

EXHIBIT “C”

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IN THE UNITED STATES
BANKRUPTCY COURT
FOR THE DISTRICT OF
ARIZONA In re

MORTGAGES LTD.,

Debtor.

Chapter 11

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

**ORDER REGARDING DISTRIBUTION OF
PROCEEDS**

On January 11, 2011, the Court heard argument on ML Manager's (1) *Notice of Intent to Distribute Proceeds in accordance with Allocation Model*, and (2) *Motion to Approve Treatment of Distribution of Disputed Proceeds* (Docket No. 3017) (the "Distribution Motion"). The Distribution Motion is related to or based on the implementation of the "Allocation Model" as referenced this Court's minute entry (Docket 2959) "approving the allocation formula proposed by ML Manager in the Allocation Brief filed on September 1, 2010 [Docket No. 2913]." ML Manager has now resolved or liquidated six of the loans, collateral, or the properties (collectively, the "Loans") included in the loans defined as "ML Loans" in the Plan of Reorganization confirmed in this matter (the "Plan"). These six Loans include (1) Chateaux on Central (see Sale Order, Docket No. 2676); (2) the Newman I Loan, (3) the Newman II Loan,¹ (4) Zacher Missouri (see Sale Order, Docket No. 2892), (5) City Lofts (see Sale Order, Docket No. 2887), and (6) Osborne III (sometimes known as Ten Wine Lofts) (see Sale

There were no sale orders with the two Newman loans as the borrower paid them in full.

1 Order, Docket No. 2976).

2 Two Objections to the Distribution Motion were filed. The Rev-Op Group
3 (defined below) filed an Objection to the Distribution Motion and requested, among other
4 things, that the Motion be denied. (Docket No. 3028). The ML Liquidating Trust (the
5 “Trust”) filed an Objection, but only requested that distributions to individuals who were
6 the subject of pending litigation, preference claims, or avoidance actions be escrowed
7 pending final resolution of those claims. (Docket No. 3030). Having considered all
8 briefing of the Parties, oral argument, prior rulings and briefings, and for good cause
9 appearing,

10 THE COURT CONCLUDES, FINDS, AJUDICATES AND ORDERS AS
11 FOLLOWS:

12 A. The Distribution Motion is granted and ML Manager is authorized to
13 make the distributions contemplated therein except as otherwise provided herein.

14 B. The Court has already ruled with regard to the obligation that all Investors
15 must pay their proportionate share of costs from distributions from the proceeds of the
16 ML Loans. (*See* Docket No. 2323) (the “Motion for Clarification Ruling”). That ruling
17 is currently pending an appeal to the United States District Court for the District of
18 Arizona. This Court does not have jurisdiction to modify or reconsider the Motion for
19 Clarification Ruling, nor does it find any reason to do so.

20 C. The ~~Plan and the Motion for Clarification Ruling provide~~Allocation
21 Model provides, among other things, that all Investors in the ML Loans where there is a
22 distribution must pay their proportionate share of “General Costs” including pre-
23 confirmation expenses, and post confirmation general expenses, as well as “Loan
24 Specific Costs” incurred after the confirmation of the plan of reorganization in this
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1 matter ~~(the “Plan”).~~^{2 2} ~~ML Manager is responsible for establishing and has established~~
2 ~~the Allocation Model to allocate the General Costs and the Loan Specific Costs.~~

3 D. The appropriate standard of review to consider ML Manager’s allocation
4 decisions is the business judgment standard. The treatment set forth in the Allocation
5 Model is consistent with and fulfills ML Manager’s duty under the business judgment
6 rule as well as any fiduciary duty ~~given the agency coupled with an interest that exists~~
7 and ML Manager’s role as contemplated and established by the confirmed Plan.

8 E. At the hearing on September 21, 2010, the Court approved the allocation
9 formula proposed by ML Manager in the Allocation Brief filed on September 1, 2010
10 [Docket No. 2913] (the “Allocation Model”), ~~and its approval is hereby reaffirmed.~~

11 F. The treatment in the Allocation Model of the obligations incurred by the
12 Debtor, Mortgages Ltd., the administrative expenses, and other pre-confirmation costs
13 and expenses as General Costs is approved, appropriate, and consistent with ML
14 Manager’s business judgment ~~obligations~~ and consistent with and in fulfillment of its
15 fiduciary duties.

16 G. The treatment of costs that will be reimbursed by the Trust pursuant to the
17 terms of the Plan if and when the Trust recovers sufficient money is approved,
18 appropriate, and consistent with ML Manager’s business judgment ~~obligations and~~
19 ~~consistent with and in fulfillment of its fiduciary duties.~~ and consistent with and in
20 fulfillment of its fiduciary duties.

