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7 *Attorneys for Defendants*

8  
9 **SUPERIOR COURT OF ARIZONA**  
10 **COUNTY OF MARICOPA**

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

13 Plaintiff,

14 v.

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

17 Defendants.

No. CV2017-013832

**DEFENDANTS' STATEMENT OF  
FACTS IN SUPPORT OF THEIR  
RESPONSE AND CROSS MOTION  
FOR SUMMARY JUDGMENT RE *IN*  
*PARI DELICTO* DEFENSE**

(Assigned to the Honorable Daniel Martin)

18 1. DenSco Investment Corporation ("DenSco") is a company that was solely  
19 owned and managed by Denny Chittick. DenSco began operations in 2001 and operated  
20 continually until Mr. Chittick's suicide in late July 2016. DenSco did not have any  
21 directors, officers, or employees other than Mr. Chittick. DSOF Exh. 1, 2011 DenSco  
22 Private Offering Memorandum at BC\_002921 and BC\_002960.

23 2. Denny Chittick worked at Insight Enterprises, Inc. for 10 years, holding positions  
24 in finance and accounting, and culminating in position of Senior Vice President and Chief  
25 Information Officer when he left the company in 1997. DSOF Exh. 1, 2011 POM at  
26 BC\_002960.

1           3.       DenSco focused on the “hard money lending” business in Arizona. DenSco  
2 made high interest short-term loans to borrowers, who used DenSco’s funds to buy  
3 residential properties. The purchasers generally improved the properties (with physical  
4 improvements or by placing renters in them) and then “flipped” them quickly at a profit.  
5 DSOF Exh. 1, 2011 DenSco Private Offering Memorandum at BC\_002924.

6           4.       DenSco financed its business by raising money from investors. DenSco  
7 issued general obligation notes at interest rates that varied depending on the maturity date.  
8 The notes were not directly tied to or secured by any specific properties DenSco was  
9 financing, or by any other security. DSOF Exh. 1, 2011 DenSco Private Offering  
10 Memorandum at BC\_002945.

11          5.       DenSco made certain representations to its investors, many of which were included  
12 in Private Offering Memoranda that DenSco provided to its investors every other year. Those  
13 representations included, among other things, that DenSco intended to minimize risk by (1) not  
14 lending more than 10-15% of its portfolio to any one borrower and (2) ensuring that its loans would  
15 be secured by a first position deed of trust on the property the borrower purchased. DSOF Exh. 1,  
16 2011 DenSco Private Offering Memorandum at BC\_002957.

17          6.       Rather than provide the funds for a borrower to purchase money at a trustee’s  
18 sale directly to the trustee, DenSco chose to fund its loans directly to its borrowers,  
19 including Yomtov Menaged and his entities. DSOF Exh. 2, January 7, 2014 email from  
20 Chittick to Beauchamp at CH\_0005791.

21          7.       DenSco’s form of mortgage expressly stated that DenSco was delivering its  
22 funds payable only to the trustee. DSOF Exh. 3, Jan. 21, 2014 email from Chittick to Schenk  
23 attaching loan documents at CH\_0001418.

24          8.       Prior to DenSco, Chittick worked with Scott Gould and Robert Koehler at a hard  
25 money lender called Real Estate Equity. Gould and Koehler mentored Chittick in hard money  
26

1 lending. DSOF Exh. 4, Gould Depo. Tr. at 50:23-51:19; DSOF Exh. 5, Koehler Depo. Tr. at 41:6-  
2 42:20, 43:16-44:8.

3 9. Scott Gould was a consultant for DenSco from approximately 2001, when  
4 DenSco was formed, through 2008. DSOF Exh. 4, Gould Depo. Tr. at 23:5-24:13; 30:16-24.

5 10. Scott Gould worked with DenSco to increase the diversity of its borrower base. This  
6 was a “heavy part of [Gould’s] guidance to DenSco” because he “really thought that diversification  
7 was so important.” DSOF Exh. 4, Gould Depo. Tr. at 50:6-13.

8 11. Scott Gould, who had a prior issue with regulatory bodies regarding disclosure  
9 issues, conveyed the importance and significance of compliance with regulatory bodies and  
10 securities laws with “everyone I’ve dealt with,” including Chittick and Koehler. DSOF Exh.  
11 4, Gould Depo. Tr. at 72:12-24.

12 12. Scott Gould discussed with Chittick the importance of disclosure of material  
13 information to investors and Chittick understood the importance of making such disclosures  
14 and complying with securities laws. DSOF Exh. 4, Gould Depo. Tr. at 72:18-73:7.

15 13. During the time Scott Gould was consulting with DenSco, Chittick understood  
16 the importance of maintaining a diverse borrower base, conducting proper due diligence on its  
17 collateral, and ensuring first position lien priority through using proper lending procedures, including  
18 lending purchase money to the fiduciary trustee, rather than the borrower. DSOF Exh. 4, Gould  
19 Depo. Tr. at 73:10-82:4.

20 14. Robert Koehler and his hard money lending entity RLS physically took their loan  
21 funds directly to the trustee to finance the purchase of property. He does not ever provide the  
22 funds directly to the borrower to purchase the property. DSOF Exh. 5, Koehler Depo. Tr. at  
23 16:15-25.

24 15. Koehler discussed his lending procedures with Chittick. DSOF Exh. 5, Koehler  
25 Depo. Tr. at 18:23-25.

1           16. Koehler was not aware that Chittick was lending money by providing the loan  
2 funds directly to his borrowers, rather than a trustee. DSOF Exh. 5, Koehler Depo. Tr. at 18:8-

3 16. As an investor in DenSco, Koehler would have been upset had he known. *Id.*

4           17. Providing loans funds directly to the trustee, rather than a borrower, is a common  
5 place procedure for hard money lenders. Koehler did not need legal advice to understand that  
6 this was the proper way to provide financing to borrowers, and would have expected Chittick  
7 to understand that. DSOF Exh. 5, Koehler Depo. Tr. at 20:3-16.

8           18. Hard money lenders shared tips via e-mail regarding the problems associated  
9 with “kiting deeds of trust,” i.e., the problem associated with borrowers borrowing money from  
10 multiple lenders for the same property and then giving each lender a deed of trust while telling  
11 each lender that it is the only lender. Chittick received that information. DSOF Exh. 6,  
12 September 22, 2011 email chain between lenders, including DenSco, regarding deed of trust  
13 “kiting.”

14           19. Gregg Reichman and AFG learned in September 2012 that Menaged had placed  
15 deeds of trust in favor of AFG and DenSco on multiple properties. DSOF Exh. 7, Reichman  
16 Depo. Tr. at 65:15-66:21; DSOF Exh. 8, 9-21-12 email from Chittick to Menaged (Exh. 487);  
17 DSOF Exh. 9, 9-21-12 emails between Reichman and Menaged (Exh. 488); DSOF Exh. 10, 9-  
18 24-12 email from Chittick to Menaged.

19           20. Reichman eventually determined that Menaged had pledged twelve separate  
20 deals to both AFG and DenSco, and recorded competing deeds of trust with respect to AFG  
21 and DenSco on twelve properties. DSOF Exh. 7, Reichman Depo. Tr. at 69:3-5, 70:23-73:5;  
22 DSOF Exh. 10, 9-24-12 email from Chittick to Menaged (Exh. 491); DSOF Exh. 11, 9-24-12  
23 email from Reichman to Menaged.

24           21. Reichmann contacted Chittick to alert him about the double-liening issue. DSOF  
25 Exh. 7, Reichman Depo. Tr. at 67:8-68:8, 75:6-76:17. Reichman told Chittick that AFG was  
26



1 in superior lien position on all of those properties. DSOF Exh. 7, Reichman Depo Tr. at 85:25-  
2 86:6, 99:18-100:8.

3 22. Reichman testified that he never gives a borrower control over the financing  
4 being provided, because it is impossible to control what the borrower then does with the  
5 money. Instead, Reichman sends the loan funds directly to the trustee. This ensures the money  
6 is used for the proper purpose and that AFG is properly secured on the loan. DSOF Exh. 7,  
7 Reichman Depo. Tr. at 20:14-22:1.

8 23. At the end of 2012, DenSco had approximately \$4.65 million outstanding  
9 loans to Mr. Menaged's entities. At the end of 2013 DenSco had increased its outstanding  
10 loans to Mr. Menaged's entities to more than \$28 million, more than half of DenSco's loan  
11 portfolio. DSOF Exh. 12, 4/5/19 D. Perry Expert Report at 9.

12 24. In November 2013, Mr. Menaged told Mr. Chittick that entities owned by  
13 him had double lien additional properties with loans from both AFG and DenSco.  
14 According to Mr. Menaged, his wife had become critically ill and he had turned the day-to-  
15 day operations of his companies over to his cousin. The cousin requested loans for the  
16 same property from multiple lenders, and both lenders recorded deeds of trust. The cousin  
17 then absconded with the funds lent to Mr. Menaged's entities. DSOF Exh. 13, Receiver's  
18 Dec. 23, 2016 Status Report at 7-9; DSOF Exh. 2, January 7, 2014 email from Chittick to  
19 Beauchamp. The Receiver refers to this as the First Fraud. According to the Receiver, the  
20 First Fraud cost DenSco more than \$14.3 million. *Id.*

21 25. Without any attorney advice, Mr. Menaged and Mr. Chittick reached an  
22 agreement regarding a "workout plan" to resolve the double liens in November 2013. Mr.  
23 Chittick and Mr. Menaged agreed to partner together to "wholesale" properties and jointly  
24 address the double liens by paying off all loans subject to double liens. DSOF Exh. 2,  
25 January 7, 2014 email from Chittick to Beauchamp.

1           26. To obtain the additional funds necessary to pay off these loans, DenSco  
2 agreed to loan Mr. Menaged an additional \$1 million, and Mr. Menaged agreed to  
3 contribute \$4-\$5 million from the liquidation of other assets. *Id.*; DSOF Exh. 14, DenSco  
4 and Menaged Term Sheet.

5           27. By late November 2013, DenSco had already begun implementing the  
6 workout plan with Mr. Menaged, lending funds to Mr. Menaged on the \$1 million line of  
7 credit. DSOF Exh. 15, Receiver Analysis of \$1 million workout loan.

8           28. On January 6, 2014, Bob Miller, an attorney with Bryan Cave sent Mr. Chittick  
9 a letter on behalf of various lenders (the “Bryan Cave Demand Letter”). The letter asserted  
10 that the lenders had advanced purchase money loans directly to trustees to buy more than 50  
11 properties out of foreclosure, and had recorded deeds of trust to evidence their first position  
12 security interest. DenSco, however, had likewise recorded mortgages evidencing its  
13 purchase money loans for the same properties. DSOF Exh. 16, Jan 6, 2014 email from  
14 Chittick to Beauchamp attaching Bryan Cave demand letter.

15           29. The Bryan Cave Demand Letter (1) asserted that DenSco’s claimed interest  
16 was a “practical and legal impossibility since . . . only the Lenders provided the applicable  
17 trustee with certified funds supporting the Borrowers purchase money acquisition for each of  
18 the Properties,” (2) demanded that DenSco subordinate its alleged interests to their interests,  
19 and (3) threatened to bring claims for fraud, negligent misrepresentation, and wrongful  
20 recordation. *Id.* at CH\_0000830.

21           30. On January 6, 2014, Mr. Chittick sent the Bryan Cave letter to Mr. Beauchamp  
22 with a request for Mr. Beauchamp to “read the first two pages.” *Id.*

23           31. The next day, Mr. Chittick emailed Mr. Beauchamp and explained that an  
24 issue with Mr. Menaged’s cousin and sick wife had led to the double liens, repeating the  
25 story told by Mr. Menaged. DSOF Exh. 2, January 7, 2014 email from Chittick to  
26 Beauchamp.

1           32. Mr. Chittick vouched for Mr. Menaged, representing, “I’ve been lending to  
2 Scott Menaged through few different LLC’s and his name since 2007. [I]’ve lent him 50  
3 million dollars and [I]’ve never had a problem with payment or issue that hasn’t been  
4 resolved.” *Id.* at CH\_0005790.

5           33. Mr. Chittick’s representations regarding Menaged failed to mention that Mr.  
6 Menaged had been double liening properties secured by DenSco’s funds since September  
7 2012. *Id.*

8           34. Mr. Chittick’s representations regarding Menaged also failed to mention that  
9 DenSco had lent Menaged \$31 million in 2013 alone, and had \$28.5 million in outstanding  
10 loans to Menaged as of the end of 2013, a large portion of which were more than six months  
11 past due. A significant number of these past due loans were made in 2012. DSOF Exh. 13,  
12 Receiver’s December 23, 2016 Status Report at 19.

13           35. Mr. Beauchamp began helping DenSco document the terms of DenSco and  
14 Mr. Menaged’s agreement in a term sheet that was later expanded upon and formalized in a  
15 Forbearance Agreement. The term sheet documented the workout plan already agreed to  
16 and implemented by DenSco and Mr. Menaged. The key points of the agreement included:

- 17           a. Mr. Menaged agreeing to pay off any shortfall on the loans as the double-  
18           encumbered properties were sold or refinanced by borrowing \$1 million from  
19           a third party and liquidating assets worth \$4-5 million;
- 20           b. Mr. Menaged agreeing to obtain a \$10 million life insurance policy naming  
21           DenSco as the beneficiary;
- 22           c. Mr. Menaged admitting that the DenSco loans were secured by deeds of trust  
23           that were intended to be in a first lien position; and
- 24           d. DenSco agreeing to loan up to \$1 million to Mr. Menaged for purposes of  
25           purchasing and flipping or renting additional properties, with all profits used  
26           to pay off the loans on the double-encumbered properties.

1 DSOF Exh. 14, DenSco and Menaged Term Sheet.

2 36. After finalizing the term sheet, Mr. Beauchamp began working on the parties'  
3 Forbearance Agreement and believed it could be completed in a few weeks. DSOF Exh. 17,  
4 Jan. 21, 2014 emails between Chittick and Beauchamp regarding forbearance agreement.

5 37. The Forbearance Agreement addressed the following points:

- 6 a. Mr. Menaged identified the facts that led to the double lien issue and the scope  
7 of the issue.
- 8 b. Mr. Menaged acknowledged his obligation to discharge the liens of the other  
9 lenders.
- 10 c. Mr. Menaged and his entities agreed to pay off the double-encumbered loans  
11 by liquidating additional assets, renting or selling real estate, recovering stolen  
12 funds, and obtaining \$4.2 million in outside financing.
- 13 d. Mr. Menaged agreed to provide additional security and guarantees, including a  
14 \$10 million life insurance policy naming DenSco as beneficiary; and
- 15 e. DenSco agreed to extend additional financing to Mr. Menaged (and defer the  
16 collection of interest on defaulted loans) for purposes of purchasing and  
17 flipping or renting additional properties, with all profits used to pay off the  
18 loans on the double-encumbered properties.

19 DSOF Exh. 18, Forbearance Agreement.

20 38. Mr. Chittick wrote to Mr. Menaged regarding the efforts to draft a  
21 Forbearance Agreement, and asked if Mr. Menaged had “put a call in to [his attorney] to get  
22 him on the phone with [Mr. Beauchamp] and pound through” what Mr. Chittick referred to  
23 as “their language arts assignment.” DSOF Exh. 19, Feb. 3, 2014 email from Chittick to  
24 Menaged at CH\_REC\_MEN\_0027814.

1           39. Mr. Chittick later wrote that he had directed Mr. Beauchamp to “make some  
2 concenssions [sic] that you and I agreed to. . . .” DSOF Exh. 20, Feb. 5, 2014 email from  
3 Chittick to Menaged at CH\_REC\_MEN\_0027482.

4           40. Regarding revisions to the draft Forbearance Agreement, Mr. Chittick stated  
5 “after any changes we agree to and make, david will amek [sic] them them [sic]. I tell david  
6 to send it to jeff, you tell jeff, the terms are agreeable between us, and they can only fix the  
7 spelling!” DSOF Exh. 21, Feb. 7, 2014 email from Chittick to Menaged at  
8 CH\_REC\_MEN\_0027218.

9           41. Mr. Chittick again emailed Mr. Menaged regarding his frustration with Mr.  
10 Beauchamp for wanting to know what Mr. Menaged’s “points of contention” were with  
11 respect to the draft Forbearance Agreement. Mr. Chittick complained that “attorneys’ sole  
12 purpose is to self perserverance [sic].” DSOF Exh. 22, Feb. 15, 2014 email from Chittick to  
13 Menaged at CH\_REC\_MEN\_0026580.

14           42. Mr. Chittick and Mr. Menaged also complained amongst themselves that  
15 “these lawyers are trying to prevent progress” and increase their fees. Mr. Chittick asserted  
16 that in the interim, “we solved another. What [sic] 20% of the problem.” DSOF Exh. 23,  
17 Feb. 14, 2014 email from Chittick to Menaged at CH\_REC\_MEN\_0026600.

18           43. On February 11, 2014, Mr. Chittick told Mr. Menaged, “I’ve not taken any  
19 new investors, so if I do, I have to disclose a lot to them, which is all about you.” DSOF  
20 Exh. 24, Feb. 11, 2014 email from Chittick to Menaged.

21           44. DenSco continued to loan funds directly to Menaged through 2016. DSOF  
22 Exh. 12, Perry Expert Report at 4-5.

23           45. On May 28, 2014, Menaged forwarded Chittick a message from his bank  
24 explaining the bank had changed the transaction limit for wire transfers involving Menaged’s  
25 accounts, but that the bank “may revoke access to transactions at any time due to potential  
26

1 fraud...” Chittick responded that “I guess they heard about us.” DSOF Exh. 25, May 28, 2014  
2 email between Chittick and Menaged.

3 46. On August 21, 2015, Chittick expressed frustration that DenSco’s \$30 million  
4 balance with Menaged has not gone down and admitted he “can’t get new investors [because]  
5 I can’t give them the documentation that is necessary” and that **“I am in so many violations  
6 with my current investors it’s nuts.”** Despite those issues, Chittick told Menaged that he had  
7 nevertheless “tried raising more money” from his friends and family and hoped he could  
8 squeeze more money out of the “Utah guys.” DSOF Exh. 26, Aug. 22, 2015 email between  
9 Chittick and Menaged.

10 47. Chittick told Menaged in his August 21, 2015 email that he was altering his  
11 financial records to “keep my accountant happy.” *Id.*

12 48. On February 15, 2014, upset at his attorney, Mr. Beauchamp, for wanting to  
13 know what Menaged’s “points of contention” were with respect to the draft Forbearance  
14 Agreement, Mr. Chittick complained that “attorneys’ sole purpose is to self perserverance  
15 [sic].” DSOF Exh. 27, Feb. 15, 2014 email from Chittick to Menaged.

16 49. In 2016, DenSco raised more than \$1.7 million from investors. DSOF Exh. 28,  
17 Summary of DenSco investments for 2016.

18 50. On December 9, 2016, the Receiver filed a notice of claim against the estate of  
19 Denny Chittick. DSOF Exh. 29, Notice of Claim against Chittick Estate.

20 51. In the Notice of Claim, the Receiver asserted that Chittick was guilty of common  
21 law fraud, misrepresentation, and breach of fiduciary duty because Chittick, and thus DenSco,  
22 among other things: (i) failed to institute or follow proper management and control of DenSco’s  
23 business operations in part, by directly funding loans to Menaged, (ii) continued “to accept  
24 monies for investors into DenSco,” then lending that money out to Menaged, “despite his actual  
25 knowledge of the fraud by Menaged”, (iii) prepared false and inaccurate financial records,  
26 thereby artificially increasing DenSco’s tax liability and misleading DenSco’s accountant, who

1 was also an investor, and (iv) allowed Chittick to loot millions of dollars from DenSco starting  
2 as early as December 2014], after DenSco had been rendered insolvent. *Id.*

3 52. In the Notice of Claim, the Receiver asserted that on or about December 31,  
4 2014, Chittick (i) transferred all of the funds in his DenSco 401(k) plan (\$359,609.00) to an  
5 account at Vanguard; (ii) liquidated all of the funds in his DenSco Defined Benefit Plan  
6 (\$1,817,243.03), all of which were invested in DenSco, to a certificate of deposit at an FDIC  
7 insured bank, at a time when that investment was worthless; (iii) converted \$1,448,460.49 from  
8 his personal investment in DenSco, into DenSco stock, the caused DenSco to make  
9 distributions to him in the amount of \$555,000 by the redeeming the stock, which was  
10 worthless at the time; and (iv) caused DenSco to transfer \$120,000 in cash distributions to  
11 Chittick from January 31, 2014 and December 26, 2014, at a time when DenSco was insolvent,  
12 all of which left DenSco with less money to pay investors. *Id.* at 2-4.

13 53. Pursuant to the Notice of Claim, Chittick's fraud cost DenSco \$43,947,819.61.  
14 *Id.* at 6.

15 54. On August 8, 2017, the Receiver's counsel wrote a letter to Judge Sanders, who  
16 is presiding over the DenSco receivership, wherein he summarized the allegations against  
17 DenSco by concluding that "DenSco...also was operating as a Ponzi investment scheme *while*  
18 *intentionally misleading its investors*, as to its financial solvency." DSOF Exh. 30, Receiver's  
19 letter to Judge Sanders.

20 55. In a sample demand letter to one of DenSco's investors whom the Receiver  
21 deemed a net winner under DenSco's Ponzi scheme, the Receiver stated, among other things,  
22 that:

- 23 a. the investors had to return the "profits you received from [DenSco's] *fraudulent*  
24 *scheme*, regardless of whether you knew or had reason to know that the scheme  
25 *was illegal.*"  
26

1           b. “proof of the existence of a Ponzi scheme *showed that there was actual intent to*  
2           *defraud...*”

3           c. there was “clear and satisfactory evidence of an ‘actual intent to hinder, delay or  
4           defraud any creditor of the debtor’...,” that “one can infer an intent to defraud  
5           future undertakers from the mere fact that an individual was running a Ponzi  
6           scheme, because no other reasonable inference is possible” and that “the  
7           orchestrator of the scheme [Chittick] must know all along, from the very nature  
8           of his activities, that investors at the end of the line will lose their money.”

9 DSOE Exh. 31, Receiver’s demand letter to Ponzi winner.

10           56.     The Receiver states in his Disclosure Statement that Chittick “had been grossly  
11           negligent in managing DenSco’s loan portfolio, by not complying with the terms of the  
12           Mortgage, which called for DenSco to issue a check payable to the Trustee, and instead wiring  
13           money to Menaged, trusting Menaged to actually use those funds to pay a Trustee.” DSOE  
14           Exh. 32, Receiver’s 6<sup>th</sup> Supplemental Disclosure Statement at ¶ 215.

15           57.     In January 2014, Menaged started requesting loans from DenSco for properties  
16           Menaged never actually purchased. After the First Fraud, Chittick would wire money directly  
17           to Menaged’s bank account. Menaged would then get a cashier’s check issued to the trustee  
18           of a trustee’s sale, email a picture of the cashier’s check to Chittick, then immediately redeposit  
19           the check into his account. Menaged would then provide Chittick with a falsified trustee’s sale  
20           receipt, all to convince Chittick that DenSco’s funds had actually been used to purchase  
21           property. The Receiver refers to this fraud as the Second Fraud. According to the Receiver,  
22           DenSco lent Menaged more than \$730 million as part of the Second Fraud, which ultimately  
23           cost DenSco more than \$28 million. DSOE Exh. 13 at 9-10.

24           58.     The Receiver states in his Disclosure Statement that Defendants were negligent  
25           in their representation of DenSco, by allegedly failing to provide proper advice regarding  
26           DenSco’s disclosure obligations in 2013 and 2014, failing to advise DenSco as to proper



1 business procedures in light of Menaged's fraud, and advising DenSco that it could raise  
2 money without making full disclosures, among other things. DSOF Exh. 32 at pp. 95-96. The  
3 Receiver further asserts in Count 2 of his Complaint that Defendants purportedly aided and  
4 abetted Chittick's breach of his fiduciary duty to DenSco by allegedly failing to force DenSco  
5 to change its business practices, failing to force DenSco to hire more employees, failing to  
6 investigate Menaged, and failing to force DenSco to make adequate disclosures while allowing  
7 DenSco to sell additional promissory notes, among other things. *Id.* at pp. 100-101.

8 59. On June 27, 2014, Chittick and Menaged exchanged emails commenting that  
9 they hoped Chittick was "not meeting with an investor who is looking for the [POM] Haha".  
10 DSOF Exh. 33.

11 DATED this 26<sup>th</sup> day of August, 2019.

12 **COPPERSMITH BROCKELMAN PLC**

13  
14 By: /s/ Marvin C. Ruth

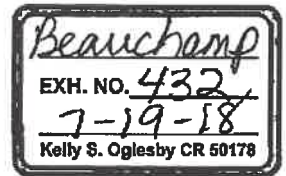
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18 **ORIGINAL** mailed and emailed this  
26<sup>th</sup> day of August, 2019 to:

19 Colin F. Campbell, Esq.  
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Attorneys for Plaintiff

26 /s/ Verna Colwell

# **Exhibit 1**



**Confidential Private Offering Memorandum**

**DenSco Investment Corporation**

**July 1, 2011**

688856.4

BC\_002912

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.

**DeaSco 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 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 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 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.

## 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

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 SBC 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 SBC within the time frame outlined in such Rules.

#### **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 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

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 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

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 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 &amp; 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.

## 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	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	\$34,955,700.00	\$50,487,300.00	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	\$42,579,634.00	\$65,931,500.00	257	\$41,424,815.00	\$65,482,800.00
2008	304	\$38,854,660.00	\$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	*300	\$29,883,992.00	\$51,004,900.00
					\$274,416,977.00	\$453,340,370.00



		\$306,786,893. 00	\$470,411,170. 00			
	2622			2019		
*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 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 has one condominium and one lot are currently 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	500,000	100%
6132 W. Victoria Place		
Chandler, AZ 85226		

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



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.

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:

Note Terms (2) (3)

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

- (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.

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.

## 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."

- (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.

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).

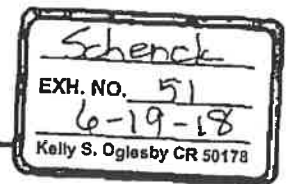
As used in this Memorandum, the term "net worth" means the excess of total assets over total liabilities. In determining income an investor should add to the investor's adjusted gross income any amounts attributable to tax exempt income received, losses claimed as limited partner in any limited partnership, 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.



# **Exhibit 2**

Message

**From:** Beauchamp, David G. [/O=CLARKHILL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=DBEAUCHAMP]  
**Sent:** 1/17/2014 10:45:31 AM  
**To:** Schenck, Daniel A. [dschenck@clarkhill.com]  
**Subject:** FW: the details  
**Attachments:** RM Easy Investments.doc; DOT Easy Investments.doc; Note Easy Investment.doc; HUD Pratt 90k.pdf



Dan:

Attached are some of the DenSco form documents, but these are taken from other transactions and are not complete

**David G. Beauchamp**

CLARK HILL PLC

14850 N Scottsdale Rd | Suite 500 | Phoenix, Arizona 85254  
480.684.1126 (direct) | 480.684.1166 (fax) | 602.319.6602 (cell)  
[dbeauchamp@clarkhill.com](mailto:dbeauchamp@clarkhill.com) | [www.clarkhill.com](http://www.clarkhill.com)

**From:** Denny Chittick [mailto:dcmoney@yahoo.com]  
**Sent:** Tuesday, January 07, 2014 1:49 PM  
**To:** Beauchamp, David G.  
**Cc:** Yomtov Menaged  
**Subject:** the details

I thought i would give you something to read so that you are up to date and you can have questions for us when we arrive. i'm bringing Scott with me.

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.

Sometime last year, his wife became ill with cancer. his cousin was working with him and took on a stronger day to day role as scott was distracted with his wife. Scott always was the one that determined what properties to buy, how much etc. his cousin was 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 1/2 dozen different lenders in total ) . Because of our long term relationship, when Scott needed money, i would wire the money to his account and he would pay the trustee. 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 reveiwd 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. when the loan is paid off, i always send a release for both liens. when i say that some title officers request it and some don't , it seems to matter of opinion rather than a hard and fast law/requirement/demand/ or something of that nature. Again, this is what i do on every single auction property no matter who is the borrower.

What is cousin was doing was receiving the funds from me, then requesting them from the other lenders. these other lenders would cut a cashiers check for the agreed upon loan amount and then

6 take it to the trustee and receive the receipt. they would then record a DOT immediately, then after the trustee's deed is recorded, they would re-record their DOT. Sometimes i would record my RM first sometimes they would. then after the trustee's deed, sometimes i would record my DOT first sometimes they would.

The cousin absconded with the funds. Scott figured this out in mid November. He came to me and told me what was happening. he said he had talked to the other lenders and they agreed that this was a mess, and as long as they got their interest and were being paid off they wouldn't foreclose, sue or anything else.

6 Scott and i spent a great amount of time creating a plan to fix this. Our plan is simple, sell off the properties and pay off both liens with interest and make everyone whole. Because many of the houses were bought in the first half of last year. they are upside down, but not nearly as bad as you would think. if Scott paid 100k, i lent 80k and another lender lent 80k. the house is now worth 140k, it's upside down 20k. However there are some houses that are more upside down than this. Coming up with the short fall on all these houses is a challenge , but we believe it's doable. our plan is a combination of injecting capital and extending cheaper money, along with continuing the business as he's run it for years, by flipping homes which will generate profits.

The Plan:

1. all lenders will be paid their interest, except me, i'm allowing my interest to accrue.
2. i'm extending him a million dollars against a home at 3%
- 6 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 will fix up the house and sell it retail. this will drive the order in which the houses will be sold.

7. he also 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.

i've been over this plan 100 times and the numbers and i truly believe this is the right avenue to fix the problem. we have been proceeding with this plan since November and we've already cleared up about 10% of the total \$'s in question. that's in the slowest part of the selling season. We feel once things pick up seasonally we can speed this up

the gentleman that handed me the paperwork, believes because he physically paid the trustee that he is in first position, but agrees it's messy. he wants me to subordinate to him, no matter who recorded first. we have paid off one of his loans, you'll see on this list Pratt - paid in full, i've attached the hud-1 and you see that it shows me in first position versus his belief. now that's one title agents opinion, i understand that's not settling legal dispute on who's in first or second.

I know that i can't sign the subordination because that goes against

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everything that i tell my investors. plus i can tell you there are several other lenders waiting to see what i do, if i sign with this group, they want to have me sign one for them too.

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.

let me know any questions so that when we meet we can be productive as possible.

thx

dc

6

DenSco Investment Corp

[www.denscoinvestment.com](http://www.denscoinvestment.com)

602-469-3001 C

602-532-7737 f

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When recorded, mail to:

DenSco Investment  
6132 W. Victoria Place  
Chandler, AZ 85226

### MORTGAGE

January 6, 2014

The undersigned borrower ("Borrower") acknowledges receipt of the proceeds of a loan from DenSco Investment Corporation ("Lender") in the sum of \$186,000.00, as evidenced by check payable to: Recontrust Company ("Trustee"). The loan was made to Borrower to purchase the Real Property legally described as: Lot 24, Subdivision Cooper Commons Parcel 8, according to the plat Book 448, of Maps, Page 44, & Certificate of Correction recorded in Doc No. 98-601977 & 01-0363100, in the plat record in the Recorder's Office of Maricopa County, Arizona. Address: 6341 S Kimberlee Way, Chandler, AZ 85249 At a trustee's sale conducted by Trustee, which took place on January 3, 2014, Borrower became the successful purchaser with the highest bid, and the loan is intended to fund all or part of the purchase price bid by Borrower at such trustee's sale.

Borrower has promised to pay Lender or assignee the full amount of the loan, with interest at the rate of 18% per annum from the date of this Receipt until paid in full, such amounts to be due and payable in full based on due date from promissory note.

Borrower hereby grants to Lender or assignee a first, prior and superior equitable lien and mortgage against the Real Property to secure payment of the loan. The undersigned principal of Borrower (who shall derive benefits from the loan, in order to induce Lender to extend the loan to Borrower) hereby irrevocably and unconditionally guarantees and promises to pay to Lender upon demand the full loan amount and all other sums payable or to become payable hereunder if Borrower fails to pay any such amounts when due. Borrower further agrees to execute, acknowledge and deliver to Lender such further documents as may be necessary to effectuate the intent of this transaction. Borrower has delivered to Lender a promissory note and deed of trust, and Borrower agrees that the deed of trust shall be recorded against the Real Property as a first, prior and superior lien and encumbrance simultaneously with the recording of the Trustee's Deed. Borrower further agrees to cause the undersigned principal of Borrower to execute, acknowledge and deliver a guaranty of the amounts lent by Lender under said promissory note.

Borrower: Arizona Home Foreclosures, LLC

Name & Title of Principal Borrower: Yomtov Scott Menaged, Managing Member of LLC

Signature: \_\_\_\_\_

State of Arizona )

) ss.

County of Maricopa )

Subscribed, sworn to and acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2014.

By: Yomtov Scott Menaged

Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

**WHEN RECORDED MAIL TO:**

DenSco Investment  
6132 W. Victoria Place  
Chandler, AZ 85226

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

**DEED OF TRUST AND ASSIGNMENT OF RENTS**

Date: January 6, 2014

**TRUSTOR.** Arizona Home Foreclosures, LLC

Address: 7320 W Bell Rd., Glendale, AZ 85308

**BENEFICIARY:** DenSco Investment Corporation, an Arizona corporation ("Lender")

Address: 6132 W. Victoria Place, Chandler, AZ 85226

**TRUSTEE:** Recontrust Company

Address: 2380 Performand Dr , Richardson, TX 75082

**PROPERTY** in the County of Maricopa, State of Arizona, described as: Lot 24, Subdivision Cooper Commons Parcel 8, according to Book 448, of Maps, Page 44, & Certification recorded in Doc No. 98-601977 & 01-0363100, in the plat record in the Recorder's Office of Maricopa County, Arizona.

