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Counsel for the Rev Op Group and QC-MK  
Custom Residential, LLC

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF ARIZONA**

In re:  
MORTGAGES LTD.,  
  
Debtor.

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

**REPLY IN SUPPORT OF MOTION FOR  
ENTRY OF AN ORDER COMPELLING  
ML MANAGER LLC TO (1) DISBURSE  
UNDISPUTED FUNDS, AND (2)  
RESOLVE ITS CONFLICT OF  
INTEREST WITH RESPECT TO THE  
PROCEEDS OF THE MK I AND MK II  
LOANS**

Hearing Date: March 14, 2011  
Hearing Time: 11:00 a.m.  
Location: Courtroom 603

1 The Rev Op Investors, by and through their duly authorized counsel, hereby submit this  
2 Reply in support of their motion for entry of an order compelling ML Manager to (i) distribute  
3 certain funds indisputably owing to the Rev Op Investors in compliance with the confirmed plan,  
4 and (ii) resolve its conflict of interest in connection with the proceeds of the MK I and MK II  
5 loans (the “Motion”) [DE #3430].<sup>1</sup> In support of this Reply, the Rev Op Investors respectfully  
6 submit as follows:

7 1. ML Manager has filed a lengthy response to the Motion, most of which is focused  
8 on conjectural standing arguments and the procedural impropriety of purportedly seeking a  
9 breach of fiduciary duty claim.<sup>2</sup>

10 2. When all of ML Manager’s irrelevant and self-serving statements are cleared  
11 away, the Response essentially confirms the allegations in the Motion: ML Manager has no  
12 timeline for completing its distribution or dealing with its conflict of interest, despite investor tax  
13 liabilities and ML Manager’s knowledge that many of the movants rely on distributions as the  
14 primary source of their income.

15 3. ML Manager does not dispute that:

- 16 a. ML Manager is sitting on \$1-2 million in undisputed funds owing to the  
17 Rev Op Investors;
- 18 b. certain of the Rev Op Investors have received 1099-S tax forms relating to  
19 distributions that they have not yet received;
- 20 c. section 4.13 of the Plan requires ML Manager to distribute all undisputed  
21 funds to the Rev Op Investors;

22  
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24 \_\_\_\_\_  
25 <sup>1</sup> Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the  
26 Motion. ML Manager is correct that the definition of “Rev Op Investors” inadvertently included  
27 Sheldon Sternberg. Mr. Sternberg is not represented by Bryan Cave LLP in connection with this  
28 matter.

<sup>2</sup> The Motion obviously is not a suit for breach of fiduciary duty, as evident from the relief  
requested therein. The Rev Op Investors reserve all rights to bring such suit and reserve all  
rights with respect to ML Manager’s misconduct in this case.

1 d. for many months, ML Manager has provided only the promise of some  
2 undefined future time for the distribution of these funds.

3 4. The Response continues in the same vein, merely stating ML Manager's "hope"  
4 that it can make a distribution "by the end of March." *See* Response, p.9:21-22. While a hoped-  
5 for distribution date is better than the evasive statements made by ML Manager to date, the  
6 hoped-for approach fails to provide a real deadline and will result in tax problems for the Rev Op  
7 Investors if ML Manager fails to meet its "hopes." Thus, ML Manager continues to put the Rev  
8 Op Investors and this Court in a holding pattern while it sits on other people's money, which by  
9 all indications is not segregated and, inexplicably, does not bear interest.

10 5. Similarly, ML Manager's response with respect to the QCMK conflict issue is  
11 merely that one of its selected conflict representatives "has not selected counsel" but "should  
12 make his final decision shortly." *See* Response, p.12:16-17.

13 6. Six months have passed since ML Manager represented to Judge Case and this  
14 Court that it would take the steps outlined at the September 13, 2011 hearing. ML Manager's  
15 argument in the Response that it will get to the conflict situation "shortly" is cold comfort given  
16 the lengthy delay to date.

17 7. In sum, a court-imposed deadline is necessary to protect the Rev Op Investors,  
18 particularly in light of the potential tax issues.

19 WHEREFORE, the Rev Op Investors request that the Court enter an order:

20 (A) Requiring ML Manager to account for and distribute all undisputed loan proceeds  
21 owned by the Rev Op Investors **by no later than March 30, 2012;**

22 (B) Requiring ML Manager, **by no later than March 30, 2012,** to complete the  
23 appointment and hiring of business and legal representatives to the investors in the MK I Loan  
24 and the MK II Loan to determine the priority issues with respect thereto, and to confirm  
25 immediately in a sworn writing that the proceeds to which QCMK's lien attached are currently  
26 deposited in a segregated and appropriate interest-bearing account; and

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1 (C) Granting any other and further relief as may be just and proper under the  
2 circumstances of this Chapter 11 case.

3 DATED this 12th day of March, 2012.

4 BRYAN CAVE LLP

5  
6 By: /s/ JAS, #026359

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13 COPY of the foregoing served by email  
14 this 12th day of March, 2012 upon:

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