21 ~~H. The treatment of what is described in the Allocation Model as “Uncovered~~
22 ~~Costs” is approved, appropriate, and consistent with ML Manager’s business judgment~~
23 ~~obligations and consistent with and in fulfillment of its fiduciary duties.~~

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25 ² All capitalized terms in this Order shall have the same meaning as set forth in the
26 operative documents including the Plan, the Allocation Model and the Interborrower
Agreement, which was attached as an Exhibit to the Distribution Motion.

1 ~~I. The treatment of what is described in the Allocation Model as~~
2 ~~“Replacement Loan Interest” is approved, appropriate, and consistent with ML~~
3 ~~Manager’s business judgment obligations and consistent with and in fulfillment of its~~
4 ~~fiduciary duties.~~

5 ~~J. The treatment of General Costs for the entire portfolio of ML Loans, and~~
6 ~~all Loan Specific Costs for the any of the six Loans described above that are not~~
7 ~~otherwise specifically described herein are approved, appropriate, and consistent with~~
8 ~~ML Manager’s business judgment obligations and consistent with and in fulfillment of~~
9 ~~its fiduciary duties.~~

10 H. ~~K.~~ All of the objections to ~~the Allocation Model or~~ the distribution of
11 proceeds under the six Loans, except any objections that have been specifically reserved
12 by this Court, have been overruled.

13 L. ~~L.~~ With regard to the six Loans at issue, the determination, allocation and
14 proposed distribution of costs, expenses and proceeds under the Allocation Model is
15 approved. This includes, without limitation, the determination that the total amount of
16 settlement costs were \$7,393,841.58 and were properly treated, accounted for and
17 disbursed. Pursuant to the obligations under the Exit Financing Loan agreement, the
18 payment to the Exit Lender from these six loans of collectively \$8,770,523.50 was
19 properly treated, accounted for and disbursed. ML Manager was entitled to and
20 properly treated, accounted for and disbursed a “Permitted Reserve” of \$2,836,944.90.
21 Pursuant to the Allocation Model, the “Total Estimated Costs” (as provided in the
22 Allocation Model) of the “Pass-Through Investors” that were not included in the
23 payments to the Exit Lender were \$1,160,931.75, and they have been properly treated
24 and accounted for. Based on the operation of the Allocation Model, \$8,521,443.22 is
25 available to distribute to investors, subject to the provisions set forth below. This
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1 includes \$4,758,799.88 to the “Pass-Through Investors” and \$3,762,639.58 to the Loan
2 LLCs or MP Funds.

3 J. ~~M.~~—There exists a recorded judgment lien against Robert L. Barnes, Jr.
4 (“Barnes”) by Kathleen Heth (“Heth”), and a recorded judgment lien against the
5 “Barness Investment Limited Partnership, an Arizona Limited Partnership (“Barness”)
6 by the Town of Gilbert (“Gilbert”). The current expected distribution to Barnes and
7 Barness is less than the amount of the recorded judgment liens. The proposed
8 distributions of net proceeds from the six Loans, following the application of their
9 respective share of costs and expenses under the Allocation Model, to their respective
10 judgment creditors, care of the respective judgment creditor counsel, is approved.

11 K. ~~N.~~—The Trust has filed certain preference actions, avoidance actions or
12 other claims (collectively, the “Insider Claims”) against certain individuals or entities
13 that have been referred to as “Insiders.” The term “Insider” for purposes of this Motion
14 means in the individuals or entities referred to in paragraph RQ below and has been used
15 in this Order for identification purposes only. There has been no adjudication, finding
16 or determination as to whether any individual or entity was an “Insider” for purposes of
17 any statute or rule.

18 L. ~~O.~~—ML Manager holds approximately \$241,099.11 from payments
19 received by the Debtor during the bankruptcy prior to confirmation of the Plan. This
20 amount was held by the Debtor pursuant to an Order by the Court, (Docket No. 458)
21 governing distributions to certain investors referred to as insiders (the “Insider
22 Escrow”). Upon confirmation of the Plan, control and management of the Insider
23 Escrow was transferred or assigned to ML Manager.

24 M. ~~P.~~—Except as indicated herein, amounts in the Insider Escrow and any
25 distributions to Insiders are subject to the Allocation Model. ML Manager is entitled to
26 assess costs and expenses against any distribution or proposed distribution to Insiders,

1 against the proceeds in the Insider Escrow, and against all escrows held on behalf of the
2 Insiders pursuant to the Allocation Model.

