocation Model.

22 DATED: September 1, 2010

FENNEMORE CRAIG, P.C.

By /s/ Keith L. Hendricks (012750)

Cathy L. Reece

Keith L. Hendricks

Attorneys for ML Manager LLC

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FENNEMORE CRAIG, P.C.

PHOENIX

EXHIBIT

A

EXHIBIT A

NEWMAN LOAN

LOAN 7987S2 Gross Loan Recovery For Distribution: \$222,236

		Percentage of Loan Amount	Net Distribution at Approx. 80%
1.	Morley Rosenfield, M.D., P.C., Restated Profit Sharing Plan*	50.880%	\$ *
2.	Tommy D. Crimmins or Judith Crimmins Family Revocable Trust	13.965%	\$24,565.09
3.	Francis P. Surdakowski and Linda M. Surdakowski Trust	35.155%	\$61,839.29

** Check for Rosenfield has been placed in escrow pending determination of indemnity claim against the investor and other offsets or recoupments.*

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EXHIBIT

B

EXHIBIT B

SUMMARY NARRATIVE DESCRIPTION OF DISTRIBUTION ALLOCATION MODEL

- Step 1: Determine Outstanding Loan Balance on the date of the bankruptcy and Initial Sharing Ratio of the particular loan as compared to the total of all loans on the date of bankruptcy.
- Step 2: Estimate Gross Loan Recovery for each loan and Adjusted Net Sales Proceeds for estimated selling costs and property liens and to be conservative also adjust for a 20% market uncertainty.
- Step 3: Recalculate the Sharing Ratio and then adjust to account for any loans with a Negative Recovery.
- Step 4: Estimate the Disposition Period so all costs required to be paid beginning to end are covered.
- Step 5: Estimate the Expected Costs to be incurred to the very end plus a 15% cushion for General Costs.
- Step 6: Separate Expected Costs into General Costs to be spread over all loans and Specific Loan Costs to be paid by only that loan.
- Step 7: Spread the Separated Costs so that to the extent some costs can't be paid by a loan those Uncovered Costs will be spread across all other loans.
- Step 8: Determine withholding from Distributions of Total Expected Costs for each loan.
- Step 9: Repayment of Permitted Reserve & Replacement Loans to be funded as part of Total Expected Costs.
- Step 10: Final Settlement and True Up - Total Expected Costs and Adjusted Net Proceeds will be adjusted from time to time as information becomes available and once all dispositions and costs are final there will be a Final Settlement and True Up.

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EXHIBIT

C

EXHIBIT C

ALLOCATION MODEL APPLIED TO NEWMAN LOAN

Loan No. 7987S2	The Newman Loan	Principal \$222,351													
Step 1	Step 2	Step 3	Step 4	Step 5	Step 6		Step 7		Step 8	Step 9	Step 10				
Determine Outstanding Loan Balance	Determine Initial Sharing Ratio	Gross Loan Recovery	Adjusted Net Sales Proceeds	Revised Sharing Ratio	Disposition Date	Total Expected Costs	Exit Loan Interest & Costs	General Costs	Covered Specific Costs	Net Sales Proceeds Available for Distribution	Net Sales Proceeds Available for Replacement Loan Interest	Replacement Loans Interest Income	Determine Withholding	Future True Up	Projected Payout Based on Model Assumption
\$222,351	0.0241	\$222,236	\$222,236	0.04122	6/14/2010	\$12,077	\$4,951	\$6,973	\$153	\$210,159	\$0.00	\$17	\$0.00	\$1,642	\$211,784

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