

Colin F. Campbell, 004955
Geoffrey M. T. Sturr, 014063
Joshua M. Whitaker, 032724
Osborn Maledon, P.A.
2929 N. Central Avenue, Suite 2100
Phoenix, Arizona 85012-2793
(602) 640-9000
ccampbell@omlaw.com
gsturr@omlaw.com
jwhitaker@omlaw.com

Attorneys for Plaintiff

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA
IN AND FOR THE COUNTY OF MARICOPA

Peter S. Davis, as Receiver of DenSco
Investment Corporation, an Arizona
corporation,

Plaintiff,

vs.

Clark Hill PLC, a Michigan limited
liability company; David G. Beauchamp
and Jane Doe Beauchamp, husband and
wife,

Defendants.

No. CV2017-013832

**PLAINTIFF'S DISCLOSURE OF
EXPERT WITNESS REPORT RE
STANDARD OF CARE**

(Commercial case)

(Assigned to the
Honorable Daniel Martin)

Pursuant to the scheduling order entered in this matter, Plaintiff Peter S. Davis, as Receiver of DenSco Investment Corporation, hereby discloses the attached report of Neil J. Wertlieb, which addresses the applicable standard of care, Defendants' departure from the standard of care and how that departure caused injury to DenSco.

1 DATED this 3rd day of April 2019.

2 OSBORN MALEDON, P.A.

3
4 By

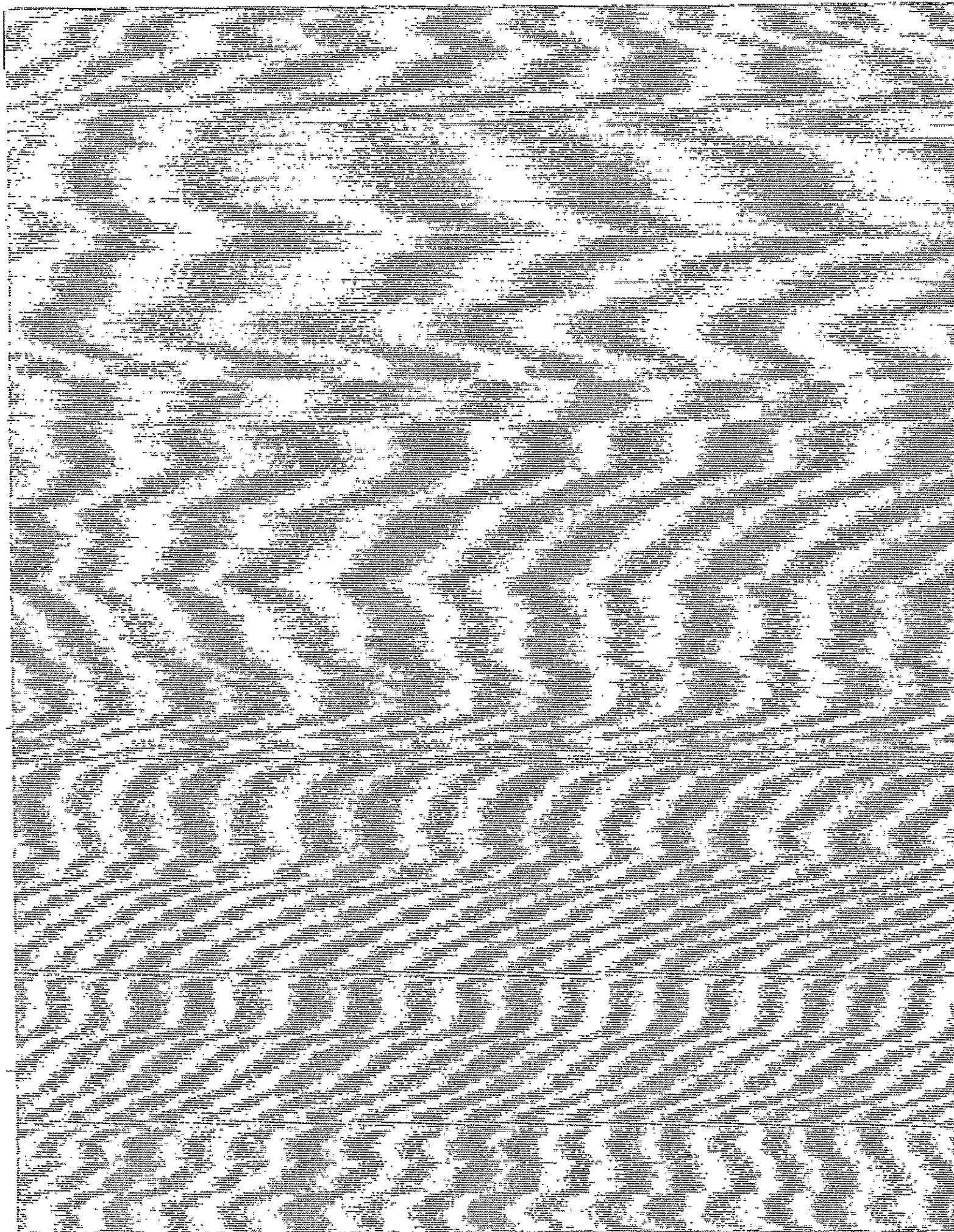
Colin F. Campbell
Geoffrey M. T. Stunt
Joshua M. Whitaker
2929 N. Central Avenue, Suite 2100
Phoenix, Arizona 85012-2793

Attorneys for Plaintiff

5
6
7
8
9 Original hand-delivered and
10 copy sent by e-mail this
3rd day of April, 2019, to:

11 John E. DeWulf, Esq.
12 Coppersmith Brockelman PLC
13 2800 N. Central Avenue, Suite 1900
Phoenix, AZ 85004
14 *Attorneys for Defendants*

15
16 Debra Huss
7998651





EXPERT REPORT OF NEIL J WERTLIEB

In the matter of

Peter S. Davis, as Receiver of DenSco Investment Corporation

v.

Clark Hill PLC, David G. Beauchamp and Jane Doe Beauchamp

Submitted on March 26, 2019

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Submitted on March 26, 2019

I. INTRODUCTION

By letters dated June 15, 2017 and October 3, 2017, the law firm of Osborn Maledon, P.A. (“Osborn Maledon”) retained me (through Wertlieb Law Corp, where I am principal) to serve as an expert witness in the matter of *Peter S. Davis, as Receiver of DenSco Investment Corporation v. Clark Hill PLC, David G. Beauchamp and Jane Doe Beauchamp* (this “Case”).¹

This Expert Report of Neil J Wertlieb (this “Report”) contains my opinions, together with the facts and analysis upon which my opinions are based and the reasons for my conclusions.

A. My Background and Qualifications

I am the principal of Wertlieb Law Corp, where (among other things) I have served as an expert witness in disputes involving business transactions and corporate governance, and in cases involving attorney malpractice and attorney ethics. I also serve as a Special Deputy Trial Counsel on behalf of the State Bar of the State of California, in which capacity I investigate and, when appropriate, prosecute attorney misconduct in certain matters where the State Bar’s Office of Chief Trial Counsel has determined that it may have a conflict of interest.

Prior to founding Wertlieb Law Corp in 2017, I was a partner at the law firm of Milbank, Tweed, Hadley & McCloy LLP (“Milbank”), where for over two decades my practice focused on corporate transactions, primarily securities offerings, acquisitions and restructurings. I have represented clients in a wide variety of business matters, including formation and early round financings, mergers and acquisitions, private placements and public offerings, international securities offerings and other international transactions, fund formations, joint ventures, real estate and hospitality matters, partnerships and limited liability companies, reorganizations and restructurings, independent investigations, and general corporate and contractual matters.

¹ See Plaintiff’s Disclosure of Areas of Expert Testimony dated September 7, 2018 (“the [Receiver] discloses the following areas of expert testimony he anticipates offering at trial: ... The applicable standard of care, Defendants’ departure from the standard of care and how that departure caused injury to DenSco. Departure from the standard of care will encompass all allegations in the Complaint, both legal malpractice and breaches of fiduciary duty, and will be premised on all actions described in Plaintiff’s Rule 26.1 statement of facts. Expert testimony may also address whether the departures from the standard of care are gross departures from the standard of care.”).

I would estimate that in the course of my 34 years of practicing law, I have worked on securities offerings that raised over \$20 billion in proceeds. Such offerings have included: initial public offerings and other securities offerings registered with the Securities and Exchange Commission (the "SEC"); international and intrastate securities offerings which have been outside of the jurisdictional scope of federal securities regulation; and venture capital and early stage financings, fund financings, real estate related financings, and private placements and other offerings which have been exempt from SEC registration. My responsibilities in such offerings included the following tasks: evaluating compliance with federal, state and foreign securities regulations; preparing, reviewing and advising with respect to disclosures and SEC filings; preparing, reviewing and advising with respect to other documentation, including subscription agreements and investor suitability questionnaires; rendering legal opinions and conducting due diligence; assessing the risks associated with non-compliance, conducting internal compliance investigations, and advising with respect to rescission offers and other remedies; and other tasks associated with the offer and sale of securities. I have also advised securities issuers and other entities, as well as their directors, officers and managers, with respect to their fiduciary duty obligations.

Prior to joining Milbank in 1995, I was the general counsel for a public telecommunications and broadcast company. I also served as the General Counsel and a member of the Board of Directors of the Los Angeles Kings Hockey Team. And before that, I worked for eight years at the law firm of O'Melveny & Myers LLP, as a transactional associate in the firm's Corporate Department.

I am also an Adjunct Professor of Law at the UCLA School of Law where (since 2002) I teach a transaction skills course, entitled "Life Cycle of a Business," which focuses on business transactions, negotiation, contract drafting and attorney ethics. The course subjects include fiduciary duties, securities offerings, disclosure documents and materiality.

I have been engaged by Harvard Law School Executive Education as Senior Advisor, Milbank@Harvard. This professional development program provides Milbank associates with immersive week-long programs to build leadership and business skills each year for four years, as they progress from mid-level associates to senior associates. Led by Harvard Law and Business School faculty, the program covers topics such as business, finance, accounting, marketing, law, management skills, client relations and personal and professional development. As Senior Advisor, I provide input, guidance and assistance in formulating the program and connecting it to the practice of law.

I am a former Chairman of each of the following committees of the California State Bar: the Executive Committee of the Business Law Section; the Corporations Committee; and the Committee on Professional Responsibility and Conduct. I am currently the Chairman of the Professional Responsibility and Ethics Committee of the Los Angeles County Bar Association. I also served as a Judicial Extern for Justice Stanley Mosk on the California Supreme Court.

I am the general editor of the legal treatise *Ballantine & Sterling: California Corporation Laws*. I have been recognized in *The Legal 500* for my mergers and acquisitions work and was

recognized as one of the top 100 most influential lawyers in California (*California Law Business*, October 30, 2000).

I received my law degree in 1984 from the UC Berkeley School of Law, and my undergraduate degree in Management Science from the School of Business Administration also at the University of California at Berkeley. I am admitted to practice law in California, New York and Washington, D.C.

My qualifications are described in more detail in my curriculum vitae, a current copy of which is attached as Exhibit A to this Report. A list of all cases in which I have testified as an expert at a deposition, hearing or trial during the past four years is attached as Exhibit B to this Report.

B. Description of this Case

This Case was initiated by the filing of a Complaint on October 16, 2017, by Peter S. Davis, as the court-appointed receiver (the “Receiver”) of DenSco Investment Corporation, an Arizona corporation (“DenSco”), following the death of Denny Chittick, DenSco’s sole owner, shareholder and operator. In the Complaint, the Receiver states two claims for relief against the law firm of Clark Hill PLC (“Clark Hill”) and David G. Beauchamp (collectively, the “Defendants”)²: (1) legal malpractice; and (2) aiding and abetting breach of fiduciary duties. The claims arise from the legal representation of DenSco by the Defendants.

C. Scope of Engagement

In the course of this engagement, I have reviewed certain documents provided or made available to me by, and have been in communication with, Osborn Maledon, the law firm representing Peter S. Davis, as Receiver of DenSco in this Case. The documents which have been provided or made available to me are listed on Exhibit C attached to this Report. In the event new information becomes available to me, I reserve the right to modify my opinions and conclusions accordingly.

At times during the course of this engagement, I have utilized the services of Christa Chan-Pak, who has acted an associate attorney at Wertlieb Law Corp during the preparation of this Report.

For purposes of this engagement, Wertlieb Law Corp charges Osborn Maledon an hourly rate of \$1,000 for my time. The compensation Wertlieb Law Corp receives for the services provided in formulating the opinions stated herein is not in any way contingent upon the conclusions I have reached in, or on the final outcome of, this Case.

D. Summary of Opinion

It is my opinion, as detailed below and based on the record that I have reviewed, that the Defendants violated the applicable standard of care in their representation of DenSco.

² Mr. Beauchamp’s wife, identified as Jane Doe Beauchamp, is also named as a defendant in the Complaint.

II. SUMMARY OF FACTS

A. The Defendants and DenSco

Mr. Beauchamp started his legal career in 1981 and has practiced at no less than seven different law firms, starting as an associate at Fennemore Craig.³ Following Fennemore Craig, he moved to Storey & Ross, then to Moya Bailer Bowers & Jones, then to Quarles & Brady, then to Gammage & Burnham, then to Bryan Cave.⁴ In September 2013, Mr. Beauchamp joined Clark Hill,⁵ where he is currently a Member.⁶ His primary practice areas are corporate law, securities, venture capital and private equity transactions.⁷

Defendant Clark Hill is an international law firm. According to its website, it is “one of the largest firms in the United States - with more than 650 attorneys and professionals in 25 offices, spanning the United States as well as Dublin and Mexico City.”⁸

Denny Chittick formed DenSco in April 2001.⁹ Prior to forming DenSco, Mr. Chittick worked at Insight Enterprises, Inc. (“Insight”), a publicly traded company, for approximately 10 years. When he left Insight, he began investing his own money, and subsequently established DenSco where he invested his own money and solicited money from other investors.¹⁰

DenSco made “high-interest loans with defined loan-to-value ratios to residential property remodelers ... who purchase[d] houses through ... foreclosure sales all of which [were] secured by real estate deeds of trust (‘Trust Deeds’) recorded against Arizona residential properties.”¹¹ “From April, 2001, through June, 2011 [DenSco] engaged in 2622 loan transactions.”¹² Mr. Chittick was the sole shareholder, director, officer and employee of DenSco.¹³ Mr. Chittick raised money from investors by issuing general obligation notes (the “Notes”) at variable interest rates. The Notes were “secured by a general pledge of all assets owned by or later acquired by”

³ See page 33, line 21, Deposition of David G. Beauchamp on July 19 and 20, 2018 (“Deposition of Mr. Beauchamp”).

⁴ See page 33, lines 9-17, Deposition of Mr. Beauchamp.

⁵ See page 33, lines 17-18, Deposition of Mr. Beauchamp.

⁶ See Clark Hill website, <https://www.clarkhill.com/people/david-g-beauchamp> (retrieved March 2, 2019).

⁷ See Clark Hill website, <https://www.clarkhill.com/people/david-g-beauchamp> (retrieved March 2, 2019).

⁸ Clark Hill website, <https://www.clarkhill.com/pages/about> (retrieved March 2, 2019).

⁹ See page 1, *Arizona Corporation Commission v. DenSco Investment Corporation* (Case No. CV 2016-014142), Preliminary Report of Peter S. Davis, as Receiver of DenSco Investment Corporation, dated September 19, 2016.

¹⁰ See page 40, DenSco’s Confidential Private Offering Memorandum dated July 1, 2011 (the “2011 POM”); printout of the “Company Management” page from the DenSco website dated June 17, 2013.

¹¹ Page 1, 2011 POM.

¹² Page 1, 2011 POM.

¹³ Pages 40-41, 2011 POM.

DenSco.¹⁴ DenSco's largest assets were the Trust Deeds,¹⁵ which were intended to be secured through first position trust deeds.¹⁶

Mr. Beauchamp began providing securities advice to DenSco in the early 2000s.¹⁷ As DenSco's securities lawyer, Mr. Beauchamp, among other things, drafted DenSco's Private Offering Memoranda ("POMs")¹⁸ and related investor documents.¹⁹ The POMs offered Notes according to the terms set forth therein. In addition, Mr. Beauchamp advised DenSco on federal and state securities laws, mortgage broker regulations and rules and regulations promulgated by state and financial lending authorities.²⁰

Mr. Beauchamp "advised DenSco regarding its Private Offering Memoranda, which DenSco generally updated every two years. He helped draft the 2003, 2005, 2007, 2009 and 2011 POMs."²¹

B. Events from Mid-2013 to Mid-2014

1. DenSco's 2011 POM Expired

The 2011 POM provided for a two-year offering period.²² Thus, by its own terms, the 2011 POM expired on July 1, 2013. However, the Defendants never finalized and provided DenSco with an update to the 2011 POM or a replacement POM.

¹⁴ Page (i), 2011 POM.

¹⁵ Page (i), 2011 POM.

¹⁶ Page 37, 2011 POM.

¹⁷ Page 3, lines 2-3, Defendants' Sixth Supplemental Rule 26.1 Disclosure Statement dated March 12, 2019 ("Defendants' DS").

¹⁸ As discussed below, a private offering memorandum is a disclosure document used to solicit investment in private securities transactions. A POM is provided to prospective investors to provide such investors with information regarding the issuer and the securities it intends to issue. Generally, a POM describes the business, the investment opportunity, the associated risks, the management team, historical performance and expected performance of the business. Disclosures made in a POM are regulated under the federal securities laws by, among other laws and rules, Rule 10b-5 promulgated under the Securities Exchange Act of 1934.

¹⁹ See pages 3-4, lines 25-1, Defendants' DS.

²⁰ Page 4, lines 2-4, Defendants' DS.

²¹ Page 5, lines 7-8, Defendants' DS; see, also, pages 256-257, lines 22-3, Deposition of Mr. Beauchamp (Mr. Beauchamp testified that it was his practice to revise the POM every two years based on a suggestion "made by a former SEC official, that given the nature of this industry, two years would be an appropriate time. However, if something material happened before then, you need to tell your client this has to be disclosed.").

²² See page (i), 2011 POM ("The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering, or (b) two years from the date of this memorandum.").

In early May 2013, Mr. Chittick prompted Mr. Beauchamp (who was then at Bryan Cave) to begin work on an updated POM.²³ On May 9, 2013, Mr. Beauchamp met with Mr. Chittick. However, when Mr. Beauchamp learned that DenSco was close to issuing \$50 million of Notes,²⁴ he ceased working on an updated POM.²⁵ Because of his concern that DenSco was approaching the maximum offering size, he began reaching out to his colleagues at Bryan Cave for advice on federal and state laws.²⁶ It appears that Mr. Beauchamp's concerns were misplaced, as no such legal issues existed.²⁷

Ultimately, the Defendants *never* completed the updated disclosure.²⁸

2. The Freo Lawsuit (the First of Four "Red Flag" Warnings)

On June 14, 2013, Mr. Chittick emailed Mr. Beauchamp to alert him that a lawsuit had been filed against DenSco (the "Freo Lawsuit"), and included the first four pages of the complaint.²⁹ Mr. Chittick stated that DenSco was being sued along with one of its borrowers – a borrower that DenSco "had done a ton of business with, millions in loans and hundreds of loans for several years."³⁰ The borrower was Scott "Yomtov" Menaged, together with the businesses he operated through two Arizona limited liability companies, Easy Investments, LLC and Arizona Home Foreclosures, LLC.

²³ See email dated May 1, 2013 from Mr. Chittick to Mr. Beauchamp ("it's the year when we have to do the update on the memorandum, when do you want to start?").

²⁴ See DIC0003345, Mr. Beauchamp's handwritten notes, dated May 9, 2013, that state "\$50MM (what is this a threshold for)."

²⁵ See email dated June 25, 2013 from Mr. Beauchamp to Elizabeth Kearny Sipes, his then colleague at Bryan Cave ("*We stopped updating [the POM] when we were told that the investments from the investors had jumped to approximately \$47.5 million. Given that significant increase I have been asking for help to determine what other federal or state laws might be applicable. Bob Pederson out of NY has said that the Trust Indenture Act will not be applicable so long as the client is under the Regulation D, Rule 506 exemption. The other big issues have waited for your help to discern if we need to comply with the Investment Advisors Act of 1940 and the Registered Investment Advisors requirements.*" [italics added]).

²⁶ Ibid.

²⁷ See email dated July 1, 2013 from Ms. Sipes to Mr. Beauchamp ("I don't believe DenSco would ... need to register as an investment adviser.... It is also not necessary to count accredited investors at this time. DenSco is offering the notes under [SEC Rule] 506 which permits an unlimited number of accredited investors.").

²⁸ See page 53, lines 11-13, Deposition of Mr. Beauchamp ("We never ... issued a private offering memorandum at Clark Hill for DenSco"); see, also, pages 178-179, lines 22-3 ("Q: So you made a decision with Mr. Chittick that you would not disclose anything until we had a private offering memorandum, irregardless of fiduciary duties? ... A. I did not have that agreement with Mr. Chittick. Over time, that's what evolved.").

²⁹ Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("David: I have a borrower, to which I've done a ton of business with, million in loans and hundreds of loans for several years, he's getting sued along with me.").

³⁰ Ibid.

The complaint in the Freo Lawsuit alleged that Mr. Menaged had secured two mortgages on one property: "Easy [Investments] attempted to encumber the property with deeds of trust to Active [Funding Group, LLC, an Arizona limited company, the other lender] and DenSco."³¹ Mr. Beauchamp recognized that the Freo Lawsuit was material to DenSco's investors, and immediately told Mr. Chittick, "we will need to disclose this in POM."³² Mr. Chittick readily agreed.³³ The Freo Lawsuit put Mr. Beauchamp on notice that DenSco's 2011 POM may be materially misleading because, if the allegations in the complaint were correct, DenSco was not following the methodology and procedures stated in the 2011 POM for funding its loans.³⁴ Based on the record I have reviewed in this Case, it appears that such disclosure was never made to DenSco's investors nor included in any draft updates to the 2011 POM prepared by the Defendants.

Mr. Chittick also informed Mr. Beauchamp that Mr. Menaged's attorney was working on the defense of the Freo Lawsuit, and that Mr. Chittick intended to "piggy back" on his borrower's defense.³⁵ Despite this clear conflict of interest, and Mr. Chittick's instruction that he speak with Mr. Menaged's attorney³⁶ – and Mr. Menaged's offer to pay for his time³⁷ – Mr. Beauchamp apparently took no action with respect to the Freo Lawsuit.³⁸

The Freo Lawsuit was the first of what I consider to be four "red flag" warnings, as discussed below.

³¹ See paragraph 20, Complaint dated May 24, 2013, *Freo Arizona, LLC v. Easy Investments, LLC, Active Funding Group, LLC, DenSco Investment Corporation, et al.*, brought in The Superior Court for the State of Arizona in and for the County of Maricopa.

³² Email dated June 14, 2013 from Mr. Beauchamp to Mr. Chittick.

³³ Email response dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp ("ok 1 sentence should suffice!").

³⁴ See page 6, Defendants' DS ("DenSco and Mr. Chittick were both advised, and understood, ... that DenSco was representing to its investors that DenSco's loans would be in first position, and ... that it was of fundamental importance that DenSco safeguard the use of its investors' funds in conjunction with properly recording liens, in order to ensure that DenSco's loans were in first position."). See also paragraph 121 of Plaintiff's Fifth Disclosure Statement dated November 14, 2018 ("Plaintiff's DS") ("It was apparent from the Freo complaint that Chittick had not conducted any due diligence before loaning money to Easy Investments to acquire this particular home, since the property had been sold, according to public records, five days before a trustee's sale.").

³⁵ Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("Easy Investments, has his attorney working on it, I'm ok to piggy back with his attorney to fight it.").

³⁶ See Ibid ("Easy Investments [sic] willing to pay the legal fees to fight it. I just wanted you to be aware of it, and talk to his attorney. Contact info is below.").

³⁷ Reply email dated June 14, 2013 from Mr. Menaged ("David Please bill me for your services and utilize my attorney for anything you may need.").

³⁸ Mr. Beauchamp testified that he did not speak to the borrower's attorney, Mr. Goulder, at this time. See page 240, lines 9-19, Deposition of Mr. Beauchamp.

3. Mr. Chittick's Instruction (the Second of Four "Red Flag" Warnings)

Although Mr. Beauchamp did some work on an updated POM in July and August of 2013 (after the 2011 POM had expired),³⁹ he was also preoccupied with changing law firms.⁴⁰ In late August 2013, he informed Mr. Chittick that he was leaving Bryan Cave for Clark Hill.⁴¹

In his deposition, Mr. Beauchamp asserted that the delay in updating the POM was caused by Mr. Chittick, and that Mr. Chittick instructed Mr. Beauchamp to stop working on the POM in August 2013 ("Mr. Chittick's Instruction").⁴² Based on the record I have reviewed, it appears there is no evidence confirming Mr. Beauchamp's assertion.⁴³ While I do not find Mr. Beauchamp's assertion credible under the circumstances, for the reasons discussed below, any such instruction from Mr. Chittick would not relieve Mr. Beauchamp of his obligation to take some form of corrective action.

In September 2013, Mr. Beauchamp left Bryan Cave and moved to Clark Hill. An engagement letter dated September 12, 2013 was signed by Mr. Beauchamp on behalf of Clark Hill, and by Mr. Chittick on behalf of DenSco as a new client at Clark Hill. Mr. Beauchamp requested that Mr. Chittick have certain DenSco files transferred from Bryan Cave to Clark Hill, including

³⁹ See Bryan Cave invoice dated August 14, 2013 to DenSco for legal services rendered through July 31, 2013 (Mr. Beauchamp billed 9.7 hours for work on the DenSco POM in July); Bryan Cave invoice dated September 14, 2013 to DenSco for legal services rendered through August 31, 2013 (0.4 hours regarding subscription documents and procedures in August).

⁴⁰ See pages 46-47, lines 22-1, Deposition of Mr. Beauchamp ("I don't remember when I first talked to Clark Hill ... but you are talking I believe the end of June -- to mid-August [2013] was the time period where I explored different options and tried to deal with it.").

⁴¹ See Mr. Beauchamp's handwritten notes dated August 26, 2013 ("TCW Denny Chittick (8/26/13) – left message – need to work on the latest version of POM that Denny has w/ the prior experience charts – need to discuss timing + update. TCW Denny Chittick (8/26/13) – explained delay w POM – need to get copy of Denny's latest POM make changes to it – BC will be sending a letter to Denny + letting Denny decide if he wants files kept at BC or move to CH").

⁴² Page 289, lines 15-25, Deposition of Mr. Beauchamp ("Q. And you write, in your handwriting: Explained delay with POM. Did you write that? A. Yes, I did. ... I believe it was a reference, again, to his decision to put it on hold for the time being, because he wasn't able to focus on it and get us the information. Q. You weren't explaining your delay on the POM, Mr. Beauchamp? A. No."); page 290, lines 11-14 ("Q. But unequivocally, it's your testimony under oath that by August 26, 2013, he told you to stop working on the POM? A. That is correct."). But see Deposition of Mr. Hood, page 101, lines 17-22 ("Q. So would you agree with me that in September 2013, *while he is working at Clark Hill*, Mr. Beauchamp is ordered by Mr. Chittick to stop working on the POM? A. Well, that's what appears to have been the case, according to Mr. Beauchamp's interrogatory answers, yes." [italics added]).

⁴³ See page 288, lines 5-7, Deposition of Mr. Beauchamp ("Q. And again, this wasn't by letter or email. You think this was a telephone conversation? A. That's how Denny preferred it.").

“2011 and 2013 Private Offering.”⁴⁴ Although he asserts that Mr. Chittick directed him to stop all work on the POM just two weeks earlier,⁴⁵ Mr. Beauchamp also completed a “New Client/Matter Form” at Clark Hill to “Finish Private Offering Memorandum.”⁴⁶

Despite taking on DenSco as a client in September 2013, the Defendants appear to have done no work in updating the expired 2011 POM, nor made any effort to provide DenSco with a replacement POM, for over three months. By mid-December 2013, Mr. Chittick apparently had to prompt Mr. Beauchamp to resume work on an updated POM.⁴⁷

Mr. Chittick’s Instruction was the second of four “red flag” warnings, as discussed below.

4. The December 2013 Phone Call (the Third of Four “Red Flag” Warnings)

In December 2013, Mr. Chittick informed Mr. Beauchamp that certain properties DenSco had lent against had other liens competing for priority (the “December 2013 Phone Call”): “In December 2013, Mr. Chittick ... told Mr. Beauchamp over the phone that he had run into an issue with some of his loans to Menaged, and specifically, that properties securing a few DenSco loans were each subject to a second deed of trust competing for priority with DenSco’s deed of trust.”⁴⁸ When Mr. Beauchamp found out about the double lien issue, he advised Mr. Chittick to document a “plan” with Mr. Menaged to resolve the double lien issue.⁴⁹ Based on the record I have reviewed, and despite this potentially material problem with a borrower that Mr. Beauchamp knew to be very important to DenSco’s business (and the very same borrower that

⁴⁴ See email dated September 12, 2013 from Mr. Beauchamp to Mr. Chittick (“Denny: There should not be a cost associated with transferring your files. However, to be safe, we should just do the following: AZ Practice Review (contains previous research); Blue Sky Issues; Garnishments; General Corporate; 2011 and 2013 Private Offering.”).

⁴⁵ Page 289, lines 15-25, and page 290, lines 11-14, Deposition of Mr. Beauchamp.

⁴⁶ See DIC0008653, Clark Hill New Client/Matter Form signed by Mr. Beauchamp on September 13, 2013.

⁴⁷ See email dated December 18, 2013 from Mr. Chittick to Mr. Beauchamp (“Since you moved, we’ve never finished the update on the memorandum.”). The Defendants attempt to contradict the clear implication of this email by asserting that it was Mr. Beauchamp who reminded Mr. Chittick. See Defendants’ DS, page 8 (“Mr. Beauchamp reminded Mr. Chittick that he still needed to update DenSco’s private offering memorandum.”). While I do not find Defendants’ assertion credible under the circumstances, for the reasons discussed below, the Defendants were still obligated to take some form of corrective action.

⁴⁸ Defendants’ DS, page 8.

⁴⁹ Defendants’ DS, page 8 (“After briefly discussing the allegedly limited double lien issue, Mr. Chittick emphasized to Mr. Beauchamp that Mr. Chittick wanted to avoid litigation with other lenders. Mr. Chittick, however, did not request any advice or help. Rather, Mr. Chittick indicated that he wanted to continue working on a plan with Menaged to resolve the double-lien issue. Accordingly, Mr. Beauchamp suggested that Mr. Chittick and Menaged document their plan.”)

was the apparent cause of the Freo Lawsuit),⁵⁰ there was no discussion or effort to update the POM to disclose this fact, nor does it appear that the Defendants did any investigation into the matter.

The December 2013 Phone Call was the third of four “red flag” warnings, as discussed below.

5. The Bryan Cave Demand Letter (the Fourth of Four “Red Flag” Warnings)

On January 6, 2014, Mr. Beauchamp received a copy of a demand letter sent by Bryan Cave to DenSco (the “Bryan Cave Demand Letter”).⁵¹ The letter stated that Bryan Cave represented certain lenders and lienholders that had loaned money to Easy Investments, LLC and/or Arizona Home Foreclosures, LLC (both entities owned and controlled by Mr. Menaged), to enable such borrowers to purchase various properties. The letter asserted that DenSco engaged in a practice of recording a mortgage on those same properties on or around the same time that the Bryan Cave lenders were recording their deeds of trust. The Bryan Cave Demand Letter demanded that DenSco agree to sign subordination agreements in favor of such lenders and lienholders with respect to the properties.

It is clear that, despite this very serious and material problem with a borrower that Mr. Beauchamp knew to be very important to DenSco’s business (and the very same borrower that was the apparent cause of both the Freo Lawsuit and the December 2013 Phone Call),⁵² there was no effort made to update the POM to disclose this fact, nor does it appear that the Defendants did any investigation into the matter. In fact, as discussed below, once the Bryan Cave Demand Letter came to his attention, Mr. Beauchamp’s priority became drafting and negotiating the Forbearance Agreement (as defined below),⁵³ not updating the 2011 POM.

The Bryan Cave Demand Letter was the fourth of four “red flag” warnings, as discussed below.

6. The Defendants’ Efforts to Paper Over the Menaged Problem

⁵⁰ Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged (“I’ve done a ton of business with [Mr. Menaged], million in loans and hundreds of loans for several years”).

⁵¹ Email dated January 6, 2014 from Mr. Chittick to Mr. Beauchamp, attaching letter dated January 6, 2014 from Bryan Cave to DenSco, re: “Mortgage Recordation; Demand for Subordination.”

⁵² Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged (“I’ve done a ton of business with [Mr. Menaged], million in loans and hundreds of loans for several years”).

⁵³ See page 59, lines 19-24, Deposition of Mr. Beauchamp (“I was giving him clear advice as far as what to do, he would not let me independently confirm that he was giving that advice, which I – he said I’ve never lied to you, and on that basis, that was true, so we proceeded *the priority was the Forbearance Agreement at that time.*” [italics added])

a. **Mr. Beauchamp Learned of the Menaged Fraud and DenSco's Improper and Risky Lending Practices**

The day after receiving the Bryan Cave Demand Letter, Mr. Beauchamp was told that Mr. Chittick had not been following proper funding procedures to ensure DenSco's first lien position, and instead "would wire the money to [Mr. Menaged's] account and [Mr. Menaged, not DenSco] would pay the trustee."⁵⁴ Mr. Chittick explained his funding procedure, and also admitted that he did the same thing with several other borrowers and with respect to every auction property.⁵⁵ By funding directly to a borrower, rather than to a trustee or escrow company or in some other manner so as to ensure that DenSco had a perfected first lien priority position on the property securing its loan, DenSco was taking significant and unnecessary risk that it might not be in a first lien position with respect to such loans.⁵⁶ In fact, because DenSco was funding directly to borrowers *in anticipation* of a property acquisition, there was no way for DenSco to even ensure that the loan proceeds were actually used for such purpose. Mr. Beauchamp was well aware of the risks associated with this funding procedure as he had "provided advice to DenSco regarding proper loan documentation procedures since at least 2007."⁵⁷

⁵⁴ Email dated January 7, 2014 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("I've been lending to Scott Menaged through a few different LLC's and his name since 2007. I've lent him 50 million dollars and I have never had a problem with payment or issue that hasn't been resolved. ... Because of our long term relationship, when Scott needed money, I would wire the money to his account and he would pay the trustee.").

⁵⁵ Ibid ("I do this same thing with several borrowers and bidding co's. As an example, he would buy a property at auction for 100k it's worth 145k, he would ask me for 80k. I would wire it to him, he would pay the trustee with my 80k and his 20k and he would sign the RM, which I've attached (all docs you have reviewed and have been reviewed [sic] by a guy at your last law firm, maybe two firms ago in 2007). I've attached them. I would record the RM the day he paid for the property. Then once the trustee's deed was recorded, which during the last few years has been at times 6 weeks from the auction date to the recorded date, I then would record my DOT. This is a practice that I have done for 14 years. It's recognized by all the escrow co's. Some title agents won't see anything before the trustee's deed recording as a valid lien, some look at the whole chain. For me to be covered, I would record the RM to muddy up title then record the DOT after the trustee's deed to ensure my first position lien. ... Again, *this is what I do on every single auction property no matter who is the borrower.*" [italics added]). See, also, Plaintiff's DS ¶ 211.

⁵⁶ Mr. Menaged testified in his Rule 2004 Examination conducted on behalf of the Receiver on October 20, 2016 that: DenSco's lending practices were not as uniform or *careful* as other lenders (page 27); DenSco *never* declined a loan amount proposed by Mr. Menaged (page 38); "There was never anything not approved" (page 53); DenSco would wire the funds directly to Mr. Menaged (pages 43-44); DenSco would wire funds before receiving signed documents (page 54); DenSco did not require proof of insurance (page 56); "The only way that DenSco ended up in this position is because he wired the money to the borrower, me, and did not pay the trustee directly" (page 74); and "I guess in general terms, *it was just a very lax hard money lending practice, very, very, lax*" (page 39 [italics added]).

⁵⁷ See page 6, Defendants' DS ("Mr. Beauchamp ... provided advice to DenSco regarding proper loan documentation procedures since at least 2007. DenSco and Mr. Chittick were both advised,

These improper and risky funding procedures were not disclosed in the 2011 POM. In fact, the 2011 POM incorrectly stated that DenSco's loans were funded so as to ensure first lien positions on such properties.⁵⁸

Mr. Menaged fabricated a story to explain the double lien issue -- a story which we now know to be false. As told by Mr. Menaged, because he was distracted with his wife's illness, he turned over certain business operations to his "cousin." The cousin would obtain a loan from DenSco, which DenSco wired directly, and the cousin would also obtain a loan from another lender, which lender would wire funds directly to the trustee. The cousin would file deeds of trust on behalf of both lenders, and then ultimately absconded with DenSco's funds.⁵⁹

In fact, there was no such cousin. A simple search of records available on the County of Maricopa website showed that it was Mr. Menaged who executed those deeds of trust in the presence of a notary, and not any "cousin."⁶⁰

b. Mr. Chittick and Mr. Menaged Create the "Plan"

Mr. Chittick shared with Mr. Beauchamp that he thought his options were limited. Mr. Chittick claimed that DenSco could not sign the subordination agreements demanded by the Bryan Cave

and understood, (a) that DenSco should fund loans through a trustee, title company or other fiduciary, (b) that DenSco was representing to its investors that DenSco's loans would be in first position, and (c) that it was of fundamental importance that DenSco safeguard the use of its investors' funds in conjunction with properly recording liens, in order to ensure that DenSco's loans were in first position.").

⁵⁸ See, e.g., page 37, 2011 POM ("All real estate loans funded by the Company have been and are intended to be secured through first position trust deeds.").

⁵⁹ See email dated January 7, 2014 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("Sometime last year, [Mr. Menaged's] wife became ill with cancer. His cousin was working with him and took on a stronger day to day role as scott [sic] was distracted with his wife. Scott always was the one that determined what properties to buy, how much etc. his cousin doing paperwork, checks and management of the day to day. At some point his cousin decided to take advantage of our relationship and started to steal money. Scott would request a loan from me, his cousin would request a loan from another borrower (I would say there are as many as ½ dozen different lenders in total.) ... What his cousin was doing was receiving the funds from me, then requesting them from the other lenders. These other lenders would cut a cashiers [sic] check for the agreed upon loan amount and then take it to the trustee and receive the receipt. ... The cousin absconded with the funds."). See, also, Plaintiff's DS ¶ 215.

⁶⁰ See, e.g., Exhibit 103 (Deed of Trust and Security Agreement with Assignment of Rents, recorded in the Official Records of Maricopa County Recorder March 25, 2013, for property located at "7089 W Andrew Lane Peoria, AZ 85383." The Trustor is Easy Investments, LLC. The Beneficiary is Active Funding Group, LLC.); see, also, Exhibit 104 (Deed of Trust and Assignment of Rents, recorded in the Official Records of Maricopa County Recorder April 2, 2013, for property located at "7089 W Andrew Lane Peoria, AZ 85383." The Trustor is Easy Investments, LLC. The Beneficiary is DenSco.).

Demand Letter, because doing so would be contrary to the disclosures made by Mr. Chittick to DenSco's investors.⁶¹ Further, Mr. Chittick claimed that DenSco could not litigate with the other lenders over the priority issue because doing so would somehow limit its ability to collect high interest on its loans.⁶²

Mr. Chittick also shared with Mr. Beauchamp that he did not want to disclose the problem to DenSco's investors until the problem had been addressed and DenSco's exposure had been minimized.⁶³ Otherwise, DenSco would start to "unravel."⁶⁴ Mr. Chittick was concerned that when investors learned of the situation, there would be a "run on the bank."⁶⁵ Presumably, any such disclosure would also be viewed as an acknowledgment that Mr. Chittick failed in his responsibilities to properly manage DenSco's mortgage loans and investor funds, and thus he fell prey to Mr. Menaged's fraud.

Instead, Mr. Chittick shared with Mr. Beauchamp that he and Mr. Menaged had come up with a plan (the "Plan") to get the other lenders paid off, which would keep them satisfied,⁶⁶ avoid

⁶¹ Email dated January 7, 2014 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("I know that I can't sign the subordination because that goes against everything that I tell my investors.").

⁶² See pages 169-170, lines 25-9, Deposition of Mr. Beauchamp ("He had expressed that if we ended up in litigation, that he would have limitations on his ability to collect the high interest on his loans to his borrowers, so he would not be able to make the payments to his investors, which would in fact cause it to unravel. He had a very specific thought that he was concerned with, and that is why he wanted to be able to show: We have a plan to work this out. We have thought it through. And that was his whole focus, get the forbearance done first.").

⁶³ See Exhibit 360, email dated February 25, 2014 from Mr. Chittick to Mr. Beauchamp ("what both of us [Mr. Menaged and Mr. Chittick] are really concerned about is that when I tell my investors the situation, they request their money back. I want to be able to say, this was a problem, we've eliminated this much of the problem and this is what it left. I want to be able to say what is left is as small as possible."). See, also, pages 169-170, lines 25-9, Deposition of Mr. Beauchamp.

⁶⁴ See pages 169-170, lines 25-9, Deposition of Mr. Beauchamp.

⁶⁵ See excerpt from DIC0009464, Chittick Investor Letter dated July 28, 2016 ("Why I didn't let all of you know what was going on at any point? It was pure fear ... I have 100 investors, I had no idea what everyone would do or want to do ... I also feared that there would be a classic run on the bank.").

⁶⁶ See, e.g., email dated January 12, 2014 from Mr. Chittick to Mr. Menaged, copying Mr. Beauchamp ("Greg [Reichman, Principal of Active Funding Group, LLC, an Arizona corporation, the other lender with a deed of trust on the property that was the subject of the Freo lawsuit] has confirmed with Scott and has told me, as long as he gets his interest and payoffs come, he's happy.").

litigation,⁶⁷ and give Mr. Chittick time to minimize the damage caused by Mr. Menaged's fraud.⁶⁸

Mr. Chittick's Plan was to be memorialized in a forbearance agreement, which Mr. Beauchamp spent over three months negotiating until it was finalized and executed on April 16, 2014 (the "Forbearance Agreement").⁶⁹

Despite learning of the very serious issues raised by the Bryan Cave Demand Letter (which were consistent with the problems Mr. Beauchamp learned about earlier in the Freo Lawsuit and the December 2013 Phone Call), the material deficiencies in DenSco's funding procedures, the significant deficiencies in DenSco's first lien positions, and the fraud perpetrated on DenSco, the Defendants appear to have done no work in updating the 2011 POM, nor made any effort to provide DenSco with a replacement POM, for the entire period of time that Mr. Beauchamp was working on the Forbearance Agreement.

c. The Forbearance Agreement

⁶⁷ See, e.g., email dated January 7, 2014 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("What we need is an agreement that as long as the other lenders are being paid their interest and payoffs continue to come (we have 12 more houses in escrow currently, all planned to close in the next 30 days), that no one initiates foreclosure for obvious reasons, which will give us time to execute our plan").

⁶⁸ Ibid ("The Plan: 1. All lenders will be paid their interest, except me, I'm allowing interest to accrue. 2. I'm extending him a million dollars against a home at 3%. 3. He is bringing in 4-5 million dollars over the next 120 days from liquidating some assets as well as getting some money back that the cousin stole, and other sources. 4. He's got a majority of these houses rented, this brings in a lot of money every month. 5. The houses that he's buying now and will be flipping will bring in money every week starting next week or two. 6. As the houses become vacant either because of ending the lease or the tenant leaves, scott [sic] will fix up the house and sell it retail. This will drive the order in which the houses will be sold. 7. He owns dozens of houses that only have one lien on them and have substantial equity in them, and he'll be selling these as the tenants vacate.").

⁶⁹ Forbearance Agreement dated April 16, 2014 by and among Arizona Home Foreclosures, LLC, Easy Investments, LLC (collectively defined therein as the "Borrower"), Mr. Menaged and DenSco (as "Lender").

The magnitude of the problems with Mr. Menaged are readily apparent from the Forbearance Agreement, which recited that as of April 16, 2014, “the total principal sum now due and payable under the [scheduled] Loans, in aggregate, is \$35,639,880.71.”⁷⁰

Although the Forbearance Agreement required Mr. Menaged to “acknowledge and agree that the Loans are in Default,”⁷¹ the principal economic commitment made by Mr. Menaged was for the Borrower to “use its *good faith efforts*” to pay off the other lenders, with “*any balance* to be paid to [DenSco] to reduce the amount of [DenSco’s] Additional Loan ... to Borrower as provided herein.”⁷² As Mr. Menaged testified, he was unwilling to make an unconditional commitment to do so.⁷³

On the other hand, the Forbearance Agreement imposed material obligations and economic burdens on DenSco, including:

- DenSco agreed to forbear from collecting on the loans to Mr. Menaged and his affiliated entities (the “Menaged Loans”), or otherwise exercising any of its rights or remedies under the Loan Documents and applicable law, for so as long as Mr. Menaged and the Borrower were in compliance with the Forbearance Agreement.⁷⁴
- DenSco agreed to extend the maturity date on all of the Menaged Loans to February 1, 2015 and reserved the right to further extend the maturity date for another year.⁷⁵

⁷⁰ Section 1, Forbearance Agreement. See also pages 9-10, lines 25-2, Defendants’ DS (“by the end of 2013, more than half of [DenSco’s] loan portfolio was tied up with Menaged--well in excess of the promised loan concentrations DenSco had set forth in its disclosures to investors”).

⁷¹ Section 2, Forbearance Agreement.

⁷² Sections 6(A) and 6(H), Forbearance Agreement [*italics added*]. The Forbearance Agreement did provide DenSco with a separate corporate guaranty from Furniture King, LLC (see Section 6(D)); however, Mr. Beauchamp failed to cause a UCC-1 to be filed against the new guarantor, and such entity ended up having no value. See email dated August 5, 2016 from Mr. Beauchamp to DenSco’s Noteholders.

⁷³ See pages 117-119, lines 23-9, Mr. Menaged’s Rule 2004 Examination conducted on behalf of the Receiver on October 20, 2016 (“Q. And did -- so at the time, when you signed [the Forbearance Agreement], did you believe that this was never going to happen? A. I said that I would make my best effort to do so, and in front of Beauchamp and DenSco I did explain to him -- what they both told me, both of them told me was, ‘Hey, this is all really best efforts. You do your best, but we’re going into this forbearance agreement. It’s protecting everyone. End of story.’ That’s all I really know about this forbearance agreement. Q. Okay. But these funds were not delivered on these dates and times, right? A. Correct. Q. And the reason for that was why? A. Like I said, it was best effort. My best effort couldn’t deliver those funds.”).

⁷⁴ Section 4, Forbearance Agreement.

⁷⁵ Section 5, Forbearance Agreement.

- DenSco committed to fund not less than an additional \$6 million to the Borrower, most of which would be used to pay off the other lenders.⁷⁶
- DenSco agreed to defer the collection of interest on all Menaged Loans,⁷⁷ and to waive its right to charge default interest on all defaulted loans.⁷⁸
- Contrary to the disclosures made in the 2011 POM, DenSco agreed to increase its loan-to-value ratio to up to 120% for loans on the double lien properties (meaning that the debt on such properties was materially in excess of the realizable value of such properties).⁷⁹
- DenSco committed, for the benefit of Mr. Menaged, to limit the information that DenSco could disclose to its investors (including omitting the names of Mr. Menaged and his entities), and granted Mr. Menaged the right to review and comment on any disclosure prior to it being released.⁸⁰

As a result, the benefit of the Forbearance Agreement to DenSco (as opposed to Mr. Menaged and perhaps Mr. Chittick individually) is unclear.⁸¹ In substance, because it had the effect of subordinating DenSco's recovery to the recovery of the other lenders (by conceding the priority of the other lenders' liens), the Forbearance Agreement was essentially the same as the subordination agreements that Mr. Chittick rejected as being inconsistent with assurances made to DenSco's investors. By allowing the other lenders to be paid off before DenSco, Mr. Chittick's Plan, as effectuated by the Forbearance Agreement, had the effect of worsening DenSco's financial position by increasing the leverage on the double lien properties such that there was insufficient residual equity value to repay DenSco's loans in full.

It does not appear to be the case that execution of the Forbearance Agreement itself (as opposed to the speculative benefits DenSco might possibly receive going forward, when and if so received) would provide Mr. Chittick with the positive message he wanted to share with investors that DenSco's exposure had been minimized (especially since DenSco committed to extend at least another \$6 million to Mr. Menaged). In other words, because Mr. Chittick had

⁷⁶ Sections 7(B) and 7(D), Forbearance Agreement.

⁷⁷ Section 7(C), Forbearance Agreement.

⁷⁸ Section 7(E), Forbearance Agreement.

⁷⁹ Section 7(A), Forbearance Agreement.

⁸⁰ Section 18, Forbearance Agreement ("With respect to the limitation on Lender's disclosure to its investors ... Lender agrees ... to limit such disclosure as much as legally possible").

⁸¹ See page 92 of Mr. Menaged's Rule 2004 Examination conducted on behalf of the Receiver on October 20, 2016, in which his testimony suggests that Mr. Chittick proposed the Forbearance Agreement in order to protect Mr. Chittick ("Q. ... Was it -- you know, when you learn or when you tell him that he's in second position, how does this forbearance agreement come to light? How does this get negotiated and drafted and prepared? A. He said to me that he was going to contact his attorney and *have an agreement drawn up to protect him*. That's how it came to light." [italics added]). See, also, page 98 ("He needed, the attorney, he needed to draft the agreement in a way that will *protect Denny* from any kind of liability with the investors." [italics added]).

explained to Mr. Beauchamp that he did not want to make disclosures until much of the double lien problem had been resolved,⁸² Mr. Beauchamp could not have reasonably believed that the completion of the Forbearance Agreement itself would prompt Mr. Chittick to make appropriate disclosures. In fact, the Defendants pursuit of the Forbearance Agreement had the effect of further delaying and limiting required disclosures to DenSco's investors.

7. Defendants Allege They Withdrew from Representing DenSco in May 2014

Mr. Beauchamp claimed he was not aware that DenSco had been continuing to offer Notes until after completion of the Forbearance Agreement, at the end of April or May 2014. Mr. Beauchamp further claimed that the Defendants withdrew from the attorney-client relationship with DenSco in May 2014 when Mr. Chittick refused to send updated disclosures to investors.⁸³

However, based on the record I have reviewed, and for the following reasons, it is clear that Mr. Beauchamp was aware that DenSco was continuing to offer Notes without updated disclosures, after the expiration of the 2011 POM, and despite his knowledge of the problems revealed in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter.

First, despite his initial delay in updating the 2011 POM due to unfounded legal concerns about the size of the offering, there is no evidence that Mr. Beauchamp communicated to Mr. Chittick to cease offering Notes until an updated POM could be provided to investors.⁸⁴

⁸² See email dated February 25, 2014 from Mr. Chittick to Mr. Beauchamp ("I want to be able to say, this was a problem, we've eliminated this much of the problem and this is what it left. I want to be able to say what is left is as small as possible." [italics added]). See, also, Mr. Chittick's entry in his DenSco Journal on February 21, 2014 ("I talked to Dave ... we talked about telling my investors, we are going to put that off as long as possible so that we can improve the situation as much as possible.").

⁸³ See page 81, lines 1-8, Deposition of Mr. Beauchamp ("I was not aware that he was taking any new money from new investors or rollovers ... until the end of April or May [2014] which forced us to give him the disclosure ... for the Forbearance Agreement and say ... we have to finish this thing ... we need to send this to everybody before you proceed. ... And he did not do it so we quit."); Defendants' DS, page 23 ("In May 2014, ... Mr. Beauchamp informed Mr. Chittick that Beauchamp and Clark Hill could not and would not represent DenSco any longer.").

⁸⁴ I note, however, that Mr. Beauchamp asserted in his deposition testimony that he told Mr. Chittick that "he could not take any money from any new client [and]; he could not take any rollover money from an existing client, without giving them full disclosure." See page 78, lines 16-19, Deposition of Mr. Beauchamp. For the reasons stated herein, I do not find this assertion credible. However, even if true, such statement appears to simply be paying lip service to proper advice. See also Deposition of Mr. Hood, pages 83-84, lines 24-10 ("Q. Mr. Beauchamp never gave that advice prior to January 9th, 2014.... Clark Hill verified he gave the advice starting on January 9, 2014, and thereafter. True? ... THE WITNESS: ... I think that was right at the time that this issue was presented to Mr. Beauchamp."), pages 85-86, lines 21-5 ("Q. All right. In December 2013, Mr. Beauchamp did not tell Mr. Chittick he had to stop lending money. True? ... THE WITNESS: I - - I don't believe that he told Mr. Chittick that, no. Q. And in December

Second, Mr. Beauchamp knew that between June and December 2013, DenSco had 60 Notes that were scheduled to mature and that, consistent with Mr. Chittick's practice, a significant portion of those outstanding Notes would be rolled over into the issuance of new Notes.⁸⁵

Third, several days *after* receipt of the Bryan Cave Demand Letter and Mr. Chittick's explanation of his funding procedures, the Menaged fraud, and his Plan to address the problem, Mr. Chittick specifically informed Mr. Beauchamp that he was soliciting new investors. On January 12, 2014, Mr. Chittick emailed Mr. Beauchamp, stating that he had "spent the day contacting every investor that [had] told [him] they want[ed] to give [him] more money," and that he expected to raise between \$5 million and \$6 million from the sale of Notes.⁸⁶ Mr. Chittick further inquired whether such actions were acceptable to Mr. Beauchamp: "that's my plan, shoot holes in it."⁸⁷ Mr. Beauchamp responded that same day, and not only did he fail to "shoot holes in it" (e.g., by instructing Mr. Chittick to not sell Notes without updated and corrected disclosures), he congratulated Mr. Chittick for his ability to "raise that amount of money that quickly."⁸⁸

Fourth, shortly after receipt of the Bryan Cave Demand Letter, Mr. Chittick made a statement to such effect in the corporate journal that he maintained (the "DenSco Journal"). On January 10, 2014, he wrote in the DenSco Journal: "I can raise money according to Dave."⁸⁹

2013, he didn't tell Mr. Chittick that he couldn't take any rollover monies. True? ... THE WITNESS: I - - I don't believe so.").

⁸⁵ See email dated June 20, 2013 from Mr. Beauchamp to several colleagues at Bryan Cave ("According to his note schedule, Denny has approximately 60 investor notes that are scheduled to expire in the next 6 months (and to probably be rolled over into new notes)"). See also Plaintiff's DS ¶ 18 ("Beauchamp knew that the vast majority of DenSco's investors purchased two-year promissory notes. For example, Beauchamp's notes reflect that Chittick told him during a May 3, 2007 meeting that 90% of the promissory notes DenSco had issued to investors were two-year notes."); Plaintiff's DS ¶ 19 ("Beauchamp also knew that the vast majority of DenSco's investors did not redeem their promissory notes when those notes matured, and instead 'rolled over' their investments by executing a subscription agreement and buying a new promissory note when a previous promissory note matured. As Beauchamp wrote in a June 15, 2007 e-mail to Richard Carney, who was then doing 'Blue Sky' work for DenSco, 'DenSco has regular sales of roll-over investments' and an 'ongoing roll-over of the existing investors every 6 months or so.'").

⁸⁶ Email dated January 12, 2014 from Mr. Chittick to Mr. Beauchamp ("*I've spent the day contacting every investor that has told me they want to give me more money... I feel like if all goes well, I'll have my money in total of ... 5-6 million in this time frame. ... that's my plan, shoot holes in it.*" [italics added]).

⁸⁷ Ibid.

⁸⁸ Email response dated January 12, 2014 from Mr. Beauchamp to Mr. Chittick ("You should feel very honored that you could raise that amount of money that quickly.").

⁸⁹ See, also, Mr. Chittick's entry in the DenSco Journal on February 21, 2014 ("I talked to Dave ... we talked about telling my investors, we are going to put that off as long as possible so that we can improve the situation as much as possible.").

Fifth, although Mr. Beauchamp claimed that he believed Mr. Chittick provided full disclosure to every investor about the fraud,⁹⁰ that is implausible based on the record I have reviewed. Mr. Beauchamp knew that Mr. Chittick did not want to make *any* disclosures until the Plan had been implemented and the damage contained. Further, although the Defendants assert to the contrary,⁹¹ Mr. Beauchamp knew that there was no proper disclosure mechanism other than pursuant to a new or supplemental POM, and Mr. Beauchamp had neither provided nor reviewed any such documentation – oral disclosures by Mr. Chittick would have been insufficient (as Mr. Beauchamp acknowledged in his deposition).⁹² Mr. Beauchamp's claim that Mr. Chittick had provided full disclosure about the fraud is also inconsistent with the purported rationale for withdrawing from the representation of DenSco. In other words, had Mr. Chittick on his own in fact prepared and actually made such disclosures (as Mr. Beauchamp asserted he believed at the time, according to his deposition testimony), then presumably Mr. Beauchamp would have no reason for withdrawing based on Mr. Chittick's supposed failure to have done so.

Sixth, it does not appear that the Defendants in fact provided DenSco with the necessary disclosures that they claim Mr. Chittick refused to send to investors. Although the Defendants prepared a draft markup of the 2011 POM (the "Draft 2014 POM"),⁹³ that draft – which failed to even mention the Menaged fraud – did not contain adequate disclosure of the problems that DenSco had suffered, nor of its failures to comply with the commitments made in the 2011 POM, nor of the magnitude of DenSco's potential losses.⁹⁴ Further, it is not clear from the

⁹⁰ See pages 343-344, lines 12-2, Deposition of Mr. Beauchamp ("Q. Mr. Beauchamp, are you telling me under oath that you thought from ... the end of January that he ... talked [to] every investor who had money in DenSco and told them about the fraud? ... A. Yes, I did believe he had."); see, also, page 79, lines 3-6 ("he had assured me he wasn't taking any new money or any rollover money, which was deemed new under the circumstances, from any investor without telling them exactly what was going on.").

⁹¹ See page 15, lines 1-2, Defendants' DS ("There was no reason for Mr. Beauchamp to question whether Mr. Chittick was in fact providing disclosures to limited investors.").

⁹² See page v, 2011 POM ("No person has been authorized to give any information or to make any representations concerning the Company other than as contained in this Confidential Private Offering memorandum, and if given or made, such other information or representations must not be relied upon." [quoted text was upper case bold in original]). See, also, page 161, lines 7-24, Deposition of Mr. Beauchamp ("His representations that he had advised everybody and told them to the contrary, we needed something much more formal than that.").

⁹³ See Exhibit 11, Clark Hill invoice dated June 19, 2014 for services rendered through May 31, 2014 ("5/14/14 [Daniel A. Schenck]... Additional revisions to Private Offering Memorandum; finish first draft."); pages 92-95, lines 7-8, Deposition of Daniel Schenck on June 19, 2018 ("Q. So it looks like you finished the first draft on May 14th, 2014, right? A. Yes."). See, also, Exhibit 407 to the Deposition of Mr. Beauchamp, draft Confidential Offering Memorandum dated May 2014.

⁹⁴ While the Draft 2014 POM added a detailed (although incomplete) summary of the terms of the Forbearance Agreement, in my opinion such disclosure was inadequate for the following reasons. First, the added disclosure was buried on pages 39 and 40 of the 63-page Draft 2014 POM. Second, in neither the added disclosure nor anywhere else in the Draft 2014 POM did the

record I have reviewed that the Draft 2014 POM prepared by the Defendants was ever shared with Mr. Chittick.⁹⁵

Seventh, in a letter Mr. Chittick sent to his sister, Shawna Heuer (also known as “Iggy”; the “Iggy Letter”),⁹⁶ Mr. Chittick repeatedly stated that Mr. Beauchamp never made him tell investors about the Menaged fraud.⁹⁷ The letter also stated, “Shame on him. He shouldn’t have allowed me. He even told me once I was doing the right thing.”⁹⁸

Defendants include any mention of either of the following material facts: (a) DenSco’s improper and risky funding procedures (i.e., wiring funds directly to the borrower instead of a trustee or escrow agent) led to the Menaged fraud; and (b) DenSco had been named as a defendant in the Freo Lawsuit. Third, although the added disclosure may have suggested otherwise, the remainder of the Draft 2014 POM remained unchanged from the 2011 POM with respect to the following material and prominent disclosures: (i) “[t]he proceeds of the offering will be used as working capital primarily for lending secured by, and the purchase of, Trust Deeds” (see page 2, Draft 2014 POM), even though the additional loans to Mr. Menaged and his affiliated entities under the Plan were being used to pay off the other lenders; (ii) “[t]he Company does not intend to exceed a maximum loan size of \$1,000,000.00” (see page 1, Draft 2014 POM), even though DenSco agreed in the Forbearance Agreement to loan Mr. Menaged and his affiliated entities up to \$6 million; (iii) “[t]he Company intends to maintain a loan-to-value ratio below 70% in the aggregate for all loans in the portfolio” (see page 1, Draft 2014 POM), even though presumably most if not all of the properties subject to the Forbearance Agreement had a loan-to-value ratio well in excess of 100% (see pages 39-40, Draft 2014 POM: “many of the Forbearance Properties having an aggregate loan-to-value ratio in excess of 100%”); and (iv) “one borrower [would] not comprise more than 10 to 15 percent of the total portfolio” (see page 37, Draft 2014 POM), even though it was apparent that Mr. Menaged and his affiliated entities materially exceeded that cap. And, fourth, the “Risk Factors” section of the Draft 2014 POM (beginning on page 12) was not updated to address any of the foregoing risks nor to add any disclosure of the risks associated with the prior sale of Notes pursuant to materially inaccurate and outdated disclosures, including potential exposure to claims for rescission and securities fraud.