Street address: 6341 S Kimberlee Way, Chandler, AZ 85249

**WITNESSETH THAT** Borrower does hereby irrevocably grant, bargain, sell and convey to Trustee, in trust, with power of sale, the above-described real property;

**TOGETHER WITH** all the improvements now or hereafter erected on the Property, and all easements, appurtenances and fixtures now or hereafter a part of the Property, and all rents, issues and profits thereof, **SUBJECT, HOWEVER,** to the right, power and authority hereinafter given to and conferred upon Lender to collect and apply such rents, issues and profits. All replacements and additions also shall be covered by this Deed of Trust. All of the foregoing is referred to in this Deed of Trust as the "Property "

**FOR THE PURPOSE OF SECURING:**

A. Performance of each and every agreement of Borrower herein contained B Payment of the principal sum of \$186,000 00 (U.S \$One Hundred Eighty-six Thousand Dollars and No Cents). This debt is evidenced by Borrower's NOTE or NOTES dated the same date as this DEED OF TRUST, and any extension or renewal thereof (collectively, if applicable, the "Note"). C. Payment of all additional sums and interest thereon which at any time now or hereafter are owed by Borrower to Lender, or its successors or assigns. D. Payment of any amounts hereafter advanced by Lender or paid on behalf of Borrower to perform any duties or obligations of Borrower hereunder, or otherwise to protect the Property or the lien of this Deed of Trust.

**TO PROTECT THE SECURITY OF THIS DEED OF TRUST, BORROWER AGREES:**

1 Borrower has the right to grant and convey the Property and that Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

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5/22/2007

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2. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

3. Unless applicable law provides otherwise, all payments received by Lender under Paragraph 2 shall be applied first in payment of any costs or charges, then to Default Interest (as defined in the Note) accrued, then to interest accrued, and then to reduce principal.

4. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Deed of Trust, and leasehold payments or ground rents, if any. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Paragraph 4. Borrower shall promptly furnish to Lender receipts evidencing the payments.

5. Borrower shall promptly discharge any lien in which has priority over this Deed of Trust unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Deed of Trust. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Deed of Trust, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more actions set forth within 10 days of the beginning of notice.

6. Borrower shall keep said Property in good condition and repair, not to remove or demolish any building thereon unless part of the construction plan approved in writing by Lender; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefor; to comply with all laws affecting said Property or requiring any alterations or improvements to be made thereon, not to commit or permit waste thereof; not to commit, suffer or permit any act upon said Property in violation of law; to cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of said Property may be reasonably necessary, the specific enumerations herein not excluding the general.

7. Borrower shall provide, maintain and deliver to Lender fire insurance and general liability insurance on the Property satisfactory to and with loss payable to Lender. The amount collected under any fire or other insurance policy may be applied by Borrower upon any indebtedness secured hereby and in such order as Borrower may determine, or at option of Borrower the entire amount so collected or any part thereof may be released to Lender. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

8. Borrower shall appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Lender or Trustee; and to pay all costs and expenses, including cost of evidence of title and attorneys' fees in a reasonable sum, in any such action or proceeding in which Lender or Trustee may appear.

9. Borrower shall pay immediately and without demand all sums expended by Lender or Trustee pursuant to the provisions hereof, with interest from date of expenditure, at the rate of interest found on the Note.

10. Borrower shall not cause or permit the presence, use, disposal, storage or release of any Hazardous Substances on or in the Property. Borrower shall not do or allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use or storage on the Property of small immaterial quantities of Hazardous Substances that are generally recognized to be appropriate to normal cleaning and maintenance purposes of a commercial or residential property. Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property or any Hazardous Substance or Environmental Law of which Borrower has actual or constructive knowledge. If

Borrower learns, or is notified by any governmental or regulatory authority, that any removable or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Laws. As used in this Paragraph 10, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides or herbicides, volatile solvents, materials containing asbestos, formaldehyde or dioxins, and radioactive materials. As used in this Paragraph 10, "Environmental Law" means all federal laws and laws of the state, county and city of the jurisdiction where the Property is located that relates to health, safety or environmental protection.

**IT IS MUTUALLY AGREED:**

11. Should Borrower fail to make any payment or to do any act as herein provided, then Lender or Trustee, but without obligation so to do and without notice to or demand upon Borrower and without releasing Borrower from any obligation hereof, may: (a) make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Lender or Trustee being authorized to enter upon said Property for such purposes; (b) appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Lender or Trustee; (c) pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgement of either appears to be prior or superior hereto; and (d) in exercising any such powers, or in enforcing this Deed of Trust by foreclosure, pay necessary expenses, employ counsel and pay his reasonable fees. Any amounts dispersed by Lender under this Paragraph 11 shall become additional debt of Borrower's, secured by this Deed of Trust unless Borrower and Lender agree to other terms of payment, these amounts shall be payable, with interest, upon demand from Lender to Borrower.

12. Any award of damages in connection with any condemnation for public use of or injury to said Property or any part thereof is hereby assigned and shall be paid to Lender who may apply or release such monies received by it in the same manner and with the same effect as above provided for disposition of proceeds of fire or other insurance.

13. TIME IS OF THE ESSENCE IN EACH COVENANT OF THIS DEED OF TRUST; and that by accepting payment of any sums secured hereby after its due date, Lender does not waive its right either to require prompt payment when due of all other sums so secured or to declare default for failure to pay.

14. At any time or from time to time, without liability therefor and without notice, upon written request of Lender and presentation of this Deed of Trust and said Note for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby, Trustee may: (a) reconvey all or any part of said Property; consent to the making of any map or plat thereof; (b) join in granting any easement thereon; or (c) join in any extension agreement or any agreement subordinating the lien or change hereof.

15. As additional security, Borrower hereby gives to, confers upon and assigns to Lender the right, power and authority during the continuance of these Trusts, to collect the rents, issues and profits of said Property, reserving unto Borrower the right, prior to any default by Lender payment of any indebtedness secured hereby or in performance of any agreement hereunder, to collect and retain such rents, issues and profits as they become due and payable. Upon any such default, Lender may at any time without notice, either in person, by agent or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of said Property or any part hereof, in its own name sue for or otherwise collect such rents, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Lender may determine. The entering upon and taking possession of said Property, the collection of such rents, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

16. The failure of Borrower to comply fully with the terms of the Note or this Deed of Trust shall constitute an immediate default hereunder, and the occurrence of any default under any other notes or deeds of trust

between the parties securing any other indebtedness owed by Borrower to Lender shall also constitute a default under this Deed of Trust. Upon any such default, Lender shall have the right, at its election, to accelerate immediately any or all of the loans, and proceed to enforce all of Lender's rights, in accordance with Arizona law, including without limitation, the right to foreclose any or all of the deeds of trust and pursue a deficiency judgment(s).

If the Property is sold, assigned or transferred, whether voluntarily, involuntarily, or by operation of law, the entire principal balance together with accrued interest and all other charges shall become immediately due and payable.

17. Notice of sale having been given as then required by law, and not less than the time required by law having elapsed, Trustee, without demand on Borrower, shall sell said Property at the time and place fixed by it in said notice of sale, either as a whole or in separate parcels and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee shall deliver to the purchaser its deed conveying the Property so sold, but without any covenant or warranty express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Borrower, Trustee or Lender, may purchase at such sale.

After deducting all costs, fees and expenses of Trustee and of this Trust, including cost of evidence of title and reasonable attorneys' fees in connection with sale, Trustee shall apply the proceeds of sale to payment of; all sums then secured hereby and all other sums due under the terms hereof, with accrued interest; and all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto, or as provided in A.R.S. § 33-812. To the extent permitted by law, an action may be maintained by Lender to recover a deficiency judgment for any balance due hereunder. Lender may foreclose this Deed of Trust as a realty mortgage.

If Property under this Deed of Trust is located in more than one county, regardless of whether Property is contiguous or not, Trustee may sell all Property in any one of the counties in which part of Property is located; and unless Trustee receives contrary written instructions from Lender or Borrower, Trustee may sell all Property either in parcels or in whole.

If indebtedness secured hereby is secured by one or more other deeds of trust, the upon default of Borrower in payment of indebtedness or performance of any other agreement with Lender, Trustee may sell Property subject to this Deed of Trust and to any other deeds of trust securing said indebtedness at Trustee's sale conducted serially.

Trustee is not obligated to notify any party hereto of pending sale under any other deeds of trust, or of any action or proceeding in which Borrower, Lender or Trustee shall be a party, unless brought by Trustee.

18. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term Lender shall mean the holder and owner of the Note secured hereby; or, if the Note has been pledged, the pledgee thereof. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

19. Lender may, for any reason or cause, from time to time remove Trustee and appoint a substitute/successor trustee to any Trustee appointed hereunder, and when any such substitution has been filed for record in the Office of the Recorder of the County in which the Property herein described is situated, it shall be conclusive evidence of the appointment of such trustee or trustees. Without conveyance to the Property, the successor trustee shall succeed to all the title, power and duties conferred upon Trustee herein and by applicable law.

20. The Note or a partial interest in the Note (together with this Deed of Trust) may be sold one or more times without notice to Borrower. A sale may result in the change of the person who collects monthly payments due under the Note and this Deed of Trust.

21. Borrower/mortgagor hereby waives, releases and discharges any homestead exemption claimed or declared against Property.

22. If any term or provision of this Deed of Trust is held invalid or unenforceable by a court or arbitrator of competent jurisdiction, such terms shall be reduced or otherwise modified by such court or arbitrator to the minimum extent necessary to make it valid and enforceable. If such term or provision cannot be so modified, it shall be severed and the remaining terms and provisions of this Deed of Trust shall be interpreted in such a way as to give maximum validity and enforceability to this Deed of Trust. The remaining terms and provisions hereof shall continue in full force and effect.

23. Upon payment of all sums secured by this Deed of Trust, Lender shall release this Deed of Trust without charge to Borrower, except that Borrower shall pay any recordation costs.

Upon written request of Lender stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and said Note to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held thereunder. The recitals in any reconveyance executed under this Deed of Trust of any matters or facts shall be conclusive proof of the truthfulness thereof. Borrower in such reconveyance may be described as "the person or persons legally entitled thereto."

Request is hereby made that a copy of any notice of default and a copy of any notice of sale hereunder be mailed to Borrower at its/his/her address hereinbefore set forth.

**BORROWER:** Arizona Home Foreclosures, LLC

**NAME and Title of Principal Borrower:** Yomtov Scott Menaged, Managing Member of LLC

**SIGNATURE:** \_\_\_\_\_

STATE OF ARIZONA     )  
                                  ) ss.  
COUNTY OF MARICOPA )

This Instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2014.  
By: YomTov Menaged

Commission Expires: \_\_\_\_\_  
Notary

**NOTE SECURED BY DEED OF TRUST**

\$186,000.00

Phoenix, AZ (Date): January 6, 2014

Property Address: 6341 S Kimberlee Way, Chandler, AZ 85249

For value received, Arizona Home Foreclosures, LLC ("Maker") promises to pay to the order of DenSoo Investment Corporation or assigns (the "Holder"), at 6132 W. Victoria Place, Chandler, AZ 85226 (or at such other place as the Holder may designate in writing), in lawful U.S. money the principal sum of \$186,000.00 (\$One Hundred Eighty-six Thousand Dollars and No Cents) plus interest calculated on the basis of a 360-day year and charged for the actual number of days elapsed, from the date hereof until paid on the principal balance from time to time outstanding.

Interest shall accrue on the principal sum outstanding at the rate of eighteen percent (18%) per annum, and shall be payable monthly commencing one month from the date hereof (provided, however, that if there is no comparable date in the following month to the date on which this Note is executed, monthly installments of interest hereunder shall be due and payable on the last day of each of the five succeeding months). The entire principal balance, together with all unpaid accrued interest, shall be due and payable as a balloon payment on July 6, 2014, the date six months from the date of funding under this Note, or upon any earlier acceleration (the "Maturity Date"). If any payment becomes past due for more than five calendar days, Maker shall pay to Holder, in addition to the amount of the overdue payment, a late charge equal to ten percent (10%) of the unpaid accrued interest element of such overdue payment.

In addition to any late charge on past due payments, interest will accrue at the rate of twenty-nine percent (29%) per annum ("Default Interest") on the unpaid principal balance upon the occurrence of a "Default" (hereafter defined). A "Default" shall occur (i) if any installment of accrued interest is not paid within 5 days of the date such payment was due, (ii) if the Note and all outstanding charges are not paid by the Maturity Date (for which no grace period is allowed), (iii) if there is a failure to comply with any of the terms of this Note or the Deed of Trust or guaranty which secures this Note, (iv) upon any bankruptcy, insolvency, dissolution or fraudulent conveyance by Maker, (v) upon any seizure, attachment or levy of Maker's assets, or (vi) upon the occurrence of any default under any other obligation of Maker to Holder. Further, at Holder's option after Default, all remaining unpaid principal and accrued interest shall become due and payable immediately without notice (other than any declaration prescribed in applicable sections of the agreements under which such events of default arose), presentment, demand or protest, all of which hereby are waived. TIME IS OF THE ESSENCE.

Maker agrees to an effective rate of interest that is the above rate, plus any additional rate of interest resulting from charges or benefits received by Holder which a court or governing agency deems to be in the nature of interest paid. All payments on this Note shall be applied first in payment of any costs, fees or charges incurred in connection with the indebtedness evidenced hereby, then to Default Interest accrued, then to interest accrued, and then to reduce principal. This Note is secured by a Deed of Trust executed contemporaneously herewith.

Maker waives demand, diligence and presentment for payment, protest, and notice of extension, dishonor, protest and nonpayment of this Note. If Default occurs, Maker promises to pay all costs of collection, court and foreclosure, including reasonable attorneys' fees. No renewal or extension of this Note, delay in enforcing any right of Holder under this Note, acceptance of any late payment, or assignment by Holder of this Note shall constitute a waiver of Holder's right to exercise any of its rights during the continuance of any Default or upon a subsequent Default, or otherwise limit the liability of Maker. All rights of Holder under this Note are cumulative and may be exercised concurrently or consecutively at Holder's option.

If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative. This Note shall be construed in accordance with the laws of the State of Arizona, irrespective of its choice of law principles. This Note shall be binding upon Maker and its successors and assigns.

Signed this date: \_\_\_\_\_

Borrower: Arizona Home Foreclosures, LLC

By: X

Name & Title: Yomtov S Menaged, managing member of LLC

Personally Guaranteed by: X Printed Name: X

**A. Settlement Statement (HUD-1)**

Magnus Title Agency  
6991 E Camelback Rd, Ste C158  
Scottsdale, AZ 85251

OMB Approval No. 2502-0265

ESTIMATED - Figures subject  
to change

B. Type of Loan		6. File Number		7. Loan Number		8. Mortgage Insurance Case Number	
1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> RHS	3. <input type="checkbox"/> Conv. Unins.	04041904-737	2036000168	45-45-6-3857573		
4. <input checked="" type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.						
C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.d.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.							
D. Name of Borrower		Shane C Clark		Meagan E Clark			
Address of Borrower		9924 E. Delta Mesa, AZ 85208		9924 E. Delta Mesa, AZ 85208			
E. Name of Seller		Arizona Home Foreclosures, LLC					
Address of Seller		7320 W. Bell Rd, Glendale, AZ 85308					
F. Name of Lender		PrimeLending, a PlainsCapital Company					
Address of Lender		18111 Preston Road, Ste 900 Dallas, TX 75252					
G. Property Location:		11509 E. Pratt Ave., Mesa, AZ 85212 Maricopa 304-01-726 Lot(s) 226, of Meridian Pointe Unit 2, Map Book 502, Map Page 32					
H. Settlement Agent:		Magnus Title Agency (480) 682-0200 6991 E Camelback Rd, Ste C158, Scottsdale, AZ 85251		Place of Settlement: Magnus Title Agency (480) 682-0200 6991 E Camelback Rd Ste C158, Scottsdale, AZ 85251			
I. Settlement Date: 12/09/2013		Proration Date: 12/11/2013		Funding Date: 12/11/2013		Disburse Date: 12/11/2013	
<b>J. Summary of Borrower's Transaction</b>				<b>K. Summary of Seller's Transaction</b>			
100. Gross Amount Due from Borrower				400. Gross Amount Due to Seller			
101. Contract sales price 210,000.00				401. Contract sales price 210,000.00			
102. Personal property				402. Personal property			
103. Settlement charges to borrower (line 1400) 11,094.27				403.			
104.				404.			
105.				405.			
Adjustments for items paid by seller in advance				Adjustments for items paid by seller in advance			
106. City/town taxes to				406. City/town taxes to			
107. County taxes to				407. County taxes to			
108. Assessments 12/11/2013 to 01/01/2014 31.78				408. Assessments 12/11/2013 to 01/01/2014 31.78			
109.				409.			
110.				410.			
111.				411.			
112.				412.			
113.				413.			
114.				414.			
115.				415.			
120. Gross Amount Due from Borrower 221,126.03				420. Gross Amount Due to Seller 210,031.78			
200. Amounts Paid by or in Behalf of Borrower				500. Reductions in Amount Due to Seller			
201. Deposit or earnest money 1,000.00				501. Excess deposit (see Instructions)			
202. Principal amount of new loan(s) 214,515.00				502. Settlement charges to seller (line 1400) 11,971.17			
203. Existing loan(s) taken subject to				503. Existing loan(s) taken subject to			
204. Buyer's Closing Funds 2,418.67				504. Payoff of first mortgage loan to DENSCO Investment Corporation 141,890.00			
205.				505. Payoff of second mortgage loan to Geared Equity, LLC 146,155.14			
206.				506.			
207. Seller Paid Owners Policy 1,200.00				507. Seller Paid Owners Policy 1,200.00			
208. Seller Paid Loan Charges 1,425.00				508. Seller Paid Loan Charges 1,425.00			
209.				509.			
Adjustments for items unpaid by seller				Adjustments for items unpaid by seller			
210. City/town taxes to				510. City/town taxes to			
211. County taxes 07/01/2013 to 12/11/2013 567.36				511. County taxes 07/01/2013 to 12/11/2013 567.36			
212. Assessments to				512. Assessments to			
213.				513.			
214.				514.			
215.				515.			
216.				516.			
217.				517.			
218.				518.			
219.				519.			
220. Total Paid by/Borrower 221,126.03				520. Total Reduction Amount Due Seller 303,208.67			
300. Cash at Settlement from/Borrower				600. Cash at Settlement To/From Seller			
301. Gross amount due from borrower (line 120) 221,126.03				601. Gross amount due to seller (line 420) 210,031.78			
302. Less amounts paid by/borrower (line 220) 221,126.03				602. Less reductions in amount due seller (line 520) 303,208.67			
303. Cash <input type="checkbox"/> From <input type="checkbox"/> To Borrower 0.00				603. Cash <input type="checkbox"/> To <input checked="" type="checkbox"/> From Seller 93,176.91			

1. Settlement Charges					
700. Total Real Estate Broker Fees				Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
Division of commission (line 700) follows:					
701	\$ 3,150.00	to Property Management			
702	\$ 5,250.00	to Arizona Best Real Estate			
703	Commission paid at settlement				8,400.00
704					
800. Items Payable in Connection with Loan					
801	Our origination charge	\$ 1,285.00	(from GFE #1)		
802	Your credit or charge (points) for the specific interest rate chosen	\$	(from GFE #2)		
803	Your adjusted origination charges		(from GFE #A)	1,285.00	
804	Appraisal fee to PL FBO Kittlmann Appraisal		(from GFE #3)	450.00	
805	Credit report to PL FBO Kroll Factual Data		(from GFE #3)	21.13	
806	Tax service to PrimeLending, a PlainsCapital Company		(from GFE #3)	90.00	
807	Flood certification to PL FBO Corelogic Flood services		(from GFE #3)	9.50	
808					
900. Items Required by Lender to Be Paid in Advance					
901	Daily interest charges from 12/11/2013 to 01/01/2014 @ \$25.71 /day		(from GFE #10)	539.91	
902	Mortgage insurance premium for 0 months to		(from GFE #3)		
903	Homeowner's insurance for 1 years to Safeco Insurance Compa		(from GFE #11)	580.00	
904	VA Funding Fee to Veterans Administration			4,515.00	
1000. Reserves Deposited with Lender					
1001	Initial deposit for your escrow account		(from GFE #9)	635.23	
1002	Homeowner's insurance 3 months @ \$ 46.6600	\$ 139.98			
1003	Mortgage insurance months @ \$	\$			
1004	Property taxes 6 months @ \$ 105.8700	\$ 635.22			
1005	months @ \$	\$			
1006	months @ \$	\$			
1007	Aggregate adjustment	\$ (139.97)			
1100. Title Charges					
1101	Title services and lender's title insurance		(from GFE #4)	1,528.00	
1102	Settlement or closing fee to Magnus Title Agency	\$ 680.00			590.00
1103	Owner's title insurance to Magnus Title Agency	\$ 1,200.00	(from GFE #5)	1,200.00	
1104	Lender's title insurance to Magnus Title Agency	\$ 668.00			
1105	Lender's title policy limit \$214,515				
1106	Owner's title policy limit \$210,000				
1107	Agent's portion of the total title insurance premium to Magnus Title Agency	\$ 1,630.18			
1108	Underwriter's portion of the total title insurance premium to First American Title Insurance Company	\$ 237.82			
1200. Government Recording and Transfer Charges					
1201	Government recording charges		(from GFE #7)		
1202	Deed \$ Mortgage \$ Release \$				
1203	Transfer taxes		(from GFE #8)		
1204	City/County tax/stamps	Deed \$ Mortgage \$			
1205	State tax/stamps	Deed \$ Mortgage \$			
1206	Excise Tax	Deed \$			
1300. Additional Settlement Charges					
1301	Required services that you can shop for		(from GFE #6)		
1302		\$			
1303		\$			
1304	Home Warranty to BPG Home Warranty				425.00
1305	HomeWise Servicing Fee to HomeWiseDocs.com			30.00	
1306	HOA Current Balance to Meridian Points HOA				660.50
1307	HOA Pre-Paid Assess for 2014 to Meridian Points HOA			138.00	
1308	HOA Disclosure Pkg to Brown Community Management				185.00
1309	HOA Transfer Fee to Brown Community Management			82.50	
1310	HOA 4th Qtr Fee to Meridian Points HOA				183.00
1311	4040842 Trustee Fee to Magnus Title				698.00
1312	4040842 Recording Fee to Magnus Title				10.00
1313	4040842 Courier Fee to Magnus Title				30.00
1314	Pest Inspection to Carefree Termite Protection				75.00
1315	1st Half Of 2013 Taxes to Maricopa County Treasurer				652.17
1400 Total Settlement Charges (enter on lines 100, Section J and 502, Section K)				11094.27	11971.17

POCS = Paid outside of closing by Borrower POCS = Paid outside of closing by Seller POOL = Paid outside of closing by Lender POOM = Paid outside of closing by Mortgage broker

PrimeLending, a PlainsCapital Company

2036000166

Comparison of Good Faith Estimate (GFE) and HUD-1 Charges	
Charges That Cannot Increase	HUD-1 Line Number
Our origination charge	# 801
Your credit or charge (points) for the specific interest rate chosen	# 802
Your adjusted origination charges	# 803
Transfer taxes	# 1203
<b>Total</b>	

Good Faith Estimate	HUD-1
1,285.00	1,285.00
0.00	0.00
1,285.00	1,285.00
0.00	0.00
<b>1,285.00</b>	<b>1,285.00</b>

Charges That Cannot Increase More Than 10%	
Government recording charges	# 1201
Appraisal fee	# 804
Credit report	# 805
Tax service	# 806
Flood certification	# 807
VA Funding Fee	# 904
<b>Total</b>	
<b>Increase between GFE and HUD-1 Charges</b>	

Good Faith Estimate	HUD-1
0.00	0.00
450.00	450.00
65.00	21.13
90.00	90.00
9.50	9.50
6,930.00	4,515.00
<b>7,544.50</b>	<b>5,085.63</b>
<b>\$ (2,458.87) or</b>	<b>(32.59) %</b>

Charges That Can Change	
Initial deposit for your escrow account	# 1001
Daily interest charges	# 901 \$25.71 /day
Homeowner's insurance	# 903
Title services and lender's title insurance	# 1101
Owner's title insurance	# 1103

Good Faith Estimate	HUD-1
635.23	635.23
546.00	539.91
700.00	560.00
725.00	1,528.00
1,000.00	1,200.00

## Loan Terms

Your initial loan amount is \$ **214,515.00**

Your loan term is **30 years**

Your initial interest rate is **4.575 %**

Your initial monthly amount owed for principal, interest, and any mortgage insurance is \$ **1,071.06**, includes

☐ Principal  
☐ Interest  
☐ Mortgage Insurance

Can your interest rate rise? ☒ No. ☐ Yes, it can rise to a maximum of **6.00 %**. The first change will be on **01/01/2014** and can change again every **12 months** after **01/01/2014**. Every change date, your interest rate can increase or decrease by **0.50 %**. Over the life of the loan, your interest rate is guaranteed to never be lower than **3.00 %** or higher than **6.00 %**.

Even if you make payments on time, can your loan balance rise? ☒ No. ☐ Yes, it can rise to a maximum of \$ **1,000.00**

Even if you make payments on time, can your monthly amount owed for principal, interest, and mortgage insurance rise? ☒ No. ☐ Yes, the first increase can be on **01/01/2014** and the monthly amount owed can rise to \$ **1,152.53**. The maximum it can ever rise to is \$ **1,223.57**.

Does your loan have a prepayment penalty? ☒ No. ☐ Yes, your maximum prepayment penalty is \$ **1,000.00**

Does your loan have a balloon payment? ☒ No. ☐ Yes, you have a balloon payment of \$ **1,000.00** due in **30** years on **01/01/2014**

Total monthly amount owed including escrow account payments

☐ You do not have a monthly payment for items, such as property taxes and homeowner's insurance. You must pay these items directly yourself.

☒ You have an additional monthly escrow payment of \$ **152.53** that results in a total initial monthly amount owed of \$ **1,223.57**. This includes principal, interest, any mortgage insurance and any items checked below:

☒ Property taxes ☒ Homeowner's insurance  
☐ Flood insurance ☐ Other: **None**

Note: If you have any questions about the Settlement Charges and Loan Terms listed on this form, please contact your lender.



Breakdown For HUD Line 208		
Description	Buyer Amount	Seller Amount
Your adjusted origination charges	1,285.00	
Tax service	90.00	
Flood certification	9.50	
Homeowner's Insurance	40.50	
Total As Shown On HUD Line 208	1,425.00	

Breakdown For HUD Line 508		
Description	Buyer Amount	Seller Amount
Your adjusted origination charges		1,285.00
Tax service		90.00
Flood certification		9.50
Homeowner's Insurance		40.50
Total As Shown On HUD Line 508		1,425.00

Breakdown For HUD Line 803		
Description	Buyer Amount	Seller Amount
Underwriting Fee	450.00	
Closing Fee	175.00	
Processing Fee	500.00	
Wire Fee	35.00	
Doc Prep Fee	125.00	
Total As Shown On HUD Line 803	1,285.00	

Breakdown For HUD Line 1101		
Description	Buyer Amount	Seller Amount
Escrow Fee	462.50	
Courier/Overnight Mail Fee	120.00	
Recording Fee	37.50	
E-Doc Fee	40.00	
Lenders Title Policy	718.00	
Endorsements 8.1, PUD	150.00	
Total As Shown On HUD Line 1101	1,528.00	

**Breakdown of Commission as shown on 701****Agent Information**

Property Management  
Veronica Castro  
14100 N. 83rd Ave  
  
Peoria, AZ 85383

Total Commission: \$3,150.00

**Sub Agent Information: (being paid out of Total Commission)**

Veronica Castro  
  
14100 N. 83rd Ave.  
  
Peoria, AZ 85383

Amount: \$2,890.00

**Breakdown of Commission as shown on 702****Agent Information**

Arizona Best Real Estate  
Pati Bell  
11333 N. Scottsdale Road, #100  
  
Scottsdale, AZ 85254

Total Commission: \$5,250.00

## Payoff Addendum

## BREAKDOWN OF PAYOFF ON HUD line 504

Payoff to: DENSCO Investment Corporation  
6132 W Victoria Place  
Chandler, AZ 85226

Loan #: 4584

Description	Amount
Principal Balance	141,820.00
Interest	0.00
Good Thru 12/12/2013	70.00
Total Payoff	141,890.00
Total as shown on HUD line #504,	141,890.00

## BREAKDOWN OF PAYOFF ON HUD line 505

Payoff to: Geared Equity, LLC

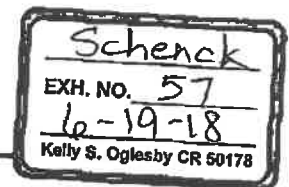
Loan #: 13-6105

Description	Amount
Principal Balance	146,155.14
Interest	0.00
Good Thru 12/15/2013	0.00
Total Payoff	146,155.14
Total as shown on HUD line #505,	146,155.14

# **Exhibit 3**

Message

**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 1/21/2014 11:02:46 AM  
**To:** Schenck, Daniel A. [dschenck@clarkhill.com]  
**CC:** Beauchamp, David G. [dbeauchamp@clarkhill.com]; Anderson, Robert G. [randerson@clarkhill.com]  
**Subject:** Re: Furniture King  
**Attachments:** DOT Easy Investments.doc; Note Easy Investment.doc; RM Easy Investments.doc



Attached are the deed and note and rm i use for every loan.  
thx  
dc

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

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**From:** "Schenck, Daniel A." <DSchenck@ClarkHill.com>  
**To:** "dcmoney@yahoo.com" <dcmoney@yahoo.com>  
**Cc:** "Beauchamp, David G." <DBeauchamp@ClarkHill.com>; "Anderson, Robert G." <RAnderson@ClarkHill.com>  
**Sent:** Tuesday, January 21, 2014 11:35 AM  
**Subject:** Furniture King

Denny,

For your information, Scott's furniture store (Furniture King) has liens on its inventory. The UCC filings are attached. The UCC filings do not state the amount of the encumbrances, but it could be a fluid amount, based on a line of credit with a vendor

On another matter, we need some documents to complete the forbearance agreement. Can you please send us a copy of the form(s) you used for (i) a loan agreement and (ii) a deed of trust. I know that you likely have dozens (if not hundreds) of loan agreements and deed of trusts, but if the same forms were used, we can review the forms to find the information we need. If multiple forms were used, please provide us a copy of each form. The forbearance agreement will refer to these documents, and will ideally detail how/where the debtor breached the terms of the agreement, but will include language regarding the lender's agreement to forbearance from pursuing its claims based on those breaches.

Thank you.

Daniel A. Schenck

CLARK HILL PLC

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480.684.1118 (direct) | 480.684.1179 (fax)  
Licensed in Arizona, California, Utah and Nevada  
[dschenck@clarkhill.com](mailto:dschenck@clarkhill.com) | [bio](#) | [www.clarkhill.com](http://www.clarkhill.com)

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FEDERAL TAX ADVICE DISCLAIMER: Under U. S. Treasury Regulations, we are informing you that, to the extent this message includes any federal tax advice, this message is not intended or written by the sender to be used, and cannot be used, for the purpose of avoiding federal tax penalties.

CH\_0001411

**WHEN RECORDED MAIL TO:**

DenSco Investment  
6132 W. Victoria Place  
Chandler, AZ 85226

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

**DEED OF TRUST AND ASSIGNMENT OF RENTS**

Date: January 17, 2014

**TRUSTOR:** Arizona Home Foreclosures, LLC

Address: 7320 W Bell Rd., Glendale, AZ 85308

**BENEFICIARY:** DenSco Investment Corporation, an Arizona corporation ("Lender")

Address: 6132 W. Victoria Place, Chandler, AZ 85226

**TRUSTEE:** Quality Loan Service Corp

Address: 2141 5<sup>th</sup> Ave., San Diego, CA 92101

**PROPERTY** in the County of Maricopa, State of Arizona, described as: Lot 276, Subdivision Sunset Vista, according to Book 695, of Maps, Page 24, in the plat record in the Recorder's Office of Maricopa County, Arizona.

Street address: 25863 W St. James Ave., Buckeye, AZ 85326

**WITNESSETH** THAT Borrower does hereby irrevocably grant, bargain, sell and convey to Trustee, in trust, with power of sale, the above-described real property,

**TOGETHER WITH** all the improvements now or hereafter erected on the Property, and all easements, appurtenances and fixtures now or hereafter a part of the Property, and all rents, issues and profits thereof, **SUBJECT, HOWEVER,** to the right, power and authority hereinafter given to and conferred upon Lender to collect and apply such rents, issues and profits. All replacements and additions also shall be covered by this Deed of Trust. All of the foregoing is referred to in this Deed of Trust as the "Property."

**FOR THE PURPOSE OF SECURING:**

A. Performance of each and every agreement of Borrower herein contained. B. Payment of the principal sum of \$43,500.00 (U.S. \$Forty-three Thousand Five Hundred Dollars and No Cents). This debt is evidenced by Borrower's NOTE or NOTES dated the same date as this DEED OF TRUST, and any extension or renewal thereof (collectively, if applicable, the "Note"). C. Payment of all additional sums and interest thereon which at any time now or hereafter are owed by Borrower to Lender, or its successors or assigns. D. Payment of any amounts hereafter advanced by Lender or paid on behalf of Borrower to perform any duties or obligations of Borrower hereunder, or otherwise to protect the Property or the lien of this Deed of Trust.

**TO PROTECT THE SECURITY OF THIS DEED OF TRUST, BORROWER AGREES:**

1. Borrower has the right to grant and convey the Property and that Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

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2. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

3. Unless applicable law provides otherwise, all payments received by Lender under Paragraph 2 shall be applied first in payment of any costs or charges, then to Default Interest (as defined in the Note) accrued, then to interest accrued, and then to reduce principal.

4. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Deed of Trust, and leasehold payments or ground rents, if any. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Paragraph 4. Borrower shall promptly furnish to Lender receipts evidencing the payments.

5. Borrower shall promptly discharge any lien in which has priority over this Deed of Trust unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Deed of Trust. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Deed of Trust, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more actions set forth within 10 days of the beginning of notice

6. Borrower shall keep said Property in good condition and repair; not to remove or demolish any building thereon unless part of the construction plan approved in writing by Lender; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefor; to comply with all laws affecting said Property or requiring any alterations or improvements to be made thereon; not to commit or permit waste thereof; not to commit, suffer or permit any act upon said Property in violation of law; to cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of said Property may be reasonably necessary, the specific enumerations herein not excluding the general

7. Borrower shall provide, maintain and deliver to Lender fire insurance and general liability insurance on the Property satisfactory to and with loss payable to Lender. The amount collected under any fire or other insurance policy may be applied by Borrower upon any indebtedness secured hereby and in such order as Borrower may determine, or at option of Borrower the entire amount so collected or any part thereof may be released to Lender. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

8. Borrower shall appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Lender or Trustee; and to pay all costs and expenses, including cost of evidence of title and attorneys' fees in a reasonable sum, in any such action or proceeding in which Lender or Trustee may appear.

