

1 **FORRESTER & WORTH, PLLC**
3636 NORTH CENTRAL AVENUE, SUITE 700
2 PHOENIX, ARIZONA 85012
TELEPHONE (602) 258-2729
3 FACSIMILE (602) 271-4300
S. CARY FORRESTER (006342)
4 E-MAIL SCF@FORRESTERANDWORTH.COM
5 ATTORNEYS FOR THE LEWIS AND
UNDERWOOD ENTITIES

6 **UNITED STATES BANKRUPTCY COURT**
7 **DISTRICT OF ARIZONA**
8

9 In re:
10 MORTGAGES LTD., an Arizona
corporation,
11
12 Debtor.

Chapter 11 (converted from Chapter 7)

Case No. 2:08-bk-07465-PHX-RJH

**LEWIS AND UNDERWOOD'S
LIMITED OBJECTION AND
RESERVATION OF RIGHTS IN
RESPONSE TO ML MANAGER'S
MOTION TO APPROVE
ALLOCATION MODEL**

Hearing Date: September 21, 2010

Hearing Time: 1:30 p.m.

17
18 William C. Lewis and Richard K. Underwood ("**Lewis and Underwood**"), on
19 behalf of the wholly owned limited liability companies identified in the attached
20 schedules, hereby file this limited objection and reservation of rights in response to ML
21 Manager's Motion to Approve Allocation Model (the "**Motion**"). It is clear that ML
22 Manager and its professionals have put a great deal of time, effort, and analysis into the
23 preparation of the allocation model. This is reflected in the lengthy description of the
24 model contained in the 34-page Motion and in the multiple spreadsheets that contain the
25 confidential details of the model. Unfortunately, because of the short time allotted for the

1 initial review of the Motion and the allocation model, Lewis and Underwood have not had
2 sufficient time to review and discuss the model and the underlying assumptions with ML
3 Manager and its professionals. Accordingly, they are compelled to file this limited
4 objection and reservation of rights to preserve certain issues, which they hope to be able
5 to resolve through further informal discussions:

6 A. Limited Objection. On page 13 of the Motion, ML Manager states that:

7 [T]he Allocation Model provides that once the Total Estimated Costs
8 are paid for any particular Loan, the Investors in that Loan are no
9 longer responsible for any additional accruing interest to either the Exit
10 Lender or, as defined below, the Replacement Loan Lender or the
11 Permitted Reserve Loan Lender. In other words, once the Total
12 Estimated Costs are paid, the Investors who have paid those costs have
13 paid their fair share and are not responsible for further interest. They
14 may be entitled to receive interest as described below, but they will not
15 be required to pay additional interest.

16 It is the position of Lewis and Underwood that each non-transferring investor who
17 retained an undivided interest in a Loan should have the right to prepay his or her
18 proportionate share of the estimated costs allocated to that Loan. This would allow the
19 investor to avoid the further accrual of interest, at 17.5% per annum, on the amount paid
20 and prevent the further erosion in its return on the Loan. Making this option available to
21 individual investors would also provide an additional funding source for ML Manager.

22 B. Reservation of Rights. While Lewis and Underwood believe that the
23 conceptual framework of the allocation model is sound, with the limited exception set for
24 above, they have not had sufficient opportunity to review, in detail, the confidential
25 information contained in the spreadsheets. The allocation model is quite complex, many

1 of the underlying assumptions are not stated, and the detailed spreadsheets are available
2 for inspection only on a limited basis. Lewis and Underwood have confirmed with
3 counsel for ML Manager that the deadline of September 10, 2010 will not apply to any
4 objections they may have to the specific allocations, assumptions, and treatment of the
5 loans reflected in the detailed spreadsheets, as those are evidentiary issues that will
6 require further proceedings. Accordingly, Lewis and Underwood reserve their right to
7 object to such matters if their questions and concerns are not resolved informally.

8 Wherefore, for the reasons set forth above, Lewis and Underwood request that the
9 allocation model be revised to the limited extent set forth above, and they reserve their
10 right to raise additional objections as to the specific allocations, assumptions and
11 treatment set forth in the confidential spreadsheets.