⁹⁵ See Plaintiff’s DS ¶ 326 (“Neither the Clark Hill file nor Clark Hill’s billing statement reflect that Beauchamp ever sent the draft POM to Chittick or discussed it with him.”).

⁹⁶ DIC0009476, the Iggy Letter dated July 28, 2016, the date Mr. Chittick committed suicide. On that date, Mr. Chittick also prepared, but did not send out, a letter to investors. Instead, he sent the investor letter to Mr. Beauchamp and Ms. Heuer, instructing Ms. Heuer to let Mr. Beauchamp “handle it.” See Iggy Letter dated July 28, 2016 (“I decided not to send the investor letter out, but I sent it to my attorney and you ... Don’t share it with anyone. Let Dave Beauchamp – 480-684-1100, handle it (keep his name and number you may need if later. [sic] The legal consequences are going to be huge.”).

⁹⁷ Ibid (“Dave did a work out agreement with Scott ... yet Dave never made me tell the investors”; “I talked Dave my attorney in to allowing me to continue without notifying my investors.”; “Dave my attorney ... let me get the workout signed not tell the investors and try to fix the problem. That was a huge mistake.”).

⁹⁸ Ibid. See, also, excerpt from DenSco Journal dated July 31, 2014, maintained by Mr. Chittick (“It’s all going in the right direction, just not sure if it’s going fast enough. *As long as David doesn’t bug me*, I feel like we are doing the right thing.” [italics added]).

Eighth, because Mr. Chittick would have been required to disclose, among other things, DenSco's failures with respect to its first lien positions, loan-to-value ratios, and diversity of its borrowers, and the cause of such failures (including Mr. Chittick's negligence), as well as its exposure to civil and criminal consequences for securities fraud (including the possible right of all Noteholders to demand rescission), Mr. Beauchamp could not have reasonably believed that the sophisticated accredited investors targeted by DenSco would have been inclined to invest in Notes.

As to Mr. Beauchamp's claim that the Defendants withdrew in May 2014 when Mr. Chittick refused to send updated disclosures to investors, the record I have reviewed does not contain any written communication or other documentation to corroborate such claim.⁹⁹ In my experience, based on custom and practice, I would have expected under these circumstances that the Defendants would have communicated the fact of their withdrawal in writing to Mr. Chittick, and would have also had some form of internal documentation as well (i.e., to close the file).¹⁰⁰ In addition, although they were no longer working toward updating the POM,¹⁰¹ the Defendants continued to provide, and bill for, legal services to DenSco through mid-July 2014,¹⁰² and solicited additional legal work from DenSco as late as August 20, 2014¹⁰³ – which further suggests that they did not withdraw at the time they assert they did.

⁹⁹ See Arizona Rules of Professional Conduct, Rule 1.3, Comment [4] ("If a lawyer has served a client over a substantial period in a variety of matters, the client sometimes may assume that the lawyer will continue to serve on a continuing basis unless the lawyer gives notice of withdrawal. Doubt about whether a client-lawyer relationship still exists should be clarified by the lawyer, *preferably in writing*, so that the client will not mistakenly suppose the lawyer is looking after the client's affairs when the lawyer has ceased to do so." [italics added]).

¹⁰⁰ Not only did the Defendants not close their files, but Mr. Beauchamp continued to bill his time in 2016 to the "General" and "Business Matters" file matters that Clark Hill established in January 2014. See Plaintiff's DS ¶¶ 393(c) & 393(d).

¹⁰¹ See pages 218-219, lines 24-1, Deposition of Mr. Beauchamp ("Q. Were you bugging [Mr. Chittick] to do a private offering memorandum in July 2014? A. No.").

¹⁰² See Exhibit 12, Clark Hill invoice dated July 19, 2014 for services rendered through June 31, 2014 (e.g., "06/11/14 DGB [David G. Beauchamp] Review and respond to multiple emails; transmit information to D. Chittick"; and "06/13/14 DAS [Daniel A. Schenck] Revise Authorization form and prepare new slip sheets for updated figures; attorney conference regarding Authorization form; prepare instruction letter to client"); Exhibit 13, Clark Hill invoice dated August 19, 2014, for services rendered through July 31, 2014 (e.g., "07/15/14 DGB Review, work on and respond to several emails; review documents, spread sheets and outline issues and additional schedule needed"; and "07/15/14 DAS Multiple correspondence regarding loan balance spreadsheets.").

¹⁰³ See letters dated May 23, June 25, July 16 and August 20, 2014, from Mr. Beauchamp to Mr. Chittick, transmitting invoices for legal services ("Thank you again for allowing Clark Hill and me to provide legal services to DenSco Investment Corporation. If you have any question or *if we can assist you with any other matter(s), please let me know.*" [italics added]).

Although it is not at all clear from the record that the Defendants in fact withdrew, it is apparent that Mr. Chittick and Mr. Beauchamp had limited or no contact between July 2014 and March 2015. On March 13, 2015, Mr. Beauchamp emailed Mr. Chittick, expressing a desire to meet with Mr. Chittick, to discuss “how things have progressed for [Mr. Chittick] since [the prior] year.”¹⁰⁴ Mr. Beauchamp informed Mr. Chittick that he had been reflecting on the events surrounding the Menaged fraud, that he had second guessed himself about many things in the process, and that he wanted to protect Mr. Chittick as much as he could during the forbearance settlement process.¹⁰⁵ Mr. Beauchamp’s email suggests that the Defendants did not in fact withdraw, but rather Mr. Beauchamp just stopped calling Mr. Chittick so as to avoid any concerns Mr. Chittick might have had that he “was just trying to add more attorneys fees.”¹⁰⁶

Mr. Chittick’s entries in the DenSco Journal regarding Mr. Beauchamp’s invitation to meet and their subsequent lunch meeting suggest that the Defendants did not in fact withdraw from representing DenSco, but rather were simply giving him time to implement his Plan. Mr. Chittick wrote in his DenSco Journal on March 13, 2015, “At 11pm I got an email from Dave my attorney wanting to meet. *He gave me a year to straighten stuff out we’ll see what pressure I’m under to report now.*”¹⁰⁷ In a further entry dated March 24, 2015 (the date of their lunch meeting), Mr. Chittick wrote, “I had lunch with David Beauchamp, *I was nervous he was going to put a lot of pressure on me.* However, he was thrilled to know where we were at and I told him by April 15th, we’ll be down to 16 properties with seconds on them ... *He said he would give me 90 days ... I’m going to slow down the whole memorandum process too.*”¹⁰⁸

¹⁰⁴ Email dated March 13, 2015 from Mr. Beauchamp to Mr. Chittick (“Denny: I would like to meet for coffee or lunch ... so we can sit down and talk about how things have progressed for you since last year. I also would like to listen to you about your concerns, and frustrations with how the forbearance settlement and the documentation process was handled ... I have second guessed myself concerning several steps in the overall process, but I wanted to protect you as much as I could. When I felt that your frustration had reached a very high level, I stopped calling you about how things were going so that you did not feel I was just trying to add more attorneys fees. I planned to call you after about 30 days, but then I let it slip all of last year because I kept putting it off. I even have tried to write you several different emails, but I kept erasing them before I could send them. I acknowledge you were justifiably frustrated and upset with the expense and how the other lenders (and Scott at times) seemed to go against you as you were trying to get things resolved last year for Scott. I have tried to let time pass so that we can discuss if you are willing to move beyond everything that happened and still work with me. If not, I would like you to know that I still respect you, what you have done and I would like to still consider you a friend. You stood up for Scott when he needed it and I truly believe it was more than just a business decision on your part.”).

¹⁰⁵ Ibid. Notably, Mr. Beauchamp did not state that he wanted to protect DenSco.

¹⁰⁶ Ibid (“When I felt that your frustration had reached a very high level, I stopped calling you about how things were going so that you did not feel I was just trying to add more attorneys fees.”). Had the Defendants in fact withdrawn, there would have been no basis for Clark Hill to charge DenSco for any such calls.

¹⁰⁷ Excerpt from DenSco Journal dated March 13, 2015 [italics added].

¹⁰⁸ Excerpt from DenSco journal dated March 24, 2015 [italics added].

Mr. Chittick and Mr. Beauchamp resumed actively working together again in 2016, when Mr. Beauchamp began helping Mr. Chittick with an issue involving an audit by the Arizona Department of Financial Institutions.¹⁰⁹ Mr. Beauchamp testified that, at that time, Mr. Chittick confirmed he had made full disclosure to DenSco's investors.¹¹⁰ However, it does not appear that Mr. Beauchamp asked any questions or took any action to verify Mr. Chittick's alleged statement, and I have seen no evidence that such alleged statement was in fact true.

C. Events Following Mr. Chittick's Suicide

In the months following Mr. Chittick's suicide on July 28, 2016, the Defendants continued representing DenSco.¹¹¹ Based on Clark Hill's invoices, it appears that beginning on July 30, 2016, and continuing at least through September 23, 2016, Mr. Beauchamp billed DenSco for matters relating to the wind down or transition of DenSco's business.¹¹² In August 2016, Mr. Beauchamp completed a New Business Intake Form to open a new matter for DenSco, entitled "Business Wind Down."¹¹³ In completing the Form, Mr. Beauchamp affirmed that "a check [had] been run for any client, issue or business conflict," and checked the box indicating "no" in response to the inquiry "Is there any potential for a client, issue or business conflict?"

During this same time period, the Defendants began representing the Estate of Denny J. Chittick (the "Chittick Estate").¹¹⁴ Also in August 2016, Mr. Beauchamp completed a New Business

¹⁰⁹ See page 23, Defendants' DS ("Clark Hill stopped working with DenSco and Mr. Chittick in any capacity until 2016, when Mr. Chittick requested that Mr. Beauchamp assist with a very limited issue involving an audit by the Arizona Department of Financial Institutions.").

¹¹⁰ See page 230, lines 4-8, Deposition of Mr. Beauchamp ("Q. Before you took him on as a client and billed him, did you ask him if he had ever complied with your advice and issued a new private offering memorandum? A. I had asked him if he had done full disclosure to his investors and he said yes.").

¹¹¹ See, e.g., Exhibit 425, Affidavit of Ryan Lorenz dated June 21, 2017 (in which Mr. Lorenz, a "member in the firm of Clark Hill," confirmed that after Mr. Chittick's death, "the Firm transitioned the subject matter of its work to advice and guidance to DenSco to assist it in winding down its business.").

¹¹² See Clark Hill invoices dated August 10, 2016 (e.g., time entry on July 30, 2106 referencing "Telephone call ... regarding transition after death of D. Chittick"), September 12, 2016 ("RE: Business Wind Down") and October 18, 2016 ("RE: Business Wind Down"). Such invoices reflect that Mr. Beauchamp recorded 164.8 hours of services from July 30, 2016 through September 23, 2016.

¹¹³ Clark Hill New Business Intake Form, Exhibit 708 to Deposition of Edward Joseph Hood, the Co-General Counsel of Clark Hill, on February 8, 2019. Although the Form appears to have been approved by Mr. Beauchamp on August 23, 2016, as indicated in the Clark Hill invoices Mr. Beauchamp began billing his time to this new matter on August 1, 2016.

¹¹⁴ See Exhibit 213 to Deposition of Mr. Beauchamp, email dated August 3, 2016 from Mr. Beauchamp to DenSco investors ("As part of the plan moving forward, we have filed the Will of Denny J. Chittick ('Denny's Will') and the necessary filings with the Probate Court to have Shawna designated as the Personal Representative of Denny's Estate, which is what Denny's Will provides.").

Intake Form for the Chittick Estate as a new client.¹¹⁵ In completing this Form, Mr. Beauchamp also affirmed that “a check [had] been run for any client, issue or business conflict,” and checked the box indicating “no” in response to the inquiry “Is there any potential for a client, issue or business conflict?”. Clark Hill entered into an engagement letter with Mr. Chittick’s sister, Shawna Heuer, dated August 2, 2016, with respect to the Chittick Estate.¹¹⁶

Despite the fact that Mr. Beauchamp indicated on both New Business Intake Forms that there was no potential for a conflict of interest, Mr. Beauchamp testified that he had “extensive” discussions with Ms. Heuer regarding the attorney-client relationship, including potential conflicts that he and Clark Hill had with respect to representing DenSco, and that Clark Hill was concerned about potential claims that could be made against it regarding Mr. Beauchamp’s representation of DenSco.¹¹⁷ In addition, Edward Joseph Hood, the Co-General Counsel of Clark Hill, testified that, as of early August 2016, “it was a possibility” that Clark Hill could reasonably anticipate that a receiver for DenSco might sue the firm for damages.¹¹⁸ I have seen no evidence in the record I have reviewed of any conflict waivers provided by or on behalf of either DenSco or the Chittick Estate.

With the assistance of Clark Hill as counsel to the Chittick Estate, Ms. Heuer was appointed the personal representative of the Chittick Estate on August 4, 2016.¹¹⁹ Mr. Beauchamp testified that the Defendants resigned from representing the Chittick Estate immediately after the probate proceeding,¹²⁰ although the record I have reviewed does not contain any paperwork terminating

¹¹⁵ Exhibit 707 to Deposition of Mr. Hood, Clark Hill New Business Intake Form. This Form appears to have been approved by Mr. Beauchamp on August 3, 2016.

¹¹⁶ Exhibit 707, Deposition of Mr. Hood.

¹¹⁷ See pages 447-448, lines 19-15, Deposition of Mr. Beauchamp (“Q. Did you have a discussion with Shawna about what the attorney/client relationship was with her, with respect to your representation of DenSco? A. Yes, extensive. Q. Did you discuss with her potential conflicts of interest that you and Clark Hill would have with respect to representing DenSco? A. Yes. ... Q. Did you disclose to her that Clark Hill was concerned about potential claims that could be made against Clark Hill regarding your representation of DenSco? A. Yes.”).

¹¹⁸ See page 140, lines 10-20, Deposition of Mr. Hood (“Q. All right. On August 2nd, August 3rd, 2016, with all of the information that Clark Hill [sic] knew, could Clark Hill reasonably anticipate that a receiver might sue Clark Hill for damages? ... THE WITNESS: ... I suppose it was a possibility”). See also page 145, Deposition of Mr. Beauchamp (referring to a letter dated August 9, 2016 from Kevin Merritt of Gammage & Burnham to Mr. Beauchamp: “Since you are meeting with Wendy, for the moment it seems that you are still representing DenSco in some capacity. *While you have conflict issues, do you expect Clark Hill to have to resign from all representations or do you think Clark Hill can continue to represent the estate since your firm filed the probate, or is it still being sorted through?*” [italics added]).

¹¹⁹ See Exhibit 216, Deposition of Mr. Beauchamp, Letters of Appointment of Personal Representative and Acceptance of Appointment as Personal Representative, submitted by Clark Hill, signed by Clerk of the Superior Court on August 4, 2016.

¹²⁰ See page 476, lines 5-20, Deposition of Mr. Beauchamp (“Let’s turn to Exhibit 216. And just to get it in our timeframe, this is the probate petition ... for the appointment of a personal representative for Mr. Chittick’s estate. A. Correct. Q. So it’s filed on August 4th, and Clark Hill is representing the petitioner, right? A. And we resigned immediately after this. Q. Right. And

the attorney-client relationship with the Chittick Estate. However, on August 15, 2016, Mr. Beauchamp, in responding to an email inquiry from a title insurance company, stated that the Defendants were no longer counsel to the Chittick Estate, and that they had resigned “[d]ue to potential conflicts of interest.”¹²¹ Mr. Beauchamp’s former firm, Gammage & Burnham, became legal counsel for the Chittick Estate.

Despite concerns with respect to such conflicts of interest, on August 3, 2016, Mr. Beauchamp began corresponding directly with DenSco’s investors stating his intent “to determine the best procedure to close down DenSco’s business and return the capital contributed by DenSco’s investors.”¹²²

In his email to investors on August 3, 2016, Mr. Beauchamp suggested that it was not in the financial interests of the investors to have a receiver or trustee appointed to conduct the wind down of DenSco (nor in the financial interests of any investor to have a supervisory role by being appointed to DenSco’s board of directors):

“If whoever is in charge of DenSco does not work with the Investors, then DenSco will either be put into bankruptcy or have a Receiver appointed, which will incur costs on behalf of the Investors and DenSco that will *significantly reduce what will be available to return to the Investors*. For example, one of the recent reports concerning liquidation of companies owing money to investors indicated that *the costs associated with a bankruptcy or a Receiver can reduce the amount to be paid to investors by almost half or even a much more significant reduction....* In order to maximize the available return to all of the Investors ... we would like to keep DenSco out of a protracted bankruptcy or a contentious Receivership proceeding... As indicated above, various studies have shown that the third party costs and legal and other professional fees and costs and the inherent delays in bankruptcy and / or Receivership proceedings can consume more than 35% of the available money that should or would otherwise be available to be returned to Investors.... If we are going to proceed informally to keep costs down, ... we would like to create an ‘Advisory Board’ of 5 Investors to meet with and to advise DenSco with respect to the information obtained and how that information can be used to cost-effectively help DenSco recover funds that are owed to DenSco. *We intend to structure*

this was the issue you said you had a discussion with her about the conflict of interest and she waived it. True? ... A. I had the discussion, Michelle Tran had the discussion, and, yeah, that was one of the several conversations.”).

¹²¹ Exhibit 288A to Deposition of Mr. Beauchamp, email dated August 15, 2016 from Mr. Beauchamp to Chris Hyman, Executive Vice President, American Title Service Agency (“Given the need to move quickly on certain items, we only represented the Estate so that a Personal Representative would be appointed for The Estate right away. Due to potential conflicts of interest, we have resigned as counsel to the Estate and new counsel has been appointed or is being appointed for the Estate. ... Gammage & Burnham will be representing the Estate going forward.”).

¹²² Exhibit 213 to Deposition of Mr. Beauchamp, email dated August 3, 2016 from Mr. Beauchamp to DenSco investors (in which Mr. Beauchamp also indicates that part of the DenSco wind down includes the “need to better understand ... claims that DenSco has against either Auction.com or Scott Menaged (*or some other parties*)” [italics added]).

this as an Advisory Board to protect the members of this Advisory Board from any potential liability based upon their role with DenSco. Specifically, the Advisory Board would only have an advisory position with DenSco as opposed to a full authority position, which is to distinguish this situation from having these Investors appointed to the Board of Directors.”¹²³

Similarly, in his email correspondence with investors on August 8 and 9, 2016, Mr. Beauchamp suggested that it was not in the financial interests of the investors to have the Securities Division of the Arizona Corporation Commission take an active role either:

“We need to be willing but not overly anxious to turn it over to the Securities Division. Several people in government made names and careers with the Mortgages Ltd. matter and we do not want this to turn into anything like that.”¹²⁴

“With respect to your question concerning the Wednesday meeting, the Director of Enforcement had someone from her office relay a message to me that they do not want any Investors (or attorneys for Investors) at the Wednesday meeting.”¹²⁵

In contrast, at the court hearing to appoint a receiver little more than one week later, both new counsel for Chittick’s Estate’s, Mr. Polese of Gammage & Burnham, and Wendy Coy, Director of Enforcement, Securities Division, Arizona Corporation Commission, testified that it was urgent that a receiver be appointed.¹²⁶

¹²³ See Exhibit 213, email dated August 3, 2016 (11:35 pm) from Mr. Beauchamp to DenSco investors [*italics added*]. Curiously, it appears that earlier in the day, Mr. Beauchamp was instructed by the Director of Enforcement, Securities Division, Arizona Corporation Commission, that a receiver in fact may need to be appointed. See Exhibit 217 to Deposition of Mr. Beauchamp, letter dated August 4, 2016 from Wendy Coy, Director of Enforcement, Securities Division, Arizona Corporation Commission, to Mr. Beauchamp (“Thank you for contacting the Securities Division yesterday. I appreciate your willingness to speak with us and to take control of a very sad and problematic situation. We look forward to working with you to resolve any issues that may arise.... In addition, we discussed that *no assets should be dissipated until a receiver and/or a forensic accountant has reviewed the books and records of DenSco Investments Corporation and a plan is in place regarding the business.*” [*italics added*]).

¹²⁴ Exhibit 256, Deposition of Mr. Beauchamp, email dated August 9, 2016 from Mr. Beauchamp to investor Craig Hood, copying other investors.

¹²⁵ Exhibit 256, Deposition of Mr. Beauchamp, email dated August 8, 2016 from Mr. Beauchamp to investor Craig Hood, copying other investors.

¹²⁶ See Reporter’s Transcript of Digital Recording (pages 5-6, Mr. Polese: “In fact, we think the receiver needs to be appointed as soon as possible.... Everybody knows that we need to get somebody in place to protect the good notes that are out there that -- that are going to be collected”; page 6, Ms. Coy: “We, too, agree and believe that a receiver needs to be immediately appointed.”).

Mr. Beauchamp continued communicating directly with investors.¹²⁷ In addition, it appears that Mr. Beauchamp took it upon himself to act as a quasi-receiver or liquidator with respect to the wind down of DenSco. The time entries in the Clark Hill invoices for August and September 2016 (especially prior to the appointment of the Receiver) suggest that Mr. Beauchamp was much more involved in the wind down aspects of DenSco's business than, in my opinion, attorneys normally would be, and doing so with limited supervision or oversight by, or instruction from, an authorized and competent representative of his client DenSco.¹²⁸ Further, in the absence of a receiver or trustee, Mr. Beauchamp should have reasonably expected that he would bear considerable responsibility for the multitude of non-legal tasks required to liquidate DenSco's assets and wind down its business – e.g., collecting, properly handling, and accounting for funds received from borrowers; negotiating with borrowers and/or pursuing foreclosure proceedings; monitoring, analyzing and monetizing all other loans; completing projects and selling properties where appropriate; valuations; allocating and distributing funds to investors; and maintaining books and records, preparing financial statements, filing tax returns and paying taxes, reporting interest income of investors, and numerous other tasks.¹²⁹

On August 17, 2016, the Arizona Corporation Commission filed legal action alleging that DenSco violated various Arizona securities laws.¹³⁰ The Arizona Corporation Commission requested that the court appoint a receiver to preserve DenSco's assets for the benefit of its

¹²⁷ See, e.g., email dated August 20, 2016 from an investor, Robert Brinkman ("Mr. Beauchamp ... Can you please let me know if there was a POM for 2013 and 2015 or if 2011 was the last POM?"), to which Mr. Beauchamp responds one day later ("My law firm started preparing the 2013 POM, but we were put on hold. After the Forbearance agreement [sic] was signed by Scott Menaged, we started to amend the 2013 draft POM, but we stopped and withdrew as securities Counsel [sic] for DenSco. Denny was supposed to get other counsel and finish the POM in 2014, but I do not know if that happened. After that issue, I only was asked to help DenSco with the audit by the AZ Department of Financial Institutions.")). See also Exhibit 709, Deposition of Mr. Hood, letter dated August 9, 2016 from Scott A. Swinson (attorney for Mr. Brinkman) to Michelle Tran at Clark Hill ("I represent Rob Brinkman, as an investor/creditor of DenSco Investment Corporation. He has forwarded to me the various e-mails regarding Densco [sic] generated by Mr. Beauchamp. From some of the statements Mr. Beauchamp has made in his e-mails, it sounds as though your firm represented either Mr. Chittick and/or Densco prior to Mr. Chittick's death. If this is in fact the case, *I would appreciate a confirmation from your firm that you have considered the potential of a conflict of interest in your representation of the Chittick estate and you [sic] determination that no conflict exists.*" [italics added]).

¹²⁸ See, e.g., Clark Hill invoice time entries for 8/17/16 ("several telephone calls ... regarding loan payoffs, issues and procedure"); 8/19/16 and 8/23/16 ("several telephone calls with escrow agents, borrowers and real estate agents concerning loan payoffs, issues and procedure"). See also page 27, lines 2-3, Defendants' DS ("Ms. Heuer had no knowledge of DenSco's business, records, or hard money lending in general.").

¹²⁹ See section entitled "DenSco was a 'One-Man Shop'" below.

¹³⁰ Verified Complaint dated August 17, 2016 *Arizona Corporation Commission, Plaintiff v. DenSco, Defendant*.

investors.¹³¹ On August 18, 2016, the court held a receivership hearing and appointed Peter Davis as the Receiver for the assets of DenSco.¹³²

Although he made a contrary statement only one week prior,¹³³ at the receivership hearing Mr. Beauchamp testified that “he concurrently represented both DenSco and Denny Chittick personally.”¹³⁴ That assertion created certain joint attorney-client privilege issues that complicated and delayed the Receiver’s ability to obtain and utilize DenSco’s files from Clark Hill.¹³⁵ Accordingly, to obtain and utilize certain DenSco files in this Case, the Receiver needed to obtain a waiver of privilege from the Chittick Estate, which delayed the Receiver’s receipt of DenSco’s files and its ability to bring claims against the Defendants.

On December 9, 2016, the Receiver filed a Notice of Claim against the Chittick Estate based on the frauds perpetrated by Mr. Menaged and asserted, among other things, claims that Mr. Chittick breached his fiduciary duties owed to DenSco.¹³⁶

¹³¹ See paragraph 23, Verified Complaint dated August 17, 2016 *Arizona Corporation Commission, Plaintiff v. DenSco, Defendant* (“The ACC requests this Court appoint a Receiver on an interim basis to take control of the assets of DenSco and to marshal and preserve its assets for the benefit of the defrauded investors.”).

¹³² See page 1, Preliminary Report of Peter S. Davis, as Receiver of DenSco dated September 19, 2016 (“On August 18, 2016, Peter Davis (‘Receiver’) was appointed the Receiver for the assets of DenSco by the Honorable Lori Horn Bustamante of the Maricopa County Superior Court.”).

¹³³ See Mr. Beauchamp’s letter dated August 10, 2016 to Ms. Coy, in which he claimed “I have not previously represented Denny Chittick.” But see pages 118-119, lines 23-9, Deposition of Mr. Beauchamp (Mr. Beauchamp asserted that he took action to correct the statement made to Ms. Coy).

¹³⁴ See Exhibit 317, email dated August 30, 2016 from Kevin Merritt (attorney for the Chittick Estate, and also Mr. Beauchamp’s former colleague at Gammage & Burnham) to Mr. Beauchamp and Ryan Anderson (an attorney representing the Receiver), copying the Receiver, Mr. Polese (attorney for the Chittick Estate), among others (“I would like to remind everyone that David testified at the receivership hearing that he concurrently represented both DenSco and Denny Chittick, personally.”); see also email dated August 15, 2016 from Mr. Polese to Ms. Coy, copying Mr. Beauchamp, among others (“It is my view and that of Dave Beauchamp, Denny viewed David as both his company attorney and personal attorney.”). See pages 133-134, lines 7-11, Deposition of Mr. Beauchamp (“Based on the information that I have now ... I would say it’s not true [that ‘Mr. Chittick considered that I was his counsel as well as counsel for DenSco’]. ... At the time I did this declaration [draft received August 17, 2016], I had a different understanding of what counsel was, ... I have since understood that, no, I’m representing the company”).

¹³⁵ See, e.g., Order Appointing Receiver dated August 18, 2016 (“It is further ordered the Receiver may not waive the attorney-client privilege as to Chittick’s communications with Beauchamp without the Estate’s consent. The Receiver must obtain court approval before waiving the privilege as to DenSco if the Estate does not consent to the waiver.”).

¹³⁶ See Notice of Claim Against Estate of Denny J. Chittick filed December 9, 2016 (“the Receiver has the following claims against Chittick: Conversion, common law fraud, breach of fiduciary duty as director and officer of DenSco, fraudulent transfer (both actual and

On September 14, 2017, the Receiver filed a petition seeking to initiate this Case. That petition was granted on October 10, 2017, and the Complaint in this Case was filed on October 16, 2017.¹³⁷

III. APPLICABLE STANDARD OF CARE

The standard of care generally applicable to the Defendants required the exercise of that degree of skill, care and knowledge commonly exercised by a member of the legal profession in similar circumstances.

A. General Application

Both the Model Rules of Professional Conduct adopted by the American Bar Association and the Restatement of the Law (Third), The Law Governing Lawyer's Civil Liability, adopted by the American Law Institutes, provide guidance in this regard:

- § 50 Duty of Care to a Client, Restatement of the Law (Third): "For purposes of liability ..., a lawyer owes a client the duty to exercise care within the meaning of § 52 in pursuing the client's lawful objectives in matters covered by the representation."
- § 52 The Standard of Care, Restatement of the Law (Third): "a lawyer who owes a duty of care must exercise the competence and diligence normally exercised by lawyers in similar circumstances."
- § 16A Lawyer's Duties to a Client – In General, Restatement of the Law (Third): "To the extent consistent with the lawyer's other legal duties and subject to the other provisions of this Restatement, a lawyer must, in matters within the scope of the representation: (1) proceed in a manner reasonably calculated to advance a client's lawful objectives, as defined by the client after consultation; (2) act with reasonable competence and diligence; [and] (4) fulfill valid contractual obligations to the client."
- Rule 1.1 (Competence) of the Model Rules of Professional Conduct: "A lawyer shall provide competent representation to a client. Competent representation requires the legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation."¹³⁸

constructive) pursuant to A.R.S §§ 44-1004 et seq., unjust enrichment, or, alternatively, gross negligence or negligence as an officer or director of DenSco."). See also Plaintiff's DS ¶ 408.

¹³⁷ See Plaintiff's DS ¶¶ 413 & 415.

¹³⁸ See, also, Model Rules of Professional Conduct, Rule 1.1, Comment [1] ("In determining whether a lawyer employs the requisite knowledge and skill in a particular matter, relevant factors include the relative complexity and specialized nature of the matter, the lawyer's general experience, the lawyer's training and experience in the field in question, the preparation and study the lawyer is able to give the matter. ... Expertise in a particular field of law may be required in some circumstances."); and Comment [5] ("Competent handling of a particular matter includes inquiry into and analysis of the factual and legal elements of the problem, and

- Rule 1.3 (Diligence) of the Model Rules of Professional Conduct: “A lawyer shall act with reasonable diligence and promptness in representing a client.”¹³⁹
- Preamble (A Lawyer’s Responsibilities) [20] to the Model Rules of Professional Conduct: “since the Rules do establish standards of conduct by lawyers, a lawyer’s violation of a Rule may be evidence of breach of the applicable standard of conduct.”

Further, lawyers may not assist a client in conduct the lawyer knows is fraudulent. This prohibition is contained in paragraph (d) of Rule 1.2 (Scope of Representation and Allocation of Authority between Client and Lawyer), and illuminated in certain of the Comments to the Rule:

- “Comment [10]: When the client’s course of action has already begun and is continuing, the lawyer’s responsibility is especially delicate. The lawyer is required to avoid assisting the client, for example, by drafting or delivering documents that the lawyer knows are fraudulent or by suggesting how the wrongdoing might be concealed. A lawyer may not continue assisting a client in conduct that the lawyer originally supposed was legally proper but then discovers is criminal or fraudulent. The lawyer must, therefore, withdraw from the representation of the client in the matter. See Rule 1.16(a).
...
- Comment [11]: Where the client is a fiduciary, the lawyer may be charged with special obligations in dealings with a beneficiary.”

Lawyers take on enhanced responsibilities when the client is an organization, because an organization can only act through its individual representatives, who are not the client. See, for example, Rule 1.13 (Organization as Client) of the Model Rules of Professional Conduct:

- “(a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.

use of methods and procedures meeting the standards of competent practitioners. It also includes adequate preparation. The required attention and preparation are determined in part by what is at stake; major litigation and complex transactions ordinarily require more elaborate treatment than matters of lesser consequence.”).

¹³⁹ See, also, Model Rules of Professional Conduct, Rule 1.3, Comment [3] (“A client’s interests often can be adversely affected by the passage of time ...”); and Comment [4] (“Unless the relationship is terminated as provided in Rule 1.16, a lawyer should carry through to conclusion all matters undertaken for a client. ... If a lawyer has served a client over a substantial period in a variety of matters, the client sometimes may assume that the lawyer will continue to serve on a continuing basis unless the lawyer gives notice of withdrawal. Doubt about whether a client-lawyer relationship still exists should be clarified by the lawyer, *preferably in writing*, so that the client will not mistakenly suppose the lawyer is looking after the client’s affairs when the lawyer has ceased to do so.” [italics added]).

- (b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization.”¹⁴⁰

Lawyers must also be sensitive to conflicts of interest, both among clients and between clients and themselves. See, for example, Rule 1.7 (Conflict of Interest: Current Clients) of the Model Rules of Professional Conduct:

- “(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if: (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer’s responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.”¹⁴¹

¹⁴⁰ See, also, Model Rules of Professional Conduct, Rule 1.13, paragraph (c) (“[...] if (1) despite the lawyer’s efforts in accordance with paragraph (b) the highest authority that can act on behalf of the organization insists upon or fails to address in a timely and appropriate manner an action, or a refusal to act, that is clearly a violation of law, and (2) the lawyer reasonably believes that the violation is reasonably certain to result in substantial injury to the organization, then the lawyer may reveal information relating to the representation whether or not Rule 1.6 permits such disclosure, but only if and to the extent the lawyer reasonably believes necessary to prevent substantial injury to the organization.”); and Comment [3] (“Paragraph (b) makes clear, however, that when the lawyer knows that the organization is likely to be substantially injured by action of an officer or other constituent that violates a legal obligation to the organization or is in violation of law that might be imputed to the organization, *the lawyer must proceed as is reasonably necessary in the best interest of the organization*. As defined in Rule 1.0(f), knowledge can be inferred from circumstances, and *a lawyer cannot ignore the obvious*.” [italics added]).

¹⁴¹ See, also, Model Rules of Professional Conduct, Rule 1.7, Comment [1] (“Loyalty and independent judgment are essential elements in the lawyer’s relationship to a client. Concurrent conflicts of interest can arise from the lawyer’s responsibilities to another client ... or from the lawyer’s own interests.”); Comment [2] (“Resolution of a conflict of interest problem under this Rule requires the lawyer to: 1) clearly identify the client or clients; 2) determine whether a conflict of interest exists; 3) decide whether the representation may be undertaken despite the existence of a conflict, i.e., whether the conflict is consentable; and 4) if so, consult with the clients affected under paragraph (a) and obtain their informed consent, confirmed in writing.”); Comment [3] (“A conflict of interest may exist before representation is undertaken, in which event *the representation must be declined*, unless the lawyer obtains the informed consent of each client”); Comment [6] (“... absent consent, a lawyer may not act as an advocate in one matter against a person the lawyer represents in some other matter, *even when the matters are wholly unrelated*.” [italics added]); Comment [8] (“Even where there is no direct adverseness, *a conflict of interest exists if there is a significant risk that a lawyer’s ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited*”).

- (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: ... (4) each affected client gives informed consent, confirmed in writing.”

Under certain circumstances, a lawyer must withdraw from an attorney-client representation. See, for example, Rule 1.16 (Declining or Terminating Representation) of the Model Rules of Professional Conduct:

- “(a) ... a lawyer shall not represent a client or, where representation has commenced, shall withdraw from the representation of a client if: (1) the representation will result in violation of the rules of professional conduct or other law;”¹⁴²

The Rules of Professional Conduct in Arizona (where DenSco was based and Mr. Beauchamp was admitted to practice) are consistent with such Model Rules of Professional Conduct adopted by the American Bar Association.¹⁴³

In the course of working on a matter, lawyers sometimes make mistakes. However, not every mistake made by a lawyer is considered a violation of the standard of care. Instead, a violation of the standard of care happens when a lawyer handles a matter inappropriately due to a failure to exercise the ordinary care of a reasonably competent lawyer in the same or similar circumstances. The mistake must be viewed within the context of the facts and circumstances of the particular engagement, specifically considering whether the mistake made under such circumstances rises to the level of violating the standard of care. A lawyer may be liable only if the mistake rises to the level of violating the standard of care.

as a result of the lawyer’s other responsibilities or interests. ... The conflict in effect forecloses alternatives that would otherwise be available to the client. ... The critical questions [include] whether [the difference in interests] will ... foreclose courses of action that reasonably should be pursued on behalf of the client.” [italics added]; and Comment [10] (“The lawyer’s own interests should not be permitted to have an adverse effect on representation of a client. For example, *if the probity of a lawyer’s own conduct in a transaction is in serious question, it may be difficult or impossible for the lawyer to give a client detached advice.*”).

¹⁴² See, also, Model Rules of Professional Conduct, Rule 1.16, Comment [2] (“A lawyer ordinarily must decline or withdraw from representation if the client demands that the lawyer engage in conduct that is illegal or violates the Rules of Professional Conduct or other law.”). See also Model Rules of Professional Conduct, Rule 1.2, Comment [10] (“In some cases, withdrawal alone might be insufficient. It may be necessary for the lawyer to give notice of the fact of withdrawal and to disaffirm any opinion, document, affirmation or the like.”).

¹⁴³ See Arizona Rules of Professional Conduct, <https://www.azbar.org/ethics/rulesofprofessionalconduct/>. One difference between the Model Rules of Professional Conduct and the Arizona Rules of Professional Conduct is worth noting here: Comment [11] of Rule 1.2 of the Arizona Rules of Professional Conduct makes clear that “a lawyer may be required to disclose information relating to the representation to avoid being deemed to have assisted the client’s crime or fraud.”

It is important to evaluate compliance with the standard of care in each instance where relevant. The facts and circumstances of each engagement, and with respect to each task within each engagement, are different and often unique, and compliance must be measured by taking into account the particular facts and circumstances of each such engagement and task. And because the proper exercise of the standard of care is dependent on the knowledge of the lawyer, the particular facts and circumstances should take into account the information that the lawyer knew or should have known at all relevant times.

Further, in evaluating compliance with the standard of care, it is important to note the distinction between standard of care and best practices. While standard of care refers to the exercise of that degree of skill, care and knowledge commonly exercised by a member of the legal profession in similar circumstances, best practices is a much higher standard, one to which lawyers should aspire. Lawyers may be liable for failing to meet the standard of care, but not for failing to engage in best practices.

In my experience, when a lawyer or law firm takes on a new client engagement, there is an allocation of tasks and other responsibilities as between the lawyers, on the one hand, and the client or the client's other advisors, agents and representatives, on the other hand. Sometimes such allocations are expressly addressed in an engagement letter or some other documentation, but quite frequently such allocations are casually discussed, or even implicitly understood, between lawyers and their clients based on prior history, course of conduct and/or reasonable expectations. And when the client is an entity with limited personnel, and no in-house legal team, the lawyer should reasonably expect that he or she may need to play a more active role in the course of the attorney-client relationship, than under other circumstances.

Regardless of the allocation of responsibilities between the client and the lawyer, an experienced lawyer engaged on a legal matter is expected to have greater experience and expertise in that particular area of the law, especially where the lawyer has worked on similar matters in the specific area of the law many times, such as in securities offerings. The applicable standard of care may require that the lawyer take the time to ensure that the client understands its responsibilities and that it is capable of performing such responsibilities, and that the lawyer properly coordinates the client's responsibilities with the lawyer's responsibilities. For example, the applicable standard of care may require that the lawyer pay special attention to the adequacy of disclosures made in a securities offering, particularly when the offering is done on a continuous basis.

In addition, a law firm is generally subject to civil liability for the acts or omissions of any principal of the firm who was acting in the ordinary course of the firm's business.¹⁴⁴ "When a client retains a lawyer with [an affiliation with a law firm], the lawyer's firm assumes the

¹⁴⁴ Restatement (Third) of the Law Governing Lawyers § 58 (2000) ("A law firm is subject to civil liability for injury legally caused to a person by any wrongful act or omission of any principal or employee of the firm who was acting in the ordinary course of the firm's business or with actual or apparent authority.").

authority and responsibility of representing that client, unless the circumstances indicate otherwise ... and the firm is liable to the client for the lawyer's negligence."¹⁴⁵

B. Securities Laws

From the early 2000s to at least mid-2014,¹⁴⁶ Mr. Beauchamp provided securities advice to DenSco in connection with its offer and sale of Notes.¹⁴⁷ He "advised DenSco regarding its Private Offering Memoranda, which DenSco generally updated every two years. He helped draft the 2003, 2005, 2007, 2009 and 2011 POMs."¹⁴⁸ Because of his role as securities counsel for DenSco, the standard of care applicable to Mr. Beauchamp required a basic understanding of securities law applicable to DenSco's offering of Notes, including the following.

The issuance of securities is regulated by federal and state law. Under both the federal Securities Act of 1933 and the Arizona Securities Act, the offer and sale of securities must be registered with the appropriate regulatory agency (i.e., the SEC or the Arizona Corporation Commission, respectively), or be subject to an exemption from such registration. Issuers must strictly adhere to the requirements of an exemption, as the failure to do so results in an unlawful offering, with the accompanying penalties and liabilities, including potential criminal liability. DenSco's offerings were intended to fall within the "private placement" exemption from registration pursuant to Regulation D promulgated under the Securities Act of 1933.¹⁴⁹

Although Regulation D itself does not mandate that any specific disclosures be provided to investors that are "accredited investors,"¹⁵⁰ other provisions of the securities laws regulate disclosures provided to investors, including pursuant to a private placement. For example, SEC

¹⁴⁵ *Staron v. Weinstein*, 701 A.2d 1325 (N.J. Super. Ct. App. Div. 1997) at 1328 (citing Restatement (Third) of the Law Governing Lawyers § 79 (Tentative Draft No. 8, 1997) [ellipses in original]).

¹⁴⁶ See pages 3-4, Defendants' DS.

¹⁴⁷ See pages 2-3, Defendants' DS.

¹⁴⁸ Page 5, lines 7-8, Defendants' DS; see, also, pages 256-257, lines 22-3, Deposition of Mr. Beauchamp (Mr. Beauchamp testified that it was his practice to revise the POM every two years based on a suggestion "made by a former SEC official, that given the nature of this industry, two years would be an appropriate time. However, if something material happened before then, you need to tell your client this has to be disclosed.").

¹⁴⁹ See page ii, 2011 POM ("The Notes are offered pursuant to exemptions provided by Section 4(2) of the [Securities Act of 1933], Regulation D thereunder, certain state securities laws and certain rules and regulations promulgated pursuant thereto." [quoted text was upper case bold in original]).

¹⁵⁰ Defined in Rule 501(a) of Regulation D to include high net worth individuals and certain other persons or entities. Rule 502(b) of Regulation D specifies the type of information that must be furnished "a reasonable time prior to sale" to any purchaser that is not an accredited investor. It is good practice to provide such information to accredited investors in addition to non-accredited investors.

Rule 10b-5, promulgated under Section 10(b) of the Securities Exchange Act of 1934,¹⁵¹ provides that it is unlawful, in connection with the sale of securities, “to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.”¹⁵²

Disclosures that are provided to investors in a private placement offering are typically contained in a written document, often called a private offering memorandum. Such a POM is a disclosure document used to solicit investment in private securities transactions. A POM is provided to prospective investors to provide such investors with information regarding the issuer and the securities it intends to issue. Generally, a POM describes the business, the investment opportunity, the associated risks, the management team, historical performance and expected performance of the business. Disclosures made in a POM are regulated under the federal securities laws by, among other laws and rules, Rule 10b-5. DenSco’s POMs offered Notes according to the terms set forth therein.

An important concept to bear in mind in private placement offerings is called “integration.” Essentially, Regulation D provides that all sales that are part of the same private placement offering are integrated, such that each and every sale of a security must meet all of the requirements for offerings pursuant to Regulation D.¹⁵³ In other words, unless the offerings of Notes by DenSco pursuant to its various sequential POMs were not of the “same or a similar class” as the Notes offered pursuant to the immediately prior POM, or such offerings were separated by at least six months, then under Regulation D *all* sales of Notes by DenSco would be integrated and treated as a single continuous offering (notwithstanding language to the contrary in the POMs).¹⁵⁴ As a result, if the sale of even a single Note was not made in compliance with the requirements of Regulation D, then by virtue of integration, the private placement exemption

¹⁵¹ The 2011 POM prepared by Mr. Beauchamp incorrectly refers to this provision of federal securities laws as “Section 10b-5.” See page 24.

¹⁵² 17 CFR 240.10b-5 [Employment of manipulative and deceptive devices]; see also Arizona Revised Statutes Section 44-1991 [Fraud in purchase or sale of securities] (“It is a fraudulent practice and unlawful for a person, in connection with a transaction or transactions within or from this state involving an offer to sell or buy securities, or a sale or purchase of securities, ... directly or indirectly to do any of the following: ... 2. Make any untrue statement of material fact, or omit to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.”).

¹⁵³ Rule 502(a) of Regulation D (“All sales that are part of the same Regulation D offering must meet all of the terms and conditions of Regulation D. Offers and sales that are made more than six months before the start of a Regulation D offering or are made more than six months after completion of a Regulation D offering will not be considered part of that Regulation D offering, so long as during those six month periods there are no offers or sales of securities by or for the issuer that are of the same or a similar class as those offered or sold under Regulation D, other than those offers or sales of securities under an employee benefit plan as defined in rule 405 under the [Securities Act of 1933].”).

¹⁵⁴ See page (i), 2011 POM (“The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering, or (b) two years from the date of this memorandum.”).

may have been rendered unavailable – resulting in an unlawful offering with respect to the sale of all Notes.

Continuous offerings, such as those conducted by DenSco, are especially challenging due to the continuous and uninterrupted obligation to be compliant with the exemption and other legal requirements. For example, under both federal and Arizona law, there is a risk that issuers may be committing securities fraud if they fail to provide current and accurate disclosures to investors in connection with the sale of securities. As a result, because of the continuous nature of its securities offerings, DenSco needed to be able to timely update the disclosures provided to investors so as to correct any material misstatement or omission before such investors purchased (or committed to purchase) DenSco securities.¹⁵⁵ This would require both the constant monitoring of the accuracy of the content of the POMs and the ability to promptly correct and distribute updated disclosures.

In my opinion, the applicable standard of care would require that Mr. Beauchamp be aware of at least the following requirements under the federal securities laws and advise his client DenSco accordingly:

- The offer and sale of all Notes was subject to compliance by DenSco with Regulation D and Rule 10b-5.
- If at any point in time, the applicable POM was no longer in compliance with Rule 10b-5, DenSco must immediately cease offering and selling Notes (whether to new or existing investors, and whether for new monetary consideration or in consideration of the rollover of Notes).
- In the event that the applicable POM was no longer in compliance with Rule 10b-5, DenSco must not resume offering or selling Notes unless and until updated and compliant disclosures are provided to investors.
- Because of the continuous nature of the offerings, both pursuant to each individual POM and presumably across all POMs, the apparently arbitrary two-year time period limitation imposed by Mr. Beauchamp and as set forth in the POMs would have had no impact on integration or compliance under Regulation D and Rule 10b-5.

¹⁵⁵ See page 24, 2011 POM (“In order to continue offering the Notes during this [two year] period, the Company will need to update this Memorandum from time to time. Keeping the information in the Memorandum current will cause the Company to incur additional costs. *A failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 [sic] of the Securities Act for employing manipulative or deceptive device in the sale of securities, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors.*” [italics added]). See, also, pages 92-95, lines 7-8, Deposition of Daniel Schenck on June 19, 2018 (“My understanding would be that [the POM] needs to be amended, you know, when there is new information or a change in circumstances from what’s described in there. That was my understanding”).

- DenSco's failure to comply at all times with Regulation D and Rule 10b-5 could result in material penalties and liabilities, including potential criminal liability.

IV. ANALYSIS AND OPINIONS

A. DenSco was a "High-Risk" Client

Prior to engaging with a new client and forming an attorney-client relationship with that new client, an attorney should evaluate the goals and requirements of the client and the ability of the attorney to reasonably address those requirements. This is implicit in the duties owed by attorneys to their clients once the attorney-client relationship is formed, including the obligation to "provide competent representation to a client"¹⁵⁶ and "act with reasonable diligence and promptness in representing a client."¹⁵⁷ In making such evaluation, it is important for the attorney to do an "analysis of the factual and legal elements"¹⁵⁸ and consider "the relative complexity and specialized nature of the matter."¹⁵⁹ Consistent with such obligations, in my opinion attorneys should, and in accordance with custom in practice do, evaluate and assess whether, and to what extent, the client is able to understand and comply with its legal obligations and the advice of the attorney in the particular matter.

In my experience, certain clients may require extraordinary monitoring and counseling due to the nature of their business operations, the regulatory environment in which they operate, a lack of critical resources (including manpower) or internal controls, an inability (or unwillingness) to comply with legal obligations and attorney advice, and other factors. Such a client poses a material risk to both itself and to its attorneys in the event of failure, crises or other material adverse events. Such risks to the client may include civil or criminal liability, financial losses or other damages to the client and its various constituencies (including investors), and an inability to achieve the goals of the subject of the representation. Attorneys should be aware that such a client also creates an enhanced risk of malpractice and related claims against the attorney, brought by or on behalf of the client. As a result, for purposes of this Report, I refer to such clients as "high-risk" clients.

In accepting DenSco as a client, and continuing to represent DenSco thereafter, the Defendants should have recognized that DenSco was a high-risk client. The factors that indicate DenSco was a high-risk client include the following:

1. DenSco was Engaged in a Highly Regulated Business

A core element of DenSco's business was raising money from investors, which in turn would be used to make mortgage loans. As noted above, the issuance of securities is regulated by federal

¹⁵⁶ Rule 1.1 of the Arizona Rules of Professional Conduct. See also ABA Model Rule 1.1.

¹⁵⁷ Rule 1.3 of the Arizona Rules of Professional Conduct. See also ABA Model Rule 1.3.

¹⁵⁸ Comment [5] to Rule 1.1 of the Arizona Rules of Professional Conduct. See also Comment [5] to ABA Model Rule 1.1.

¹⁵⁹ Comment [1] to Rule 1.1 of the Arizona Rules of Professional Conduct. See also Comment [1] to ABA Model Rule 1.1.

and state law. Under both the federal Securities Act of 1933 and the Arizona Securities Act, the offer and sale of securities must be registered with the appropriate regulatory agency (i.e., the SEC or the Arizona Corporation Commission, respectively), or be subject to an exemption from such registration. Issuers must strictly adhere to the requirements of an exemption, as the failure to do so results in an unlawful offering, with the accompanying penalties and liabilities, including potential criminal liability. DenSco's offerings were intended to fall within an exemption from registration.¹⁶⁰

Further, under Rule 10b-5, because of the continuous nature of its securities offerings, DenSco needed to be able to timely update the disclosures provided to investors so as to correct any material misstatement or omission before such investors purchased (or committed to purchase) DenSco securities.¹⁶¹ This would require both the constant monitoring of the accuracy of the content of the POMs and the ability to promptly correct and distribute updated disclosures.

Activities related to DenSco's mortgage lending business were also subject to regulation and licensing.¹⁶² DenSco potentially may have been subject to regulation and licensing under the Investment Advisers Act of 1940,¹⁶³ the Investment Company Act of 1939,¹⁶⁴ the Truth in Lending Act, the Homeownership and Equity Protection Act of 1994, the Equal Credit

¹⁶⁰ See page ii, 2011 POM ("The Notes are offered pursuant to exemptions provided by Section 4(2) of the [Securities Act of 1933], Regulation D thereunder, certain state securities laws and certain rules and regulations promulgated pursuant thereto." [quoted text was upper case bold in original]).

¹⁶¹ See page 24, 2011 POM ("In order to continue offering the Notes during this [two year] period, the Company will need to update this Memorandum from time to time. Keeping the information in the Memorandum current will cause the Company to incur additional costs. A failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 [sic] of the Securities Act for employing manipulative or deceptive device in the sale of securities, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors."). See, also, pages 92-95, lines 7-8, Deposition of Daniel Schenck on June 19, 2018 ("My understanding would be that [the POM] needs to be amended, you know, when there is new information or a change in circumstances from what's described in there. That was my understanding").

¹⁶² See page 8, 2011 POM ("The financing of construction loans and other types of real estate transactions are regulated by various federal and state government agencies, including the Arizona Department of Financial Institutions."). See, also, Arizona Revised Statutes, Chapter 9 [Mortgage Brokers, Mortgage Bankers and Loan Originators].

¹⁶³ See page 9, 2011 POM (The Company's management believes that it is not required to register or be licensed as an investment adviser with the State of Arizona or with the U.S. Securities Exchange Commission ('SEC') pursuant to the Investment Advisers Act of 1940"); page 23, 2011 POM ("The Company intends to take all reasonable steps to avoid such classification.").

¹⁶⁴ See page 22, 2011 POM ("If the Company was subject to the Investment Company Act of 1940, the Company would be required to comply with significant ongoing regulation which would have an adverse impact on its operations. ... The Company intends to take all reasonable steps to avoid such classification.").

Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act, and the Home Mortgage Disclosure Act,¹⁶⁵ and similar state laws and regulations. To the extent applicable, such activities would require monitoring, periodic reporting and other documentation, and compliance generally.¹⁶⁶

2. DenSco was Handling High Volumes of Investor Money

At its core, DenSco was soliciting money from investors, which would be transferred to borrowers as mortgage loans. Such borrowers would pay interest and principal back to DenSco, which in turn would then use such funds to pay interest and principal back to its investors (with DenSco profiting from the arbitrage due to the difference in such interest rates). Rather than providing goods or services, DenSco was in the business of handling large sums of money. As of the date of the 2011 POM, DenSco had funded *over \$300 million* in loans.¹⁶⁷ As a result, DenSco was acting in a fiduciary capacity with its investors, and would have required prudent internal controls, careful accounting and secure money management.

3. DenSco was a “One-Man Shop”

Based on the record I have reviewed, it is clear that DenSco had only a single shareholder, director, officer and employee: namely, Denny Chittick.¹⁶⁸ The regulatory environment in which DenSco operated, as well as the volume of its business, would have necessitated active involvement by the management team at DenSco. Having only one member in its management team (its sole employee), would suggest that DenSco’s ability to manage its business operations and compliance obligations was severely constrained.

¹⁶⁵ See page 19, 2011 POM.

¹⁶⁶ Although DenSco may have concluded that it was not subject to such regulation and licensing, it was still required to take action to *avoid* the application of such regulation and licensing to its lending activities. See page 8, 2011 POM (“The Company’s management believes that it is not required to be licensed by the Arizona Department of Financial Institutions as a mortgage broker or mortgage banker nor under certain federal laws, such as Truth-In-Lending Act or the Real Estate Settlement Procedures Act. The Company intends to take the necessary steps to ensure that the borrowers it lends to and the projects covered by such loans will not fall within the requirements imposed by the foregoing agency and acts.”); page 19, 2011 POM (“If it is determined that the Company has not structured its operations so that it is exempt from regulation, *the Company could become subject to extensive regulation*” [italics added]).

¹⁶⁷ Page 39, 2011 POM (“Since inception through June 30, 2011, the Company has participated in 2622 loans, with an average loan amount of \$116,000, with the highest single loan being \$800,000 and the lowest being \$12,000. *The aggregate amount of loans funded is \$306,786,893 with property values totaling \$470,411,170.*” [italics added]).

¹⁶⁸ Page 40, 2011 POM (“The Director and Executive Officer of the Company are [sic]: Denny J. Chittick, 4, President, Vice President, Treasurer, and Secretary. ... With the assistance of outside consultants on an as-needed basis, *Mr. Chittick intends to operate the Company as its primary employee, analyzing, negotiating, originating, purchasing and servicing Trust Deeds by himself.*” [italics added]).

On the mortgage lending side of its business, DenSco made on average one loan every single weekday since its formation in 2001.¹⁶⁹ The level of its lending activity increased over the years, such that during the six months leading up to the 2011 POM, DenSco was making on average nearly three loans every single weekday,¹⁷⁰ and was seeking to further increase the volume of its lending business.¹⁷¹ These statistics are particularly significant in light of the required tasks to support that volume of business (as described below), which suggests an inordinate burden on Mr. Chittick in managing just the mortgage lending side of DenSco's business.

As described in the 2011 POM, before purchasing a trust deed or funding a loan, DenSco would "conduct a due diligence review by interviewing its owner, verifying the documentation and performing limited credit investigations ... and visiting the subject property in a timely manner."¹⁷²

The 2011 POM also describes certain standards for each loan to be made by DenSco.¹⁷³ Because of its stated goal of having each loan be secured by a first lien deed of trust,¹⁷⁴ DenSco would need to ensure that the loan documentation for each of its loans was properly prepared and timely recorded. Because of its stated goal of maintaining a loan-to-value ratio of between 50% and 65% across its portfolio of loans,¹⁷⁵ DenSco would need to conduct adequate and reliable property appraisals prior to consummating each loan, update such property appraisals periodically, and calculate the portfolio's loan-to-value ratio on a continuous basis. Because of its stated goal of maintaining diversity among its borrowers and the properties under

¹⁶⁹ See page 37, 2011 POM (2622 loans funded from April 2001 through June 2011).

¹⁷⁰ See page 37, 2011 POM (378 loans funded in 2011 through June 30, 2011).

¹⁷¹ See page 15, 2011 POM ("Success of the Company depends to a large extent on its ability to achieve growth in the number of applications and closings, the due diligence and servicing of these loans and the ability to manage growth effectively.").

¹⁷² Page 6, 2011 POM. Although DenSco disclosed that such work could be done on its behalf by "an authorized representative," Mr. Chittick himself would still need to spend the time to select and engage with the representative, direct the work of the representative, and review and evaluate the reports, conclusions and recommendations of the representative.

¹⁷³ Although DenSco reserved the right "to amend or revise [certain] policies, or approve transactions that deviate from these policies, from time to time without a vote of the Noteholders" (see page 25, 2011 POM), such reservation of rights and lack of Noteholder control had little relevance to a change in circumstances that may have occurred *prior* to the time an investor committed to become a Noteholder, thus potentially rendering the disclosures made in the POM materially misleading.

¹⁷⁴ See page 37, 2011 POM ("All real estate loans funded by the Company have been and are intended to be secured through first position trust deeds.").

¹⁷⁵ See page 37, 2011 POM ("The loan to value ratio of the Company's overall portfolio has averaged less than 70% and the Company intends to maintain a loan to value ratio of 50% to 65%."); page 10, 2011 POM ("the Company intends to maintain general loan-to-value guidelines that currently range from 50 percent to 65 percent (but it is intended not to exceed 70%), to help protect the Company's portfolio of loans.").

mortgage,¹⁷⁶ DenSco would need to monitor and track the identity of its borrowers (and their affiliates), and the location and type of properties in which it was taking an interest. And because of its goal of avoiding certain licensing requirements, DenSco would need “to take the necessary steps to ensure that the borrowers it lends to and the projects covered by such loans will not fall within [such licensing] requirements.”¹⁷⁷

In addition to the work involved with the initiation of each mortgage loan, DenSco’s mortgage lending business also required the servicing and monitoring of all loans.¹⁷⁸ As described in the 2011 POM, if a borrower were to become delinquent in making a payment, DenSco would contact the borrower within three to five days, and closely monitor the account until payment was made.¹⁷⁹ If a payment was late by more than five days, the company could impose a late charge, and if a payment was more than 30 days delinquent, the company could impose a default rate of interest and begin foreclosure proceedings.¹⁸⁰ Alternatively, DenSco could request the borrower execute a deed in lieu of foreclosure. Whether by virtue of a foreclosure sale or a deed in lieu of foreclosure, once DenSco gained control of the property, it would either “market the subject property at retail, which may require additional monies to improve the property to retail ready condition, or to wholesale the subject property ‘as is.’ The Company may also decide to rent the subject property as an investment property.”¹⁸¹ In addition, the repossessing of a property may require that DenSco “complete a project so repossessed by it, ... [and] inject additional capital.”¹⁸²

¹⁷⁶ See pages 36-37, 2011 POM (“The Company has endeavored to maintain a large and diverse base of borrowers as well as a diverse selection of properties as collateral for its loans to the borrowers.... The Company continues to strive to achieve a diverse borrower base by attempting to ensure that *one borrower will not comprise more than 10 to 15 percent of the total portfolio.*” [italics added]). See, also, page 10, 2011 POM (“The Company will attempt to maintain a diverse portfolio of Trust Deeds and loans by seeking a large borrowing base Currently, the Company’s base of borrowers exceed [sic] 150 approved and qualified borrowers. It is the Company’s plan that the base of borrowers eventually will exceed 250 qualified contractors and foreclosure specialists.”).