9. Borrower shall pay immediately and without demand all sums expended by Lender or Trustee pursuant to the provisions hereof, with interest from date of expenditure, at the rate of interest found on the Note.

10. Borrower shall not cause or permit the presence, use, disposal, storage or release of any Hazardous Substances on or in the Property. Borrower shall not do or allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use or storage on the Property of small immaterial quantities of Hazardous Substances that are generally recognized to be appropriate to normal cleaning and maintenance purposes of a commercial or residential property. Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property or any Hazardous Substance or Environmental Law of which Borrower has actual or constructive knowledge. If



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Borrower learns, or is notified by any governmental or regulatory authority, that any removable or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Laws. As used in this Paragraph 10, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides or herbicides, volatile solvents, materials containing asbestos, formaldehyde or dioxins, and radioactive materials. As used in this Paragraph 10, "Environmental Law" means all federal laws and laws of the state, county and city of the jurisdiction where the Property is located that relates to health, safety or environmental protection.

**IT IS MUTUALLY AGREED:**

11. Should Borrower fail to make any payment or to do any act as herein provided, then Lender or Trustee, but without obligation so to do and without notice to or demand upon Borrower and without releasing Borrower from any obligation hereof, may: (a) make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Lender or Trustee being authorized to enter upon said Property for such purposes; (b) appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Lender or Trustee; (c) pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgement of either appears to be prior or superior hereto, and (d) in exercising any such powers, or in enforcing this Deed of Trust by foreclosure, pay necessary expenses, employ counsel and pay his reasonable fees. Any amounts dispersed by Lender under this Paragraph 11 shall become additional debt of Borrower's, secured by this Deed of Trust unless Borrower and Lender agree to other terms of payment, these amounts shall be payable, with interest, upon demand from Lender to Borrower.

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12 Any award of damages in connection with any condemnation for public use of or injury to said Property or any part thereof is hereby assigned and shall be paid to Lender who may apply or release such monies received by it in the same manner and with the same effect as above provided for disposition of proceeds of fire or other insurance.

13. TIME IS OF THE ESSENCE IN EACH COVENANT OF THIS DEED OF TRUST; and that by accepting payment of any sums secured hereby after its due date, Lender does not waive its right either to require prompt payment when due of all other sums so secured or to declare default for failure to pay.

14. At any time or from time to time, without liability therefor and without notice, upon written request of Lender and presentation of this Deed of Trust and said Note for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby, Trustee may: (a) reconvey all or any part of said Property, consent to the making of any map or plat thereof, (b) join in granting any easement thereon; or (c) join in any extension agreement or any agreement subordinating the lien or change hereof.

15. As additional security, Borrower hereby gives to, confers upon and assigns to Lender the right, power and authority during the continuance of these Trusts, to collect the rents, issues and profits of said Property, reserving unto Borrower the right, prior to any default by Lender payment of any indebtedness secured hereby or in performance of any agreement hereunder, to collect and retain such rents, issues and profits as they become due and payable. Upon any such default, Lender may at any time without notice, either in person, by agent or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of said Property or any part hereof, in its own name sue for or otherwise collect such rents, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Lender may determine. The entering upon and taking possession of said Property, the collection of such rents, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice

16 The failure of Borrower to comply fully with the terms of the Note or this Deed of Trust shall constitute an immediate default hereunder, and the occurrence of any default under any other notes or deeds of trust

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between the parties securing any other indebtedness owed by Borrower to Lender shall also constitute a default under this Deed of Trust. Upon any such default, Lender shall have the right, at its election, to accelerate immediately any or all of the loans, and proceed to enforce all of Lender's rights, in accordance with Arizona law, including without limitation, the right to foreclose any or all of the deeds of trust and pursue a deficiency judgment(s).

If the Property is sold, assigned or transferred, whether voluntarily, involuntarily, or by operation of law, the entire principal balance together with accrued interest and all other charges shall become immediately due and payable.

17. Notice of sale having been given as then required by law, and not less than the time required by law having elapsed, Trustee, without demand on Borrower, shall sell said Property at the time and place fixed by it in said notice of sale, either as a whole or in separate parcels and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee shall deliver to the purchaser its deed conveying the Property so sold, but without any covenant or warranty express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Borrower, Trustee or Lender, may purchase at such sale.

After deducting all costs, fees and expenses of Trustee and of this Trust, including cost of evidence of title and reasonable attorneys' fees in connection with sale, Trustee shall apply the proceeds of sale to payment of; all sums then secured hereby and all other sums due under the terms hereof, with accrued interest; and all other sums then secured hereby, and the remainder, if any, to the person or persons legally entitled thereto, or as provided in A.R.S. § 33-812. To the extent permitted by law, an action may be maintained by Lender to recover a deficiency judgment for any balance due hereunder. Lender may foreclose this Deed of Trust as a realty mortgage.

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If Property under this Deed of Trust is located in more than one county, regardless of whether Property is contiguous or not, Trustee may sell all Property in any one of the counties in which part of Property is located; and unless Trustee receives contrary written instructions from Lender or Borrower, Trustee may sell all Property either in parcels or in whole.

If indebtedness secured hereby is secured by one or more other deeds of trust, the upon default of Borrower in payment of indebtedness or performance of any other agreement with Lender, Trustee may sell Property subject to this Deed of Trust and to any other deeds of trust securing said indebtedness at Trustee's sale conducted serially.

Trustee is not obligated to notify any party hereto of pending sale under any other deeds of trust, or of any action or proceeding in which Borrower, Lender or Trustee shall be a party, unless brought by Trustee.

18. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term Lender shall mean the holder and owner of the Note secured hereby; or, if the Note has been pledged, the pledgee thereof. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

19. Lender may, for any reason or cause, from time to time remove Trustee and appoint a substitute/successor trustee to any Trustee appointed hereunder, and when any such substitution has been filed for record in the Office of the Recorder of the County in which the Property herein described is situated, it shall be conclusive evidence of the appointment of such trustee or trustees. Without conveyance to the Property, the successor trustee shall succeed to all the title, power and duties conferred upon Trustee herein and by applicable law.

**NOTE SECURED BY DEED OF TRUST**

\$43,500.00

Phoenix, AZ (Date) January 17, 2014

Property Address: 25863 W St. James Ave., Buckeye, AZ 85326

For value received, Arizona Home Foreclosures, LLC ("Maker") promises to pay to the order of DenSco Investment Corporation or assigns (the "Holder"), at 6132 W. Victoria Place, Chandler, AZ 85226 (or at such other place as the Holder may designate in writing), in lawful U.S. money the principal sum of \$43,500.00 (Forty-Three Thousand Five Hundred Dollars and No Cents) plus interest calculated on the basis of a 360-day year and charged for the actual number of days elapsed, from the date hereof until paid on the principal balance from time to time outstanding.

Interest shall accrue on the principal sum outstanding at the rate of eighteen percent (18%) per annum, and shall be payable monthly commencing one month from the date hereof (provided, however, that if there is no comparable date in the following month to the date on which this Note is executed, monthly installments of interest hereunder shall be due and payable on the last day of each of the five succeeding months). The entire principal balance, together with all unpaid accrued interest, shall be due and payable as a balloon payment on March 12, 2014, the date six months from the date of funding under this Note, or upon any earlier acceleration (the "Maturity Date"). If any payment becomes past due for more than five calendar days, Maker shall pay to Holder, in addition to the amount of the overdue payment, a late charge equal to ten percent (10%) of the unpaid accrued interest element of such overdue payment.

In addition to any late charge on past due payments, interest will accrue at the rate of twenty-nine percent (29%) per annum ("Default Interest") on the unpaid principal balance upon the occurrence of a "Default" (hereafter defined). A "Default" shall occur (i) if any installment of accrued interest is not paid within 5 days of the date such payment was due, (ii) if the Note and all outstanding charges are not paid by the Maturity Date (for which no grace period is allowed), (iii) if there is a failure to comply with any of the terms of this Note or the Deed of Trust or guaranty which secures this Note, (iv) upon any bankruptcy, insolvency, dissolution or fraudulent conveyance by Maker, (v) upon any seizure, attachment or levy of Maker's assets, or (vi) upon the occurrence of any default under any other obligation of Maker to Holder. Further, at Holder's option after Default, all remaining unpaid principal and accrued interest shall become due and payable immediately without notice (other than any declaration prescribed in applicable sections of the agreements under which such events of default arose), presentment, demand or protest, all of which hereby are waived. TIME IS OF THE ESSENCE.

Maker agrees to an effective rate of interest that is the above rate, plus any additional rate of interest resulting from charges or benefits received by Holder which a court or governing agency deems to be in the nature of interest paid. All payments on this Note shall be applied first in payment of any costs, fees or charges incurred in connection with the indebtedness evidenced hereby, then to Default Interest accrued, then to interest accrued, and then to reduce principal. This Note is secured by a Deed of Trust executed contemporaneously herewith.

Maker waives demand, diligence and presentment for payment, protest, and notice of extension, dishonor, protest and nonpayment of this Note. If Default occurs, Maker promises to pay all costs of collection, court and foreclosure, including reasonable attorneys' fees. No renewal or extension of this Note, delay in enforcing any right of Holder under this Note, acceptance of any late payment, or assignment by Holder of this Note shall constitute a waiver of Holder's right to exercise any of its rights during the continuance of any Default or upon a subsequent Default, or otherwise limit the liability of Maker. All rights of Holder under this Note are cumulative and may be exercised concurrently or consecutively at Holder's option.

If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative. This Note shall be construed in accordance with the laws of the State of Arizona, irrespective of its choice of law principles. This Note shall be binding upon Maker and its successors and assigns.

Signed this date: \_\_\_\_\_

Borrower: Arizona Home Foreclosures, LLC

By: X

Name & Title: Yomtov S Menaged, managing member of LLC

Personally Guaranteed by: X

Printed Name: X

357665v1

Monthly Installments

6/5/2007

CH\_0001417

20. The Note or a partial interest in the Note (together with this Deed of Trust) may be sold one or more times without notice to Borrower. A sale may result in the change of the person who collects monthly payments due under the Note and this Deed of Trust.

21. Borrower/mortgagor hereby waives, releases and discharges any homestead exemption claimed or declared against Property

22. If any term or provision of this Deed of Trust is held invalid or unenforceable by a court or arbitrator of competent jurisdiction, such terms shall be reduced or otherwise modified by such court or arbitrator to the minimum extent necessary to make it valid and enforceable. If such term or provision cannot be so modified, it shall be severed and the remaining terms and provisions of this Deed of Trust shall be interpreted in such a way as to give maximum validity and enforceability to this Deed of Trust. The remaining terms and provisions hereof shall continue in full force and effect.

23. Upon payment of all sums secured by this Deed of Trust, Lender shall release this Deed of Trust without charge to Borrower, except that Borrower shall pay any recordation costs.

Upon written request of Lender stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and said Note to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held thereunder. The recitals in any reconveyance executed under this Deed of Trust of any matters or facts shall be conclusive proof of the truthfulness thereof. Borrower in such reconveyance may be described as "the person or persons legally entitled thereto."

Request is hereby made that a copy of any notice of default and a copy of any notice of sale hereunder be mailed to Borrower at its/his/her address hereinbefore set forth.

**BORROWER:** Arizona Home Foreclosures, LLC

**NAME and Title of Principal Borrower:** Yomtov Scott Menaged, Managing Member of LLC

**SIGNATURE:** \_\_\_\_\_

STATE OF ARIZONA     )  
  ) ss.  
COUNTY OF MARICOPA )

This Instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2014  
By: YomTov Menaged

Commussion Expires: \_\_\_\_\_  
Notary

When recorded, mail to.

DenSco Investment  
6132 W. Victoria Place  
Chandler, AZ 85226

### MORTGAGE

January 17, 2014

The undersigned borrower ("Borrower") acknowledges receipt of the proceeds of a loan from DenSco Investment Corporation ("Lender") in the sum of \$169,000.00, as evidenced by check payable to: First American Title Ins Co ("Trustee"). The loan was made to Borrower to purchase the Real Property legally described as: Lot 217, Subdivision Monterey Point 11, according to the plat Book 363, of Maps, Page 48, in the plat record in the Recorder's Office of Maricopa County, Arizona. Address: 510 S Jackson St., Chandler, AZ 85225 At a trustee's sale conducted by Trustee, which took place on January 16, 2014, Borrower became the successful purchaser with the highest bid, and the loan is intended to fund all or part of the purchase price bid by Borrower at such trustee's sale.

Borrower has promised to pay Lender or assignee the full amount of the loan, with interest at the rate of 18% per annum from the date of this Receipt until paid in full, such amounts to be due and payable in full based on due date from promissory note.

Borrower hereby grants to Lender or assignee a first, prior and superior equitable lien and mortgage against the Real Property to secure payment of the loan. The undersigned principal of Borrower (who shall derive benefits from the loan, in order to induce Lender to extend the loan to Borrower) hereby irrevocably and unconditionally guarantees and promises to pay to Lender upon demand the full loan amount and all other sums payable or to become payable hereunder if Borrower fails to pay any such amounts when due. Borrower further agrees to execute, acknowledge and deliver to Lender such further documents as may be necessary to effectuate the intent of this transaction. Borrower has delivered to Lender a promissory note and deed of trust, and Borrower agrees that the deed of trust shall be recorded against the Real Property as a first, prior and superior lien and encumbrance simultaneously with the recording of the Trustee's Deed. Borrower further agrees to cause the undersigned principal of Borrower to execute, acknowledge and deliver a guaranty of the amounts lent by Lender under said promissory note.

Borrower: Arizona Home Foreclosures, LLC

Name & Title of Principal Borrower: Yomtov Scott Menaged, Managing Member of LLC  
Signature: \_\_\_\_\_

State of Arizona     )  
                                  ) ss.

County of Maricopa    )

Subscribed, sworn to and acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2014.

By: Yomtov Scott Menaged

Commission Expires. \_\_\_\_\_

\_\_\_\_\_  
Notary Public

# **Exhibit 4**

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	)	No. CV2017-013832
corporation,	)	
	)	
Plaintiff,	)	
v.	)	
	)	
Clark Hill PLC, a Michigan	)	
limited liability company;	)	
David G. Beauchamp and Jane	)	
Doe Beauchamp, husband and	)	
wife,	)	
Defendants.	)	
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DEPOSITION OF SCOTT ALLEN GOULD

Phoenix, Arizona  
June 20, 2019  
9:04 a.m.

REPORTED BY:

Annette Satterlee, RPR, CRR, CRC  
Arizona CR No. 50179  
Registered Reporting Firm R1012

1 Levine; about five different LLC's owned by Elliott  
2 Pollack, which is an economist in the southwestern  
3 market, mostly real estate based; several of the Zurbeeb  
4 CK family which live in Arcadia.

5 Q. All right. So let me show you Exhibit 962.

6 If you look at 962, Scott, it indicates it's  
7 an Articles of Incorporation for DenSco Investment  
8 Corp., and it identifies you as one of the directors for  
9 the company. Do you see that?

10 A. Yes.

11 Q. I think that this is when the company, DenSco,  
12 was originally formed. Does this -- if you look at the  
13 second page it indicates -- and the third page --  
14 there's a date of April 2001.

15 Does that timing square with your memory about  
16 when DenSco got started as a business?

17 A. It's 100 percent refreshing my memory.

18 Q. All right. So do you think that you were a  
19 part of the founding of DenSco in 2001?

20 A. Yes.

21 Q. And what were your responsibilities at DenSco  
22 when it was first formed?

23 A. I had already received a cease-and-desist from  
24 being able to solicit or create any type of security.

25 And so that was all happening at that point in time.



1 But Denny Chittick was well known by many  
2 investor-type mentalities, and Denny said, I think I can  
3 put together a company and create the capital necessary  
4 through his solicitations and his relationships. And I  
5 was already known at that time as a person involved in  
6 real estate lending, and I became a consultant  
7 relationship in exposing Denny to different opportunity  
8 in the early 2000s.

9 Q. And do you recall how you were compensated for  
10 that work?

11 A. In the original agreement, I was to get  
12 compensated 50 percent of the profit in the company with  
13 no salary, no draws.

14 Q. So were you paid on an annual basis?

15 A. I can't remember that. But it would have been  
16 at least annual or less.

17 Q. Do you remember how long you had that  
18 arrangement where you were getting 50 percent of the  
19 profits of DenSco?

20 A. Just backing up, was it started in 2001?

21 Q. Yes. The date of this document, the articles,  
22 it looks like April 2001.

23 A. Well, in the first couple years it started off  
24 very, very, very slow. Because Denny thought that he  
25 was -- Dennis, or Denny, thought that he was capable of

1 conversation. Do you think --

2 A. Yeah. He -- the volume was really just a  
3 cleanup volume. In 2009, '10 he bought some of the  
4 properties himself with his own money. The lending  
5 opportunities were super, super low, so I wasn't part of  
6 hardly any meetings. He had built his new house, he had  
7 gotten married. You know, he started the family life,  
8 and I did the same. I just didn't create kids, I  
9 inherited them via marriage.

10 So our lives went different directions. His  
11 wife was no longer a cheerleader, you know, for the  
12 Suns, which I was a season ticket -- or patron of 90  
13 percent of the games. And that's where I became more of  
14 a social friend of Denny, was both of us being at the  
15 Suns games.

16 Q. So let me ask. When do you think you ceased  
17 having a formal role within DenSco where you were  
18 actually earning income?

19 A. Well, I think since the pay plan was only  
20 profit-based, I could say that it probably stopped in  
21 2008. To say when Denny made it clear that, I'm not  
22 looking for any, not one percent, help from you, not  
23 one-tenth of a percent from me, would have been more  
24 like the 2011-2012 timeframe.

25 Q. So you stayed apprised of the company's

1 acquiring trust deeds for any lending into residential  
2 and commercial projects, establishing loan-to-value  
3 guidelines and limiting financing to short terms.

4 Did I read that correctly?

5 A. Yes.

6 Q. And would that be an accurate description of  
7 what DenSco's intentions were in the 2000s when you were  
8 there?

9 A. That was a heavy part of my guidance because I  
10 really thought that diversification was so important,  
11 never knowing who was going to die when and what  
12 happens. So my value to DenSco was helping him have a  
13 greater number of borrowing base.

14 Q. So had Denny Chittick been an investor at  
15 REEL? Real Estate Equity?

16 A. Yes.

17 Q. And did he continue to be an investor there  
18 even while he was owning DenSco?

19 A. I would believe not, but I don't have proof of  
20 it.

21 Q. All right.

22 A. I don't think so.

23 Q. But he would have gained experience -- prior  
24 to forming DenSco, he would have gained experience in  
25 the lending business at REEL; correct?

1           A.     Yeah. He actually mentored with Robert  
2 Koehler and myself and Mike Coffman for somewhere  
3 between six and 12 months before deciding to create a  
4 company.

5           Q.     When you use the word "mentored with," does  
6 that mean someone was a mentor for you and you were a  
7 protege? Or does it mean you were mentoring others?

8           A.     We were mentoring Denny.

9           Q.     Okay.

10          A.     And he really had hoped to go to work with  
11 Real Estate Equity Lending. And between Mike Coffman  
12 and Tim Crown's influence to Mike Coffman, he said: I  
13 don't think you need Denny. And that's when, you  
14 know -- and Denny was like in shock. And I felt sorry  
15 for Denny because I thought that, you know, Mike would  
16 be willing to hire him, and he didn't.

17          Q.     Who else mentored Denny while he was at Real  
18 Estate Equity, other than yourself?

19          A.     Robert Koehler.

20          Q.     I didn't cover this and I should have.

21                 What was the general business that Insight was  
22 involved in?

23          A.     They, they were distributors marketing for  
24 lots of different computer high-tech properties. So  
25 somebody might be calling for Brand X, and the telephone

1 Q. No findings, no anything?

2 A. I think I'm investigated every day. They just  
3 don't have to tell you.

4 Q. Right.

5 A. They will tell you if you did something wrong,  
6 but they don't tell you if you've done something right.

7 Q. But no formal findings or any sort of --

8 A. No.

9 Q. -- penalties or anything since roughly 2000 or  
10 whatever. Right?

11 A. Correct.

12 Q. Okay. So this -- the experiences you've had  
13 as it relates to regulatory bodies and securities, and  
14 doing things in compliance with securities laws, you  
15 conveyed the importance and significance of that to  
16 Mr. Chittick and Mr. Koehler?

17 A. Everybody I've dealt with.

18 Q. And have you also discussed with them the  
19 importance of disclosure to investors so the investors  
20 know what it is that they're investing in? Important  
21 information about investments?

22 A. And I think everybody at RLS to DenSco  
23 really -- their internal side says that they want to  
24 disclose everything they possibly can.

25 Q. Any doubt in your mind that during the time

1 that you worked with Denny Chittick and DenSco that they  
2 understood the importance of complying with securities  
3 laws and disclosing important information to investors?

4 A. I agree that they did.

5 Q. And they understood -- Denny Chittick  
6 understood the importance of that. Right?

7 A. Yes.

8 Q. Let me talk about -- and I think we're done  
9 with this Exhibit 966.

10 You indicated that you and Robert Koehler  
11 mentored Denny Chittick in connection with lending  
12 practices and procedures. Right?

13 A. Well, Robert did all of my paperwork and he  
14 kept the files in order. And he came from the banking  
15 side of life and his computer skill set was a thousand  
16 percent better than mine, which is why I hired him.

17 And Denny, coming from what I call the  
18 computer generation, was very excited to be able to take  
19 what he learned from Robert to make an efficient  
20 operation on his own behalf.

21 Q. So let me kind of go through some of the  
22 earmarks that we've talked about of being a prudent  
23 lender.

24 Do you believe that with your experience with  
25 Denny Chittick that he understood the importance of

1 having favorable loan-to-value ratios on the loans that  
2 he made?

3 A. I do.

4 Q. Do you believe that he understood the need to  
5 perform due diligence on the properties that would  
6 secure the loans that DenSco would make?

7 A. Yes.

8 Q. And what does that consist of, Scott?

9 A. So you can go from the very highest level,  
10 where you have lots of time and there's money to justify  
11 an appraisal, to doing a drive-by to the property and  
12 going to MLS and using comps on that system, to using  
13 the most common sense of looking at the property and  
14 then comparing it to other properties of a similar, you  
15 know, square footage; neighborhood; you know,  
16 construction quality.

17 And so time was always the question because  
18 being a fast money lender, sometimes you only had ten  
19 minutes. Sometimes you had 24 hours. Sometimes you had  
20 a week. But no matter what you had, you wanted to use  
21 your best resources, if it's an employee to go look at a  
22 property, if it's a telephone call to a real estate  
23 agent that you have a relationship with in that  
24 neighborhood, whatever you can gain the most knowledge.

25 And in the foreclosure arena, since we were

1 the biggest people in town lending, RLS Capital and Real  
2 Estate Equity Lending, it was often where we had five  
3 people trying to buy the same property. Well, that was  
4 a comfort level for me to know that five people are  
5 calling, saying: We're looking at buying this property,  
6 do you have money to lend \$250,000, we're looking at  
7 buying it for 325?

8           And when you have five people giving the same  
9 story -- it just needs new appliances, it needs the  
10 landscape cleaned up and needs a paint job -- when the  
11 stories were consistent, that's the way that we used a  
12 lot, also.

13       Q.    So the circumstances might change, but you  
14 would have shared with Denny Chittick and he would have  
15 understood that he should perform as much due diligence  
16 as he could to determine the value of the property  
17 against which he is loaning money. Right?

18       A.    Absolutely. And I think that was my value,  
19 because I've lent in just about every square block in  
20 town. When you gave me your address, I said: Oh,  
21 you're just a couple doors down from a place that I had  
22 a loan on; yes, I know where you live.

23       Q.    But were you able to determine at some point  
24 in time that Denny did do the due diligence and did know  
25 property values and neighborhoods?



1           A.     Denny was a computer guy and he liked to do  
2 everything he possibly could on the computer and what he  
3 heard from somebody on the phone. In the, you know,  
4 first, six, seven, eight, nine years, he used me as a  
5 reference: What do you think? And, you know, "What do  
6 you think?" went away in 2011, '12, where I wasn't  
7 included at all, you know, after that.

8           Q.     The idea of having a diverse borrowing base,  
9 we talked about a moment ago. Did you communicate with  
10 Denny Chittick, and did he understand to your knowledge,  
11 the importance that DenSco have a diverse borrowing  
12 base?

13          A.     I would hope so. Because I preach it all the  
14 time.

15          Q.     Well, and his -- I won't go through the  
16 Private Offering Memorandum that he gave to his  
17 investors, but it did talk about the importance of a  
18 diverse borrowing base and the intent not to make too  
19 many loans with any one particular borrower.

20                   But that would be consistent with what you  
21 were preaching to him. Right?

22          A.     Yes.

23          Q.     Is it important that -- well, let me step  
24 back.

25                   And did you also communicate with him during

1 the time you worked with him and did he understand the  
2 importance of having first position trust deeds on the  
3 properties against which DenSco was lending money?

4 A. Denny definitely knew that.

5 Q. Let's talk in terms of the context of a  
6 trustee's sale as opposed to a loan to a homebuilder.

7 In the context of a trustee's sale, can you go  
8 through with us what you would have told him was the  
9 proper approach to make sure that DenSco was properly  
10 secured against the property that was the subject of the  
11 trustee's sale?

12 A. There was two times that we would learn about  
13 making the loan. We would have a relationship with a  
14 borrower that might call up and say: Do you have money  
15 if I buy this? Because they were counting on Denny  
16 being his source, or me being a source. And if you  
17 don't have money, there's not a good loan.

18 You have other people that just assume there  
19 will be a lender, so they go to the foreclosure sale,  
20 they purchase a property. Once upon a day, it was a  
21 thousand dollars down. It's switched in the last 12, 13  
22 years to \$10,000 down, nonrefundable, if you were the  
23 successful bidder.

24 And then they would, you know, call up. They  
25 might call up Scott Gould, they might call up Robert

1 Koehler, they might call up Denny Chittick, they might  
2 call up AFG, they might call up Mike Coffman, they might  
3 call up, you know, John Atnip, Brian Mortensen -- all  
4 known people, you know, as lenders, you know, on  
5 foreclosure sales in this town.

6           And so they -- assuming they bought the  
7 property, we usually would ask them to send over their  
8 successful bid sheet that just showed that they bought  
9 the property for a certain dollar amount. It would also  
10 identify who they were going to vest it into. And in  
11 the early years, the trustees were very willing to allow  
12 that vesting to be changed. But some of the more  
13 disciplined trustees, like Michael Bosco in later years,  
14 said: We want you to have the vesting be in the exact  
15 entity that you're going to take ownership on the  
16 property.

17           As a lender, our preference is always to be  
18 able to make a loan to the entity which was listed as  
19 the buyer of the trustee's vesting sheet. Because then  
20 when we went to go pay for it -- which was the next part  
21 of the sequence, is they might call, say: We bought a  
22 property for a hundred thousand, how much would you  
23 lend?

24           We would look and say: We think it's worth  
25 115, you got a good buy, so we're willing to lend you 80

1 percent of the purchase price. Still putting us at 70  
2 percent loan-to-value or better.

3           There were cases that people paid a hundred  
4 cents on the dollar and we said: We'll only loan you 70  
5 percent to hold the loan-to-value of the property.

6           So you come up with a decision: Yes, we will  
7 lend you \$70,000. You purchased it for \$100,000, you've  
8 already put down \$10,000, so we need you to get a  
9 cashier's check to the trustee for \$20,000, we will make  
10 a cashier's check to the trustee for \$70,000.

11           You come into our office, sign our documents,  
12 give us your check, and we would have our runner go pay  
13 the, you know, trustee and get a receipt that it's been  
14 paid for. And so we knew that we were the only ones  
15 paying for the property.

16           And I can't even remember at what point Denny  
17 used one of my runners in the company to do it versus  
18 after 2012, when he disassociated himself with our  
19 office, you know, personnel and staff, you know, to do  
20 some of those things. How he did it after that, I don't  
21 know, even though the conversation's come up in this  
22 case, you know, to suggest how he, you know, did it.  
23 But I didn't know at the time.

24           Q.   In terms of the mechanics of DenSco loaning  
25 money to a successful bidder at a trustee's sale, was it

1 important that you assured that the DenSco loan monies  
2 are provided directly to the trustee?

3 A. That was always our policy.

4 Q. And Denny Chittick understood that?

5 A. I know he knew that's how we did it pre-2012.  
6 Post that, he became a one-horse operation that  
7 diversified in himself amongst his time, you know, in  
8 his own way.

9 Q. But in terms of the prudent or careful way of  
10 making sure that the money being lent by DenSco was  
11 being properly used, you wanted to make sure that either  
12 DenSco itself or its runners got the money directly to  
13 the trustee. Right?

14 A. That's how I did it.

15 Q. It is clear now that there are times when  
16 Denny Chittick was providing the money being lent by  
17 DenSco directly to the borrower in connection with a  
18 trustee's sale.

19 That would not be a careful approach. Right?

20 A. All I could state is hearsay to me after the  
21 fact, that I've learned from other people that were  
22 investors and through the investigation that that's how  
23 he did it. But that's not something I was privy to  
24 until after the fact.

25 Q. No, I'm not trying in any way to indicate that

1 it's your responsibility.

2           What I'm trying to get made clear is to the  
3 extent Denny Chittick was providing the funds being lent  
4 by DenSco directly to borrowers, that was not a careful  
5 approach.

6           A.    I, I don't think so.

7           Q.    Because there isn't -- I mean I guess I'm  
8 stating the obvious, but you want to make sure that the  
9 money is being properly used so that you can acquire  
10 title to the property that's going to secure the loan.

11                  Right?

12           A.    Well, let me go through a couple  
13 hypotheticals.

14                  So if I wrote a check to Michael Bosco,  
15 trustee, for a certain dollar amount, and I gave it to  
16 somebody else to go pay for a property at Michael  
17 Bosco's, he may have had 20 sales in a day. So they may  
18 have used that check for a different property than the  
19 one intended for our check to go for.

20                  So that was part of my reason for why I liked  
21 to go pay for a specific property at a specific address,  
22 a specific vesting, you know, contract.

23           Q.    And if Denny Chittick were to lend money  
24 directly to a borrower, as opposed to making sure that  
25 the monies were safeguarded with the trustee, to acquire

1 the property securing the loan, you're relying on the  
2 good faith and honesty of the borrower to do the right  
3 thing. Right?

4 A. You are on that side. But you also have your  
5 paperwork, being your deed of trust. And so the deed of  
6 trust has to get recorded in the right sequence. So the  
7 vesting company, being the trustee, has to record the  
8 new deed in that new vesting company's name, and then  
9 you have to record your deed of trust appropriately one  
10 second after that. And so there's still that room of  
11 potential falsification that happens. And that's why  
12 you mentioned the condition of title, you know, which  
13 was a clouding thing.

14 So there is risk involved in everything going  
15 right. But just knowing that the deed was paid for --  
16 or the vesting was paid for appropriately, I always took  
17 the control to make sure that it was paid for that  
18 specific property.

19 Q. Because if you were to give the funds being  
20 lent on the loan directly to the borrower as opposed to  
21 making sure the funds were properly used with the  
22 trustee, a dishonest borrower could take advantage of  
23 the lender. Right?

24 A. Yes.

25 Q. And you know now, and we know now, that that

1 talking to Robert a little bit about, you know, this  
2 case that, you know, he said, yes, we had used Beauchamp  
3 also, you know, back in the day.

4 MR. STURR: Thank you. Those are the  
5 questions I had.

6 MR. DeWULF: Thanks for coming down. We  
7 appreciate your time.

8 THE WITNESS: You're welcome.

9 MR. STURR: Scott, you have the right to  
10 review the transcript before it's finalized. I don't  
11 know if you want to do that.

12 MR. DeWULF: We can coordinate with you  
13 if you'd like to read what you said and --

14 THE WITNESS: It's just good for  
15 clarity.

16 MR. DeWULF: So what we'll do is,  
17 Annette, I'll coordinate with you and we'll make sure  
18 that he reads and signs.

19 All right. Thank you.

20 THE WITNESS: Sure.

21 (Deposition concluded at 12:50 p.m.,  
22 June 20, 2019.)

23

24

25

---

SCOTT ALLEN GOULD



## 1 CERTIFIED REPORTER'S CERTIFICATE

2 BE IT KNOWN that the foregoing proceeding was taken  
3 before me; that the witness before testifying was duly  
4 sworn by me to testify to the whole truth; that the  
5 questions propounded to the witness and the answers of  
6 the witness thereto were taken down by me in shorthand  
and thereafter reduced to typewriting under my  
7 direction; that the foregoing pages is a true and  
correct transcript of all proceedings had upon the  
8 taking of said proceeding, all done to the best of my  
9 skill and ability.

10 I CERTIFY that I am not related to, nor employed  
11 by, any of the parties hereto, nor am I in any way  
interested in the outcome thereof.

12 [XX] Review and signature was requested.

13 [ ] Review and signature was waived.

14 [ ] Review and signature was not requested.

15 I CERTIFY that I have complied with the  
16 ethical obligations in ACJA Sections 7-206(F)(3) and  
17 7-206(J)(1)(g)(1) and (2).

18 **Annette Satterlee**

Digitally signed by Annette  
Satterlee  
Date: 2019.07.02 11:48:27 -07'00'

19 Annette Satterlee, RPR, CRR  
20 AZ CR No. 50179

\_\_\_\_\_  
Date

21 I CERTIFY that JD Reporting, Inc., has complied  
22 with the ethical obligations in ACJA 7-260(J)(1)(g)(1)  
23 through (6).

24 JD Reporting, Inc.  
25 Registered Reporting Firm R1012

\_\_\_\_\_  
Date

# **Exhibit 5**

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.

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NO. CV2017-013832

**DEPOSITION OF ROBERT ZACKERY KOEHLER**

Phoenix, Arizona  
December 17, 2018  
9:35 a.m.

REPORTED BY:  
KELLY SUE OGLESBY, RPR  
Arizona CR No. 50178  
Registered Reporting Firm R1012

PREPARED FOR:

ROBERT ZACKERY KOEHLER, 12/17/2018

1 A. Yes, we do.

2 Q. Is that always the intent?

3 A. Yes.

4 Q. And how do you go about ensuring that you are in  
5 first position?

6 A. We record a first position deed of trust. We  
7 pay for the property ourselves. So we retain or receive a  
8 receipt for sale.