12 Dated this 10th day of September, 2010.

13 **FORRESTER & WORTH, PLLC**

14 /s/ SCF 006342

15 S. Cary Forrester

16 Attorneys for the Lewis and Underwood

17 COPY of the foregoing served via email
18 this 10th day of September, 2010:

19 Cathy L. Reece, Esq.
20 Keith L. Hendricks, Esq.
21 Fennemore Craig, P.C.
22 3003 North Central Avenue, Suite 2600
23 Phoenix, Arizona 85012-2913
24 creece@fclaw.com
25 khendricks@fclaw.com
Attorneys for ML Manager LLC

/s/ Carrie Lawrence

Carrie Lawrence

SCHEDULE I

Loan Investment	Date of Issuance	Entity
Undivided 5.042% interest in Loan No. 860506	Prior to November 1, 2008	WCL860506 LLC, an Arizona limited liability company
Undivided 1.943% interest in Loan No. 853106	Prior to November 1, 2008	WCL853106 LLC, an Arizona limited liability company
Undivided 3.125% interest in Loan No. 856206	Prior to November 1, 2008	WCL856206 LLC, an Arizona limited liability company
Undivided 50.000% interest in Loan No. 855102	Prior to November 1, 2008	WCL855102 LLC, an Arizona limited liability company
Undivided 2.500% interest in Loan No. 850206	Prior to November 1, 2008	WCL850206 LLC, an Arizona limited liability company
Undivided 2.743% interest in Loan No. 851106	Prior to November 1, 2008	WCL851106 LLC, an Arizona limited liability company
Undivided 1.875% interest in Loan No. 852606	Prior to November 1, 2008	WCL852606 LLC, an Arizona limited liability company
Undivided 4.546% interest in Loan No. 857306	Prior to November 1, 2008	WCL857306 LLC, an Arizona limited liability company
Undivided 4.545% interest in Loan No. 857406	Prior to November 1, 2008	WCL857406 LLC, an Arizona limited liability company
Undivided 3.447% interest in Loan No. 857502	Prior to November 1, 2008	WCL857502 LLC, an Arizona limited liability company
Undivided 4.203% interest in Loan No. 857502	Prior to November 1, 2008	WCL857502 LLC, an Arizona limited liability company
Undivided 4.065% interest in Loan No. 858006	Prior to November 1, 2008	WCL858006 LLC, an Arizona limited liability company
Undivided 8.172% interest in Loan No. 858305	Prior to November 1, 2008	WCL858305 LLC, an Arizona limited liability company
Undivided 1.970% interest in Loan No. 858406	Prior to November 1, 2008	WCL858406 LLC, an Arizona limited liability company
Undivided 4.128% interest in Loan No. 858905	Prior to November 1, 2008	WCL858905 LLC, an Arizona limited liability company
Undivided 2.092% interest in Loan No. 859305	Prior to November 1, 2008	WCL859305 LLC, an Arizona limited liability company
Undivided 2.913% interest in Loan No. 859806	Prior to November 1, 2008	WCL859806 LLC, an Arizona limited liability company
Undivided 0.221% interest in Loan No. 860706	Prior to November 1, 2008	WCL860706 LLC, an Arizona limited liability company
Undivided 3.954% interest in Loan No. 861105	Prior to November 1, 2008	WCL861105 LLC, an Arizona limited liability company
Undivided 2.273% interest in Loan No. 861206	Prior to November 1, 2008	WCL861206 LLC, an Arizona limited liability company

SCHEDULE II

Loan Investment	Date of Issuance	Entity
Undivided 3.906% interest in Loan No. 860606	Prior to November 1, 2008	RKU860606 LLC, an Arizona limited liability company
Undivided 2.460% interest in Loan No. 860706	Prior to November 1, 2008	RKU860706 LLC, an Arizona limited liability company
Undivided 1.647% interest in Loan No. 861105	Prior to November 1, 2008	RKU861105 LLC, an Arizona limited liability company
Undivided 2.273% interest in Loan No. 861206	Prior to November 1, 2008	RKU861206 LLC, an Arizona limited liability company