¹⁷⁷ See page 8, 2011 POM (“The Company’s management believes that it is not required to be licensed by the Arizona Department of Financial Institutions as a mortgage broker or mortgage banker nor under certain federal laws, such as Truth-In-Lending Act or the Real Estate Settlement Procedures Act. The Company intends to take the necessary steps to ensure that the borrowers it lends to and the projects covered by such loans will not fall within the requirements imposed by the foregoing agency and acts.”).

¹⁷⁸ See page 7, 2011 POM (“The Company services the contracts it purchases and originates.”); page 13, 2011 POM (“The Company’s ability to generate cash in amounts sufficient to pay interest on the Notes and to repay or otherwise refinance the Notes as they mature depends upon the Company’s receipt of payments due under the loans that are in the Company’s portfolio.”).

¹⁷⁹ Ibid.

¹⁸⁰ Ibid. See, also, page 13, 2011 POM (“The Company is responsible for collecting payments from loan obligors and for foreclosing under an applicable Trust Deed in the event of default by an obligor.”).

¹⁸¹ See page 7, 2011 POM.

¹⁸² See page 18, 2011 POM.

On the fund-raising side of its business, DenSco was conducting continuous offerings. Mr. Chittick himself was "making the private placement of the Notes on behalf of the Company."¹⁸³ In my experience, such work would entail, at a minimum: (a) identifying, meeting with, and soliciting existing and new investors, and responding to their inquiries;¹⁸⁴ (b) preparing, distributing, collecting and reviewing all the necessary paperwork to accept new investors;¹⁸⁵ and (c) consummating each investor's investment by the acceptance of payment and the issuance of a Note.

In order for DenSco's offerings to fall within the private placement exemption from registration, the 2011 POM stated that Notes were "offered only to persons who are: (1) 'Accredited Investors' within the meaning of Rule 501(a) of Regulation D promulgated under the [Securities Act of 1933] and applicable state securities law; (2) able to bear the economic risk of an investment in the Notes, including a loss of the entire investment; and (3) sufficiently knowledgeable and experienced in financial and business matters to be able to evaluate the merits and risks of an investment in the Notes"¹⁸⁶ It was Mr. Chittick's responsibility to devote the time, energy and resources to ensure that each investor in DenSco satisfied each of these requirements.¹⁸⁷

The 2011 POM also references a number of additional tasks to be completed by DenSco in connection with the issuance of each Note to investors. Because each POM offering was limited in size,¹⁸⁸ Mr. Chittick would need to monitor the aggregate proceeds received under each offering. Because each Note may have different terms, including principal amount, maturity

¹⁸³ Page iii, 2011 POM.

¹⁸⁴ See page 49, 2011 POM ("The offer to sell Notes must be directly communicated to the investor by [Mr. Chittick]"); page vi, 2011 POM ("Prior to the sale of any Notes offered hereby, the Company will make available to each investor the opportunity to ask questions of and receive answers from Mr. Chittick") [quoted text was upper case bold in original]; page 50, 2011 POM ("The Company must have furnished and made available for inspection all documents and information that the investor has reasonably requested relating to an investment in the Company, including its Articles of Incorporation, stock records and financial account records."); page 11, 2011 POM.

¹⁸⁵ Such paperwork would include a subscription agreement and suitability questionnaire for each investor. See pages vi and 55-57, 2011 POM.

¹⁸⁶ Page iv, 2011 POM [quoted text was upper case bold in original].

¹⁸⁷ See page iv, 2011 POM ("The Notes are not offered and will not be sold to any prospective investor unless such investor has established, *to the satisfaction of Denny J. Chittick*, that the investor meets all of the foregoing criteria." [italics added; quoted text was upper case bold in original]).

¹⁸⁸ See cover page of 2011 POM ("The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering [\$50 million in the case of the 2011 POM], or (b) two years from the date of this memorandum").

date, interest rate, and timing and method of interest payments,¹⁸⁹ such terms would need to be carefully documented and monitored to ensure DenSco's compliance with all payment terms.

Because DenSco's offerings of Notes were continuous offerings, the applicable POMs would need to be updated from time to time. As acknowledged in the 2011 POM, "*failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 [sic] of the Securities Act for employing manipulative or deceptive device in the sale of securities*, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors."¹⁹⁰ As a result, Mr. Chittick would need to constantly monitor the activities of DenSco, and the environment in which it operated, to ensure that the POM was up to date and accurate.

Even once Notes were issued, DenSco (and therefore Mr. Chittick) had continuing responsibilities with respect to investors who became Noteholders. For example, in addition to timely and appropriately making interest and principal payments to Noteholders (as discussed

¹⁸⁹ See page 2, 2011 POM ("The interest rates of the Notes will vary and will depend on the denomination of the Note and the term selected by the investor. The Notes are offered in denominations ranging from \$50,000 to \$1,000,000.00 Investors may elect to have interest paid monthly, quarterly or at maturity."); page 17, 2011 POM ("Notes ... may be issued at higher or lower interest rates and shorter or longer maturities, depending upon market conditions and other factors."); pages 45-46, 2011 POM ("Interest is payable on the last day of each period to the investors of the Notes at the principal office of the Company in Chandler, Arizona. At the option of the Company, interest payments may be paid by check mailed to the address of the investor entitled thereto as it appears on the Subscription Agreement for the Notes. An investor may request in writing to the Company that a deposit be made to a designated bank or investment account.").

¹⁹⁰ Page 24, 2011 POM ("Until the maximum offering proceeds are attained or the Company terminates this Offering, *the Company expects to offer the Notes for placement on a continuing basis* for two years from the date of this Memorandum unless the Company changes its operations or method of offering in any material respect prior to the expiration of the two year offering period. ... *In order to continue offering the Notes during this period, the Company will need to update this Memorandum from time to time.* Keeping the information in the Memorandum current will cause the Company to incur additional costs. *A failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 [sic] of the Securities Act for employing manipulative or deceptive device in the sale of securities*, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors. In addition, an investor might seek to have the sale of the Notes hereunder rescinded which would have a serious adverse effect on the Company's operations." [italics added]). See, also, page 45, 2011 POM ("If the Company changes its operations ... in any material respect, *the Company will update the Memorandum as necessary to provide correct information to investors.*" [italics added]).

above), Noteholders were entitled to request from DenSco certain information and certifications,¹⁹¹ permission to transfer their Notes,¹⁹² and early redemption of their Notes.¹⁹³

In addition to the specific responsibilities associated with mortgage lending and fund-raising, DenSco would have had the same general responsibilities of any business, such as maintaining books and records, preparing financial statements, filing tax returns and paying taxes, reporting interest income of its Noteholders, and other tasks.

In my experience, the volume of business being conducted by DenSco, and the responsibilities of a single individual to adequately manage that business, are quite striking. There was no deep bench or internal team to support Mr. Chittick's enormous responsibilities, no one to cover in the event Mr. Chittick were to become ill or otherwise become unavailable, and no meaningful succession plans to replace Mr. Chittick.¹⁹⁴

4. Significant Risk of Confusion as to the Identity of the Defendants' Client

Although the engagement letter between Clark Hill and DenSco only identified DenSco as the client,¹⁹⁵ the nature of the attorney-client relationship with such a "one-man shop" was subject to an enhanced risk of confusion and conflict.

¹⁹¹ See page 46, 2011 POM ("On an annual basis and upon written request from an investor, the Company will certify to the requesting investor(s) that the aggregate outstanding principal amount of all cash accounts, other property and Trust Deeds is at least equal to the principal amount of outstanding Notes as of the date of the request.").

¹⁹² See page 46, 2011 POM ("The Notes are not transferable without the prior written consent of the Company").

¹⁹³ See page 47, 2011 POM ("the Company intends to use its good faith efforts to accommodate written requests from an investor to prepay any Note prior to maturity").

¹⁹⁴ Although the 2011 POM (under the heading "Contingency Plan in the Event of Death or Disability of Mr. Chittick") references a "written agreement with Robert Koehler ... to provide or arrange for any necessary services for the Company" should Mr. Chittick become "unable to perform his duties to continue the operation of the Company in any capacity," such agreement does not constitute a succession plan. In fact, the only action expected of Mr. Koehler pursuant to such agreement was "to close down the Company's business by collecting all of the monies due on the Trust Deeds and ... return all of the principal and interest owed to the investors pursuant to the Notes." Page 41, 2011 POM. It is unclear whether such agreement was enforceable (e.g., due to a lack of consideration), but it is apparent that Mr. Koehler in fact did not perform as described. See page 68, lines 18-23, Deposition of Shawna Chittick Heuer (Mr. Chittick's sister) on August 22, 2018 ("I remember ... Robert saying ... I don't want to be a part of this. I don't feel comfortable. ... I have my own business. This is too much for me to take on, is what I believe I remember him telling me.").

¹⁹⁵ Engagement Letter dated September 12, 2013, executed by Mr. Beauchamp on behalf of Clark Hill, and Mr. Chittick on behalf of DenSco ("This letter serves to record the terms of our engagement to represent DenSco Investment Corporation (the 'Client'), with regard to the legal matters transferred to Clark Hill PLC from Bryan Cave, LLP."). Such Engagement Letter was

As the only shareholder, director, officer and employee of DenSco, Mr. Chittick was the only point of contact for the Defendants in interacting with their client, DenSco. Based on the record I have reviewed, it does not appear that Mr. Chittick had separate legal counsel to represent him and his interests in his capacity as shareholder, director, officer or employee of DenSco. This situation could easily lead Mr. Chittick to reasonably believe that the Defendants were not only DenSco's attorneys, but his own as well.

Mr. Beauchamp himself appears to have been confused as to the identity of his client, as reflected in the 2011 POM which he prepared: "Legal counsel to the Company will represent the interests solely of the Company *and its President*."¹⁹⁶ Further, at the hearing to determine the appointment of the Receiver, Mr. Beauchamp testified that "he concurrently represented both DenSco and Denny Chittick personally."¹⁹⁷ In addition, as he testified in his deposition, Mr. Beauchamp apparently understood that Mr. Chittick was also his client, at least in some capacity, and that Mr. Chittick considered he was his attorney.¹⁹⁸

expressly "supplemented by our Standard Terms of Engagement for Legal Services, attached, which are incorporated in this letter and apply to this matter and the other matter(s) for which you engage us." The attached Standard Terms of Engagement for Legal Services, under the caption "Whom We Represent," provided: "The person or entity whom we represent is the person or entity identified in our engagement letter and *does not include any affiliates or related parties of such person or entity such as ... employees, officers, directors, shareholders of corporation, ... and/or other constituents of named client unless our engagement letter expressly provides otherwise*" [italics added].

¹⁹⁶ See page 30, 2011 POM [italics added].

¹⁹⁷ See Exhibit 317, email dated August 30, 2016 from Kevin Merritt (attorney for the Chittick Estate) to Mr. Beauchamp and Ryan Anderson (an attorney representing the Receiver), copying the Receiver, Mr. Polese (attorney for the Chittick Estate), et al. ("I would like to remind everyone that David testified at the receivership hearing that he concurrently represented both DenSco and Denny Chittick, personally."); see, also, email dated August 15, 2016 from Mr. Polese to Ms. Coy, copying Mr. Beauchamp, et al. ("It is my view and that of Dave Beauchamp, Denny viewed David as both his company attorney and personal attorney."). Although Mr. Beauchamp claimed that he corrected the statement made to Ms. Coy (see pages 118-119, lines 23-9, Deposition of Mr. Beauchamp), there appears to be no evidence of such action, and it appears to be contrary to his other testimony. See pages 133-134, lines 7-11, Deposition of Mr. Beauchamp ("Based on the information that I have now ... I would say it's not true [that "Mr. Chittick considered that I was his counsel as well as counsel for DenSco"]. ... At the time I did this declaration [draft received August 17, 2016], I had a different understanding of what counsel was, ... I have since understood that, no, I'm representing the company").

¹⁹⁸ See page 3, Defendants' DS ("Mr. Beauchamp averred in an August 17, 2016 declaration under oath that he represented DenSco and 'Mr. Chittick as the President of DenSco.' Mr. Beauchamp did not represent Mr. Chittick outside of his role as a corporate officer at DenSco."). See, also, pages 133-134, lines 7-11, Deposition of Mr. Beauchamp (counsel quotes from Exhibit 435 (paragraph 5, draft Declaration of David Beauchamp, dated August 27, 2016): "Q. ... 'During my involvement with Mr. Chittick and DenSco, I understood that Mr. Chittick considered that I was his counsel as well as counsel for DenSco.' That is not true, correct? A.

It is important to note that the interests of an entity client are not always aligned with, and are often in conflict with, the interests of the client's shareholders, directors, officers and employees, even when only one individual occupies all of those roles. As noted above, the Rules of Professional Conduct make clear that, when representing an entity as client, the attorney *must* recognize that it is the entity whose interests are to be protected, and *not* the interests of the individual or individuals through whom the entity acts.¹⁹⁹ As a result, it is important for the attorney to properly identify his or her client, and to ensure that when the client is an entity, such individual(s) understand who is and who is not the client of the attorney.²⁰⁰

This situation creates a material risk that each of the entity client, such individual(s) and perhaps even the attorney – in this Case, DenSco, Mr. Chittick and the Defendants, respectively – may be confused or conflicted with respect to the attorney-client relationship.

5. Implications

For the above reasons, in my opinion the applicable standard of care dictates that the Defendants should have recognized that DenSco was a high-risk client. To be clear, I am not suggesting that it was a violation of the standard of care for an attorney to engage with a high-risk client. However, in accepting and continuing to represent DenSco as a client, the Defendants should have recognized the enhanced risks associated with such representation, including the substantial risk (if not likelihood) that: (1) DenSco may be unable to comply with applicable law and the other requirements and guidelines as set forth in the 2011 POM; (2) investors may bring claims for securities fraud and/or breach of fiduciary duties; (3) disabling conflicts of interest may arise between DenSco and Mr. Chittick, thereby jeopardizing the role of the Defendants; and (4) malpractice and related claims may be brought against the Defendants by or on behalf of DenSco.

Based on the information that I have now ... I would say it's not true. Q. Did you ever think it was true? A. At the time I did this declaration, I had a different understanding of what counsel was, *and it was if you are providing advice to somebody as an officer or director of a company, then you represent them too.* And - Q. Individually? A. – *and that they would have the right to rely upon it and object.* ... Q. Okay but during the time you were representing DenSco at the material events in this case, you thought Mr. Chittick was your individual client? A. Not as an individual client. ... as an officer or director of DenSco ... And my analysis was based upon the right to rely upon the information provided, which I understand is not the appropriate standard now, determining who is your individual client." [italics added].

¹⁹⁹ See Arizona Rules of Professional Conduct, Rule 1.13 [Organization as Client] ("A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents."); see also ABA Model Rule 1.13.

²⁰⁰ See Deposition of Mr. Hood, page 110, lines 8-19 ("Q.... To your knowledge, from what you have reviewed, did Mr. Beauchamp ever clarify with Mr. Chittick that he was representing only DenSco? A. I don't know. Q. Okay. He should have, if there was any confusion. Don't you agree? ... THE WITNESS: If there was confusion, then I agree that the Rule 1.13 would require that David have a discussion with Mr. Chittick.").

As a result, the applicable standard of care dictates that the Defendants should have: (a) engaged in extraordinary monitoring and counseling with respect to DenSco; (b) maintained clear documentation of advice provided and actions taken; and, most importantly, (c) been prepared to recognize, and quickly act in response to, “red flag” warnings or indications of any problems (such as those described below). In my opinion, failure to do so would constitute a violation of the Defendants’ duties under the Rules of Professional Conduct, including but not limited to Rules 1.1 (Competence), 1.3 (Diligence) and 1.13 (Organization as Client) of the Arizona Rules of Professional Conduct and the ABA Model Rules.

B. The Four Red Flag Warnings that DenSco Needed Immediate and Focused Attention and Protection

1. The Freo Lawsuit

The Freo Lawsuit put Mr. Beauchamp on notice of allegations that one of DenSco’s major borrowers, Mr. Menaged and his affiliated entities, was taking money from DenSco and another third-party lender to purchase the same property and provide both lenders with a deed of trust on that same property – thereby potentially having the effect of subordinating DenSco’s interest in the property to that of the other lender (and diminishing the value of DenSco’s interest).

Mr. Beauchamp knew, or should have known, that DenSco’s interests (as lender) and Mr. Menaged’s interests (as borrower) were not aligned in the Freo Lawsuit and that, as a result, DenSco needed to have independent legal counsel, and not simply “piggy back” on Mr. Menaged’s defense.²⁰¹ Despite this clear conflict of interest, and Mr. Chittick’s instruction that he speak with Mr. Menaged’s attorney,²⁰² Mr. Beauchamp took no action with respect to the Freo Lawsuit.²⁰³

Had Mr. Beauchamp investigated the allegations in the complaint in the Freo Lawsuit, “he would have found within minutes, by reviewing records available through the Maricopa County Recorder’s website relating to the property described in the Freo lawsuit: (i) a Deed of Trust and Security Agreement With Assignment of Rents given by Easy Investments in favor of Active Funding Group, that Menaged had signed on March 25, 2013; and (ii) a Deed of Trust and Assignment of Rents given by Easy Investments in favor of DenSco, that Menaged had signed on April 2, 2013. Both signatures were witnessed by the same notary public.”²⁰⁴

²⁰¹ Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged (“Easy Investments, has his attorney working on it, I’m ok to piggy back with his attorney to fight it.”).

²⁰² See Ibid (“Easy Investments [sic] willing to pay the legal fees to fight it. I just wanted you to be aware of it, and talk to his attorney. Contact info is below.”).

²⁰³ Mr. Beauchamp testified that he did not speak to the borrower’s attorney, Mr. Goulder, at that time. See page 240, lines 9-19, Deposition of Mr. Beauchamp.

²⁰⁴ Plaintiff’s DS ¶ 129.

Upon becoming aware of the Freo Lawsuit, Mr. Beauchamp should have advised Mr. Chittick of the following action items, and should have assisted him in the completion of these action items:

- investigate the policies and procedures, and the trustworthiness, of Mr. Menaged and his affiliated entities;
- investigate where the excess funds from two different mortgage loans went;
- suspend making any further loans to Mr. Menaged and all entities managed by Menaged;
- review all other outstanding loans to Mr. Menaged and his affiliated entities to confirm that DenSco was the only lender on the property with a first lien deed of trust;
- review and reevaluate DenSco's internal procedures to ensure that it was not vulnerable to the type of double lien issue alleged in the Freo Lawsuit;
- contact the other lender to investigate the allegations; and
- evaluate the accuracy of the disclosures made in the 2011 POM, and update and correct them as may be necessary.

Based on the record I have reviewed, Mr. Beauchamp provided no such advice or assistance following the Freo Lawsuit. In fact, from mid-June 2013 when Mr. Beauchamp first learned of the significant allegations in the Freo Lawsuit,²⁰⁵ until at least January of the following year, Mr. Beauchamp took no such action to protect his client, DenSco.²⁰⁶

²⁰⁵ See email dated June 14, 2013 from Mr. Beauchamp to Mr. Chittick ("we will need to disclose this in POM").

²⁰⁶ If, instead, the Defendants had investigated and done proper due diligence with respect to the red flag warning raised by the Freo Lawsuit at or around the time that Mr. Beauchamp transitioned from Bryan Cave to Clark Hill, they would have discovered the magnitude of the damage caused by the Menaged fraud and Mr. Chittick's failure to follow proper funding procedures. Because of the materially inaccurate and incomplete disclosures made in the expired 2011 POM, upon such discovery the Defendants should have then instructed DenSco to immediately cease the offer and sale of all Notes. Any Rule 10b-5 compliant disclosures at that time would be required to disclose, among other things, DenSco's failures with respect to its first lien positions, loan-to-value ratios, and diversity of its borrowers, and the cause of such failures (including Mr. Chittick's negligence), as well as its exposure to civil and criminal consequences for securities fraud (including the possible right of all Noteholders to demand rescission). Because such disclosures would by necessity be so negative (especially in comparison to the disclosures contained in the 2011 POM), it appears to me unlikely that the sophisticated accredited investors targeted by DenSco would have been inclined to continue to invest in Notes. Further, because DenSco's business model was based on soliciting and investing money provided by Noteholders, and because many of the double lien properties were overleveraged, in my opinion the proper advice to be given to DenSco at that time would have been to conduct an

2. Mr. Chittick's Instruction

At the time of Mr. Chittick's Instruction to stop working on updating the POM, the 2011 POM was already out of date, had expired by its own terms, and contained no information regarding the Freo Lawsuit. As discussed above, because I have seen no evidence that Mr. Beauchamp communicated to Mr. Chittick to cease offering Notes until an updated POM could be provided to investors, he should have expected that Mr. Chittick would continue to solicit new investors. Further, Mr. Beauchamp knew that DenSco had dozens of Notes that were scheduled to mature, and that a significant portion of those Notes would be rolled over into new Notes.²⁰⁷

However, rather than take corrective action (such as insisting that Mr. Chittick cooperate in updating the POM or cease offering new Notes and/or terminating the attorney-client relationship), the Defendants instead accepted DenSco as a new client at Clark Hill, and continued to do no work in updating the expired 2011 POM for over three months.

In my opinion, Mr. Chittick's Instruction is an inflection point, in that it evidenced both (a) an inability or unwillingness on the part of Mr. Chittick to work with the Defendants in complying with applicable securities laws, and (b) a willingness on the part of the Defendants to knowingly accept and tolerate as a new client one that was failing to comply with applicable securities laws.

3. The December 2013 Phone Call

The December 2013 Phone Call once again put Mr. Beauchamp on notice that there were serious lien priority problems in connection with DenSco's dealings with Mr. Menaged and his affiliated entities.

Once again, following the December 2013 Phone Call, Mr. Beauchamp should have advised and assisted Mr. Chittick with respect to the above action items – this time with more urgency given the prior Freo Lawsuit and Mr. Chittick's Instruction. Instead, Mr. Beauchamp simply advised Mr. Chittick to document a “plan” to resolve the double lien issue.²⁰⁸

4. The Bryan Cave Demand Letter

The cumulative effect of the Freo Lawsuit, Mr. Chittick's Instruction, the December 2013 Phone Call and the Bryan Cave Demand Letter put the Defendants on notice that there were very serious problems at DenSco, especially with respect to Mr. Menaged and his affiliated entities (borrowers that the Defendants knew were material to DenSco's business). Further, it should

orderly liquidation (presumably in a Chapter 7 bankruptcy proceeding) for the benefit of its Noteholders.

²⁰⁷ See email dated June 20, 2013 from Mr. Beauchamp to several colleagues at Bryan Cave (“According to his note schedule, Denny has approximately 60 investor notes that are scheduled to expire in the next 6 months (and to probably be rolled over into new notes)”).

²⁰⁸ Defendants' DS, page 8 (“Mr. Beauchamp suggested that Mr. Chittick and Menaged document their plan ... to resolve the double-lien issue.”)

have become clear to Mr. Beauchamp that Mr. Chittick's strategy to "piggy back" on Mr. Menaged's defense in the Freo Lawsuit,²⁰⁹ and Mr. Chittick's Plan to resolve the double lien issue raised in the December 2013 Phone Call, had not only failed to address those problems, but were inappropriate actions to take on behalf of DenSco.

5. Call to Action

In my opinion, under such circumstances a reasonably prudent attorney would have immediately taken the following measures to protect DenSco and its Notcholders – none of which were taken by the Defendants:

a. Conduct Due Diligence

As discussed above, Arizona's Rules of Professional Conduct, Rule 1.3 (Diligence) would obligate such an attorney to "act with reasonable diligence and promptness in representing a client."²¹⁰

The Defendants themselves should have investigated the claims involving Mr. Menaged and his affiliated entities, which were raised in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter, including Mr. Menaged's fabricated story involving his "cousin." As part of such investigation, the Defendants should have looked into where the proceeds from DenSco's loans went. The Defendants should have also reviewed all other outstanding loans to Mr. Menaged and his affiliated entities – and all other borrowers – so as to determine whether the problem was limited to the properties identified in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter.

The Defendants themselves should have reviewed and reevaluated DenSco's internal procedures to ensure that it was not vulnerable to the type of double lien issue raised in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter. As part of such review, the Defendants should have investigated the funding procedure used by DenSco to ensure that it was in fact obtaining first lien deeds of trust in properties owned by its borrowers (as it disclosed in the 2011 POM).

b. Terminate All Dealings with Mr. Menaged

The Defendants should have urged DenSco to sever its relationship with Mr. Menaged and his affiliated entities, and to immediately stop providing any additional funds to Mr. Menaged and his affiliated entities.

²⁰⁹ Email dated June 14, 2013 from Mr. Chittick to Mr. Beauchamp, copying Mr. Menaged ("Easy Investments, has his attorney working on it, I'm ok to piggy back with his attorney to fight it.").

²¹⁰ See, also, Comment [1] to Arizona Rule 1.3 ("A lawyer should pursue a matter on behalf of a client despite opposition, obstruction or personal inconvenience to the lawyer, and take whatever lawful and ethical measures are required to vindicate a client's cause or endeavor. A lawyer must also act with commitment and dedication to the interests of the client.").

The Defendants should have also researched, and advised DenSco with respect to, its rights and remedies with respect to Mr. Menaged and his affiliated entities and with respect to the double lien properties and the other lenders, and should have urged DenSco to take appropriate action against Mr. Menaged and his affiliated entities for fraud.

c. Update the 2011 POM Immediately and Cease All Solicitations

By the time of the Bryan Cave Demand Letter, the 2011 POM had already expired by its own terms over a half year earlier. In addition, it did not include any information about the Menaged fraud or DenSco's exposure in the Freo Lawsuit or pursuant to the Bryan Cave Demand Letter, nor did it describe Mr. Chittick's Plan. And, based on the information contained in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter, the Defendants knew that the disclosures made in the 2011 POM were materially inaccurate,²¹¹ especially with respect to DenSco's first lien position,²¹² its loan-to-value ratio,²¹³ and the diversity of its borrowers.²¹⁴

The Defendants knew that the "failure to update [the 2011 POM] as required could result in the Company being subject to a claim under Section 10b-5 [sic] of the Securities Act for employing *manipulative or deceptive device in the sale of securities*, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors."²¹⁵ Further, as Mr. Beauchamp acknowledged in February 2014, he was concerned that Mr. Chittick had committed securities fraud because the loan documents he had Mr. Menaged sign did not comply with DenSco's representations in the 2011 POM.²¹⁶ In addition, as Mr. Beauchamp testified, by "the end of April, beginning of May of 2014 ... *I believed he had committed a securities violation, and it was paramount that we get the disclosure statement out in writing to all of the investors as quickly as possible.*"²¹⁷

²¹¹ See Mr. Beauchamp's handwritten notes of a telephone call with Mr. Chittick on February 11, 2104 ("Material Disclosure – exceeds 10% of the overall portfolio").

²¹² See page 37, 2011 POM.

²¹³ See pages 10 & 37, 2011 POM.

²¹⁴ See pages 10 & 36-37, 2011 POM. See also pages 9-10, lines 25-2, Defendants' DS ("by the end of 2013, more than half of [DenSco's] loan portfolio was tied up with Menaged--well in excess of the promised loan concentrations DenSco had set forth in its disclosures to investors").

²¹⁵ Page 24, 2011 POM.

²¹⁶ Exhibit 70, email dated February 7, 2014 from Mr. Beauchamp to Mr. Goulder (Mr. Menaged's attorney), copying Mr. Chittick ("Based on your previous changes, the Forbearance Agreement would be prima facie evidence that Denny Chittick had committed securities fraud because the loan documents he had Scott sign did not comply with DenSco's representations to DenSco's investors in its securities offering documents.").

²¹⁷ See, also, page 161, lines 7-24, Deposition of Mr. Beauchamp ("Q. Was there any point in time, sir, where you learned that Mr. Chittick was continuing to raise money? A. ... the *end of April, beginning of May of 2014*. ... Q. And once you learned that, you knew he was committing a securities violation? ... A. I – *at that point in time, I believed he had committed a securities violation, and it was paramount that we get the disclosure statement out in writing to all of the*

For the reasons stated above,²¹⁸ it is clear that Mr. Beauchamp was aware that DenSco was continuing to offer Notes without updated disclosures, after the expiration of the 2011 POM, and despite his knowledge of the problems revealed in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter.

Under these circumstances, and notwithstanding Mr. Chittick's Instruction, the Defendants should have insisted that DenSco immediately cease all solicitations of investors (including new investors and rollover investors) unless and until an updated and corrected POM, in compliance with Rule 10b-5, was prepared and provided to all such investors.

d. Advise Mr. Chittick of His Fiduciary Duties to DenSco and its Investors

As a result of the problems revealed in the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter, the Defendants should have advised Mr. Chittick of his fiduciary duties both to DenSco and to its Noteholders. For example, the duty of loyalty mandated that Mr. Chittick, as director,²¹⁹ officer²²⁰ and sole shareholder²²¹ of DenSco, act in the best interests of DenSco. Among other things, the Defendants should not have merely accepted and followed Mr. Chittick's Instruction, but rather urged Mr. Chittick of his obligations to update the POM.

And, to the extent that such problems may have rendered DenSco insolvent, Mr. Chittick would owe fiduciary duties to its creditors, and would be obligated to treat all assets of DenSco as "existing for the benefit" of the Noteholders and other creditors.²²² As a result, the Defendants should have assessed whether DenSco was insolvent or in the "zone of insolvency."

Because of such duties, the Defendants also should have urged Mr. Chittick, on behalf of their client DenSco, to protect and preserve the corporation's assets, and to not pursue a Plan that

investors as quickly as possible. His representations that he had advised everybody and told them to the contrary, we needed something much more formal than that. [italics added].

²¹⁸ See the section entitled "Defendants Allege They Withdrew from Representing DenSco in May 2014" above in this Report.

²¹⁹ See Arizona Revised Statutes, Section 10-842 ("an officer's duties shall be discharged ... [i]n a manner the officer reasonably believes to be in the best interests of the corporation.").

²²⁰ See Arizona Revised Statutes, Section 10-830 ("a director's duties ... shall be discharged ... [i]n a manner the director reasonably believes to be in the best interests of the corporation.").

²²¹ See *Sports Imaging of Arizona, L.L.C. v. 1993 CKC Trust*, No. 1 CA-CV 05-0205, 2008 WL 4448063, *12 (unpublished opinion, Ariz. Ct. App. 2008) ("shareholders that have the ability to control a corporation owe a fiduciary duty to the corporation").

²²² See *A.R. Teeters & Assocs. v. Eastman Kodak Co.*, 172 Ariz. 324, 836 P.2d 1034 (Ariz. Ct. App. 1992) ("all of the assets of a corporation, immediately on its becoming insolvent, exist for the benefit of all of its creditors" [internal citation omitted]). See, also, *Dooley v. O'Brien*, 226 Ariz. 149, 244 P.3d 586 (Ariz. Ct. App. 2010); *Dawson v. Withycombe*, 216 Ariz. 84, 163 P.3d 1034 (Ariz. Ct. App. 2007).

would benefit Mr. Chittick individually (such as to preserve his reputation and/or equity stake in DenSco) at the risk of DenSco or the Noteholders.

Further, as legal counsel to DenSco, the Defendants should have advised Mr. Chittick as to how to best protect and preserve the corporation's assets, especially with respect to those outstanding loans that were not adequately protected by first lien mortgages. In order to render such advice, the Defendants would have needed to conduct due diligence and research in order to properly consider available alternatives.

e. Protect DenSco from the Negligent, Reckless and Disloyal Actions of Mr. Chittick

Because DenSco, and not Mr. Chittick, was the client, the Defendants owed duties to DenSco exclusively.²²³ Because the Defendants knew, or should have known, that Mr. Chittick was acting in a manner that violated his legal obligations to DenSco (e.g., breach of fiduciary duties), and that constituted a violation of the law that would be imputed to DenSco (e.g., securities fraud), in both instances that was likely to result in substantial injury to DenSco, the Defendants were obligated to "proceed as is reasonably necessary in the best interest of the organization."²²⁴ In accordance with Arizona's Rules of Professional Conduct, Rule 1.13 (Organization as Client), paragraph (c), such obligation may have included reporting Mr. Chittick to the proper authorities and/or the Noteholders in order protect DenSco against Mr. Chittick.²²⁵

Here, again, is an issue that arises because DenSco is a high-risk client with only one person making all decisions. The Defendants did not have an opportunity to report to anyone else at DenSco that Mr. Chittick was causing harm to DenSco. Although Rule 1.13(c) itself does not mandate "reporting out," Rule 1.2 makes clear that, under the right set of circumstances, "a lawyer may be required to disclose information relating to the representation to avoid being deemed to have assisted the client's crime or fraud."²²⁶ Because the Defendants were obligated to protect their client against Mr. Chittick, in my opinion the standard of care applicable to them would have obligated them to report Mr. Chittick's inappropriate actions to either the proper authorities or the Noteholders or both.

f. Withdraw from the Representation of DenSco

²²³ See Arizona's Rules of Professional Conduct, Rule 1.13 (Organization as Client).

²²⁴ Arizona's Rules of Professional Conduct, Rule 1.13(b).

²²⁵ Arizona's Rules of Professional Conduct, Rule 1.13(c) ("if (1) despite the lawyer's efforts in accordance with ER 1.13(b) the highest authority that can act on behalf of the organization insists upon or fails to address in a timely and appropriate manner an action or refusal to act, that is clearly a violation of law, and (2) the lawyer reasonably believes that the violation is reasonably certain to result in substantial injury to the organization, then *the lawyer may reveal information relating to the representation* ... only if and to the extent the lawyer reasonably believes necessary to prevent substantial injury to the organization." [italics added]).

²²⁶ Comment [11] of Rule 1.2 (Scope of Representation and Allocation of Authority between Client and Lawyer) of the Arizona Rules of Professional Conduct.

Once it becomes clear that disclosures being provided to investors in DenSco fail to comply with Rule 10b-5, a reasonably prudent attorney would have three options: (1) cause DenSco to immediately update and correct the disclosures made available to all investors; (2) cause DenSco to immediately cease soliciting investors (including rollover investors); or (3) withdraw from the representation of DenSco. (In my experience, the threat to withdraw often induces an otherwise reluctant client to abide by one of the other options.)

Under the circumstances, because the Defendants failed to cause DenSco to update and correct the 2011 POM or cease soliciting investors, the Defendants had no option but to immediately withdraw from the representation of DenSco. Arizona's Rules of Professional Conduct, Rule 1.16 (Mandatory Withdrawal from the Representation), mandates that a lawyer "*shall withdraw from the representation of a client if the representation will result in violation of the Rules of Professional Conduct or other law.*"²²⁷ Further, because the Defendants were aware that DenSco was committing securities fraud by continuing to solicit investors without adequate disclosures, in my opinion such withdraw should have been made clear by written notice to Mr. Chittick on behalf of DenSco, together with a statement disaffirming the 2011 POM.²²⁸

C. The Defendants' Conduct Fell Below the Standard of Care

In my opinion, the Defendants' conduct fell below the applicable standard of care in each of the following respects:

1. The Defendants' Failures with Respect to the Menaged Fraud

a. The Defendants Failed to Recognize that DenSco was a High-Risk Client

For all the reasons stated above under "DenSco was a 'High-Risk' Client," the Defendants should have recognized that DenSco was a high-risk client, and apparently failed to do so. Had they recognized that DenSco was a high-risk client, the applicable standard of care dictates that they would have (a) engaged in extraordinary monitoring and counseling with respect to DenSco, (b) maintained clear documentation of advice provided and actions taken, and (c) been prepared to recognize, and quickly act in response to, red flag warnings or indications of any problems.

b. The Defendants Failed to Conduct any Due Diligence on Mr. Menaged or on DenSco's Funding Procedure

²²⁷ Italics added.

²²⁸ Comment [11] to Rule 1.2 of Arizona's Rules of Professional Conduct ("In some cases, withdrawal alone might be insufficient. It may be necessary for the lawyer to give notice of the fact of withdrawal and to disaffirm any opinion, document, affirmation or the like."). See also Model Rules of Professional Conduct, Comment [10] to Rule 1.2 (Scope of Representation and Allocation of Authority Between Client and Lawyer).

The Defendants were put on notice of the Menaged fraud by each of the four red flag warnings: the Freo Lawsuit, Mr. Chittick's Instruction, the December 2013 Phone Call, and the Bryan Cave Demand Letter. However, based on the record I have reviewed, at no point in time did the Defendants conduct any due diligence or investigation into the claims involving Mr. Menaged and his affiliated entities. A simple search of records available on the County of Maricopa website would have called into question the veracity of Mr. Menaged's fabricated story about his "cousin."²²⁹

Even if Mr. Menaged's story were credible, the fraud supposedly committed by his "cousin" still reflected gravely on Mr. Menaged's reliability, management and supervision – all issues that should have been investigated by the Defendants. Further, there appeared to be no inquiry into where the proceeds from DenSco's loans disappeared to.

The Defendants should have reviewed and reevaluated DenSco's internal procedures to ensure that it was not vulnerable to the type of double lien issue raised first in the Freo Lawsuit, then in the December 2013 Phone Call, and again in the Bryan Cave Demand Letter. As part of such review, the Defendants should have investigated the funding procedure used by DenSco to ensure that it was obtaining first lien deeds of trust in properties owned by its borrowers (as it disclosed in the 2011 POM).

Further, the Defendants apparently took no effort to investigate the magnitude of the double lien issue, relying instead only on those issues and properties specifically identified in the Freo Lawsuit, the December 2013 Phone Call, and the Bryan Cave Demand Letter.

In my opinion, these failures violated Rule 1.3 (Diligence) of the Arizona Rules of Professional Conduct and violated the standard of care applicable to the Defendants.

c. The Defendants Failed to Protect DenSco from Mr. Menaged

²²⁹ See, e.g., Exhibit 103 (Deed of Trust and Security Agreement with Assignment of Rents, recorded in the Official Records of Maricopa County Recorder March 25, 2013, for property located at "7089 W Andrew Lane Peoria, AZ 85383." The Trustor is Easy Investments, LLC. The Beneficiary is Active Funding Group, LLC.); see, also, Exhibit 104 (Deed of Trust and Assignment of Rents, recorded in the Official Records of Maricopa County Recorder April 2, 2013, for property located at "7089 W Andrew Lane Peoria, AZ 85383." The Trustor is Easy Investments, LLC. The Beneficiary is DenSco.). See also Plaintiff's DS ¶ 228 ("Beauchamp also knew from his January 6 review of the demand letter and the hours he had devoted on January 7 and 8 to analyzing Chittick's email and other information he had received from Chittick, that Menaged's 'cousin' story was implausible and that by accepting the story without investigation and planning to continue DenSco's lending relationship with Menaged, Chittick was breaching his fiduciary duties to DenSco."). See also Plaintiff's DS ¶¶ 207(b) & 207(c) ("In January 2014, the Maricopa County Recorder's Office had a free "Recorded Document Search" function. The same tool is available today. If Beauchamp had used that tool, two brief searches would have shown that ... Menaged, not 'a guy in his office,' had secured both loans.").

The Defendants failed to advise DenSco to sever its relationship with, and immediately stop providing additional funds to, Mr. Menaged and his affiliated entities. The Defendants also failed to advise DenSco of its rights and remedies with respect to either Mr. Menaged or the other lenders. Instead of urging DenSco to take appropriate action against Mr. Menaged and his affiliated entities for fraud, the Defendants did just the opposite – by encouraging and facilitating Mr. Chittick’s Plan.

The Defendants failed to recognize that the Forbearance Agreement provided little or no benefit to DenSco. In my experience, a forbearance agreement is utilized to provide short-term relief to a borrower that is experiencing a temporary hardship (such as a cash flow issue). As the name of the agreement suggests, a lender sometimes agrees to *forbear* from exercising its remedies, and delay exercising its right to institute foreclosure proceedings, for a limited period of time in order to provide the borrower with an opportunity to recover.²³⁰ However, the Forbearance Agreement here further acerbated DenSco’s risk and exposure by essentially conceding that Mr. Menaged’s other lenders had a superior lien position and allowing them to extract value out of the mortgaged properties ahead of DenSco.

Mr. Beauchamp’s failures with respect to the Forbearance Agreement raise a troubling question as to whether he simply fell below the applicable standard of care by failing to appreciate the potential damage to DenSco caused by pursuing the agreement, or whether he was in fact motivated by other interests, such as a conflicted desire to give Mr. Chittick’s Plan a chance to work so as to minimize the problems caused by Mr. Beauchamp’s negligent delay in providing updated and corrected disclosures.²³¹ To the extent Mr. Beauchamp’s pursuit of the Forbearance Agreement was motivated by such a personal conflict of interest, such conduct was so reckless and irresponsible that, in my opinion, it constituted a gross departure from the applicable standard of care.

2. The Defendants’ Failures with Respect to Disclosures

a. The Defendants Failed to Timely Update the 2011 POM

Because the 2011 POM provided for a two-year offering period,²³² by its own terms it expired on July 1, 2013. However, based on the record I have reviewed, it appears that the Defendants

²³⁰ It appears that the Defendants believed that it was in DenSco’s interest to forbear from exercising its remedies. See page 12, lines 21-26, Defendants’ DS (“As Mr. Beauchamp explained in a February 10, 2014 email to his colleagues, “we advised our client that *he needs to have a Forbearance Agreement in place to evidence the forbearance* and the additional protections he needs.” [italics added]).

²³¹ See Plaintiff’s DS ¶ 249.

²³² See page (i), 2011 POM (“The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering, or (b) two years from the date of this memorandum.”).

never finalized and provided DenSco with an update to the 2011 POM nor a replacement POM.²³³

The July 1, 2013 deadline for updating the 2011 POM was known to Mr. Beauchamp, as he was the one who prepared the 2011 POM and advised DenSco with respect to such matters. The applicable standard of care obligated Mr. Beauchamp to be diligent in preparing an updated POM prior to July 2013 in order that DenSco could timely distribute the updated POM to investors. Mr. Beauchamp's apparent concern about DenSco being close to issuing \$50 million of Notes was misplaced,²³⁴ and in no event excused him from updating the 2011 POM as DenSco remained obligated to provide required disclosures to its investors.

Further, with each red flag warning, the Defendants were increasingly aware of the significance of the Menaged fraud and DenSco's inadequate funding procedures, and yet never provided DenSco with any Rule 10b-5 compliant disclosure document that described the facts and circumstances – and material consequences – of the Freo Lawsuit, the December 2013 Phone Call and the Bryan Cave Demand Letter. Even with the first red flag warning, Mr. Beauchamp recognized that the Freo Lawsuit needed to be disclosed to investors, and Mr. Chittick was cooperative,²³⁵ but no such disclosure was ever prepared by Mr. Beauchamp nor provided to Mr. Chittick.

Mr. Beauchamp appears to assert in the alternative that the Defendants were not obligated to update or correct the 2011 POM because either (1) Mr. Chittick on his own was providing the required disclosures to investors or (2) Mr. Beauchamp had advised Mr. Chittick to discontinue offering Notes to investors. In my opinion, under the circumstances described above, neither assertion is plausible nor in compliance with the standard of care applicable to the Defendants. Further, the Defendants' conduct in this regard was so reckless and irresponsible that such conduct, in my opinion, constituted a gross departure from the applicable standard of care.

²³³ Further, it does not appear that Mr. Beauchamp *ever* prepared, or advised DenSco to prepare, any update to any of DenSco's POMs during the two-period when such POMs were in effect. See Plaintiff's DS ¶¶ 28 & 29 ("DenSco's records do not reflect that DenSco ever took steps to '[k]eep[] the information in the [POMs DenSco issued in 2007, 2009 and 2011] current' by issuing updates to those POMs during the two-year period each of those POMs was in effect. The files that Beauchamp maintained, and the billing statements issued to DenSco by his respective law firms, do not reflect that Beauchamp ever advised DenSco to '[k]eep[] the information in the [POMs DenSco issued in 2007, 2009 and 2011] current' by issuing updates to those POMs during the two-year period each of those POMs was in effect."). Also see Plaintiff's DS ¶¶ 161 & 162 ("Clark Hill's records show that neither Beauchamp nor any other Clark Hill attorney performed any work on a new POM during September, October, or November 2013. The records also show that neither Beauchamp nor any other Clark Hill attorney even attempted to contact Chittick about the new POM.").

²³⁴ See DIC0003345, Mr. Beauchamp's handwritten notes dated May 9, 2013; email dated June 25, 2013 from Mr. Beauchamp to Ms. Sipes; email dated July 1, 2013 from Ms. Sipes to Mr. Beauchamp.

²³⁵ See email exchange dated June 14, 2013 between Mr. Beauchamp and Mr. Chittick.

b. The Defendants Failed to Conform DenSco Policies and Procedures to Those Disclosed in the POM – and Vice Versa

With each red flag warning, the Defendants became increasingly aware that material statements contained in the 2011 POM were no longer in compliance with Rule 10b-5, especially with respect to DenSco's first lien position,²³⁶ its loan-to-value ratio,²³⁷ and the diversity of its borrowers.²³⁸ In addition, the 2011 POM touted DenSco's historical success rate, including that "no Noteholder has sustained any diminished return or loss on their investment."²³⁹

In my opinion, the Defendants should have recognized that each of these statements was materially inaccurate in light of the Menaged fraud and DenSco's improper and risky funding procedure, and yet the Defendants failed to make any effort to update or correct these statements until after the Forbearance Agreement was completed in mid-April 2014. And even in the Draft 2014 POM which the Defendants prepared after the Forbearance Agreement was executed, the Defendants failed to modify or correct such statements.

3. The Defendants' Failures with Respect to Mr. Chittick

a. The Defendants Failed to Recognize that DenSco, and not Mr. Chittick, was the Client

The record is replete with evidence that the Defendants considered Mr. Chittick to be their client and/or that it was their responsibility to protect him. For example, in February 2014, Mr. Beauchamp communicated to Mr. Goulder (Mr. Menaged's attorney) that the Forbearance Agreement "needs to comply with *Denny's* fiduciary obligation to his investors as well as not become evidence to be used against *Denny* for securities fraud."²⁴⁰ Shortly thereafter, Mr. Beauchamp communicated to Mr. Chittick that the Forbearance Agreement "has to have the necessary and essential terms to protect *you* from potential litigation from investors and third parties."²⁴¹

²³⁶ See page 37, 2011 POM.

²³⁷ See pages 10 & 37, 2011 POM.

²³⁸ See pages 10 & 36-37, 2011 POM. See also pages 9-10, lines 25-2, Defendants' DS ("by the end of 2013, more than half of [DenSco's] loan portfolio was tied up with Menaged--well in excess of the promised loan concentrations DenSco had set forth in its disclosures to investors").

²³⁹ See page 39, 2011 POM ("Since inception through June 30, 2011, ... [e]ach and every Noteholder has been paid the interest and principle due to that Noteholder in accordance with the respective terms of the Noteholders Notes. Despite any losses incurred by the Company from its borrowers, no Noteholder has sustained any diminished return or loss on their investment in a Note from the Company.").

²⁴⁰ Email dated February 7, 2014 from Mr. Beauchamp to Mr. Goulder (Mr. Menaged's attorney), copying Mr. Chittick [italics added].

²⁴¹ Email dated February 9, 2014 from Mr. Beauchamp to Mr. Chittick [italics added]. See, also, email dated March 13, 2015 from Mr. Beauchamp to Mr. Chittick ("I wanted to protect *you* as much as I could." [italics added]); Mr. Beauchamp's handwritten notes of his telephone call with

Mr. Beauchamp failed to understand or recognize that it was DenSco, and not Mr. Chittick, that was his client and that of Clark Hill, even though the Clark Hill Engagement Letter that he signed made expressly clear that Mr. Chittick was *not* the client.²⁴² In my opinion, such failure was in violation of Rule 1.13 of the Arizona Rules of Professional Conduct and in violation of the applicable standard of care.

b. The Defendants Failed to Properly Advise Mr. Chittick as an Officer and Director of DenSco

The Defendants failed to properly advise Mr. Chittick that he was causing DenSco to engage in securities fraud by continuing to sell Notes based on disclosures in the outdated, incorrect and expired 2011 POM.

For the reasons stated above,²⁴³ the Defendants' conduct fell below the standard of care to the extent that they were relying on any purported claim by Mr. Chittick that he was making proper disclosures to investors without an updated and corrected POM.

The Defendants failed to properly advise Mr. Chittick that the Defendants would be required to withdraw from the attorney-client relationship unless he caused DenSco to either cease soliciting investors or provide investors with Rule 10b-5 compliant disclosures.

The Defendants failed to properly advise Mr. Chittick of his fiduciary duties to DenSco. The Defendants further failed to assess whether DenSco was insolvent (or in the zone of insolvency) as a result of the Menaged fraud, in which case Mr. Chittick should also have been advised of his fiduciary duties to the Noteholders.

The Defendants failed to properly advise Mr. Chittick that it was his obligation to protect and preserve DenSco's assets, and to not pursue a Plan that would benefit Mr. Chittick individually (such as to preserve his reputation and/or equity stake in DenSco) at the risk of DenSco or the Noteholders. The Defendants failed to promptly and definitively instruct Mr. Chittick to not fund loan proceeds to borrowers. When Mr. Chittick informed Mr. Beauchamp by email that he provides funds directly to Mr. Menaged and most other borrowers to acquire properties at auctions,²⁴⁴ rather than reaffirm the "fundamental importance" of adhering to the advice that he

Mr. Chittick on February 27, 2014 ("will need Forbearance Agmt to ... protect *Denny*" [italics added]).

²⁴² Engagement Letter dated September 12, 2013 (referenced above).

²⁴³ See "Defendants Allege They Withdrew from Representing DenSco in May 2014" above.

²⁴⁴ Email dated January 9, 2014 from Mr. Chittick to Mr. Beauchamp ("If i cut cashiers check and take it to the trustee myself, i dont' get receipt that DenSco Paid for it. i get a receipt saying that property was paid for, for X \$'s vested in borrower's name. my name doesn't appear on it other than having a cashiers check receipt saying that i made a check out for it, there isn't anything from the trustee saying that it was my check. i could wire Scott the money, he could produce cashiers check that says remitter is DenSco and it would have the exact same affect as if

had been giving since 2007,²⁴⁵ Mr. Beauchamp simply replied "Let me see what the other lenders got from the Trustee and we can make a better decision."²⁴⁶ There is nothing in the record that I have reviewed that indicates Mr. Beauchamp followed up with Mr. Chittick on this exchange or took appropriate action to ensure that Mr. Chittick ceased this improper and risky funding procedure.

And the Defendants failed to advise Mr. Chittick as to how to best protect and preserve the corporation's assets, especially with respect to those outstanding loans that were not adequately protected by first lien mortgages. Nor did they conduct the requisite due diligence and research in order to properly consider available alternatives.

The Defendants conduct fell below the applicable standard of care by, in effect, aiding and abetting Mr. Chittick's wrongful conduct by focusing their attention on the Forbearance Agreement rather than on DenSco's rights and remedies in connection with the Menaged fraud and on updating and correcting the 2011 POM. In other words, by failing to terminate the attorney-client relationship, the Defendants provided substantial assistance in Mr. Chittick's wrongful conduct. The Defendants' conduct in this regard was so reckless and irresponsible that such conduct, in my opinion, constituted a gross departure from the applicable standard of care.

4. The Defendants Failed to Protect DenSco from Mr. Chittick

The Defendants' conduct fell below the applicable standard of care by failing to realize, and act on the fact, that Mr. Chittick's interests conflicted with those of DenSco's. As the director, officer and sole shareholder of DenSco, Mr. Chittick had a fiduciary duty to act in the best interest of DenSco, and not in his own self-interest.

The Defendants failed to recognize that, while Mr. Chittick's Plan and the Forbearance Agreement benefited Mr. Menaged and perhaps Mr. Chittick, the speculative benefit to DenSco (if any) was greatly outweighed by the burdens to DenSco. As discussed above, the Forbearance Agreement imposed material obligations and economic burdens on DenSco, including the obligation (in accordance with Mr. Chittick's Plan) to misuse DenSco's funds by throwing good

i got cashiers check that said I'm the remitter. i don't just do this with scott, i do this with 90% of the guys that i fund at the auctions." [SIC]),

²⁴⁵ See page 6, Defendants' DS ("Mr. Beauchamp ... provided advice to DenSco regarding proper loan documentation procedures since at least 2007. DenSco and Mr. Chittick were both advised, and understood, (a) that DenSco should fund loans through a trustee, title company or other fiduciary, (b) that DenSco was representing to its investors that DenSco's loans would be in first position, and (c) that it was of fundamental importance that DenSco safeguard the use of its investors' funds in conjunction with properly recording liens, in order to ensure that DenSco's loans were in first position.").

²⁴⁶ Email dated January 9, 2014 from Mr. Beauchamp to Mr. Chittick. See; also, Plaintiff's DS ¶ 213(a) ("Chittick had been grossly negligent in managing DenSco's loan portfolio, by not complying with the terms of the Mortgage, which called for DenSco to issue a check payable to the Trustee, and instead wiring money to Menaged, trusting Menaged to actually use those funds to pay a Trustee.").

money after bad in a manner that was inconsistent with the disclosures made to investors in the 2011 POM.

The Defendants fell below the applicable standard of care by allowing and assisting Mr. Chittick in protecting his own self-interest, by among other things: (1) continuing to provide additional funds to Mr. Menaged; (2) delaying disclosure to investors; (3) implementing Mr. Chittick's Plan before making appropriate disclosures to investors; and (4) negotiating and entering into the Forbearance Agreement to the detriment of DenSco and its Noteholders.

Under the circumstances, in accordance with Rules 1.13(b) and 1.2 of the Arizona Rules of Professional Conduct, the Defendants could have – and in my opinion should have – reported Mr. Chittick's breaches to the proper authorities and/or the Noteholders in order protect DenSco against Mr. Chittick.

5. The Defendants' Conflicts of Interest

The Defendants fell below the standard of care, and violated the applicable Rules of Professional Conduct, by failing to recognize and properly address two conflicts of interest: first, the conflict of interest created by concurrently representing both DenSco and the Chittick Estate, when DenSco had potential claims against the Estate for malfeasance by Mr. Chittick; and second, the conflict of interest in representing DenSco in wind down matters when DenSco had potential claims against the Defendants for malfeasance.

a. The Defendants Failed to Recognize the Concurrent Conflict of Interest Between DenSco and the Chittick Estate

For the reasons stated above, the Defendants knew that Mr. Chittick had violated his fiduciary duties to DenSco, and that as a result DenSco had potential claims against Mr. Chittick and; following his death, against the Chittick Estate.²⁴⁷ However, rather than consider and pursue such claims against the Chittick Estate, the Defendants concurrently took on the representation of the Chittick Estate. Such representation was in violation of Rule 1.7 of the Arizona Rules of Professional Conduct: "a lawyer shall not represent a client if ... the representation of one client will be directly adverse to another client." It would have been contrary to the interests of the Chittick Estate for DenSco to consider or pursue claims against the Chittick Estate for Mr. Chittick's malfeasance, and yet, as wind down counsel to DenSco, it was the obligation of the Defendants to consider and pursue such claims (as independent legal counsel to DenSco would have done, and as the Receiver in fact has done).²⁴⁸

²⁴⁷ See, e.g., Exhibit 288A to Deposition of Mr. Beauchamp, email dated August 15, 2016 from Mr. Beauchamp to Mr. Hyman ("Due to potential conflicts of interest, we have resigned as counsel to the Estate and new counsel has been appointed or is being appointed for the Estate.").

²⁴⁸ See Arizona Rules of Professional Conduct, Rule 1.7, Comment [3] ("A conflict of interest may exist before representation is undertaken, in which event the representation must be declined"); Comment [4] ("If a conflict arises after representation has been undertaken, the lawyer ordinarily must withdraw from the representation"); Comment [6] ("Loyalty to a current client prohibits undertaking representation directly adverse to that client a lawyer may not act

The Defendants failed to secure informed consent, confirmed in writing, to such conflict, as required by Rule 1.7. In fact, it's not clear that anyone could have provided such consent on behalf of the Chittick Estate prior to the appointment of Ms. Heuer as the personal representative of the Chittick Estate (which appointment was done during the course of the Defendants' representation of the Chittick Estate), and even after Ms. Heuer was appointed, it does not appear that the Defendants sought or received the required consent from her.

**b. The Defendants Failed to Recognize the Conflict of Interest
Between Wind Down Work for DenSco and the Defendants'
Interests**

For all the reasons stated above, the Defendants' conduct fell below the standard of care, resulting in potential claims that DenSco may bring against the Defendants for malfeasance. The Defendants were well aware of such risk and the resulting conflict of interest.²⁴⁹ Despite such conflict of interest, the Defendants actively stepped into the role as legal counsel to DenSco in connection with wind down and transition matters, and Mr. Beauchamp took it upon himself to act as a quasi-receiver or liquidator with respect to the wind down of DenSco.

Such representation was in violation of Rule 1.7 of the Arizona Rules of Professional Conduct: "a lawyer shall not represent a client if ... there is a significant risk that the representation ... will be materially limited ... by a personal interest of the lawyer." It would have been contrary to the personal interests of the Defendants for DenSco to consider or pursue claims against the Defendants for their malfeasance, and yet, as wind down counsel to DenSco, it was the

as an advocate in one matter against a person the lawyer represents in some other matter"); Comment [8] ("a conflict of interest exists if there is a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's responsibilities The conflict in effect forecloses alternatives that would otherwise be available to the client. ... The critical questions [include] whether [the difference in interests] will ... foreclose courses of action that reasonably should be pursued on behalf of the client.").

²⁴⁹ See, e.g., DIC0009476, the Iggy Letter dated July 28, 2016 ("Dave never made me tell the investors"; "I talked Dave my attorney in to allowing me to continue without notifying my investors."; "Dave my attorney ... let me get the workout signed not tell the investors and try to fix the problem. That was a huge mistake."); email dated March 13, 2015 from Mr. Beauchamp to Mr. Chittick ("I have second guessed myself concerning several steps in the overall process, but I wanted to protect you as much as I could."); pages 447-448, lines 19-15, Deposition of Mr. Beauchamp ("Q. Did you discuss with [Ms. Heuer] potential conflicts of interest that you and Clark Hill would have with respect to representing DenSco? A. Yes. ... Q. Did you disclose to her that Clark Hill was concerned about potential claims that could be made against Clark Hill regarding your representation of DenSco? A. Yes."); page 140, lines 10-20, Deposition of Mr. Hood ("Q. ... On August 2nd, August 3rd, 2016, with all of the information that Clark hill [sic] knew, could Clark Hill reasonably anticipate that a receiver might sue Clark Hill for damages? ... THE WITNESS: ... I suppose it was a possibility").

obligation of the Defendants to consider and pursue such claims (as independent legal counsel to DenSco would have done, and as the Receiver in fact has done).²⁵⁰

The Defendants failed to secure informed consent, confirmed in writing, to such conflict, as required by Rule 1.7. In fact, it's not clear that anyone could have provided such consent on behalf of DenSco following the death of Mr. Chittick, and even after Ms. Heuer was appointed as the personal representative of the Chittick Estate (not that such appointment would have necessarily given her the authority to consent to the conflict of interest on behalf of DenSco), it does not appear that the Defendants sought or received the required consent from her.