9 And you were just talking about foreclosure?

10 Q. Yeah. The trust -- the trustee sale process.

11 A. Trustee sale.

12 Q. Yeah.

13 A. Yeah. And then we record our deed of trust  
14 immediately.

15 Q. When you say you pay for the property ourselves,  
16 what do you mean by that?

17 A. We physically take the funds to the trustee to  
18 pay.

19 Q. Do you ever provide the funds to the borrower or  
20 the investor, directly to the borrower or the investor?

21 A. For them to pay?

22 Q. Yes.

23 A. No.

24 Q. What about a bidding company or a bidder?

25 A. No. We pay direct.

ROBERT ZACKERY KOEHLER, 12/17/2018

1 Q. Are you aware, sort of as a result of all that's  
2 happened, that Mr. Chittick did not follow, did not always  
3 follow the same procedures that you use?

4 A. Yes.

5 Q. Did you discuss his procedures in 2008, 2009,  
6 2010?

7 A. No.

8 Q. Were you aware, between 2008 and 2014, that  
9 Mr. Chittick would lend directly to the investor or to the  
10 borrower?

11 A. No.

12 Q. If you had been aware of that, what would your  
13 reaction have been?

14 A. I would have been upset, as an investor, and I  
15 would have tried to help Denny to make a better policy for  
16 DenSco.

17 Q. I have seen statements made that the idea of  
18 lending directly to the investor or directly to the  
19 borrower was commonplace in this sort of hard-money  
20 lending area.

21 would you agree with that?

22 A. I would agree with that, yes.

23 Q. Why don't you do that, if it's common?

24 A. Simply protection.

25 Q. Is this how you ensure you are in first

ROBERT ZACKERY KOEHLER, 12/17/2018

1 I don't know if valid is not the right word, but there was  
2 a better procedure.

3 Q. Without wanting to get into what your attorney  
4 told you, because I know you are not represented here, but  
5 I don't want to invade your attorney/client privilege,  
6 would you say that your -- your decision to provide the  
7 money directly to the trustee and record the deed of trust  
8 yourself, is that a process that arose as a result of your  
9 consulting with an attorney?

10 A. No.

11 Q. That's something you understood as being  
12 involved in this business?

13 A. Yes.

14 Q. Is that something you would have expected  
15 Mr. Chittick to understand?

16 A. Yes.

17 MR. RUTH: Mark this, please.

18 (Deposition Exhibit No. 647 was marked for  
19 identification.)

20 MR. RUTH: And, Geoff, this doesn't have a Bates  
21 label on it, but this was pulled out of the Chittick files  
22 that we received from you.

23 MR. STURR: Okay.

24 Q. (BY MR. RUTH) Robert, if you could just take a  
25 quick look and just take a look at this.

ROBERT ZACKERY KOEHLER, 12/17/2018

1 I'm about to switch topics. Let's take a real  
2 quick break.

3 A. Okay.

4 (A recess was taken from 10:23 a.m. to  
5 10:27 a.m.)

6 Q. (BY MR. RUTH) Robert, how did you first come to  
7 meet or get to know Mr. Chittick?

8 A. He was an investor in the first company I  
9 started working for, Real Estate Equity Lending.

10 Q. And was Real Estate Equity Lending your company?

11 A. No.

12 Q. Was it a company you worked for?

13 A. Yes.

14 Q. What was your position there?

15 A. I think I was the only employee, so whatever  
16 needed to be done.

17 Q. Mr. Chittick was an investor in that company?

18 A. Yes.

19 Q. And what business was that? What kind of loans  
20 or what kind of investments?

21 A. Similar type of loans. Commercial loans, some  
22 fix and flip back then, and some construction.

23 Q. And as a result of Mr. Chittick being an  
24 investor, how did you come to sort of get to know him or  
25 interact with him?

ROBERT ZACKERY KOEHLER, 12/17/2018

1       A.    He wanted to be more than an investor and wanted  
2   to learn the business, so I was kind of paired up with him  
3   to, you know, talk through what I knew, you know, of  
4   business at that time.

5       Q.    Who owned Real Estate Equity Lending?

6       A.    Mike Coffman.

7       Q.    Hoffmann?

8       A.    Coffman with a C.

9       Q.    And you said you were paired up with him?

10      A.    Yeah. They were -- they were friends and --

11      Q.    Mr. Coffman and Mr. Chittick?

12      A.    Mr. Coffman and Mr. Chittick. And then there  
13   was another party, Scott Gould. So I worked for -- and  
14   Scott Gould, I believe, was just an employee of Real  
15   Estate Equity Lending, so I worked for both of them.

16           And Mr. Chittick at the time wanted to, like I  
17   said, learn the business. I was the -- you know, I had  
18   the time to spend with him, so he drove around with me and  
19   we looked at properties together and looked at files and  
20   stuff like that.

21      Q.    Do you know what -- was Mr. Chittick simply an  
22   investor at the time? was he still working for another  
23   employer? was this something he was doing on the side?

24      A.    No. I believe he was just an investor. I'm  
25   pretty sure he was retired.



ROBERT ZACKERY KOEHLER, 12/17/2018

1 Q. You knew he had previously working at Insight?

2 A. Yes.

3 Q. He was no longer working at Insight at the time  
4 of this?

5 A. I don't think so, no.

6 Q. And do you recall about what time this was?

7 A. 2000, 2001, somewhere in there maybe. Yeah, I'm  
8 not exactly sure, but yes. My early years when I first  
9 started.

10 Q. And when he invested and when you were paired up  
11 with him, prior to that he had no experience in real  
12 estate lending?

13 A. Not that I know of.

14 Q. None that he shared with you?

15 A. Not that I recall, no.

16 Q. What all -- what would you consider part of your  
17 role in introducing him to this market?

18 A. Kind of we just -- he -- he tailed me,  
19 basically. He just -- kind of like a trainee would. So  
20 he would follow me to property inspections. He would sit  
21 next to me when I would take a loan app or data entry. He  
22 would help me as I put files together.

23 Q. Was part of -- I'm sorry. I didn't mean to cut  
24 you off.

25 A. That's okay.

ROBERT ZACKERY KOEHLER, 12/17/2018

1 Q. Was part of what you did at the time the fix and  
2 flip, purchasing property out of trustee sales?

3 A. Yes, we were lending to fix and flippers at that  
4 time.

5 Q. So was he your trainee in respect to that  
6 portion of the business as well?

7 A. Yeah. I believe we went to trustee sales  
8 together to watch them.

9 Q. Did you show him how to document those  
10 transactions?

11 A. I'm sure, yes. How to fill in deeds of trust,  
12 et cetera.

13 Q. Do you recall sort of part of that, I will put  
14 "training" in quotes, how to ensure that your loan is in  
15 first position on a piece of property?

16 A. I don't know that I was as qualified back then  
17 to make that judgment, but I would say yes. Whatever I  
18 knew, I was trying to share with him.

19 Q. Do you know if Real Estate Equity Lending at  
20 that time was providing funds directly to the trustee  
21 through trustee sales situations?

22 A. I don't remember how they were paid for then. I  
23 don't remember.

24 Q. What were your impressions of Mr. Chittick?

25 A. I liked him. He was smart. I was impressed

ROBERT ZACKERY KOEHLER, 12/17/2018

1 MR. STURR: Marvin -- since you probably don't  
2 know, a witness can ask for the right to review a  
3 transcript and make corrections to it.

4 THE WITNESS: Okay.

5 MR. STURR: And they can waive the right. You  
6 actually have to ask for it now. So if you wanted the  
7 right to review the transcript to make sure your testimony  
8 is accurate, we can -- you can make that request and  
9 Marvin or I will get you a copy, if that's what you would  
10 like. It's up to you. It's 30 days you will have to  
11 review it.

12 THE WITNESS: And I have a copy that I can  
13 review?

14 MR. RUTH: Yes, we will provide you one.

15 THE WITNESS: Yeah, I will take a copy of that.

16 MR. STURR: Okay.

17 (1:00 p.m.)  
18  
19

20 \_\_\_\_\_  
ROBERT ZACKERY KOEHLER  
21  
22  
23  
24  
25

ROBERT ZACKERY KOEHLER, 12/17/2018

BE IT KNOWN that the foregoing proceeding was taken before me; that the witness before testifying was duly sworn by me to testify to the whole truth; that the questions propounded to the witness and the answers of the witness thereto were taken down by me in shorthand and thereafter reduced to typewriting under my direction; that the foregoing is a true and correct transcript of all proceedings had upon the taking of said deposition, all done to the best of my skill and ability.

I CERTIFY that I am in no way related to any of the parties hereto nor am I in any way interested in the outcome hereof.

☒ Review and signature was requested.  
☐ Review and signature was waived.  
☐ Review and signature was not requested.

I CERTIFY that I have complied with the ethical obligations in ACJA Sections 7-206(F)(3) and 7-206-(J)(1)(g)(1) and (2).

Kelly Sue Oglesby  
Kelly Sue Oglesby  
Arizona Certified Reporter No. 50178

12/30/2018

Date

I CERTIFY that JD Reporting, Inc. has complied with the ethical obligations in ACJA Sections 7-206(J)(1)(g)(1) and (6).

JD REPORTING, INC.  
Arizona Registered Reporting Firm R1012

12/30/2018

Date

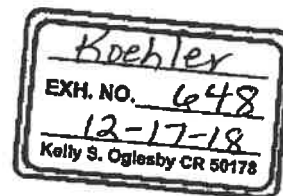
# **Exhibit 6**

**Gc:** Kevin McKiernan[kevin@postedproperties.com]; Denny Chittick[dcmoney@yahoo.com]; Scott Gould[scottgould@cox.net]; Robert Koehler[rzkoehler@yahoo.com]; mike@clearaz.com[mike@clearaz.com]; rob oakum[roboakum@gmail.com]; msverlyk@lmtwo.com[msverlyk@lmtwo.com]; Gregg S Reichman[reichman@activefinancegroup.com]; smena98754@aol.com[smena98754@aol.com]; msteinbeck@merchantsfundingllc.com[msteinbeck@merchantsfundingllc.com]; vanpelt75@gmail.com[vanpelt75@gmail.com]; tom@halefunding.com[tom@halefunding.com]; bmortensen@cox.net[bmortensen@cox.net]; aaronzeese@hotmail.com[aaronzeese@hotmail.com]; steve@turnerluxuryproperties.com[steve@turnerluxuryproperties.com]; lynnhoebing@cox.net[lynnhoebing@cox.net]  
**To:** Noah Brocious[noah@capitalfund1.com]  
**From:** Dan Diethelm  
**Sent:** Thur 9/22/2011 8:24:50 PM (UTC)  
**Subject:** Re: Investment Property Information per Your Request

Borrowers borrow money for the same property from multiple lenders giving each a Deed of Trust while telling each they are the only lender. Like kiting "checks" they are kiting Deed of Trust. The lenders can all argue about priority, but at the end of the day, it matters little as the money is long gone on hookers and blow.....

On Sep 22, 2011, at 12:15 PM, Noah Brocious wrote:

Can you explain what that is?



Noah Brocious  
Mortgage Loan Originator  
NMLS# 367074  
[Noah@CapitalFund1.com](mailto:Noah@CapitalFund1.com)  
Capital Fund I, LLC  
BK-0917799  
Company NMLS# 396288  
[www.CapitalFund1.com](http://www.CapitalFund1.com)  
7890 East McClain Drive | Suite 5 | Scottsdale AZ 85260  
o 480.889.6100 | c 602.689.1282  
<image001.jpg>

---

**From:** Dan Diethelm [mailto:diethelm@mindspring.com]  
**Sent:** Thursday, September 22, 2011 11:08 AM  
**To:** Noah Brocious  
**Cc:** Kevin McKiernan; Denny Chittick; Scott Gould; Robert Koehler; [mike@clearaz.com](mailto:mike@clearaz.com); rob oakum; [msverlyk@lmtwo.com](mailto:msverlyk@lmtwo.com); Gregg S Reichman; [smena98754@aol.com](mailto:smena98754@aol.com); [msteinbeck@merchantsfundingllc.com](mailto:msteinbeck@merchantsfundingllc.com); [vanpelt75@gmail.com](mailto:vanpelt75@gmail.com); [tom@halefunding.com](mailto:tom@halefunding.com); [bmortensen@cox.net](mailto:bmortensen@cox.net); [aaronzeese@hotmail.com](mailto:aaronzeese@hotmail.com); [steve@turnerluxuryproperties.com](mailto:steve@turnerluxuryproperties.com); [lynnhoebing@cox.net](mailto:lynnhoebing@cox.net)  
**Subject:** Re: Investment Property Information per Your Request

This opens up a greater possibility of the return of kiting of deeds of trust which was somewhat prevalent in the mid 70's and the late 80's.

On Sep 22, 2011, at 10:48 AM, Noah Brocious wrote:

Thanks.

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<image001.jpg>

---

**From:** Kevin McKiernan [mailto:[kevin@postedproperties.com](mailto:kevin@postedproperties.com)]

**Sent:** Thursday, September 22, 2011 10:47 AM

**To:** Noah Brocious; Denny Chittick; Scott Gould; Robert Koehler; [mike@clearaz.com](mailto:mike@clearaz.com); rob oakum; [mswerlyk@lmtwo.com](mailto:mswerlyk@lmtwo.com); Gregg S

Reichman; [smena98754@aol.com](mailto:smena98754@aol.com); [msteinbeck@merchantsfundingllc.com](mailto:msteinbeck@merchantsfundingllc.com); [vanpelt75@gmail.com](mailto:vanpelt75@gmail.com); [tom@halefunding.com](mailto:tom@halefunding.com); [bmortensen@cox.net](mailto:bmortensen@cox.net); [aaronzeese@hotmail.com](mailto:aaronzeese@hotmail.com); [steve@turnerluxuryproperties.com](mailto:steve@turnerluxuryproperties.com); [diethelm@mindspring.com](mailto:diethelm@mindspring.com); [lynnhoebling@cox.net](mailto:lynnhoebling@cox.net)

**Subject:** RE: Investment Property Information per Your Request

I will talk to my bidders and see what I can come up with.

## Kevin "Laser" McKiernan

P: 480-363-4893

F: 480-718-7584

[kevin@postedproperties.com](mailto:kevin@postedproperties.com)

<Image002.jpg>

---

**From:** Noah Brocious [mailto:[noah@capitalfund1.com](mailto:noah@capitalfund1.com)]

**Sent:** Thursday, September 22, 2011 10:37 AM

**To:** Denny Chittick; Scott Gould; Robert Koehler; [mike@clearaz.com](mailto:mike@clearaz.com); [kevin@postedproperties.com](mailto:kevin@postedproperties.com); rob oakum; [mswerlyk@lmtwo.com](mailto:mswerlyk@lmtwo.com); Gregg S

Reichman; [smena98754@aol.com](mailto:smena98754@aol.com); [msteinbeck@merchantsfundingllc.com](mailto:msteinbeck@merchantsfundingllc.com); [vanpelt75@gmail.com](mailto:vanpelt75@gmail.com); [tom@halefunding.com](mailto:tom@halefunding.com); [bmortensen@cox.net](mailto:bmortensen@cox.net); [aaronzeese@hotmail.com](mailto:aaronzeese@hotmail.com); [steve@turnerluxuryproperties.com](mailto:steve@turnerluxuryproperties.com); [diethelm@mindspring.com](mailto:diethelm@mindspring.com); [lynnhoebling@cox.net](mailto:lynnhoebling@cox.net)

**Subject:** RE: Investment Property Information per Your Request

Anyone finds a way around Bosco's new bullshit sale receipt policy? For those who haven't encountered it yet they now only give the bidder a receipt that shows the sale ID#. The bidder fills out the vesting info at Bosco's office and they don't get a copy. We called Bosco and they said they WILL NOT verify the vesting and that "you need to trust your bidder." I found that pretty entertaining – trust a bidder?

So, they won't tell you who is vested on the property until you pay for it – Jose Montes is going to have a hay day.

Let me know if anyone has heard anything different. Thanks.

Noah Brocious

Mortgage Loan Originator

NMLS# 367074

[Noah@CapitalFund1.com](mailto:Noah@CapitalFund1.com)

Capital Fund I, LLC

BK-0917799

Company NMLS# 396288

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o 480.889.6100 | c 602.689.1282

<image003.jpg>

---

**From:** Denny Chittick [mailto:[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)]

**Sent:** Monday, August 15, 2011 7:31 PM

**To:** Scott Gould; Robert Koehler; [mike@clearaz.com](mailto:mike@clearaz.com); [kevin@postedproperties.com](mailto:kevin@postedproperties.com); rob oakum; [mswerlyk@lmtwo.com](mailto:mswerlyk@lmtwo.com); Gregg S

Reichman; [smena98754@aol.com](mailto:smena98754@aol.com); [msteinbeck@merchantsfundingllc.com](mailto:msteinbeck@merchantsfundingllc.com); [vanpelt75@gmail.com](mailto:vanpelt75@gmail.com); [tom@halefunding.com](mailto:tom@halefunding.com)

Avoid this guy and anything to do with him like an ugly girl with herpes!  
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<image009.jpg>

<image004.jpg>

# **Exhibit 7**

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

**DEPOSITION OF GREGG REICHMAN**

Phoenix, Arizona  
April 23, 2019  
10:38 a.m.

REPORTED BY:  
KELLY SUE OGLESBY, RPR  
Arizona CR No. 50178  
Registered Reporting Firm R1012

GREGG REICHMAN, 4/23/2019

1 Q. How does the successful bidder know that you  
2 will make the loan on the bid at the trustee sale?

3 A. They never know.

4 Q. They just take the chance that you will be  
5 willing to fund, because they know something about your  
6 business?

7 A. No, they don't know anything about our business.  
8 They just assume that we are in the business of deploying  
9 debt capital to professional investors, and if we don't,  
10 someone else will. So, you know, we are -- we want to  
11 make the loan, so we are in the business to make these  
12 loans, and I have been doing it for 25 years so we are  
13 fairly well-known.

14 Q. When you fund a borrower at a trustee sale, to  
15 whom do you provide the funds?

16 A. Well, the borrower is the customer, but we don't  
17 ever let the borrower take control of any funds. So just  
18 so I understand your question correctly, your question is  
19 where do we send the funds, the payment funds?

20 Q. Yes.

21 A. To the trustee.

22 Q. On any of the loans that you have done at AFG,  
23 do you ever fund the loan directly to the borrower as  
24 opposed to through a third party, like a trustee, an  
25 escrow agent, title company, anything like that?

GREGG REICHMAN, 4/23/2019

1 A. I was a little bit confused by your question,  
2 because it was multiple questions.

3 Q. Okay. I appreciate the clarification.

4 So is -- do you -- in the practices that you are  
5 aware of at AFG, do you ever fund any loans directly to a  
6 borrower?

7 A. Where the borrower has -- let me just make sure  
8 I understand. Are you asking me if the borrower ever has  
9 control of the debt financing that we provide, the money?

10 Q. Yes.

11 A. No, the borrower never has control.

12 Q. Why is that?

13 A. Because I don't know what the borrower is going  
14 to do with it, so I am never going to give a borrower  
15 control of the money.

16 Q. So you want to make sure that the monies are  
17 used properly and put you --

18 A. For their intended purpose.

19 Q. Got it.

20 MR. ABRAHAM: Let him finish.

21 THE WITNESS: Okay.

22 Q. No. And that's my fault.

23 So the goal is to make sure the monies are used  
24 for the proper purpose and that AFG is properly secured on  
25 the loan, right?

GREGG REICHMAN, 4/23/2019

1 A. Both of those goals, yes.

2 Q. Does AFG ever allow itself to be put in a second  
3 inferior position to another loan?

4 A. Yes.

5 Q. And what occasion?

6 A. It -- it's -- we take it case by case. That's  
7 something, for your background, we never even -- we never  
8 considered until just the last couple of years.

9 Q. And when you do so, do you normally enter into  
10 some sort of a Subordination Agreement with the superior  
11 lender?

12 A. No.

13 Q. Can you give us an example of when it might  
14 occur where you would voluntarily agree to a second  
15 position?

16 A. Sure. An example of that would be a deal we did  
17 last week. A customer brought us six single-family  
18 residences. They are worth about \$2.4 million combined.  
19 The customer has institutional debt in senior position of  
20 about \$800,000 and they wanted \$400,000 of additional debt  
21 financing, so our all-in LTV was 50 percent and I liked  
22 the collateral, and so we were comfortable with a junior  
23 position lien on that.

24 Q. I understand. You used the word LTV. Is that  
25 loan-to-value ratio?

GREGG REICHMAN, 4/23/2019

1 Q. And do you recall around September 21, 2012,  
2 learning that Menaged had borrowed money either through  
3 his entities or directly from both Active Funding and  
4 DenSco, so there were two loans on at least three  
5 properties?

6 A. I remember during that time discovering that  
7 there were multiple deeds of trust. I want to be sure  
8 that I understand your characterization and what you said  
9 so that I can give you a precise answer.

10 You said Menaged borrowed money against, from  
11 multiple lenders against multiple properties. I never  
12 knew that. I knew there were deeds of trust that were  
13 more than one deed of trust on particular properties that  
14 my company had loans on. That I discovered.

15 Q. All right. So let me follow up on the way you  
16 have described it.

17 You knew as of September 21, 2012, that Active  
18 Funding had a deed of trust on a loan to Scott Menaged --

19 A. His company.

20 Q. -- to his company, where DenSco also had a loan  
21 and a deed of trust on that property for a loan to  
22 Menaged?

23 A. I discovered that, yes.

24 Q. Okay. How did you discover it?

25 A. Reviewing the chain of title.



GREGG REICHMAN, 4/23/2019

1 Q. Was there something that prompted you to do that  
2 or do you just do that as a part of your business?

3 A. I do it on occasion.

4 Q. And did you discover in this timeframe that the  
5 DenSco loan was in first position versus the Active  
6 Funding loan or second position, or could you tell from  
7 the chain of title?

8 A. The only thing you can tell from the chain of  
9 title is recordation timeframe. My position is the DenSco  
10 loans were never in first position. I only made first  
11 position loans and my capital was deployed in first  
12 position.

13 Q. And your position was based on the recordation  
14 of the filing of the document or was it something else?

15 A. My legal position, and in most -- in most  
16 circumstances, the recordation timeframe.

17 Q. Okay. And specifically as of September 2012,  
18 did you believe that on these three properties where there  
19 were competing deeds of trust, that Active Funding had the  
20 superior position to DenSco?

21 A. Always.

22 Q. Okay. Was it a surprise to you that Scott  
23 Menaged had borrowed money from DenSco on -- where he  
24 secured those loans with the property that also secured  
25 your loans?

GREGG REICHMAN, 4/23/2019

1       A.    I couldn't draw that conclusion by reviewing the  
2 chain of title. So it's not unusual to see multiple deeds  
3 of trust on stuff that we finance. Typically that one of  
4 them has been released or there is some reason. So when I  
5 first discovered it, I just saw that it was there. I  
6 didn't know the circumstances surrounding it. That came  
7 later.

8       Q.    So when you saw it was there, what did you do?

9       A.    The first thing I did was called Denny.

10      Q.    What did you tell him?

11      A.    I said -- I hadn't talked to him for many, many  
12 years, so some smalltalk. "How you doing?" I said, "I  
13 just wanted you to be aware that on a few of the loans  
14 that we have with Scott, it's showing DenSco DOTs on the  
15 chain and I don't see releases on file. Would you mind  
16 checking and seeing if these loans are still on your books  
17 as unpaid?" That was the conversation.

18      Q.    Do you remember anything he said?

19      A.    Yeah. He said, "Hang on. I'll check right  
20 now," and he did.

21      Q.    And what did he tell you?

22      A.    He said they are all still showing as not been  
23 paid off.

24      Q.    Do you remember anything else you or he said in  
25 that first call?

GREGG REICHMAN, 4/23/2019

1       A.    Yes.  He said, "I'll talk to Scott about it.  
2   I'm not worried about it.  I have this long history with  
3   Scott.  He is a very good customer.  I completely trust  
4   him.  I don't think this will be an issue."

5               And I said, "I'm going to do the same.  I'm  
6   going to call him and talk to him about it and try to  
7   determine what's going on here."  And then I think we made  
8   a commitment to talk again after that.

9       Q.    So this document that we are looking at,  
10   Exhibit 487, indicates that there are three properties  
11   where there are two loans on each of the property, a loan  
12   by AFG and a loan by DenSco, correct?

13       A.    I didn't create this document.

14       Q.    But that's a fair reading of this document,  
15   right?

16       A.    That's -- it talks about three loans on the top,  
17   and then there is a listing of a lot of other loans.

18       Q.    And my question, my next question to you is, did  
19   you learn shortly after September 21, 2012, that there  
20   was -- there were more than three properties where there  
21   were competing loans between DenSco and AFG?

22       A.    I don't know what competing loans means, which  
23   is the term you used.

24       Q.    All right.  Let me rephrase it.

25               where there are deeds of trust securing loans by

GREGG REICHMAN, 4/23/2019

1 both AFG and DenSco?

2 A. I did learn that, yes.

3 Q. Did you ever learn how many properties in the  
4 fall of 2012 were in that situation?

5 A. I think it was roughly 12.

6 Q. So let me go back to the conversation.

7 You had a conversation with Denny Chittick you  
8 have shared with us where both of you have decided to go  
9 back to Scott Menaged to try to figure out how there could  
10 be two deeds of trust from both lenders, right?

11 A. Well, I knew how there could be. I wanted to  
12 find out why. You record one. I could record one on your  
13 house tonight.

14 Q. Fair answer.

15 So what did you do to find out why?

16 A. I called Scott and said, "I'd like to discuss  
17 this with you. What's going on?" Actually, I think I  
18 emailed him, and I said, "Hey, I discovered this. What's  
19 going on?" And he responded in one of these emails,  
20 "That's impossible." In other words, I was mis -- his  
21 response was I must be mistaken.

22 Q. Right.

23 So he was originally denying to you that that  
24 could be the case, that there would be two deeds of trust,  
25 one from DenSco, one from AFG on the same property.

GREGG REICHMAN, 4/23/2019

1 A. He said it was impossible. Those were his  
2 words.

3 Q. Okay.

4 A. I think it's in one of these emails. I remember  
5 an email like that.

6 Q. It is. It is. And we are going to find it  
7 here.

8 So let's look at 488. It's a multipage  
9 document. So it looks like the first email, it's at the  
10 very end of that document, 488, is an email from you to  
11 Scott Menaged dated September 19.

12 Do you see that?

13 A. I'm sorry. The second page from the back?

14 Q. Yeah. It's page 4 and 5 of that document.

15 A. Okay. I'm on page 4.

16 Q. So this is -- I'm now noticing that Exhibit 487  
17 actually is dated September 21, but your series of emails  
18 with Mr. Menaged start on September 19.

19 Do you see that?

20 A. Yep, I do.

21 Q. Okay.

22 A. Yes. I should say yes. Sorry.

23 Q. And it looks like you are talking generally  
24 about monies being owed various properties.

25 And then it looks like on the third page at the

GREGG REICHMAN, 4/23/2019

1 bottom, you say to Veronica on September 21, 2012, "If you  
2 get a moment can you please look up a few properties," and  
3 then you identify the three properties. And then you say:  
4 we are trying to figure out what occurred with those  
5 assets and from the books of it -- from the looks of it we  
6 they were traded back and forth in terms of the financing  
7 between Active Funding Group and DenSco, but releases were  
8 never filed. Let me know where you believe they are  
9 currently financed please.

10 And then Menaged says back, he says, "Be back  
11 Monday and will look into it buddy."

12 Did I read that correctly?

13 A. Which page are you on?

14 Q. "Look into buddy," on the third page, about  
15 halfway up.

16 A. I see it. Have a nice weekend.

17 Q. All right. And then you send an email that  
18 starts on the second page at the bottom, "It looks like  
19 these three deals of yours were double pledged to both AFG  
20 and DenSco," then you identify the properties.

21 A. I think you are going in reverse, because that  
22 was sent, and then he responded. Or maybe you are not.  
23 It's hard to read it this way.

24 Q. As I read it, I think that the original email is  
25 in the very back.

GREGG REICHMAN, 4/23/2019

1 A. From the back to the front? Okay.

2 Q. And then it goes forwards to the most current on  
3 the first page.

4 A. Yes. I see it.

5 Q. Okay. So if we look at the bottom of that,  
6 again, of page 3. Is that where we were?

7 MR. ABRAHAM: Page 2.

8 MR. DEWULF: Page 2.

9 Q. At the bottom of page 2, September 21, you say:  
10 OK. It's an important matter. It looks like these three  
11 deals of yours were double pledged to both AFG and DenSco,  
12 and you identify the properties. From reading the chain  
13 there are DOTs recorded from both companies. We are  
14 senior on all 3 deals and Denny's DOT is recorded behind  
15 ours. Do you remember these at all and what happened with  
16 them? Thank you.

17 And then, to refer to your earlier testimony,  
18 Menaged says, "Don't remember them but it's impossible,"  
19 correct?

20 A. Yes, it says that.

21 Q. And then you respond, higher up on that page 2,  
22 "Not impossible. I'm looking at the chains of title  
23 sitting in front of me. Both DenSco and AFG have loans on  
24 those properties. Veronica told me that DenSco has been  
25 paid off and she was waiting for releases. I just spoke

GREGG REICHMAN, 4/23/2019

1 to Denny. He indicated that he has not paid off. Please  
2 get this squared away as it is troubling."

3 And then Menaged says, "For a small fee I can do  
4 your accounting if you want."

5 A. Right.

6 Q. And then you write back, "Very funny. All the  
7 other loans are the same, all appear to be double pledged.  
8 You probably used our money to fund those silly furniture  
9 stores." So let me stop you there.

10 So you are referring to Menaged having a  
11 furniture business, right?

12 A. He had four of them.

13 Q. Yeah. And this is just a joke that he is  
14 misusing the money for his furniture business, right?

15 A. Yes, it was a joke.

16 Q. Okay. And then he responds, "Hahaha!!!! ok if  
17 you say so...We will clear up Monday." And then you say,  
18 "Good, safe travels."

19 So at this point in time, you have checked with  
20 the chain of title, you figured out that there are double  
21 pledging between the loans of AFG and DenSco.

22 And what happens next in the communication, do  
23 you recall? Does he get back to you and tell you what he  
24 has discovered?

25 A. He did get back to me, yes.



GREGG REICHMAN, 4/23/2019

1 company had been defrauded. They had just been careless  
2 or negligent regarding making care that there were only --  
3 there was only one loan pledged by the property?

4 A. For this grouping of assets, yes, that was his  
5 explanation.

6 Q. So what did you do about the fact that there  
7 were double pledges on these properties where AFG was the  
8 lender, as DenSco was as well? What did you do about  
9 that?

10 A. I think I had another phone call with Denny, was  
11 the first thing I did.

12 Q. Could you share with us what was said by you and  
13 what was said by him?

14 A. I said, "I talked to Scott. He is indicating to  
15 me this was done in error. When he gets back in town, we  
16 are going to have another discussion about it and see what  
17 I can do to resolve it."

18 And he said, "Yeah, I also spoke with him." And  
19 he reiterated the depth of their relationship and how much  
20 trust he had for Scott, and that he was not concerned  
21 about it. He said that multiple times. "Not concerned  
22 about it. Scott is a great customer. Been doing business  
23 with him for a decade. I'm comfortable with all this."

24 Q. Did you, Mr. Reichman, believe that on those  
25 dozen or so properties that AFG had the superior lien

GREGG REICHMAN, 4/23/2019

1 position to DenSco?

2 A. Always.

3 Q. On all 12 of those properties?

4 A. On every loan I ever made to Scott.

5 Q. Did you tell Denny Chittick that you believe  
6 that AFG was in a superior position on its lien to those  
7 of DenSco?

8 A. I don't think I used that exact language, but,  
9 yes, I had a discussion about lien position with Denny.

10 Q. Do you remember what he said in response?

11 A. He said, "I'm not concerned about it. Scott  
12 will work it out. You know, we have a lot of business  
13 together."

14 And there wasn't a discussion that extended  
15 beyond me expressing what I felt my company's position  
16 was. It wasn't -- it was not an acrimonious or combative  
17 discussion at all. Denny is pretty easy going.

18 Q. Did you do anything with respect to your  
19 business relationship with Menaged as a result of learning  
20 that there were 12 double-pledged properties?

21 A. At this juncture, yes.

22 Q. What did you do?

23 A. I tried to get more security, so in case there  
24 would be a problem into the future, I would have  
25 additional collateral.

GREGG REICHMAN, 4/23/2019

1 A. Correct.

2 Q. And I'll try to be more precise with my  
3 questions. I appreciate it.

4 A. Okay. Thanks.

5 Q. What we now know, based on his testimony and  
6 what we have learned about his conduct, would suggest to  
7 you that maybe some of what he has done here is  
8 intentional, right?

9 A. It would suggest to me that all of it is  
10 intentional, if you believe what he said in his bankruptcy  
11 deposition.

12 Q. But what he is telling you in the timeframe that  
13 you are making decisions in September of 2012, is that it  
14 was an innocent mistake, right?

15 A. Absolutely.

16 Q. And your summary here where you are describing  
17 chain of title and deed of trust, those are properties  
18 where Densco had a deed of trust on the same property that  
19 was securing a loan by AFG where it also had a deed of  
20 trust, correct?

21 A. Yes.

22 Q. You may have said this and I don't -- I  
23 apologize if I'm asking you the question a second time.

24 A. No problem.

25 Q. Did you ever tell Denny Chittick in 2012 that

GREGG REICHMAN, 4/23/2019

1 you believed that AFG was superior on all of its loans  
2 where DenSco was also a lender and secured on the  
3 property?

4 A. Yes. I told him that.

5 Q. Did he take issue with you at all on that?

6 A. No, he did not.

7 Q. Did he, Denny Chittick, ever share with you what  
8 Scott Menaged told him was the reason for there being  
9 double pledging on certain properties?

10 A. No.

11 Q. Let's look at 493. So let's go to the second  
12 page of 493. It's an email. It starts about a third of  
13 the way down the page.