3 N. ~~Q.~~ Notwithstanding the foregoing, whether the Mortgages Ltd. 401(k)
4 Plan (the “401(k) Plan”) can be assessed any fees or costs under the Allocation Model
5 has not yet been determined or adjudicated, and that issue, among others, is pending
6 before the United States District Court for the District of Arizona. As such, no judicial
7 determination has yet been made regarding the propriety of allocating costs to the
8 401(k) Plan and no allocation shall be implemented at this time with respect to the
9 401(k) Plan.

10 O. ~~R.~~ Until further order of this Court, ML Manager, any Loan LLCs (as
11 defined by the Plan) involved with the six Loans, and the MP Funds (as defined by the
12 Plan) shall not make any distributions, pay any payments of principal or interest related
13 to the six Loans or proceeds from any of the ML Loans, or from the Insider Escrow to
14 any of the following Insiders:

- 15 1. Julie B. Coles, Defendant John Doe Coles, and Defendant Perry L. Coles,
16 Trustee of the Julie B. Coles Irrevocable Trust, and any amendments thereto;
- 17 2. Michael Denning and Donna Denning, and the marital community property
18 of Michael Denning and his spouse;
- 19 3. Lisa A. Katz and John Doe Katz, husband and wife, and Defendant Lisa A.
20 Katz, Trustee of the Lisa A. Katz Trust;
- 21 4. George A. Everette and Mary J. Everette, husband and wife, and Defendants
22 George A. Everette and Mary J. Everette, Trustees of the GEME Revocable Trust,
23 Dated December 19, 2005;
- 24 5. Defendant Perry L. Coles, Trustee of the Scott M. Coles Trust, Dated March
25 28, 2004;

1 6. Defendant Robert G. Furst and Jane Doe First, husband and wife, and
2 Defendant Robert G. Furst, Trustee of The Robert G. Furst & Associates Defined
3 Benefit Pension Plan; and

4 7. Defendants Ryan P. Walter and Jeanne M. Walter, husband and wife.

5 P. ~~S.~~ ML Manager shall cause any distribution or other payment that would
6 have otherwise been made to an Insider to be held in a separate escrow or segregated
7 account, or added to the Insider Escrow.

8 ~~T. — As between the Trust and ML Manager only, other than the authorization~~
9 ~~to create and hold proceeds as described above, this Order shall not constitute the law of~~
10 ~~the case, have collateral estoppel effect, or constitute in any manner a judicial~~
11 ~~determination on any legal issue, including but not limited to allocation of costs and~~
12 ~~expenses as between the Trust and ML Manager.~~

13 Q. ~~U.~~ ML Manager has asserted a right to recoup, offset or set-off against
14 distributions, including distributions under the six Loans of at least \$336,000 (the
15 “Offset Claim”) against thirteen investors known as the “Rev-Op Group” consisting of
16 (1) AJ Chandler 25 Acres, LLC; (2) Bear Tooth Mountain Holding LLP; (3)
17 Cornerstone Realty & Development Inc.; (4) Cornerstone Realty & Development, Inc.
18 Defined Benefit Plan and Trust; (5) Evertson Oil Company, Inc.; (6) The Lonnie Joel
19 Krueger Family Trust; (7) Michael Johnson Investments II, LLC (8) Louis B. Murphey
20 (9) Pueblo Sereno Mobile Home Park LLC (10) Queen Creek XVIII, LLC; (11) Morley
21 Rosenfield, M.D. P.C. Restated Profit Sharing Plan; (12) The James C. Schneck
22 Revocable Trust; (13) William L. Hawkins Family LLP.

23 R. ~~V.~~ The Offset Claim includes a judgment (Case No. 10-AP-00430, Docket
24 No. 137) that ML Manager that has obtained against the Rev-Op Group, among others,
25 in the amount of \$89,364.26 (the “Judgment”). The Judgment is on appeal to the
26 United States District Court for the District of Arizona, but has not been stayed.

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S. ~~W.~~ ML Manager is entitled to satisfy the Judgment from distributions that would otherwise be made to the Rev-Op Group, which ML Manager has indicated that it will do on a pro-rata basis. ML Manager is authorized to satisfy the Judgment in such a manner.

T. ~~X.~~ As for the balance of the Offset Claim, or approximately \$246,000, ML Manager shall deduct that amount from the distributions to the Rev-Op Group on a pro-rata basis and segregate that amount in a separate escrow account pending further order of this Court, or another Court of competent jurisdiction, or agreement of ML Manager and the Rev-Op Group.

U. ~~Y.~~ This Order is stayed only until 8 a.m., January 24, 2011. All other stays under the Federal Rule of Bankruptcy Procedure are hereby waived.

DATED AND SIGNED ABOVE.