Following Mr. Chittick's death, rather than consider and pursue claims that DenSco might have against the Defendants, it appears that Mr. Beauchamp actively tried to protect himself and Clark Hill. As discussed above, it appears that Mr. Beauchamp took it upon himself to act as a quasi-receiver or liquidator with respect to the wind down of DenSco, despite not necessarily having the requisite skills to do so nor having an authorized and competent client representative from whom to take instruction, receive approvals or seek guidance. Further, Mr. Beauchamp advocated against each of the following: (1) having a receiver or trustee appointed to conduct the wind down of DenSco;²⁵¹ (2) having any investor become an authorized representative of DenSco;²⁵² and (3) having the state regulator take any active role.²⁵³

In my opinion, these actions violated the standard of care applicable to Mr. Beauchamp, and suggest that Mr. Beauchamp was attempting to persuade the investors to support him as the

²⁵⁰ See Arizona Rules of Professional Conduct, Rule 1.7, Comment [8] ("a conflict of interest exists if there is a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's ... interests. ... The conflict in effect forecloses alternatives that would otherwise be available to the client. ... The critical questions [include] whether [the difference in interests] will ... foreclose courses of action that reasonably should be pursued on behalf of the client."); Comment [10] ("The lawyer's own interests should not be permitted to have an adverse effect on representation of a client. For example, if the probity of a lawyer's own conduct in a transaction is in serious question, it may be difficult or impossible for the lawyer to give a client detached advice.").

²⁵¹ See, e.g., Exhibit 213, email dated August 3, 2016 from Mr. Beauchamp to DenSco investors ("the costs associated with a bankruptcy or a Receiver can reduce the amount to be paid to investors by almost half or even a much more significant reduction").

²⁵² See, e.g., Exhibit 213, email dated August 3, 2016 from Mr. Beauchamp to DenSco investors ("We intend to structure this as an Advisory Board to protect the members of this Advisory Board from any potential liability based upon their role with DenSco. Specifically, the Advisory Board would only have an advisory position with DenSco as opposed to a full authority position, which is to distinguish this situation from having these Investors appointed to the Board of Directors").

²⁵³ See, e.g., Exhibit 256, Deposition of Mr. Beauchamp, email dated August 9, 2016 from Mr. Beauchamp to investor Craig Hood, copying other investors ("We need to be willing but not overly anxious to turn it over to the Securities Division. Several people in government made names and careers with the Mortgages Ltd. matter and we do not want this to turn into anything like that.").

appropriate person to wind down the business, thereby avoiding or delaying the pursuit of claims that DenSco might have against the Defendants. One could reasonably infer that Mr. Beauchamp wanted to control the wind down so as to protect himself because if a receiver were to be appointed, he or she would file a claim against the Defendants on behalf of DenSco – which is exactly what happened in this Case.

In addition, Mr. Beauchamp's testimony at the receiver appointment hearing that he represented both DenSco and Mr. Chittick, together with his former law firm's assertion of a joint attorney-client privilege premised on that testimony, further complicated and delayed the Receiver's ability to obtain and utilize DenSco's files from Clark Hill. One could also reasonably infer that Mr. Beauchamp intended such result so as to protect himself, especially with respect to preventing disclosure of the Iggy Letter, the Chittick Investor Letter dated July 28, 2016, and the DenSco Journal, all of which implicate the Defendants.

Under the circumstances, the Defendants' conduct in this regard was so reckless and irresponsible that such conduct, in my opinion, constituted a gross departure from the applicable standard of care.

6. The Defendants Failed to Withdraw from Representing DenSco

Finally, in my opinion, the Defendants failed to properly withdraw from the representation of DenSco on a timely basis, as required by Rules 1.16 and 1.2 of the Arizona Rules of Professional Conduct.

V. CONCLUSION

It is my opinion, as detailed above and based on the record I have reviewed, that the Defendants violated the applicable standard of care in their representation of DenSco.

* * *

I reserve the right to supplement, update or amend my opinions as new information becomes available or is brought to my attention.


Neil J Wertlieb

March 26, 2019

Exhibit A

Curriculum Vitae of Neil J Wertlieb

NEIL J WERTLIEB
15332 Antioch Street, Unit 802
Pacific Palisades, CA 90272
(424) 265-9659
Neil@WertliebLaw.com



CURRENT PROFESSIONAL ACTIVITIES



Wertlieb Law Corp
Principal

2017 – Present

- Wertlieb Law Corp provides expert witness and expert consulting services to attorneys in their litigation and arbitration matters
 - Our engagements have been focused primarily in two areas:
 - Disputes involving business transactions, corporate governance and fiduciary duties
 - Cases involving attorney ethics and attorney malpractice
 - I have served as an expert in dozens of such disputes and cases
 - I have testified numerous times, in court (both bench and jury trials), in arbitration and in depositions
- Other services provided by Wertlieb Law Corp include:
 - Mediation services for business disputes
 - Board of director appointments
 - Ethics consulting
 - MCLE presentations
 - Legal services
- For more detailed information, see www.WertliebLaw.com



UCLA School of Law
Adjunct Professor / Lecturer in Law

2002 – Present

- I teach a transaction skills course entitled “Life Cycle of a Business,” a course of my own design focusing on deals, negotiation, contract drafting and ethics
- 3-unit course satisfies one of the requirements for students seeking a Business Law and Policy Specialization



Ballantine & Sterling: California Corporation Laws
General Editor

2012 – Present

- 7-volume treatise on the laws governing businesses in the State of California
- In-depth practical guidance concerning the formation, operation and dissolution of corporations, partnerships, limited liability companies and other business entities
- Cited as authority in over 500 federal and state court opinions, 25 SEC No-Action Letters and other administrative reference materials, and 50 law review articles



Milbank@Harvard
Senior Advisor

2018 – Present

- Engaged by Harvard Law School Executive Education
- This professional development program provides attorneys at Milbank, Tweed, Hadley & McCloy LLP with immersive week-long programs to build leadership and business skills each year for four years, as they progress from mid-level associates to senior associates
- Led by Harvard Law School and Harvard Business School faculty, the program covers topics such as business, finance, accounting, marketing, law, management skills, client relations and personal and professional development
- As Senior Advisor, I attend program sessions at Harvard and provide input, guidance and assistance in formulating the program and connecting it to work at Milbank



State Bar of California, Office of Chief Trial Counsel
Special Deputy Trial Counsel

2017 – Present

- The State Bar Office of Chief Trial Counsel must recuse itself when it receives a disciplinary complaint against an attorney who has a close professional, personal, family or financial connection with the State Bar of California
- To avoid an appearance of impropriety under such circumstances, an independent Special Deputy Trial Counsel is appointed, with all the powers and duties of the Chief Trial Counsel, to investigate and, if warranted, prosecute alleged misconduct by such an attorney
- Since my appointment as a Special Deputy Trial Counsel, I have worked on several such matters

EMPLOYMENT HISTORY



Milbank, Tweed, Hadley & McCloy LLP, Los Angeles
Partner

1995 – 2016

- General Practice Areas: Business transactions, primarily acquisitions, finance, securities offerings and restructurings
- Representative transactions:
 - Represented an NYSE-listed company as regular outside corporate counsel in numerous transactions, including IPO, acquisitions, financings and a change-in-control transaction
 - Represented underwriters in the initial public offering of a California-based home builder, considered by *The Daily Journal* to be one of the Top 10 IPOs of 2013
 - Led the restructuring of a social network company for which Milbank received an “M&A Advisor” Award for Deal of the Year (2014) from *The M&A Advisor*
 - Represented the finance subsidiary of one of the world’s largest automotive companies in numerous debt financings totaling almost \$20 billion

- Represented the venture capital investing subsidiaries of three major public companies – a multinational conglomerate, a leading telecom company and a large U.S. bank – in over 50 different investments in early stage companies
- Represented two different alternative energy companies in sale transactions for which Milbank received the “Top Legal Advisor Award for M&A” from *Bloomberg New Energy Finance*
- Represented family owners in disposition transactions for a fashion optical company, a broadcast company and a hair care company
- Represented unsecured lenders in the restructuring of a print media company with over \$10 billion in debt
- Administrative Responsibilities:
 - Chair of Ethics Group for California Practices
 - Corporate Governance Group
 - Professional Development Committee
 - Milbank@Harvard (training program for associates)
 - Hiring Partner for Los Angeles Office



IDB Communications Group, Inc., Culver City, CA
Vice President, General Counsel & Secretary

1992 – 1995

- IDB was the fourth-largest U.S.-based provider of international telephone service when it was acquired by WorldCom, Inc. in December 1994
- As General Counsel, responsible generally for all legal matters, including acquisitions, financings and loan transactions, securities law compliance, litigation and crisis management, employment disputes, real estate transactions, board of director meetings, corporate records and customer contracts
- Responsibilities included what was then the second largest equity offering by a NASDAQ-listed company
- Named Executive Officer & Member of Executive Committee
- Established and supervised legal department of nine attorneys and five legal assistants



Los Angeles Kings Hockey Team, Culver City, CA
General Counsel (part-time) & Director

1994 – 1995

- Responsible for the acquisition transaction in which the Chairman of IDB Communications Group, Inc. acquired a controlling interest in the Kings
- General ongoing responsibilities included management, player and broadcast contracts and interaction with the National Hockey League and lenders
- Member of Board of Directors



O'Melveny & Myers, Los Angeles, CA
Associate

1984 – 1992

- Practice Areas: Transactional work focused on public and private securities financings (including initial public offerings), mergers and acquisitions, joint ventures and general corporate and contractual matters

- Administrative Responsibilities: Monitoring of legislative developments in California, training seminars, summer committee, executive compensation group, and “blue sky overseer”



California Supreme Court, San Francisco, CA
Judicial Extern for Associate Justice Stanley Mosk

1983

- Responsible for reviewing and evaluating Petitions for Hearing and drafting judicial opinions for the longest-serving justice on the California Supreme Court

EDUCATION

UC Berkeley School of Law, Berkeley, CA
Juris Doctor Degree

1982 – 1984

- Juris Doctor awarded 1984
- Associate Editor, *International Tax & Business Lawyer*

UC Hastings College of the Law, San Francisco, CA

1981 – 1982

- Top 1% (ranked number 5 in first-year class of 503 students)
- Transferred to UC Berkeley School of Law after first year
- Law Review (awarded based on both grades and writing competition)

UC Berkeley School of Business Administration, Berkeley, CA
Bachelor of Science Degree

1976 – 1980

- Bachelor of Science awarded 1980 in Management Science
- Honor Students Society
- Alumni Scholarship Award
- Dormitory Government Chairman

LEADERSHIP POSITIONS

STATE BAR OF CALIFORNIA & CALIFORNIA LAWYERS ASSOCIATION

- **Committee on Professional Responsibility and Conduct** 2008 – 2014
Chairman
 - COPRAC is a standing committee of the Board of Trustees of the State Bar of California, whose primary charge is the development and issuance of advisory ethics opinions to assist attorneys in understanding their professional responsibilities under the California Rules of Professional Conduct
 - Chair during 2012-2013, Vice Chair during 2011-2012, Advisor during 2013-2014
 - Organized, moderated and participated on numerous panel presentations on various ethical issues, including at the Annual Meeting of the State Bar and at the Annual Ethics Symposium

- Authored several ethics opinions and, as Chair of COPRAC's Rules Revision Commission Subcommittee, led COPRAC's efforts in reviewing and commenting on proposed new rules of professional conduct
- **Business Law Section** 2003 – 2008
Chairman
 - The Business Law Section serves as a forum to educate attorneys on recent developments and current issues in all fields of business law
 - Chair during 2006-2007, Vice Chair for Legislation during 2005-2006, and Member of the Executive Committee the remaining duration of my 5-year term
- **Corporations Committee** 1999 – 2003
Chairman
 - The Corporations Committee is a standing committee of the Business Law Section, focused on the laws relating to corporations and business transactions
 - Co-Chair during 2001-2002, Vice Chair for Legislation during 2000-2001
 - As Vice Chair for Legislation, responsible for the Section's efforts to prepare and advocate for legislative proposals to amend the California Corporations Code
- **Business Litigation Committee** 2016 – Present
Vice Chair
 - The Business Litigation Committee is a standing committee of the Business Law Section, focused on the laws relating to business disputes in California
 - Co-Vice Chair during 2018-2019
- **Business Law News** 2008 – Present
Editorial Advisor
 - The *Business Law News* is the official publication of the Business Law Section of the California Lawyers Association (formerly the California State Bar)
 - Providing advice and guidance to the Editorial Board of the *Business Law News*

LOS ANGELES COUNTY BAR ASSOCIATION

- **Professional Responsibility and Ethics Committee** 2013 – Present
Chairman
 - PREC is a standing committee of the Board of Trustees of the Los Angeles County Bar Association, whose primary mission is to prepare written opinions and responses to questions concerning the ethical duties and responsibilities of lawyers
 - Chair during 2018-2019, Vice Chair during 2017-2018, Secretary during 2016-2017
 - As Chair of PREC's Rules Revision Commission Subcommittee, led PREC's efforts in reviewing and commenting on proposed new rules of professional conduct

BOARD APPOINTMENTS

- **Windward School** 2013 – Present
Chair & Member, Board of Trustees
 - Windward School is an independent middle and high school in Los Angeles

- Also served on Executive Committee and as Co-Chair of Committee on Trustees and Chair of Strategic Planning Committee
- **Los Angeles Arts Association** 2010 – 2018
Member, Board of Directors
 - As a 501(c)(3) nonprofit organization, LAAA's mission since 1925 is to provide opportunities, resources, services and exhibition venues for Los Angeles artists, with an emphasis on emerging talent
- **Village School** 2008 – 2014
Member, Board of Trustees & Executive Committee
 - Village School is a TK through Sixth Grade independent school in Los Angeles
 - Also served on the Finance Committee and as Chair of the Legal Committee
- **Los Angeles Kings Hockey Team** 1994 – 1995
Member, Board of Directors
 - Also served as General Counsel of this National Hockey League team
- **821 Bay Street Homeowners Association, Inc.** Early 1990s
President & Member, Board of Directors
 - Homeowners association for 15-unit condominium complex in Santa Monica
- **Co-Opportunity Consumers Cooperative, Inc.** Late 1980s
Member, Board of Directors
 - The "co-op" is a community owned and operated market based in Santa Monica

RECOGNITIONS, SPEAKING ENGAGEMENTS & PUBLICATIONS

Recognitions & Honors

- "AV Preeminent" peer review rated (5.0 out of 5.0) on Martindale-Hubbell (Present)
- Profiled in *The Lexis Practice Advisor Journal*: "An Overview of Corporate Transactional Practice & Expert Witnessing: Q&A with Neil J Wertlieb" (Spring 2016)
- Led transactions for which Milbank received an "M&A Advisor" Award for Deal of the Year and an "M&A Advisor Turnaround" Award from *The M&A Advisor* (2014)
- Advised underwriters on an initial public offering selected by *The Daily Journal* as one of the Top 10 IPOs (2013)
- Recognized in *The Legal 500* for M&A work (2012)
- Led two transactions for which Milbank received the "Top Legal Advisor" Award for M&A from *Bloomberg New Energy Finance* (2009)
- Recognized by *Super Lawyers* as a Top Rated Mergers & Acquisitions Attorney and for his Corporate Finance work (2004)
- Profiled in *California Law Business*: "The 100 Most Influential Lawyers in California" (October 30, 2000)
- Profiled in *Los Angeles Business Journal*: "Who's Who Banking & Finance: Roadkill Warriors" (October 16, 2000)

- Profiled in *California Law Business*: “Dealmaker of the Week” (October 9, 2000)
- Profiled in *Los Angeles Business Journal*: “Wall Street West: Cyber Lawyer” (September 20-26, 1999)

Speaking Engagements (since 2000)

- Presenter, “California’s New Rules of Professional Conduct,” presentations to various law firms and other organizations in Southern California (2018 – Present)
- Moderator, “Ethical Issues for In-House Counsel,” Lowell Milken Institute for Business Law and Policy at UCLA School of Law, Palo Alto, CA (January 30, 2019)
- Presenter, “The New Rules of Professional Conduct,” California Lawyers Association, Webinar (January 29, 2019)
- Presenter, “The New Rules of Professional Conduct,” J. Reuben Clark Law Society, Irvine, CA (January 17, 2019)
- Presenter, “The New Rules of Professional Conduct (for Transactional Lawyers),” Los Angeles County Bar Association’s Business and Corporations Law Section, Webinar (January 15, 2019)
- Panelist, “Ethics – All You Need to Know: Conflicts, Conflicts, Conflicts – What the New Rules and the *Sheppard Mullin v. J-M* Case have To Say,” Los Angeles County Bar Association’s Annual Program on Ethics, Los Angeles, CA (January 13, 2019)
- Moderator, “How to Keep Your Expert In and Their Expert Out,” California Lawyers Association’s Business Law Section, Webinar (November 6, 2018)
- Presenter, “A New Chapter in Professional Responsibility,” Lowell Milken Institute for Business Law and Policy at UCLA School of Law, Los Angeles, CA (October 30, 2018)
- Presenter, “Trials and Tribulations – Tactics, Strategies and Updates for the Business Litigator: The Ethical Use of Expert Witnesses,” California Lawyers Association’s Solo and Small Firm Section, Los Angeles, CA (October 18, 2018)
- Panelist, “Conflict Waivers, Mediation Waivers, New Rules - Oh My! Avoiding Ethical Traps Triggered by Recent Developments Under California Law,” Beverly Hills Bar Association, Los Angeles, CA (October 11, 2018)
- Presenter, “New Rules of Professional Conduct go into Effect on November 1, 2018 – Are You Ready?,” California Lawyers Association Annual Meeting, San Diego, CA (September 14, 2018)
- Panelist, “New Rules of Professional Conduct go into Effect Later this Year – *ARE YOU READY?*,” Los Angeles County Bar Association, Los Angeles, CA (August 21, 2018)
- Panelist, “Brave New World: What Business Lawyers Need to Know About the Sea Change to New Rules Of Professional Conduct,” Beverly Hills Bar Association, Beverly Hills, CA (July 12, 2018)
- Presenter, “Contracts 101: The Contract of the Year – *But is it Enforceable?*” presentations to various law firms and other organizations in Southern California (2018)
- Presenter, “Teach the Basics of Contract Drafting, Corporate Governance & Transactional Law . . . *in One Single Sentence!*” Emory Law’s 6th Biennial Conference on Teaching Transactional Law and Skills, Atlanta, GA (June 1, 2018)

- Panelist, “Advising Clients on the Formation of Legal Entities in California – Ethical Issues,” California Lawyers Association’s Business Law Section, Los Angeles, CA (March 30, 2018)
- Presenter, “The Proposed Rules of Professional Conduct – What Every Litigator Should Know,” California Lawyers Association’s Litigation Section, Webinar (March 1, 2018)
- Presenter, “Proposed Changes to California Professional Conduct Rules for Transactional Attorneys,” Los Angeles County Bar Association’s Business and Corporations Law Section, Webinar (January 29, 2018)
- Presenter, “The Proposed Rules of Professional Conduct,” presentations to various law firms in Southern California (2017 – 2018)
- Moderator, “Conflicts of Interest: Guidelines for Every Lawyer’s Success,” American Bar Association’s Center for Professional Development, Webinar (July 20, 2017)
- Panelist, “Ethics Issues Relating to the Use of Expert Witnesses,” American Bar Association’s National Conference on Professional Responsibility, St. Louis, MO (June 2, 2017)
- Panelist, “Ethics in, and Negotiating and Preserving Privilege in, M&A Transactions,” American Bar Association’s Business Law Section Spring Meeting, New Orleans, LA (April 6, 2017)
- Moderator, “Venture Capital Panel,” Law and Entrepreneurship Association of UCLA School of Law, Los Angeles, CA (April 4, 2017)
- Panelist, “Ethics – All You Need to Know: The Ethical Use of Expert Witnesses,” Los Angeles County Bar Association’s Annual Program on Ethics, Los Angeles, CA (January 14, 2017)
- Presenter, “The Ethical Use of Expert Witnesses,” presentations to various litigation groups in Southern California (2016 – Present)
- Panelist, “The Effective and Ethical Use of Expert Witnesses,” Annual Meeting of the California State Bar, San Diego, CA (September 30, 2016)
- Presenter, “Key Ethical Issues When Ending the Attorney-Client Relationship,” Bloomberg BNA Ethics, Webinar (April 12, 2016)
- Panelist, “Phantom Clients and How to Exorcise Them,” LMRM Conference, Chicago, IL (March 3, 2016)
- Presenter, “How to Be, and How to Use, an Expert Witness,” California State Bar, Webinar (November 4, 2015)
- Presenter, “Ethics for the In-House Attorney,” presentations to 15 legal departments in California and New York, approximately 1,000 in-house attorneys (2011 – 2014)
- Panelist, “Ethics Update 2014: Significant Developments in the Law of Lawyering,” Annual Meeting of the California State Bar, San Diego, CA (September 12, 2014)
- Panelist, “Ethics Update 2013: Significant Developments in the Law of Lawyering,” Annual Meeting of the California State Bar, San Jose, CA (October 11, 2013)
- Moderator, “Doing Good Made Easy (or at Least Easier): Ethical Issues Arising in *Pro Bono* Representations,” Annual Ethics Symposium of the California State Bar, Los Angeles, CA (April 20, 2013)
- Panelist, “Ethics Update 2012: Significant Developments in the Law of Lawyering,” Annual Meeting of the California State Bar, Monterey, CA (October 12, 2012)
- Moderator, “The No Contact Rule: Up Close and Personal,” Annual Ethics Symposium of the California State Bar, San Francisco, CA (May 19, 2012)

- Co-Teacher, “Negotiations: Creating and Claiming Value,” Harvard University, Cambridge, MA (February 16, 2012 & November 17, 2011)
- Co-Teacher, “Negotiations: Strategies of Influence,” Harvard University, Cambridge, MA (November 15, 2011)
- Moderator & Panelist, “Dealing with Difficult Clients While Maintaining Your Professional Responsibility,” Annual Meeting of the California State Bar, Long Beach, CA (September 17, 2011)
- Moderator, “Ethics on the Inside (Ethical Issues Faced by In-House Attorneys),” Annual Ethics Symposium of the California State Bar, Irvine, CA (April 9, 2011)
- Moderator & Panelist, “Conflicts for Lawyers: How to Get Yourself Disqualified, Sued and Disciplined,” Annual Meeting of the California State Bar, Monterey, CA & San Diego, CA (September 24, 2010 & September 11, 2009)
- Panelist, “When Private Equity Comes Calling: The Role of Corporate Counsel in Takeover Transactions,” 2007 Institute for Corporate Counsel, Los Angeles, CA (December 6, 2007)
- Presenter, “Basics of Mergers & Acquisitions,” Southern California Chapter of ACCA, Los Angeles & Orange Counties, CA (November 8, 2006)
- Panelist, “Developments in Corporate Governance: Revisiting Director Voting and other Hot Potatoes,” ABA Business Bar Leaders Conference, Chicago, IL (May 10, 2006)
- Panelist, “Legislation: Turning Ideas into Law: Effective Legislative Strategies for Business Law Organizations,” ABA Business Bar Leaders Conference, Chicago, IL (May 10, 2006)
- Panelist, “Mergers & Acquisitions: Growth, Access to Capital and Liquidity through Mergers, Acquisitions and Strategic Alliances,” The Investment Capital Conference 2004, Los Angeles, CA (April 27, 2004)
- Guest Lecturer, “Corporate Governance,” USC Business School, Course on Advanced Finance, Los Angeles, CA (July 26, 2004)
- Moderator & Panelist, “Doing Business Online: Financing Online Operations,” Law Seminars International, Los Angeles, CA (August 25, 2000)

Publications (since 2004)

- *Ballantine & Sterling: California Corporation Laws*, General Editor (2012 – Present)
- *Life Cycle of a Business: Transaction Skills*, UCLA Law Course Reader, Editor (2002 – Present)
- *Lexis Practice Advisor: Ethics For In-House Counsel*, Contributing Author (2015 – Present)
- “Teach the Basics of Contract Drafting, Corporate Governance & Transactional Law in One Sentence,” *20 Tennessee Journal of Business Law* 387 (2019)
- “An Update: Rules of Professional Conduct,” *The Practitioner* (Summer 2018)
- “New Rules of Professional Conduct,” *Business Law News* (2018)
- “New Rules: The Entirely New Rules,” *The Daily Journal* (Part 3 of 3-part series) (June 1, 2018)
- “New Rules of Conduct: The Uncontroversial, But Important,” *The Daily Journal* (Part 2 of 3-part series) (May 25, 2018)

- “New Rules of Conduct: The Disruptive and Controversial,” *The Daily Journal* (Part 1 of 3-part series) (May 18, 2018)
- “Proposed New Ethics Rules, and Their Impact on Solo Practitioners,” *The Practitioner* (Spring 2018)
- “The Proposed Rules of Professional Conduct,” *Business Law News* (2018)
- “Proposed New Ethics Rules: What You Need to Know,” *Family Law News* (2018)
- “Best Behavior: Proposed Conduct Rules,” *Los Angeles Lawyer* (November 2017)
- “Ethics Issues in the Use of Expert Witnesses,” *The Professional Lawyer* (2017)
- “Special Coverage – Proposed Rules of Professional Conduct: Lawyer as Third-Party Neutral (Rule 2.4),” *The Daily Journal* (September 11, 2017)
- “Special Coverage – Proposed Rules of Professional Conduct: Organization as Client (Rule 1.13),” *The Daily Journal* (April 24, 2017)
- “What Transactional Lawyers Should Know About Conflicts of Interest,” *Business Law News* (with Nancy T. Avedissian) (2016)
- “The No Contact Rule Actually DOES Apply to Transactional Lawyers,” *Business Law News* (with Nancy T. Avedissian) (2015)
- “The Rules of Professional Conduct DO Apply to In-House Lawyers,” *Business Law News* (with Adam S. Bloom) (2015)
- “Ethical Issues for the In-House Transactional Lawyer,” *Business Law News* (with Adam S. Bloom) (2010)
- “Ex Parte Communications in a Transactional Practice,” *Business Law News* (with Nancy T. Avedissian) (2009)
- “Addressing Conflicts of Interest in a Transactional Practice,” *Business Law News* (with Nancy T. Avedissian) (2008)
- “Hostage Situation: Holders of Preferred Stock Can Become the Victims of Legal Blackmail by Common Stockholders When an Early-Stage Firm Fails – Unless They Take a Simple Step Up Front,” *The Deal* (October 25, 2004)

Quoted as Authority (since 2017)

- “Rules of Professional Conduct Approved by the Supreme Court,” *Ethics News*, State Bar of California website (2018 – Present)
- “Avenatti Saga Spotlights Attorney Ethics, When to Draw Lines,” *Bloomberg Law* (March 26, 2019)
- “Women on board: California law requiring female corporate directors could be unconstitutional,” *CBC News* (March 8, 2019)
- “Michael Avenatti’s Ex Mareli Miniutti Got Money Allegedly Hidden From Bankruptcy Court,” *The Daily Beast* (February 18, 2019)
- “Former Client Accuses Michael Avenatti of Operating Law Firm Like a ‘Ponzi Scheme,’” *The Daily Beast* (January 22, 2019)
- “Michael Avenatti Preps for Two Weeks of Hell: Child Support, Debts, and Abuse Allegations,” *The Daily Beast* (December 3, 2018)
- “Raging Wildfires Bring Concerns of Legal Fraud in California,” *Bloomberg Law* (November 16, 2018)
- “California Rules of Professional Conduct Update,” *Legal Talk Network* (October 16, 2018)

- “Media Companies Could Run Afoul of California Law Banning All-Male Boardrooms,” *The Hollywood Reporter* (October 4, 2018)
- “California is One of Few States Implementing New Anti-Harassment Rule,” *The Daily Journal* (September 27, 2018)
- “Judge Puts Brief Pause on CBS-Shari Redstone Legal Battle,” *Variety* (May 16, 2018)
- “Trump Boasts NDAs a Common Practice for ‘Celebrities and People of Wealth,’” *NBC News* (May 3, 2018)
- “Hidden Expert-Pay Ruling Won’t Improve J&J Odds at Retrial,” *Law360* (April 30, 2018)
- “Federal Judge Rejects Stormy Daniels’ Request for Expedited Trial,” *ABC News* (March 29, 2018)
- “Porn Star Raising Funds for Legal Expenses in Trump Disclosure Fight,” *ABC News* (March 14, 2018)
- “Corporations Must Embrace Diversity to Prevent Misconduct and Liability Costs from Sexual Harassment,” *Variety* (December 13, 2017)
- “Weinstein Scandal Triggers Questions of Corporate Liability and Even Complicity,” *Variety* (October 25, 2017)
- “California Cases To Watch In 2017,” *Law360* (January 2, 2017)

MISCELLANEOUS

Bar Admissions & Memberships

- Admitted to practice in California, New York & District of Columbia
- Member:
 - American Bar Association
 - Association of Professional Responsibility Lawyers
 - California Lawyers Association
 - Los Angeles County Bar Association

Personal

- Married; father to 3 teenage boys
- Marathon runner: New York, Los Angeles, Ventura, Long Beach . . . and still going!



Exhibit B

List of Cases in Which I Have Testified as an Expert During the Past Four Years

Robert Hayman v. Michael Treiman

- Arbitration, Los Angeles County; Arbitrator Barbara A. Reeves (JAMS Case No. 1210035620)

Feldman v. GearShift Inc., T. Blinn, N. Safyurthu, E. Cwiertny & N. Tribe

- Superior Court of the State of California for the County of Orange, Civil Complex Center; Judge Ronald L. Bauer (Case No. 30-2017-00951741)

Kenneth D. Rickel v. Martin W. Enright, Littman Krooks, LLP, et al.

- Superior Court of the State of California for the County of Los Angeles, Central District; Honorable Frederick C. Shaller (Case No. BC595770)

Jeffrey I. Golden, Trustee of Aletheia Research and Management, Inc., v. O'Melveny & Myers LLP, Steven J. Olson and J. Jorge deNeve

- Arbitration, Orange County; Arbitrator Honorable Gary A. Feess (Phillips ADR)

Adam Levin v. Weingarten Brown LLP et al.

- Arbitration, Los Angeles County; Arbitrator Edward J. Wallin (JAMS Ref. No. 1200051061)

William Atkins, Gregory Smith, and John Waite v. Allen Z. Sussman

- Arbitration, Los Angeles County; Arbitrator Irma E. Gonzalez (JAMS Ref. No. 1240054486)

Sork v. Slaughter

- Superior Court of the State of California for the County of San Diego, North County District; Honorable Timothy M. Casserly (Case No. 30-2015-00783369-CU-MC-CJC)

Marino, et al. v. Greenberg Traurig, P.A.

- Florida Circuit Court, Palm Beach County (Case No. 50-2016-CA-007297)

EQT Production Company v. Vorys, Sater, Seymour and Pease LLP and John Keller

- United States District Court, Eastern District of Kentucky, Southern Division (Case No. 6:15-CV-00146-DLB)

Brezoczky v. Domtar Corporation and Polsinelli PC

- United States District Court, Northern District of California (Case No. 5:16-CV-04995-EJD)

Drake Kennedy v. Regency Outdoor Advertising, Inc. et al.

- Superior Court of the State of California, Los Angeles County (Case No. BC522560)

Association for Los Angeles Deputy Sheriffs v. Armando Macias, Bruce Nance, et al.

- Superior Court of the State of California, Los Angeles County (Case No. BC540789)

Thomas A. Vogele, Gimino Vogele Associates, LLP v. Richard D. Williams, Susan D. Lintz, Kelly Lytton & Williams, LLP

- Superior Court of the State of California, Orange County; Honorable Michael Brenner, Judge Presiding (Case No. 30-2012-00558522-CU-NP-CJC)

Wood River Capital Resources, LLC, et al. v. CapitalSource, Inc., et al. (Asset Real Estate & Investment Company Consolidated Cases)

- Superior Court of the State of California, Los Angeles County; Honorable Elihu M. Berle (Case No. JCCP-4730)

Dyadic International, Inc. v. Ernst & Young, LLP, et al.

- Florida Circuit Court, Palm Beach County; Circuit Judge Richard Oftedal (Case No. 50 2009 CA 010680 XXXXMBAA)

maxIT Healthcare Holdings, Inc. v. Acumen Technology Solutions for Healthcare, LLC

- Arbitration, Orange County; Honorable Gary L. Taylor (JAMS Ref. No. 1200046297)

Exhibit C

Documents Provided or Made Available

1. Verified complaint of Arizona Corporation Commission (“ACC”) against DenSco Investment Corporation (8/17/16)
2. ACC’s Memorandum of Points and Authorities in Support of Application for Preliminary Injunction and Appointment of Receiver (8/17/16)
3. Receiver’s Preliminary Report (9/19/16)
4. Receiver’s Status Report (12/23/16)
5. Declaration of David Beauchamp (8/17/16)
6. Letter from D. Beauchamp to D. Chittick (5/7/07)
7. DenSco Confidential Private Offering Memorandum (6/1/07)
8. Letter from D. Beauchamp to D. Chittick (3/18/08)
9. E-mail exchanges between D. Beauchamp and D. Chittick and e-mail exchange between D. Beauchamp and M. McCoy (4/1/09)
10. D. Beauchamp handwritten notes (4/9/09)
11. E-mail exchanges between D. Beauchamp and R. Burgan (4/22/09)
12. E-mail exchanges between D. Beauchamp, D. Chittick and R. Burgan (4/23/09)
13. E-mail exchanges between D. Beauchamp and D. Chittick (5/15/09)
14. D. Beauchamp handwritten notes (6/30/09)
15. DenSco Confidential Private Offering Memorandum (7/1/09) w/ handwritten notes from 2011
16. E-mail exchanges between D. Beauchamp and D. Chittick (4/6/11)
17. D. Beauchamp handwritten notes (4/13/11)
18. E-mail exchanges between D. Beauchamp, D. Chittick and G. Schneider (5/3/11)
19. E-mail exchanges between D. Beauchamp, D. Chittick and G. Schneider (5/25/11)
20. E-mail exchanges between D. Beauchamp, D. Chittick and G. Schneider (6/10/11)
21. E-mail exchanges between D. Beauchamp, D. Chittick and G. Schneider (6/14/11)
22. E-mail exchanges between D. Beauchamp, D. Chittick and G. Schneider (6/20/11)
23. E-mail exchanges between D. Beauchamp and D. Chittick (7/11/11)
24. DenSco Confidential Private Offering Memorandum (7/1/11)
25. E-mail from D. Chittick to D. Beauchamp, DenSco investors (7/19/11)
26. Letter from Arizona Department of Financial Institutions (“ADFI”) to DenSco (8/11/11)
27. Letter from D. Beauchamp to ADFI (8/22/11)
28. E-mail exchanges between D. Beauchamp and D. Chittick (5/1/13)
29. D. Beauchamp handwritten notes re mtg. w/ D. Chittick (5/9/13)
30. Excerpt from DenSco corporate journal maintained by D. Chittick (5/9/13)
31. Draft DenSco Confidential Private Offering Memorandum (5/XX/13)
32. E-mail from D. Beauchamp to R. Pederson (6/10/13)
33. E-mail exchange between D. Beauchamp and M. Weakley (6/10/13)
34. E-mail exchanges between D. Beauchamp and D. Chittick (6/11/13)
35. E-mail from D. Chittick to D. Beauchamp (6/14/13)
36. E-mail from S. Menaged to D. Beauchamp, D. Chittick (6/14/13)
37. E-mail exchanges between D. Beauchamp and D. Chittick (6/14/13)
38. E-mail exchanges between D. Beauchamp and R. Wang (6/17/13)

39. Excerpt from DenSco website (6/17/13)
40. D. Beauchamp handwritten notes re call w/ D. Chittick (6/17/13)
41. E-mail from D. Beauchamp to R. Wang (6/17/13)
42. D. Beauchamp handwritten notes re call w/ R. Wang (6/17/13)
43. E-mail from D. Beauchamp to M. Weakley (6/17/13)
44. Excerpt from DenSco corporate journal maintained by D. Chittick (6/17/13)
45. D. Beauchamp handwritten notes re call w/ R. Wang (6/18/13)
46. D. Beauchamp handwritten notes re call w/ M. Weakley (6/18/13)
47. E-mail exchanges between D. Beauchamp, R. Wang, K. Henderson, R. Endicott, G. Jensen (6/20-21/13)
48. E-mail from D. Beauchamp to E. Sipes (6/25/13)
49. D. Beauchamp handwritten notes re E. Sipes (6/25/13)
50. D. Beauchamp handwritten notes re call w/ E. Sipes (6/27/13)
51. D. Beauchamp handwritten notes re call w/ D. Chittick (6/27/13)
52. E-mails from D. Chittick to D. Beauchamp (6/27/13)
53. E-mail exchange between E. Sipes and D. Beauchamp (7/1/13)
54. E-mail exchanges between D. Beauchamp and D. Chittick (7/10/13)
55. E-mail exchanges between D. Beauchamp and D. Chittick (7/11/13)
56. Draft DenSco Confidential Private Offering Memorandum (7/XX/13)
57. E-mail exchanges between D. Beauchamp and G. Jensen (8/6/13)
58. D. Beauchamp handwritten notes re calls w/ D. Chittick (8/26/13)
59. Letter from D. Beauchamp and J. Zweig to D. Chittick (8/30/13)
60. E-mail exchanges between D. Beauchamp and D. Chittick (9/12/13)
61. Letter from D. Beauchamp to D. Chittick (9/12/13)
62. E-mail exchanges between D. Beauchamp and D. Chittick (9/12/13)
63. Clark Hill New Client/New Matter form (9/13/13)
64. E-mail from S. Brewer to L. Stringer (9/17/13)
65. E-mail from D. Chittick to D. Beauchamp re "few things" (12/18/13)
66. E-mail from D. Chittick to D. Beauchamp re "2011 memorandum" (12/18/13)
67. E-mail from D. Beauchamp to D. Chittick re "2011 memorandum" (12/18/13)
68. E-mail exchange between D. Chittick and D. Beauchamp (1/5/14)
69. E-mail from D. Chittick to D. Beauchamp (1/6/14)
70. E-mail from D. Chittick to D. Beauchamp (1/7/14)
71. D. Beauchamp handwritten notes from meeting with D. Chittick and S. Menaged (1/9/14)
72. E-mail exchange between D. Chittick and D. Beauchamp (1/9/14)
73. Clark Hill New Client/Matter form (1/10/14)
74. D. Beauchamp handwritten notes from telephone call with D. Chittick (1/10/14)
75. Excerpt from DenSco corporate journal (1/10/14)
76. E-mail exchange between D. Chittick and D. Beauchamp (1/12/14)
77. E-mail from D. Beauchamp to D. Chittick (1/15/14)
78. E-mail from S. Menaged to D. Beauchamp and D. Chittick (1/16/14)
79. E-mail exchange between D. Chittick and D. Beauchamp (1/16/14)
80. E-mail exchange between D. Chittick, D. Beauchamp, S. Menaged, J. Goulder (1/17/14)
81. Executed Term Sheet (1/17/14)
82. E-mail exchange between D. Chittick and D. Beauchamp (1/21/14)
83. E-mail exchange between D. Chittick and D. Beauchamp (1/21/14)

84. E-mail exchange between D. Chittick and D. Beauchamp (1/21/14)
85. Excerpt from DenSco corporate journal (1/10/14)
86. E-mail exchange between D. Chittick and D. Beauchamp (1/23/14)
87. E-mail exchange between D. Chittick and D. Beauchamp (1/31/14)
88. E-mail from D. Beauchamp to D. Chittick (2/4/14)
89. E-mail from D. Beauchamp to D. Chittick (2/4/14)
90. D. Beauchamp handwritten notes from call with D. Chittick (2/6/14)
91. E-mail exchange between D. Beauchamp and D. Chittick (2/7/14)
92. E-mail exchange between D. Beauchamp and D. Chittick (2/7/14)
93. D. Beauchamp handwritten notes from call with D. Chittick and S. Menaged (2/7/14)
94. D. Beauchamp handwritten notes from calls with D. Chittick (2/7/14)
95. Excerpt from DenSco journal (2/7/14)
96. E-mail exchange between D. Beauchamp and D. Chittick (2/9/14)
97. E-mail exchange between D. Beauchamp and D. Chittick (2/10/14)
98. D. Beauchamp handwritten notes from calls with D. Chittick (2/11/14)
99. E-mail exchange between D. Beauchamp and D. Chittick (2/14/14)
100. E-mail exchange between D. Beauchamp and D. Chittick (2/15/14)
101. E-mail exchange between D. Beauchamp and D. Chittick (2/20/14)
102. E-mail exchange between D. Beauchamp and D. Chittick (2/20/14)
103. D. Beauchamp handwritten notes from meeting with D. Chittick, S. Menaged, J. Goulder (2/20/14)
104. Excerpt from DenSco journal (2/20/14)
105. D. Beauchamp handwritten notes from call with D. Chittick (2/21/14)
106. Excerpt from DenSco journal (2/21/14)
107. D. Beauchamp handwritten notes from call with D. Chittick (2/24/14)
108. Excerpt from DenSco journal (2/24/14)
109. E-mail exchange between D. Beauchamp and D. Chittick (2/25/14)
110. Excerpt from DenSco journal (2/25/14)
111. E-mail exchange between D. Beauchamp and D. Chittick (2/26/14)
112. E-mail exchange between D. Beauchamp and D. Chittick (2/26/14)
113. E-mail exchange between D. Beauchamp and B. Price (2/26/14)
114. Excerpt from DenSco journal (2/26/14)
115. D. Beauchamp handwritten notes from call with D. Chittick (2/27/14)
116. E-mail exchange between D. Beauchamp and B. Price (2/27/14)
117. Excerpt from DenSco journal (2/26/14)
118. D. Beauchamp handwritten notes from call with D. Chittick (3/3/14)
119. Excerpt from DenSco journal (3/3/14)
120. E-mail exchange between D. Beauchamp and D. Chittick (3/4/14)
121. D. Beauchamp handwritten notes from call with D. Chittick (3/7/14)
122. Excerpt from DenSco journal (3/7/14)
123. E-mail exchange between D. Beauchamp and D. Chittick (3/10/14)
124. D. Beauchamp handwritten notes from calls with D. Chittick (3/11/14)
125. Excerpt from DenSco journal (3/11/14)
126. D. Beauchamp handwritten notes from calls with D. Chittick (3/12/14)
127. D. Beauchamp handwritten notes from calls with D. Chittick and S. Menaged (3/12/14)
128. E-mail exchange between D. Beauchamp and D. Chittick (3/12/14)

- 129. E-mail exchange between D. Beauchamp and D. Chittick (3/12/14)
- 130. E-mail exchange between D. Beauchamp and D. Chittick (3/13/14)
- 131. E-mail exchange between D. Beauchamp and D. Chittick (3/13/14)
- 132. E-mail exchange between D. Beauchamp and D. Chittick (3/13/14)
- 133. E-mail exchange between D. Beauchamp and D. Chittick (3/14/14)
- 134. Excerpt from DenSco journal (3/17/14)
- 135. E-mail exchange between D. Beauchamp and D. Chittick (3/17/14)
- 136. E-mail exchange between D. Beauchamp and D. Chittick (3/18/14)
- 137. E-mail exchange between D. Beauchamp and D. Chittick (3/19/14)
- 138. Excerpt from DenSco journal (3/20/14)
- 139. Forbearance Agreement (4/16/14)
- 140. Excerpt from DenSco journal (4/16/14)
- 141. E-mail exchange between D. Beauchamp and D. Chittick (4/18/14)
- 142. D. Beauchamp handwritten notes from call with D. Chittick (4/24/14)
- 143. E-mail from D. Chittick to D. Beauchamp (4/24/14)
- 144. Copy of DenSco Confidential Private Offering Memorandum dated July 2011 with handwritten notes (4/24/14)
- 145. E-mail exchange between D. Beauchamp and D. Chittick (4/25/14)
- 146. E-mail exchange between D. Beauchamp and D. Chittick (4/28/14)
- 147. E-mail exchange between D. Beauchamp and D. Chittick (4/28/14)
- 148. E-mail exchange between D. Beauchamp and D. Chittick (4/28/14)
- 149. D. Beauchamp handwritten notes from calls with D. Chittick (4/29/14)
- 150. D. Beauchamp handwritten notes re private offering memorandum (4/29/14)
- 151. Excerpt from DenSco journal (4/29/14)
- 152. D. Beauchamp handwritten notes re private offering memorandum (5/13/14)
- 153. E-mail from D. Schenck to D. Beauchamp (5/14/14)
- 154. Draft of DenSco Confidential Private Offering Memorandum (5/14/14)
- 155. Draft of DenSco Confidential Private Offering Memorandum (5/14/14)
- 156. E-mail exchanges between D. Beauchamp and D. Chittick (6/12/14)
- 157. E-mail exchange between D. Beauchamp and D. Schenck (6/13/14)
- 158. Authorization to Update Forbearance Documents (6/18/14)
- 159. Excerpt from DenSco journal (7/2/14)
- 160. Excerpt from DenSco journal (7/25/14)
- 161. Excerpt from DenSco journal (7/31/14)
- 162. E-mail exchange between D. Beauchamp and D. Chittick (3/13/15)
- 163. E-mail exchange between D. Chittick and S. Menaged (3/13/15)
- 164. Excerpt from DenSco journal (3/13/15)
- 165. Excerpt from DenSco journal (3/24/15)
- 166. Excerpt from DenSco journal (6/18/15)
- 167. Letter to Investors (7/28/16)
- 168. Iggy List (7/28/16)
- 169. E-mail from D. Beauchamp to DenSco investors (8/3/16)
- 170. E-mail from D. Beauchamp to DenSco investors (8/5/16)
- 171. E-mail exchange between D. Beauchamp and K. Johnson (8/8/16)
- 172. E-mail exchange between D. Beauchamp and R. Brinkman (8/21/16)
- 173. E-mail exchange between D. Beauchamp and R. Brinkman (8/21/16)

174. Letter from D. Beauchamp to D. Chittick with enclosed invoices (2/20/14)
175. Letter from D. Beauchamp to D. Chittick with enclosed invoices (3/14/14)
176. Letter from D. Beauchamp to D. Chittick with enclosed invoices (4/24/14)
177. Letter from D. Beauchamp to D. Chittick with enclosed invoices (5/23/14)
178. Letter from D. Beauchamp to D. Chittick with enclosed invoices (6/25/14)
179. Letter from D. Beauchamp to D. Chittick with enclosed invoice (7/16/14)
180. Letter from D. Beauchamp to D. Chittick with enclosed invoice (8/20/14)
181. Plaintiff's Initial Disclosure Statement w/ Appendices (3/9/18)
182. Defendant's Initial Disclosure Statement (3/9/18)
183. Notice of Service of Preliminary Expert Opinion Declaration – M.Hiraide (3/9/18)
184. Plaintiff's Second Disclosure Statement documents (3/27/18), [RECEIVER_000001-1497]
185. Plaintiff's Third Disclosure Statement documents (5/15/18), [RECEIVER_000001-1497]
186. Defendant's Third Supplemental Disclosure Statement documents (6/13/18), [AF000001-002448, AZBEN000001-005248, CH_0013387-0013616, GE000001-000257, SELL000001-000766]
187. Beauchamp's Responses to Plaintiff's First Set of Non-Uniform Interrogatories No.1 thru 14; including breakdown of each NUI with the referenced documents (6/21/18)
188. Plaintiff's Fourth Disclosure Statement documents (7/11/18), [RECEIVER_001498-001548]
189. Daniel Schenck Deposition Transcript, Exhibits, Errata sheet (6/19/18)
190. Robert Anderson Deposition Transcript and Exhibits (6/21/18)
191. David Beauchamp Deposition Transcript, Exhibits, Errata sheet and video deposition (7/19-20/18)
192. Shawna Heuer Deposition Transcript (8/22/18)
193. Mark Sifferman Deposition Transcript (8/31/18)
194. Scott Menaged 2004 Exam Transcript
195. Edward Hood Deposition Transcript and Exhibits (2/8/19)
196. Letter from R. Miller to D. Chittick w/ attachment re Mortgage Recordation; Demand for Subordination (1/6/14), [CH_0000828-0000848]
197. Notice of Claim Against Estate of Denny J. Chittick (12/9/16)
198. Exhibits A thru H re Motion to Modify Receivership Order re Alleged Joint Privilege (12/7/17)
199. Receiver's Petition No. 48 for Reconsideration of the Order Appointing Receiver with Respect to Alleged Joint Attorney Client Privilege (12/11/17)
200. Chittick Estate's Response to Receiver's Petition No. 48 re Attorney-Client Relationship (1/3/18)
201. Chittick Estate's Sur-Response to Receiver's Petition No. 48 re Attorney-Client Relationship (1/9/18)
202. Receiver's Reply in Support of Petition No. 48 for Reconsideration of the Order Appointing Receiver with Respect to Alleged Joint Attorney Client Privilege (1/12/18)
203. Plaintiff's Third Set of Requests for Production of Documents to Defendant Clark Hill (8/1/18)
204. Defendants' Sixth Supplemental Disclosure Statement (3/13/19)
205. Blackline Fifth Supplemental Disclosure Statement to Sixth Supplemental Disclosure Statement (3/13/19)

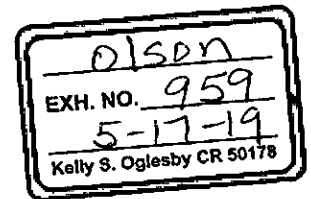
206. Signed Verification to Defendants' Sixth Supplemental Disclosure Statement (3/12/19)

/2013

Dani

USE this to mark up

ADD Updates/Forbearance, etc.



Confidential Private Offering Memorandum

DenSco Investment Corporation

July 1, 2011

No: _____

Name of Payee: _____

Confidential Private Offering Memorandum

DenSco Investment Corporation

General Obligations Notes

Minimum Purchase \$50,000

The General Obligation Notes (the "Notes") are general obligations of DenSco Investment Corporation, an Arizona corporation (the "Company"). The Notes, together with all other outstanding notes and all other advances or liabilities owed by the Company to any holder of an outstanding note will be secured by a general pledge of all assets owned by or later acquired by the Company. The Company's largest assets will be the Trust Deeds, as defined herein, acquired by the Company and the Notes will be superior in priority and liquidation preference to Notes subscribed for by officers and shareholders of the Company. Interest will be paid monthly, quarterly or at maturity. The Notes are not insured or guaranteed by any state or federal government entity or any insurance company, and the Company will not establish a sinking fund for the Notes. The Company generally may transfer, sell or substitute collateral for the Notes. The Company may modify the interest rate to be paid on subsequently issued Notes. The Company will use good faith efforts to prepay Notes upon receipt of written request, but the Company will not be obligated to do so. The Notes may be redeemed by the Company prior to maturity upon notice at a price equal to the principal amount of the Notes plus accrued interest to the date of redemption. See "Description of Securities – Note Terms." Default may occur with respect to one Note and not another. The Notes may be purchased directly from the Company without commission. The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering, or (b) two years from the date of this memorandum; provided, however, the Company reserves the right to amend, modify and/or terminate this offering if the Company changes its operations or method of offering in any material respect. See "Description of Securities" and "Plan of Distribution."

THE NOTES ARE SPECULATIVE AND INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

THE NOTES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE REGULATORY AUTHORITY REVIEWED, APPROVED OR DISAPPROVED THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OR ENDORSED THE MERITS OF THE PLACEMENT OF NOTES. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE NOTES ARE OFFERED PURSUANT TO EXEMPTIONS PROVIDED BY SECTION 4(2) OF THE ACT, REGULATION D THEREUNDER, CERTAIN STATE SECURITIES LAWS AND CERTAIN RULES AND REGULATIONS PROMULGATED PURSUANT THERETO. THE NOTES MAY NOT BE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

	Offering Price (1)	Underwriting Commissions (2)	Proceeds to the Company (3)
Note	\$50,000	-0-	\$50,000
Total Minimum Offering	\$500,000	-0-	\$475,000
Offering Maximum	\$50,000,000	-0-	\$49,975,000

- (1) The Notes are offered in \$50,000 initial investment with additional increments with a minimum of at least \$10,000. All subscriptions for Notes are subject to review and acceptance by the Company.
- (2) The Company's President, Denny J. Chittick, is making the private placement of the Notes on behalf of the Company. Mr. Chittick will not receive any sales commission in connection with the placement of the Notes. The Company reserves the right to pay costs and commission to a licensed broker-dealer with an approved custodian to facilitate procedures by investors using qualified funds (i.e., IRA, SEP IRA, ROTH IRA and KEOGH Plans), up to one percent (1%) of the principal Note amount.
- (3) Offering expenses, estimated at \$25,000, will be paid from the Company's general operating funds.

DenSco Investment Corporation

6132 W. Victoria Place

Chandler, Arizona 85226

(c) 602-469-3001

(f) 602-532-7737

THE NOTES ARE OFFERED ONLY TO PERSONS WHO ARE: (1) "ACCREDITED INVESTORS" WITHIN THE MEANING OF RULE 501(a) OF REGULATION D PROMULGATED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAW; (2) ABLE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THE NOTES, INCLUDING A LOSS OF THE ENTIRE INVESTMENT; AND (3) SUFFICIENTLY KNOWLEDGEABLE AND EXPERIENCED IN FINANCIAL AND BUSINESS MATTERS TO BE ABLE TO EVALUATE THE MERITS AND RISKS OF AN INVESTMENT IN THE NOTES EITHER ALONE OR WITH A PURCHASER REPRESENTATIVE. SEE "INVESTOR SUITABILITY." THE NOTES ARE NOT OFFERED AND WILL NOT BE SOLD TO ANY PROSPECTIVE INVESTOR UNLESS SUCH INVESTOR HAS ESTABLISHED, TO THE SATISFACTION OF DENNY J. CHITTICK, THAT THE INVESTOR MEETS ALL OF THE FOREGOING CRITERIA. EACH INVESTOR MUST ACQUIRE THE NOTES FOR HIS, HER OR ITS OWN ACCOUNT, FOR INVESTMENT PURPOSES ONLY, AND WITHOUT ANY INTENTION OF DISTRIBUTING OR RESELLING ANY OF THE NOTES, EITHER IN WHOLE OR IN PART.

THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED. IN ADDITION, THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM CONSTITUTES AN OFFER ONLY TO THE PERSON WHOSE IDENTITY APPEARS IN THE APPROPRIATE SPACE PROVIDED ON THE COVER PAGE HEREOF. THE RIGHT TO PURCHASE NOTES AS DESCRIBED HEREIN IS NOT ASSIGNABLE.

TO ENSURE COMPLIANCE WITH CIRCULAR 230 GOVERNING STANDARDS OF PRACTICE BEFORE THE INTERNAL REVENUE SERVICE, POTENTIAL INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY A POTENTIAL INVESTOR, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A POTENTIAL INVESTOR UNDER THE INTERNAL REVENUE CODE; (B) SUCH

DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES OFFERED HEREBY; AND (C) POTENTIAL INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

CERTAIN "REPORTABLE TRANSACTIONS" REQUIRE THAT PARTICIPANTS AND CERTAIN OTHER PERSONS FILE DISCLOSURE STATEMENTS WITH THE IRS, AND IMPOSE SIGNIFICANT PENALTIES FOR THE FAILURE TO DO SO. AN INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF THE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF AN INVESTMENT IN THE NOTES AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT TO THE EXTENT THAT SUCH DISCLOSURE IS RESTRICTED BY APPLICABLE SECURITIES LAWS.

THE OBLIGATIONS AND REPRESENTATIONS OF THE PARTIES TO THIS TRANSACTION WILL BE SET FORTH ONLY IN THE DOCUMENTS DESCRIBED HEREIN. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS CONCERNING THE COMPANY OTHER THAN AS CONTAINED IN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THE DELIVERY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION SET FORTH IN IT IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF CERTAIN INVESTORS TO WHOM IT HAS BEEN DIRECTED. A PROSPECTIVE INVESTOR, BY ACCEPTING DELIVERY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AGREES TO

RETURN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM AND ALL ENCLOSED DOCUMENTS TO THE COMPANY IF THE HOLDER DOES NOT UNDERTAKE TO PURCHASE ANY OF THE NOTES OFFERED HEREBY.

PRIOR TO THE SALE OF ANY NOTES OFFERED HEREBY, THE COMPANY WILL MAKE AVAILABLE TO EACH INVESTOR THE OPPORTUNITY TO ASK QUESTIONS OF AND RECEIVE ANSWERS FROM MR. CHITTICK CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING AND TO OBTAIN ADDITIONAL INFORMATION NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED HEREIN, TO THE EXTENT THE COMPANY OR MR. CHITTICK POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

ANY REPRODUCTION OR DISTRIBUTION OF THE CONFIDENTIAL PRIVATE OFFERING MEMORANDUM IN WHOLE OR IN PART, OR THE DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF MR. CHITTICK IS STRICTLY PROHIBITED.

REFERENCE IS MADE TO THE SUBSCRIPTION AGREEMENT AND SUITABILITY QUESTIONNAIRE ATTACHED HERETO FOR COMPLETE INFORMATION CONCERNING THE RIGHTS AND OBLIGATIONS OF INVESTORS WHO PURCHASE THE NOTES OFFERED HEREBY. CERTAIN PROVISIONS OF AGREEMENTS AND DOCUMENTS ARE SUMMARIZED IN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AND THE SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION OR AGREEMENT OR DOCUMENT APPEARING ELSEWHERE. IN CASE OF A CONFLICT BETWEEN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM AND SUCH AGREEMENTS OR DOCUMENTS, THE AGREEMENT OR DOCUMENT, AS THE CASE MAY BE, SHALL GOVERN. REFERENCE IS MADE HEREBY TO THE COMPLETE TEXT OF ALL DOCUMENTS RELATING TO THIS PLACEMENT THAT ARE DESCRIBED HEREIN. A COPY OF ALL DOCUMENTS AND AGREEMENTS SO DESCRIBED BUT NOT INCLUDED HEREIN WILL BE MADE

AVAILABLE TO A PROSPECTIVE INVESTOR AND ITS COUNSEL, ACCOUNTANT AND ADVISER(S) UPON REQUEST.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE COMPANY OR MR. CHITTICK OR THEIR AFFILIATES AS LEGAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN COUNSEL, ACCOUNTANT AND OTHER ADVISERS AS TO TAX MATTERS AND RELATED MATTERS CONCERNING AN INVESTMENT IN THE COMPANY'S NOTES.

NOTWITHSTANDING ANYTHING CONTAINED IN THIS CONFIDENTIAL OFFERING MEMORANDUM TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY NOT DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE OF THIS OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. FOR THIS PURPOSE, "TAX STRUCTURE" IS LIMITED TO FACTS RELEVANT TO THE U.S. FEDERAL INCOME TAX TREATMENT OF THIS OFFERING AND DOES NOT INCLUDE INFORMATION RELATING TO THE IDENTITY OF THE ISSUER, ITS AFFILIATES, AGENTS OR ADVISORS.

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MEMORANDUM SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by the more detailed information appearing elsewhere in this Confidential Private Offering Memorandum.

The Company

DenSco Investment Corporation, an Arizona corporation (the "Company"), is an Arizona corporation, which has been in operation since April, 2001. In the ten years of operation from April, 2001 through June, 2011, the Company has engaged in 2622 loan transactions. The Company has been and will continue to be engaged primarily in the business of making high-interest loans with defined loan-to-value ratios to residential property remodelers ("Foreclosure Specialists") who purchase houses through pre-foreclosure process and foreclosure sales, all of which are secured by real estate deeds of trust ("Trust Deeds") recorded against Arizona residential properties, but the Company will not limit its efforts to this niche. In connection with its business, the Company will seek to maintain a diversity of builders, loan size, back-office commercial properties, medical offices, strip commercial centers, high-end specialty and custom residential properties and construction locations. The Company does not intend to exceed a maximum loan size of \$1,000,000.00. The Company intends to maintain a loan-to-value ratio below 70% percent in the aggregate for all loans in the loan portfolio.

The Company's office is currently located at 6132 W. Victoria Place, Chandler, Arizona 85226. Its current telephone number is 602-469-3001.

The Offering

Securities: The Company is offering the first \$500,000 in principal amount of Notes on an "all-or-none, best efforts basis" and on a "best efforts" basis with respect to the remaining \$49.5 million in principal amount of Notes. In addition to the Company's President's (Denny Chittick) initial capital contribution to the Company, Mr. Chittick maintains a \$1 million

investment in the Company at all times. This investment takes the form of Notes. Therefore, depending on the maturity of the Notes currently held by Mr. Chittick, the minimum offering may be met with his investment only. The interest rates of the Notes will vary and will depend on the denomination of the Note and the term selected by the investor. The Notes are offered in denominations ranging from \$50,000 to \$1,000,000.00, increasing in additional increments with a minimum of \$10,000. The Notes are paid "interest only" during their terms, with principal payable only at maturity. Investors may elect to have interest paid monthly, quarterly or at maturity. If interest is paid other than monthly, interest will compound monthly. The Notes are not transferable without obtaining the prior written consent of the Company. The Notes are general obligations of the Company and are not directly secured by any specific asset of the Company. At any particular point in time, the assets of the Company will consist primarily of Trust Deeds in an aggregate principal amount approximately equal to the amount of the outstanding Notes. See "Use of Proceeds" and "Description of Securities."