14 Do you see that?

15 A. Page 2?

16 Q. Yes.

17 A. I see it.

18 Q. September 24, 2012, you write -- you say, "We  
19 are on for 10am tomorrow. We just wanted to get some  
20 minimum goals for the meeting." And then you proceed then  
21 to talk about what you are hoping to accomplish in the  
22 meeting, right?

23 A. Yes.

24 Q. And the points are that he needs to bring all of  
25 his payments current on all of the loans that he presently

GREGG REICHMAN, 4/23/2019

1 Q. Right.

2 A. All I can do is tell you, no, there was never  
3 any issue at my company that had anything to do with  
4 multiple deeds of trust on a property we financed, unless  
5 we made multiple loans on the property.

6 Q. Right.

7 A. Then there might be multiple deeds of trust on  
8 them.

9 Q. Would it be true in AFG that you approve all  
10 loans?

11 A. Yes.

12 Q. You individually?

13 A. Well, myself or, in this timeframe, either  
14 myself or my business partner, because he was still  
15 working there in 2012.

16 Q. And your business partner being Jody Angel?

17 A. Yes. Mostly me.

18 Q. And the topic of Denny Chittick, so he is  
19 referring to his books are golden, and he says he refers  
20 to -- or he is communicating to Menaged.

21 Did Denny Chittick, in your communications with  
22 him in the fall of 2012, ever say to you that he was in a  
23 superior position to AFG on any of those loans?

24 A. No.

25 Q. And he didn't contest your statement when you

GREGG REICHMAN, 4/23/2019

1 told him AFG was superior to DenSco on its loans on all  
2 those double-pledged properties?

3 A. I didn't --

4 MR. CAMPBELL: Objection to form.

5 THE WITNESS: I didn't use that exact language.  
6 I said, "I believe we are in first position on  
7 everything," and he didn't respond to it. There was no  
8 discussion about it. I just made the statement.

9 Q. Okay. Exhibit 496. Let's start at the last --  
10 the last few pages of this document of 496 is a series of  
11 descriptions of properties with deeds of trust and a  
12 lender identification.

13 Do you know whether this document was created by  
14 AFG or not?

15 A. I created it.

16 Q. Okay. And what was the intent? And we are  
17 talking about the last four pages of Exhibit 496.

18 A. Oh, this isn't my -- this is not me.

19 Q. Oh.

20 A. The last -- so I created -- I will tell you what  
21 I created. Starting with page 1, 2, 3, I don't remember  
22 this, this summary thing here. I may have created it, but  
23 I don't remember creating it. I do remember creating this  
24 memorandum.

25 Q. All right. So let's look at the memorandum.

GREGG REICHMAN, 4/23/2019

1 Q. Okay. And then ultimately did he pay off the  
2 million 4?

3 A. I think so. I don't remember specifically, but  
4 I think so.

5 MR. DeWULF: No further questions. I appreciate  
6 you coming in today.

7 THE WITNESS: You are welcome, thank you.

8 MR. CAMPBELL: I have about four hours.

9 I'm joking. No questions.

10 THE WITNESS: Thank you.

11 MR. CAMPBELL: Are you going to read and sign?

12 MR. ABRAHAM: Read and sign.

13 (3:58 p.m.)

14

15

16

---

GREGG REICHMAN

17

18

19

20

21

22

23

24

25

GREGG REICHMAN, 4/23/2019

1 BE IT KNOWN that the foregoing proceeding was  
2 taken before me; that the witness before testifying was  
3 duly sworn by me to testify to the whole truth; that the  
4 questions propounded to the witness and the answers of the  
5 witness thereto were taken down by me in shorthand and  
thereafter reduced to typewriting under my direction; that  
the foregoing is a true and correct transcript of all  
proceedings had upon the taking of said deposition, all  
done to the best of my skill and ability.

6 I CERTIFY that I am in no way related to any of  
7 the parties hereto nor am I in any way interested in the  
outcome hereof.

8  
9 ☒ [X] Review and signature was requested.  
10 ☐ [ ] Review and signature was waived.  
11 ☐ [ ] Review and signature was not requested.

12 I CERTIFY that I have complied with the ethical  
13 obligations in ACJA Sections 7-206(F)(3) and  
14 7-206-(J)(1)(g)(1) and (2).

15 Kelly Sue Oglesby  
16 Kelly Sue Oglesby  
17 Arizona Certified Reporter No. 50178

5/7/2019

Date

18 I CERTIFY that JD Reporting, Inc. has complied  
19 with the ethical obligations in ACJA Sections  
20 7-206(J)(1)(g)(1) and (6).

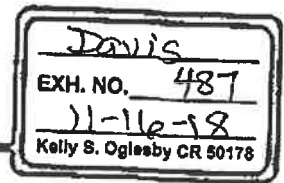
21 JD REPORTING, INC.  
22 Arizona Registered Reporting Firm R1012

5/7/2019

Date



# **Exhibit 8**



**From:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Friday, September 21, 2012 2:51 PM  
**To:** Scott Menaged  
**Subject:** Re: Don't forget this weeks payment

ok that's fine.

Greg Reichman called me saying that he and i have two loans on three properties:

Straight arrow, 46th way and 37209 N 12th street

when you get back we need to straighten that out.

thx

dc

Densco Investment Corp  
www.denscoinvestment.com/  
602-469-3001  
602-532-7737 f

**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Friday, September 21, 2012 2:45 PM  
**Subject:** Re: Don't forget this weeks payment

Never!! In new York airport... Will transfer tomorrow

Thanks

Sent from my iPhone

On Sep 21, 2012, at 12:41 PM, Denny Chittick <dcmoney@yahoo.com> wrote:

1097	3426 N 68th Ave	\$ 2,160.00	9/16/2012
1456	6111 W Gelding Dr	\$ 742.50	9/16/2012
3299	14990 W Heritage Oak Way	\$ 1,050.00	9/16/2012
1192	8122 N 32nd Ave	\$ 1,275.00	9/17/2012
1473	2448 W Sunrise Dr	\$ 1,207.50	9/17/2012
1476	6231 W Maryland Ave	\$ 750.00	9/18/2012
2268	1322 E Monroe St	\$ 1,125.00	9/18/2012
2445	2126 W Solano Dr	\$ 600.00	9/18/2012
2671	8746 W Heber Rd	\$ 1,050.00	9/20/2012
2672	5126 N 78th Street	\$ 1,650.00	9/20/2012
2674	4015 E Rowel Rd	\$ 2,280.00	9/20/2012
3610	20802 N Grayhawk Dr #1076	\$ 3,750.00	9/20/2012
1658	2233 E Highland Ave #54	\$ 600.00	9/21/2012
2120	822 E Orange Ave	\$ 1,050.00	9/21/2012
		\$ 19,290.00	

thx  
dc

DenSco Investment Corp  
[www.denscoinvestment.com/](http://www.denscoinvestment.com/)  
602-469-3001  
602-532-7737 f

# **Exhibit 9**

Davis
EXH. NO. 488
11-16-18
Kelly S. Oglesby CR 60178

**From:** Gregg Reichman <greichman@activefundinggroup.com>  
**Sent:** Friday, September 21, 2012 3:56 PM  
**To:** Scott Menaged  
**Cc:** Jody Angel  
**Subject:** RE: 6507 Straight Arrow Lane

Good, safe travels

◆  
GR

◆  
◆  
◆



Gregg S. Reichman  
 Managing Director  
 602-443-6148 direct to my desk  
 602-692-3812 - Mobile  
 602-252-1177 - Fax  
[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)  
[bidpro@earthlink.net](mailto:bidpro@earthlink.net)

◆  
◆

**From:** Scott Menaged [mailto:[smena98754@aol.com](mailto:smena98754@aol.com)]  
**Sent:** Friday, September 21, 2012 3:54 PM  
**To:** Gregg Reichman  
**Cc:** Jody Angel  
**Subject:** Re: 6507 Straight Arrow Lane

◆

Hahaha!!!! Ok if you say so... We will clear up Monday◆

Sent from my iPhone

On Sep 21, 2012, at 6:52 PM, Gregg Reichman <[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)> wrote:

Very funny. All of the other loans are the same, all appear to be double pledged . You probably used our money to fund those silly furniture stores

◆  
◆  
◆

<image001.jpg>  
 Gregg S. Reichman  
 Managing Director  
 602-443-6148 direct to my desk  
 602-692-3812 - Mobile  
 602-252-1177 - Fax  
[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)  
[bidpro@earthlink.net](mailto:bidpro@earthlink.net)

**From:** Scott Menaged [mailto:[smena98754@aol.com](mailto:smena98754@aol.com)]

**Sent:** Friday, September 21, 2012 3:50 PM

**To:** Gregg Reichman

**Cc:** Jody Angel

**Subject:** Re: 6507 Straight Arrow Lane

For a small fee I can do your accounting if you want!

Sent from my iPhone

On Sep 21, 2012, at 5:55 PM, Gregg Reichman <[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)> wrote:

Not impossible, I'm looking at the chains of title sitting in front of me.

Both Densco and AFG have loans on those properties. Veronica told me that Densco has been paid off and she was waiting for releases. I just spoke to Denny. He indicated that he has not been paid off.

Please get this squared away as it is troubling.

Best regards,

GR

<image001.jpg>

Gregg S. Reichman

Managing Director

602-443-6148 direct to my desk

602-692-3812 - Mobile

602-252-1177 - Fax

[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)

[bidpro@earthlink.net](mailto:bidpro@earthlink.net)

---

**From:** Scott Menaged [mailto:[smena98754@aol.com](mailto:smena98754@aol.com)]

**Sent:** Friday, September 21, 2012 2:52 PM

**To:** Gregg Reichman

**Subject:** Re: 6507 Straight Arrow Lane

Don't remember them but it's impossible

I'll look at Monday

Sent from my iPhone

On Sep 21, 2012, at 5:50 PM, Gregg Reichman <[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)> wrote:

OK it's an important matter.

It looks like these three deals of yours were double pledged to both AFG and Densco.

37209 12<sup>th</sup> St  
6507 Straight Arrow  
28631 46<sup>th</sup> Way

From reading the chain there are DOTs recorded from both companies. We are Sr. on all 3 deals and Denny's DOT is recorded behind ours.

Do you remember these at all and what happened with them?

Thank you,  
GR

<image001.jpg>  
Gregg S. Reichman  
Managing Director  
602-443-6148 direct to my desk  
602-692-3812 - Mobile  
602-252-1177 - Fax  
[reichman@activefundinggroup.com](mailto:reichman@activefundinggroup.com)  
[bidpro@earthlink.net](mailto:bidpro@earthlink.net)

---

**From:** Scott Menaged [<mailto:smena98754@aol.com>]  
**Sent:** Friday, September 21, 2012 2:41 PM  
**To:** Gregg Reichman  
**Cc:** Veronica Gutierrez; Jody Angel  
**Subject:** Re: 6507 Straight Arrow Lane

Be back Monday and will look into buddy!

Have a nde weekend!!

Sent from my iPhone

On Sep 21, 2012, at 5:23 PM, Gregg Reichman <[reichman@activefundinggroup.com](mailto:reichman@activefundinggroup.com)> wrote:

Hi Veronica:

If you get a moment can you please look up a few properties:

37209 12<sup>th</sup> St  
6507 Straight Arrow  
28631 46<sup>th</sup> Way

We are trying to figure out what occurred with those assets and from the looks of it we they were traded back and forth in terms of the financing between Active Funding Group and Densco, but releases were never filed



Let me know where you believe they are currently financed please.



Best regards,

GR



<image002.jpg>

Gregg S. Reichman

Managing Director

602-443-6148 direct to my desk

602-692-3812 - Mobile

602-252-1177 - Fax

[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)

[bidpro@earthlink.net](mailto:bidpro@earthlink.net)



---

**From:** Veronica Gutierrez [<mailto:veronicacastro@live.com>]

**Sent:** Wednesday, September 19, 2012 1:59 PM

**To:** [SMena98754@aol.com](mailto:SMena98754@aol.com); [greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)

**Subject:** RE: 6507 Straight Arrow Lane



Greg,

I'm putting a check for this along with the docs on for Concord, I just spoke with Paul he's trying to get here today still for pick up. thank you Veronica

---

Subject: Fwd: 6507 Straight Arrow Lane

From: [smena98754@aol.com](mailto:smena98754@aol.com)

Date: Wed, 19 Sep 2012 13:31:39 -0400

To: [greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com); [veronicacastro@live.com](mailto:veronicacastro@live.com)

Veronica



Please look into this since I'm out of town



Thanks

Sent from my iPhone

Begin forwarded message:

**From:** Gregg Reichman <[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)>

**Date:** September 19, 2012 1:30:43 PM EDT

**To:** "Menaged, Scott" <[SMENA98754@aol.com](mailto:SMENA98754@aol.com)>

**Subject:** 6507 Straight Arrow Lane

<image003.gif>



Hey Buddy ♦ we funded this back on August 3<sup>rd</sup> for you, we do not show having received any funds from you on it.



Please check your records and let me know what the status is. We show you owe \$4,119.20. If so, please prepare a check and we will have Paul pick it up.



Best regards,  
GR



<image002.jpg>

Gregg S. Reichman

Managing Director

602-443-6148 direct to my desk

602-692-3812 - Mobile

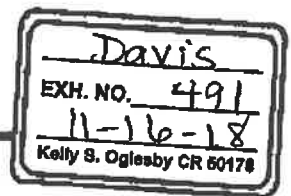
602-252-1177 - Fax

[reichman@activefundinggroup.com](mailto:reichman@activefundinggroup.com)

[bidpro@earthlink.net](mailto:bidpro@earthlink.net)



# **Exhibit 10**



**From:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Monday, September 24, 2012 9:11 AM  
**To:** Yomtov Menaged  
**Subject:** greg

he called me again, he has more properties that he feels that we both have loans on, he swears you never gave him a check to payoff the first three loans in questions

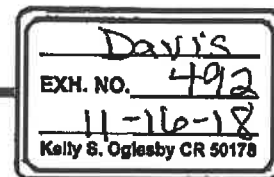
the list has grown, he is reviewing all your loans to see if there are more. here is what he gave me this morning.

46th Way  
Straight Arrow  
12th Street  
Heritage oak  
Grandview

we've got to get this straightened out today.  
thx  
dc

DenSco Investment Corp  
[www.denscoinvestment.com/](http://www.denscoinvestment.com/)  
602-469-3001  
602-532-7737 f

# **Exhibit 11**



**From:** Gregg Reichman <greichman@activefundinggroup.com>  
**Sent:** Monday, September 24, 2012 11:46 AM  
**To:** Menaged, Scott  
**Cc:** Jody Angel  
**Subject:** Summary of AFG loans

Scott: Call me after your review .....

Here is a summary of your account. All loans listed are shown as on our books, meaning they do not show any payoff received.

First I will summarize the status of payments, and payments due and then I will summarize the loan funds that AFG deployed to you, and what the chain of title looks like.

### **Payments / Payment and Down Payments due:**

#### **23631 46<sup>th</sup> Way**

Last payment received on 8-11-2012

Payment due 9-11-2012 and now delinquent in the amount of \$4,014.40 plus late fees of \$401.44 – **Total due \$4,415.84**

#### **6507 Straight Arrow**

Last payment received 9-20-2012 but that payment represented interest that was due at loan funding which was never paid

**Balance of down payment was never received on this property**

Payment due Sept 3, 2012 and now delinquent in the amount of \$3,319.17 plus late fees of \$331.92 **Total due \$3,651.09**

**DOWN PAYMENT FUNDS WERE NEVER RECEIVED ON THIS PROPERTY**

#### **37209 12<sup>th</sup> St**

Last payment received on 8-22-2012

Payment due 9-11-2012 and now delinquent in the amount of \$2,916.60 plus late fees of \$291.66 – **Total due \$3,208.26**

**DOWN PAYMENT FUNDS WERE NEVER RECEIVED ON THIS PROPERTY**

#### **14990 Heritage Oak**

Last payment received on 8-13-2012

Payment due Sept 13, 2012 now delinquent in the amount of \$1,093.80 plus \$200.00 late fee – **Total due \$1,293.80**

**14894 N. 97<sup>th</sup> Place**

Last payment received on 8-22-2012

Payment due Sept 8<sup>th</sup>, 2012 now delinquent in the amount of \$4,359.00 plus late fees of \$435.90 – **Total due \$4,794.90**

**11728 Mariposa Grande**

Last payment received 8/22/2012

Payment due Sept 13, 2012 and now delinquent \$1,093.80 plus \$200.00 late fee – **Total due \$1,293.80**

**4905 Grandview St**

Last payment received 8-22-2012

Payment due Sept 15<sup>th</sup>, 2012 and now delinquent \$1,500.00 plus \$200.00 late fee – **Total due \$1,700.00**

**DOWN PAYMENT FUNDS WERE NEVER RECEIVED ON THIS PROEPRTY**

**1302 Culver St**

Last payment received 8-22-2012

Payment due on 9-25-2012 **\$1,770.00**

**25407 Lincoln Ave**

Last payment received 8-22-2012

Payment due Sept 25, 2012 **\$495.50**

**6618 McAallaster Ave**

Last payment received 8-22-2012

Payment due 9-13-2012 now delinquent \$1,020.90 plus late fee \$200.00 – **Total due \$1,220.90**

**DOWN PAYMENT FUNDS NEVER RECEIVED ON THIS PROPERTY – POSSIBLE RE-FI FROM SHORT TERM INVESTMENTS**

**20820 N. Greyhawk #1076**

Last payment received 8-22-2012

Payment due 9-20-21012 now delinquent \$3,851.40 plus late fees \$385.14 – **Total due \$4,236.54**

**DOWN PAYMENT FUNDS WERE NEVER RECEIVED ON THIS PROPERTY**

**CHAIN OF TITLE AND DEED OF TRUST ISSUES**

**23631 46<sup>th</sup> Way**

Property appears to have been double pledged per chain run Friday, 9-21-2012

AFG DOT for \$275,000 – funds were deployed on 7-11-2012

Densco DOT for 245,000

**6507 Straight Arrow**

Property appears to have been double pledged per chain run Friday, 9-21-2012

AFG DOT for \$227,600 – Funds deployed on 8-3-2012  
Densco DOT for 200,000

**37209 12<sup>th</sup> St**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT for \$200,001 – Funds deployed 7-11-2012  
Densco DOT for \$190,000

**14990 Heritage Oak**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT for \$75,000 Funds deployed Dec 2012  
Densco DOT \$75,000

**14894 N. 97<sup>th</sup> Place**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT for \$322,100 funds deployed 5-8-2012  
Densco DOT \$300,000

**11728 Mariposa Grande**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT \$75,000 Dec 2010  
Densco DOT \$75,000

**4905 Grandview St**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT \$100,000 funds deployed 6-15-2010  
Densco DOT 90,000

**1302 Culver St**

Property appears to have been double pledged per chain run Friday, 9-21-2012  
AFG DOT \$118,000 funds deployed 6-25-2010  
Densco DOT \$115,000

**25407 Lincoln Ave**

Chain appears to show only 1 DOT correctly from AFG for \$34,000

**6618 McAallaster Ave**

**NEED RELEASE FROM SHORT TERM FUNDING**

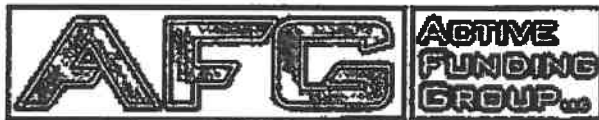
If Short Term funding has been paid off then the Chain is correct on this file

**20820 N. Greyhawk #1076**

Property appears to have been double pledged per chain run Friday, 9-21-2012

AFG DOT \$264,100 funds deployed on 8/20/2012

Densco DOT \$250,000



Gregg S. Reichman

Managing Director

602-443-6148 direct to my desk

602-692-3812 - Mobile

602-252-1177 - Fax

[greichman@activefundinggroup.com](mailto:greichman@activefundinggroup.com)

[bidpro@earthlink.net](mailto:bidpro@earthlink.net)



# **Exhibit 12**

**Davis**

**v.**

**Clark Hill PLC, et al.**

**Expert Report of David R. Perry**

**Sterling Group LLC**

**April 5, 2019**

- DenSco had significantly expanded its lending to Mr. Menaged such that Mr. Menaged's outstanding loans totaled approximately \$14.5 million and represented approximately 29% of DenSco's portfolio as of May 31, 2013.<sup>28</sup>

Mr. Chittick did not appear to take any actions to reduce DenSco's lending to Mr. Menaged after he was made aware of the lawsuit in June 2013. Instead, DenSco's lending to Mr. Menaged further increased over the subsequent months.

### 3.3.3 November 2013

The next information reviewed by Sterling with specifics on loans that were part of the First Fraud relates to November 2013. DenSco's exposure to Mr. Menaged had increased significantly further by this time as shown by the table and charts discussed earlier in this report.

Mr. Chittick purportedly became aware of a problem with many of DenSco's outstanding loans to Mr. Menaged on or around November 27, 2013 when Mr. Menaged informed him that there were multiple liens on many properties as a result of the actions of Mr. Menaged's "cousin".<sup>29</sup> As of November 30, 2013, DenSco's outstanding loans to Mr. Menaged totaled approximately \$25.4 million and represented approximately 46% of DenSco's portfolio.<sup>30</sup> Substantially all of DenSco's outstanding loans to Mr. Menaged at that time were part of the First Fraud according to information provided by Mr. Chittick in April 2014.<sup>31</sup>

Without seeking the assistance of outside professionals, Mr. Chittick and Mr. Menaged agreed on a plan to deal with the problem and started to execute their plan.<sup>32</sup>

### 3.3.4 January 2014

On January 6, 2014, Mr. Chittick received a letter from attorneys representing some of the lenders other than DenSco and AFG that had been caught up in Mr. Menaged's fraudulent scheme to obtain multiple loans on the same property.<sup>33</sup> Mr. Chittick forwarded the letter to Mr. Beauchamp.

Mr. Chittick provided some information about Mr. Menaged to Mr. Beauchamp in an email dated January 7, 2014 in advance of a meeting on January 9, 2014 between Mr. Chittick, Mr. Menaged and Mr. Beauchamp. Mr. Chittick's email states, *inter alia*:

"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."<sup>34</sup>

---

<sup>28</sup> DenSco QuickBooks data.

<sup>29</sup> Schenck Deposition Exhibit 51 at CH 5790 to 5794; Schenck Deposition Exhibit 97 at DIC 10732.

<sup>30</sup> DenSco QuickBooks data.

<sup>31</sup> Beauchamp Deposition Exhibit 406.

<sup>32</sup> Schenck Deposition Exhibit 51.

<sup>33</sup> Schenck Deposition Exhibit 53.

<sup>34</sup> Schenck Deposition Exhibit 51.

# **Exhibit 13**



---

*Arizona Corporation Commission*  
*v.*  
*DenSco Investment Corporation*  
  
*(Case No. CV 2016-014142)*

---

*Status Report*  
*of*  
*Peter S. Davis, as Receiver of DenSco Investment Corporation*

*December 23, 2016*

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## **1. Background and Appointment of the Receiver**

DenSco Investment Corporation ("DenSco") is an Arizona corporation formed by Denny Chittick ("Chittick") in April 2001.<sup>1</sup> Since at least 2009, DenSco was engaged primarily in funding the purchase of real estate secured by deeds of trust using money raised from investors.<sup>2</sup> DenSco issued Confidential Private Offering Memoranda ("POM") to investors before or at the time of their investments.<sup>3</sup> DenSco represented to investors that DenSco would maintain a maximum loan-to-value ratio ("LTV") of 70%, and that all loans would be secured by first position deeds of trust.<sup>4</sup>

On August 18, 2016, Peter Davis ("Receiver") was appointed Receiver for the assets of DenSco by the Honorable Lori Horn Bustamante of the Maricopa County Superior Court. The Receiver issued his Preliminary Report to the Court on September 19, 2016. Simon hereby incorporates all of the background information, opinions, conclusions, and other information contained therein in this report. Unless otherwise defined herein, capitalized terms shall retain the meanings set forth in the Receiver's Preliminary Report. The Receiver's analyses are ongoing; therefore, information contained herein is preliminary and tentative, and subject to change.

## **2. Receivership Activities**

### **2.1. Administration of the DenSco Loan Portfolio**

The Receiver has segregated the DenSco loan portfolio into two categories, including (1) loans to Menaged and his entities, Easy and AHF; and (2) loans to all other borrowers. Hereinafter, loans to Easy and AHF are referred to interchangeably as Menaged loans. The status of the non-Menaged loans and the Menaged loans is discussed in detail below.

#### **2.1.1. Non-Menaged Loans**

The Receiver has received numerous requests for payoff statements from various DenSco borrowers. From the inception of the receivership through the date of this report, twenty-nine (29) loans have been paid off. The Receiver has recovered a total of \$3,996,796.33 in loan payoff proceeds, including \$3,898,055.81 in principal and \$98,740.52 in interest payments and fees. The Receiver has also collected additional DenSco loan interest payments totaling \$84,949.00, resulting in total collections of \$4,081,745.33 from the non-Menaged loans.

After negotiations with the borrower on Loan 4419 with a principal amount of \$250,000.00, the Receiver accepted a short sale of the property, which resulted in net proceeds of \$230,096.98 to the receivership. The borrower sold the property for \$215,000.00 and agreed to pay an additional \$25,000.00 at closing. Real estate commissions and closing costs reduced the net proceeds from \$240,000.00 to \$230,096.98. The Receiver determined that a short sale was in the

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<sup>1</sup> Arizona Corporation Commission report for file no. 09874884.

<sup>2</sup> CV 2016-014142; Verified Complaint; page 2, paragraph 6.

<sup>3</sup> CV 2016-014142; Verified Complaint; page 2, paragraph 7.

<sup>4</sup> CV 2016-014142; Verified Complaint; page 2, paragraphs 8-10.



best interests of the receivership estate because the characteristics of the underlying property made it very difficult to locate interested buyers, and the resulting loss likely would have been greater had the Receiver foreclosed on the property. The short sale proceeds received from this property are included in the total payoff proceeds reported above.

The Receiver continues to monitor and service the remaining eighteen (18) non-Menaged loans in DenSco's loan portfolio with a principal balance of \$1,597,475.56, including collecting monthly interest payments, following up with borrowers who fail to make timely interest payments, providing borrowers with payoff statements, and conducting other loan administration activities as needed

### 2.1.2. Menaged Loans

As discussed in the Receiver's Preliminary Report, approximately 92% of DenSco's loans receivable (as of the date of the receivership) are due from Menaged or his related companies. The Menaged loans include eighty-seven (87) loans to AHF, two (2) loans to Easy, one (1) loan to Menaged's mother, Michelle Menaged, and one (1) loan to Menaged's brother, Jess Menaged. In summary, DenSco's loan portfolio includes ninety-one (91) Menaged loans totaling \$43,947,819.61. However, as discussed in detail in Section 3.2 below, only five (5) of these loans are secured by real property, as the remaining loans were made on properties that neither Menaged nor his entities actually purchased. The five (5) loans secured by real property are summarized as follows:

**Table 1:  
Menaged Loans Secured by Real Property**

Loan No.	Borrower	Property Address	Amount
3736	Michelle Menaged	9103 E Charter Oak Dr	\$ 400,000.00
3828	Yomtov Scott Menaged	1605 W Winter Dr	477,352.68
3883	Easy Investments, LLC	9555 E Raintree Dr #1004	152,000.00
3885	Jess Menaged	9555 E Raintree Dr #1020	76,827.14
4604	Arizona Home Foreclosures, LLC	707 E Potter Dr	170,000.00
Total:			\$ 1,276,179.82

#### 2.1.2.1 Loan 3736 – 9103 East Charter Oak Drive

On October 12, 2012, DenSco loaned Michelle Menaged \$400,000.00 evidenced by a promissory note secured by a deed of trust on the property located at 9103 East Charter Oak Drive ("Charter Oak Property").<sup>5</sup> However, the property is also subject to a senior position lien in the principal amount of \$476,000.00 due to US Bank, NA.<sup>6</sup> On November 3, 2016, The Receiver advised US Bank, NA in writing of the stay imposed by the Receivership Order.

The Receiver sent a Notice of Default to Michelle Menaged on September 22, 2016 demanding repayment of the total principal, interest, and other amounts due pursuant to the promissory note.

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<sup>5</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20120935712).

<sup>6</sup> Deed of Trust (Maricopa County recorded document no. 20040204287) and Corporate Assignment of Deed of Trust (Maricopa County recorded document no. 20160263965).

In response, the Receiver received a copy of the default notice with handwritten notation that the "loan was paid off." The note was not signed, and the envelope did not contain a return address. The Receiver sent a follow-up letter on October 18, 2016, requesting evidence that the loan was paid off but did not receive a response.

Accordingly, on October 20, 2016, the Receiver executed a Notice of Substitution of Trustee and a Statement of Breach or Non-Performance and Election to Sell Under Deed of Trust. The Receiver's foreclosure counsel filed a Notice of Trustee's Sale on December 5, 2016.<sup>7</sup> The Trustee's Sale is scheduled to occur on March 7, 2017.

#### **2.1.2.2 Loan 3736 – 1605 West Winter Drive**

On November 13, 2012, DenSco loaned Menaged \$300,000.00 evidenced by a promissory note secured by a deed of trust on the property located at 1605 West Winter Drive ("Winter Property").<sup>8</sup> On February 6, 2014, DenSco loaned Menaged an additional \$177,352.68 secured by the Winter Property,<sup>9</sup> for a total of \$477,352.68. However, the property is also subject to a senior position lien in the principal amount of \$250,000.00 due to PAJ Fund, LLC ("PAJ").<sup>10</sup> The Receiver is conducting ongoing investigations and negotiations with PAJ to address the senior position lien.

On June 17, 2016, Jill H. Ford, the Chapter 7 Panel Trustee appointed to oversee Menaged's bankruptcy, filed a notice of the Trustee's intent to abandon the Winter Property.

On November 20, 2016, the Receiver executed a Notice of Substitution of Trustee and a Statement of Breach or Non-Performance and Election to Sell under Deed of Trust. The Receiver's foreclosure counsel filed a Notice of Trustee's Sale on November 22, 2016.<sup>11</sup> The Trustee's Sale is scheduled to occur on February 21, 2017.

The Receiver confirmed that Menaged's insurance on the Winter Property had lapsed. Accordingly, in order to protect DenSco's interest in the property, the Receiver disbursed \$2,737.00 to Hassett Insurance, Inc. on November 10, 2016 to bind insurance coverage.

#### **2.1.2.3 Loan 3883 – 9555 East Raintree Drive, Unit 1004**

On December 13, 2012, DenSco loaned Easy \$120,000.00 evidenced by a promissory note secured by a deed of trust on the property located at 9555 East Raintree Drive, Unit 1004 ("Raintree Unit 1004").<sup>12</sup> On February 5, 2014, DenSco loaned Menaged an additional \$32,000.00 secured by Raintree Unit 1004,<sup>13</sup> for a total of \$152,000.00. However, the property

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<sup>7</sup> Notice of Trustee's Sale (Maricopa County recorded document no. 20160893291).

<sup>8</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20121029407).

<sup>9</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20140081791).

<sup>10</sup> Deed of Trust (Maricopa County recorded document no. 20090354620) and Assignment of Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20160313920).

<sup>11</sup> Notice of Trustee's Sale (Maricopa County recorded document no. 20160863308).

<sup>12</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20121137660).

<sup>13</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20140078275).

is also subject to a senior position lien in the principal amount of \$250,000.00 due to Argent Mortgage Company, LLC ("Argent").<sup>14</sup> On November 16, 2016, The Receiver advised Western Progressive Arizona, Inc., the Trustee under the Argent deed of trust,<sup>15</sup> in writing of the stay imposed by the Receivership Order.

On October 17, 2016, the Receiver executed a Notice of Substitution of Trustee and a Statement of Breach or Non-Performance and Election to Sell under Deed of Trust. The Receiver's foreclosure counsel filed a Notice of Trustee's Sale on November 2, 2016.<sup>16</sup> The Trustee's Sale is scheduled to occur on February 1, 2017.

#### **2.1.2.4 Loan 3885 – 9555 East Raintree Drive, Unit 1020**

On December 12, 2012, DenSco loaned Jess Menaged \$100,000.00 evidenced by a promissory note secured by a deed of trust on the property located at 9555 East Raintree Drive, Unit 1020 ("Raintree Unit 1020").<sup>17</sup> On February 5, 2014, DenSco loaned Easy<sup>18</sup> an additional \$52,000.00 secured by Raintree Unit 1020,<sup>19</sup> for a total of \$152,000.00. However, the property is also subject to a senior position lien in the principal amount of \$180,000.00 due to Nationstar Mortgage, LLC.<sup>20</sup>

The Receiver sent a Notice of Default to Jess Menaged on September 16, 2016, demanding repayment of the total principal, interest, and other amounts due pursuant to the promissory note but did not receive a response. Accordingly, on November 7, 2016, the Receiver executed a Notice of Substitution of Trustee and a Statement of Breach or Non-Performance and Election to Sell under Deed of Trust.

The Receiver has since determined that the balance of the senior lien and an additional lien claimed by the homeowner's association exceed the value of the property. Accordingly, the Receiver does not intend to commence with the foreclosure. However, the Receiver is evaluating potential legal claims against Jess Menaged for the amounts owed to DenSco under the promissory notes.

#### **2.1.2.5 Loan 4604 – 707 East Potter Drive**

On September 25, 2013, DenSco loaned AHF \$170,000.00 evidenced by a promissory note secured by a deed of trust on the property located at 707 East Potter Drive ("Potter Property").<sup>21</sup>

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<sup>14</sup> Deed of Trust (Maricopa County recorded document no. 20031616790).

<sup>15</sup> Substitution of Trustee (20160384486).

<sup>16</sup> Notice of Trustee's Sale (Maricopa County recorded document no. 20160807170).

<sup>17</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20121137668).

<sup>18</sup> It is unclear why the first loan was made to Jess Menaged and the second loan was made to Easy Investments, LLC.

<sup>19</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20140076570).

<sup>20</sup> Deed of Trust (Maricopa County recorded document no. 20070103932), Corporate Assignment of Deed of Trust (Maricopa County recorded document no. 20120786945), and Corporate Assignment of Deed of Trust (Maricopa County recorded document no. 20150615324).

<sup>21</sup> Deed of Trust and Assignment of Rents (Maricopa County recorded document no. 20150437867).