Restricted Nature of Securities:

The Notes are not registered and are restricted securities. This is a private placement intended to be exempt from the registration requirements under federal and applicable state securities laws, and may only be made personally by a principal of the Company to a qualified investor who intends to hold the investment to maturity. See "Description of Securities."

Risk Factors:

An investment in the Notes involves a significant degree of risk. Only investors who can bear the economic risk of such an investment should purchase the Notes. See "Risk Factors" and "Investor Suitability."

Use of Proceeds: The proceeds of the offering will be used as working capital primarily for lending secured by, and the purchase of, Trust Deeds within the guidelines set by the Company. See "Use of Proceeds" and "Business."

Plan of Distribution: Notes may be purchased directly from the Company without commission. The Company intends to make a continuous offering of the Notes until the earlier of two years from the date of this memorandum or upon the sale of the maximum offering of \$50 million; provided, however, the Company reserves the right to amend, modify or terminate this offering if the Company changes its operations or method of offering in any material respect. See "Description of Securities" and "Plan of Distribution."

BUSINESS

The Company was incorporated in Arizona on April 30, 2001 and is engaged primarily in the business of funding Foreclosure Specialists, who purchase houses through the preforeclosure process, and at foreclosure sales and through a sale of REO properties (Real Estate Owned by a financial institution after a foreclosure) or short sale transactions.

Target Markets and Potential Future Markets

The Company will target the funding and purchasing of Trust Deeds to qualified purchasers of foreclosed homes and qualified builders of Arizona commercial and residential projects. The primary focus is to lend money to qualified borrowers who can fulfill their loan obligation on highly marketable real properties with sufficient equity. When purchasing Trust Deeds, the Company intends to consider Trust Deeds that the loan-to-value ratio does not exceed 70 percent (70%) and the current yield is 18 percent (18%) or greater. Most of these purchased loans will have short-term maturities (less than one year), and under certain circumstances, Company may charge a higher interest rate or pass through additional costs incurred on short-term loans. Most Trust Deeds will range in size from \$25,000 to \$500,000, and the largest loan size is not intended to exceed \$1,000,000. Each loan will be secured by its underlying real property (or in rare instances, separate real properties) as well as by personal property involved in the construction projects and personal guaranties (as determined on a case by case basis). The loans are written to be repaid in six months and all loans are structured to require monthly interest payments. A majority of the loans are paid back within three months; however, some loans are allowed to be extended on a case by case basis.

For lending to Foreclosure Specialists who purchase foreclosed homes prior to or at the foreclosure sale, the Company will target remodelers, contractors and other entities engaged in this niche real estate market, but the Company will not limit its efforts to this niche. The Company intends to have these Trust Deeds have loan-to-value ratios, no greater than 70 percent but with an objective goal of 50 percent to 60 percent. The Company anticipates that the minimum loan size will continue to be \$25,000, and the maximum loan size will continue to be

\$1,000,000. The values of these homes are determined to be based on the value to which they will appraise at or sell for on the retail market.

For lending on commercial projects, the Company will target established, reputable contractors and developers who are developing back-office commercial properties, medical and other professional offices, strip and pre-sold commercial centers, multi-unit apartment complexes, build-outs and high-end specialty projects on Arizona land they own or have rights to purchase. The Company intends to have these Trust Deeds have loan-to-value ratios, no greater than 65 percent but with an objective goal of 50 percent to 60 percent. The maximum loan size is intended to be \$1,000,000, with subordinated participation from other lenders for larger projects, which will probably obligate the Company to act on behalf of the other participating lenders. The Company intends to directly (through an officer or employee) or indirectly (through a real estate consultant) perform due diligence to verify certain information in connection with funding a Trust Deed. The loan-to-value ratio is determined by calculating the reasonable market value of the property at the end of the construction project.

For residential loans, the Company will seek reputable, licensed contractors who have pre-sold homes to build for qualified buyers. The Company also plans to finance builders' models, builders' "spec" homes and those projects that are highly marketable and have substantial builder equity. Most of these borrowers may qualify for conventional bank financing but they may use the Company because of the faster financing, competitive over all costs, better service and personal relationships with Mr. Chittick. The Company will not lend to natural persons for personal, family or household purposes.

The Company may elect to participate as an equity partner in some projects should the benefits warrant the risk. From time to time, a default occurs on a loan and the Company needs to conduct a Trustee's Sale or accept a Deed In Lieu of Foreclosure on the real property securing a loan. As such, if the Trustee conducting the Trustee's Sale does not receive a bid in excess of the Company's credit bid (in the amount of the loan, accrued interest and costs) at the Trustee's Sale, the Company becomes the owner of the subject real property. The Company intends to sell such properties as quickly as possible in an effort to minimize resulting costs and losses, and to maintain a diversified financing operation. However, the Company reserves the right to lease

any property obtained through a Trustee's Sale or a Deed in Lieu of Foreclosure until the Company determines that the property can be sold at a sufficient price. The Company may diversify its financing operations in the future to include other areas of finance. The Company does not anticipate entering any non-Arizona market without first attempting to contact the significant Note holders and discussing this market with them.

Cash Flow

The Company uses a proprietary cash flow-management model for balancing the terms of the Trust Deeds the Company makes to its borrowers with the terms of the Notes purchased by the Company's investors. The Company's objective is to have sufficient cash coming in from Trust Deed payoffs to be able to redeem all Notes as they come due and maintain reserves without any need to sell assets or issue new Notes to repay the earlier maturing Notes. See "Risk Factors - Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes."

Limited Due Diligence

To the extent Trust Deeds are purchased, Trust Deeds will be purchased through a network of consultants, mortgage brokers and the companies that the Company believes are reliable referral sources. Prior to purchasing a Trust Deed or funding a direct loan, the Company intends to have an officer, employee or an authorized representative conduct a due diligence review by interviewing its owner, verifying the documentation and performing limited credit investigations as are deemed appropriate by the Company and visiting the subject property in a timely manner. For purchases of foreclosed homes, the properties are inspected after purchase, before or during rehabilitation and after rehabilitation to insure the property is improved to a marketable condition. The Company will not make residential loans to natural persons for personal, family or household purposes.

Funding and Purchase of Loans

The Company reserves the right to approve or decline the funding of each direct loan or the purchase of each Trust Deed submitted for purchase.

Collections

The Company services the contracts it purchases and originates. If a customer misses a payment without making satisfactory arrangement prior to the due date, the Company's policy will be to contact the customer within three to five days and watch the account closely until the payment or satisfactory arrangement has been made. At the discretion of the Company, the Company's normal documents provide that a late charge of ten percent of the interest amount due is to be assessed on a delinquent payment that is not cured within five days. If payment on a Trust Deed is thirty (30) days delinquent, an accelerated default rate goes into effect and foreclosure proceedings may begin under the Deed of Trust; provided, however, the Company may elect not to begin foreclosure proceedings if the property secured by the loan is under contract for sale or is in the process of being refinanced. The goal of the Company is to recover the principal of a loan and any interest and on any late fees assessed. If the borrower is unable in a timely manner to sell or refinance the subject property, the Company may request that the borrower execute a Deed in Lieu of Foreclosure (a "Deed in Lieu") to the Company so that the Company will gain immediate control of the subject property rather than going through the ninety (90) day process and expense associated with a Trustee's Sale. Upon the Company gaining control of the property through a Deed in Lieu or a Trustee's Sale, the Company will decide either to market the subject property at retail, which may require additional monies to improve the property to retail ready condition, or to wholesale the subject property "as is." The Company may also decide to rent the subject property as an investment property. If applicable, the management of the rental properties will be maintained by a professional management company chosen by the Company.

Regulation

The financing of construction loans and other types of real estate transactions are regulated by various federal and state government agencies, including the Arizona Department of Financial Institutions. Arizona Revised Statutes §§ 6-901 to 910, §§ 6-941 to 948 and 6-971 to 985, and regulations issued thereunder, have specific mortgage broker and mortgage banker licensing and operating requirements. The Company's management believes that it is not required to be licensed by the Arizona Department of Financial Institutions as a mortgage broker or a mortgage banker nor under certain federal laws, such as Truth-In-Lending Act or the Real Estate Settlement Procedures Act. The Company intends to take the necessary steps to ensure that the borrowers it lends to and the projects covered by such loans will not fall within the requirements imposed by the foregoing agency and acts.

The Company will not receive any points, commissions, bonuses, referral fees, loan origination fees or other similar fees in connection with its real estate loans. The Company will only receive periodic interest resulting from the application of the note rate of interest to the outstanding principal balance remaining unpaid from time to time. By limiting its compensation in this manner, the Company's management believes it does not need a license from the Arizona Department of Financial Institutions as either a mortgage loan broker or mortgage banker; provided, however, the Company reserves the right to work with and to pay a reasonable and customary mortgage broker fee to a licensed mortgage loan broker or mortgage banker for services in connection with its loans or to other third-party professionals in connection with due diligence for its loans.

Certain federal laws and regulations, such as the Truth-in-Lending Act, Real Estate Settlement Procedures Act and others contain specific requirements for lenders seeking to make loans to certain types of borrowers, which may or may not be secured by certain types of residential real property. Most of these statutes and regulations apply to transactions only if the loans are made to natural persons for personal, family or household purposes. The Company will not lend to natural persons for these purposes.

If new regulations are issued by the U.S. Federal Housing Administration (the "FHA") or if a more strict interpretation of the current FHA regulations is implemented in the future, such regulations could reduce the demand for the Company's loans from Foreclosure Specialists which could impair the Company's ability to keep all of the proceeds from this offering fully invested in loans with borrowers.

Other states in the West have instituted additional restrictions concerning loans secured by private real estate, which are commonly referred to as "predatory mortgage lending laws." Although Arizona has not passed a similar statute, such provisions may come into effect in Arizona either through law or regulation during this offering. The Company's management believes that its practices will not need to change in order to comply with any of the current proposals if they should go into effect. However, there can be no assurance that such will be the case.

The Company's management believes that it is not required to register or be licensed as an investment adviser with the State of Arizona or with the U.S. Securities Exchange Commission ("SEC") pursuant to the Investment Advisers Act of 1940 (the "Advisers Act"), as amended. The Advisers Act and the analogous Arizona law generally require all persons that are engaged in the business of providing investment advice for compensation to register with the SEC or Arizona provided that such adviser is not exempt from registration. The Company's management believes that it is not engaged in the business of providing investment advice for compensation and as such, is not required to register as an investment adviser with either the SEC and/or the State of Arizona. In addition, even if the Company were deemed to be engaged in the business of providing investment advice for compensation, the Company anticipates that it would exempt from registration as a "private investment adviser" under rules and regulations of the SEC and/or the State of Arizona given that the Company has fewer than the threshold number of clients that would trigger registration with the SEC and/or the State of Arizona.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the "private investment adviser" exemption was eliminated and replaced by a number of other specific exemptions. As directed by the Dodd-Frank Act, the SEC is currently preparing

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the final rules (the "Rules") that will provide guidance as to the applicability of the additional specific exemptions that replace the "private investment adviser" exemption. The Company expects that the SEC will issue the Rules during this offering; however, until this occurs, the Company cannot determine whether it will be required to register as a result of the Dodd-Frank Act and the Rules promulgated thereunder. Should the Rules require the Company to register as an investment adviser, the Company intends to take the necessary steps to register as an investment adviser with the State of Arizona and/or the SEC within the time frame outlined in such Rules.

Diversity of Risk

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The Company will attempt to maintain a diverse portfolio of Trust Deeds and loans by seeking a large borrowing base, participating in several local markets, acquiring Trust Deeds for any lending into residential and commercial projects, establishing loan-to-value guidelines and limiting financing to short terms. Currently, the Company's base of borrowers exceed 150 approved and qualified borrowers. It is the Company's plan that the base of borrowers eventually will exceed 250 qualified contractors and foreclosure specialists. The Company will maintain loans throughout the Phoenix metropolitan area to reduce its risk to fluctuations in values and conditions in markets within the metropolitan area. The Company also believes that it can reduce risk by participation in various types of financing: Trust Deeds on foreclosed properties; residential Trust Deeds and lending from \$50,000 tract homes and condominiums to \$1,000,000 custom "spec" homes; and commercial investments for flex-office, back-office, medical/general office and retail. In addition, the Company intends to maintain general loan-to-value guidelines that currently range from 50 percent to 65 percent (but it is intended not to exceed 70%), to help protect the Company's portfolio of loans. Further, all loans are relatively short term.

Because of these varying degrees of diversification, the relatively short duration of each of the loans, and management's knowledge of the Phoenix metropolitan area market, the Company's management anticipates that it will not experience a significant amount of losses; however, there can be no assurance that the Company will not experience such losses. Mr. Chittick, individually, has made or participated in approximately 2800 loans secured by real

estate over the last fourteen (14) years. As of the date of this Memorandum, Mr. Chittick and the Company have collectively experienced 44 loan defaults that required initiating a Trustee's sale process, with seven of such loans being settled prior to the Trustee Sale auction. Various borrowers have conveyed seven properties to the Company pursuant to a Deed in Lieu. To the extent the Company deems necessary, the Company intends to use the services of outside real estate lending consultants to assist in evaluating any loan or the security for the loan to reduce the risk of a loss of principal due to the default of a real estate loan by a borrower and the resulting foreclosure upon the security for the loan.

The Company will make available to each prospective investor, prior to the consummation of the offering and sale of a Note to such investor and such investor's representative and advisers, the opportunity to ask questions and receive answers concerning the terms and conditions of this offering and to obtain any additional information that the Company may possess or may be able to obtain without unreasonable effort or expense, and which may be necessary to verify the accuracy of the information furnished to such prospective investor.

Executive Offices

The Company's office is currently located at 6132 W. Victoria Place, Chandler, Arizona 85226. Its current telephone number is 602-469-3001.

RISK FACTORS

An investment in the Notes offered by the Company involves a significant degree of risk. The securities offered hereby should not be purchased by anyone who cannot tolerate significant risk, including the possibility of losing their total investment in the Notes. In analyzing a possible investment in the Notes, prospective investors should consider carefully the following factors, together with the information contained elsewhere in this Memorandum.

Operating History

In the Company's ten year operating history through June, 2011, the Company has completed in excess of 2622 loan transactions. However, even with these number of loans over ten years, the evaluation of prior company performance set forth in Prior Performance is limited in time. Accordingly, there can be no assurance that the Company will be able to continue to operate and achieve these results on a going-forward basis, which could limit the Company's ability to repay the Notes as planned.

Competition

The Company is engaged in a highly competitive industry. The Company competes with banks, savings and loan institutions, credit unions, mortgage brokers, finance companies and other private investors that are established in the finance business. Competition in the finance business is based upon the lowest overall loan cost, which consists of interest rates, fees, closing costs, document fees, reputation, and availability of funds and the length of time it takes to approve a loan. The cost of funds to many of our competitors is typically lower than the Company's, allowing them to compete for borrowers on better terms, such as interest rates, which is a significant component of loan cost. The competition usually has lower costs on longer-term loans. The Company's higher cost of capital and lending rates may result, in part, in the Company acquiring Trust Deeds and lending to borrowers who are unable to obtain financing from these larger competitors. In some cases, these types of borrowers have weaker credit worthiness than other borrowers, which could expose the Company to a greater risk of

nonpayment of its loans by borrowers. See "Business-Target Markets and Potential Future Markets."

Ability to Generate Sufficient Cash Flow to Service the Outstanding Notes

The Company's ability to generate cash in amounts sufficient to pay interest on the Notes and to repay or otherwise refinance the Notes as they mature depends upon the Company's receipt of payments due under the loans that are in the Company's portfolio. The Company's financial performance and cash flow depends upon prevailing economic conditions and certain financial, business and other factors that are beyond the Company's control. These factors include, among others, economic and competitive conditions, particularly in areas in which the borrowers operate their businesses, and general economic conditions that affect the financial strength of developers and real estate investors in the areas that the Company intends to make investments. In recent years the decline of real estate values has been the largest challenge facing the real estate finance industry. This development is something new to the industry that typically sees a slow rising in values of properties or at least a stability of prices. The dramatic and prolonged decrease in values has forced the Company to change how it operates, which is requiring monthly interest payments under its loans rather than allowing the interest to compound. The Company has also shortened the maturity of loans to borrowers in some cases and is only extending the loans to a few borrowers under strict conditions. Accordingly, an investment in the Notes offered hereby involves substantial risk and Notes should not be purchased by anyone who cannot tolerate substantial risk, including the possibility of losing their total investment in the Notes. There can be no assurance that the Company will be able to continue to operate and repay the Notes as planned.

Decrease in Value of Collateral for the Loans in Company's Portfolio

The Company is responsible for collecting payments from loan obligors and for foreclosing under an applicable Trust Deed in the event of default by an obligor. If the Company is forced to conduct a Trustee's Sale to obtain ownership and possession of a property securing a loan, the value of the property may have decreased between the time that the outstanding loan

was initially made to the time of repossession pursuant to a Deed in Lieu or a Trustee's Sale. Consequently, the Company's sale of such property may result in a loss as a result of the amount owed to the Company being in excess of the value received by the Company pursuant to a subsequent sale of the property. Accordingly, an investment in the Notes offered hereby involves substantial risk and Notes should not be purchased by anyone who cannot tolerate substantial risk, including the possibility of losing their total investment in the Notes. There can be no assurance that the Company will be able to continue to operate and repay the Notes as planned.

Expansion of Real Estate Loan Base

After giving effect to this offering and the application of the net proceeds, the Company will have significant outstanding indebtedness. The Company's ability to make scheduled principal and interest payments on the Notes will depend upon the Company's ability to generate adequate revenues from its real estate lending operations. The Company has historically received approximately 18% effective interest on its real estate loans but minimal interest on its cash accounts at its bank. Therefore, in order to pay the principal and interest due on the Notes, the Company will need to loan a significant amount of its capital to its real estate loan borrowers and reloan any repayment proceeds in a timely manner. As the Company receives the proceeds from this offering, the Company intends to expand its real estate loan base in order to keep its capital loaned to its real estate loan borrowers as opposed to being in its cash accounts at the bank. If the Company cannot continue to expand its real estate loan base, it may not generate enough revenues to service its debt obligations, including the Notes. Accordingly, the Company will continue to rely upon repeat borrowers, word of mouth referrals and the referral network of outside mortgage brokers and consultants that Mr. Chittick has developed. See "Business-Target Markets and Potential Future Markets."

Demand for Real Estate Loans

The Company's success depends, in part, upon its ability to continue to develop and achieve growth in its real estate lending operations and to manage this growth effectively. In

formulating and implementing its business plan, the Company relied on the judgment of its officer and consultants, and on their research and collective experience to determine customers, marketing strategy and procedure. The Company has not planned, conducted or contracted for any independent market studies concerning the anticipated demand for the Company's real estate lending services. Although the Company has reviewed general reports concerning the number of houses being built, houses for sale, jobs created and people relocating to Metropolitan Phoenix, the Company has not reviewed any specific analysis concerning the demand for its niche in real estate lending. Although Mr. Chittick and the Company have developed a network of qualified borrowers and referral sources of current borrowers and escrow officers, there can be no assurance that there will continue to be sufficient demand for loans by qualified borrowers. To the extent that there is insufficient demand for loans by qualified borrowers, this could have an adverse effect on the anticipated demand for the Company's real estate lending services and limit the Company in its efforts to generate sufficient revenues to make scheduled interest and principal payments on the Notes needed for growth. See "Business-Target Markets and Potential Future Markets."

Management of Rapid Growth

The Company's success depends, to a large extent, on its ability to achieve growth in the number of loan applications and closings, the due diligence and servicing of these loans and the ability to manage this growth effectively. This growth will challenge the Company's management, resources and systems. As part of its business strategy, the Company intends to pursue continued growth through its business contacts, marketing capabilities and marketing alliances. As the Company continues to grow, the Company will need to expand its resources and systems to manage future growth, but there can be no assurance that the Company will continue to be able to grow in the future or to even manage this growth effectively. Failure to do so could materially and adversely affect the Company's business and financial performance. See "Business," and "Management."

No Sinking Fund Provision; No Separate Loan Loss Reserve; Lack of Governmental Insurance

The Notes represent general obligations of the Company and will not be subject to redemption through a sinking fund. Although the Company does not currently maintain a loan loss reserve fund, the Company's Management tries to maintain an allowance for losses as part of the Company's general assets at a level that Management believes is adequate to absorb any anticipated losses. At this time, the Company reserves the right to maintain such reserve in the Company's discretion, but the Company has no plans to currently implement a separate loan loss reserve fund. As a result, the risk of loss on the Notes is greater than would be the case if the Notes were backed by a sinking fund or if the Company funded and maintained a separate loan loss reserve fund. Repayment of the Notes by the Company is not secured by any property owned by the Company or any third party. There will be no limitation on the amount of future indebtedness that the Company may issue, create or incur, and the Company will not be prohibited from permitting liens to be placed on or creating senior liens on its property for any purpose, including for the purpose of securing payments or additional indebtedness. Furthermore, neither the Federal Deposit Insurance Corporation nor any other state or federal government agency insures the Notes. See "Description of Securities."

Terms of Notes

The Company expects to redeem the Notes as they mature, including the initial principal balance of each Note and all accrued and unpaid interest. However, the Company has the right to redeem the Notes at any time prior to maturity upon 30 days' written notice to the Noteholder. In the case of early redemption, the Company has the absolute discretion to select the Notes that it will redeem, and there is no requirement that Notes be redeemed from Noteholders on a pro rata or any other basis. Notes redeemed prior to maturity would prevent Noteholders of the Notes called for redemption from receiving the anticipated return on such Notes. See "Description of Securities."

Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes

The Company may be dependent upon the proceeds of subsequently issued Notes to repay earlier maturing Notes. If sufficient proceeds from such subsequently issued Notes are not raised, the Company would rely on its cash reserves, its operating capital and proceeds from the sale of Trust Deeds to repay the earlier maturing Notes. Such funds may be insufficient to repay the earlier maturing Notes, in which event the Company may be unable to repay such Notes or the subsequently issued Notes. The ability of a Noteholder to obtain payment of principal and interest on a Note in these circumstances could be limited to the extremely unlikely event that the Noteholder gains control over and sell assets of the Company. See "Use of Proceeds" and "Description of Securities."

Variable Rates and Maturities of Notes

Each Note bears a fixed rate of interest from the date of its issuance until maturity or early redemption. However, Notes issued subsequent to those purchased by an investor may be issued at higher or lower interest rates and shorter or longer maturities, depending upon market conditions and other factors. Notes outstanding at any given time will not be modified to reflect the terms and conditions of such subsequently issued Notes. Therefore, any particular investor risks investing in the Notes on terms less favorable than may be available at later dates to future investors. See "Description of Securities."

Management anticipates that the interest rate on each Note will be determined and agreed upon on the date of issuance, in significant part, by the demand for funds and the competitive environment in the foreseeable future by the Company. Since the interest rate the Company may charge for its loans to its customers is limited by competitive and other factors, the Company may not be able to increase the interest rates charged on its loans to compensate for increases in its funding rate to investors. Similarly, the Company may not be able to decrease the funding rate to its investors to compensate for decreases in the interest rates charged on its loans to its customers. Also, market forces could eliminate the interest rate difference between the interest

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rate paid to Investors and the interest rate charged to the Company's customers. See "Description of Securities."

Value of Company's Assets

The Notes, together with all other outstanding Notes and all other advances or liabilities owed by the Company to any holder of an outstanding Note, will be unsecured as to any and all assets owned by or later acquired by the Company (the "Company's Assets"). There can be no assurance that the proceeds of any sale of the Company's Assets pursuant to and following an Event of Default (as defined in "Description of Securities") would be sufficient to repay the Notes. In addition, investors in the Notes will have no ability to cause a sale of Company assets. See "Use of Proceeds," "Business" and "Description of Securities."

Collections and Foreclosures

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The Company is responsible for collecting payments from loan obligors and for foreclosing under the applicable Trust Deed in the event of default by an obligor. If the Company must complete a project repossessed by it, the Company may have to inject additional capital, which it may not be able to fully recover. Further, the completion time may be in excess of one year, causing a severe strain on the cash flow of the Company, depending upon the project size. The Company also is subject to strict state law requirements in the collection and repossession of its collateral securing each loan. Although the Company will make every effort to comply with all applicable laws, any failure to comply may subject the Company to severe monetary damages or penalties and may result in administrative or judicial action against the Company. See "Business-Regulation."

No Assurance of Conventional Financing for the Company's Operations

In addition to Note proceeds, the Company may establish lines of credit or obtain various forms of financing from a financial institution or any other person or entity. The Company's

management believes that during the past few years, conventional financing for speculative business enterprises, such as the Company's lending operations, has become more difficult to obtain. If regular, continued sale of the Notes is not successful, and the Company is not able to obtain sufficient financing from other sources, the Company may be forced to sell Trust Deeds and/or loans in its portfolio to pay maturing Notes as they come due. Mr. Chittick has provided liquidity to the Company through an equity line of credit in the past and he intends to do so in the future. When Mr. Chittick advances funds to the Company from this equity line of credit, Mr. Chittick draws an interest rate of 12% per annum from the Company. Funds advanced in this manner are generally only short term (3-5 days). If the Company were to require additional conventional financing, the lender will probably secure its loan through Mr. Chittick to the Company by requiring a lien on the Company's assets, including the Trust Deeds. The lender's lien would have priority to any claims of any of the investors in the Notes, which puts these investors at risk. There can be no assurance the Company would be able to receive sufficient proceeds from the sale of the loans or Trust Deeds to repay any additional financing, if applicable, and to repay all of the outstanding Notes. See "Use of Proceeds," "Business" and "Description of Securities."

Regulation

Because it will not make loans for personal, family or household purposes, the Company believes it has structured its operations to be exempt from various federal and state regulations, and particularly from regulations affecting lending and financial institutions. If it is determined that the Company has not structured its operations so that it is exempt from regulation, the Company could become subject to extensive regulation, including the Truth in Lending Act, the Homeownership and Equity Protection Act of 1994, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act, as well as various state laws and regulations. Failure to comply with any of these requirements or any similar state law requirement, may result in, among other results, demands for indemnification or repurchase, rescission rights, lawsuits, administrative enforcement actions and civil and criminal liability. In addition, there can be no assurance that existing regulations will not be revised to govern the activities of the Company as currently

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structured. Compliance with existing or future regulation could be costly and could materially and adversely affect the operations of the Company. See "Business – Regulation," including the predatory mortgage lending discussion contained therein.

FHA Regulations

If new regulations are issued by the Federal Housing Administration or if a more strict interpretation of any of its regulations is implemented in the future, such regulations could reduce the demand for the Company's loans from prospective borrowers, which could impair the Company's ability to keep all of the proceeds from this offering fully invested. See "Business – Regulation."

No Assurance of Successful Placement of the Notes

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The Notes are being privately placed by the Company to qualified investors who intend to hold them for their own account until maturity. There is no underwriter, and there is no assurance that the Company will be successful in the continued placement of the Notes in a manner sufficient to satisfy its cash flow requirements to continue funding loans to its borrowers. See "Use of Proceeds" and "Business."

Absence of Public Market/ Non-Transferability of Notes

The Notes have not been registered under the Act or any state securities law and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Act and applicable state securities laws. The Company does not intend to register the Notes under the Act or any state securities law. In addition, the Notes are non-transferable without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion. Accordingly, there is no public or private trading market for the Notes, and it is highly unlikely that a trading market

will develop. The Company has no obligation to make any effort to cause a trading market to develop and does not intend to take any actions to cause a trading market to develop. Accordingly, and because the restricted nature of the security prohibits the purchase of the Notes for any purpose other than holding to maturity, an investor in the Notes must anticipate holding the Notes to maturity. See "Description of Securities."

Impact of Change in Economic Conditions

An unforeseen change of general economic conditions, and particularly in Arizona and the southwestern United States, may adversely impact the Company's business and its ability to generate sufficient operating income to satisfy its debt obligations, including its obligations under the Notes as they become due. The Company maintains the right to adjust the interest paid in subsequently offered Notes and on the Notes offered hereby with 30 days' written notice. In the past, Arizona's real estate market has been cyclical and has experienced severe fluctuations. Investors should anticipate that these real estate markets might experience cyclical fluctuations in the future. The Company would adjust its operations in response to changing conditions, but there can be no assurance that the Company will be able to operate as planned during periods of such fluctuation or adjust its operations to avoid the impact of such changed conditions. See "Business-Target Markets and Potential Future Markets."

Dependence on Key Personnel

The Company is dependent on the continued services of Mr. Chittick. The Company's ability to continue its lending operations would be significantly and adversely affected by the loss of Mr. Chittick if a qualified replacement could not be found without undue delay. Although Mr. Chittick occasionally uses the services of outside consultants who have assisted Mr. Chittick in limited absences, it is unlikely that an outside consultant would be able to perform Mr. Chittick's duties as successfully as Mr. Chittick has done. If Mr. Chittick is disabled or unavailable for a long period of time, Mr. Chittick has developed a contingency plan for a consultant to wind down the Company's business, but there can be no assurance that such

plan will be successful. See "Management-Contingency Plan in the Event of the Death or Disability of Mr. Chittick."

Management's Outside Interests and Conflicts of Interest

Mr. Chittick may maintain some activity in personal investments outside of the Company and he may manage similar types of outside portfolios as those maintained by the Company. Some of the Company's outside consultants who occasionally assist Mr. Chittick also make investments in loans secured by deeds of trust. In addition, Mr. Chittick invests in similar instruments on his own behalf. Since the Company plans to invest in portfolios similar to those of some of its consultants and Mr. Chittick, and because of the past (and limited present) consulting relationships between and among Mr. Chittick and some consultants, conflicts of interest exist and will continue to exist between the Company and the outside interests of Mr. Chittick and some consultants. See "Management."

No Protections From Investment Company Act Registration

The Company is not registered, and does not intend to register, under the Investment Company Act of 1940 in reliance upon an exclusion from the definition of an investment company provided in Section 3(c)(5) thereof. As a result, the operation and conduct of the Company's business will be subject to substantially less federal and state regulation and supervision than a registered investment company. If the Company was subject to the Investment Company Act of 1940, the Company would be required to comply with significant, ongoing regulation which would have an adverse impact on its operations. This could occur if a significant proportion of the proceeds from the sale of the Notes were invested in short-term debt instruments for longer than a one-year period. The Company intends to take all reasonable steps to avoid such classification. See "Business."

No Protections From Investment Advisers Act of 1940 or Analogous Arizona Law

The Company is not registered or licensed, and does not intend to register or become licensed as an investment adviser with the State of Arizona or with the SEC pursuant to the Investment Advisers Act of 1940 because the Company's management believes that the Company is not engaged in the business of providing investment advice for compensation. Accordingly, the operation and conduct of the Company's business will be subject to less federal and state regulation and supervision than a registered investment adviser. If the Company was subject to the Investment Advisers Act of 1940 or the analogous Arizona law, the Company would be required to comply with significant, ongoing regulation which could cause the Company to incur additional costs, adversely impacting its operations. This could occur if the Company were deemed to be engaged in the business of providing investment advice for compensation and the Company cannot avail itself of the private investment adviser exemption under Arizona law or the forthcoming exemptions under the Rules to be promulgated by the SEC pursuant to the Dodd-Frank Act. The Company intends to take all reasonable steps to avoid such classification. See "Business."

Control by and Benefits to Insiders

Noteholders will not be able to influence the management of the Company because Mr. Chittick owns all of the outstanding shares of common stock of the Company. See "Management" and "Principal Shareholder."

Difficulties and Costs of Continuous Offering

Until the maximum offering proceeds are attained or the Company terminates this offering, the Company expects to offer the Notes for placement on a continuing basis for two years from the date of this Memorandum unless the Company changes its operations or method of offering in any material respect prior to the expiration of the two year offering period. See "Plan of Distribution." In order to continue offering the Notes during this period, the Company will need to update this Memorandum from time to time. Keeping the information in the Memorandum current will cause the Company to incur additional costs. A failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 of the Securities Act for employing a manipulative or deceptive device in the sale of securities, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors. In addition, an investor might seek to have the sale of the Notes hereunder rescinded which would have a serious adverse effect on the Company's operations.

Certain Charter Provisions

Arizona law provides that Arizona corporations may include provisions in their articles of incorporation or bylaws relieving directors and officers of monetary liability for breach of their fiduciary duty as director or officers, respectively, except for the liability of a director or officer resulting from: (i) any transaction from which the director derives an improper personal benefit; (ii) acts or omissions involving intentional misconduct or the absence of good faith; (iii) acts or omissions showing reckless disregard for the director's or officer's duty; or (iv) the making of an illegal distribution to shareholders or an illegal loan or guaranty.

The Company's Articles of Incorporation provide that the Company's directors are not liable to the Company or its shareholders for monetary damages for the breach of their fiduciary duties to the fullest extent permitted by Arizona law. The Company's Bylaws provide that the Company may indemnify its directors and officers as to those liabilities and on terms and conditions permitted by Arizona law including the payment of expenses incurred by a director or

officer in advance of final disposition of the proceeding following the furnishing of certain written representations.

Notes Are Unsecured General Obligations

The Notes are unsecured obligations of the Company, and Noteholders will be general unsecured creditors of the Company. The Notes do not limit the Company's ability to obtain additional capital from other sources and do not limit the Company's ability to grant such other financing sources liens or other security interests in the Company's assets and other property. If a bankruptcy proceeding is commenced by or against the Company, creditors of the Company who were granted a security interest in the Company's property will be entitled to repayment prior to any general unsecured creditors of the Company, including the Noteholders. The Company may also incur additional unsecured obligations, which could reduce the funds available for repayment of the Notes in a bankruptcy or other liquidation scenario. Title 11 of the United States Code (the Bankruptcy code) also specifies that certain other creditors be entitled to repayment prior to general unsecured creditors. There can be no assurance that the Noteholders will receive any payments in respect of the Notes if the indebtedness of any secured creditors of the Company exceeds the value of such secured creditors' collateral.

Changes in Investment and Financing Policies Without Noteholder Approval

The major business decisions and policies of the Company, including its investment and lending policies and other policies with respect to growth, operations, debt and distributions, will be determined by the Company's management. The Company's management will be able to amend or revise these and other policies, or approve transactions that deviate from these policies, from time to time without a vote of the Noteholders. Accordingly, the Noteholders will have no control over changes in strategies and policies of the Company, and such changes may not serve the interests of all the Noteholders and could materially and adversely affect the Company's financial condition or results of operations.

Issuance of Additional Debt and Equity Securities

The Company will have authority to offer additional debt and equity securities for cash, in exchange for property, services or otherwise. The Noteholders will have no preemptive right to acquire any such securities. Further, the Company is not subject to any agreement that limits or restricts the amount or the terms of additional debt that the Company may incur in the future. To the extent that the Company incurs debt and grants its creditors security interests in or other liens upon the Company's assets or other collateral, those other creditors would enjoy priority in right of payment compared to the Noteholders, up to the value realizable from such collateral.

Concentration of Loans in Arizona

The Company's portfolio of loans is concentrated in Arizona. Consequently, the Company's operations and financial condition are dependent upon general trends in the Arizona market in which such concentration exists and, more specifically, its respective real estate market. A decline in a market in which the Company has a concentration may adversely affect the values of properties securing the Company's loans, such that the principal balance of such loans may equal or exceed the value of the underlying properties, making the Company's ability to recover losses in the event of a borrower's default unlikely. In addition, uninsured disasters such as floods, terrorism, and acts of war may adversely impact the borrowers' ability to repay loans, which could have a material adverse effect on the Company's results of operations and financial condition.

Possible Inadequacy of Allowances for Loan Losses

The Company's allowance for losses related to the loans is maintained at a level considered adequate by management to absorb anticipated losses, based upon historical experience and upon management's assessment of the collectibility of loans in the Company's portfolio from time to time. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the

Company's control and such losses may exceed current estimates. Although management believes that the Company's allowance for losses related to the loans is adequate to absorb any losses on existing loans that may become uncollectible, there can be no assurance that the allowance will prove sufficient to cover actual losses related to the loans in the future.

Broad Management Discretion as to Use of Proceeds

The net proceeds to be received by the Company in connection with this offering will be used for working capital and general corporate purposes, including the funding of loans. Accordingly, management will have broad discretion with respect to the expenditure of such proceeds. Purchasers of the Notes will be entrusting their funds to the Company's management, upon whose judgment they must depend, with limited information concerning the specific working capital requirements and general corporate purposes to which the funds will ultimately be applied. See "Use of Proceeds."

Company Is Exposed to Risks of Being a Lender

The current economic downturn could severely disrupt the market for real estate loans and adversely affect the value of any outstanding real estate loans made by the Company, and in turn the Notes. Non-performing real estate loans may require substantial negotiations by the Company with the borrower in order for the Company to ultimately obtain the underlying property used as collateral for the loan. The Company may incur additional expenses to the extent it is required to negotiate with the borrower in order to obtain the underlying property. In the event the Company is unable to obtain the underlying property, because of the unique and customized nature of a real estate loan, certain real estate loans may not be sold easily. One or more non-performing real estate loans secured by property that the Company is unable to obtain could have a negative affect on the performance of the Company and the return on your investment.

Governmental Action May Reduce Recoveries on Non-Performing Real Estate Loans

In the event the Company decides to foreclose on a real estate loan, legislative or regulatory initiatives by federal, state or local legislative bodies or administrative agencies, if enacted or adopted, could delay foreclosure, provide new defenses to foreclosure or otherwise impair the ability of the Company to foreclose on a real estate loan in default. Various jurisdictions have considered or are currently considering such actions, and the nature or extent of the limitation on foreclosure that may be enacted cannot be predicted. Bankruptcy courts could, if this legislation is enacted, reduce the amount of the principal balance on a real estate loan, reduce the interest rate, extend the term to maturity or otherwise modify the terms of a bankrupt borrower's real estate loan.

Property Owners Filing for Bankruptcy May Adversely Affect the Company and the Notes

The filing of a petition in bankruptcy automatically stops or "stays" any actions to enforce the terms of a real estate loan. Further, the bankruptcy court may take other actions that prevent the Company from foreclosing on the underlying property. A court may require modifications of the terms of a real estate loan, including reducing the amount of each monthly payment, changing the rate of interest and altering the payment schedule, thus allowing the borrower to keep the underlying property and thus preventing foreclosure by the Company and/or making the sale of the real estate less profitable. A court may also permit a borrower to cure a monetary default relating to a real estate loan by paying arrearages within a reasonable period and reinstating the original real estate loan payment schedule, even if a final judgment of foreclosure has been entered in a state court. Any bankruptcy proceeding will, at a minimum, delay the Company in achieving its investment objectives and may adversely affect the Company's profitability.

Violation of Various Federal, State and Local Laws May Result in Losses

Violations of certain federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may subject the

Company to damages and administrative enforcement. In the event that a real estate loan issued by the Company was not originated in compliance with applicable federal, state and local law, the Company may be subject to monetary penalties and could result in the borrowers rescinding the affected real estate loan. As a result, the Company may not be able to achieve its financial projections with respect to the particular underlying property.

Delays in Liquidation Due to State and Local Laws

Property foreclosure actions are regulated by state and local statutes and rules and are subject to many of the delays and expenses of other lawsuits, sometimes requiring several years to complete. As a result, if the Company is not able to obtain the property voluntarily from the borrower, the Company may not be able to quickly foreclose on and subsequently sell a property securing a real estate loan.

An Investment in the Notes May Not Be Consistent With Section 404 of ERISA

Persons acting as fiduciaries on behalf of a qualified profit sharing, pension or other retirement trusts subject to the Employee Retirement Income Security Act of 1974 ("ERISA") should satisfy themselves that an investment in the Notes is consistent with Section 404 of ERISA and that the investment is prudent, taking into consideration cash flow and other objectives of the investor.

There Can Be no Assurance of Confidentiality

As part of the subscription process, investors will provide significant amounts of information about themselves to the Company. Pursuant to applicable laws, such information may be made available to third parties that have dealings with the Company, and governmental authorities (including by means of securities law-required information statements that are open to public inspection). Investors that are highly sensitive to such issues should consider taking steps

to mitigate the impact upon them of such disclosures (such as by investing in the Notes through an intermediary entity).

Legal Counsel to the Company and Its President Does Not Represent the Noteholders

Each investor must acknowledge and agree in the Subscription Agreement that legal counsel representing the Company and its President does not represent, and shall not be deemed under the applicable codes of professional responsibility, to have represented or to be representing, any or all of the investors.

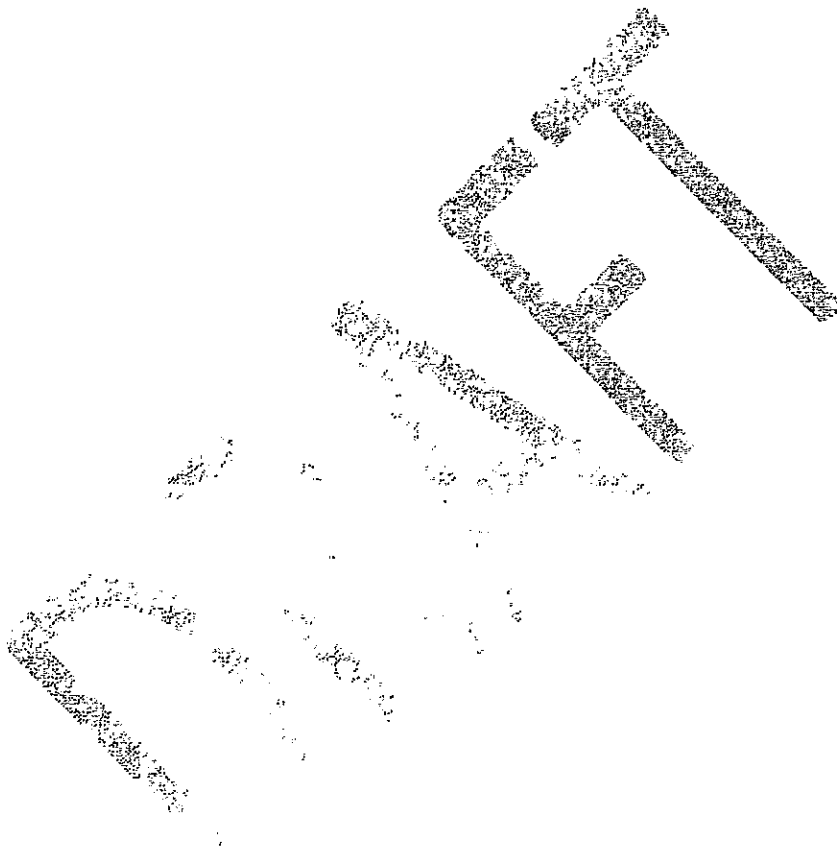
Legal Counsel to the Company Will Represent the Interests Solely of the Company and Its President

Documents relating to the purchase of Notes, including the Subscription Agreement to be completed by each investor, will be detailed and often technical in nature. Legal counsel to the Company will represent the interests solely of the Company and its President, and will not represent the interests of any investor. Accordingly, each prospective investor is urged to consult with its own legal counsel before investing in the Company and the purchase of the Notes. Finally, in advising as to matters of law (including matters of law described in this Memorandum), legal counsel has relied, and will rely, upon representations of fact made by the Company's President. Such advice may be materially inaccurate or incomplete if any such representations are themselves inaccurate or incomplete, and legal counsel generally will not undertake independent investigation with regard to such representations.

Federal Income Tax Risks

The discussion entitled "Certain United States Federal Income Tax Considerations" includes a discussion of certain U.S. income tax risks involved in an investment in the Notes. The section does not discuss all aspects of U.S. federal income taxation that may be relevant to any particular investor and cannot address any investor's specific investment circumstances. In

addition, the section does not include a discussion of state, local or foreign tax laws. Each investor should consult its own tax advisor with respect to these and other tax consequences of an investment in the Notes.



FORWARD-LOOKING STATEMENTS

This Confidential Private Offering Memorandum, including information incorporated by reference in this Memorandum, contains forward-looking statements regarding the Company's plans, expectations, estimates and beliefs. Actual results could differ materially from those discussed in, or implied by, these forward-looking statements. When used in this Memorandum, the words "anticipate," "intend," "believe," "estimate," and other similar expressions generally identify forward-looking statements, which are found throughout this Memorandum whenever statements are made that are not historical facts. Accordingly, such forward-looking statements might not accurately predict future events or the actual performance of an investment in the Notes. In addition, you must disregard any projections and representations, written or oral, which do not conform to those contained in this Confidential Private Offering Memorandum.

USE OF PROCEEDS

The Company intends to use the net proceeds received from the sale of the Notes, primarily for operating capital, to purchase and fund Trust Deeds and to acquire interests in properties or notes, which the Company's management anticipates to be able to resell or collect as applicable. The proceeds from the sale of Notes may be used to repay earlier maturing Notes; provided, however, the Company will limit the amount of money that may be raised for this purpose so that the Company will not become subject to the Investment Company Act of 1940. See "Risk Factors – Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes."

The Company may use proceeds from this private placement for general business purposes, including rent, advertising, labor and administrative expenses, if needed, investment, expansion or the purchase of capital assets and to fund loans to borrowers and purchase Trust Deeds. However, the Company expects that no more than .05 percent of the proceeds of the offering will be allocated to general business purposes. The Company is not required to maintain reserves or to deposit any of the proceeds of the offering, into a reserve account, for the purpose of providing liquidity to service interest payments on, and redemption of, the Notes as they mature. The Company does not intend to maintain reserves from the proceeds of the offering in a cash reserve account. The remaining proceeds, net of cash reserves, if any, should be available to fund and purchase Trust Deeds. The Company is not required or obligated to give Noteholders notice of any changes in the Company's intended use of proceeds of the offering. See "Business."

The following table sets forth the Company's best estimates of the use of the minimum and maximum target gross proceeds from the sale of the Notes.

	<i>Minimum Amount Raised</i>	<i>Percent of Offering</i>	<i>Target Amount Raised</i>	<i>Percent of Offering</i>
<i>Gross Offering Proceeds</i>	\$500,000	100%	\$50,000,000	100%
<i>Commissions & Costs (1)</i>	-0-	0%	-0-	0%
<i>Cash Reserve (2)</i>	-0-	0%	-0-	0%
<i>General Business (3)</i>	\$25,000	5%	\$25,000	.05%
<i>Proceeds Available For Funding/ Purchase of Construction Loans (4)</i>	\$475,000	95%	\$49,975,000	99.95%

- (1) The Company does not anticipate paying costs and commissions in excess of the costs associated with this offering. The Notes may be purchased directly from the Company without commission. Notes maturing more than two years also may be purchased by investors using qualified funds (i.e., IRA, SEP IRA, ROTH IRA and Keogh Plans), through a licensed broker-dealer and with an approved custodian; provided, that such investments meet the investor suitability requirement.
- (2) Company intends (but is not required) to maintain cash reserves (or access to other funds) approximately equal to a minimum of one percent of the aggregate balance of Notes outstanding in its general accounts to provide funds to service interest payments and to facilitate redemption of the Notes. This amount will be calculated using a proprietary cash-flow management model. Interest accruing in the general accounts will belong to the Company.
- (3) Company anticipates that its current facilities are adequate to fund real estate loans and to service the volume of contracts that would be purchased at the minimum level of proceeds. If its business is significantly increased, the Company may invest in additional personnel, computer equipment and facilities capable of processing increased data. General business expenses may also include the offering expenses.

- (4) This use of the proceeds is only an estimate and the Company reserves the right to allocate the proceeds in a different manner consistent with the Confidential Private Offering Memorandum.

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PRIOR PERFORMANCE

Mr. Chittick organized the Company in April of 2001 to provide a short-term funding source for primarily real estate developers and foreclosure specialists. Mr. Chittick has arranged for the funding and administration of real estate loans since that time. The chart set forth below indicates the Company's history in raising money from investors, the number of loans made, the aggregate amount of such loans, the underlying values of the security for such loans and any problems with respect to such loans.

Mr. Chittick initially capitalized the company with one million dollars of his personal funds. From July 2001 through December 2001, an additional \$500,000 was raised from investors. In 2002, an additional \$930,000 was raised from investors. In 2003, an additional \$1,550,000 was raised from existing and new investors. In 2004, the amount from both old and new investors increased to an additional \$2,450,000. In 2005, an additional \$2,670,000 was raised from existing and new investors. In 2006, an additional \$2,800,000 was raised from existing and new investors. In 2007, an additional \$2,400,000 was raised from existing and new investors. In 2008, an additional \$3,000,000 was raised from existing and new investors. In 2009, an additional \$2,100,000 was raised from existing and new investors. In 2010, an additional \$2,800,000 was raised from existing and new investors. From January 2011 to June, 2011, an additional \$4,700,000 was raised from existing and new investors. Mr. Chittick uses an equity line of credit to help facilitate cash flow for the Company. All of the money raised from investors has been through the sale of promissory notes like those being offered in this placement. Such notes were for terms of 6 to 60 months and have, to date, drawn interest at the rate of 8 to 12% per annum. The Company has never defaulted on either interest or principal for any of such notes.

The money raised by the Company from investors has historically been divided into a large portfolio of loans secured by marketable properties with varying values and locations in the Phoenix metro area. The Company is currently lending in approximately 20 cities in the Phoenix metro area, which includes Maricopa and Pinal Counties. The Company will have loans secured by properties in many of these cities simultaneously. The Company has endeavored to maintain a large and diverse base of borrowers as well as a diverse selection of properties as collateral for

its loans to the borrowers. However, in response to the more recent challenging conditions in the real estate market, the Company has focused on maintaining relationships with borrowers that have a proven track record with a good payment history and performance. The Company continues to strive to achieve a diverse borrower base by attempting to ensure that one borrower will not comprise more than 10 to 15 percent of the total portfolio.

All real estate loans funded by the Company have been and are intended to be secured through first position trust deeds. The loan to value ratio of the Company's overall portfolio has averaged less than 70% and the Company intends to maintain a loan to value ratio of 50% to 65%.

Year	Loans Funded	Loan Value	Value of Loans	Loans Repaid	Loans Repaid Value	Value of Homes Repaid
2001	37	\$3,378,000.00	\$6,393,000.00	15	\$1,452,000.00	\$2,431,000.00
2002	69	\$5,685,000.00	\$878,000.00	66	\$5,267,000.00	\$9,076,300.00
2003	124	\$11,673,000.00	\$1,753,500.00	108	\$963,500.00	\$14,488,500.00
2004	185	\$19,907,000.00	\$30,422,800.00	170	\$17,951,700.00	\$26,939,500.00
2005	236	\$34,955,700.00	\$50,487,300.00	232	\$31,001,920.00	\$45,114,500.00
2006	215	\$34,468,100.00	\$52,784,000.00	212	\$35,301,250.00	\$53,057,200.00
2007	272	\$42,579,634.00	\$65,931,500.00	267	\$41,424,815.00	\$65,482,800.00
2008	304	\$38,864,660.00	\$63,671,300.00	257	\$34,578,755.00	\$56,369,400.00
2009	412	\$41,114,707.00	\$72,078,020.00	349	\$39,416,824.00	\$67,713,100.00
2010	390	\$37,973,097.00	\$63,771,350.00	355	\$37,175,201.00	\$61,666,170.00
*2011	378	\$36,187,995.00	\$62,240,600.00	*306	\$29,883,992.00	\$51,004,900.00
		\$306,786,893.00	\$470,411,170.00		\$274,416,977.00	\$453,340,370.00
	2622			2319		

*Through June 30, 2011

From 2001-2005, all interest due from all loans was collected.

In 2006, one loan that was foreclosed on, and successfully resold, did not pay all the interest due. However, the small uncollected amount was absorbed by the Company.

In 2007, one condominium loan, two house loans, and one land loan were foreclosed. While the condominium and houses were sold with minimal principal loss, much of the interest

was collected on all four loans. One land loan was written off. The loss was absorbed by the Company.

In 2008, one condominium and six homes were sold with minimal principal loss; much of the interest was collected on all the loans. The loss was absorbed by the Company. There were 15 more homes that were either foreclosed on or ownership was acquired through the deed in lieu process. These houses are presently either for sale on the retail market, or have been rented and are for sale on the investor market.

In 2009, one condominium and 12 homes were sold with principle loss; much of the interest was collected on all the loans. The loss was absorbed by the Company. The Company also acquired a 12-plex that was a construction loan. This is being rented and managed by a property management firm.

In 2010, one house was sold for a loss. It was acquired through foreclosure in 2009; the loss was absorbed by the Company.

In 2011, three homes were sold for a loss. The losses were absorbed by the Company. There were three homes that were sold for a gain and all interest was paid in full. One loan was foreclosed on, sold at the auction, all principle, interest, late fees and foreclosure fees associated with the sale were collected. One house is presently in escrow, which will close in July, to which a gain will be made.

The Company presently has three condominiums, 12 houses and a 12-plex that are all being rented. A professional management company has been retained to manage these properties. All of these properties are listed to be sold. The rent received is at or slight negative to the cost of capital for the Company. It was Management's decision to retain these properties rather than sell them and take a loss. Now that the market has shown some signs of strengthening, it is believed that these properties can be sold for minimal loss to the Company.

The Company currently has one condominium and one lot that are for sale. The lot is currently be negotiated to be rented by a construction company at the cost of capital. The goal is sell both of these properties as soon as possible.

Since inception through June 30, 2011, the Company has participated in 2622 loans, with an average loan amount of \$116,000, with the highest single loan being \$800,000 and lowest being \$12,000. The aggregate amount of loans funded is \$306,786,893 with property values totaling \$470,411,170. The total amount of loans that have funded and closed is \$274,416,977 with home values equaling \$453,340,340. These loans have borne interest rates of 18% per annum. The interest rate paid to noteholders has ranged from 8% to 12% per annum through such date. Each and every Noteholder has been paid the interest and principle due to that Noteholder in accordance with the respective terms of the Noteholder's Notes. Despite any losses incurred by the Company from its borrowers, no Noteholder has sustained any diminished return or loss on their investment in a Note from the Company.

MANAGEMENT

Directors and Executive Officers

The Director and Executive Officer of the Company are: Denny J. Chittick, 4, President, Vice President, Treasurer, and Secretary.

Denny J. Chittick worked at Insight Enterprises, Inc., a publicly traded company, for nearly 10 years, holding many different positions from finance, accounting, operations and held the position of Sr. Vice President and CIO when he left the company in 1997. Since leaving Insight, he has been involved in several different companies, including a software company, internet company and finance company. Mr. Chittick holds a degree in Finance from Arizona State University.

Real Estate Consultant

The Company will have only one employee, which will require the Company to use outside consultants on a periodic basis to provide various services. These consultants may be retained to assist with any necessary due diligence in connection with these loans and, to the extent necessary, to assist with the closing of a loan.

Employees

With the assistance of outside consultants on an as-needed basis, Mr. Chittick intends to operate the Company as its primary employee, analyzing, negotiating, originating, purchasing and servicing Trust Deeds by himself. As the portfolio of contracts increases, the Company may add additional personnel.

Contingency Plan in the Event of Death or Disability of Mr. Chittick

In the event that Mr. Chittick is unable to perform his duties to continue the operation of the Company in any capacity, Mr. Chittick has a written agreement with Robert Koehler, an owner of RLS Capital, Inc. to provide or arrange for any necessary services for the Company. Robert has twelve (12) years of experience supporting real estate loan portfolios similar to the portfolio of the Company. Robert holds a real estate license in Arizona and has worked as a loan officer in the residential and commercial transactions and has conducted due diligence effort for thousands of private purchase of notes and trust deeds. Robert is respected as a member of the Arizona real estate investment community by investors, borrowers, mortgage brokers, escrow officers and real estate agents. As part of this contingency plan, Robert is a signatory on the Company's bank account. On a weekly basis, Robert receives an updated spreadsheet of all properties currently being used as collateral for a loan. On a monthly basis, Robert receives a spreadsheet of all the investors and what is owed to each of them, and receives the monthly statements for all investors. Pursuant to the agreement with Robert, upon Robert's receipt of instructions from Denny Chittick, or from other designated individuals, or upon medical confirmation that Mr. Chittick is unable to continue to perform his duties as President of the Company for an extended period of time, Robert will act to close down the Company's business by collecting all of the monies due on the Trust Deeds and Robert will return all of the principal and interest owed to the investors pursuant to the Notes.

Management Compensation

As the sole shareholder, Mr. Chittick receives a salary consistent with IRS guidelines. Salary adjustments are made at year-end in order for Mr. Chittick to fund his 401(K) and to pay his income taxes. Year-end profits are taxed to Mr. Chittick pursuant to the U.S. Internal Revenue Code rules applicable to Subchapter S corporations. Therefore, year-end profits may be distributed to Mr. Chittick. In addition, Mr. Chittick is paid interest on Notes funded by Mr. Chittick in the same manner as the other investors. See "Management – Management Compensation." As the Company expands its lending operations and increases the workload of

Mr. Chittick, he reserves the right to receive an increased salary so long as there is no current default under the Notes.

Ownership Compensation

The Company receives its revenue primarily from interest earned on trust deeds, rents on properties owned by the Company, interest on cash reserve accounts, and interest earned on investments made by the Company after subtracting interest paid on its debts. The amount of profits, and therefore, compensation to Mr. Chittick, will be dependent upon the amount of Notes sold, Trust Deeds acquired, loans made and the terms of such loans. After payment of its principal and interest obligations under the Notes, the Company distributes the balance to Mr. Chittick; provided, however, the Company may (but is not required to) retain earnings in the Company up to a level of "reserve" or "retained earnings" goals that the Company deems adequate. Subject to the need to adjust these goals due to special liquidity needs due to plans to repay Notes or to fund future Trust Deeds, the Company anticipates that it will be able to achieve and maintain adequate reserve goals to meet the Company's obligations.

Mr. Chittick may have significant investments in the Notes, for which the Company will pay him monthly interest on the same basis as other Noteholders which investment amount will be subordinated to all other Notes placed pursuant to this Memorandum. (Mr. Chittick currently has invested approximately \$2,200,000 in Notes, but this amount varies from \$1.9 million to \$3.2 million.) See "Description of Securities." The Company intends to pay to Mr. Chittick all retained earnings in excess of any reserves deemed necessary or desirable by Mr. Chittick to meet the Company's obligations.

PRINCIPAL SHAREHOLDER

The following table sets forth the beneficial ownership of shares of the Company's outstanding common stock.

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percent</u>
Denny J. Chittick 6132 W. Victoria Place Chandler, AZ 85226	500,000	100%

The Company is authorized to issue up to 25,000,000 shares of common stock, but has no intent to issue additional common stock at this time.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Ownership

Based on his 100 percent ownership of the Company's common stock, Denny J. Chittick maintains the exclusive ability to elect directors, appoint officers and manage the operations of the Company.

Competing Businesses

During the four years prior to forming the Company, Denny Chittick personally invested in companies and in real estate loans that are substantially similar to the Company's investments in Trust Deeds. In addition to his activities on behalf of the Company, Mr. Chittick reserves the right to continue his personal investments in real estate and instruments similar to Trust Deeds, which are considered competing businesses of the Company. See "Risk Factors – Management's Outside Interests and Conflicts of Interest."

DESCRIPTION OF SECURITIES

The Company is offering up to \$50 million in Notes. The minimum denomination is \$50,000, and the maximum denomination is \$1,000,000 in a single note. An investor may purchase more than \$1,000,000 in Notes, but it will be distributed over different Notes. Denominations increase from the minimum to the maximum in additional increments with a minimum incremental increase of \$10,000. Until the maximum offering proceeds are attained or the Company terminates this offering, the Company expects to offer the Notes for placement on a continuing basis for two years from the date of this Memorandum. Absent an earlier termination, the offering will continue for so long as the Company has not changed its operations or method of offering in any material respect. If the Company changes its operations or method of offering in any material respect, the Company will update the Memorandum as necessary to provide correct information to investors. The Company may experience difficulties in conducting a continuous offering of Notes. See "Risk Factors – Difficulties and Costs of Continuous Offering."

The Notes are general obligations of the Company and are superior in priority and liquidation preference to any Notes payable to Mr. Chittick. Mr. Chittick has agreed to subordinate any Notes to which he subscribes to Notes with similar maturities placed with other investors. Although the Company has never defaulted with respect to a Note, including any regular interest payment or the principal and interest due upon the maturity of the Note, if the Company should ever be in default with respect to any Note, Mr. Chittick will subordinate any Notes he may hold until the default is cured and Mr. Chittick will also defer any compensation until the default is cured. While Mr. Chittick has agreed and will act as set forth above in this Memorandum, such agreement is not evidenced in a separate writing signed by Mr. Chittick.

The Notes will bear interest at the rates stated for the term selected. The investor may elect to have interest paid monthly, quarterly or accrue and be paid at maturity. If the investor elects to have interest paid at maturity or quarterly, the interest will accrue monthly and earn compounded interest. Interest is payable on the last day of each period to the investors of the Notes at the principal office of the Company in Chandler, Arizona. At the option of the

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Company, interest payments may be paid by check mailed to the address of the investor entitled thereto as it appears on the Subscription Agreement for the Notes. An investor may request in writing to the Company that a deposit be made to a designated bank or investment account.

The Notes are not transferable without the prior written consent of the Company, which the Company may withhold in its sole discretion. The Company anticipates withholding its consent if the transfer could jeopardize the Company's exemption under Regulation D or any applicable state blue-sky law or the Company's exclusion from the definition of an investment company under the Investment Company Act of 1940.

The Notes are unsecured and are not insured or guaranteed by any state or federal government entity or any insurance company. In event of default, an investor could look only to the Trust Deeds or other assets of the Company for repayment.

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As unsecured, general obligations of the Company, the Notes will not have any specific collateral. The Company's Assets include all of the Company's right, title and interest in Trust Deeds owned by the Company, together with all payments and instruments received thereto, real estate owned by the Company as a result of a deed-in-lieu of foreclosure due to a borrower default, and all proceeds of the conversion of any of the foregoing into cash or other liquid property. So long as the Company is not in default on the Notes, the Company is permitted to freely transfer, sell or substitute, in the normal course of business, any Trust Deeds it owns, subject to general restrictions concerning transfers of property; provided, however, the Company may transfer, sell or substitute one or more Trust Deeds if such transfer, sale or substitution is done in connection with a plan to cure a default.

On an annual basis, the Company will retain an independent accounting firm to prepare the 1099's to be issued by the Company to the investors and to prepare the tax return for the Company. On an annual basis and upon written request from an investor, the Company will certify to the requesting investor(s) that the aggregate outstanding principal amount of all cash accounts, other property and Trust Deeds is at least equal to the principal amount of outstanding Notes as of the date of the request.

The Company may, in its discretion, modify the interest rate paid on subsequently issued Notes or the term of such Notes. Any such modification of the interest rate or term will not affect Notes then issued and outstanding.

Notes are initially being offered at the following rates and maturities:

<u>Note Terms (2) (3)</u>			
<u>Note Amount (1)</u>	<u>6 Months</u>	<u>1 Year</u>	<u>2 Years to 5 Years</u>
\$50,000 and up	8% ⁽⁴⁾	10% ⁽⁴⁾	12% ⁽⁴⁾

- (1) Note amounts are issued in varied denominations from \$50,000 to \$1,000,000, and in additional increases with a minimum of \$10,000. For qualified funds, the Company will accept minimum contributions in such amounts as reasonably determined by the Company.
- (2) Although the Company intends to use its good faith efforts to accommodate written requests from an investor to prepay any Note prior to maturity and the Company has in fact been able to satisfy such requests in a timely manner with interest paid in full, the Company has no obligation to do so and the investor has no right to require the Company to redeem the Note prior to maturity. Upon the Company's election to honor an investor's request to prepay any Note prior to maturity, the Company reserves the right to adjust any interest payable to the investor to the interest rate that would have been payable for the actual outstanding term of the Note.
- (3) The Notes may be redeemed by the Company at any time prior to maturity upon 30 days written notice to the investor at a price equal to the principal amount of the Note plus accrued interest to the date of redemption.
- (4) The Company also reserves the right, in its sole discretion, to adjust the interest paid on outstanding Notes on 30 days written notice to Noteholders.

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The Company has the right to sell, encumber, mortgage, create a lien on or otherwise dispose of any or all of its property, or in any manner secure an indebtedness so that such indebtedness shall have a claim against the assets of the Company securing such indebtedness, all without the consent of the investors of the outstanding Notes provided no Notes are in default. Any security interest granted in any of the Company's assets to secure indebtedness will be superior in priority to the general claim of a Noteholder.

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Default may occur with respect to one Note and not another. The Company shall be in default of a particular Note if any of the following events ("Event of Default") occurs with respect to that Note: (a) default for 30 days in any payment of interest on a Note when due; (b) default for 15 days in any payment of principal on a Note when due after maturity; (c) a filing for protection by the Company under Chapters 11 or 7 of the U.S. Bankruptcy Code or a filing for the Company under the U.S. Bankruptcy Code by creditors of the Company which filing is not dismissed within 90 days of the filing date; or (d) default for 90 days after receiving appropriate notice of a breach of any other covenant applicable to a Note. Notwithstanding the events listed above, Mr. Chittick may defer any payment of interest or principal due to Mr. Chittick or an entity controlled by him on any of the Notes subscribed to personally by Mr. Chittick without creating an Event of Default.

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The Company may not consolidate with or merge into any corporation, or transfer substantially all of its assets to any person, unless the successor corporation or transferee assumes the Company's obligations on the Notes. The Company has no present intention of merging with another company or consolidating with another company or transferring its assets.

PLAN OF DISTRIBUTION

The Notes may be purchased directly from the Company without commission. Notes maturing in two through five years also may be purchased with qualified monies (such as IRA, SEP IRA, ROTH IRA and KEOGH plans) through a licensed broker-dealer and with an approved custodian; provided, that such investments meet the investor suitability requirements. Transaction costs for Notes purchased with qualified funds will be paid by the Company up to one percent of the Note's face amount. The principal amount of the Note will be equal to the amount paid by the investor, and interest would be calculated on that amount.

The Notes are not registered with the SEC or any other state or federal regulatory agency. No state or federal agency has made any finding or determination as to the fairness of this offering for investment, the adequacy or accuracy of the disclosures, or any recommendation or endorsement of the Notes.

The offering and sale of the Notes is intended to be exempt from registration under the Act by virtue of one or more of the following exemptions provided by: (i) Section 4(2) of the Act; and (ii) Regulation D promulgated under the Act. See "Investor Suitability." In accordance therewith, substantial restrictions are placed on the offering and purchase of the Notes, including, but not limited to, the following:

- (1) The transaction may not include any public offering. The offer to sell Notes must be directly communicated to the investor by an officer of the Company and at no time may the Company advertise or solicit by means of any leaflet, public promotional meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general promotion.
- (2) The Notes may be purchased only for the investor's own account, for investment purposes only and not with a view to distribution, assignment, hypothecation, resale or to fractionalization in whole or in part.
- (3) An investor must meet certain suitability requirements, which are set forth under "Investor Suitability."

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- (4) The Company must have furnished and made available for inspection all documents and information that the investor has reasonably requested relating to an investment in the Company, including its Articles of Incorporation, stock records and financial account records.

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DETERMINATION OF OFFERING PRICE

The rate of return for the Notes offered hereby will be set from time to time by management of the Company to approximate a rate of return competitive with similar securities of other companies engaged in the finance industry. The Company has been in operation since April 2001. There is no market for the Company's securities and none is expected to develop. Accordingly, the rate of return on any Note bears no relation to the results of the Company, to any market price for the Company's securities, to the level of risk involved, or to any recognized measure of valuation or return on investment.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general discussion of certain U.S. federal tax considerations and consequences that may be relevant to a decision to acquire, own and dispose of Notes by an initial holder thereof. This summary only applies to Notes held as capital assets (generally, property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). Except as set forth below, this summary does not address all of the tax consequences that may be relevant to a particular Noteholder and it is not intended to be applicable to Noteholders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, U.S. expatriates, partnerships or other pass-through entities, tax-exempt organizations or dealers or traders in securities or currencies, or to Noteholders that will hold Notes as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, except as set forth below, this summary does not address the U.S. federal estate and gift tax law, the tax laws of any state, local or foreign government or alternative minimum tax consequences of the acquisition, ownership or other disposition of Notes and does not address the U.S. federal income tax treatment of Noteholders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective investor should consult its tax advisor, attorney and accountant with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This summary is based on current provisions of the Code, as amended, existing and proposed U.S. Treasury Regulations, current administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. No advance tax ruling has been sought or obtained from the Internal Revenue Service regarding the tax consequences of the transactions described herein. This discussion does not address tax considerations arising under the laws of any particular state, local or foreign jurisdiction.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS, ATTORNEYS AND ACCOUNTANTS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF THEIR PARTICULAR SITUATIONS, AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes who for U.S. federal income tax purposes is (i) a citizen or resident (or is treated as a resident for U.S. federal income tax purposes) of the United States; (ii) a corporation created or organized in or under the laws of the United States or any State or political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2) (a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control. A "Non-U.S. Holder" is a beneficial owner of Notes who for U.S. federal income tax purposes is (i) a non-resident alien individual; (ii) a foreign corporation; or (iii) a foreign estate or trust the fiduciary of which is a nonresident alien.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such partner should consult its own tax advisor as to its consequences of holding and disposing of the Notes.

U.S. Holders

Interest

Except as set forth below, interest paid on a Note generally will be includible in a U.S. Holder's gross income as ordinary interest income at the time it is paid or accrued in accordance with the U.S. Holder's usual method of tax accounting for U.S. federal income tax purposes.

Market Discount

A holder of Notes may in very limited circumstances, transfer their Notes to third parties. If the Company authorizes such a transfer, Notes sold on a secondary market after their original issue for a price lower than their stated redemption price at maturity are generally said to be acquired at market discount. Code Section 1278 defines "market discount" as the excess, if any, of the stated redemption price at maturity of the Note, over the purchaser's initial adjusted basis in the Note. If, however, the market discount with respect to a Note is less than 1/4th of one percent (.0025) of the stated redemption price at maturity of the Note multiplied by the number of complete years to maturity from the date the subsequent purchaser has acquired the Note, then the market discount is considered to be zero. Notes acquired by holders at original issue and Notes maturing not more than one year from the date of issue are not subject to the market discount rules.

Gain on the sale, redemption or other disposition of a Note, including full or partial redemption thereof, having "market discount" will be treated as interest income to the extent the gain does not exceed the accrued market discount on the Note at the time of the disposition. A holder may elect to include market discount in taxable income for the taxable years to which it is attributable. The amount included is treated as interest income. If this election is made, the rule requiring interest income treatment of all or a portion of the gain upon disposition is inapplicable. Once the election is made to include market discount in income currently, it cannot be revoked without the consent of the IRS. The election applies to all market discount notes acquired by the holder on or after the first day of the first taxable year to which such election applies.

Sale, Exchange or Disposition of Notes

A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. Holder, increased by any original issue discount ("OID") or market discount previously included by the holder in income with respect to the Note. Upon the sale, exchange or other disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other disposition (less an amount equal to the accrued but unpaid interest which will be taxable as ordinary income) and such U.S. Holder's adjusted tax basis in the Note. Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder, capital gains derived in respect of a Note that is held as a capital asset and that is held for more than one year are eligible for reduced income tax rates and may be deemed a long-term capital gain. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

Interest

Subject to the discussion below under the heading "U.S. Backup Withholding and Information Reporting," payments of principal of, and interest on (including any OID), a Note to (i) a controlled foreign corporation, as such term is defined in Section 957 of the Code, which is related to the Company, directly or indirectly, through stock ownership, (ii) a person owning, actually or constructively, securities representing at least more than 50% of the total combined outstanding voting power of all classes of the Company's voting stock and (iii) banks which acquire such Note in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Note provides certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "U.S. Backup Withholding and Information Reporting," or an exemption is otherwise established.

If a Non-U.S. Holder cannot satisfy the requirements above, payments of interest made to a Non-U.S. Holder will be subject to a U.S. withholding tax equal to 30% of the gross payments

made to the Non-U.S. Holder unless the Non-U.S. Holder provides the Company or the Company's paying agent, as the case may be, with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or (2) IRS Form W-8ECI stating that interest paid on the note is not subject to withholding tax because it is effectively connected with the beneficial owner's conduct of a trade or business in the United States. Alternative documentation may be applicable in certain situations.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a note is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from withholding as discussed above (provided the certification requirements described above are satisfied), will be subject to U.S. federal income tax on such interest (including OID) on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lesser rate under an applicable income tax treaty) of such amount, subject to adjustments.

Sale, Exchange or Other Disposition of Notes

Subject to the discussion below under the heading "U.S. Backup Withholding and Information Reporting," any gain realized by a Non-U.S. Holder upon the sale, exchange or other disposition of a Note generally will not be subject to U.S. federal income tax or withholding tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of such sale, exchange or disposition and certain other conditions are met. Special rules may apply upon the sale, exchange or disposition of a Note to certain Non-U.S. Holders, such as "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies" and certain expatriates, that are subject to special treatment under the Code. Such entities and individuals should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

U.S. Federal Estate Taxes

A Note that is held by an individual who at the time of death is not a citizen or resident (as specially defined for United States federal estate tax purposes) of the United States will not generally be subject to U.S. federal estate tax as a result of such individual's death, provided that such individual is not a shareholder owning actually or constructively more than 10% of the total combined voting power of all classes of our stock entitled to vote and, at the time of such individual's death, payments of interest with respect to such note would not have been effectively connected with the conduct by such individual of a trade or business in the United States.

U.S. Backup Withholding and Information Reporting

U.S. Holders

Information reporting requirements will apply to certain payments of principal and interest and the accrual of OID, if any, on an obligation and to proceeds of the sale, exchange or other disposition of an obligation, to certain U.S. Holders. This obligation, however, does not apply with respect to certain U.S. Holders including, corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts. In general, the Company is required to file with the IRS each year a Form 1099 information return reporting the amount of interest that was paid or that is considered earned by a U.S. Holder with respect to the Notes held during each calendar year, and a U.S. Holder is required to report such amount as income on its federal income tax return for that year. A U.S. backup withholding tax currently at a rate of 28% will apply to such payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of other tax-exempt status or fails to report in full dividend and interest income. Any amount withheld under the backup withholding rules is allowable as a credit against the taxpayer's U.S. federal income tax liability, provided that the required information is furnished to the IRS.

Non-U.S. Holders

Information reporting will generally apply to payments of interest on a Note to a Non-U.S. Holder and the amount of tax, if any, withheld with respect to such payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Payments of principal and interest on any Notes to Non-U.S. Holders will not be subject to any U.S. backup withholding tax if the beneficial owner of the Note (or a financial institution holding the note on behalf of the beneficial owner in the ordinary course of its trade or business) provides an appropriate certification to the payor and the payor does not have actual knowledge or reason to know, that the certification is incorrect. Payments of principal and interest on Notes not excluded from U.S. backup withholding tax discussed above generally will be subject to United States withholding tax at a rate of 28%, except where an applicable United States income tax treaty provides for the reduction or elimination of such withholding tax.

In addition, information reporting and, depending on the circumstances, backup withholding, will apply to the proceeds of the sale of a Note within the United States or conducted through United States-related financial intermediaries unless the beneficial owner provides the payor with an appropriate certification as to its non-U.S. status and the payor does not have actual knowledge or reason to know that the certification is incorrect.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a Non-U.S. Holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP, DISPOSITION OR RETIREMENT OF THE NOTES. PROSPECTIVE INVESTORS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS, ATTORNEYS AND ACCOUNTANTS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

INVESTOR SUITABILITY

General

An investment in the Notes involves significant risks and is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment and who can bear the economic risk of a complete loss of their investment. This private placement is made in reliance on exemptions from the registration requirements of the Act and applicable state securities laws and regulations.

The suitability standards discussed below represent minimum suitability standards for prospective investors. The satisfaction of such standards by a prospective investor does not necessarily mean that the Notes are a suitable investment for such prospective investor. Prospective investors are encouraged to consult their personal financial advisors to determine whether an investment in the Notes is appropriate. The Company may reject subscriptions, in whole or in part, in its absolute discretion.

The Company will require each investor to represent in writing, among other things, that (i) by reason of the investor's business or financial experience, or that of the investor's professional advisor, the investor is capable of evaluating the merits and risks of an investment in the Notes and of protecting its own interest in connection with the transaction, (ii) the investor is acquiring the Notes for its own account for investment only and not with a view toward the resale or distribution thereof, (iii) the investor is aware that the Notes have not been registered under the Act or any state securities laws and that there is no market for the Notes, (iv) such investor meets the suitability requirements set forth below and (v) they have read and taken full cognizance of the Risk Factors and other information set forth in this Confidential Private Offering Memorandum.

Suitability Requirements

Except as set forth below, each investor must represent in writing that it: (a) is "sophisticated" in so far as it is sufficiently knowledgeable and experienced in financial and business matters to be able to evaluate the merits and risks of an investment in the Notes either alone or with a purchaser representative; (b) is able to bear the economic risk of an investment in the Notes, including a loss of the entire investment; and (c) qualifies as an "accredited investor," as such term is defined in Rule 501(a) of Regulation D under the Act and must demonstrate the basis for such qualification. To be an accredited investor, an investor must fall within any of the following categories at the time of sale of Notes to that investor:

- (1) A bank as defined in Section 3(a)(2) of the Act or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; an insurance company as defined in Section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; a Small Business Investment Company licensed by the United States Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- (2) A private business development company as defined in Section 202(a) (22) of the Investment Advisers Act of 1940;
- (3) An organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust or partnership, not formed for the specific purpose of acquiring the Notes, with total assets in excess of \$5,000,000;

- (4) Any director, executive officer, or general partner of the Company, or any director, executive officer, or general partner of a general partner of the Company;
- (5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of such person's purchase of the Notes exceeds \$1,000,000 (excluding the value of such person's primary residence);
- (6) Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- (7) Any trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring the Notes, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; and
- (8) An entity in which all of the equity owners are accredited investors (as defined above).

As used in this Memorandum, the term "net worth" means the excess of total assets over total liabilities. In determining income an investor should add to the investor's adjusted gross income any amounts attributable to tax exempt income received, losses claimed as limited partner in any limited partnership, deductions claimed for depletion, contributions to an IRA, KEOGH, SEP IRA or ROTH IRA retirement plan, alimony payments, and any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income.

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Kelly S. Oglesby CR 50178

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DENSCO INVESTMENT CORPORATION
SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: April 22, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSCO Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 150,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: April 22, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

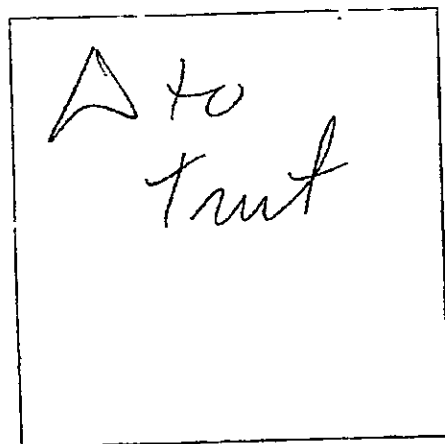
SSN (or EIN): _____

Agreed to and accepted by Desert Classic Investments
Corporation as of April 22, 2013

By: 

Name: Denny J. Chittick

Title: President



DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 1

Date: October 1, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 795,000.00 for 24 months that will bear interest at the rate of 12% per year (1% monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: October 1, 2013

By: 

Signature of Investor

Steven G & Mary E Bunger Estate, LLC, Steven
G. Bunger, Managing Member of LLC

Print Name of Investor

Address:

6134 W Trovita Place

Chandler, AZ 85226

SSN (or EIN): _____

By: _____

Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of October 1, 2013

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 1

Date: February 8, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 1,000,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: February 8, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DanSeo Investment
Corporation as of February 8, 2013.

By: 

Name: Denny J. Chittick

Title: President

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DENSCO INVESTMENT CORPORATION
SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 2

Date: March 5, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

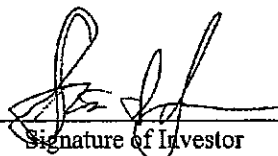
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 1,000,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: March 5, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: 6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

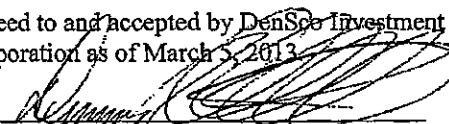
By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of March 5, 2013

By: 

Name: Denny J. Chittick

Title: President

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DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 3

Date: March 8, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

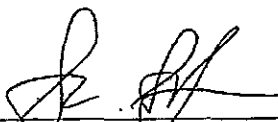
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 1,000,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: March 8, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by Desert Classic Investments
Corporation as of March 8, 2013.

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: April 22, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSCO Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 400,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

provided to me in writing by the Company. The undersigned understands that all documents, records and books pertaining to this investment have been made available by the Company for inspection by me or my attorney, accountant and Purchaser Representative. The undersigned is familiar with the Company's business objectives and the financial arrangements in connection therewith and the undersigned believes that the Note being purchased is the kind of securities that the undersigned wishes to hold for investment and that the nature and amount of the Note is consistent with my investment program.

(b) The undersigned has been given the opportunity to ask questions about the Company and has been granted access to all information, financial and otherwise, with respect to the Company which has been requested, has examined such information, and is satisfied with respect to the same. No representations have been made or information furnished to me or my advisor(s) relating to the Company or the Note which were in any way inconsistent with the POM.

(c) Subject to the terms and conditions hereof and the form of Note, the undersigned hereby irrevocably tenders this Subscription Agreement for the purchase of a Note in the amount indicated in Paragraph 1 above and shall pay for such Note as instructed to by the Company. The undersigned is aware that the subscription made herein is irrevocable but that the Company has the unconditional right to accept or reject this subscription in whole or in part, and that the Notes issued pursuant hereto are subject to the approval of certain legal matters by counsel and to other conditions. If my subscription is not accepted for any reason whatsoever, my money will be returned in full, with any interest that may be earned thereon, and the Company will be relieved of any responsibility or liability which might be deemed to arise out of my offer to subscribe to a Note from the Company.

(d) The undersigned, in determining to purchase a Note, has relied solely upon (i) the advice of its legal counsel and accountants or other financial advisers with respect to the tax, economic and other consequences involved in purchasing a Note and (ii) the undersigned's own, independent evaluation of the business, operations and prospects of the Company and the merits and risks of the purchase of a Note. The undersigned, and if applicable the undersigned's Purchaser Representative, has carefully reviewed the POM. The undersigned has, either alone or together with my Purchaser Representative, such knowledge and experience in business and financial matters as will enable me to evaluate the merits and risks of the prospective investment and to make an informed investment decision.

(e) The undersigned has been advised and understands that this investment in a Note is, by its nature, very speculative and that an investment in the Note involves a high degree of economic risk, due to a number of risks. In addition, there is, and will be, no public market for the Note,

(f) The undersigned has sufficient income and net worth such that the undersigned does not contemplate being required to dispose of any portion of the investment in a Note to satisfy any existing or expected undertaking or indebtedness. The undersigned is able to bear the economic risks of an investment in a Note from the Company, including, without limiting the generality of the foregoing, the risk of losing all or any part of the investment and probable inability to sell or transfer the investment for an indefinite period of time. The undersigned acknowledges that this investment is speculative and may only be sold to persons who understand the nature of the proposed operations of the Company and for whom the

investment is suitable. The undersigned represents that the undersigned meets such suitability standards.

(g) The Note when purchased will be acquired for the account of the undersigned.

(h) The undersigned acknowledges that the offering and sale of securities are being made by the Company in reliance upon an exemption from registration under the Securities Act of 1933, as amended (the "1933 Act"). The undersigned understands that the Notes have not been registered under the 1933 Act or any state securities laws, are "restricted securities" in the hands of the undersigned within the meaning of the 1933 Act and any future sale or transfer of a Note is prohibited without the prior written consent of the Company. The undersigned further understands that such exemptions depend upon my investment intent at the time the undersigned acquires the Note. The undersigned therefore represents and warrants that the undersigned is purchasing the Note for my own account for investment and not with a view to distribution, assignment, resale or other transfer of the Note. Except as specifically stated herein, no other person has a direct or indirect beneficial interest in the Note. Because the Note is not registered, the undersigned is aware that the undersigned must hold it indefinitely (until the Maturity Date in the Note) unless it is registered under the Act and any applicable state securities laws or the undersigned must obtain exemptions from such registration.

(i) The undersigned understands that the Company is not presently subject to the provisions of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and that the undersigned may not be permitted to rely on the provisions of Rule 144, promulgated by the Securities and Exchange Commission, for authority to sell or otherwise dispose of a Note after a fixed period of time.

(j) The undersigned will not sell or otherwise transfer or dispose of a Note (i) except in strict compliance with (A) the provisions of this Subscription Agreement and (B) the restrictions on transfer described herein and (ii) unless such securities are (X) registered under the 1933 Act, and any applicable state securities laws or (Y) the undersigned represents that such securities may be sold in reliance on an exemption from such registration requirements. The undersigned acknowledges that the Company is under no duty to register the Notes or comply with any exemption in connection with any attempt by me to sell, transfer or other disposition of the Note by me. The undersigned understands that in the event the undersigned desires to sell, assign, transfer, hypothecate or in any way alienate or encumber my Note in the future, the President of the Company can require that the undersigned provides, at the undersigned's own expense, an opinion of counsel satisfactory to the President to the effect that such action will not result in a violation of applicable federal or state securities laws and regulations or other applicable federal or state laws and regulations.

(k) The undersigned is an accredited investor, as defined in Rule 501(a) of Regulation D promulgated pursuant to the Securities Act, by virtue of the facts set forth in the attached Purchaser Questionnaire.

(l) The investment in the Company has been privately proposed to the undersigned without the use of general solicitation or advertising. The solicitation of an offer to purchase the Note was directly communicated to me. At no time was the undersigned presented with or solicited by or through any leaflet, public promotional meeting, circular, newspaper or

magazine article, radio or television advertisement or any other form of general advertising in connection with such communicated offer.

(m) The undersigned recognizes that an investment in the Company involves certain risks and I (and my Purchaser Representative) have taken full cognizance of and understand all of the risk factors related to the business objectives of the Company and the purchase of the Note, including the risk factors for speculative investments as described in the POM.

(n) No federal or state agency, including the Securities and Exchange Commission or the securities regulatory agency of any state, has approved or disapproved the Notes, passed upon or endorsed the merits of such investment, or made any finding or determination as to the fairness of a Note for private investment.

(o) The investment is being made in reliance on specific exemptions from the registration requirements of federal and state securities laws, and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to establish such exemptions.

(p) All information that the undersigned has provided in the Purchaser Questionnaire, including, without limitation, information concerning myself, my financial position and my knowledge of financial and business matters and that of my Purchaser Representative, is correct and complete as of the date hereof, and if there should be any material change in such information prior to the acceptance of this Subscription Agreement, the undersigned will immediately provide the Company with such information.

(q) If the Subscriber is a corporation, partnership, trust, unincorporated association or other entity, it is authorized and otherwise duly qualified to purchase and hold the Note subscribed hereunder; such entity has not been formed for the specific purpose of acquiring a Note from the Company. If the Subscriber is a trustee and is acquiring the Note for the trust of which he is a trustee, he has sought the advice of counsel regarding whether the purchase of the Note is an authorized trust investment and has been advised by counsel that after reviewing the applicable state law and the terms of the trust instrument, such counsel is of the opinion that the undersigned has the authority to purchase the Note for the trust.

3. **Non-Transferability of Note.** The undersigned agrees to the non-transferability of the Note, except with the prior written consent of the Company, which may be withheld in its sole discretion for several reasons, including compliance with any applicable federal and/or state securities laws and any applicable exemptions.

4. **Indemnification.** The undersigned acknowledges and understands the meaning and legal consequences of the representations and warranties contained herein and agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees and attorneys from and against any and all claims, loss, damage liability, cost or expense including attorneys' fees and courts costs due to or arising out of or connected directly or indirectly to any untrue statement made herein or any breach of any such representation or warranty made by the undersigned.

5. **Miscellaneous.**

(a) The undersigned agrees that the undersigned may not cancel, terminate or revoke this Subscription Agreement or any covenant hereunder and that this Subscription Agreement shall be binding upon and shall inure to the benefit of the parties hereto and to the successors and assigns of the Company. Further, the undersigned agrees that this Subscription Agreement and the representations, warranties and covenants contained herein shall survive my death or disability and shall be binding upon my heirs, executors, administrators, successors and assigns.

(b) This Subscription Agreement shall be enforced, governed and construed in all respects in accordance with the laws of the State of Arizona, without regard to principles of conflicts of law provisions.

(c) Within five days after receipt of a written request from the Company, the undersigned agrees to provide such information and to execute and deliver such documents as may reasonably be necessary to comply with any and all laws and ordinances to which the Company is subject.

(d) This Subscription Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement.

DATED: April 22, 2013

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Burger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by Desert Classic Investments
Corporation as of April 22, 2013

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION GENERAL OBLIGATION NOTE

This certificate evidences the Company's unconditional promise to pay to the registered holder the principal amount at maturity together with interest at the rate and terms described herein and further described in the subscription agreement which by this reference is made a part hereof.

REGISTERED HOLDER

Name: Desert Classic Investments, LLC

Address: 6134 W Trovita Place

Chandler, AZ 85226

PRINCIPAL

Principal Amount: \$ 400,000.00

Date of Issue: 4/22/2013

Maturity Date: 4/22/2015

INTEREST

Annual Rate: 12%

Payable: ☒ Monthly ☐ Quarterly ☐ At Maturity

First Interest Payment Date: 5/31/2013

NOTICE TO HOLDER

The investment in the Company's General Obligation Note(s) represented by this Certificate have not been registered under the Securities Act of 1933, and is a restricted security within the meaning of the regulations promulgated pursuant to such Act. Such Note(s) may not be sold, assigned, pledged, or transferred in any manner in the absence of an effective registration of such Note(s) under the Securities Act of 1933 unless the transaction is such that registration under the Securities Act is not required. No request for transfer or re-issue shall be honored unless the holder produces evidence and opinion of counsel satisfactory to the Company that such transaction does not violate the registration requirements of both such Act and any applicable state securities law.


Denny J. Chutick - President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 5

Date: July 23, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

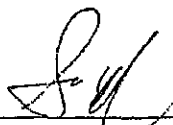
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 300,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: July 23, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address: 6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

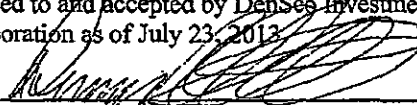
By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSea Investment
Corporation as of July 23, 2013

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: December 20, 2013

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

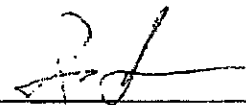
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 500,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: December 20, 2013

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

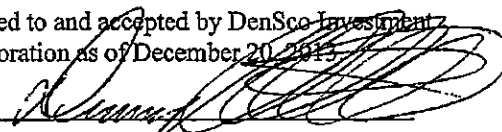
By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of December 20, 2013

By: 

Name: Denny J. Chittick

Title: President

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Date: October 1, 2013

INVESTOR NO. 134

**DENSCO INVESTMENT CORPORATION
PROSPECTIVE PURCHASER QUESTIONNAIRE
(ACCREDITED INVESTORS)**

The following information is furnished to DenSco Investment Corporation, an Arizona corporation (the "Company") for the Company to determine whether I am qualified to invest in a general obligation, unsecured note (the "Note") from the Company pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and comparable provisions of applicable state securities laws. I, the undersigned, understand that you will rely upon the following information for purposes of such determination, and that the Note will not be registered under the Securities Act in reliance upon the exemption from registration provided by Sections 3(b) and 4(2) of the Securities Act, Regulation D thereunder, and comparable provisions of applicable state securities laws.

This Prospective Purchaser Questionnaire must be completed by each potential Investor who has indicated an interest in purchasing a Note from the Company. Individual Investors and each Co-Investor (other than a spouse) must complete and sign a separate Prospective Purchaser Questionnaire and adult custodians must complete this Prospective Questionnaire for individual minor Investors. Shareholders of corporations (or members of an LLC, or partners of a partnership or a beneficiary of a trust) (collectively, an "Equity Owner") also may need to furnish additional information as applicable.

I further understand that I may be required to supply a balance sheet, prior years' federal income tax returns or other appropriate documentation to verify and substantiate my status as an Accredited Investor.

ALL INFORMATION CONTAINED IN THIS PROSPECTIVE PURCHASER QUESTIONNAIRE WILL BE TREATED CONFIDENTIALLY. However, it is agreed that you may present this document to such parties as you deem appropriate if called upon to establish that the proposed offer and sale of the Notes is exempt from registration under the Securities Act or meets the requirements of applicable state securities laws. I understand that a false statement by me will constitute a violation of my representations and warranties under this Investor Questionnaire and the Subscription Agreement submitted with this Questionnaire and may also constitute a violation of law, for which a claim for damages may be made against me. My investment in the Notes will not be accepted until Denny Chittick (the "President"), who is the President of the Company, determines that I satisfy all of the suitability standards set forth in the Confidential Private Offering Memorandum, dated July 1, 2009 (the "POM") and in Rule 501(a) of Regulation D under the Securities Act.

Please answer every question. If the answer to any questions is "None" or "Not Applicable" please so state.

The Prospective Purchaser Questionnaire does not constitute an offer by the Company or any agent to sell any securities, but is merely a request for information.

Please complete, sign, date and return the Prospective Purchaser Questionnaire to the Company. Your investment in the Company will not be accepted until the Company determines that you satisfy all of the requisite suitability standards.

For Individual Investors, please complete pages 2 to 4 and sign on page 4.

For Organizational Investors, please complete pages 4 to 7 and sign on page 7.

I, the undersigned Prospective Investor hereby supply you with the following information and representations:

PLEASE PRINT

I. INDIVIDUAL INVESTORS

A. GENERAL INFORMATION

Name of Investor* Steven G & Mary E Bunger Estate, LLC

Residence Address 6134 W Trovita Place

City Chandler State AZ Zip Code 85226 -

Home Telephone Number ()

Email Address: steve@bunger.me

Work Number () -

Cellular Number () -

U.S. Citizen Yes No

Social Security Number (Investor)

(Co Investor, if any)**

* ALL INFORMATION REQUESTED IN CONNECTION WITH INVESTMENTS UNDER THE UNIFORM GIFT TO MINORS ACT SHOULD BE GIVEN ON BEHALF OF THE ADULT CUSTODIAN, NOT THE MINOR BENEFICIARY, UNLESS OTHERWISE INDICATED.

** EACH CO-INVESTOR (OTHER THAN SPOUSE) MUST COMPLETE AND SIGN A SEPARATE QUESTIONNAIRE.

Name of Custodian (if investment is pursuant to Uniform Gift to Minors Act)

Name of Beneficiary

1. Set forth in the space provided below the state(s) in which you maintain your principal residence.

2. Do you maintain residence in any other states? If yes, in which state(s)?

3. In which state, if any, are you registered to vote?

4. In which state, if any, do you presently hold a valid driver's license?

5. Are you age 21 or older? Yes No

B. INDIVIDUAL ACCREDITATION, SOPHISTICATION, AND SUITABILITY

1. **Accredited Investor Status.** Please complete each of the following certifications:

- A. I certify that I have an individual net worth (or a joint net worth with my spouse) in excess of \$1,000,000 (excluding homes, home furnishings and automobiles). **Note: While the SEC has yet to act on the Wall Street Reform and Investor Protection Act, it has indicated that it may require that investors subtract from their net worth the amount of indebtedness on any home owned by an investor that exceeds the fair market value of the home, provided that the lender of such indebtedness has recourse as to such amount.**

Yes No

OR

- B. I certify that I had individual income (excluding any income of my spouse) of more than \$200,000 in each of the previous two calendar years, or joint income with my spouse of more than \$300,000 in each of those years, and I reasonably expect to have an individual income in excess of \$200,000, or joint income with my spouse in excess of \$300,000, in the current year.

Yes No

The above information supplied by me is true and correct in all respects and I recognize that the Company is materially relying on the truth and accuracy of such information.

Dated this _____ day of _____, 20_____.

Star Burger
PRINT Name of Investor

[Signature]
PRINT Name of Co Investor, if any

Signature of Investor

Signature of Co Investor, if any

II. ORGANIZATIONAL INVESTOR

A. GENERAL INFORMATION

1. Name of Organization: _____
2. Date of Organization _____
3. Fiscal Year End _____
4. State and Country of Organization _____
5. Taxpayer Identification Number _____
6. Principal Business Address _____

7. Home Telephone Number (_____) _____ - _____
Work Number (_____) _____ - _____
Cellular Number (_____) _____ - _____
8. Type of Organization and Business Description _____



DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 2

Date: July 1, 2014

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 900,000.00 for 24 months that will bear interest at the rate of 12% per year (1% monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: July 1, 2014

By: 

Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC

Print Name of Investor

Address:

6134 W Trovita Place

Chandler, AZ 85226

SSN (or EIN): _____

By: _____

Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of July 1, 2014.

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: May 1, 2014

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

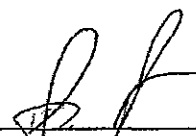
- ☐ Accrual Note in the amount of \$_____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$_____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 550,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: May 1, 2014

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of May 1, 2014

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 5

Date: January 21, 2014

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

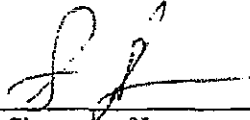
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 500,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: January 21, 2014

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: 6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSec Investment
Corporation as of January 21, 2014.

By: 

Name: Denny J. Chittick

Title: President

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to kind.

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 6

Date: January 22, 2014

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

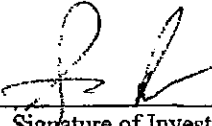
- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 500,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: January 22, 2014

By: 
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bungler,
Managing Member of LLC
Print Name of Investor

Address:
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address:

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of January 22, 2014:

By: 

Name: Denny J. Chittick

Title: President

Δ to
trust

Date: February 8, 2013

INVESTOR NO. 134

**DENSCO INVESTMENT CORPORATION
PROSPECTIVE PURCHASER QUESTIONNAIRE
(ACCREDITED INVESTORS)**

The following information is furnished to DenSco Investment Corporation, an Arizona corporation (the "Company") for the Company to determine whether I am qualified to invest in a general obligation, unsecured note (the "Note") from the Company pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and comparable provisions of applicable state securities laws. I, the undersigned, understand that you will rely upon the following information for purposes of such determination, and that the Note will not be registered under the Securities Act in reliance upon the exemption from registration provided by Sections 3(b) and 4(2) of the Securities Act, Regulation D thereunder, and comparable provisions of applicable state securities laws.

This Prospective Purchaser Questionnaire must be completed by each potential Investor who has indicated an interest in purchasing a Note from the Company. Individual Investors and each Co-Investor (other than a spouse) must complete and sign a separate Prospective Purchaser Questionnaire and adult custodians must complete this Prospective Questionnaire for individual minor Investors. Shareholders of corporations (or members of an LLC, or partners of a partnership or a beneficiary of a trust) (collectively, an "Equity Owner") also may need to furnish additional information as applicable.

I further understand that I may be required to supply a balance sheet, prior years' federal income tax returns or other appropriate documentation to verify and substantiate my status as an Accredited Investor.

ALL INFORMATION CONTAINED IN THIS PROSPECTIVE PURCHASER QUESTIONNAIRE WILL BE TREATED CONFIDENTIALLY. However, it is agreed that you may present this document to such parties as you deem appropriate if called upon to establish that the proposed offer and sale of the Notes is exempt from registration under the Securities Act or meets the requirements of applicable state securities laws. I understand that a false statement by me will constitute a violation of my representations and warranties under this Investor Questionnaire and the Subscription Agreement submitted with this Questionnaire and may also constitute a violation of law, for which a claim for damages may be made against me. My investment in the Notes will not be accepted until Denny Chittick (the "President"), who is the President of the Company, determines that I satisfy all of the suitability standards set forth in the Confidential Private Offering Memorandum, dated July 1, 2009 (the "POM") and in Rule 501(a) of Regulation D under the Securities Act.

Please answer every question. If the answer to any questions is "None" or "Not Applicable" please so state.

The Prospective Purchaser Questionnaire does not constitute an offer by the Company or any agent to sell any securities, but is merely a request for information.

Please complete, sign, date and return the Prospective Purchaser Questionnaire to the Company. Your investment in the Company will not be accepted until the Company determines that you satisfy all of the requisite suitability standards.

For Individual Investors, please complete pages 2 to 4 and sign on page 4.

For Organizational Investors, please complete pages 4 to 7 and sign on page 7.

I, the undersigned Prospective Investor hereby supply you with the following information and representations:

PLEASE PRINT

I. INDIVIDUAL INVESTORS

A. GENERAL INFORMATION

Name of Investor* Desert Classic Investments, LLC

Residence Address 6134 W Trovita Place

City Chandler State AZ Zip Code 85226

Home Telephone Number ()

Email Address: steve@bunger.me

Work Number ()

Cellular Number ()

U.S. Citizen Yes No

Social Security Number (Investor) EIN#

(Co Investor, if any)**

* ALL INFORMATION REQUESTED IN CONNECTION WITH INVESTMENTS UNDER THE UNIFORM GIFT TO MINORS ACT SHOULD BE GIVEN ON BEHALF OF THE ADULT CUSTODIAN, NOT THE MINOR BENEFICIARY, UNLESS OTHERWISE INDICATED.

** EACH CO-INVESTOR (OTHER THAN SPOUSE) MUST COMPLETE AND SIGN A SEPARATE QUESTIONNAIRE.

Name of Custodian (if investment is pursuant to Uniform Gift to Minors Act)

Stam G & Mary E Burger dated 5/10/95

Name of Beneficiary _____

1. Set forth in the space provided below the state(s) in which you maintain your principal residence.

AZ

2. Do you maintain residence in any other states? If yes, in which state(s)?

No

3. In which state, if any, are you registered to vote?

AZ

4. In which state, if any, do you presently hold a valid driver's license?

AZ

5. Are you age 21 or older? ☒ Yes ☐ No

B. INDIVIDUAL ACCREDITATION, SOPHISTICATION, AND SUITABILITY

1. **Accredited Investor Status.** Please complete each of the following certifications:

- A. I certify that I have an individual net worth (or a joint net worth with my spouse) in excess of \$1,000,000 (excluding homes, home furnishings and automobiles). Note: While the SEC has yet to act on the Wall Street Reform and Investor Protection Act, it has indicated that it may require that investors subtract from their net worth the amount of indebtedness on any home owned by an investor that exceeds the fair market value of the home, provided that the lender of such indebtedness has recourse as to such amount.

☒ Yes

☐ No

OR

- B. I certify that I had individual income (excluding any income of my spouse) of more than \$200,000 in each of the previous two calendar years, or joint income with my spouse of more than \$300,000 in each of those years, and I reasonably expect to have an individual income in excess of \$200,000, or joint income with my spouse in excess of \$300,000, in the current year.

☒ Yes

☐ No

The above information supplied by me is true and correct in all respects and I recognize that the Company is materially relying on the truth and accuracy of such information.

Dated this 10 day of Feb, 2013

Star Burger
PRINT Name of Investor

Mary Burger
PRINT Name of Co-Investor, if any

[Signature]
Signature of Investor

Mary Burger
Signature of Co-Investor, if any

II. ORGANIZATIONAL INVESTOR

A. GENERAL INFORMATION

1. Name of Organization: _____
2. Date of Organization _____
3. Fiscal Year End _____
4. State and Country of Organization _____
5. Taxpayer Identification Number _____
6. Principal Business Address _____

7. Home Telephone Number (_____) _____-_____
Work Number (_____) _____-_____
Cellular Number (_____) _____-_____

8. Type of Organization and Business Description _____

9. Send Mail to: _____

10. Number of Equity Owners: _____
11. Has the subscribing Organization been formed for the specific purpose of purchasing Notes? Yes No

B. ORGANIZATION ACCREDITATION, SOPHISTICATION AND
SUITABILITY

1. **Accredited Investor Status.** Please complete each of the following certifications:

- 1.1 The undersigned Organization certifies that EACH of its Equity Owners meets at least ONE of the following conditions:

(i) Such Equity Owner is a natural person whose individual net worth (or joint net worth with his or her spouse) exceeds \$1,000,000 (**excluding** homes, home furnishings and personal property). [Note: While the SEC has yet to act on the Wall Street Reform and Investor Protection Act, it has indicated that it may require that equity owners subtract from their net worth the amount of indebtedness on any home owned by an equity owner that exceeds the fair market value of the home, provided that the lender of such indebtedness has recourse as to such amount]; or

(ii) Such Equity Owner is a natural person who had an individual income in excess of \$200,000 in each of the previous two calendar years, or joint net worth with his or her spouse of more than \$300,000, in each of those years and who reasonably expects to have an individual income in excess of \$200,000, or joint income with his or her spouse in excess of \$300,000, for the current calendar year; or

(iii) Such Equity Owner of the Investor is a corporation, partnership or revocable trust and all of the shareholders, partners or grantors, respectively, of such corporation, partnership or revocable trust can answer yes to statement 1.1(i) or 1.1(ii) above.

Yes No

- 1.2 The undersigned Organization is a revocable or grantor trust and each person with the power to revoke the trust qualifies as an Accredited Investor under 1.1(i) or 1.1(ii) above.

Yes No

- 1.3 The undersigned Organization is an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, and the investment decision is made by a Plan Fiduciary, as defined in Section 3(21) of such Act which is a bank, savings and loan association, insurance company or registered investment advisor.

Yes No

- 1.4 The undersigned Organization is a qualified profit sharing or defined contribution Plan, the Plan provides for segregated accounts for each Plan Participant, the governing documents of the Plan provide that each participant may direct the trustee to invest his or her funds in the investment vehicles of his or her choice and the purchase of the note(s) is made pursuant to an exercise by the Plan Participant, who is an Accredited Investor under subparagraph 1.1(i) or 1.1(ii) above, of such power to direct the investments of his or her segregated account. This Prospective Purchaser Questionnaire and the Subscription Agreement must be completed and executed by such Plan Participant.

Yes No

- 1.5 The undersigned Organization certifies that it is a bank as defined in Section 3(a)(2) of the Securities Act.

Yes No

- 1.6 The undersigned Organization certifies that it is a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act.

Yes No

- 1.7 The undersigned Organization certifies that it is an insurance company as defined in Section 2(13) of the Securities Act.

Yes No

- 1.8 The undersigned Organization certifies that it is an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940.

Yes No

- 1.9 The undersigned Organization certifies that it is a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958.

Yes No

1.10 The undersigned Organization certifies that it is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

Yes No

1.11 The undersigned Organization certifies that it has total assets in excess of \$5,000,000.

Yes No

1.12 The undersigned Organization certifies that it is a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934.

Yes No

2. **Sophistication.** Person(s) making the investment decision on behalf of the Organization to purchase a Note:

Name

Organization Position

The above information supplied by the undersigned is true and correct in all respects and the undersigned recognizes that the Company is relying materially on the truth and accuracy of such information.

Dated this _____ day of _____, 20_____.

PRINT Name of Organization: _____

PRINT Name of Individual with authority to make investment decisions on behalf of Organization: _____

PRINT Title or Capacity in which signing of Individual with authority to make investment decisions on behalf of Organization: _____

Signature of Individual with authority to make investment decisions on behalf of Organization: _____

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DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 1

Date: May 1, 2014

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 850,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: May 1, 2014

By: 
Signature of Investor

Alexandra Shea Bungler Irrevocable Trust Dated 12-29-95, Steven Bungler, Trustee
Print Name of Investor

Address: 6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): 

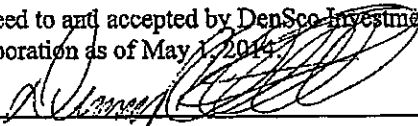
By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment Corporation as of May 1, 2014

By: 

Name: Denny J. Chittick

Title: President

Date: May 1, 2014

INVESTOR NO. 142

**DENSCO INVESTMENT CORPORATION
PROSPECTIVE PURCHASER QUESTIONNAIRE
(ACCREDITED INVESTORS)**

The following information is furnished to DenSco Investment Corporation, an Arizona corporation (the "Company") for the Company to determine whether I am qualified to invest in a general obligation, unsecured note (the "Note") from the Company pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and comparable provisions of applicable state securities laws. I, the undersigned, understand that you will rely upon the following information for purposes of such determination, and that the Note will not be registered under the Securities Act in reliance upon the exemption from registration provided by Sections 3(b) and 4(2) of the Securities Act, Regulation D thereunder, and comparable provisions of applicable state securities laws.

This Prospective Purchaser Questionnaire must be completed by each potential Investor who has indicated an interest in purchasing a Note from the Company. Individual Investors and each Co-Investor (other than a spouse) must complete and sign a separate Prospective Purchaser Questionnaire and adult custodians must complete this Prospective Questionnaire for individual minor Investors. Shareholders of corporations (or members of an LLC, or partners of a partnership or a beneficiary of a trust) (collectively, an "Equity Owner") also may need to furnish additional information as applicable.

I further understand that I may be required to supply a balance sheet, prior years' federal income tax returns or other appropriate documentation to verify and substantiate my status as an Accredited Investor.

ALL INFORMATION CONTAINED IN THIS PROSPECTIVE PURCHASER QUESTIONNAIRE WILL BE TREATED CONFIDENTIALLY. However, it is agreed that you may present this document to such parties as you deem appropriate if called upon to establish that the proposed offer and sale of the Notes is exempt from registration under the Securities Act or meets the requirements of applicable state securities laws. I understand that a false statement by me will constitute a violation of my representations and warranties under this Investor Questionnaire and the Subscription Agreement submitted with this Questionnaire and may also constitute a violation of law, for which a claim for damages may be made against me. My investment in the Notes will not be accepted until Denny Chittick (the "President"), who is the President of the Company, determines that I satisfy all of the suitability standards set forth in the Confidential Private Offering Memorandum, dated July 1, 2009 (the "POM") and in Rule 501(a) of Regulation D under the Securities Act.

Please answer every question. If the answer to any questions is "None" or "Not Applicable" please so state.

The Prospective Purchaser Questionnaire does not constitute an offer by the Company or any agent to sell any securities, but is merely a request for information.

Please complete, sign, date and return the Prospective Purchaser Questionnaire to the Company. Your investment in the Company will not be accepted until the Company determines that you satisfy all of the requisite suitability standards.

For Individual Investors, please complete pages 2 to 4 and sign on page 4.

For Organizational Investors, please complete pages 4 to 7 and sign on page 7.

I, the undersigned Prospective Investor hereby supply you with the following information and representations:

PLEASE PRINT

I. INDIVIDUAL INVESTORS

A. GENERAL INFORMATION

Name of Investor* Alexandra Shea Bunger Irrevocable Trust Dated 12-29-95
Residence Address 6134 W Trovita Place

City Chandler State AZ Zip Code 85226 -

Home Telephone Number () -

Email Address: steve@bunger.me

Work Number () -

Cellular Number () -

U.S. Citizen Yes No

Social Security Number (Investor)

(Co Investor, if any)**

* ALL INFORMATION REQUESTED IN CONNECTION WITH INVESTMENTS UNDER THE UNIFORM GIFT TO MINORS ACT SHOULD BE GIVEN ON BEHALF OF THE ADULT CUSTODIAN, NOT THE MINOR BENEFICIARY, UNLESS OTHERWISE INDICATED.

**** EACH CO-INVESTOR (OTHER THAN SPOUSE) MUST COMPLETE AND SIGN A SEPARATE QUESTIONNAIRE.**

Name of Custodian (if investment is pursuant to Uniform Gift to Minors Act)

Name of Beneficiary

1. Set forth in the space provided below the state(s) in which you maintain your principal residence.

2. Do you maintain residence in any other states? If yes, in which state(s)?

3. In which state, if any, are you registered to vote?

4. In which state, if any, do you presently hold a valid driver's license?

5. Are you age 21 or older? Yes No

B. INDIVIDUAL ACCREDITATION, SOPHISTICATION, AND SUITABILITY

1. **Accredited Investor Status.** Please complete each of the following certifications:

- A. I certify that I have an individual net worth (or a joint net worth with my spouse) in excess of \$1,000,000 (**excluding** homes, home furnishings and automobiles). **Note: While the SEC has yet to act on the Wall Street Reform and Investor Protection Act, it has indicated that it may require that investors subtract from their net worth the amount of indebtedness on any home owned by an investor that exceeds the fair market value of the home, provided that the lender of such indebtedness has recourse as to such amount.**

Yes No

OR

- B. I certify that I had individual income (excluding any income of my spouse) of more than \$200,000 in each of the previous two calendar years, or joint income with my spouse of more than \$300,000 in each of those years, and I reasonably expect to have an individual income in excess of \$200,000, or joint income with my spouse in excess of \$300,000, in the current year.

Yes No

The above information supplied by me is true and correct in all respects and I recognize that the Company is materially relying on the truth and accuracy of such information.

Dated this _____ day of _____, 20_____.

Steve Borg
PRINT Name of Investor

Steve
PRINT Name of Co Investor, if any

[Signature]
Signature of Investor

Signature of Co Investor, if any



DENSCO INVESTMENT CORPORATION
SUBSCRIPTION AGREEMENT

COPY

Ladies and Gentlemen:

Investment # 1

Date: October 1, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 795,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

records and books pertaining to this investment have been made available by the Company for inspection by me or my attorney, accountant and Purchaser Representative. The undersigned is familiar with the Company's business objectives and the financial arrangements in connection therewith and the undersigned believes that the Note being purchased is the kind of securities that the undersigned wishes to hold for investment and that the nature and amount of the Note is consistent with my investment program.

(b) The undersigned has been given the opportunity to ask questions about the Company and has been granted access to all information, financial and otherwise, with respect to the Company which has been requested, has examined such information, and is satisfied with respect to the same. No representations have been made or information furnished to me or my advisor(s) relating to the Company or the Note which were in any way inconsistent with the POM.

(c) Subject to the terms and conditions hereof and the form of Note, the undersigned hereby irrevocably tenders this Subscription Agreement for the purchase of a Note in the amount indicated in Paragraph 1 above and shall pay for such Note as instructed to by the Company. The undersigned is aware that the subscription made herein is irrevocable but that the Company has the unconditional right to accept or reject this subscription in whole or in part, and that the Notes issued pursuant hereto are subject to the approval of certain legal matters by counsel and to other conditions. If my subscription is not accepted for any reason whatsoever, my money will be returned in full, with any interest that may be earned thereon, and the Company will be relieved of any responsibility or liability which might be deemed to arise out of my offer to subscribe to a Note from the Company.

(d) The undersigned, in determining to purchase a Note, has relied solely upon (i) the advice of its legal counsel and accountants or other financial advisers with respect to the tax, economic and other consequences involved in purchasing a Note and (ii) the undersigned's own, independent evaluation of the business, operations and prospects of the Company and the merits and risks of the purchase of a Note. The undersigned, and if applicable the undersigned's Purchaser Representative, has carefully reviewed the POM. The undersigned has, either alone or together with my Purchaser Representative, such knowledge and experience in business and financial matters as will enable me to evaluate the merits and risks of the prospective investment and to make an informed investment decision.

(e) The undersigned has been advised and understands that this investment in a Note is, by its nature, very speculative and that an investment in the Note involves a high degree of economic risk, due to a number of risks. In addition, there is, and will be, no public market for the Note.

(f) The undersigned has sufficient income and net worth such that the undersigned does not contemplate being required to dispose of any portion of the investment in a Note to satisfy any existing or expected undertaking or indebtedness. The undersigned is able to bear the economic risks of an investment in a Note from the Company, including, without limiting the generality of the foregoing, the risk of losing all or any part of the investment and probable inability to sell or transfer the investment for an indefinite period of time. The undersigned acknowledges that this investment is speculative and may only be sold to persons who understand the nature of the proposed operations of the Company and for whom the

magazine article, radio or television advertisement or any other form of general advertising in connection with such communicated offer.

(m) The undersigned recognizes that an investment in the Company involves certain risks and I (and my Purchaser Representative) have taken full cognizance of and understand all of the risk factors related to the business objectives of the Company and the purchase of the Note, including the risk factors for speculative investments as described in the POM.

(n) No federal or state agency, including the Securities and Exchange Commission or the securities regulatory agency of any state, has approved or disapproved the Notes, passed upon or endorsed the merits of such investment, or made any finding or determination as to the fairness of a Note for private investment.

(o) The investment is being made in reliance on specific exemptions from the registration requirements of federal and state securities laws, and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to establish such exemptions.

(p) All information that the undersigned has provided in the Purchaser Questionnaire, including, without limitation, information concerning myself, my financial position and my knowledge of financial and business matters and that of my Purchaser Representative, is correct and complete as of the date hereof, and if there should be any material change in such information prior to the acceptance of this Subscription Agreement, the undersigned will immediately provide the Company with such information.

(q) If the Subscriber is a corporation, partnership, trust, unincorporated association or other entity, it is authorized and otherwise duly qualified to purchase and hold the Note subscribed hereunder; such entity has not been formed for the specific purpose of acquiring a Note from the Company. If the Subscriber is a trustee and is acquiring the Note for the trust of which he is a trustee, he has sought the advice of counsel regarding whether the purchase of the Note is an authorized trust investment and has been advised by counsel that after reviewing the applicable state law and the terms of the trust instrument, such counsel is of the opinion that the undersigned has the authority to purchase the Note for the trust.

3. **Non-Transferability of Note.** The undersigned agrees to the non-transferability of the Note, except with the prior written consent of the Company, which may be withheld in its sole discretion for several reasons, including compliance with any applicable federal and/or state securities laws and any applicable exemptions.

4. **Indemnification.** The undersigned acknowledges and understands the meaning and legal consequences of the representations and warranties contained herein and agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees and attorneys from and against any and all claims, loss, damage liability, cost or expense including attorneys' fees and courts costs due to or arising out of or connected directly or indirectly to any untrue statement made herein or any breach of any such representation or warranty made by the undersigned.

DATED: October 1, 2015

By: _____
Signature of Investor

Steven G & Mary E Bunger Estate, LLC, Steven
G. Bunger, Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by Den8co Investment
Corporation as of October 1, 2015

By:  _____

Name: Denny J. Chittick

Title: President

Nerve
Signal

D128423
#8604

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 1

Date: October 1, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 795,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: October 1, 2015

By: _____
Signature of Investor

Steven G & Mary E Bunger Estate, LLC, Steven
G. Bunger, Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of October 1, 2015

By:  _____

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION GENERAL OBLIGATION NOTE

This certificate evidences the Company's unconditional promise to pay to the registered holder the principal amount at maturity together with interest at the rate and terms described herein and further described in the subscription agreement which by this reference is made a part hereof.

REGISTERED HOLDER

Name: Steven G and Mary E. Bunger

Address: 6134 W Trovita Place

Chandler, AZ 85226

Estate, LLC

PRINCIPAL

Principal Amount: \$ 795,000.00

Date of Issue: 10/17/2015

Maturity Date: 10/17/2017

INTEREST

Annual Rate: 12%
Payable: ☒ Monthly ☐ Quarterly ☐ At Maturity

First Interest Payment Date: 10/31/2015

NOTICE TO HOLDER

The investment in the Company's General Obligation Note(s) represented by this Certificate have not been registered under the Securities Act of 1933, and is a restricted security within the meaning of the regulations promulgated pursuant to such Act. Such Note(s) may not be sold, assigned, pledged or transferred in any manner in the absence of an effective registration of such Note(s) under the Securities Act of 1933, unless the transaction is such that registration under such Act is not required. No request for transfer or re-issue shall be honored unless the holder produces evidence and opinion of counsel as to the fact that such transaction does not violate the registration requirements of both such Act and any applicable state securities laws.


Deany J. Chittick - President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

COPY

Ladies and Gentlemen:

Investment # 1

Date: February 8, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 1,000,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

records and books pertaining to this investment have been made available by the Company for inspection by me or my attorney, accountant and Purchaser Representative. The undersigned is familiar with the Company's business objectives and the financial arrangements in connection therewith and the undersigned believes that the Note being purchased is the kind of securities that the undersigned wishes to hold for investment and that the nature and amount of the Note is consistent with my investment program.

(b) The undersigned has been given the opportunity to ask questions about the Company and has been granted access to all information, financial and otherwise, with respect to the Company which has been requested, has examined such information, and is satisfied with respect to the same. No representations have been made or information furnished to me or my advisor(s) relating to the Company or the Note which were in any way inconsistent with the POM.