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On October 27, 2016, the Receiver sent a letter to AHF (c/o Menaged) notifying AHF of the default. On November 10, 2016, the Receiver filed a motion with the Bankruptcy Court seeking to lift the automatic bankruptcy stay to permit the Receiver to foreclose the lien of its deed of trust on the Potter property. The Bankruptcy Court entered an order lifting the automatic bankruptcy stay on November 30, 2016.

On November 2, 2016, the Receiver executed a Notice of Substitution of Trustee, and on December 7, 2016, the Receiver executed a Statement of Breach or Non-Performance and Election to Sell under Deed of Trust. The Receiver's foreclosure counsel is in the process of preparing a Notice of Trustee's Sale for the Potter Property.

## **2.2. Menaged Bankruptcy**

On August 22, 2016, the Receiver filed a motion for a Rule 2004 examination [a deposition] of Menaged and seeking a production of documents related to Menaged's business relationships with DenSco. The Receiver conducted a Rule 2004 examination of Menaged on October 20, 2016. The transcript from this deposition has been posted to the receivership website. As set forth in more detail below, the Receiver continues to perform a comprehensive investigation into the activities of Menaged and his associates with respect to their business relationships with DenSco.

The Receiver has obtained an extension to file a complaint under 11 U.S.C. § 523 against Menaged until January 31, 2017. This extension has enabled the Receiver to continue his investigation and explore all possible resolutions of the issues relating to the discharge of DenSco's debt in Menaged's bankruptcy case.

On December 14, 2016, Ilene J. Lashinsky, the United States Trustee for the District of Arizona, filed a Complaint to Deny Discharge Under 11 U.S.C § 727 against Menaged seeking to have all of the debts owed by Menaged to be deemed non-dischargeable under Federal Bankruptcy law.

### **2.2.1. Receivership of Furniture King, et al.**

On September 19, 2016, the Court entered an Order placing Furniture King, et al. into receivership. Shortly thereafter, the Receiver gained access to two (2) retail stores, one located on West Bell Road in Glendale, Arizona, and another located on West Van Buren Road in Goodyear, Arizona. The assets contained in these stores have since been consolidated into a single warehouse located on 27<sup>th</sup> Avenue in Phoenix, Arizona. In addition, the Receiver took possession and control of the existing warehouse located on 45<sup>th</sup> Avenue in Phoenix, Arizona. The Receiver's staff has prepared detailed inventories of the assets contained in the warehouses.

The Receiver has determined that he has possession and control of approximately 5,766 pieces of consumer furniture and related décor with a wholesale value of approximately \$1,000,000.00 and a liquidation value between \$275,000.00 and \$360,000.00.

As of the date of this report, the Receiver has disbursed a total of \$80,585.62 to marshal and protect the assets of Furniture King, et al., including (1) \$26,659.00 in rent to Predio Management, LLC for the 27<sup>th</sup> Avenue warehouse; (2) \$24,851.12 in rent to SBMC Van Buren

Industrial, LLC for the 45<sup>th</sup> Avenue warehouse; (3) \$24,613.50 to Atlantic Relocation Systems to relocate the furniture assets from the Glendale and Goodyear stores to the 27<sup>th</sup> Avenue warehouse; and (4) \$4,462.00 to Seneca Insurance Company, Inc. for insurance on the furniture assets held at all locations.

Additional actions taken by the Receiver with regard to the Furniture King, et al. assets, as well as the plan to liquidate the assets for the benefit of Furniture King's creditors (including DenSco), are discussed in detail in the Receiver's Petition for Approval of Procedures for the Sale of Furniture King Assets, which was filed with the Court on December 21, 2016 and subsequently posted on the receivership website.

### **2.3. Claims against the Chittick Estate**

On December 9, 2016, the Receiver filed a Notice of Claim against Estate of Denny J. Chittick ("Notice of Claim") in the Chittick probate matter. The Receiver's Notice of Claim is posted on the receivership website. The Receiver's preliminary analyses indicate that the Chittick Estate is indebted to the Receiver in the amount of \$46,811,635.54 as a result of the following:

- The frauds perpetrated by Menaged against DenSco due to Chittick's failure to institute or follow proper management and control of DenSco's business operations.
- Cash distributions to Chittick, wages paid to Chittick's minor children, the withdrawal of Chittick's 401(k) Plan investor balance, and the withdrawal of Chittick's Defined Benefit Plan investor balance at a time when DenSco was insolvent or would soon become insolvent or unable to pay its debts as they came due.

Given the complexity of the issues surrounding DenSco and the Receiver's ongoing investigations into DenSco and its business operations, the Receiver believes further discovery into the actions or omissions of Chittick may expose additional potential claims and/or monetary damages against the Chittick Estate. Accordingly, the Receiver may amend the Notice of Claim if and when new information is discovered.

On December 16, 2016, the Receiver filed a petition for an order approving the engagement of special counsel, TJ Ryan of Frazer Ryan Goldberg & Arnold, LLP, to assist the Receiver in the investigation and prosecution of DenSco's creditor claims against the Chittick Estate and to provide advice and counsel regarding the probate and trust issues surrounding the Chittick Estate.

In addition, on December 22, 2016, the Receiver filed a petition for an order approving the engagement of special counsel, Marvin "Bucky" Swift, Jr. ("Swift") of Snell & Wilmer, LLP, to assist the Receiver in the investigation and prosecution of DenSco's creditor claims against the Chittick Estate pertaining to Chittick's 401(k) Plan and Chittick's Defined Benefit Plan. Swift will serve as special counsel to the Receiver with respect to the Employee Retirement Income Security Act of 1974 ("ERISA") and related litigation issues.

The Receiver's claims with regard to Chittick's 401(k) Plan and Chittick's Defined Benefit Plan are discussed in detail in Section 4.1 of the Receiver's Preliminary Report and in the Receiver's Notice of Claim.

#### **2.4. Investor Communications**

On September 20, 2016, the Receiver sent an email update to all investors, which included (1) the Receiver's Preliminary Report and the corresponding petition; (2) the stipulated consent to an order placing Furniture King, et al. into receivership; and (3) the order placing Furniture King, et al. into receivership.

On October 21, 2016, the Receiver held an in-person meeting with investors in order to provide a more comprehensive update of the DenSco receivership. Approximately 40 investors attended the meeting in person, while several others listened in by telephone. The Receiver provided detailed meeting notes to all investors via email on November 22, 2016.

On November 21, 2016, after receiving numerous investor inquiries regarding the claims bar date in the Chittick probate matter, the Receiver sent an email to all investors advising them that the Receiver intended to file a timely claim against the Chittick Estate or enter into an agreement with the estate to extend or continue the deadline to file a claim.

The Receiver sent an additional email update to all investors on November 23, 2016. In this email, the Receiver provided (1) a summary of the collections to date; (2) a link to the investor meeting notes and exhibits posted on the receivership website; (3) the status of the Menaged bankruptcy and investigation; (4) the status of the Furniture King, et al. receivership; and (5) the anticipated timing of future reports to be issued by the Receiver.

In addition to the investor communications discussed above, the Receiver continues to update the receivership website at [denscoreceiver1.godaddysites.com](http://denscoreceiver1.godaddysites.com). Visitors to DenSco's original website ([denscoinvestment.com](http://denscoinvestment.com)) are automatically redirected to the receivership website. The receivership website is regularly updated to include links to both historical and recent Court filings in the Receivership proceeding, the Chittick probate proceeding, and the Menaged bankruptcy proceeding.

#### **3. Menaged Fraud Investigation**

The Receiver's investigation into the loan transactions between DenSco and Menaged indicates that Menaged perpetrated two distinct fraudulent schemes against DenSco, each of which is described in detail below.

##### **3.1. The First Fraud**

Sometime in 2011 or 2012, Menaged began requesting loans from DenSco for properties on which he had also solicited other lenders for loans. In an effort to deceive both lenders, Menaged essentially obtained two loans on hundreds of properties with the lenders believing that they were in first position. These loans are those that led to the execution of the Forbearance Agreement in April 2014 (See the Receiver's Preliminary Report, Section 2.2.3). According to the Forbearance Agreement, Menaged met with Chittick on or about November 27, 2013 to inform him that certain properties had been used as security for one or more loans from one or

more other lenders, and that the DenSco loans may not be in the first lien position on these properties.<sup>22</sup> In many cases, the other lenders had issued checks directly to the trustee for the purchase of a property at a trustee's sale, which was the basis for their senior lien on the property, whereas, DenSco wired funds directly to Easy or AHP.

Based on Menaged's testimony during the Rule 2004 examination<sup>23</sup> as well as email correspondence between Chittick and Menaged, the Receiver understands that Menaged misled Chittick to believe that Menaged's "cousin" had requested the loans from the third party lenders without Menaged's knowledge, and that the cousin had absconded with the proceeds from these fraudulent loans. However, Menaged has testified that the "cousin" did not exist and that Menaged was responsible for the fraudulent loans. The Receiver refers to this fraud scheme perpetrated by Menaged as the "First Fraud."

For example, on August 17, 2012, Menaged purchased the property at 20802 North Grayhawk Drive, Unit 1076, ("Grayhawk Property") for \$274,100.00 at a trustee's sale.<sup>24</sup> Menaged obtained a loan of \$264,100.00 from third party lender, Active Funding Group, LLC ("Active"), to purchase the property.<sup>25</sup> On August 17, 2012, Menaged sent an email to Chittick indicating he had purchased the property and requesting a loan in the amount of \$250,000.00. DenSco wired \$250,000.00 to Easy's bank account on August 20, 2012. However, Menaged had already used the property to secure a \$264,100.00 loan from Active. The Receiver has not identified any evidence indicating that DenSco was aware of Active's loan on the Grayhawk Property. According to documents located by the Receiver, Menaged estimated the value of the Grayhawk Property to be \$380,000.00 as of the purchase date. Therefore, based on Menaged's own estimation of value, the Grayhawk Property was over-encumbered by approximately \$144,100 as of August 2012 due to the fraud perpetrated by Menaged.

The DenSco records analyzed to date indicate that on December 13, 2013, DenSco began to loan Menaged additional funds to repay the third party lenders. The Receiver determined that when Menaged sold a property for less than the total of the DenSco loan and the third party loan, DenSco began paying the deficit and allocated the overage to other properties that had not yet sold or classified the additional loans as "workout" loans.

For Example, on January 30, 2014, DenSco wired \$169,474.60 to Magnus Title to cover the deficit that Menaged owed on another property (2507 West Bent Tree Drive), and the overage of \$116,474.60 was allocated to the Grayhawk Property, increasing the total due to DenSco on the Grayhawk Property to \$366,474.60. When the Grayhawk Property was sold in July 2014, DenSco wired \$348,873.28 to cover the deficit on the property. The \$348,873.28 overage was not allocated to another property, but was instead entered into DenSco's books as an unsecured receivable due from Menaged, under the category "Work Out 5 Million."

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<sup>22</sup> Forbearance Agreement, Section G (ACC000236),

<sup>23</sup> Transcript from the 10/20/16 Rule 2004 Examination of Scott Menaged; pages 81-82, 89.

<sup>24</sup> Trustee's Deed Upon Sale (Maricopa County recorded document no. 20120866188).

<sup>25</sup> Notice of Deed of Trust with Assignment of Rents (Maricopa County recorded document no. 20120773674).

As of the date of the receivership, DenSco's books and records report two (2) unsecured receivables due from Menaged, including \$13,336,807.24 classified as "Work Out 5 Million" and \$1,002,532.55 classified as "Work Out 1 Million," for a total of \$14,339,339.79. The loans recorded in these workout loan categories relate to overages on properties that date back to August 2012 and the First Fraud through November 2013. All prior DenSco loans that may have been double-encumbered before August 2012 were paid off in full without causing any additional losses.

### 3.2. The Second Fraud

In January 2014, Menaged began requesting loans from DenSco for properties that neither Menaged nor his entities actually purchased at trustees' sales or otherwise. Based on analyses of various emails between Chittick and Menaged, the Receiver understands that after the First Fraud, Chittick began requiring Menaged to provide DenSco with copies of the cashier's checks issued to the trustees as well as copies of the receipts received from the trustee for the purchase of a property at a trustee's sale. This was presumably done to ensure that DenSco was the senior lienholder on all of its loans to Menaged, even though DenSco continued to wire funds to Easy or AHF instead of directly to the trustees. However, Menaged began providing Chittick with falsified trustee's sale receipts<sup>26</sup> and copies of checks that were never actually given to the trustees. Instead, most of the cashier's checks were deposited back to Easy or AHF bank accounts. The Receiver refers to this fraud scheme perpetrated by Menaged as the "Second Fraud."

Of the 2,712 loans that Menaged and his entities received from DenSco from January 2014 through June 2016, only ninety-six (96) of them were secured by the actual purchase of real estate. As shown in Table 2 below, DenSco advanced a total of \$734,484,440.67 to Menaged for fraudulent loans resulting from the Second Fraud.

**Table 2:  
Summary of Menaged Loans  
January 2014 through June 2016**

Year	Purchased		Not Purchased	
	Amount	Count	Amount	Count
2014	\$ 15,001,843.42	96	\$ 181,058,229.00	803
2015	-	-	361,021,611.67	1,316
2016	-	-	192,404,600.00	593
<b>Total</b>	<b>\$ 15,001,843.42</b>	<b>96</b>	<b>\$ 734,484,440.67</b>	<b>2,712</b>

On average, Menaged paid off the fraudulent loans plus 18% accrued interest within approximately three (3) weeks. Because Menaged was paying interest on these loans but was not actually making any money from the purchase and sale of real estate, the number and frequency of the fraudulent loans increased over time, which dramatically increased the principal loan

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<sup>26</sup> The Receiver believes Menaged provided the false trustee's sale receipts to DenSco; however, Menaged testified that he did not send DenSco the trustee's sale receipts and didn't know that they were being sent. Menaged further testified that they must have been sent by his employee, Veronica Castro Gutierrez. See the transcript from the 10/20/16 Rule 2004 Examination of Scott Menaged; pages 171-174.



balance due to DenSco. The records analyzed to date indicate that Menaged essentially obtained new loans from DenSco in order to repay DenSco the principal and interest due on the older loans.

As of the date of the receivership, DenSco's balance sheet reported eighty-four (84) loans totaling \$28,332,300.00 due from Menaged for properties that neither Menaged nor his entities actually purchased.

#### **4. Solvency Analysis**

The Receiver analyzed DenSco's balance sheet in light of the information presented above regarding the First Fraud and Second Fraud perpetrated by Menaged to determine when DenSco's liabilities exceeded its assets. The Receiver made the following adjustments to DenSco's balance sheet to properly account for the disposition of the Menaged loans (See Exhibit 1).

##### *Adjustment for the First Fraud*

As a result of the First Fraud, DenSco's balance sheet reported the Menaged loans as assets at their face value despite the fact that many of the underlying properties were double-encumbered and, in several cases, the property values were insufficient to repay both DenSco and the third party lenders. Accordingly, for those properties where DenSco paid the deficit and classified the same as an unsecured "Work Out" loan, the Receiver reduced the balance sheet assets by the workout loan balance as of the date of DenSco's original loan(s) on the property.

For example, as discussed in Section 3.1 above, DenSco loaned \$250,000.00 to Menaged for the Grayhawk Property on August 20, 2012, plus an additional \$116,474.60 on January 30, 2014. When the property was sold in July 2014, DenSco was repaid the principal balance of \$366,474.60, but paid the deficit of \$348,873.28, resulting in an unsecured workout loan of \$348,873.28. Accordingly, the Receiver adjusted DenSco's balance sheet to exclude the \$250,000.00 Grayhawk loan asset as of the original loan date of August 20, 2012. The Receiver further adjusted DenSco's balance sheet to exclude \$98,873.28<sup>27</sup> of the additional \$116,474.60 loan asset as of January 30, 2014. Thus, the Grayhawk Property transactions resulted in a total loss of \$348,873.28, of which \$250,000.00 was removed from the balance sheet effective August 20, 2012, and \$98,873.28 was removed from the balance sheet effective January 20, 2014.

##### *Adjustment for the Second Fraud*

As a result of the Second Fraud, DenSco's balance sheet reported the Menaged loans as assets at their face value despite the fact that the underlying properties were never actually purchased by Menaged. Accordingly, the Receiver adjusted DenSco's balance

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<sup>27</sup> Total loss of \$348,873.28 minus \$250,000.00 previously accounted for equals \$98,873.28.

sheet to exclude the balance of Menaged loans on properties that were not purchased, since these loans are unsecured and therefore uncollectible.

As a result of these adjustments, DenSco's liabilities exceeded its assets at fair value by at least December 31, 2012 (See Exhibit 1). Because negative equity is a key indicator of insolvency, and because the losses resulting from the Menaged frauds increased exponentially from 2012 through 2016, it is reasonable to conclude that DenSco was insolvent as of December 31, 2012.

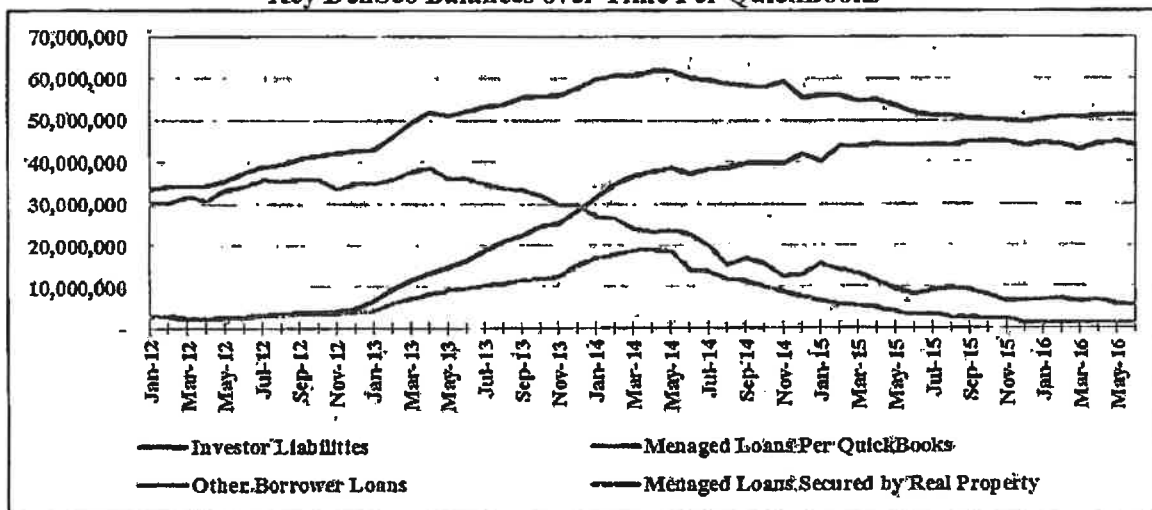
### 5. DenSco Became a Ponzi Scheme

As a result of the First Fraud and the Second Fraud, DenSco became insolvent as of December 31, 2012 and remained insolvent through June 30, 2016 (See Exhibit 1).

As the fraudulent Menaged loan balance increased, DenSco's valid hard money loans to third parties declined, and DenSco was no longer earning sufficient interest income to pay its investors. Because DenSco allowed Menaged's loan balance to continually increase over time, DenSco became a Ponzi scheme as it relied on payoffs and interest from third party borrowers and investor deposits of \$36,129,814.48 to pay principal and interest to investors totaling \$46,406,985.26 from the date of insolvency through June 30, 2016.<sup>28</sup>

As shown in Chart 1 below, the Menaged loan balance increased dramatically while the third party loan balance decreased from 2012 to 2016. The balance due to investors (excluding Chittick) also increased by \$11,797,881.50 from the date of insolvency through June 30, 2016.

**Chart 1:  
Key DenSco Balances over Time Per QuickBooks**



<sup>28</sup> For the purposes of this discussion, the Receiver excluded the three (3) DenSco investment accounts held by Chittick.

## 6. Modified Net Investment Analysis

Many investors have inquired as to how to report their losses for tax purposes. *The Receiver is not a tax professional and is neither authorized nor qualified to provide investors with individual tax advice.* However, the IRS's website indicates that investors should refer to Revenue Ruling 2009-9 and Revenue Procedure 2009-20 for guidance on dealing with this issue. Revenue Ruling 2009-9 sets forth the IRS's view of the applicable tax law pertaining to an investor who loses money in a Ponzi scheme or other type of fraud. Revenue Procedure 2009-20 describes the proper income tax treatment for losses resulting from Ponzi and other investment schemes and provides a safe harbor under which qualifying taxpayers may deduct a substantial portion of their loss in the year in which the scheme was discovered.

There are multiple methods of calculating investor losses in investment fraud schemes. One method commonly used in receiverships is the net investment method, in which cash payments to investors are considered the return of principal. This method is consistent with the calculation of a theft loss described in Revenue Ruling 2009-9 and Revenue Procedure 2009-20. For the purposes of this discussion, the Receiver excluded the three (3) DenSco investment accounts held by Chittick.

Since DenSco was otherwise operating a functioning hard money lending business prior to the First Fraud, the Receiver proposes that accrued but unpaid interest dated prior to the date of insolvency should be considered principal, and any cash withdrawals after the date of insolvency should be considered the return of principal. Investor balances as of December 31, 2012 totaled \$39,790,901.56. DenSco paid out a net total of \$10,277,170.78 in cash to investors from January 1, 2013 forward.<sup>29</sup> See Exhibit 2.

Under this methodology, twenty-one (21) DenSco investors are net investment "winners" who received cash in excess of their net investment balance as of the date of insolvency. All of the net investment "winners" withdrew their investment balances during the period from the date of insolvency through June 30, 2016. In total, these net investment "winners" received \$2,397,734.99, while the 114 net investment "losers" have a combined net investment loss of \$31,911,465.77. See Exhibit 2.

### 6.1. Estimated Investor Recoveries

Both Revenue Ruling 2009-9 and Revenue Procedure 2009-20 require that investors account for potential recoveries that may offset a portion of their losses, including future recoveries received from the receivership.

As mentioned above, the net investment "losers" have a combined balance of \$31,911,465.77. Based on the funds recovered by the Receiver to date, the expenses incurred to date, and the Receiver's estimation of future recoveries, the Receiver anticipates distributing approximately 20% of the net investment losses incurred by net investment "losers." Investors should refer to

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<sup>29</sup> Withdrawals totaling \$46,406,985.26 minus deposits totaling \$36,129,814.48 equals \$10,277,170.78.

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**Exhibit 2** to determine their net investment balance as calculated pursuant to the methodology discussed in **Section 6** above.

The Receiver is providing this estimate for investors' purposes based on the Receiver's knowledge as of the date of this report. The Receiver's estimate is based on the remaining DenSco loan portfolio as well as cash recovered and administrative expenses incurred to date. There are a significant number of moving parts and potential claims in this matter that prevent the Receiver from determining a more precise estimate of future recoveries and costs.

## 7. Receivership Accounting

As of the date of this report, the Receiver has collected a total of \$6,050,642.36 and has disbursed a total of \$407,811.48, resulting in a current balance of \$5,642,830.88 as summarized in **Table 3** below. Details of the cash collections and disbursements to date are provided below in **Section 7.1** and **Section 7.2** respectively.

**Table 3:**  
**Summary of Current Cash Balances**  
**As of December 23, 2016**

Bank Account Description	Balance
Wells Fargo Bank - Checking	\$ 702,042.26
Wells Fargo Bank - Savings	300,000.00
National Bank of Arizona - Money Market	240,007.43
Arizona Business Bank - Insured Cash Sweep	4,150,781.19
Arizona Business Bank - Checking	250,000.00
<b>Total Cash Balance</b>	<b>\$ 5,642,830.88</b>

### 7.1. Collections to Date

The Receiver has collected a total of \$6,050,642.36 on behalf of the DenSco Receivership Estate as of the date of this report, summarized as follows and discussed in detail below:

**Table 4:**  
**Summary of Cash Collections**  
**As of December 23, 2016**

Description	Amount	Reference
FirstBank Account Balance as of 08/18/16	\$ 1,380,653.91	Preliminary Report Section 3.1.1
Cash Collected from the Chittick Estate	551,140.00	Preliminary Report Section 3.1.2
Marilyn Property Proceeds Received from Easy Investments	35,066.73	See Section 7.1.1 below
Miscellaneous Furniture King, et al. Income	1,086.20	See Section 7.1.2 below
DenSco Office Furniture Sale Proceeds	31.87	See Section 7.1.3 below
Interest Income	918.32	
Loan Proceeds		
Payoff Proceeds - Principal	3,898,055.81	See Section 2.1.1 above
Payoff Proceeds - Interest & Fees	98,740.52	See Section 2.1.1 above
Additional Loan Interest	84,949.00	See Section 2.1.1 above
Subtotal Loan Proceeds	4,081,745.33	
<b>Total Cash Collected</b>	<b>\$ 6,050,642.36</b>	

#### **7.1.1. Marilyn Property Proceeds Received from Easy Investments**

As of the date that Menaged filed bankruptcy, Easy was the titled owner of the property located at 2048 East Marilyn Avenue (the "Marilyn Property"). Easy sold the property on approximately June 16, 2016, and Menaged deposited net proceeds of \$34,056.73 into a bank account in the name of Scott's Fine Furniture, and the funds were subsequently transferred to a bank account in the name of AHF. The AHF account was also used to hold rental income from the Marilyn Property and to pay related property expenses. Menaged transferred to his attorney's trust account the balance of \$35,066.73, which represents the net proceeds from the Marilyn Property.

Pursuant to the Forbearance Agreement discussed in the Receiver's Preliminary Report, AHF, Easy, Menaged, and Furniture King guaranteed approximately \$35 million in loans due from AHF and Easy. Accordingly, on November 23, 2016, the Receiver, Menaged, and the Chapter 7 Trustee stipulated to the release of the Marilyn Property proceeds to the Receiver. The Bankruptcy Court approved the stipulation shortly thereafter, and the funds were wired to the DenSco receivership account on November 29, 2016.

#### **7.1.2. Miscellaneous Furniture King, et al. Income**

The Receiver sent a demand letter instructing Chase Bank to turn over to the Receiver all funds held in Furniture King's pre-receivership bank account as of the date it was placed in receivership, or September 27, 2016. Accordingly, the Receiver received a cashier's check from Chase Bank in the amount of \$951.43 on December 7, 2016.

In addition, the Receiver received (1) a check payable to Furniture King in the amount of \$105.43 for a utility refund issued by the City of Glendale; and (2) a check payable to Scott's Fine Furniture in the amount of \$29.34 for an insurance refund issued by American Modern Select Insurance Company.

#### **7.1.3. DenSco Office Furniture Sale Proceeds**

The Receiver received a check in the amount of \$31.87 from the Chittick Estate representing the net proceeds from the sale of DenSco office furniture during the estate sale.

#### **7.2. Disbursements to Date**

The Receiver has disbursed a total of \$407,811.48 on behalf of the DenSco Receivership Estate as of the date of this report, summarized as follows:

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**Table 5:  
Summary of Cash Disbursements  
As of December 23, 2016**

Description	Amount	Reference
Professional Fees (Aug-Sep 2016)		
Receiver's Firm - Simon Consulting, LLC	136,117.67	See Section 7.2.1 below
Receiver's Counsel - Guttilla Murphy Anderson, PC	138,164.47	See Section 7.2.1 below
Receiver's Counsel - Fredenberg Beams	5,091.40	See Section 7.2.1 below
Gammage & Burnham	42,302.25	See Section 7.2.1 below
Subtotal	321,675.79	
Miscellaneous Furniture King, et al. Expenses		
Warehouse Rent Expense	51,510.12	See Section 2.2.1 above
Furniture Moving Expenses	24,613.50	See Section 2.2.1 above
Insurance Expense	4,462.00	See Section 2.2.1 above
Subtotal	80,585.62	
Property Insurance Expense - Winter Property	2,737.00	See Section 2.1.2.2 above
Bank Service Charges & Wire Fees	2,269.07	
Bond Expense	500.00	
FirstBank Records Fee	44.00	
Total Cash Disbursed	\$ 407,811.48	

**7.2.1. Professional Fees**

Pursuant to the Court's order dated October 24, 2016 regarding Petition No. 5, the Receiver disbursed \$36,927.46 to the Receiver's firm, Simon Consulting, LLC, and \$60,050.62 to the Receiver's counsel, Guttilla Murphy Anderson, PC for fees incurred from August 19, 2016 through August 31, 2016.

Pursuant to the Court's order dated December 13, 2016 regarding Petition No. 6, the Receiver disbursed \$99,190.21 to Simon Consulting, LLC and \$78,113.85 to Guttilla Murphy Anderson, PC for fees incurred during September 2016.

Pursuant to the Court's order dated October 13, 2016 regarding Petition No. 4, which authorized the Receiver to engage the law firm of Fredenberg Beams to provide foreclosure services, the Receiver has disbursed \$5,091.40 to Fredenberg Beams for fees incurred from October 13, 2016 through November 30, 2016.

Pursuant to the Court's order dated December 13, 2016 regarding Petition No. 7, the Receiver disbursed \$42,302.25 to Gammage & Burnham, PLC for fees incurred from August 12, 2016 through November 2, 2016 for work related to the recovery, analysis, and production of records to the ACC and the Receiver.

  
Peter S. Davis, Receiver  
Simon Consulting, LLC

December 23, 2016  
Date

**DeaSco Investment Corporation**  
Solvency Analysis

**Simon Consulting, LLC**  
Arizona Corporation Commission v. DeaSco Investment Corporation

Exhibit J

	01/31/12	02/29/12	03/31/12	04/30/12	05/31/12	06/30/12	07/31/12	08/31/12	09/30/12	10/31/12	11/30/12	12/31/12
<b>ASSETS</b>												
Current Assets												
Checking/Savings	834,526	1,107,357	497,731	1,590,614	127,190	1,215,122	596,848	1,132,173	2,053,469	2,535,561	5,517,072	3,177,858
Accounts Receivable												
Other Borrowers	30,192,581	30,357,922	31,705,696	30,954,196	33,184,524	34,149,787	35,795,597	35,522,792	35,868,493	35,910,895	33,667,949	35,060,476
Yom Tov Scott Managed	-	-	-	-	-	-	-	-	-	-	-	-
Arizona Home Foreclosures, LLC	-	-	-	-	-	-	-	-	-	-	-	-
Wholesale	-	-	-	-	-	-	-	-	-	-	-	-
Work Out 1 Million	-	-	-	-	-	-	-	-	-	-	-	-
Work Out 5 Million	-	-	-	-	-	-	-	-	-	-	-	-
Yom Tov Scott Managed - Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Yom Tov Scott Managed	2,746,000	2,746,000	2,199,000	2,199,000	2,499,000	2,499,000	2,934,000	3,284,000	3,584,000	3,984,000	3,760,000	4,650,000
Total Accounts Receivable	32,938,581	33,103,922	33,904,696	33,153,196	35,683,524	36,648,787	38,729,597	38,806,792	39,432,493	39,894,895	37,427,949	39,710,476
Total Current Assets	33,773,107	34,211,280	34,402,427	34,743,810	35,810,714	37,863,909	39,326,445	39,938,964	41,505,962	42,430,456	42,945,021	42,888,334
Fixed Assets												
Syndication	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Total Fixed Assets	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Other Assets												
Investors Title Holdings, LLC	6,015	6,015	6,015	6,015	2,432	2,432	2,432	2,432	2,432	2,432	2,432	-
Total Other Assets	6,015	6,015	6,015	6,015	2,432	2,432	2,432	2,432	2,432	2,432	2,432	-
<b>TOTAL ASSETS</b>	<b>33,802,558</b>	<b>34,240,730</b>	<b>34,431,878</b>	<b>34,773,261</b>	<b>35,836,582</b>	<b>37,889,777</b>	<b>39,352,313</b>	<b>39,964,832</b>	<b>41,531,830</b>	<b>42,456,324</b>	<b>42,970,889</b>	<b>42,911,770</b>
<b>LIABILITIES &amp; EQUITY</b>												
Liabilities												
Current Liabilities												
Payroll Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Liabilities (Due to Investors)	33,681,511	34,038,939	34,115,073	34,533,978	35,584,388	37,489,088	38,818,638	39,293,008	40,710,720	41,546,959	42,043,098	42,570,837
Total Liabilities	33,681,511	34,038,939	34,115,073	34,533,978	35,584,388	37,489,088	38,818,638	39,293,008	40,710,720	41,546,959	42,043,098	42,570,837
Equity	121,047	201,791	316,805	239,283	252,194	400,689	533,675	671,824	821,110	909,365	927,791	340,933
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>33,802,558</b>	<b>34,240,730</b>	<b>34,431,878</b>	<b>34,773,261</b>	<b>35,836,582</b>	<b>37,889,777</b>	<b>39,352,313</b>	<b>39,964,832</b>	<b>41,531,830</b>	<b>42,456,324</b>	<b>42,970,889</b>	<b>42,911,770</b>
<b>EQUITY ADJUSTMENTS:</b>												
Add Back Payroll Liabilities (DES Refund)	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for the First Fraud (1):	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for the Second Fraud (1):	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity Adjustment:	121,047	201,791	316,805	239,283	252,194	400,689	533,675	671,824	821,110	909,365	927,791	340,933
Adjusted Equity:	-	-	-	-	-	-	-	-	-	-	-	-

DeaSco Investment Corporation was insolvent as of December 31, 2012.

**Notes:**

[1] See Section 4 of the Receiver's Report dated December 22, 2016 for details regarding adjustments made to properly account for the disposition of the Managed loans.

**Sources:**

QuickBooks company file for DeaSco Investment Corporation.  
Miscellaneous public records research resources to determine purchase history of Managed loans including the Maricopa County Assessor (<http://mcassessor.maricopa.gov/>), Maricopa County Recorder (<https://recorder.maricopa.gov/recdata/>), and Zillow.com.  
Miscellaneous property records located in records recovered from Furniture King, LLC, et al. furniture stores.  
DeaSco Investment Corporation loan files.  
Miscellaneous email correspondence between Denny Chittick and Yonny Scott Managed.