(c) Subject to the terms and conditions hereof and the form of Note, the undersigned hereby irrevocably tenders this Subscription Agreement for the purchase of a Note in the amount indicated in Paragraph 1 above and shall pay for such Note as instructed to by the Company. The undersigned is aware that the subscription made herein is irrevocable but that the Company has the unconditional right to accept or reject this subscription in whole or in part, and that the Notes issued pursuant hereto are subject to the approval of certain legal matters by counsel and to other conditions. If my subscription is not accepted for any reason whatsoever, my money will be returned in full, with any interest that may be earned thereon, and the Company will be relieved of any responsibility or liability which might be deemed to arise out of my offer to subscribe to a Note from the Company.

(d) The undersigned, in determining to purchase a Note, has relied solely upon (i) the advice of its legal counsel and accountants or other financial advisers with respect to the tax, economic and other consequences involved in purchasing a Note and (ii) the undersigned's own, independent evaluation of the business, operations and prospects of the Company and the merits and risks of the purchase of a Note. The undersigned, and if applicable the undersigned's Purchaser Representative, has carefully reviewed the POM. The undersigned has, either alone or together with my Purchaser Representative, such knowledge and experience in business and financial matters as will enable me to evaluate the merits and risks of the prospective investment and to make an informed investment decision.

(e) The undersigned has been advised and understands that this investment in a Note is, by its nature, very speculative and that an investment in the Note involves a high degree of economic risk, due to a number of risks. In addition, there is, and will be, no public market for the Note.

(f) The undersigned has sufficient income and net worth such that the undersigned does not contemplate being required to dispose of any portion of the investment in a Note to satisfy any existing or expected undertaking or indebtedness. The undersigned is able to bear the economic risks of an investment in a Note from the Company, including, without limiting the generality of the foregoing, the risk of losing all or any part of the investment and probable inability to sell or transfer the investment for an indefinite period of time. The undersigned acknowledges that this investment is speculative and may only be sold to persons who understand the nature of the proposed operations of the Company and for whom the

magazine article, radio or television advertisement or any other form of general advertising in connection with such communicated offer.

(m) The undersigned recognizes that an investment in the Company involves certain risks and I (and my Purchaser Representative) have taken full cognizance of and understand all of the risk factors related to the business objectives of the Company and the purchase of the Note, including the risk factors for speculative investments as described in the POM.

(n) No federal or state agency, including the Securities and Exchange Commission or the securities regulatory agency of any state, has approved or disapproved the Notes, passed upon or endorsed the merits of such investment, or made any finding or determination as to the fairness of a Note for private investment.

(o) The investment is being made in reliance on specific exemptions from the registration requirements of federal and state securities laws, and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to establish such exemptions.

(p) All information that the undersigned has provided in the Purchaser Questionnaire, including, without limitation, information concerning myself, my financial position and my knowledge of financial and business matters and that of my Purchaser Representative, is correct and complete as of the date hereof, and if there should be any material change in such information prior to the acceptance of this Subscription Agreement, the undersigned will immediately provide the Company with such information.

(q) If the Subscriber is a corporation, partnership, trust, unincorporated association or other entity, it is authorized and otherwise duly qualified to purchase and hold the Note subscribed hereunder; such entity has not been formed for the specific purpose of acquiring a Note from the Company. If the Subscriber is a trustee and is acquiring the Note for the trust of which he is a trustee, he has sought the advice of counsel regarding whether the purchase of the Note is an authorized trust investment and has been advised by counsel that after reviewing the applicable state law and the terms of the trust instrument, such counsel is of the opinion that the undersigned has the authority to purchase the Note for the trust.

3. **Non-Transferability of Note.** The undersigned agrees to the non-transferability of the Note, except with the prior written consent of the Company, which may be withheld in its sole discretion for several reasons, including compliance with any applicable federal and/or state securities laws and any applicable exemptions.

4. **Indemnification.** The undersigned acknowledges and understands the meaning and legal consequences of the representations and warranties contained herein and agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees and attorneys from and against any and all claims, loss, damage liability, cost or expense including attorneys' fees and courts costs due to or arising out of or connected directly or indirectly to any untrue statement made herein or any breach of any such representation or warranty made by the undersigned.

DATED: February 8, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of February 8, 2015

By:  _____

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 1

Date: February 8, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 1,000,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: February 8, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of February 8, 2015

By:  _____

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION GENERAL OBLIGATION NOTE

This certificate evidences the Company's unconditional promise to pay to the registered holder the principal amount at maturity together with interest at the rate and terms described herein and further described in the subscription agreement which by this reference is made a part hereof.

REGISTERED HOLDER

Name: Desert Classic Investments, LLC Address: 6134 W Trovita Place

Chandler, AZ 85226

PRINCIPAL

Principal Amount: \$ 1,000,000.00

Date of Issue: 2/8/2015

Maturity Date: 2/8/2017

INTEREST

Annual Rate: 12%

Payable: ☒ Monthly ☐ Quarterly ☐ At Maturity

First Interest Payment Date: 2/28/2015

NOTICE TO HOLDER

The investment in the Company's General Obligation Note(s) represented by this Certificate have not been registered under the Securities Act of 1933, and is a restricted security within the meaning of the regulations promulgated pursuant to such Act. Such Note(s) may not be sold, assigned, pledged or transferred in any manner in the absence of an effective registration of such Note(s) under the Securities Act of 1933 unless the transaction is such that registration under such Act is not required. No request for transfer or re-issue shall be honored unless the holder produces evidence and opinion of counsel satisfactory to the Company that such transaction does not violate the registration requirements of both such Act and any applicable state securities law.


Denny J. Griffler, President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 3

Date: March 8, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____ % per year (_____ % monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 665,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

records and books pertaining to this investment have been made available by the Company for inspection by me or my attorney, accountant and Purchaser Representative. The undersigned is familiar with the Company's business objectives and the financial arrangements in connection therewith and the undersigned believes that the Note being purchased is the kind of securities that the undersigned wishes to hold for investment and that the nature and amount of the Note is consistent with my investment program.

(b) The undersigned has been given the opportunity to ask questions about the Company and has been granted access to all information, financial and otherwise, with respect to the Company which has been requested, has examined such information, and is satisfied with respect to the same. No representations have been made or information furnished to me or my advisor(s) relating to the Company or the Note which were in any way inconsistent with the POM.

(c) Subject to the terms and conditions hereof and the form of Note, the undersigned hereby irrevocably tenders this Subscription Agreement for the purchase of a Note in the amount indicated in Paragraph 1 above and shall pay for such Note as instructed to by the Company. The undersigned is aware that the subscription made herein is irrevocable but that the Company has the unconditional right to accept or reject this subscription in whole or in part, and that the Notes issued pursuant hereto are subject to the approval of certain legal matters by counsel and to other conditions. If my subscription is not accepted for any reason whatsoever, my money will be returned in full, with any interest that may be earned thereon, and the Company will be relieved of any responsibility or liability which might be deemed to arise out of my offer to subscribe to a Note from the Company.

(d) The undersigned, in determining to purchase a Note, has relied solely upon (i) the advice of its legal counsel and accountants or other financial advisers with respect to the tax, economic and other consequences involved in purchasing a Note and (ii) the undersigned's own, independent evaluation of the business, operations and prospects of the Company and the merits and risks of the purchase of a Note. The undersigned, and if applicable the undersigned's Purchaser Representative, has carefully reviewed the POM. The undersigned has, either alone or together with my Purchaser Representative, such knowledge and experience in business and financial matters as will enable me to evaluate the merits and risks of the prospective investment and to make an informed investment decision.

(e) The undersigned has been advised and understands that this investment in a Note is, by its nature, very speculative and that an investment in the Note involves a high degree of economic risk, due to a number of risks. In addition, there is, and will be, no public market for the Note.

(f) The undersigned has sufficient income and net worth such that the undersigned does not contemplate being required to dispose of any portion of the investment in a Note to satisfy any existing or expected undertaking or indebtedness. The undersigned is able to bear the economic risks of an investment in a Note from the Company, including, without limiting the generality of the foregoing, the risk of losing all or any part of the investment and probable inability to sell or transfer the investment for an indefinite period of time. The undersigned acknowledges that this investment is speculative and may only be sold to persons who understand the nature of the proposed operations of the Company and for whom the

magazine article, radio or television advertisement or any other form of general advertising in connection with such communicated offer.

(m) The undersigned recognizes that an investment in the Company involves certain risks and I (and my Purchaser Representative) have taken full cognizance of and understand all of the risk factors related to the business objectives of the Company and the purchase of the Note, including the risk factors for speculative investments as described in the POM.

(n) No federal or state agency, including the Securities and Exchange Commission or the securities regulatory agency of any state, has approved or disapproved the Notes, passed upon or endorsed the merits of such investment, or made any finding or determination as to the fairness of a Note for private investment.

(o) The investment is being made in reliance on specific exemptions from the registration requirements of federal and state securities laws, and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to establish such exemptions.

(p) All information that the undersigned has provided in the Purchaser Questionnaire, including, without limitation, information concerning myself, my financial position and my knowledge of financial and business matters and that of my Purchaser Representative, is correct and complete as of the date hereof, and if there should be any material change in such information prior to the acceptance of this Subscription Agreement, the undersigned will immediately provide the Company with such information.

(q) If the Subscriber is a corporation, partnership, trust, unincorporated association or other entity, it is authorized and otherwise duly qualified to purchase and hold the Note subscribed hereunder; such entity has not been formed for the specific purpose of acquiring a Note from the Company. If the Subscriber is a trustee and is acquiring the Note for the trust of which he is a trustee, he has sought the advice of counsel regarding whether the purchase of the Note is an authorized trust investment and has been advised by counsel that after reviewing the applicable state law and the terms of the trust instrument, such counsel is of the opinion that the undersigned has the authority to purchase the Note for the trust.

3. **Non-Transferability of Note.** The undersigned agrees to the non-transferability of the Note, except with the prior written consent of the Company, which may be withheld in its sole discretion for several reasons, including compliance with any applicable federal and/or state securities laws and any applicable exemptions.

4. **Indemnification.** The undersigned acknowledges and understands the meaning and legal consequences of the representations and warranties contained herein and agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees and attorneys from and against any and all claims, loss, damage liability, cost or expense including attorneys' fees and courts costs due to or arising out of or connected directly or indirectly to any untrue statement made herein or any breach of any such representation or warranty made by the undersigned.

DATED: March 8, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSec Investment
Corporation as of March 8, 2015

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 3

Date: March 8, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 665,000.00 for 24 months that will bear interest at the rate of 12% per year (1% monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: March 8, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunker,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by Desert Classic Investment
Corporation as of March 8, 2015

By: 

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION GENERAL OBLIGATION NOTE

This certificate evidences the Company's unconditional promise to pay to the registered holder the principal amount at maturity together with interest at the rate and terms described herein and further described in the subscription agreement which by this reference is made a part hereof.

REGISTERED HOLDER

Name: Desert Classic Investments, LLC Address: 6134 W Trovita Place

Chandler, AZ 85226

INTEREST

Annual Rate: 12%
Payable: ☒ Monthly ☐ Quarterly ☐ At Maturity

First Interest Payment Date: 3/31/2015

PRINCIPAL

Principal Amount: \$ 665,000.00

Date of Issue: 3/8/2015

Maturity Date: 3/8/2017

NOTICE TO HOLDER

The investment in the Company's General Obligation Note(s) represented by this Certificate have, not been registered under the Securities Act of 1933, and is a restricted security within the meaning of the regulations promulgated pursuant to such Act. Such Note(s) may not be sold, assigned, pledged or transferred in any manner in the absence of an effective registration of such Note(s) under the Securities Act of 1933 unless the transaction is such that registration under such Act is not required. No request for transfer or re-issue shall be honored unless the holder produces evidence and opinion of counsel satisfactory to the Company that such transaction does not violate the registration requirements of both such Act and any applicable state securities law.


Dennis J. Chaffick, President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: February 26, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 400,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

records and books pertaining to this investment have been made available by the Company for inspection by me or my attorney, accountant and Purchaser Representative. The undersigned is familiar with the Company's business objectives and the financial arrangements in connection therewith and the undersigned believes that the Note being purchased is the kind of securities that the undersigned wishes to hold for investment and that the nature and amount of the Note is consistent with my investment program.

(b) The undersigned has been given the opportunity to ask questions about the Company and has been granted access to all information, financial and otherwise, with respect to the Company which has been requested, has examined such information, and is satisfied with respect to the same. No representations have been made or information furnished to me or my advisor(s) relating to the Company or the Note which were in any way inconsistent with the POM.

(c) Subject to the terms and conditions hereof and the form of Note, the undersigned hereby irrevocably tenders this Subscription Agreement for the purchase of a Note in the amount indicated in Paragraph 1 above and shall pay for such Note as instructed to by the Company. The undersigned is aware that the subscription made herein is irrevocable but that the Company has the unconditional right to accept or reject this subscription in whole or in part, and that the Notes issued pursuant hereto are subject to the approval of certain legal matters by counsel and to other conditions. If my subscription is not accepted for any reason whatsoever, my money will be returned in full, with any interest that may be earned thereon, and the Company will be relieved of any responsibility or liability which might be deemed to arise out of my offer to subscribe to a Note from the Company.

(d) The undersigned, in determining to purchase a Note, has relied solely upon (i) the advice of its legal counsel and accountants or other financial advisers with respect to the tax, economic and other consequences involved in purchasing a Note and (ii) the undersigned's own, independent evaluation of the business, operations and prospects of the Company and the merits and risks of the purchase of a Note. The undersigned, and if applicable the undersigned's Purchaser Representative, has carefully reviewed the POM. The undersigned has, either alone or together with my Purchaser Representative, such knowledge and experience in business and financial matters as will enable me to evaluate the merits and risks of the prospective investment and to make an informed investment decision.

(e) The undersigned has been advised and understands that this investment in a Note is, by its nature, very speculative and that an investment in the Note involves a high degree of economic risk, due to a number of risks. In addition, there is, and will be, no public market for the Note.

(f) The undersigned has sufficient income and net worth such that the undersigned does not contemplate being required to dispose of any portion of the investment in a Note to satisfy any existing or expected undertaking or indebtedness. The undersigned is able to bear the economic risks of an investment in a Note from the Company, including, without limiting the generality of the foregoing, the risk of losing all or any part of the investment and probable inability to sell or transfer the investment for an indefinite period of time. The undersigned acknowledges that this investment is speculative and may only be sold to persons who understand the nature of the proposed operations of the Company and for whom the

magazine article, radio or television advertisement or any other form of general advertising in connection with such communicated offer.

(m) The undersigned recognizes that an investment in the Company involves certain risks and I (and my Purchaser Representative) have taken full cognizance of and understand all of the risk factors related to the business objectives of the Company and the purchase of the Note, including the risk factors for speculative investments as described in the POM.

(n) No federal or state agency, including the Securities and Exchange Commission or the securities regulatory agency of any state, has approved or disapproved the Notes, passed upon or endorsed the merits of such investment, or made any finding or determination as to the fairness of a Note for private investment.

(o) The investment is being made in reliance on specific exemptions from the registration requirements of federal and state securities laws, and the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings set forth herein in order to establish such exemptions.

(p) All information that the undersigned has provided in the Purchaser Questionnaire, including, without limitation, information concerning myself, my financial position and my knowledge of financial and business matters and that of my Purchaser Representative, is correct and complete as of the date hereof, and if there should be any material change in such information prior to the acceptance of this Subscription Agreement, the undersigned will immediately provide the Company with such information.

(q) If the Subscriber is a corporation, partnership, trust, unincorporated association or other entity, it is authorized and otherwise duly qualified to purchase and hold the Note subscribed hereunder; such entity has not been formed for the specific purpose of acquiring a Note from the Company. If the Subscriber is a trustee and is acquiring the Note for the trust of which he is a trustee, he has sought the advice of counsel regarding whether the purchase of the Note is an authorized trust investment and has been advised by counsel that after reviewing the applicable state law and the terms of the trust instrument, such counsel is of the opinion that the undersigned has the authority to purchase the Note for the trust.

3. **Non-Transferability of Note.** The undersigned agrees to the non-transferability of the Note, except with the prior written consent of the Company, which may be withheld in its sole discretion for several reasons, including compliance with any applicable federal and/or state securities laws and any applicable exemptions.

4. **Indemnification.** The undersigned acknowledges and understands the meaning and legal consequences of the representations and warranties contained herein and agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees and attorneys from and against any and all claims, loss, damage liability, cost or expense including attorneys' fees and courts costs due to or arising out of or connected directly or indirectly to any untrue statement made herein or any breach of any such representation or warranty made by the undersigned.

DATED: February 26, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSco Investment
Corporation as of February 26, 2015

By:  _____

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

Investment # 4

Date: February 26, 2015

1. **Subscription.** The undersigned investor has received and reviewed the Confidential Private Offering Memorandum dated July 1, 2009 (the "POM"). The undersigned certifies that the undersigned meets the applicable suitability standards as evidenced on the attached Purchaser Questionnaire and the undersigned hereby subscribes for and agrees to purchase the following Note from DenSco Investment Corporation (the "Company"):

- ☐ Accrual Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and accrued interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Quarterly Payment Note in the amount of \$ _____ for _____ months that will bear interest at the rate of _____% per year (____% monthly). The interest will be compounded monthly. The principal and any accrued and unpaid interest will be paid back to the undersigned investor at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).
- ☐ Monthly Payment Note in the amount of \$ 400,000.00 for 24 months that will bear interest at the rate of 12 % per year (1 % monthly). The interest will be paid to the undersigned investor on a monthly basis, and the principal will be paid to the undersigned at the end of the term of the Note. (The minimum amount of a Note is \$50,000 with additional increments in a minimum of at least \$10,000).

As a condition of the offer, the undersigned agrees to deliver this executed Subscription Agreement to the Company. Such Note will be issuable only upon acceptance of this Subscription Agreement by the Company and receipt of the consideration set forth in this Subscription Agreement.

2. **Representations and Warranties.** By executing this Subscription Agreement, the undersigned represents, warrants and acknowledges to the Company that:

(a) Based on personal knowledge and experience in financial and business matters in general, the undersigned understands the nature of this investment, is fully aware of and familiar with the proposed business operations of the Company, is able to evaluate the merits and risks of an investment in a Note and is capable of protecting the undersigned's interests in investing in the investment. The undersigned has received and carefully reviewed the POM. The undersigned has relied solely on the information contained therein, and information otherwise

DATED: February 26, 2015

By: _____
Signature of Investor

Desert Classic Investments, LLC, Steven G. Bunger,
Managing Member of LLC
Print Name of Investor

Address: _____
6134 W Trovita Place
Chandler, AZ 85226

SSN (or EIN): _____

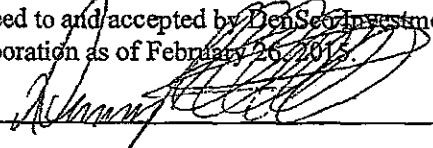
By: _____
Signature of Co-Investor (if any)

Print Name of Co-Investor (if any)

Address: _____

SSN (or EIN): _____

Agreed to and accepted by DenSec Investment
Corporation as of February 26, 2015.

By:  _____

Name: Denny J. Chittick

Title: President

DENSCO INVESTMENT CORPORATION GENERAL OBLIGATION NOTE

This certificate evidences the Company's unconditional promise to pay to the registered holder the principal amount at maturity together with interest at the rate and terms described herein and further described in the subscription agreement which by this reference is made a part hereof.

REGISTERED HOLDER

Name: Desert Classic Investments, LLC Address: 6134 W Trovita Place
Chandler, AZ 85226

PRINCIPAL

Principal Amount: \$ 400,000.00

Date of Issue: 2/26/2016

Maturity Date: 2/26/2018

INTEREST

Annual Rate: 12%

Payable: ☒ Monthly ☐ Quarterly ☐ At Maturity

First Interest Payment Date: 2/29/2016

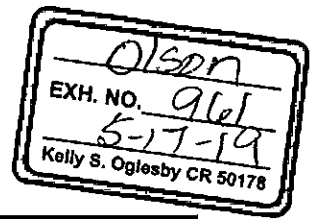
NOTICE TO HOLDER

The investment in the Company's General Obligation Note(s) represented by this Certificate have not been registered under the Securities Act of 1933, and is a restricted security within the meaning of the regulations promulgated pursuant to such Act. Such Note(s) may not be sold, assigned, pledged or transferred in any manner in the absence of an effective registration of such Note(s) under the Securities Act of 1933, unless the transaction is such that registration under such Act is not required. No request for transfer or re-issue shall be honored unless the holder produces evidence and opinion of counsel satisfactory to the Company that such transaction does not violate the registration requirements of both such Act and any applicable state securities laws.


Denny J. Chittick - President

Desert
CLASSIC

Xfer
50K
+ 10K



Beauchamp, David G.

From: Schenck, Daniel A.
Sent: Wednesday, May 14, 2014 7:56 PM
To: Beauchamp, David G.
Subject: DenSco POM
Attachments: #200743069v1_ClarkHill_ - Private Offering Memorandum 2014.doc; Private Offering Memorandum 2011 - Private Offering Memorandum 2014.pdf

David,

Attached is the latest draft for the POM for DenSco. The Word version includes several comments that request information/confirmation from Denny. A few of the comments are for your attention. These include "DGB" at the beginning of the comment. The attached redline does not show any of the comments.

Also, I highlighted the Table of Contents to serve as a reminder to double check the pagination once the POM is complete.

Please let me know what changes you prefer before this draft is sent to Denny.

Best,

Daniel A. Schenck

CLARK HILL PLC

480.684.1118 (direct) | 480.684.1179 (fax)
Licensed in Arizona, California, Utah and Nevada
dschenck@clarkhill.com | blo | www.clarkhill.com

Confidential Private Offering Memorandum

DenSco Investment Corporation

May __, 2014

200743069 1 43820/170145

DIC0008874

No. _____

Name of Payee: _____

Confidential Private Offering Memorandum

DenSco Investment Corporation

General Obligations Notes

Minimum Purchase \$50,000

The General Obligation Notes (the "Notes") are general obligations of DenSco Investment Corporation, an Arizona corporation (the "Company"). The Notes, together with all other outstanding notes and all other advances or liabilities owed by the Company to any holder of an outstanding note will be secured by a general pledge of all assets owned by or later acquired by the Company. The Company's largest assets will be the Trust Deeds, as defined herein, acquired by the Company and the Notes will be superior in priority and liquidation preference to Notes subscribed for by officers and shareholders of the Company. Interest will be paid monthly, quarterly or at maturity. The Notes are not insured or guaranteed by any state or federal government entity or any insurance company, and the Company will not establish a sinking fund for the Notes. The Company generally may transfer, sell or substitute collateral for the Notes. The Company may modify the interest rate to be paid on subsequently issued Notes. ~~The Company may adjust the interest paid on subsequently issued Notes and on the Notes offered hereby with 30 days' written notice ("Interest Adjustment Notice").~~ For Notes offered by this Confidential Private Offering Memorandum, the interest paid for the Note will automatically adjust to the amount stated in the Interest Adjustment Notice unless within the 30 day notice period the Noteholder provides a written request to the Company for the Note to be prepaid. If the Noteholder provides such notice within the 30 day notice period, the interest paid on the Note will be unchanged until such time as the Company prepay the Note. The Company will use good faith efforts to prepay Notes upon receipt of written request, but the Company will not be obligated to do so. The Notes may be redeemed by the Company prior to maturity upon notice at a price equal to the principal amount of the Notes plus accrued interest to the date of redemption. See "Description of Securities - Note Terms." Default may occur with respect to

Comment [A1]: 7/19/05 DenSco can adjust the interest of the Notes.

Comment [A2]: Note: Giving the Noteholder an option when there is an Interest Adjustment Notice makes the unilateral interest adjustment more enforceable. Also, because it may not always be possible to prepay a Note upon a Noteholder objecting to an interest adjustment, we did not obligate the Company to prepay the Note within a certain date frame. By leaving the interest rate unchanged when there is an objection (demonstrated by requesting prepayment), there is technically no penalty to the Noteholder for making the objection. In reality, the motivation to accept an interest adjustment will not be to avoid a penalty but to avoid an early prepayment that would end the investment opportunity. A court is much more likely to enforce this security than a penalty for not accepting an interest adjustment.

Comment [A3]: 7/19/05 this will accurate

one Note and not another. The Notes may be purchased directly from the Company without commission. The Company intends to offer the Notes on a continuous basis until the earlier of (a) the sale of the maximum offering, or (b) ~~two~~ ^{five} years from the date of this memorandum; provided, however, the Company reserves the right to amend, modify and/or terminate this offering if the Company changes its operations or method of offering in any material respect. See "Description of Securities" and "Plan of Distribution."

Comment [A4]: Don't use the maximum offering we can use here.

THE NOTES ARE SPECULATIVE AND INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

THE NOTES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE REGULATORY AUTHORITY REVIEWED, APPROVED OR DISAPPROVED THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OR ENDORSED THE MERITS OF THE PLACEMENT OF NOTES. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE NOTES ARE OFFERED PURSUANT TO EXEMPTIONS PROVIDED BY SECTION 4(2) OF THE ACT, REGULATION D THEREUNDER, CERTAIN STATE SECURITIES LAWS AND CERTAIN RULES AND REGULATIONS PROMULGATED PURSUANT THERETO. THE NOTES MAY NOT BE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

	Offering Price (1)	Underwriting Commissions (2)	Proceeds to the Company (3)
Note	\$50,000	-0-	\$50,000
Offering Maximum	\$50,000,000	-0-	\$49,975,000

- (1) The Notes are offered in \$50,000 initial investment with additional increments with a minimum of at least \$10,000. All subscriptions for Notes are subject to review and acceptance by the Company.
- (2) The Company's President, Denny J. Chittick, is making the private placement of the Notes on behalf of the Company. Mr. Chittick will not receive any sales commission in connection with the placement of the Notes. The Company reserves the right to pay costs and commission to a licensed broker-dealer with an approved custodian to facilitate procedures by investors using qualified funds (i.e., IRA, SEP IRA, ROTH IRA and KEOGH Plans), up to one percent (1%) of the principal Note amount.
- (3) Offering expenses, estimated at \$25,900, will be paid from the Company's general operating funds.

Comment [A5]: It is disclosed.

DenSco Investment Corporation
6132 W. Victoria Place
Chandler, Arizona 85226
(c) 602-469-3001
(f) 602-532-7737

THE NOTES ARE OFFERED ONLY TO PERSONS WHO ARE: (1) "ACCREDITED INVESTORS" WITHIN THE MEANING OF RULE 501(a) OF REGULATION D PROMULGATED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAW; (2) ABLE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THE NOTES, INCLUDING A LOSS OF THE ENTIRE INVESTMENT; AND (3) SUFFICIENTLY KNOWLEDGEABLE AND EXPERIENCED IN FINANCIAL AND BUSINESS MATTERS TO BE ABLE TO EVALUATE THE MERITS AND RISKS OF AN INVESTMENT IN THE NOTES EITHER ALONE OR WITH A PURCHASER REPRESENTATIVE. SEE "INVESTOR SUITABILITY." THE NOTES ARE NOT OFFERED AND WILL NOT BE SOLD TO ANY PROSPECTIVE INVESTOR UNLESS SUCH INVESTOR HAS ESTABLISHED, TO THE SATISFACTION OF DENNY J. CHITTICK, THAT THE INVESTOR MEETS ALL OF THE FOREGOING CRITERIA. EACH INVESTOR MUST ACQUIRE THE NOTES FOR HIS, HER OR ITS OWN ACCOUNT, FOR INVESTMENT PURPOSES ONLY, AND WITHOUT ANY INTENTION OF DISTRIBUTING OR RESELLING ANY OF THE NOTES, EITHER IN WHOLE OR IN PART.

THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED. IN ADDITION, THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM CONSTITUTES AN OFFER ONLY TO THE PERSON WHOSE IDENTITY APPEARS IN THE APPROPRIATE SPACE PROVIDED ON THE COVER PAGE HEREOF. THE RIGHT TO PURCHASE NOTES AS DESCRIBED HEREIN IS NOT ASSIGNABLE.

TO ENSURE COMPLIANCE WITH CIRCULAR 230 GOVERNING STANDARDS OF PRACTICE BEFORE THE INTERNAL REVENUE SERVICE, POTENTIAL INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY A POTENTIAL INVESTOR, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A POTENTIAL INVESTOR UNDER THE INTERNAL REVENUE CODE; (B) SUCH

DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES OFFERED HEREBY; AND (C) POTENTIAL INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

CERTAIN "REPORTABLE TRANSACTIONS" REQUIRE THAT PARTICIPANTS AND CERTAIN OTHER PERSONS FILE DISCLOSURE STATEMENTS WITH THE IRS, AND IMPOSE SIGNIFICANT PENALTIES FOR THE FAILURE TO DO SO. AN INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF THE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF AN INVESTMENT IN THE NOTES AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT TO THE EXTENT THAT SUCH DISCLOSURE IS RESTRICTED BY APPLICABLE SECURITIES LAWS.

THE OBLIGATIONS AND REPRESENTATIONS OF THE PARTIES TO THIS TRANSACTION WILL BE SET FORTH ONLY IN THE DOCUMENTS DESCRIBED HEREIN. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS CONCERNING THE COMPANY OTHER THAN AS CONTAINED IN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THE DELIVERY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION SET FORTH IN IT IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF CERTAIN INVESTORS TO WHOM IT HAS BEEN DIRECTED. A PROSPECTIVE INVESTOR, BY ACCEPTING DELIVERY OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AGREES TO

RETURN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM AND ALL ENCLOSED DOCUMENTS TO THE COMPANY IF THE HOLDER DOES NOT UNDERTAKE TO PURCHASE ANY OF THE NOTES OFFERED HEREBY.

PRIOR TO THE SALE OF ANY NOTES OFFERED HEREBY, THE COMPANY WILL MAKE AVAILABLE TO EACH INVESTOR THE OPPORTUNITY TO ASK QUESTIONS OF AND RECEIVE ANSWERS FROM MR. CHITTICK CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING AND TO OBTAIN ADDITIONAL INFORMATION NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED HEREIN, TO THE EXTENT THE COMPANY OR MR. CHITTICK POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

ANY REPRODUCTION OR DISTRIBUTION OF THE CONFIDENTIAL PRIVATE OFFERING MEMORANDUM IN WHOLE OR IN PART, OR THE DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF MR. CHITTICK IS STRICTLY PROHIBITED.

REFERENCE IS MADE TO THE SUBSCRIPTION AGREEMENT AND SUTABILITY QUESTIONNAIRE ATTACHED HERETO FOR COMPLETE INFORMATION CONCERNING THE RIGHTS AND OBLIGATIONS OF INVESTORS WHO PURCHASE THE NOTES OFFERED HEREBY. CERTAIN PROVISIONS OF AGREEMENTS AND DOCUMENTS ARE SUMMARIZED IN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, AND THE SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION OR AGREEMENT OR DOCUMENT APPEARING ELSEWHERE. IN CASE OF A CONFLICT BETWEEN THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM AND SUCH AGREEMENTS OR DOCUMENTS, THE AGREEMENT OR DOCUMENT, AS THE CASE MAY BE, SHALL GOVERN. REFERENCE IS MADE HEREBY TO THE COMPLETE TEXT OF ALL DOCUMENTS RELATING TO THIS PLACEMENT THAT ARE DESCRIBED HEREIN. A COPY OF ALL DOCUMENTS AND AGREEMENTS SO DESCRIBED BUT NOT INCLUDED HEREIN WILL BE MADE

AVAILABLE TO A PROSPECTIVE INVESTOR AND ITS COUNSEL, ACCOUNTANT AND ADVISER(S) UPON REQUEST.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE COMPANY OR MR. CHITTICK OR THEIR AFFILIATES AS LEGAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN COUNSEL, ACCOUNTANT AND OTHER ADVISERS AS TO TAX MATTERS AND RELATED MATTERS CONCERNING AN INVESTMENT IN THE COMPANY'S NOTES.

NOTWITHSTANDING ANYTHING CONTAINED IN THIS CONFIDENTIAL OFFERING MEMORANDUM TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY NOT DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE OF THIS OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. FOR THIS PURPOSE, "TAX STRUCTURE" IS LIMITED TO FACTS RELEVANT TO THE U.S. FEDERAL INCOME TAX TREATMENT OF THIS OFFERING AND DOES NOT INCLUDE INFORMATION RELATING TO THE IDENTITY OF THE ISSUER, ITS AFFILIATES, AGENTS OR ADVISORS.

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MEMORANDUM SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by the more detailed information appearing elsewhere in this Confidential Private Offering Memorandum.

The Company

DenSco Investment Corporation, an Arizona corporation (the "Company"), is an Arizona corporation, which has been in operation since April, 2001. In the thirteen years of operation from April, 2001 through April, 2014, the Company has engaged in 10,522 loan transactions. The Company has been and will continue to be engaged primarily in the business of making high-interest loans with defined loan-to-value ratios to residential property remodelers ("Foreclosure Specialists") who purchase houses through pre-foreclosure process and foreclosure sales, all of which are secured by real estate deeds of trust ("Trust Deeds") recorded against Arizona residential properties, but the Company will not limit its efforts to this niche. In connection with its business, the Company will seek to maintain a diversity of builders, loan size, back-office commercial properties, medical offices, strip commercial centers, high-end specialty and custom residential properties and construction locations. The Company does not intend to exceed a maximum loan size of \$1,000,000.00. The Company intends to maintain a loan-to-value ratio below 70% in the aggregate for all loans in the loan portfolio.

Comment TA61: How many loans in 13 year period. According to July 2011 FOM, the Company said 2622 loans from April 2001 to June 2011.

The Company's office is currently located at 6132 W. Victoria Place, Chandler, Arizona 85226. Its current telephone number is 602-469-3001.

The Offering

Securities: As of May _____, 2014, the Company has offered and secured the first \$_____ in principal amount of Notes. Of these Notes, \$_____ of principal has been prepaid. The Company is offering the balance of \$_____ in principal amount of Notes on a "best efforts" basis. The interest rates of the Notes will vary and will depend on the

denomination of the Note and the term selected by the investor. The Notes are offered in denominations ranging from \$50,000 to \$1,000,000.00, increasing in additional increments with a minimum of \$10,000. The Notes are paid "interest only" during their terms, with principal payable only at maturity. Investors may elect to have interest paid monthly, quarterly or at maturity. If interest is paid other than monthly, interest will compound monthly. The Notes are not transferable without obtaining the prior written consent of the Company. The Notes are general obligations of the Company and are not directly secured by any specific asset of the Company. At any particular point in time, the assets of the Company will consist primarily of Trust Deeds in an aggregate principal amount approximately equal to the amount of the outstanding Notes. See "Use of Proceeds" and "Description of Securities."

Restricted Nature of

Securities: The Notes are not registered and are restricted securities. This is a private placement intended to be exempt from the registration requirements under federal and applicable state securities laws, and may only be made personally by a principal of the Company to a qualified investor who intends to hold the investment to maturity. See "Description of Securities."

Risk Factors: An investment in the Notes involves a significant degree of risk. Only investors who can bear the economic risk of such an investment should purchase the Notes. See "Risk Factors" and "Investor Suitability."

Use of Proceeds: The proceeds of the offering will be used as working capital primarily for lending secured by, and the purchase of, Trust Deeds within the guidelines set by the Company. See "Use of Proceeds" and "Business."

Plan of Distribution: Notes may be purchased directly from the Company without commission.

The Company intends to make a continuous offering of the Notes until the earlier of two years from the date of this memorandum or upon the sale of the maximum offering of \$50 million; provided, however, the Company reserves the right to amend, modify or terminate this offering if the Company changes its operations or method of offering in any material respect. See "Description of Securities" and "Plan of Distribution."

BUSINESS

The Company was incorporated in Arizona on April 30, 2001 and is engaged primarily in the business of funding Foreclosure Specialists, who purchase houses through the preforeclosure process, and at foreclosure sales and through a sale of REO properties (Real Estate Owned by a financial institution after a foreclosure) or short sale transactions.

Target Markets and Potential Future Markets

The Company will target the funding and purchasing of Trust Deeds to qualified purchasers of foreclosed homes and qualified builders of Arizona commercial and residential projects. The primary focus is to lend money to qualified borrowers who can fulfill their loan obligation on highly marketable real properties with sufficient equity. When purchasing Trust Deeds, the Company intends to consider Trust Deeds that the loan-to-value ratio does not exceed 70 percent (70%) and the current yield is 18 percent (18%) or greater. Most of these purchased loans will have short-term maturities (less than one year), and under certain circumstances, Company may charge a higher interest rate or pass through additional costs incurred on short-term loans. Most Trust Deeds will range in size from \$25,000 to \$500,000, and the largest loan size is not intended to exceed \$1,000,000. Each loan will be secured by its underlying real property (or in rare instances, separate real properties) as well as by personal property involved in the construction projects and personal guaranties (as determined on a case by case basis). The loans are written to be repaid in six months and all loans are structured to require monthly interest payments. A majority of the loans are paid back within three months; however, some loans are allowed to be extended on a case by case basis.

For lending to Foreclosure Specialists who purchase foreclosed homes prior to or at the foreclosure sale, the Company will target remodelers, contractors and other entities engaged in this niche real estate market, but the Company will not limit its efforts to this niche. ~~The Company intends to have these Trust Deeds have loan-to-value ratios no greater than 70 percent, but with an objective goal of 50 percent to 60 percent.~~ The Company anticipates that the minimum loan size will continue to be \$25,000, and the maximum loan size will continue to be

~~Comment: This is a redacted comment.~~

\$1,000,000. The values of these homes are determined to be based on the value to which they will appraise at or sell for on the retail market.

For lending on commercial projects, the Company will target established, reputable contractors and developers who are developing back-office commercial properties, medical and other professional offices, strip and pre-sold commercial centers, multi-unit apartment complexes, build-outs and high-end specialty projects on Arizona land they own or have rights to purchase. The Company intends to have these Trust Deeds have loan-to-value ratios no greater than 65 percent but with an objective goal of 50 percent to 60 percent. The maximum loan size is intended to be \$1,000,000, with subordinated participation from other lenders for larger projects, which will probably obligate the Company to act on behalf of the other participating lenders. The Company intends to directly (through an officer or employee) or indirectly (through a real estate consultant) perform due diligence to verify certain information in connection with funding a Trust Deed. The loan-to-value ratio is determined by calculating the reasonable market value of the property at the end of the construction project.

Comment (AM): Is this still accurate?

For residential loans, the Company will seek reputable, licensed contractors who have pre-sold homes to build for qualified buyers. The Company also plans to finance builders' models, builders' "spec" homes and those projects that are highly marketable and have substantial builder equity. Most of these borrowers may qualify for conventional bank financing but they may use the Company because of the faster financing, competitive over all costs, better service and personal relationships with Mr. Chittick. The Company will not lend to natural persons for personal, family or household purposes.

The Company may elect to participate as an equity partner in some projects should the benefits warrant the risk. From time to time, a default occurs on a loan and the Company needs to conduct a Trustee's Sale or accept a Deed In Lien of Foreclosure on the real property securing a loan. As such, if the Trustee conducting the Trustee's Sale does not receive a bid in excess of the Company's credit bid (in the amount of the loan, accrued interest and costs) at the Trustee's Sale, the Company becomes the owner of the subject real property. The Company intends to sell such properties as quickly as possible in an effort to minimize resulting costs and losses, and to maintain a diversified financing operation. However, the Company reserves the right to lease

any property obtained through a Trustee's Sale or a Deed in Lieu of Foreclosure until the Company determines that the property can be sold at a sufficient price. The Company may diversify its financing operations in the future to include other areas of finance. ~~The Company does not anticipate entering any non-Arizona market without first attempting to contact the significant Note holders and discussing this market with them.~~

Comment (A9): Is this still accurate?

Cash Flow

The Company uses a proprietary cash flow-management model for balancing the terms of the Trust Deeds the Company makes to its borrowers with the terms of the Notes purchased by the Company's investors. The Company's objective is to have sufficient cash coming in from Trust Deed payoffs to be able to redeem all Notes as they come due and maintain reserves without any need to sell assets or issue new Notes to repay the earlier maturing Notes. See "Risk Factors - Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes."

Limited Due Diligence

To the extent Trust Deeds are purchased, Trust Deeds will be purchased through a network of consultants, mortgage brokers and title companies that the Company believes are reliable referral sources. Prior to purchasing a Trust Deed or funding a direct loan, the Company intends to have an officer, employee or an authorized representative conduct a due diligence review by interviewing its owner, verifying the documentation and performing limited credit investigations as are deemed appropriate by the Company, which may include visiting the subject property in a timely manner. For purchases of foreclosed homes, the Company intends to have an officer, employee or an authorized representative inspect the ~~properties after purchase~~ ~~before, or during, rehabilitation and after rehabilitation~~ to ensure the property is improved to a marketable condition. The Company will not make residential loans to natural persons for personal, family or household purposes.

Comment (A10): Do the Due Diligence steps ensure the property is improved to a marketable condition? If so, at what stage (after purchase, during rehab, after rehab)?

Funding and Purchase of Loans

The Company reserves the right to approve or decline the funding of each direct loan or the purchase of each Trust Deed submitted for purchase. The Company intends to follow certain practices and procedures when it funds or purchases a Trust Deed, including without limitation,

[REDACTED]

Comment (A11): Please provide a summary of the Company's procedures regarding how it funds (i.e., who the funds are loaned to and in what amounts), and how it perfects its liens (i.e., execution of Trust Deed, execution of Trust Deed, and recording of Trust Deed).

Collections

The Company services the contracts it purchases and originates. If a customer misses a payment without making satisfactory arrangement prior to the due date, the Company's policy is to contact the customer within three to five days and watch the account closely until the payment or satisfactory arrangement has been made. At the discretion of the Company, the Company's normal documents provide that a late charge of ten percent of the interest amount due is to be assessed on a delinquent payment that is not cured within five days. If payment on a Trust Deed is thirty (30) days delinquent, an accelerated default rate goes into effect and foreclosure proceedings may begin under the Deed of Trust; provided, however, the Company may elect not to begin foreclosure proceedings if the property secured by the loan is under contract for sale or is in the process of being refinanced. The goal of the Company is to recover the principal of a loan and any interest and or any late fees assessed. If the borrower is unable in a timely manner to sell or refinance the subject property, the Company may request that the borrower execute a Deed in Lieu of Foreclosure (a "Deed in Lieu") to the Company so that the Company will gain immediate control of the subject property rather than going through the ninety (90) day process and expense associated with a Trustee's Sale. Upon the Company gaining control of the property through a Deed in Lieu or a Trustee's Sale, the Company will decide either to market the subject property at retail, which may require additional monies to improve the property to retail ready condition, or to wholesale the subject property "as is." The Company may also decide to rent the subject property as an investment property. If applicable, the management of the rental properties will be maintained by a professional management company chosen by the Company.

Comment (A12): Is this still accurate?

Regulation

The financing of construction loans and other types of real estate transactions are regulated by various federal and state government agencies, including the Arizona Department of Financial Institutions. Arizona Revised Statutes §§ 6-901 to 910, §§ 6-941 to 948 and 6-971 to 985, and regulations issued thereunder, have specific mortgage broker and mortgage banker licensing and operating requirements. The Company's management believes that it is not required to be licensed by the Arizona Department of Financial Institutions as a mortgage broker or a mortgage banker nor under certain federal laws, such as Truth-In-Lending Act or the Real Estate Settlement Procedures Act. The Company intends to take the necessary steps to ensure that the borrowers it lends to and the projects covered by such loans will not fall within the requirements imposed by the foregoing agency and acts.

The Company will not receive any points, commissions, bonuses, referral fees, loan origination fees or other similar fees in connection with its real estate loans. The Company will only receive periodic interest resulting from the application of the note rate of interest to the outstanding principal balance remaining unpaid from time to time. By limiting its compensation in this manner, the Company's management believes it does not need a license from the Arizona Department of Financial Institutions as either a mortgage loan broker or mortgage banker; provided, however, the Company reserves the right to work with and to pay a reasonable and customary mortgage broker fee to a licensed mortgage loan broker or mortgage banker for services in connection with its loans or to other third-party professionals in connection with due diligence for its loans.

Certain federal laws and regulations, such as the Truth-in Lending Act, Real Estate Settlement Procedures Act and others contain specific requirements for lenders seeking to make loans to certain types of borrowers, which may or may not be secured by certain types of residential real property. Most of these statutes and regulations apply to transactions only if the loans are made to natural persons for personal, family or household purposes. The Company will not lend to natural persons for these purposes.

If new regulations are issued by the U.S. Federal Housing Administration (the "FHA") or if a more strict interpretation of the current FHA regulations is implemented in the future, such regulations could reduce the demand for the Company's loans from Foreclosure Specialists which could impair the Company's ability to keep all of the proceeds from this offering fully invested in loans with borrowers.

Other states in the Western United States have instituted additional restrictions concerning loans secured by private real estate, which are commonly referred to as "predatory mortgage lending laws." Although Arizona has not passed a similar statute, such provisions may come into effect in Arizona either through law or regulation during this offering. The Company's management believes that its practices will not need to change in order to comply with any of the current proposals if they should go into effect. However, there can be no assurance that such will be the case.

The Company's management believes that it is not required to register or be licensed as an investment adviser with the State of Arizona or with the U.S. Securities Exchange Commission ("SEC") pursuant to the Investment Advisers Act of 1940 (the "Advisers Act"), as amended. The Advisers Act and the analogous Arizona law generally require all persons that are engaged in the business of providing investment advice for compensation to register with the SEC or Arizona provided that such adviser is not exempt from registration. The Company's management believes that it is not engaged in the business of providing investment advice for compensation, and as such, is not required to register as an "investment adviser" with either the SEC and/or the State of Arizona. In addition, even if the Company were deemed to be engaged in the business of providing investment advice for compensation, the Company anticipates that it would be exempt from registration under the Adviser Act due to the "private fund adviser exemption" (See 17 C.F.R. § 275.203(m)-1) as the Company manages less than \$150 million in assets and would likely be deemed a "qualifying private fund"¹ because it has fewer than the threshold number of clients that would trigger registration with the SEC and/or the State of Arizona.

¹ See Exemptions for Advisers to Venture Capital Funds, Private Fund Advisers with Less Than \$150 Million in Assets Under Management, and Foreign Private Advisers, Advisers Act Rel. No. 3222, 76-80 (June 22, 2011), available at <http://www.sec.gov/rules/final/2011/11a-3222.pdf> (clarification provided regarding how real estate funds may meet the definition of "qualifying private fund").

Diversity of Risk

The Company will attempt to maintain a diverse portfolio of Trust Deeds and loans by seeking a large borrowing base, participating in several local markets, acquiring Trust Deeds for any lending into residential and commercial projects, establishing loan-to-value guidelines and limiting financing to short terms. Currently, the Company's base of borrowers exceed 250 approved and qualified borrowers. It is the Company's plan that the base of borrowers eventually will exceed 250 qualified contractors and foreclosure specialists. The Company will maintain loans throughout the Phoenix metropolitan area to reduce its risk to fluctuations in values and conditions in markets within the metropolitan area. The Company also believes that it can reduce risk by participation in various types of financing: Trust Deeds on foreclosed properties, residential Trust Deeds and lending from \$50,000 tract homes and condominiums to \$1,000,000 custom "spec" homes; and commercial investments for flex-office, back-office, medical/general office and retail. In addition, the Company intends to maintain general loan-to-value guidelines that currently range from 50 percent to 65 percent (but it is intended not to exceed 70%), to help protect the Company's portfolio of loans. Further, all loans are intended to be relatively short term.

Comment [A13]: 7% loan will be made.

Comment [A14]: 7% loan will be made.

Because of these varying degrees of diversification, the relatively short duration of each of the loans, and management's knowledge of the Phoenix metropolitan area market, the Company's management anticipates that it will not experience a significant amount of losses; however, there can be no assurance that the Company will not experience such losses. Mr. Chittick, individually, has made or participated in approximately 2800 loans secured by real estate over the last fourteen (14) years. As of the date of this Memorandum, Mr. Chittick and the Company have collectively experienced 44 loan defaults that required initiating a Trustee's sale process, with seven of such loans being settled prior to the Trustee Sale auction. Various borrowers have conveyed seven properties to the Company pursuant to a Deed in Lieu. To the extent the Company deems necessary, the Company intends to use the services of outside real estate lending consultants to assist in evaluating any loan or the security for the loan to reduce the risk of a loss of principal due to the default of a real estate loan by a borrower and the resulting foreclosure upon the security for the loan.

Comment [A15]: 7% Do you want to include the # of loans and the length of years? In 2011, you had 2800 over the last 14 years. In 2014, you likely have much more.

Comment [A16]: 7 Do you have updated figures for the # of loan defaults requiring initiating a Trustee's sale and the # that settled prior to the auction?

The Company will make available to each prospective investor, prior to the consummation of the offering and sale of a Note to such investor and such investor's representative and advisers, the opportunity to ask questions and receive answers concerning the terms and conditions of this offering and to obtain any additional information that the Company may possess or may be able to obtain without unreasonable effort or expense, and which may be necessary to verify the accuracy of the information furnished to such prospective investor.

Executive Offices

The Company's office is currently located at 6132 W. Victoria Place, Chandler, Arizona 85226. Its current telephone number is 602-469-3001.

RISK FACTORS

An investment in the Notes offered by the Company involves a significant degree of risk. The securities offered hereby should not be purchased by anyone who cannot tolerate significant risk, including the possibility of losing their total investment in the Notes. In analyzing a possible investment in the Notes, prospective investors should consider carefully the following factors, together with the information contained elsewhere in this Memorandum.

Operating History

In the Company's thirteen year operating history through April, 2014, the Company has completed in excess of 1,000 loan transactions. However, even with these number of loans over thirteen years, the evaluation of prior company performance set forth in Prior Performance is limited in time. Accordingly, there can be no assurance that the Company will be able to continue to operate and achieve these results on a going-forward basis, which could limit the Company's ability to repay the Notes as planned.

Company (A17) New money loans in the Company completed through April 2014. As of June 2011, the Company had completed 2622.

Competition

The Company is engaged in a highly competitive industry. The Company competes with banks, savings and loan institutions, credit unions, mortgage brokers, finance companies and other private investors that are established in the finance business. Competition in the finance business is based upon the lowest overall loan cost, which consists of interest rates, fees, closing costs, document fees, reputation, and availability of funds and the length of time it takes to approve a loan. The cost of funds to many of our competitors is typically lower than the Company's, allowing them to compete for borrowers on better terms, such as interest rates, which is a significant component of loan cost. The competition usually has lower costs on longer-term loans. The Company's higher cost of capital and lending rates may result, in part, in the Company acquiring Trust Deeds and lending to borrowers who are unable to obtain financing from these larger competitors. In some cases, these types of borrowers have weaker credit worthiness than other borrowers, which could expose the Company to a greater risk of

nonpayment of its loans by borrowers. See "Business-Target Markets and Potential Future Markets."

Ability to Generate Sufficient Cash Flow to Service the Outstanding Notes

The Company's ability to generate cash in amounts sufficient to pay interest on the Notes and to repay or otherwise refinance the Notes as they mature depends upon the Company's receipt of payments due under the loans that are in the Company's portfolio. The Company's financial performance and cash flow depends upon prevailing economic conditions and certain financial, business and other factors that are beyond the Company's control. These factors include, among others, economic and competitive conditions, particularly in areas in which the borrowers operate their businesses, and general economic conditions that affect the financial strength of developers and real estate investors in the areas that the Company intends to make investments. In recent years the decline of real estate values has been the largest challenge facing the real estate finance industry. This development is something new to the industry that typically sees a slow rising in values of properties or at least a stability of prices. The dramatic and prolonged decrease in values has forced the Company to change how it operates, which is requiring monthly interest payments under its loans rather than allowing the interest to compound. The Company has also shortened the maturity of loans to borrowers in some cases and is only extending the loans to a few borrowers under strict conditions. Accordingly, an investment in the Notes offered hereby involves substantial risk and Notes should not be purchased by anyone who cannot tolerate substantial risk, including the possibility of losing their total investment in the Notes. There can be no assurance that the Company will be able to continue to operate and repay the Notes as planned.

Decrease in Value of Collateral for the Loans in Company's Portfolio

The Company is responsible for collecting payments from loan obligors and for foreclosing under an applicable Trust Deed in the event of default by an obligor. If the Company is forced to conduct a Trustee's Sale to obtain ownership and possession of a property securing a loan, the value of the property may have decreased between the time that the outstanding loan

was initially made to the time of repossession pursuant to a Deed in Lieu or a Trustee's Sale. Consequently, the Company's sale of such property may result in a loss as a result of the amount owed to the Company being in excess of the value received by the Company pursuant to a subsequent sale of the property. Accordingly, an investment in the Notes offered hereby involves substantial risk and Notes should not be purchased by anyone who cannot tolerate substantial risk, including the possibility of losing their total investment in the Notes. There can be no assurance that the Company will be able to continue to operate and repay the Notes as planned.

Expansion of Real Estate Loan Base

After giving effect to this offering and the application of the net proceeds, the Company will have significant outstanding indebtedness. The Company's ability to make scheduled principal and interest payments on the Notes will depend upon the Company's ability to generate adequate revenues from its real estate lending operations. The Company has historically received approximately 18% effective interest on its real estate loans but minimal interest on its cash accounts at its bank. Therefore, in order to pay the principal and interest due on the Notes, the Company will need to loan a significant amount of its capital to its real estate loan borrowers and reloan any repayment proceeds in a timely manner. As the Company receives the proceeds from this offering, the Company intends to expand its real estate loan base in order to keep its capital loaned to its real estate loan borrowers as opposed to being in its cash accounts at the bank. If the Company cannot continue to expand its real estate loan base, it may not generate enough revenues to service its debt obligations, including the Notes. Accordingly, the Company will continue to rely upon repeat borrowers, word of mouth referrals and the referral network of outside mortgage brokers and consultants that Mr. Chittick has developed. See "Business-Target Markets and Potential Future Markets."

Comment 1A.11 is not accurate.

Demand for Real Estate Loans

The Company's success depends, in part, upon its ability to continue to develop and achieve growth in its real estate lending operations and to manage this growth effectively. In

formulating and implementing its business plan, the Company relied on the judgment of its officer and consultants, and on their research and collective experience to determine customers, marketing strategy and procedure. The Company has not planned, conducted or contracted for any independent market studies concerning the anticipated demand for the Company's real estate lending services. Although the Company has reviewed general reports concerning the number of houses being built, houses for sale, jobs created and people relocating to Metropolitan Phoenix, the Company has not reviewed any specific analysis concerning the demand for its niche in real estate lending. Although Mr. Chittick and the Company have developed a network of qualified borrowers and referral sources of current borrowers and escrow officers, there can be no assurance that there will continue to be sufficient demand for loans by qualified borrowers. To the extent that there is insufficient demand for loans by qualified borrowers, this could have an adverse effect on the anticipated demand for the Company's real estate lending services and limit the Company in its efforts to generate sufficient revenues to make scheduled interest and principal payments on the Notes needed for growth. See "Business-Target Markets and Potential Future Markets."

Management of Rapid Growth

The Company's success depends, to a large extent, on its ability to achieve growth in the number of loan applications and closings, the due diligence and servicing of these loans and the ability to manage this growth effectively. This growth will challenge the Company's management, resources and systems. As part of its business strategy, the Company intends to pursue continued growth through its business contacts, marketing capabilities and marketing alliances. As the Company continues to grow, the Company will need to expand its resources and systems to manage future growth, but there can be no assurance that the Company will continue to be able to grow in the future or to even manage this growth effectively. Failure to do so could materially and adversely affect the Company's business and financial performance. See "Business," and "Management."

No Sinking Fund Provision; No Separate Loan Loss Reserve; Lack of Governmental Insurance

The Notes represent general obligations of the Company and will not be subject to redemption through a sinking fund. Although the Company does not currently maintain a loan loss reserve fund, the Company's Management tries to maintain an allowance for losses as part of the Company's general assets at a level that Management believes is adequate to absorb any anticipated losses. At this time, the Company reserves the right to maintain such reserve in the Company's discretion, but the Company has no plans to currently implement a separate loan loss reserve fund. As a result, the risk of loss on the Notes is greater than would be the case if the Notes were backed by a sinking fund or if the Company funded and maintained a separate loan loss reserve fund. Repayment of the Notes by the Company is not secured by any property owned by the Company or any third party. There will be no limitation on the amount of future indebtedness that the Company may issue, create or incur, and the Company will not be prohibited from permitting liens to be placed on or creating senior liens on its property for any purpose, including for the purpose of securing payments or additional indebtedness. Furthermore, neither the Federal Deposit Insurance Corporation nor any other state or federal government agency insures the Notes. See "Description of Securities."

Terms of Notes

The Company expects to redeem the Notes as they mature, including the initial principal balance of each Note and all accrued and unpaid interest. However, the Company has the right to redeem the Notes at any time prior to maturity upon 30 days' written notice to the Noteholder. In the case of early redemption, the Company has the absolute discretion to select the Notes that it will redeem, and there is no requirement that Notes be redeemed from Noteholders on a pro rata or any other basis. Notes redeemed prior to maturity would prevent Noteholders of the Notes called for redemption from receiving the anticipated return on such Notes. See "Description of Securities."

Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes

The Company may be dependent upon the proceeds of subsequently issued Notes to repay earlier maturing Notes. If sufficient proceeds from such subsequently issued Notes are not raised, the Company would rely on its cash reserves, its operating capital and proceeds from the sale of Trust Deeds to repay the earlier maturing Notes. Such funds may be insufficient to repay the earlier maturing Notes, in which event the Company may be unable to repay such Notes or the subsequently issued Notes. The ability of a Noteholder to obtain payment of principal and interest on a Note in these circumstances could be limited to the extremely unlikely event that the Noteholder gains control over and sell assets of the Company. See "Use of Proceeds" and "Description of Securities."

Variable Rates and Maturities of Notes

Each Note bears a fixed rate of interest from the date of its issuance until maturity or early redemption. However, Notes issued subsequent to those purchased by an investor may be issued at higher or lower interest rates and shorter or longer maturities, depending upon market conditions and other factors. Notes outstanding at any given time will not be modified to reflect the terms and conditions of such subsequently issued Notes. Therefore, any particular investor risks investing in the Notes on terms less favorable than may be available at later dates to future investors. See "Description of Securities."

Management anticipates that the interest rate on each Note will be determined and agreed upon on the date of issuance, in significant part, by the demand for funds and the competitive environment in the foreseeable future by the Company. Since the interest rate the Company may charge for its loans to its customers is limited by competitive and other factors, the Company may not be able to increase the interest rates charged on its loans to compensate for increases in its funding rate to investors. Similarly, the Company may not be able to decrease the funding rate to its investors to compensate for decreases in the interest rates charged on its loans to its customers. Also, market forces could eliminate the interest rate difference between the interest

rate paid to Investors and the interest rate charged to the Company's customers. See "Description of Securities."

Value of Company's Assets

The Notes, together with all other outstanding Notes and all other advances or liabilities owed by the Company to any holder of an outstanding Note, will be unsecured as to any and all assets owned by or later acquired by the Company (the "Company's Assets"). There can be no assurance that the proceeds of any sale of the Company's Assets pursuant to and following an Event of Default (as defined in "Description of Securities") would be sufficient to repay the Notes. In addition, investors in the Notes will have no ability to cause a sale of Company Assets. See "Use of Proceeds," "Business" and "Description of Securities."

Collections and Foreclosures

The Company is responsible for collecting payments from loan obligors and for foreclosing under the applicable Trust Deed in the event of default by an obligor. If the Company must complete a project repossessed by it, the Company may have to inject additional capital, which it may not be able to fully recover. Further, the completion time may be in excess of one year, causing a severe strain on the cash flow of the Company, depending upon the project size. The Company also is subject to strict state law requirements in the collection and repossession of its collateral securing each loan. Although the Company will make every effort to comply with all applicable laws, any failure to comply may subject the Company to severe monetary damages or penalties and may result in administrative or judicial action against the Company. See "Business-Regulation."

No Assurance of Conventional Financing for the Company's Operations

In addition to Note proceeds, the Company may establish lines of credit or obtain various forms of financing from a financial institution or any other person or entity. The Company's

management believes that during the past few years, conventional financing for speculative business enterprises, such as the Company's lending operations, has become more difficult to obtain. If regular, continued sale of the Notes is not successful, and the Company is not able to obtain sufficient financing from other sources, the Company may be forced to sell Trust Deeds and/or loans in its portfolio to pay maturing Notes as they come due. Mr. Chittick has provided liquidity to the Company through an equity line of credit in the past and he intends to do so in the future. When Mr. Chittick advances funds to the Company from this equity line of credit, Mr. Chittick draws an interest rate of 10% per annum from the Company. Funds advanced in this manner are generally only short term (3-5 days). If the Company were to require additional conventional financing, the lender will probably secure its loan through Mr. Chittick to the Company by requiring a lien on the Company's Assets, including the Trust Deeds. The lender's lien would have priority to any claims of any of the investors in the Notes, which puts these investors at risk. There can be no assurance the Company would be able to receive sufficient proceeds from the sale of the loans or Trust Deeds to repay any additional financing, if applicable, and to repay all of the outstanding Notes. See "Use of Proceeds," "Business" and "Description of Securities."

Comment (a)(3) If the loan is secured

Regulation

Because it will not make loans for personal, family or household purposes, the Company believes it has structured its operations to be exempt from various federal and state regulations, and particularly from regulations affecting lending and financial institutions. If it is determined that the Company has not structured its operations so that it is exempt from regulation, the Company could become subject to extensive regulation, including the Truth in Lending Act, the Homeownership and Equity Protection Act of 1994, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act, as well as various state laws and regulations. Failure to comply with any of these requirements or any similar state law requirement, may result in, among other results, demands for indemnification or repurchase, rescission rights, lawsuits, administrative enforcement actions and civil and criminal liability. In addition, there can be no assurance that existing regulations will not be revised to govern the activities of the Company as currently

structured. Compliance with existing or future regulation could be costly and could materially and adversely affect the operations of the Company. See "Business – Regulation," including the predatory mortgage lending discussion contained therein.

FHA Regulations

If new regulations are issued by the Federal Housing Administration or if a more strict interpretation of any of its regulations is implemented in the future, such regulations could reduce the demand for the Company's loans from prospective borrowers, which could impair the Company's ability to keep all of the proceeds from this offering fully invested. See "Business – Regulation."

No Assurance of Successful Placement of the Notes

The Notes are being privately placed by the Company to qualified investors who intend to hold them for their own account until maturity. There is no underwriter, and there is no assurance that the Company will be successful in the continued placement of the Notes in a manner sufficient to satisfy its cash flow requirements to continue funding loans to its borrowers. See "Use of Proceeds" and "Business."

Absence of Public Market/ Non-Transferability of Notes

The Notes have not been registered under the Act or any state securities law and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Act and applicable state securities laws. The Company does not intend to register the Notes under the Act or any state securities law. In addition, the Notes are non-transferable without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion. Accordingly, there is no public or private trading market for the Notes, and it is highly unlikely that a trading market

will develop. The Company has no obligation to make any effort to cause a trading market to develop and does not intend to take any actions to cause a trading market to develop. Accordingly, and because the restricted nature of the security prohibits the purchase of the Notes for any purpose other than holding to maturity, an investor in the Notes must anticipate holding the Notes to maturity. See "Description of Securities."

Impact of Change in Economic Conditions

An unforeseen change of general economic conditions, and particularly in Arizona and the southwestern United States, may adversely impact the Company's business and its ability to generate sufficient operating income to satisfy its debt obligations, including its obligations under the Notes as they become due. The Company maintains the right to adjust the interest paid in subsequently offered Notes and, on the Notes offered hereby, with a 30-day Interest Adjustment Notice; for Notes offered by this Confidential Private Offering Memorandum, the interest paid for the Note will automatically adjust to the amount stated in the Interest Adjustment Notice unless within the 30-day notice period the Noteholder provides a written request to the Company for the Note to be prepaid. If the Noteholder provides such notice within the 30-day notice period, the interest paid on the Note will be unchanged until such time as the Company prepays the Note. In the past, Arizona's real estate market has been cyclical and has experienced severe fluctuations. Investors should anticipate that these real estate markets might experience cyclical fluctuations in the future. The Company would adjust its operations in response to changing conditions, but there can be no assurance that the Company will be able to operate as planned during periods of such fluctuation or adjust its operations to avoid the impact of such changed conditions. See "Business-Target Markets and Potential Future Markets."

Comment [A20]: The interest can adjust to the interest of the Note.

Comment [A21]: Note: Giving the Noteholder an option when there is an Interest Adjustment Notice makes the unilateral interest adjustment more enforceable. Also, because it may not always be possible to prepay a Note when a Noteholder objects to an interest adjustment, we did not obligate the Company to prepay the Note within a certain time frame. By leaving the interest rate unchanged when there is an objection (demonstrated by requesting prepayment), there is technically no penalty in the Noteholder for making the objection. In reality, the motivation to accept an interest adjustment will not be to avoid a penalty but to avoid an early prepayment that would end the investment opportunity. A court is much more likely to enforce this scenario than a penalty for not accepting a unilateral interest adjustment.

Dependence on Key Personnel

The Company is dependent on the continued services of Mr. Chittick. The Company's ability to continue its lending operations would be significantly and adversely affected by the loss of Mr. Chittick if a qualified replacement could not be found without undue delay.

Although Mr. Chittick occasionally uses the services of outside consultants who have assisted Mr. Chittick in limited absences, it is unlikely that an outside consultant would be able to perform Mr. Chittick's duties as successfully as Mr. Chittick has done. If Mr. Chittick is disabled or unavailable for a long period of time, Mr. Chittick has developed a contingency plan for a consultant to wind down the Company's business, but there can be no assurance that such plan will be successful. See "Management-Contingency Plan in the Event of the Death or Disability of Mr. Chittick."

Management's Outside Interests and Conflicts of Interest

Mr. Chittick may maintain some activity in personal investments outside of the Company and he may manage similar types of outside portfolios as those maintained by the Company. Some of the Company's outside consultants who occasionally assist Mr. Chittick also make investments in loans secured by deeds of trust. In addition, Mr. Chittick invests in similar instruments on his own behalf. Since the Company plans to invest in portfolios similar to those of some of its consultants and Mr. Chittick, and because of the past (and limited present) consulting relationships between and among Mr. Chittick and some consultants, conflicts of interest exist and will continue to exist between the Company and the outside interests of Mr. Chittick and some consultants. See "Management."

No Protections From Investment Company Act Registration

The Company is not registered, and does not intend to register, under the Investment Company Act of 1940 in reliance upon an exclusion from the definition of an investment company provided in Section 3(c)(5) thereof. As a result, the operation and conduct of the Company's business will be subject to substantially less federal and state regulation and supervision than a registered investment company. If the Company was subject to the Investment Company Act of 1940, the Company would be required to comply with significant, ongoing regulation which would have an adverse impact on its operations. This could occur if a significant proportion of the proceeds from the sale of the Notes were invested in short-term debt

instruments for longer than a one-year period. The Company intends to take all reasonable steps to avoid such classification. See "Business."

No Protections From Investment Advisers Act of 1940 or Analogous Arizona Law

The Company is not registered or licensed, and does not intend to register or become licensed as an investment adviser with the State of Arizona or with the SEC pursuant to the Investment Advisers Act of 1940 because the Company's management believes that the Company is not engaged in the business of providing investment advice for compensation. Accordingly, the operation and conduct of the Company's business will be subject to less federal and state regulation and supervision than a registered investment adviser. If the Company was subject to the Investment Advisers Act of 1940 or the analogous Arizona law, the Company would be required to comply with significant, ongoing regulation which could cause the Company to incur additional costs, adversely impacting its operations. This could occur if the Company were deemed to be engaged in the business of providing investment advice for compensation and the Company cannot avail itself of the private investment adviser exemption under Arizona law or the forthcoming exemptions under the Rules to be promulgated by the SEC pursuant to the Dodd-Frank Act. The Company intends to take all reasonable steps to avoid such classification. See "Business."

Control by and Benefits to Insiders

Noteholders will not be able to influence the management of the Company because Mr. Chittick owns all of the outstanding shares of common stock of the Company. See "Management" and "Principal Shareholder."

Difficulties and Costs of Continuous Offering

Until the maximum offering proceeds are attained or the Company terminates this offering, the Company expects to offer the Notes for placement on a continuing basis for two years from the date of this Memorandum unless the Company changes its operations or method of offering in any material respect prior to the expiration of the two year offering period. See "Plan of Distribution." In order to continue offering the Notes during this period, the Company will need to update this Memorandum from time to time. Keeping the information in the Memorandum current will cause the Company to incur additional costs. A failure to update this Memorandum as required could result in the Company being subject to a claim under Section 10b-5 of the Securities Act for employing a manipulative or deceptive device in the sale of securities, subjecting the Company, and possibly the management of the Company, to claims from regulators and investors. In addition, an investor might seek to have the sale of the Notes hereunder rescinded which would have a serious adverse effect on the Company's operations.

Comment (A22) 2/2/2020

Certain Charter Provisions

Arizona law provides that Arizona corporations may include provisions in their articles of incorporation or bylaws relieving directors and officers of monetary liability for breach of their fiduciary duty as director or officers, respectively, except for the liability of a director or officer resulting from: (i) any transaction from which the director derives an improper personal benefit; (ii) acts or omissions involving intentional misconduct or the absence of good faith; (iii) acts or omissions showing reckless disregard for the director's or officer's duty; or (iv) the making of an illegal distribution to shareholders or an illegal loan or guaranty.

The Company's Articles of Incorporation provide that the Company's directors are not liable to the Company or its shareholders for monetary damages for the breach of their fiduciary duties to the fullest extent permitted by Arizona law. The Company's Bylaws provide that the Company may indemnify its directors and officers as to those liabilities and on terms and conditions permitted by Arizona law including the payment of expenses incurred by a director or

officer in advance of final disposition of the proceeding following the furnishing of certain written representations.

Notes Are Unsecured General Obligations

The Notes are unsecured obligations of the Company, and Noteholders will be general unsecured creditors of the Company. The Notes do not limit the Company's ability to obtain additional capital from other sources and do not limit the Company's ability to grant such other financing sources liens or other security interests in the Company's Assets and other property. If a bankruptcy proceeding is commenced by or against the Company, creditors of the Company who were granted a security interest in the Company's property will be entitled to repayment prior to any general unsecured creditors of the Company, including the Noteholders. The Company may also incur additional unsecured obligations, which could reduce the funds available for repayment of the Notes in a bankruptcy or other liquidation scenario. Title 11 of the United States Code (the Bankruptcy code²⁹) also specifies that certain other creditors be entitled to repayment prior to general unsecured creditors. There can be no assurance that the Noteholders will receive any payments in respect of the Notes if the indebtedness of any secured creditors of the Company exceeds the value of such secured creditors' collateral.

Changes in Investment and Financing Policies Without Noteholder Approval

The major business decisions and policies of the Company, including its investment and lending policies and other policies with respect to growth, operations, debt and distributions, will be determined by the Company's management. The Company's management will be able to amend or revise these and other policies, or approve transactions that deviate from these policies, from time to time without a vote of the Noteholders. Accordingly, the Noteholders will have no control over changes in strategies and policies of the Company, and such changes may not serve the interests of all the Noteholders and could materially and adversely affect the Company's financial condition or results of operations.

Issuance of Additional Debt and Equity Securities

The Company will have authority to offer additional debt and equity securities for cash, in exchange for property, services or otherwise. The Noteholders will have no preemptive right to acquire any such securities. Further, the Company is not subject to any agreement that limits or restricts the amount or the terms of additional debt that the Company may incur in the future. To the extent that the Company incurs debt and grants its creditors security interests in or other liens upon the Company's Assets or other collateral, those other creditors would enjoy priority in right of payment compared to the Noteholders, up to the value realizable from such collateral.

Concentration of Loans in Arizona

The Company's portfolio of loans is concentrated in Arizona. Consequently, the Company's operations and financial condition are dependent upon general trends in the Arizona market in which such concentration exists and, more specifically, its respective real estate market. A decline in a market in which the Company has a concentration may adversely affect the values of properties securing the Company's loans, such that the principal balance of such loans may equal or exceed the value of the underlying properties, making the Company's ability to recover losses in the event of a borrower's default unlikely. In addition, uninsured disasters such as floods, terrorism, and acts of war may adversely impact the borrowers' ability to repay loans, which could have a material adverse effect on the Company's results of operations and financial condition.

Possible Inadequacy of Allowances for Loan Losses

The Company's allowance for losses related to the loans is maintained at a level considered adequate by management to absorb anticipated losses, based upon historical experience and upon management's assessment of the collectibility of loans in the Company's portfolio from time to time. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the

Company's control and such losses may exceed current estimates. ~~Although management believes that the Company's allowance for losses related to the loans is adequate to absorb any losses on existing loans that may become uncollectible, there can be no assurance that the allowance will prove sufficient to cover actual losses related to the loans in the future.~~

Comment (A23): Is this still accurate?

Broad Management Discretion as to Use of Proceeds

The net proceeds to be received by the Company in connection with this offering will be used for working capital and general corporate purposes, including the funding of loans. Accordingly, management will have broad discretion with respect to the expenditure of such proceeds. Purchasers of the Notes will be entrusting their funds to the Company's management, upon whose judgment they must depend, with limited information concerning the specific working capital requirements and general corporate purposes to which the funds will ultimately be applied. See "Use of Proceeds."

Company Is Exposed to Risks of Being a Lender

The current economic downturn could severely disrupt the market for real estate loans and adversely affect the value of any outstanding real estate loans made by the Company, and in turn the Notes. Non-performing real estate loans may require substantial negotiations by the Company with the borrower in order for the Company to ultimately obtain the underlying property used as collateral for the loan. The Company may incur additional expenses to the extent it is required to negotiate with the borrower in order to obtain the underlying property. In the event the Company is unable to obtain the underlying property, because of the unique and customized nature of a real estate loan, certain real estate loans may not be sold easily. One or more non-performing real estate loans secured by property that the Company is unable to obtain could have a negative affect on the performance of the Company and the return on your investment.

Governmental Action May Reduce Recoveries on Non-Performing Real Estate Loans

In the event the Company decides to foreclose on a real estate loan, legislative or regulatory initiatives by federal, state or local legislative bodies or administrative agencies, if enacted or adopted, could delay foreclosure, provide new defenses to foreclosure or otherwise impair the ability of the Company to foreclose on a real estate loan in default. Various jurisdictions have considered or are currently considering such actions, and the nature or extent of the limitation on foreclosure that may be enacted cannot be predicted. Bankruptcy courts could, if this legislation is enacted, reduce the amount of the principal balance on a real estate loan, reduce the interest rate, extend the term to maturity or otherwise modify the terms of a bankrupt borrower's real estate loan.

Property Owners Filing for Bankruptcy May Adversely Affect the Company and the Notes

The filing of a petition in bankruptcy automatically stops or "stays" any actions to enforce the terms of a real estate loan. Further, the bankruptcy court may take other actions that prevent the Company from foreclosing on the underlying property. A court may require modifications of the terms of a real estate loan, including reducing the amount of each monthly payment, changing the rate of interest and altering the payment schedule, thus allowing the borrower to keep the underlying property and thus preventing foreclosure by the Company and/or making the sale of the real estate less profitable. A court may also permit a borrower to cure a monetary default relating to a real estate loan by paying arrearages within a reasonable period and reinstating the original real estate loan payment schedule, even if a final judgment of foreclosure has been entered in a state court. Any bankruptcy proceeding will, at a minimum, delay the Company in achieving its investment objectives and may adversely affect the Company's profitability.

Violation of Various Federal, State and Local Laws May Result in Losses

Violations of certain federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may subject the

Company to damages and administrative enforcement. In the event that a real estate loan issued by the Company was not originated in compliance with applicable federal, state and local law, the Company may be subject to monetary penalties and could result in the borrowers rescinding the affected real estate loan. As a result, the Company may not be able to achieve its financial projections with respect to the particular underlying property.

Delays in Liquidation Due to State and Local Laws

Property foreclosure actions are regulated by state and local statutes and rules and are subject to many of the delays and expenses of other lawsuits, sometimes requiring several years to complete. As a result, if the Company is not able to obtain the property voluntarily from the borrower, the Company may not be able to quickly foreclose on and subsequently sell a property securing a real estate loan.

An Investment in the Notes May Not Be Consistent With Section 404 of ERISA

Persons acting as fiduciaries on behalf of a qualified profit sharing, pension or other retirement trusts subject to the Employee Retirement Income Security Act of 1974 ("ERISA") should satisfy themselves that an investment in the Notes is consistent with Section 404 of ERISA and that the investment is prudent, taking into consideration cash flow and other objectives of the investor.

There Can Be no Assurance of Confidentiality

As part of the subscription process, investors will provide significant amounts of information about themselves to the Company. Pursuant to applicable laws, such information may be made available to third parties that have dealings with the Company, and governmental authorities (including by means of securities law-required information statements that are open to public inspection). Investors that are highly sensitive to such issues should consider taking steps

to mitigate the impact upon them of such disclosures (such as by investing in the Notes through an intermediary entity).

Legal Counsel to the Company and Its President Does Not Represent the Noteholders

Each investor must acknowledge and agree in the Subscription Agreement that legal counsel representing the Company and its President does not represent, and shall not be deemed under the applicable codes of professional responsibility, to have represented or to be representing, any or all of the investors.

Legal Counsel to the Company Will Represent the Interests Solely of the Company and Its President

Documents relating to the purchase of Notes, including the Subscription Agreement to be completed by each investor, will be detailed and often technical in nature. Legal counsel to the Company will represent the interests solely of the Company and its President, and will not represent the interests of any investor. Accordingly, each prospective investor is urged to consult with its own legal counsel before investing in the Company and the purchase of the Notes. Finally, in advising as to matters of law (including matters of law described in this Memorandum), legal counsel has relied, and will rely, upon representations of fact made by the Company's President. Such advice may be materially inaccurate or incomplete if any such representations are themselves inaccurate or incomplete, and legal counsel generally will not undertake independent investigation with regard to such representations.

Federal Income Tax Risks

The discussion entitled "Certain United States Federal Income Tax Considerations" includes a discussion of certain U.S. income tax risks involved in an investment in the Notes. The section does not discuss all aspects of U.S. federal income taxation that may be relevant to any particular investor and cannot address any investor's specific investment circumstances. In

addition, the section does not include a discussion of state, local or foreign tax laws. Each investor should consult its own tax advisor with respect to these and other tax consequences of an investment in the Notes.

FORWARD-LOOKING STATEMENTS

This Confidential Private Offering Memorandum, including information incorporated by reference in this Memorandum, contains forward-looking statements regarding the Company's plans, expectations, estimates and beliefs. Actual results could differ materially from those discussed in, or implied by, these forward-looking statements. When used in this Memorandum, the words "anticipate," "intend," "believe," "estimate," and other similar expressions generally identify forward-looking statements, which are found throughout this Memorandum whenever statements are made that are not historical facts. Accordingly, such forward-looking statements might not accurately predict future events or the actual performance of an investment in the Notes. In addition, you must disregard any projections and representations, written or oral, which do not conform to those contained in this Confidential Private Offering Memorandum.

USE OF PROCEEDS

The Company intends to use the net proceeds received from the sale of the Notes, primarily for operating capital, to purchase and fund Trust Deeds and to acquire interests in properties or notes, which the Company's management anticipates to be able to resell or collect as applicable. The proceeds from the sale of Notes may be used to repay earlier maturing Notes; provided, however, the Company will limit the amount of money that may be raised for this purpose so that the Company will not become subject to the Investment Company Act of 1940. See "Risk Factors – Proceeds From Subsequently Issued Notes May Be Used to Repay Earlier Maturing Notes."

The Company may use proceeds from this private placement for general business purposes, including rent, advertising, labor and administrative expenses, if needed, investment, expansion or the purchase of capital assets and to fund loans to borrowers and purchase Trust Deeds. However, the Company expects that no more than 0.5 percent of the proceeds of the offering will be allocated to general business purposes. The Company is not required to maintain reserves or to deposit any of the proceeds of the offering, into a reserve account, for the purpose of providing liquidity to service interest payments on, and redemption of, the Notes as they mature. The Company does not intend to maintain reserves from the proceeds of the offering in a cash reserve account. The remaining proceeds, net of cash reserves, if any, should be available to fund and purchase Trust Deeds. The Company is not required or obligated to give Noteholders notice of any changes in the Company's intended use of proceeds of the offering. See "Business."

Comment 1(A)(24) If it is still accurate?

The following table sets forth the Company's best estimates of the use of the minimum and maximum target gross proceeds from the sale of the Notes.

	Target Amount Raised	Percent of Offering
Gross Offering Proceeds	\$50,000,000	100%
Commissions & Costs (1)	-0-	0%
Cash Reserve (2)	-0-	0%
General Business (3)	\$25,000	.05%
Proceeds Available For Funding/ Purchase of Construction Loans (4)	\$49,975,000	99.95%

Comment [A25]: Are these numbers still accurate?

(1) The Company does not anticipate paying costs and commissions in excess of the costs associated with this offering. The Notes may be purchased directly from the Company without commission. Notes maturing more than two years also may be purchased by investors using qualified funds (i.e., IRA, SEP IRA, ROTH IRA and Keogh Plans), through a licensed broker-dealer and with an approved custodian; provided, that such investments meet the investor suitability requirement.

(2) ~~Company intends (but is not required) to maintain cash reserves (of access to other funds) approximately equal to a minimum of one percent of the aggregate balance of Notes outstanding in its general accounts to provide funds to service interest payments and to facilitate redemption of the Notes.~~ This amount will be calculated using a proprietary cash-flow management model. Interest accruing in the general accounts will belong to the Company

Comment [A26]: Is this still accurate? If not, then why does the above estimate state "0" for Cash Reserve?

(3) Company anticipates that its current facilities are adequate to fund real estate loans and to service the volume of contracts that would be purchased at the minimum level of proceeds. If its business is significantly increased, the Company may invest in additional personnel, computer equipment and facilities capable of processing increased data. General business expenses may also include the offering expenses.

- (4) This use of the proceeds is only an estimate and the Company reserves the right to allocate the proceeds in a different manner consistent with the Confidential Private Offering Memorandum.

PRIOR PERFORMANCE

Mr. Chittick organized the Company in April of 2001 to provide a short-term funding source for primarily real estate developers and foreclosure specialists. Mr. Chittick has arranged for the funding and administration of real estate loans since that time. The paragraph below indicates the Company's history in raising money from investors, the number of loans made, the aggregate amount of such loans, the underlying values of the security for such loans and any problems with respect to such loans.

Mr. Chittick initially capitalized the company with one million dollars of his personal funds. From July 2001 through December 2001, an additional \$500,000 was raised from investors. In 2002, an additional \$930,000 was raised from investors. In 2003, an additional \$1,550,000 was raised from existing and new investors. In 2004, the amount from both old and new investors increased to an additional \$2,450,000. In 2005, an additional \$2,670,000 was raised from existing and new investors. In 2006, an additional \$2,800,000 was raised from existing and new investors. In 2007, an additional \$2,400,000 was raised from existing and new investors. In 2008, an additional \$3,000,000 was raised from existing and new investors. In 2009, an additional \$2,100,000 was raised from existing and new investors. In 2010, an additional \$2,800,000 was raised from existing and new investors. From January 2011 to June, 2011, an additional \$4,700,000 was raised from existing and new investors. From July 2011 to _____, an additional \$_____ was raised from existing and new investors. Mr. Chittick uses an equity line of credit to help facilitate cash flow for the Company. All of the money raised from investors has been through the sale of promissory notes like those being offered in this placement. Such notes were for terms of 6 to 60 months and have, to date, drawn interest at the rate of 8 to 12% per annum. The Company has never defaulted on either interest or principal for any of such notes.

Comment (A27): Are these figures still accurate? Any revised figures?

The money raised by the Company from investors has historically been divided into a large portfolio of loans secured by marketable properties with varying values and locations in the Phoenix metro area. The Company is currently lending in approximately 20 cities in the Phoenix metro area, which includes Maricopa and Pinal Counties. The Company will have loans secured by properties in many of these cities simultaneously. The Company has endeavored to maintain

Comment (A28): Is this still accurate?

a large and diverse base of borrowers as well as a diverse selection of properties as collateral for its loans to the borrowers. However, in response to the more recent challenging conditions in the real estate market, the Company has focused on maintaining relationships with borrowers that have a proven track record with a good payment history and performance. The Company continues to strive to achieve a diverse borrower base by attempting to ensure that one borrower will not comprise more than 10 to 15 percent of the total portfolio.

Comment (A29): Is this still accurate? If not, what % of the portfolio is from Sept 1's portfolio?

All real estate loans funded by the Company are intended to be secured through first position trust deeds. The loan to value ratio of the Company's overall portfolio has averaged less than 70%, and the Company intends to maintain a loan to value ratio of 50% to 65%.

Comment (A30): Are these details still accurate?

Year	Loans Funded	Loan Value	Value of Loans	Loans Repaid	Loans Repaid Value	Value of Homes Repaid
2001	37	\$1,378,000.00	\$6,395,000.00	15	\$1,452,000.00	\$2,431,000.00
2002	69	\$5,685,000.00	\$878,000.00	66	\$5,267,000.00	\$9,076,300.00
2003	124	\$11,673,000.00	\$1,758,500.00	106	\$963,500.00	\$14,488,500.00
2004	185	\$19,907,000.00	\$30,422,600.00	170	\$17,951,700.00	\$26,939,500.00
2005	236	\$38,935,700.00	\$50,486,300.00	232	\$31,001,940.00	\$45,111,500.00
2006	215	\$34,468,100.00	\$52,784,000.00	212	\$35,301,250.00	\$53,057,200.00
2007	272	\$47,579,634.00	\$65,931,500.00	257	\$41,324,815.00	\$65,732,800.00
2008	304	\$38,864,660.00	\$63,671,300.00	257	\$34,578,755.00	\$56,369,400.00
2009	312	\$45,134,707.00	\$72,078,020.00	249	\$39,418,824.00	\$67,713,100.00
2010	390	\$37,973,097.00	\$63,771,350.00	355	\$37,175,201.00	\$61,666,170.00
2011	378	\$36,187,995.00	\$62,240,600.00	300	\$29,883,992.00	\$48,651,004,500.00
		\$308,786,893.00	\$470,414,170.00		\$274,416,977.00	\$453,340,370.00
	2622			2319		

Comment (A31): We need final 2011 figures together with adding 2012, 2013, and current 2014 figures.

*Through June 30, 2011

From 2001-2005, all interest due from all loans was collected.

In 2006, one loan that was foreclosed on, and successfully resold, did not pay all the interest due. However, the small uncollected amount was absorbed by the Company.

In 2007, one condominium loan, two house loans, and one land loan were foreclosed. While the condominium and houses were sold with minimal principal loss, much of the interest

was collected on all four loans. One land loan was written off. The loss was absorbed by the Company.

In 2008, one condominium and six homes were sold with minimal principal loss; much of the interest was collected on all the loans. The loss was absorbed by the Company. There were 15 more homes that were either foreclosed on or ownership was acquired through the deed in lieu process. These houses are presently either for sale on the retail market, or have been rented and are for sale on the investor market.

In 2009, one condominium and 12 homes were sold with principle loss; much of the interest was collected on all the loans. The loss was absorbed by the Company. The Company also acquired a 12-plex that was a construction loan. This is being rented and managed by a property management firm.

In 2010, one house was sold for a loss. It was acquired through foreclosure in 2009; the loss was absorbed by the Company.

In 2011, three homes were sold for a loss. The losses were absorbed by the Company. There were three homes that were sold for a gain and all interest was paid in full. One loan was foreclosed on, sold at the auction, all principle, interest, late fees and foreclosure fees associated with the sale were collected.

In 2012, _____.

In 2013, _____.

In 2014, _____ houses are presently in escrow, which will close in 2015 to which again will be made.

The Company presently has three condominiums, 12 houses, and a 12-plex that are all being rented. A professional management company has been retained to manage these properties. All of these properties are listed to be sold. The rent received is at or slight negative to the cost of

Comment (A32): How many homes owned by the Company are currently in escrow? Are loans or late fees paid?

Comment (A33): Does the Company currently have any rental? If so, how many are there and what type of properties are they?

capital for the Company. It was Management's decision to retain these properties rather than sell them and take a loss. Now that the market has shown some signs of strengthening, it is believed that these properties can be sold for minimal loss to the Company.

Comment (A34): What is the current situation? Is a professional management company used? Are the rentals listed to be sold? B.C. 11/1/14

The Company currently has one condominium and one lot that are for sale. The lot is currently being negotiated to be rented by a construction company at the cost of capital. The goal is sell both of these properties as soon as possible.

Comment (A35): Property status?

In April 2014, the Company agreed to a forbearance agreement (the "Work-Out") with two Foreclosure Specialists (the "Forbearance Debtors") regarding the terms of certain loans (collectively, the "Work-Out Loans"), which in aggregate totaled \$_____ in outstanding loans to the Foreclosure Debtors. At the time of the Work-Out, \$_____ in interest from the Work-Out Loans was due but unpaid. The Company and the Foreclosure Debtors agreed that the Work-Out Loans were in default under their terms as the properties that were used to secure the Work-Out Loans (each a "Forbearance Property," collectively, the "Forbearance Properties") were also used to secure approximately \$_____ in loans from third parties (each an "Outside Loan," and collectively, the "Outside Loans"). According to the Foreclosure Debtors, an agent of the Foreclosure Debtors had secured the Outside Loans without the Foreclosure Debtors' knowledge. In the opinion of the Company, the liens for both the Work-Out Loans and the Outside Loans resulted in many of the Forbearance Properties having an aggregate loan-to-value ratio in excess of 100%. The Company also opined that if it foreclosed on the Forbearance Properties, a dispute would arise between the Company and the lenders of the Outside Loans regarding which lender had the first lien position over the Forbearance Properties. To mitigate its risks regarding the Outside Loans, the Company initially loaned the Forbearance Debtors approximately \$5 million (the "Initial Loan") to satisfy and secure a release of the liens for some of the Outside Loans. In the Company's opinion, there still remained a risk of a dispute regarding the liens for the remaining Outside Loans. In light of these facts, the Company believed that the Work-Out provided the most feasible alternative to reach a satisfaction of the Work-Out Loans. Amongst other things, the terms of the Work-Out requires the Foreclosure Debtors to: (a) liquidate assets (expected to generate approximately \$4 to \$5 million); (b) apply all of its net proceeds from its operations (i.e., the rental and disposition of real estate) to resolve

Comment (A36): Is this accurate? Debtors loaned approx \$5 million prior to executing the Forbearance Agreement? B.C. 11/1/14

the lien disputes regarding the Forbearance Properties, (c) arrange for \$5.2 million in private outside financing; (d) agree to keep the Outside Loans current and in compliance with their respective terms; and (e) use these and other best efforts to satisfy and payoff the Outside Loans by no later than January 2015. To protect the interest of the Company, the terms of the Work-Out also requires the Foreclosure Debtors to: (s) ratify and agree to the increases to certain Work-Out Loans as a result of the Initial Loan; (t) cause appropriate title policies to be issued to insure that the Work-Out Loans constitute a valid and enforceable first and prior lien over the subject Forbearance Properties; (u) secure and maintain a life insurance policy in the amount of \$10 million, insuring the life of the principal of the Forbearance Debtors, with the Company named as the sole beneficiary; (v) provide the Company with a ratification of previous personal guarantees regarding the Work-Out Loans, together with a personal guarantee of the principal of the Forbearance Debtor regarding the terms of the Work-Out; (w) provide a new corporate guarantee (with a security agreement and retail inventory to serve as collateral) for the obligations of the Work-Out Loans and the terms of the Work-Out; (x) provide the Company details regarding the terms of the Outside Loans; (y) provide additional collateral in the event that any obligation of the Work-Out Loans are breached; and (z) reimburse the Company for \$80,000 in costs incurred as a result of the Work-Out. In consideration of these obligations of the Forbearance Debtors, the Company agreed, amongst other things, to defer (but not waive) collection of interest on the Work-Out Loans while the Outside Loans are being satisfied, and with the condition that the additional loans from the Company are used to satisfy Outside Loans, the Company agreed to increase (up to 120%) the maximum allowable loan-to-value ratio for certain Forbearance Properties and to provide up to \$6 million in additional loans (collectively, the "Additional Loans").

As a result of the Work-Out, including the Initial Loan and the Additional Loans, the loan to value ratio of the Company's overall portfolio averaged __%, as of ____, 2014. Additionally, as of ____, 2014, __% of all of the Company's outstanding loans are concentrated with one of the Forbearance Debtors and _ % is concentrated with the Forbearance Debtor. Both of these Forbearance Debtors have the same principal.

Since inception through April 30, 2014, the Company has participated in [REDACTED] loans, with an average loan amount of \$ [REDACTED], with the highest single loan being \$ [REDACTED] and lowest being \$ [REDACTED]. The aggregate amount of loans funded is \$306,786,893 with property values totaling \$470,411,170. The total amount of loans that have funded and closed is \$274,16,977 with home values equaling \$453,940,340. These loans have borne interest rates of 18% per annum. The interest rate paid to noteholders has ranged from 8% to 12% per annum through such date. Each and every Noteholder has been paid the interest and principle due to that Noteholder in accordance with the respective terms of the Noteholder's Notes. Despite any losses incurred by the Company from its borrowers, no Noteholder has sustained any diminished return or loss on their investment in a Note from the Company.

Comment [A37]: In July 2011, this was 2022.

Comment [A38]: We need updated figures. Are there representations regarding interest rates, payments to Noteholders, etc?

MANAGEMENT

Directors and Executive Officers

The Director and Executive Officer of the Company are: Denny J. Chittick, 42 President, Comment (A3) Is it your current age? Vice President, Treasurer, and Secretary.

Denny J. Chittick worked at Insight Enterprises, Inc, a publicly traded company, for nearly 10 years, holding many different positions from finance, accounting, operations and held the position of Sr. Vice President and CIO when he left the company in 1997. Since leaving Insight, he has been involved in several different companies, including a software company, internet company and finance company. Mr. Chittick holds a degree in Finance from Arizona State University.

Real Estate Consultant

The Company will have only one employee, which will require the Company to use outside consultants on a periodic basis to provide various services. These consultants may be retained to assist with any necessary due diligence in connection with these loans and, to the extent necessary, to assist with the closing of a loan.

Employees

With the assistance of outside consultants on an as-needed basis, Mr. Chittick intends to operate the Company as its primary employee, analyzing, negotiating, originating, purchasing and servicing Trust Deeds by himself. As the portfolio of contracts increases, the Company may add additional personnel.

Contingency Plan in the Event of Death or Disability of Mr. Chittick

In the event that Mr. Chittick is unable to perform his duties to continue the operation of the Company in any capacity, Mr. Chittick has a written agreement with Robert Koehler, an owner of RLS Capital, Inc. to provide or arrange for any necessary services for the Company. Mr. Koehler has fifteen (15) years of experience supporting real estate loan portfolios similar to the portfolio of the Company. Mr. Koehler holds a real estate license in Arizona and has worked as a loan officer in the residential and commercial transactions and has conducted due diligence effort for thousands of private purchase of notes and trust deeds. Mr. Koehler is respected as a member of the Arizona real estate investment community by investors, borrowers, mortgage brokers, escrow officers and real estate agents. As part of this contingency plan, Mr. Koehler is a signatory on the Company's bank account. On a weekly basis, Mr. Koehler receives an updated spreadsheet of all properties currently being used as collateral for a loan. On a monthly basis, Mr. Koehler receives a spreadsheet of all the investors and what is owed to each of them and receives the monthly statements for all investors. Pursuant to the agreement with Mr. Koehler, upon Mr. Koehler's receipt of instructions from Mr. Chittick, or from other designated individuals, or upon medical confirmation that Mr. Chittick is unable to continue to perform his duties as President of the Company for an extended period of time, Mr. Koehler will act to close down the Company's business by collecting all of the monies due on the Trust Deeds and Mr. Koehler will return all of the principal and interest owed to the investors pursuant to the Notes.

Comment [A40]: Is this still accurate?

Comment [A41]: Are these details still accurate?

Management Compensation

As the sole shareholder, Mr. Chittick receives a salary consistent with IRS guidelines. Salary adjustments are made at year-end in order for Mr. Chittick to fund his 401(K) and to pay his income taxes. Year-end profits are taxed to Mr. Chittick pursuant to the U.S. Internal Revenue Code rules applicable to Subchapter S corporations. Therefore, year-end profits may be distributed to Mr. Chittick. In addition, Mr. Chittick is paid interest on Notes funded by Mr. Chittick in the same manner as the other investors. See "Management - Management Compensation" As the Company expands its lending operations and increases the workload of

Mr. Chittick, he reserves the right to receive an increased salary so long as there is no current default under the Notes.

Ownership Compensation

The Company receives its revenue primarily from interest earned on trust deeds, rents on properties owned by the Company, interest on cash reserve accounts, and interest earned on investments made by the Company after subtracting interest paid on its debts. The amount of profits, and therefore, compensation to Mr. Chittick, will be dependent upon the amount of Notes sold, Trust Deeds acquired, loans made and the terms of such loans. After payment of its principal and interest obligations under the Notes, the Company distributes the balance to Mr Chittick; provided, however, the Company may (but is not required to) retain earnings in the Company up to a level of "reserve" or "retained earnings" goals that the Company deems adequate. Subject to the need to adjust these goals due to special liquidity needs due to plans to repay Notes or to fund future Trust Deeds, the Company anticipates that it will be able to achieve and maintain adequate reserve goals to meet the Company's obligations.

Mr. Chittick may have significant investments in the Notes, for which the Company will pay him monthly interest on the same basis as other Noteholders which investment amount will be subordinated to all other Notes placed pursuant to this Memorandum. (Mr. Chittick currently has invested approximately \$_____ in Notes, but this amount varies from ~~\$1.9 million~~ to ~~\$3.2 million~~) See "Description of Securities." The Company intends to pay to Mr. Chittick all retained earnings in excess of any reserves deemed necessary or desirable by Mr. Chittick to meet the Company's obligations.

~~(Comment [A42]: At least figures still accurate.)~~

PRINCIPAL SHAREHOLDER

The following table sets forth the beneficial ownership of shares of the Company's outstanding common stock.

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percent</u>
Danny J. Chittick 6132 W. Victoria Place Chandler, AZ 85226	500,000	100%

The Company is authorized to issue up to 25,000,000 shares of common stock, but has no intent to issue additional common stock at this time.

Comment [443]: Are these details still accurate?
Are any shares held by a trust?

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Ownership

Based on his 100 percent ownership of the Company's common stock, Mr. Chittick maintains the exclusive ability to elect directors, appoint officers and manage the operations of the Company.

Competing Businesses

During the four years prior to forming the Company, Mr. Chittick personally invested in companies and in real estate loans that are substantially similar to the Company's investments in Trust Deeds. In addition to his activities on behalf of the Company, Mr. Chittick reserves the right to continue his personal investments in real estate and instruments similar to Trust Deeds, which are considered competing businesses of the Company. See "Risk Factors – Management's Outside Interests and Conflicts of Interest."

DESCRIPTION OF SECURITIES

The Company is offering up to \$50 million in Notes. The minimum denomination is \$50,000, and the maximum denomination is \$1,000,000 in a single note. An investor may purchase more than \$1,000,000 in Notes, but it will be distributed over different Notes. Denominations increase from the minimum to the maximum in additional increments with a minimum incremental increase of \$10,000. Until the maximum offering proceeds are attained or the Company terminates this offering, the Company expects to offer the Notes for placement on a continuing basis for two years from the date of this Memorandum. Absent an earlier termination, the offering will continue for so long as the Company has not changed its operations or method of offering in any material respect. If the Company changes its operations or method of offering in any material respect, the Company will update the Memorandum as necessary to provide correct information to investors. The Company may experience difficulties in conducting a continuous offering of Notes. See "Risk Factors - Difficulties and Costs of Continuous Offering."

Comment 1A43: two years?

The Notes are general obligations of the Company and are superior in priority and liquidation preference to any Notes payable to Mr. Chittick. Mr. Chittick has agreed to subordinate any Notes to which he subscribes to Notes with similar maturities placed with other investors. ~~Although the Company has never defaulted with respect to a Note, including any regular interest payment or the principal and interest due upon the maturity of the Note, if the Company should ever be in default with respect to any Note, Mr. Chittick will subordinate any Notes he may hold until the default is cured and Mr. Chittick will also defer any compensation until the default is cured. While Mr. Chittick has agreed and will act as set forth above in this Memorandum, such agreement is not evidenced in a separate writing signed by Mr. Chittick.~~

Comment 1A45: If any could claim subordination?

The Notes will bear interest at the rates stated for the term selected. ~~The investor may elect to have interest paid monthly, quarterly or accrue and be paid at maturity. If the investor elects to have interest paid at maturity or quarterly, the interest will accrue monthly and earn compounded interest. Interest is payable on the last day of each period to the investors of the Notes at the principal office of the Company in Chandler, Arizona. At the option of the~~

Comment 1A46: If the investor elects to have the Note, is it accrued or does the condition need to be made and detailed in the Note?

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Company, interest payments may be paid by check mailed to the address of the investor entitled thereto as it appears on the Subscription Agreement for the Notes. An investor may request in writing to the Company that a deposit be made to a designated bank or investment account.

The Notes are not transferable without the prior written consent of the Company, which the Company may withhold in its sole discretion. The Company anticipates withholding its consent if the transfer could jeopardize the Company's exemption under Regulation D or any applicable state blue-sky law or the Company's exclusion from the definition of an investment company under the Investment Company Act of 1940.

The Notes are unsecured and are not insured or guaranteed by any state or federal government entity or any insurance company. In event of default, an investor could look only to the Trust Deeds or other assets of the Company for repayment.

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As unsecured, general obligations of the Company, the Notes will not have any specific collateral. The Company's Assets include all of the Company's right, title and interest in Trust Deeds owned by the Company, together with all payments and instruments received thereto, real estate owned by the Company as a result of a deed-in-lieu of foreclosure due to a borrower default, and all proceeds of the conversion of any of the foregoing into cash or other liquid property. So long as the Company is not in default on the Notes, the Company is permitted to freely transfer, sell or substitute, in the normal course of business, any Trust Deeds it owns, subject to general restrictions concerning transfers of property; provided, however, the Company may transfer, sell or substitute one or more Trust Deeds if such transfer, sale or substitution is done in connection with a plan to cure a default.

On an annual basis, the Company will retain an independent accounting firm to prepare the 1099's to be issued by the Company to the investors and to prepare the tax return for the Company. On an annual basis and upon written request from an investor, the Company will certify to the requesting investor(s) that the aggregate outstanding principal amount of all cash accounts, other property and Trust Deeds is at least equal to the principal amount of outstanding Notes as of the date of the request.

The Company maintains the right to adjust the interest paid in subsequently offered Notes and on the Notes offered hereby with a 30 days' Interest Adjustment Notice. For Notes offered by this Confidential Private Offering Memorandum, the interest paid for the Note will automatically adjust to the amount stated in the Interest Adjustment Notice unless within the 30 day notice period the Noteholder provides a written request to the Company for the Note to be prepaid. If the Noteholder provides such notice within the 30 day notice period, the interest paid on the Note will be unchanged until such time as the Company prepays the Note. Any such modification of the interest rate or term will not affect Notes then issued and outstanding.

Notes are initially being offered at the following rates and maturities:

Note Terms (2) (3)

Note Amount (1)	6 Months	1 Year	2 Years to 5 Years
\$50,000 and up	8.25%	10.00%	12.00%

Comment [A47]: Note: Giving the Noteholder an option when there is an Interest Adjustment Notice makes the unilateral interest adjustment more enforceable. Also, because it may not always be feasible to prepay a Note when a Noteholder objects to an interest adjustment, we did not obligate the Company to prepay the Note within a certain time frame. By leaving the interest rate unchanged when there is an objection (demonstrated by requesting prepayment), there is technically no penalty for the Noteholder for making the objection. In reality, the motivation to accept an interest adjustment will be to avoid a penalty but to avoid an early redemption that would end the investment opportunity. A court is much more likely to enforce such a term than a penalty for not accepting a unilateral interest adjustment.

Comment [A48]: An investor must sign accurately.

(1) Note amounts are issued in varied denominations from \$50,000 to \$1,000,000, and in additional increases with a minimum of \$10,000. For qualified funds, the Company will accept minimum contributions in such amounts as reasonably determined by the Company.

(2) Although the Company intends to use its good faith efforts to accommodate written requests from an investor to prepay any Note prior to maturity and the Company has in fact been able to satisfy such requests in a timely manner with interest paid in full, the Company has no obligation to do so and the investor has no right to require the Company to redeem the Note prior to maturity. Prior to the Company's election to honor an investor's request to prepay any Note prior to maturity, the Company reserves the right to adjust any interest payable to the investor to the interest rate that would have been payable for the actual outstanding term of the Note.

Comment [A49]: Do you and want to make this a representation in the Statement with accurate history?

Comment [A50]: Note: Is it very questionable whether a Court would enforce a unilateral adjustment like this?

(3) The Notes may be redeemed by the Company at any time prior to maturity upon 30 days written notice to the investor at a price equal to the principal amount of the Note plus accrued interest to the date of redemption.

(4) The Company maintains the right to adjust the interest paid in subsequently offered Notes and on the Notes offered hereby with a 30 days' Interest Adjustment Notice. For Notes offered by this Confidential Private Offering Memorandum, the interest paid for the Note will automatically adjust to the amount stated in the Interest Adjustment Notice unless within the 30-day notice period the Noteholder provides a written request to the Company for the Note to be prepaid. If the Noteholder provides such notice within the 30-day notice period, the interest paid on the Note will be unchanged until such time as the Company prepays the Note.

The Company has the right to sell, encumber, mortgage, create a lien on or otherwise dispose of any or all of its property, or in any manner secure an indebtedness so that such indebtedness shall have a claim against the assets of the Company securing such indebtedness, all without the consent of the investors of the outstanding Notes provided no Notes are in default. Any security interest granted in any of the Company's assets to secure indebtedness will be superior in priority to the general claim of a Noteholder.

Default may occur with respect to one Note and not another. The Company shall be in default of a particular Note if any of the following events ("Event of Default") occurs with respect to that Note: (a) default for 30 days in any payment of interest on a Note when due; (b) default for 15 days in any payment of principal on a Note when due after maturity; (c) a filing for protection by the Company under Chapters 11 or 7 of the U.S. Bankruptcy Code or a filing for the Company under the U.S. Bankruptcy Code by creditors of the Company which filing is not dismissed within 90 days of the filing date, or (d) default for 90 days after receiving appropriate notice of a breach of any other covenant applicable to a Note. Notwithstanding the events listed above, Mr. Chittick may defer any payment of interest or principal due to Mr. Chittick or an entity controlled by him on any of the Notes subscribed to personally by Mr. Chittick without creating an Event of Default.

The Company may not consolidate with or merge into any corporation, or transfer substantially all of its assets to any person, unless the successor corporation or transferee assumes the Company's obligations on the Notes. The Company has no present intention of merging with another company or consolidating with another company or transferring its assets.

Comment [A51]: Note: Giving the Noteholder an option when there is an Interest Adjustment Notice makes the optional interest adjustment more enforceable. Also, because it may not always be feasible to prepay a Note when a Noteholder objects to an interest adjustment, we did not obligate the Company to prepay the Note within a certain time frame. By leaving the interest unchanged when there is an objection (demonstrated by requesting prepayment), there is technically no penalty to the Noteholder for making the objection. In reality, the motivation to accept an interest adjustment will not be to avoid a penalty but to avoid an early opportunity. A penalty is which more likely to enforce this condition than a penalty for not accepting a unilateral interest adjustment.

Comment [A52]: DGS, do we still want this condition to the Company's ability to transfer its assets?

PLAN OF DISTRIBUTION

The Notes may be purchased directly from the Company without commission. Notes maturing in two through five years also may be purchased with qualified monies (such as IRA, SEP IRA, ROTH IRA and KEOGH plans) through a licensed broker-dealer and with an approved custodian; provided, that such investments meet the investor suitability requirements. Transaction costs for Notes purchased with qualified funds will be paid by the Company up to one percent of the Note's face amount. The principal amount of the Note will be equal to the amount paid by the investor, and interest would be calculated on that amount.

The Notes are not registered with the SEC or any other state or federal regulatory agency. No state or federal agency has made any finding or determination as to the fairness of this offering for investment, the adequacy or accuracy of the disclosures, or any recommendation or endorsement of the Notes.

The offering and sale of the Notes is intended to be exempt from registration under the Act by virtue of one or more of the following exemptions provided by: (i) Section 4(2) of the Act, and (ii) Regulation D promulgated under the Act. See "Investor Suitability." In accordance therewith, substantial restrictions are placed on the offering and purchase of the Notes, including, but not limited to, the following:

- (1) The transaction may not include any public offering. The offer to sell Notes must be directly communicated to the investor by an officer of the Company and at no time may the Company advertise or solicit by means of any leaflet, public promotional meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general promotion.
- (2) The Notes may be purchased only for the investor's own account, for investment purposes only and not with a view to distribution, assignment, hypothecation, resale or to fractionalization in whole or in part.
- (3) An investor must meet certain suitability requirements, which are set forth under "Investor Suitability."

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- (4) The Company must have furnished and made available for inspection all documents and information that the investor has reasonably requested relating to an investment in the Company, including its Articles of Incorporation, stock records and financial account records.

DETERMINATION OF OFFERING PRICE

The rate of return for the Notes offered hereby will be set from time to time by management of the Company to approximate a rate of return competitive with similar securities of other companies engaged in the finance industry. The Company has been in operation since April 2001. There is no market for the Company's securities and none is expected to develop. Accordingly, the rate of return on any Note bears no relation to the results of the Company, to any market price for the Company's securities, to the level of risk involved, or to any recognized measure of valuation or return on investment.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general discussion of certain U.S. federal tax considerations and consequences that may be relevant to a decision to acquire, own and dispose of Notes by an initial holder thereof. This summary only applies to Notes held as capital assets (generally, property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). Except as set forth below, this summary does not address all of the tax consequences that may be relevant to a particular Noteholder and it is not intended to be applicable to Noteholders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, U.S. expatriates, partnerships or other pass-through entities, tax-exempt organizations or dealers or traders in securities or currencies, or to Noteholders that will hold Notes as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, except as set forth below, this summary does not address the U.S. federal estate and gift tax law, the tax laws of any state, local or foreign government or alternative minimum tax consequences of the acquisition, ownership or other disposition of Notes and does not address the U.S. federal income tax treatment of Noteholders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective investor should consult its tax advisor, attorney and accountant with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This summary is based on current provisions of the Code, as amended, existing and proposed U.S. Treasury Regulations, current administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. No advance tax ruling has been sought or obtained from the Internal Revenue Service regarding the tax consequences of the transactions described herein. This discussion does not address tax considerations arising under the laws of any particular state, local or foreign jurisdiction.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS, ATTORNEYS AND ACCOUNTANTS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF THEIR PARTICULAR SITUATIONS, AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes who for U.S. federal income tax purposes is (i) a citizen or resident (or is treated as a resident for U.S. federal income tax purposes) of the United States; (ii) a corporation created or organized in or under the laws of the United States or any State or political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2) (a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control. A "Non-U.S. Holder" is a beneficial owner of Notes who for U.S. federal income tax purposes is (i) a non-resident alien individual; (ii) a foreign corporation, or (iii) a foreign estate or trust the fiduciary of which is a nonresident alien.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such partner should consult its own tax advisor as to its consequences of holding and disposing of the Notes.

U.S. Holders

Interest

Except as set forth below, interest paid on a Note generally will be includible in a U.S. Holder's gross income as ordinary interest income at the time it is paid or accrued in accordance with the U.S. Holder's usual method of tax accounting for U.S. federal income tax purposes.

Market Discount

A holder of Notes may in very limited circumstances, transfer their Notes to third parties. If the Company authorizes such a transfer, Notes sold on a secondary market after their original issue for a price lower than their stated redemption price at maturity are generally said to be acquired at market discount. Code Section 1278 defines "market discount" as the excess, if any, of the stated redemption price at maturity of the Note, over the purchaser's initial adjusted basis in the Note. If, however, the market discount with respect to a Note is less than 1/4th of one percent (.0025) of the stated redemption price at maturity of the Note multiplied by the number of complete years to maturity from the date the subsequent purchaser has acquired the Note, then the market discount is considered to be zero. Notes acquired by holders at original issue and Notes maturing not more than one year from the date of issue are not subject to the market discount rules.

Gain on the sale, redemption or other disposition of a Note, including full or partial redemption thereof, having "market discount" will be treated as interest income to the extent the gain does not exceed the accrued market discount on the Note at the time of the disposition. A holder may elect to include market discount in taxable income for the taxable years to which it is attributable. The amount included is treated as interest income. If this election is made, the rule requiring interest income treatment of all or a portion of the gain upon disposition is inapplicable. Once the election is made to include market discount in income currently, it cannot be revoked without the consent of the IRS. The election applies to all market discount notes acquired by the holder on or after the first day of the first taxable year to which such election applies.

Sale, Exchange or Disposition of Notes

A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. Holder, increased by any original issue discount ("OID") or market discount previously included by the holder in income with respect to the Note. Upon the sale, exchange or other disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other disposition (less an amount equal to the accrued but unpaid interest which will be taxable as ordinary income) and such U.S. Holder's adjusted tax basis in the Note. Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder, capital gains derived in respect of a Note that is held as a capital asset and that is held for more than one year are eligible for reduced income tax rates and may be deemed a long-term capital gain. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

Interest

Subject to the discussion below under the heading "U.S. Backup Withholding and Information Reporting," payments of principal of, and interest on (including any OID), a Note to (i) a controlled foreign corporation, as such term is defined in Section 957 of the Code, which is related to the Company, directly or indirectly, through stock ownership, (ii) a person owning, actually or constructively, securities representing at least more than 50% of the total combined outstanding voting power of all classes of the Company's voting stock and (iii) banks which acquire such Note in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Note provides certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "U.S. Backup Withholding and Information Reporting," or an exemption is otherwise established.

If a Non-U.S. Holder cannot satisfy the requirements above, payments of interest made to a Non-U.S. Holder will be subject to a U.S. withholding tax equal to 30% of the gross payments

made to the Non-U.S. Holder unless the Non-U.S. Holder provides the Company or the Company's paying agent, as the case may be, with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or (2) IRS Form W-8ECI stating that interest paid on the note is not subject to withholding tax because it is effectively connected with the beneficial owner's conduct of a trade or business in the United States. Alternative documentation may be applicable in certain situations.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a note is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from withholding as discussed above (provided the certification requirements described above are satisfied), will be subject to U.S. federal income tax on such interest (including OID) on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lesser rate under an applicable income tax treaty) of such amount, subject to adjustments.

Sale, Exchange or Other Disposition of Notes

Subject to the discussion below under the heading "U.S. Backup Withholding and Information Reporting," any gain realized by a Non-U.S. Holder upon the sale, exchange or other disposition of a Note generally will not be subject to U.S. federal income tax or withholding tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of such sale, exchange or disposition and certain other conditions are met. Special rules may apply upon the sale, exchange or disposition of a Note to certain Non-U.S. Holders, such as "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies" and certain expatriates, that are subject to special treatment under the Code. Such entities and individuals should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

U.S. Federal Estate Taxes

A Note that is held by an individual who at the time of death is not a citizen or resident (as specially defined for United States federal estate tax purposes) of the United States will not generally be subject to U.S. federal estate tax as a result of such individual's death, provided that such individual is not a shareholder owning actually or constructively more than 10% of the total combined voting power of all classes of our stock entitled to vote and, at the time of such individual's death, payments of interest with respect to such note would not have been effectively connected with the conduct by such individual of a trade or business in the United States.

U.S. Backup Withholding and Information Reporting

U.S. Holders

Information reporting requirements will apply to certain payments of principal and interest and the accrual of OID, if any, on an obligation and to proceeds of the sale, exchange or other disposition of an obligation, to certain U.S. Holders. This obligation, however, does not apply with respect to certain U.S. Holders including, corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts. In general, the Company is required to file with the IRS each year a Form 1099 information return reporting the amount of interest that was paid or that is considered earned by a U.S. Holder with respect to the Notes held during each calendar year, and a U.S. Holder is required to report such amount as income on its federal income tax return for that year. A U.S. backup withholding tax currently at a rate of 28% will apply to such payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of other tax-exempt status or fails to report in full dividend and interest income. Any amount withheld under the backup withholding rules is allowable as a credit against the taxpayer's U.S. federal income tax liability, provided that the required information is furnished to the IRS.

Non-U.S. Holders

Information reporting will generally apply to payments of interest on a Note to a Non-U.S. Holder and the amount of tax, if any, withheld with respect to such payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Payments of principal and interest on any Notes to Non-U.S. Holders will not be subject to any U.S. backup withholding tax if the beneficial owner of the Note (or a financial institution holding the note on behalf of the beneficial owner in the ordinary course of its trade or business) provides an appropriate certification to the payor and the payor does not have actual knowledge or reason to know, that the certification is incorrect. Payments of principal and interest on Notes not excluded from U.S. backup withholding tax discussed above generally will be subject to United States withholding tax at a rate of 28%, except where an applicable United States income tax treaty provides for the reduction or elimination of such withholding tax.

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In addition, information reporting and, depending on the circumstances, backup withholding, will apply to the proceeds of the sale of a Note within the United States or conducted through United States-related financial intermediaries unless the beneficial owner provides the payor with an appropriate certification as to its non-U.S. status and the payor does not have actual knowledge or reason to know that the certification is incorrect.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a Non-U.S. Holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP, DISPOSITION OR RETIREMENT OF THE NOTES. PROSPECTIVE INVESTORS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS, ATTORNEYS AND ACCOUNTANTS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

INVESTOR SUITABILITY

General

An investment in the Notes involves significant risks and is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment and who can bear the economic risk of a complete loss of their investment. This private placement is made in reliance on exemptions from the registration requirements of the Act and applicable state securities laws and regulations.

The suitability standards discussed below represent minimum suitability standards for prospective investors. The satisfaction of such standards by a prospective investor does not necessarily mean that the Notes are a suitable investment for such prospective investor. Prospective investors are encouraged to consult their personal financial advisors to determine whether an investment in the Notes is appropriate. The Company may reject subscriptions, in whole or in part, in its absolute discretion.

The Company will require each investor to represent in writing, among other things, that (i) by reason of the investor's business or financial experience, or that of the investor's professional advisor, the investor is capable of evaluating the merits and risks of an investment in the Notes and of protecting its own interest in connection with the transaction, (ii) the investor is acquiring the Notes for its own account for investment only and not with a view toward the resale or distribution thereof, (iii) the investor is aware that the Notes have not been registered under the Act or any state securities laws and that there is no market for the Notes, (iv) such investor meets the suitability requirements set forth below and (v) they have read and taken full cognizance of the Risk Factors and other information set forth in this Confidential Private Offering Memorandum.

Suitability Requirements

Except as set forth below, each investor must represent in writing that it: (a) is "sophisticated" in so far as it is sufficiently knowledgeable and experienced in financial and business matters to be able to evaluate the merits and risks of an investment in the Notes either alone or with a purchaser representative; (b) is able to bear the economic risk of an investment in the Notes, including a loss of the entire investment; and (c) qualifies as an "accredited investor," as such term is defined in Rule 501(a) of Regulation D under the Act and must demonstrate the basis for such qualification. To be an accredited investor, an investor must fall within any of the following categories at the time of sale of Notes to that investor:

- (1) A bank as defined in Section 3(a)(2) of the Act or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; an insurance company as defined in Section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; a Small Business Investment Company licensed by the United States Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- (2) A private business development company as defined in Section 202(a) (22) of the Investment Advisers Act of 1940;
- (3) An organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust or partnership, not formed for the specific purpose of acquiring the Notes, with total assets in excess of \$5,000,000;

- (4) Any director, executive officer, or general partner of the Company, or any director, executive officer, or general partner of a general partner of the Company;
- (5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of such person's purchase of the Notes exceeds \$1,000,000 (excluding the value of such person's primary residence) (Explanation: when calculating net worth, a person may include his or her equity in personal property and real estate (except a residence), cash, short-term investments, stock and securities. Any inclusion of equity in personal property or real estate should be based on the fair market value of such property less debt secured by such property. The asset side of the calculation may not include the value of the person's residence; the liability side of the calculation may not include the debt secured by the residence, unless the amount of the debt exceeds the value of the residence, in which case that excess portion must be counted as a liability in calculating net worth);
- (6) Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- (7) Any trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring the Notes, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; and
- (8) An entity in which all of the equity owners are accredited investors (as defined above).

As used in this Memorandum, the term "net worth" means the excess of total assets over total liabilities. In determining income an investor should add to the investor's adjusted gross income any amounts attributable to tax exempt income received, losses claimed as limited partner in any limited partnership, deductions claimed for depletion, contributions to an IRA, KEOGH, SEP IRA or ROTH IRA retirement plan, alimony payments, and any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income.