Exhibit A

**DenSco Investment Corporation**  
**Solvency Analysis**

**Simon Consulting, LLC**  
**Arizona Corporation Commission v. DenSco Investment Corporation**

	01/31/13	02/28/13	03/31/13	04/30/13	05/31/13	06/30/13	07/31/13	08/31/13	09/30/13	10/31/13	11/30/13	12/31/13	Exhibit I
<b>ASSETS</b>													
Current Assets													
Checking/Savings	2,135,664	1,733,088	710,099	1,182,325	1,897,177	1,782,237	1,951,575	1,387,429	2,324,909	2,013,625	3,399,458	545,709	
Accounts Receivable													
Other Borrowers	34,867,439	35,728,747	37,791,478	38,648,134	36,173,380	35,959,042	34,567,519	33,693,427	33,330,725	31,941,152	29,736,287	29,873,078	
Yom Tov Scott Managed	-	-	-	-	-	-	3,200,000	6,280,000	8,300,000	11,130,000	12,405,000	15,368,400	
Arizona Home Foreclosures, LLC	-	-	-	-	-	-	-	-	-	-	-	-	
Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	
Work Out 1 Million	-	-	-	-	-	-	-	-	-	-	-	-	
Work Out 5 Million	-	-	-	-	-	-	-	-	-	-	-	-	
Yom Tov Scott Managed - Other	6,573,000	9,273,000	11,688,000	13,258,000	14,518,000	16,183,000	15,454,000	14,754,000	14,082,000	13,384,000	12,974,000	12,937,000	
Total Yom Tov Scott Managed	6,573,000	9,273,000	11,688,000	13,258,000	14,518,000	16,183,000	15,454,000	14,754,000	14,082,000	13,384,000	12,974,000	12,937,000	
Total Accounts Receivable	41,440,439	45,001,747	49,479,478	51,906,134	50,691,380	52,142,042	53,221,519	54,727,427	55,712,725	56,455,152	55,115,287	58,327,810	
Total Current Assets	43,576,103	46,734,835	50,189,577	53,088,458	52,588,557	53,924,279	55,173,094	56,114,856	58,037,633	58,468,777	58,514,745	58,873,519	
Fixed Assets													
Syndication	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	
Total Fixed Assets	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	
Investors Title Holdings, LLC	-	-	-	-	-	-	-	-	-	-	-	-	
Total Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL ASSETS</b>	<b>43,599,539</b>	<b>46,758,270</b>	<b>50,213,012</b>	<b>53,111,894</b>	<b>52,611,993</b>	<b>53,947,715</b>	<b>55,196,530</b>	<b>56,138,292</b>	<b>58,061,069</b>	<b>58,492,213</b>	<b>58,538,181</b>	<b>58,896,955</b>	
<b>LIABILITIES &amp; EQUITY</b>													
Liabilities													
Current Liabilities													
Payroll Liabilities													
Total Current Liabilities													
Long Term Liabilities (Due to Investors)													
Total Liabilities													
Equity													
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>43,599,539</b>	<b>46,758,270</b>	<b>50,213,012</b>	<b>53,111,894</b>	<b>52,611,993</b>	<b>53,947,715</b>	<b>55,196,530</b>	<b>56,138,292</b>	<b>58,061,069</b>	<b>58,492,213</b>	<b>58,538,181</b>	<b>58,896,955</b>	
<b>EQUITY ADJUSTMENTS:</b>													
Add Back Payroll Liabilities (DES Refund)													
Adjustment for the First Fraud [1]:	(2,400,000)	(3,245,502)	(4,375,502)	(4,983,187)	(5,480,210)	(6,481,426)	(8,467,062)	(10,288,832)	(10,861,292)	(12,630,650)	(13,078,259)	(13,199,547)	
Adjustment for the Second Fraud [1]:													
Total Equity Adjustment:	(2,400,000)	(3,245,502)	(4,375,502)	(4,983,187)	(5,480,210)	(6,481,426)	(8,467,062)	(10,288,832)	(10,861,292)	(12,630,650)	(13,078,259)	(13,199,547)	
Adjusted Equity:	(1,855,598)	(2,586,510)	(3,569,962)	(3,852,875)	(4,040,622)	(4,890,683)	(6,609,016)	(8,146,451)	(8,512,727)	(10,034,766)	(10,695,358)	(12,128,041)	

**Notes:**

[1] See Section 4 of the Receiver's Report dated December 22, 2016 for details regarding adjustments made to properly account for the disposition of the Managed loans.

**Sources:**

QuickBooks company file for DenSco Investment Corporation.  
Miscellaneous public records research resources to determine purchase history of Managed loans including the Maricopa County Assessor (<http://meassessor.maricopa.gov/>), Maricopa County Recorder (<https://recorder.maricopa.gov/recdoctdata/>), and Zillow.com.  
Miscellaneous property records located in records recovered from Furniture King, LLC, et al. furniture stores.

DenSco Investment Corporation loan files

Miscellaneous email correspondence between Deany **Exhibit A** and Yom Tov Scott Managed



**DenSco Investment Corporation**  
Solvency Analysis

**Arizona Corporation Commission v. DenSco Investment Corporation**  
Simon Consulting, LLC

Exhibit 1

	01/31/14	02/28/14	03/31/14	04/30/14	05/31/14	06/30/14	07/31/14	08/31/14	09/30/14	10/31/14	11/30/14	12/31/14
<b>ASSETS</b>												
Current Assets												
Checking/Savings	2,144,154	776,696	812,743	1,626,379	475,928	1,693,559	3,092,088	6,829,812	3,789,810	5,360,448	9,737,810	4,466,764
Accounts Receivable	26,957,137	26,384,441	24,103,024	23,257,823	23,735,293	22,644,621	19,747,739	15,283,803	16,848,672	15,461,331	12,361,009	13,018,319
Other Borrowers	16,553,952	18,143,445	19,382,242	19,945,885	20,394,230	20,125,966	20,792,426	20,826,135	21,641,635	22,066,792	22,602,142	7,076,756
Yom Tov Scott Managed												
Arizona Home Foreclosures, LLC												
Wholesale	915,168	915,168	915,168	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	18,577,900
Work Out 1 Million												
Work Out 5 Million	14,272,971	15,471,023	15,049,123	14,374,902	13,169,402	10,876,283	10,509,809	9,716,316	8,215,574	8,395,747	8,684,724	9,368,013
Yom Tov Scott Managed - Other	31,742,091	34,629,636	36,603,390	37,792,689	38,606,298	37,150,150	38,335,298	38,493,681	39,661,831	39,557,157	39,546,272	5,802,935
Total Yom Tov Scott Managed	58,699,228	61,014,078	60,706,414	61,050,512	62,341,591	59,794,771	58,083,037	53,777,485	56,510,503	55,018,488	51,907,281	54,846,456
Total Accounts Receivable	60,843,382	61,790,774	61,519,158	62,676,891	62,817,519	61,488,330	61,175,125	60,607,297	60,300,312	60,378,936	61,645,091	59,313,220
Total Current Assets	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Fixed Assets												
Syndication	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Total Fixed Assets	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Other Assets												
Investors Title Holdings, LLC												
Total Other Assets												
<b>TOTAL ASSETS</b>	60,866,817	61,814,210	61,542,593	62,700,327	62,840,955	61,511,766	61,198,560	60,630,733	60,323,748	60,402,371	61,668,527	59,336,656
<b>LIABILITIES &amp; EQUITY</b>												
Liabilities												
Current Liabilities												
Payroll Liabilities	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Total Current Liabilities	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Long Term Liabilities (Due to Investors)	59,888,516	60,965,333	60,780,536	61,847,783	61,915,042	60,327,633	59,694,691	58,874,712	58,253,483	58,143,565	59,166,147	55,530,688
Total Liabilities	978,301	848,337	762,057	852,544	925,913	1,184,133	1,303,699	1,756,021	2,036,265	2,224,806	2,268,381	3,771,968
Equity	60,866,817	61,814,210	61,542,593	62,700,327	62,840,955	61,511,766	61,198,560	60,630,733	60,323,748	60,402,371	61,668,527	59,336,656
<b>TOTAL LIABILITIES &amp; EQUITY</b>												
<b>EQUITY ADJUSTMENTS:</b>												
Add Back Payroll Liabilities (DES Refund):	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Adjustment for the First Fraud [1]:	(14,410,815)	(15,523,116)	(15,459,624)	(15,525,978)	(15,537,857)	(15,537,857)	(15,531,869)	(15,514,086)	(15,510,243)	(15,272,733)	(15,086,858)	(15,078,601)
Adjustment for the Second Fraud [1]:	(529,001)	(1,469,801)	(2,444,300)	(3,466,500)	(4,664,616)	(7,537,760)	(9,258,160)	(10,978,160)	(12,705,160)	(14,291,900)	(15,696,550)	(18,963,200)
Total Equity Adjustment:	(14,905,816)	(16,958,917)	(17,869,924)	(18,958,478)	(20,168,473)	(23,041,617)	(24,756,029)	(26,458,246)	(28,181,403)	(29,530,633)	(30,749,408)	(34,007,801)
Adjusted Equity:	(13,927,515)	(16,110,040)	(17,107,866)	(18,105,935)	(19,242,560)	(21,857,484)	(23,252,159)	(24,702,225)	(26,145,138)	(27,305,826)	(28,481,027)	(30,235,834)

Notes:

[1] See Section 4 of the Receiver's Report dated December 22, 2016 for details regarding adjustments made to properly account for the disposition of the Managed loans.

Sources:

QuickBooks company file for DenSco Investment Corporation.

Miscellaneous public records research resources to determine purchase history of Managed loans including the Maricopa County Assessor

(<http://mcassessor.maricopa.gov/>), Maricopa County Recorder (<https://recorder.maricopa.gov/redocdata/>), and Zillow.com.

Miscellaneous property records located in records recovered from Furniture King, LLC, et al. furniture stores.

DenSco Investment Corporation loan files.

Miscellaneous email correspondence between Denny Chittick and Yom Tov Scott Managed.

Exhibit A

**DenSeo Investment Corporation**  
Solvency Analysis

**Simon Consulting, LLC**  
Arizona Corporation Commission v. DenSeo Investment Corporation

Exhibit 1

ASSETS	01/31/15	02/28/15	03/31/15	04/30/15	05/31/15	06/30/15	07/31/15	08/31/15	09/30/15	10/31/15	11/30/15	12/31/15
Current Assets												
Checking/Savings	4,449,910	2,647,930	1,998,867	2,987,908	4,167,473	4,086,679	2,746,084	2,138,218	1,802,291	2,526,986	3,620,213	3,303,028
Accounts Receivable	15,464,876	13,942,446	13,177,358	11,423,929	9,476,099	8,352,113	9,137,109	9,662,805	9,214,367	8,073,640	6,754,055	6,875,896
Other Borrowers												
Yom Tov Scott Menaged												
Arizona Home Foreclosures, LLC	6,317,257	7,738,519	7,144,038	6,471,175	5,216,525	4,408,840	3,282,241	2,507,052	2,487,052	2,190,171	2,190,171	1,606,180
Wholesale	17,703,800	20,169,600	20,818,200	22,078,500	23,271,650	24,120,800	25,215,400	26,232,300	27,301,500	27,862,300	27,835,200	28,067,700
Work Out 1 Million	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533
Work Out 5 Million	9,946,199	10,342,530	11,318,176	11,623,142	12,540,211	13,322,783	13,892,847	14,171,007	13,786,807	13,736,807	13,736,807	13,336,807
Yom Tov Scott Menaged - Other	5,245,404	4,460,267	3,542,001	3,120,982	1,967,641	1,107,248	549,169	171,357	171,357	-	-	-
Total Yom Tov Scott Menaged	40,215,192	43,713,449	43,824,947	44,296,331	43,998,559	43,962,203	43,942,189	44,084,249	44,749,249	44,791,811	44,764,711	44,013,220
Total Accounts Receivable	55,680,068	57,655,895	57,002,305	55,720,261	53,474,658	52,314,316	53,079,298	53,747,053	53,963,615	52,865,451	51,518,766	50,889,115
Total Current Assets	60,129,978	60,303,825	59,001,172	58,708,169	57,642,131	56,400,995	55,825,382	55,885,271	55,765,907	55,392,437	55,138,979	54,192,143
Fixed Assets												
Syndication	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Total Fixed Assets	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436	23,436
Other Assets												
Investors Title Holdings, LLC												
Total Other Assets	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	60,153,414	60,327,260	59,024,608	58,731,605	57,665,566	56,424,431	55,848,817	55,908,707	55,789,342	55,415,873	55,162,414	54,215,579
LIABILITIES & EQUITY												
Liabilities												
Current Liabilities												
Payroll Liabilities	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Total Current Liabilities	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Long Term Liabilities (Due to Investors)	56,132,068	56,162,285	54,668,201	54,988,492	53,655,625	52,090,475	51,242,489	51,202,155	50,660,873	50,265,641	50,036,766	49,803,682
Total Liabilities	56,166,068	56,196,285	54,702,201	55,027,492	53,689,625	52,124,475	51,276,489	51,236,155	50,694,873	50,299,641	50,070,766	49,890,682
Equity	3,987,345	4,130,975	4,322,407	3,709,113	3,975,942	4,299,955	4,572,328	4,672,552	5,094,470	5,116,232	5,091,649	4,324,897
TOTAL LIABILITIES & EQUITY	60,153,414	60,327,260	59,024,608	58,731,605	57,665,566	56,424,431	55,848,817	55,908,707	55,789,342	55,415,873	55,162,414	54,215,579
EQUITY ADJUSTMENTS:												
Add Back Payroll Liabilities (DES Refund):												
Adjustment for the First Fraud [1]:	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Adjustment for the Second Fraud [1]:	(15,103,254)	(15,125,328)	(15,161,851)	(15,161,851)	(15,201,438)	(15,148,563)	(15,173,540)	(15,173,540)	(14,789,340)	(14,739,340)	(14,739,340)	(14,739,340)
Total Equity Adjustment:	(33,589,058)	(37,762,296)	(38,353,437)	(39,363,449)	(40,174,085)	(40,550,675)	(40,700,678)	(41,551,078)	(42,336,078)	(42,567,640)	(42,540,540)	(42,773,040)
Adjusted Equity: F	(29,601,713)	(33,631,321)	(34,031,030)	(35,654,336)	(36,198,144)	(36,250,719)	(36,128,350)	(36,878,526)	(37,141,608)	(37,451,407)	(37,448,891)	(38,448,143)

**Notes:**

[1] See Section 4 of the Receiver's Report dated December 22, 2016 for details regarding adjustments made to properly account for the disposition of the Managed loans.

**Sources:**

QuickBooks company file for DenSeo Investment Corporation.  
Miscellaneous public records research resources to determine purchase history of Managed loans including the Maricopa County Assessor (<http://mcassessor.maricopa.gov/>), Maricopa County Recorder (<https://recorder.maricopa.gov/redocdata/>), and Zillow.com.  
Miscellaneous property records located in records recovered from Furniture King, LLC, et al. furniture stores  
DenSeo Investment Corporation loan files.  
Miscellaneous email correspondence between Denny Whitlick and Yom Tov Scott Menaged

Exhibit A

**DenSoo Investment Corporation**  
**Solvency Analysis**

**Simon Consulting, LLC**  
**Arizona Corporation Commission v. DenSoo Investment Corporation**

Exhibit 1

	01/31/16	02/29/16	03/31/16	04/30/16	05/31/16	06/30/16
<b>ASSETS</b>						
<b>Current Assets</b>						
Checking/Savings	3,029,611	3,938,967	6,026,170	4,203,609	4,916,221	6,029,569
Accounts Receivable	7,030,672	7,193,702	6,388,431	6,785,021	5,720,197	5,567,534
Other Borrowers						
Yom Tov Scott Menaged						
Arizona Home Foreclosures, LLC	1,486,180	1,465,380	1,486,180	1,486,180	1,486,180	1,486,180
Wholesale	28,843,100	28,449,900	27,154,300	28,553,700	29,123,500	28,122,300
Work Out 1 Million	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533	1,002,533
Work Out 5 Million	13,336,807	13,336,807	13,336,807	13,336,807	13,336,807	13,336,807
Yom Tov Scott Menaged - Other						
Total Yom Tov Scott Menaged	44,668,620	44,254,620	42,979,820	44,379,220	44,949,020	43,947,820
Total Accounts Receivable	51,699,291	51,448,322	49,368,250	51,164,240	50,669,217	49,515,354
Total Current Assets	54,728,902	55,387,289	55,394,421	55,367,850	55,585,438	55,544,923
<b>Fixed Assets</b>						
Syndication	23,436	23,436	23,436	23,436	23,436	23,436
Total Fixed Assets	23,436	23,436	23,436	23,436	23,436	23,436
<b>Other Assets</b>						
Investors Title Holdings, LLC						
Total Other Assets						
<b>TOTAL ASSETS</b>	54,752,338	55,410,725	55,417,857	55,391,286	55,608,874	55,568,359
<b>LIABILITIES &amp; EQUITY</b>						
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payroll Liabilities	87,000	87,000	34,000	34,000	34,000	34,000
Total Current Liabilities	87,000	87,000	34,000	34,000	34,000	34,000
<b>Long Term Liabilities (Due to Investors)</b>						
Total Liabilities	50,436,904	51,107,207	51,066,155	51,298,570	51,546,310	51,622,783
Equity	4,315,434	4,303,518	4,351,702	4,092,715	4,062,564	3,945,576
<b>TOTAL LIABILITIES &amp; EQUITY</b>	54,752,338	55,410,725	55,417,857	55,391,286	55,608,874	55,568,359

**EQUITY ADJUSTMENTS:**

Add Back Payroll Liabilities (DES Refund):	34,000	34,000	34,000	34,000	34,000	34,000
Adjustment for the First Fraud [1]	(14,739,340)	(14,739,340)	(14,739,340)	(14,739,340)	(14,739,340)	(14,739,340)
Adjustment for the Second Fraud [1]	(28,843,100)	(28,437,300)	(27,154,300)	(28,553,700)	(29,123,500)	(28,122,300)
Total Equity Adjustment:	(43,548,440)	(43,142,640)	(41,859,640)	(43,259,040)	(43,828,840)	(42,827,640)
Adjusted Equity:	(39,233,006)	(38,839,121)	(37,507,938)	(39,166,324)	(39,766,276)	(38,882,064)

**Notes:**

[1] See Section 4 of the Receiver's Report dated December 22, 2016 for details regarding adjustments made to properly account for the disposition of the Menaged loans

**Sources:**

QuickBooks company file for DenSoo Investment Corporation.  
Miscellaneous public records research resources to determine purchase history of Menaged loans including the Maricopa County Assessor (<http://mcaassessor.maricopa.gov/>), Maricopa County Recorder (<https://recorder.maricopa.gov/reccorddata/>), and Zillow.com.  
Miscellaneous property records located in records recovered from Furniture King, LLC, et al. furniture stores.  
DenSoo Investment Corporation loan files.  
Miscellaneous email correspondence between Penny Quinlan and Yom Tov Scott Menaged.

Exhibit A

Investor Name	Investor Transactions Through 12/31/12				Investor Transactions From 01/01/13 through 06/30/16				Calculation of Net Investment Loss (Win)			
	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Investor Balance	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Pre-Insolvency Balance (12/31/12)	Post-Insolvency Cash Transactions	Net Investment Loss/(Win)
Indieabe Revocable Trust / Brian Indieabe	3,500,000.00	(1,324,416.40)	1,324,416.40	-	3,500,000.00	3,600,000.00	(3,417,100.00)	2,217,100.00	-	3,500,000.00	182,900.00	3,682,900.00
Paga, Joane	1,900,000.00	-	157,401.30	-	2,057,401.30	150,000.00	(450,385.77)	1,079,025.26	-	2,057,401.30	(300,385.77)	1,757,015.53
Thompson, Coralee	1,250,000.00	-	500,100.09	-	1,750,100.09	-	(412,146.19)	822,966.39	-	1,750,100.09	(412,146.19)	1,347,953.90
Thompson, Gary	1,110,000.00	-	413,725.81	-	1,523,725.81	-	(334,443.11)	715,230.27	-	1,523,725.81	(334,443.11)	1,189,282.70
Hood, Craig	2,100,000.00	(867,027.53)	364,082.02	-	1,597,054.49	1,215,000.00	(552,723.61)	601,157.17	-	1,597,054.49	(604,123.93)	992,931.56
Marina & Pat Miller 1989 Trust	465,000.00	(235,807.91)	85,807.91	-	315,000.00	-	(685,147.82)	685,147.82	-	315,000.00	(685,147.82)	977,276.39
Long Time Holdings, LLC / William Swartz	1,600,000.00	(727,346.09)	727,346.09	-	1,630,000.00	-	(8,144,182.42)	1,149,182.42	-	1,630,000.00	(685,147.82)	944,852.18
Desert Classic Investments, LLC / Steven Burger	830,000.00	(428,244.98)	489,853.89	-	891,608.91	50,000.00	(261,503.87)	416,347.86	-	891,608.91	(211,503.87)	680,105.04
Seigford, GE	325,250.00	(17,738.60)	279,865.77	-	587,377.17	152,000.00	(66,085.44)	346,108.67	-	587,377.17	85,914.56	673,291.73
Hickman, Dale	1,396,667.74	(538,704.40)	166,892.79	-	1,004,856.13	-	(426,274.09)	426,274.10	-	1,004,856.13	(426,274.09)	578,582.04
Pattin, Valerie	-	-	-	-	-	795,000.00	(262,350.00)	262,350.00	-	-	532,650.00	532,650.00
Steven & Mary Burger Estate, LLC	-	-	-	-	-	800,000.00	(271,448.80)	271,448.80	-	-	528,551.20	528,551.20
Dupper Living Trust / Russ Dupper	745,000.00	(495,812.02)	445,812.02	-	695,000.00	150,000.00	(323,566.80)	323,566.80	-	695,000.00	(173,566.80)	521,433.20
Phalen Living Trust / Jeff Phalen	1,108,776.18	(1,336,688.21)	958,592.30	-	720,684.27	-	(241,500.00)	322,267.45	-	720,684.27	(241,500.00)	489,184.27
Chinick Family Trust / Mo & Sam Chinick	250,000.00	(44,348.64)	320,489.22	-	526,140.58	-	(60,728.58)	265,234.31	-	526,140.58	(60,728.58)	465,412.00
David, Glen	800,000.00	(739,242.64)	739,242.64	-	800,000.00	-	(336,000.00)	336,000.00	-	800,000.00	(336,000.00)	464,000.00
Michael & Diana Gombert Trust	308,000.00	-	57,765.75	-	357,765.75	100,000.00	-	230,209.26	-	357,765.75	100,000.00	457,765.75
Burdett, Anthony - IRA	296,215.18	-	98,576.93	-	394,812.11	-	-	204,824.51	-	394,812.11	-	394,812.11
Burkhardt, Keenan - IRA	200,000.00	-	30,967.74	-	230,967.74	150,000.00	-	179,099.35	-	230,967.74	150,000.00	380,967.74
Phalen, Jeff - IRA	363,064.21	-	10,322.81	-	373,347.02	-	-	193,683.63	-	373,347.02	-	373,347.02
Seeggin, Michael - IRA	332,700.00	(134,070.49)	364,997.61	-	563,627.13	25,500.00	(241,684.34)	241,684.34	-	563,627.13	(216,184.34)	347,402.79
Hughes, Bill - IRA	345,427.06	(5,000.00)	42,671.15	-	383,098.21	10,000.00	(67,443.87)	193,741.00	-	383,098.21	(57,483.87)	325,614.34
Trinor, Jimmy	-	-	-	-	-	309,584.99	-	18,394.98	-	-	309,584.99	309,584.99
Weiskopf, Laurie - IRA	380,000.00	(64,299.90)	106,599.57	-	422,209.67	150,000.00	(264,476.74)	235,048.50	-	422,209.67	(114,476.74)	307,732.93
McArdle, James	445,000.00	(302,388.96)	32,072.96	-	184,683.96	150,000.00	(216,167.28)	216,167.28	-	184,683.96	(216,167.28)	298,516.70
Judy & Gary Seigford	145,000.00	(13,829.92)	32,210.07	-	163,400.15	188,038.58	(59,732.64)	104,510.38	-	163,400.15	128,305.94	291,706.09
Wayne Ledet Revocable Trust	450,000.00	(96,983.33)	96,983.33	-	450,000.00	50,000.00	(208,316.73)	208,316.73	-	450,000.00	(158,316.73)	291,683.27
Carl & Tomie Brown Living Trust	1,200,000.00	(1,180,616.74)	480,616.74	-	500,000.00	-	(210,000.00)	210,000.00	-	500,000.00	(210,000.00)	290,000.00
Hariz, Nihad	500,000.00	(308,099.96)	508,099.96	-	500,000.00	-	(210,000.00)	210,000.00	-	500,000.00	(210,000.00)	290,000.00
Muscat Family Trust / Vinco & Sherry Muscat	260,000.00	-	17,371.94	-	277,371.94	-	-	143,897.78	-	277,371.94	-	277,371.94
Butler, Mary - IRA	260,000.00	-	17,371.94	-	277,371.94	-	-	143,897.78	-	277,371.94	-	277,371.94
Butler, Van - IRA	430,000.00	(105,400.02)	105,400.02	-	450,000.00	50,000.00	(229,617.84)	229,617.84	-	450,000.00	(179,617.84)	270,382.16
Zones, Michael	300,000.00	(124,292.31)	86,806.24	-	262,513.93	50,000.00	(167,500.00)	182,068.37	-	262,513.93	(117,500.00)	145,013.93
Ledet, Wayne - IRA	420,000.00	(313,113.48)	271,194.97	-	378,081.49	50,000.00	-	135,090.88	-	378,081.49	260,581.49	260,581.49
Robert & Elizabeth Hahn Family Trust	170,653.47	-	89,742.69	-	260,396.16	-	-	134,199.63	-	260,396.16	-	260,396.16
Kasner, Ralph - IRA	240,072.44	-	18,604.75	-	258,677.19	-	-	238,678.19	-	258,677.19	-	258,677.19
Max, Kaylene - IRA	200,000.00	(50,333.30)	104,280.24	-	253,946.94	100,000.00	(99,720.86)	127,001.05	-	253,946.94	279.14	254,226.08
Kent, Mary	200,000.00	(302,279.54)	144,898.62	-	314,611.08	-	(60,522.10)	157,488.01	-	314,611.08	(60,522.10)	254,088.98
Arden & Nina Chinick Family Trust	240,000.00	(202,668.93)	243,117.44	-	280,448.51	250,000.00	(286,004.06)	127,814.91	-	280,448.51	(36,004.06)	244,444.45
Brinkman Family Trust / Rob Brinkman	262,000.00	(207,618.96)	281,732.31	-	336,113.35	50,000.00	(145,370.88)	199,733.18	-	336,113.35	(95,370.88)	240,742.47
Mark & Debbie Wenig	171,182.72	-	66,695.50	-	237,878.22	-	-	123,408.82	-	237,878.22	-	237,878.22
Smith, Tony - IRA	400,000.00	(271,733.24)	271,733.24	-	400,000.00	-	(168,000.00)	168,000.00	-	400,000.00	(168,000.00)	232,000.00
James & Leiley Mc Coy Trust	131,215.34	-	33,003.34	-	184,220.68	47,538.77	-	116,190.04	-	184,220.68	47,538.77	231,779.45
Jones, Leslie - IRA / Michael Zones	110,731.40	-	110,731.40	-	220,965.01	-	-	114,634.43	-	220,965.01	-	220,965.01
Davis, Glen - IRA	100,000.00	-	63,350.21	-	163,350.21	75,000.00	(21,648.57)	97,848.84	-	163,350.21	53,351.43	216,701.64
Dori Ann Davis Living Trust	1,100,000.00	(659,149.85)	459,149.89	-	900,000.00	-	(698,100.00)	298,100.00	-	900,000.00	(698,100.00)	201,900.00
Tony & Sandra Smith Trust	300,000.00	(176,116.91)	176,116.91	-	300,000.00	-	(102,000.00)	102,000.00	-	300,000.00	(102,000.00)	198,000.00
Jones, Leslie / Michael Zones	250,000.00	(171,195.63)	95,638.81	-	274,443.16	100,000.00	(119,266.67)	119,266.67	-	274,443.16	(91,772.66)	182,670.52
Butler, Van	200,000.00	(93,329.25)	93,329.25	-	200,000.00	200,000.00	(20,630.00)	20,630.00	-	200,000.00	179,370.00	180,733.33
Caro McDowell Revocable Trust	84,000.00	-	92,335.69	-	176,335.69	-	-	91,481.01	-	176,335.69	-	176,335.69
Angish Investments, LLC / Yusuf Yildiz	-	-	-	-	-	175,437.55	(126,000.00)	81,727.55	-	175,437.55	-	175,437.55
Kosher, Robert - IRA	300,000.00	(133,666.70)	133,666.70	-	300,000.00	-	-	126,000.00	-	300,000.00	(126,000.00)	174,000.00
Dicks, Bradley - IRA	100,000.00	-	58,309.24	-	158,309.24	-	-	82,129.22	-	158,309.24	-	158,309.24
Lee Group, Inc. / Terry & Li Lee	120,000.00	(49,500.00)	163,903.68	-	224,403.68	25,500.00	(82,290.60)	105,077.20	-	224,403.68	(82,290.60)	152,113.08
Kopel, Roy - IRA	192,000.26	(52,903.20)	86,332.98	-	225,430.04	-	(99,641.60)	99,641.60	-	225,430.04	(74,141.60)	151,288.44
Bush, Warren & Fay	146,365.89	-	4,363.83	-	150,917.72	250,000.00	(103,885.79)	103,885.79	-	150,917.72	-	150,917.72
Hughes, Judy - IRA	-	-	-	-	-	-	-	-	-	-	-	-
Seeggin, Annetta - IRA	-	-	-	-	-	-	-	-	-	-	-	-
Thomas & Sara Byrne Living Trust	-	-	-	-	-	-	-	-	-	-	-	-

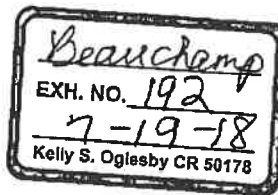
Investor Name	Investor Transactions Through 12/31/12				Investor Transactions from 01/01/13 through 06/30/16				Calculation of Net Investment Loss/(Win)			
	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Investor Balance	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Pre-Involvement Balance (12/31/12)	Post-Involvement Cash Transactions	Net Investment Loss/(Win)
Investor Name												
Cohen Revocable Trust / Eileen Cohen	250,000.00	(7,183.43)	7,183.43	-	250,000.00	-	-	105,000.00	-	250,000.00	(105,000.00)	145,000.00
Paul Kent Family Trust	380,000.00	(602,003.47)	493,749.59	-	271,746.12	-	-	(127,333.32)	-	271,746.12	(127,333.32)	144,412.80
Graciano Carrick Trust	250,000.00	(27,905.76)	27,905.76	-	250,000.00	-	-	106,053.50	-	250,000.00	(106,053.50)	143,946.50
Rozzica, Pete	100,000.00	-	1,403.96	-	101,403.96	75,010.58	(35,472.28)	58,987.74	-	101,403.96	39,608.30	141,012.26
Odenbach, Brian & Janice	150,000.00	(188,923.47)	188,923.47	-	150,000.00	200,066.71	(66,959.26)	75,216.38	-	150,000.00	(15,602.89)	134,397.11
Eira Carrick Trust	100,000.00	-	59,655.58	-	159,655.58	50,000.00	(66,959.26)	64,959.26	-	133,107.45	133,107.45	133,107.45
Deaton, Scott	200,000.00	(19,514.00)	18,847.30	-	200,000.00	-	-	93,193.03	-	159,655.58	(38,897.36)	120,758.22
Todd Eick Trust	200,666.70	-	18,847.30	-	200,000.00	-	-	60,842.80	-	200,000.00	(84,842.80)	115,157.20
Schloz, Stanley - IRA	101,000.00	-	25,511.83	-	125,511.83	-	-	60,782.52	-	125,511.83	(12,000.00)	113,511.83
Schloz, Mary - IRA	101,000.00	-	22,239.20	-	123,239.20	-	-	62,423.88	-	123,239.20	(10,300.00)	112,939.20
Schloz Family Trust / Stanley Schloz	175,000.00	(7,621.76)	7,621.76	-	158,889.91	-	-	71,687.17	-	158,889.91	(48,797.22)	110,092.69
Locke, Bill & Jean	180,000.00	(146,198.44)	118,110.57	-	151,912.13	55,000.00	(97,133.39)	86,992.70	-	151,912.13	(42,133.39)	109,778.74
Brian & Carla Wenig Family Trust	-	-	-	-	-	115,000.00	(8,450.46)	50,577.22	-	106,549.54	106,549.54	106,549.54
L.J. Capital, LLC / London Luchel	-	-	-	-	-	5,400.00	-	7,502.97	-	104,000.00	104,000.00	104,000.00
Pearce, Marlene - IRA	82,000.00	-	16,325.56	-	98,325.56	-	-	52,494.34	-	98,325.56	5,400.00	103,725.56
Griswold, Russ - IRA	100,000.00	(50,000.00)	45,722.97	-	95,722.97	-	-	49,660.10	-	95,722.97	-	95,722.97
Lawson, Robert	100,000.00	-	6,328.92	-	106,328.92	-	-	53,606.35	-	106,328.92	(10,800.80)	95,528.12
Burkhart, Kenneth	175,000.00	(30,933.00)	53,071.22	-	197,138.22	12,500.00	-	73,099.18	-	197,138.22	(102,691.31)	94,446.91
Leite, Wayne - Roth IRA	91,688.52	-	4,548.25	-	96,206.77	-	-	51,645.63	-	96,206.77	(1,645.63)	94,561.14
Leite, Manuel - IRA	40,000.00	-	54,342.97	-	94,342.97	-	-	48,944.17	-	94,342.97	-	94,342.97
Underwood, Wade	50,000.00	(29,728.12)	51,496.95	-	71,768.83	30,000.00	(7,577.88)	50,238.19	-	71,768.83	22,242.12	94,010.95
Preston Revocable Living Trust / Dave Preston	160,000.00	(77,272.85)	77,272.85	-	160,000.00	(67,874.24)	-	67,874.24	-	160,000.00	(67,874.24)	92,125.76
Moss Family Trust / Kaylene Moss	325,000.00	(383,971.25)	147,915.38	-	88,944.13	10,000.00	(7,512.86)	45,989.18	-	88,944.13	2,487.14	91,431.27
Grant, Stacy - IRA	75,000.00	-	13,646.95	-	88,646.95	-	-	45,989.18	-	88,646.95	-	88,646.95
BLL Capital, LLC / Barry Luchel	-	-	-	-	-	87,000.00	-	6,275.78	-	87,000.00	-	87,000.00
Scroggin, Michael	150,000.00	(6,050.00)	6,050.00	-	150,000.00	-	-	63,000.00	-	150,000.00	(63,000.00)	87,000.00
Sherriff, Stewart	150,000.00	(111,139.10)	111,139.10	-	150,000.00	-	-	63,632.10	-	150,000.00	(63,632.10)	86,367.90
Saltine LLC / Stewart S.	150,000.00	(109,383.60)	109,383.60	-	150,000.00	-	-	63,632.10	-	150,000.00	(63,632.10)	86,367.90
Scroggin, Mike - Roth IRA	81,560.78	-	2,803.95	-	86,166.71	-	-	44,702.43	-	86,166.71	-	86,166.71
GR 12, LLC / Schloz, Stanley - IRA	-	-	-	-	-	146,000.00	(60,000.00)	67,252.57	-	86,000.00	-	86,000.00
Tunka, Steve	50,000.00	(57,287.45)	77,189.02	-	69,901.57	40,000.00	(25,016.52)	52,715.01	-	69,901.57	14,983.48	84,885.05
Wellman, Carol	125,000.00	(50,262.19)	50,262.19	-	125,000.00	10,000.00	(36,016.02)	56,016.03	-	125,000.00	(46,016.02)	78,983.98
Duff, Amy - IRA	72,307.96	-	3,663.35	-	75,971.31	-	-	39,413.12	-	75,971.31	-	75,971.31
Davis, Jack	125,000.00	(27,500.00)	27,500.00	-	125,000.00	-	-	5,624.38	-	125,000.00	-	125,000.00
Hogbes, Bill & Judy	60,000.00	-	3,601.82	-	63,601.82	40,649.53	(16,423.01)	32,171.66	-	63,601.82	4,226.52	67,828.34
Cue, Averill	32,000.00	-	4,540.43	-	36,540.43	100,000.00	(34,064.36)	34,064.36	-	36,540.43	31,000.00	67,540.43
Odenbach, Brian - IRA	-	-	-	-	-	-	-	-	-	-	-	-
LP Fund / Marvin & Pat Miller	55,000.00	-	9,677.25	-	64,677.25	-	-	33,553.89	-	64,677.25	-	64,677.25
Sanders, JoAnn	75,000.00	(50,973.37)	50,973.37	-	75,000.00	30,000.00	(40,784.00)	40,783.99	-	75,000.00	(10,784.00)	64,216.00
Wellman Family Living Trust / Carol & Mike Wellman	51,996.98	-	15,673.92	-	67,670.90	1,021.18	(5,261.26)	34,630.17	-	67,670.90	(4,238.08)	63,432.82
Switz, Nancy	100,000.00	(95,133.30)	95,133.30	-	100,000.00	-	-	42,000.00	-	100,000.00	(42,000.00)	58,000.00
Non Lebat Defense, Inc. / Dave Dubay	100,000.00	(15,796.27)	15,796.27	-	100,000.00	-	-	42,000.00	-	100,000.00	(42,000.00)	58,000.00
Griswold, Russ	160,000.00	(27,000.00)	27,000.00	-	100,000.00	-	-	42,000.00	-	100,000.00	(42,000.00)	58,000.00
Lee, Terry & Lil	60,000.00	-	9,704.59	-	69,704.59	15,000.00	(30,688.20)	36,463.71	-	69,704.59	(15,688.20)	54,016.39
Her, Ralph	50,000.00	-	34,723.26	-	84,723.26	100,000.00	(132,560.02)	69,052.89	-	84,723.26	(32,560.02)	52,163.24
Lefty Kopel Revocable Living Trust / Jemma Kopel	46,825.03	-	1,560.76	-	48,385.79	-	-	25,101.01	-	48,385.79	-	48,385.79
Scroggin, Aimee - Roth IRA	50,000.00	-	1,841.32	-	51,841.32	-	-	26,320.74	-	51,841.32	(3,988.10)	47,853.22
Jetton, James	46,000.00	(71,373.38)	71,373.38	-	80,000.00	3,000.00	(23,600.00)	33,600.00	-	80,000.00	(23,600.00)	56,400.00
Hewes, Doris & Lee	28,095.54	-	9,640.23	-	37,735.77	-	-	20,479.56	-	37,735.77	3,000.00	40,735.77
Wellman, Carol - Roth IRA	17,000.00	-	22,685.71	-	39,685.71	-	-	20,588.52	-	39,685.71	-	39,685.71
Lent, Lillian - IRA	60,000.00	(7,368.68)	7,368.68	-	60,000.00	-	-	20,916.00	-	60,000.00	(20,916.00)	39,084.00
William & Helene Alber Family Trust	65,832.67	(78,421.19)	72,046.36	-	59,457.84	-	-	25,222.82	-	59,457.84	(25,222.82)	34,232.02
Samantha UGMA / Jack Davis	75,000.00	(1,350.00)	1,350.00	-	75,000.00	-	-	26,250.00	-	75,000.00	(51,250.00)	23,750.00
Stirling, Donald	-	-	-	-	-	14,524.59	-	863.02	-	-	-	14,524.59
Weiskopf, Tom - IRA	-	-	-	-	-	600,000.00	-	-	-	-	-	-
Hulsebus Family Trust / Rhonda Hulsebus	150,000.00	-	36,045.49	-	186,045.49	-	-	1,860.45	-	186,045.49	(187,905.94)	(1,860.45)
Schloz, Stanley - Roth IRA	64,278.85	-	23,052.40	-	87,331.25	-	-	3,546.00	-	87,331.25	-	87,331.25
Kimble, Don - IRA	-	-	-	-	-	180,000.00	-	3,988.00	-	-	-	(3,988.00)
Pearce, Marlene	-	-	-	-	-	-	-	-	-	-	-	-

Investor Name	Investor Transactions Through 12/31/12				Investor Transactions from 01/01/13 through 06/30/16				Calculation of Net Investment Loss/(Win)			
	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Investor Balance	Cash In	Cash Out	Non-Cash Accruals	Book Entries	Pre-Insolvency Balance (12/31/12)	Post-Insolvency Cash Transactions (12/31/12)	Net Investment Loss/(Win)
Stevenson, Thomas	-	-	-	-	-	300,000.00	(307,254.12)	7,254.12	-	90,940.47	(7,254.12)	(7,254.12)
Harvey, Chris	80,000.00	(15,000.00)	25,940.47	-	90,940.47	-	(98,475.49)	7,535.02	-	90,940.47	(98,475.49)	(7,535.02)
Onigley, Karen	150,000.00	(55,700.04)	10,240.00	-	104,539.96	-	(117,930.26)	13,390.30	-	104,539.96	(117,930.26)	(13,390.30)
Princetonville Investment Group SW / Kevin Potempa	250,000.00	(254,470.71)	4,470.71	-	-	500,000.00	(516,966.00)	16,966.00	-	-	(16,966.00)	(16,966.00)
Badant, Nishel	-	-	-	-	-	775,000.00	(811,356.82)	36,356.82	-	-	(36,356.82)	(36,356.82)
Nesta Capital, Inc. / Kirk Fischer	100,000.00	(2,269.34)	2,269.34	-	100,000.00	200,000.00	(338,537.40)	38,537.40	-	100,000.00	(138,537.40)	(38,537.40)
Marvin & Pat Miller	-	-	-	-	-	920,000.00	(969,220.00)	49,220.00	-	-	(49,220.00)	(49,220.00)
Weiskopf Enterprises, LLC / Laurie Weiskopf	-	-	-	-	-	200,000.00	(249,876.48)	49,876.48	-	-	(49,876.48)	(49,876.48)
Alexandra Bunge Irrevocable Trust	-	-	-	-	-	850,000.00	(900,000.00)	50,000.00	-	-	(50,000.00)	(50,000.00)
Cassidy Bunge Irrevocable Trust	-	-	-	-	-	850,000.00	(900,000.00)	50,000.00	-	-	(50,000.00)	(50,000.00)
Connor Bunge Irrevocable Trust	-	-	-	-	-	850,000.00	(900,000.00)	50,000.00	-	-	(50,000.00)	(50,000.00)
Caryn Smith Trust	95,000.00	-	48,777.52	-	143,777.52	8,000.00	(211,542.44)	59,764.92	-	143,777.52	(207,542.44)	(59,764.92)
McMenna Smith Trust	95,000.00	-	48,748.06	-	143,748.06	8,000.00	(212,000.54)	60,252.48	-	143,748.06	(204,000.54)	(60,252.48)
Sundance Debt Partners, LLC / Ryan Baughman	-	-	-	-	-	2,500,000.00	(2,588,402.31)	88,402.31	-	-	(88,402.31)	(88,402.31)
Marion Minchuk Trust / Lawrence Minchuk	550,000.00	(84,666.60)	84,666.60	-	550,000.00	-	(652,000.00)	102,000.00	-	550,000.00	(652,000.00)	(102,000.00)
Weiskopf Family Living Trust / Laurie Weiskopf	700,000.00	(28,776.43)	28,776.43	-	700,000.00	1,200,000.00	(1,412,669.05)	212,669.05	-	-	(212,669.05)	(212,669.05)
Fischer Family Holdings, LLC / Kirk Fischer	6,200,000.00	(4,466,971.80)	816,971.80	-	2,530,000.00	1,550,000.00	(2,229,488.64)	279,488.64	-	700,000.00	(979,488.64)	(279,488.64)
Four Futures Corp. / Tom Smith	-	-	-	-	-	1,150,000.00	(8,916,626.98)	1,216,626.98	-	2,550,000.00	(3,766,626.98)	(1,216,626.98)
Subtotal	48,959,180.17	(26,631,944.49)	17,463,665.88	-	39,790,901.56	34,125,814.48	(46,406,985.26)	22,075,053.28	-	39,790,901.56	(10,277,170.18)	29,513,730.78
Chitlick, Denny	60,456,407.81	(60,172,394.54)	1,499,781.78	(48,000.00)	1,723,745.05	48,098,702.30	(48,691,529.86)	120,000.00	(1,250,917.49)	1,723,745.05	(592,827.56)	1,130,917.49
Chitlick, Denny - 401k	47,630.66	-	163,523.44	-	213,154.10	35,000.00	(359,609.00)	111,454.90	-	213,154.10	(234,609.00)	(111,454.90)
Chitlick, Denny - DB Plan	107,009.10	-	736,026.86	-	843,035.96	-	(1,817,243.03)	974,207.07	-	843,035.96	(1,817,243.03)	(974,207.07)
Thermogen Holdings, LLC	-	(813,540.00)	57,226.26	756,313.74	-	-	-	-	-	-	-	-
Subtotal	60,591,047.57	(60,985,934.54)	2,458,598.34	716,313.74	2,779,935.11	48,133,702.30	(50,860,381.89)	1,205,661.97	(1,250,917.49)	2,779,935.11	(2,734,679.59)	45,255.52
Grand Total	109,550,227.74	(87,617,879.03)	19,922,174.22	716,313.74	42,570,836.67	84,263,516.78	(97,275,367.15)	23,200,714.25	(1,250,917.49)	42,570,836.67	(13,011,850.37)	29,558,986.30

Non-Chitlick Net Investment Loss: 31,911,465.77  
Non-Chitlick Net Investment Win: (2,397,234.99)  
**NET TOTAL: 29,513,730.78**

Source: QuickBooks company file for DenSoo Investment Corporation.

# **Exhibit 14**



Den Sco 1

### TERM SHEET

The provisions of this Term Sheet are intended only as an expression of intent on behalf of DenSco Investment Corporation ("DenSco") and Scott Menaged, Arizona Home Foreclosures, LLC, Easy Investments, LLC and possibly other entities owned by or under the control of Scott Menaged used to purchase real property from trustee sales (collectively, "Borrower"). These provisions are not intended to be legally binding on DenSco or Borrower and are expressly subject to the execution of an appropriate definitive agreement. DenSco and Borrower expressly acknowledge and agree that the contents of this Term Sheet are insufficient to constitute a legally binding agreement as to its subject matter and that there shall be no binding agreement between DenSco and Borrower until a definitive agreement is executed.

### TERMS

1. DenSco has advanced several loans to the Borrowers entities. These loans are secured by a Mortgage/Deed of Trust, which DenSco intended to be in first lien position on each of the properties owned by the Borrower. Borrower is currently in default for being delinquent in the payment of interest due DenSco for these loans.
2. Certain of Borrower's properties were used as security for loans from other lenders and for loans from DenSco.
3. Certain of these other lenders have retained Bryan Cave, LLP to represent them (the "Other Lenders") in connection with the liens of DenSco and the liens of these Other Lenders (each a "Conflict Property" and collectively, the "Conflict Properties").
4. DenSco and Borrower agree to cooperate and assist each other in connection with resolving the dispute with the Other Lenders concerning these Conflict Properties.
5. As each of the Conflict Properties are sold through an escrow, Borrower is to pay any shortfall of funds required to satisfy the liens of the Other Lenders and DenSco on or prior to the closing of the sale of such Conflict Property. Notwithstanding the Priority List defined and referenced below, the sale of such Conflict Properties to third parties are to proceed pursuant to the timing specified by the applicable purchaser of the Conflict Property, so long as the Other Lenders and DenSco are to be paid through such closing.
6. Borrower and DenSco will work with the Other Lenders to obtain a Priority List of the Conflict Properties from the Other Lenders (the "Priority List"). This Priority List will list the order in which the Other Lenders want each Conflict Property to be refinanced so that the respective Other Lender is paid in full for the loan secured by such Conflict Property and its corresponding lien will be released on such Conflict Property.

A. The Priority List will be submitted to Debbie Pihl at Magnus Title Agency ("Magnus"). Magnus will arrange for the necessary title work and verify the pay-off amounts for the Other Lender's loan and arrange for the closing of the additional funding from DenSco pursuant to a modification of its existing loan.

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B. Based on the pay-off amounts required to satisfy the loan of the applicable Other Lender, as determined by Magnus above, DenSco will submit funds to Magnus to modify and increase DenSco's outstanding loan to a LTV of approximately 95% of the applicable Conflict Property. Borrower will be required to deliver the balance of the required funds to pay-off and release the lien of the Other Lender on the applicable Conflict Property and to provide title insurance to DenSco showing DenSco in first lien position to secure its modified loan.

C. Borrower and DenSco have been assured by Debbie Pihl and Magnus that Magnus has sufficient resources to process the pay-offs of all of the loans from the Other Lenders associated with each of the Conflict Properties on or before February 28, 2014.

D. Borrower and DenSco agree to and will deliver adequate funds to Magnus to pay-off all of the loans from the Other Lenders on or before February 28, 2014.

E. After all of the loans of the Other Lenders (secured by any of the Conflict Properties) have been paid off and released by the Other Lenders as set forth in Section 5 and Section 6 A and 6 B above, DenSco and Borrower shall proceed to resolve the lien disputes between DenSco and with other similarly situated lenders pursuant to the procedures described in Section 5, Section 6 A and 6 B above.

7. Borrower agrees to the following:

A. Except for DenSco, Borrower agrees to continue to pay the interest due to each of the Other Lenders and any other similarly situated lender on a timely basis and to keep such loans current and in compliance with its terms;

B. Borrower has arranged for private outside financing in the amount of approximately \$1,000,000 (the "Outside Funds"), which is to be provided to Borrower on or before February 28, 2014. Such Outside Funds shall be used exclusively for the pay-off of the Other Lenders and any other similarly situated lender (and any balance to be paid to DenSco to reduce the amount of DenSco's additional loans to Borrower, as provided herein);

C. Borrower has agreed to inform DenSco of all of the terms of Borrower's transaction to obtain the Outside Funds and the security provided for such Outside Funds. DenSco agrees to keep such information on a confidential basis, provided, however, DenSco will be able to provide such terms and information to its investors, legal counsel, accountants and other applicable professionals;

D. Borrower agrees to provide any additional security to DenSco, as may be requested by DenSco, to secure Borrower's existing obligations to DenSco and to secure the additional obligations that DenSco is agreeing to provide pursuant to this forbearance / workout agreement;

E. Borrower agrees to reimburse all costs and expenses, including without limitation title reports, amendments or title insurance, investigation fees, and / or attorneys'

fees, incurred by DenSco in connection with this forbearance / workout agreement, or the existing and / or any future lien disputes with the Other Lenders or any other similarly situated lenders;

F. Borrower agrees to use its good faith efforts to: (i) liquidate other assets, which is expected to generate approximately 4 to 5 million US Dollars; (ii) apply all net proceeds from the rental of Borrower's homes, or the net proceeds from the acquisition and disposition of additional homes by Borrower, and (iii) apply all funds received from Borrower's continued good faith efforts to recover any other assets that can be recovered from the missing proceeds from the multiple loans that were advanced from DenSco and other lenders with respect to certain properties as referenced above. Any additional funds obtained and / or made available to Borrower pursuant this subsection shall be made available to and used by Borrower in connection with the resolution of the lien disputes between DenSco and other lenders as referenced above;

G. Borrower agrees to provide DenSco (and maintain in effect) a life insurance policy (from a life insurance carrier reasonably approved by DenSco) in the amount of \$10,000,000, insuring the life of Scott Menaged with DenSco named as the sole beneficiary, until all obligations pursuant to the forbearance / workout agreement have been full satisfied; and

H. Borrower agrees to provide DenSco with a personal guaranty from Scott Menaged, guaranteeing all of Borrower's obligations pursuant to the forbearance / workout agreement. Further, Borrower agrees to provide a re-affirmation and consent from Scott Menaged to restate and re-affirm his personal obligations as set forth in his outstanding personal guarantees of DenSco's loans to Borrower, so that the terms and provisions of the forbearance / workout agreement will not cause or create any waiver of such guarantees, but rather will ratify and guarantee all of the Borrower's obligations, as such obligations may be increased by the actions of DenSco and Borrowers pursuant to the terms and provisions of the forbearance / workout agreement.

8. DenSco agrees to the following:

A. So long as each Borrower is in compliance with the terms of the workout agreement and any other agreement with DenSco, DenSco will forbear from taking any action to accelerate its loans to Borrower and to commence foreclosure action against the assets of Borrower;

B. DenSco will defer (but not waive) the collection of interest from the Borrowers on DenSco's loans to the Borrowers during the process to fund the amount due to the Other Lenders in connection with the Conflict Properties (All deferred interest on a particular note from Borrower to DenSco shall be paid to DenSco on or before the payoff of the applicable note);

C. DenSco will provide a new loan to Borrower in the amount up to One Million US Dollars, which loan is to provide for multiple advances, earn 3% annual interest to be secured by a first lien position against certain real property to be approved by DenSco in its sole discretion, and the obligation is to be personally guaranteed by Scott Menaged (the "Additional Loan"); and

D. So long as each Borrower is in compliance with the terms of the forbearance and workout agreement and any other agreements with DenSco, DenSco agrees to comply with its obligations set forth elsewhere in this Term Sheet, including the obligation to modify its existing loans to the Borrower that are secured by the Conflict Properties, so that the amount of such loans shall be increased to 95% LTV as indicated above.

9. Borrower and DenSco acknowledge and agree that this forbearance/ workout agreement shall not constitute nor create a joint venture or partnership arrangement between or among DenSco and any of the Borrower.


[Signature page to follow:]

The above terms are agreed to this \_\_\_ day of January, 2014 by the following.

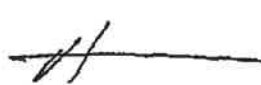
DENSCO INVESTMENT CORPORATION


By:   
Denny Chittick  
Its: President

ARIZONA HOME FORECLOSURES, LLC

By:   
Yomtov "Scott" Menaged  
Its: Member

EASY INVESTMENTS, LLC

By:   
Yomtov "Scott" Menaged  
Its: Member

  
YOMTOV "SCOTT" MENAGED, Individually

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# **Exhibit 15**

Simon Consulting, LLC  
Arizona Corporation Commission v. DenSco Investment Corporation

DenSco Investment Corporation

\$1 Million Workout Loan - As of 07/28/16 (Date of Denny Chittick's Death)

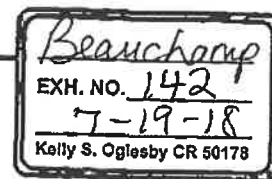
<u>Loan Date</u>	<u>Loan No.</u>	<u>Property Address</u>	<u>City, Zip</u>	<u>Loan Amount</u>
12/13/13	4584	11509 E Pratt Ave	Mesa, 85212	90,000.00
12/27/13	4545	3150 E Beardsley Rd #1030	Phoenix, 85050	59,332.07
01/02/14	4233	1262 E Clifton Ave	Gilbert, 85295	121,866.92
01/02/14	4626	12614 N 62nd Street	Scottsdale, 85254	149,641.24
01/15/14	4532	516 W Dublin St	Chandler, 85225	57,589.04
01/16/14	4513	16010 N 170th Ln	Surprise, 85388	66,798.72
01/16/14	4516	18425 N 56th Lane	Glendale, 85308	57,724.34
01/16/14	4524	23687 W Wayland Dr	Buckeye, 85326	51,057.68
01/17/14	4573	11634 W Adams St	Avondale, 85323	54,718.72
01/17/14	4574	25863 W St James Ave	Buckeye, 85326	44,801.81
01/17/14	4611	14904 W Port Royale Ln	Surprise, 85379	62,346.80
01/17/14	4628	7752 E Obispo Ave	Mesa, 85212	99,290.55
04/29/14	4307	2681 S Palm St	Gilbert, 85295	34,836.09
04/30/14	4729	8742 W Grovers Ave	Peoria, 85345	52,528.57

**TOTAL:** 1,002,532.55

# **Exhibit 16**

Message

From: Denny Chittick [dcmoney@yahoo.com]  
Sent: 1/6/2014 12:59:08 PM  
To: Beauchamp, David G. [dbeauchamp@clarkhill.com]  
Subject: see attached  
Attachments: Bryan Cave Doc.pdf



read the first two pages, then give me a call.

thx

dc

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f





Robert J. Miller  
 Direct: (602) 364-7043  
 Fax: (602) 716-8043  
 rjmill@bryancave.com

January 6, 2014

**VIA HAND-DELIVERY**

Densco Investment Corporation  
 Attn: Mr. Denny J. Chittick  
 6132 W. Victoria Place  
 Chandler, AZ 85226

Re: Mortgage Recordation; Demand For Subordination

Dear Mr. Chittick:

This law firm represents Azben Limited, LLC ("Azben"), Geared Equity, LLC ("Geared Equity") and 50780, LLC in connection with their disputes with you and your company, Densco Investment Corporation ("Densco"). As you know, Geared Equity and 50780, LLC previously made various loans to Arizona Home Foreclosures, LLC and/or Easy Investments, LLC (collectively, the "Borrower"), Sell Wholesale Funding, LLC ("SWF") also made certain loans to Borrower which were collaterally assigned to Azben. Azben, Geared Equity, and 50780, LLC will be collectively referred to herein as the "Lienholders," Geared Equity, 50780, LLC, and SWF will be collectively referred to herein as the "Lenders."

This demand letter addresses the Lienholders' loans to the Borrower and the real property collateral described on Exhibit A attached hereto (the "Loans" and the "Properties," respectively). The Lenders made each of the Loans to the Borrower for the specific purpose of providing purchase money financing so the Borrower would have sufficient funds to acquire the Properties through trustee sales conducted under Arizona law. The Lenders, in each and every instance, deliberately advanced the loan proceeds pursuant to certified funds delivered directly to the trustee and received a receipt from the trustee confirming delivery of such funds. The Lenders, in each and every instance, also promptly recorded deeds of trust confirming a senior lien position on each of the Properties.

The Lienholders recently learned that your company, Densco, engaged in a practice of recording a "mortgage" on each of the Properties on or around the same time as the Lenders were recording their senior deeds of trust. In each and every instance, Densco's recorded mortgage states that Densco provided purchase money funding and that Densco's loans are "evidenced by a check payable" to the trustee for each of the Properties.

Thus, Densco is taking the position in recorded documents that it provided a purchase money loan to the Borrower with respect to each of the Properties.

752649.3

Bryan Cave LLP  
 One Renaissance Square  
 Two North Central Avenue  
 Suite 2200  
 Phoenix, AZ 85004-4908  
 Tel (602) 364-7000  
 Fax (602) 364-7070  
 www.bryancave.com

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Mr. Denny J. Chitrick  
January 6, 2014  
Page 2

Bryan Cave LLP

Presumably, Densco is taking the position that its alleged loan is senior to the liens of the Lienholders with respect to each of the Properties. Of course, this is a practical and legal impossibility since, in each and every instance, only the Lenders provided the applicable trustee with certified funds supporting the Borrower's purchase money acquisition for each of the Properties and, with respect to the loans made by SWF, Azben "stands in the shoes" of SWF as the senior purchase money lender.

This demand letter provides Densco with an opportunity to immediately clarify its position and rectify this situation. Because of the seriousness of this situation, the Lenders are presenting their position as a formal demand on you and Densco. The demand is as follows:

Included herein are two forms of subordination agreement - one form document applies to the Azben loans and the other form applies to the loans of Geared Equity and 50780, LLC. The Lienholders hereby demand that Densco agree to complete and deliver this exact form of subordination agreement for each of the Properties to my office so that these completed subordination agreements may be recorded and delivered to the Borrower.<sup>1</sup> If Densco does not immediately so agree in writing and complete this entire subordination delivery process by no later than five (5) business days from the date of this demand letter, then the Lenders will immediately commence litigation against Densco and the other parties involved in this situation.

Please give this matter your immediate and undivided attention. While the Lienholders will be asserting all of the claims they have against the parties involved in this situation absent the timely completion of this subordination process, the most obvious claims the Lienholders will assert are: (i) fraud and conspiracy to defraud; (ii) negligent misrepresentation; and (iii) wrongful recordation pursuant to A.R.S. §33-420. The Lienholders reserve all of their rights and remedies against Densco, you, and all other parties, and no such rights or remedies are waived, modified, or impaired in any way pursuant to this demand letter or otherwise.

Sincerely,



Robert J. Miller  
FOR THE FIRM

RJM:se  
Enclosure

<sup>1</sup> Property addresses and other "form" information will need to be included in each subordination agreement. My firm will only commence preparing a subordination agreement for each loan when written confirmation is provided that Densco has unconditionally agreed to execute each subordination agreement in the form enclosed herein. A subordination agreement is required for each and every loan even though several of the loans have been paid in full and even though in several instances it is very clear the Densco mortgage was recorded after the Lender's deed of trust was recorded - the Lenders are entitled to total and permanent clarity on all of these issues now.

Mr. Denny J. Chittick  
January 6, 2014  
Page 3

Bryan Cave LLP

cc: VIA FEDERAL EXPRESS (w/encs.)

Kurt Johnson Associates, PC  
23005 N. 15th Avenue  
Suite 2  
Phoenix, AZ 85027  
Statutory Agent for Densco

Azben Limited, LLC (w/o encs.)  
Geared Equity, LLC (w/o encs.)  
50780, LLC (w/o encs.)  
Sell Wholesale Funding, LLC (w/encs.)

Exhibit A

Azben Limited, LLC Loans

<u>Loan #</u>	<u>Street Address</u>	<u>City</u>	
5445	Shelia Ln, 7134 W	Phoenix	Paid in Full
5448	Palmer St, 3826 E	Gilbert	
5506	Palm St, 2681 S	Gilbert	
5514	Horsetail Trail, 1751 W	Phoenix	Paid in Full
5594	Maui Ln, 13920 W	Surprise	
5597	66th Dr, 10020 N	Glendale	
5619	Millbrae Ln, 2895 E	Gilbert	
5620	Wood Dr, 1502 W	Phoenix	
5621	170th Ln, 16016 N	Surprise	
5629	Wayland Dr, 23687 W	Buckeye	
5631	Lobo Ave, 10126 E	Mesa	
5641	Dublin St, 516 W	Chandler	
5644	Sunsites Dr, 18916 N	Surprise	
5645	Portland, 3043 S	Mesa	
5648	Yale, 1355 S	Mesa	
5660	Kent Ave, 3425 E	Gilbert	Paid in Full
5667	101st Dr, 2027 S	Tolleson	
5672	Peck Dr, 8987 W	Glendale	
5679	Colonial Dr, 977 S	Gilbert	
5680	220th Ln, 1040 S	Buckeye	
5684	Tyson St, 4232 E	Gilbert	Paid in Full
5685	Navajo St, 16739 W	Goodyear	
5690	Millburn, 2718 S	Mesa	
5691	Hassett, 126 S	Mesa	
5693	Ogelsby Ave, 11603 W	Youngstown	
5694	Cristine Ln, 15829 N	Surprise	Paid in Full
5695	85th Dr, 1629 S	Tolleson	
5719	Puget Ave, 18146 W	Waddell	
5720	Caribbean Ln, 14869 W	Surprise	
5722	Rose Garden Ln, 3014 W	Phoenix	
5724	Valley View Dr, 4119 W	Laveen	
5728	Gelding Dr, 4906 W	Glendale	
5729	Maldonado Dr, 3247 E	Phoenix	
5730	Anderson Dr, 3830 W	Glendale	
5742	Olla Ave, 9832 E	Mesa	
5754	Whyman St, 25510 W	Buckeye	
5755	233rd Ln, 1697 S	Buckeye	
5757	Bent Tree Dr, 2507 W	Phoenix	
5760	Armadia Ave, 10836 E	Mesa	
5761	Sundance Way, 523 W	Chandler	

**Geared Equity, LLC Loans**

<u>Loan #</u>	<u>Street Address</u>	<u>City</u>
13-6091	10440 W. Hammond Lane	Tolleson
13-6094	39817 N. Messner Way	Anthem Way
13-6104	W. Via Montoya Drive	Phoenix
13-6105	11509 E. Pratt Ave	Mesa
13-6113	707 E. Potter Drive	Phoenix
13-6114	14904 W. Port Royale Lane	Surprise
13-6118	4728 W. Carson Road	Laveen
13-6122	978 N. 85th Place	Scottsdale
13-6123	635 S. St Paul	Mesa

Paid in Full  
Property under review with Trustee  
for possible rescission of sale

**50780, LLC Loans**

<u>Loan #</u>	<u>Street Address</u>	<u>City</u>
13-1020	8116 E. Orza Avenue	Mesa
13-1051	11634 W. Adams Street	Avondale
13-1052	25863 W. Saint James Avenue	Buckeye

RECORDING REQUESTED  
BY AND WHEN RECORDED  
MAIL TO:

AZBEN LIMITED, L.L.C.  
1223 S. Clearview Avenue  
Suite 103  
Mesa, Arizona 85209

Space Above This Line for Recorder's Use Only

### SUBORDINATION AGREEMENT

**NOTICE:** THIS SUBORDINATION AGREEMENT (THIS "AGREEMENT") RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION AGREEMENT ("Agreement"), made this \_\_\_\_ day of January, 2014, by SELL WHOLESALE FUNDING, LLC, an Arizona limited liability company (hereinafter referred to as "Senior Creditor"), whose mailing address is 4105 N. 20<sup>th</sup> Street, #210, Phoenix, Arizona 85016, and DENSCO INVESTMENT CORPORATION, an Arizona corporation (hereinafter referred to as "Junior Creditor"), whose mailing address is 6132 W. Victoria Place, Chandler, Arizona 85226;

### WITNESSETH

THAT WHEREAS, Arizona Home Foreclosures, LLC, an Arizona limited liability company (hereinafter referred to as "Owner"), is the owner of the land hereinafter described on Exhibit "A" attached hereto and made a part hereof (the "Land" or the "Property"); and

WHEREAS, Owner, as mortgagor, executed a Mortgage ("Junior Mortgage") dated September 16, 2013, to and for the benefit of Junior Creditor, as mortgagee, and recorded on September 17, 2013 at 8:32 a.m., as Instrument No. 2013-0832534 in the Records of Maricopa County, Arizona ("Records"), purporting to encumber the Land, which Junior Mortgage purportedly secures payment of the sum of \$140,000.00 ("Junior Liabilities") which might come due under or pursuant to a purported loan made by Junior Creditor to Owner in such purported amount referenced in said Junior Mortgage. When used herein, the term "Junior Mortgage" shall not only mean and refer to the Junior Mortgage stated above, but also to: i) any re-recording thereof, and ii) that certain Deed of Trust and Assignment of Rents, of even date with the Junior Mortgage ("Junior Deed of Trust"), made by Owner, as trustor, to First American Title, as trustee, to and for the benefit of Junior Creditor, as beneficiary, which Junior Deed of Trust was recorded September 27, 2013 as Instrument No. 2013-0863555 in the Records; and

WHEREAS, Owner, as trustor, also executed that certain Deed of Trust and Assignment of Rents ("Senior Deed of Trust") dated September 16, 2013, to Fidelity National Title, as trustee, to and for the benefit of Senior Creditor, as beneficiary, which Senior Deed of Trust secures payment of a Promissory Note of Owner to Senior Creditor in the original stated principal amount of \$144,080.00 ("Purchase");

Money Note"), recorded September 17, 2013 at 9:50 a.m. as Instrument No. 2013-0833010 in the Records. Proceeds from the Purchase Money Note were used to pay, and represent, purchase money of and for the Property. The beneficial interest in the Senior Deed of Trust was thereafter collaterally assigned by Senior Creditor to Azben Limited, L.L.C., an Arizona limited liability company (hereinafter referred to as "Azben"), by Collateral Assignment of Beneficial Interest Under a Single Deed of Trust dated September 16, 2013 and recorded on September 17, 2013 as Instrument No. 2013-0833044 in the Records, and subsequently re-recorded on October 25, 2013 as Instrument No. 2013-0940922 in the Records to correct the recited date of original recordation of such document. When used herein, the term "Senior Deed of Trust" shall not only mean and refer to the Senior Deed of Trust, but also to the re-recordation thereof on October 4, 2013 as Instrument No. 2013-0835110 in the Records. Capitalized terms not otherwise defined herein shall have the meanings given them in the Senior Deed of Trust; and

**WHEREAS**, Senior Creditor and Junior Creditor have further agreed that the Junior Liabilities secured by the Junior Mortgage are and shall be subordinated to the Purchase Money Note and to other sums due and owing thereunder and under the Senior Deed of Trust (collectively, the "Senior Liabilities"), all in accordance with the terms hereof; and

**WHEREAS**, Senior Creditor and Junior Creditor have further agreed that i) the Senior Deed of Trust, securing the Purchase Money Note and representing purchase money for the Land, is a lien or charge upon the Land prior and superior to the lien or charge of the Junior Mortgage, ii) that Junior Creditor will specifically and unconditionally subordinate the lien or charge of the Junior Mortgage to the lien or charge of the Senior Deed of Trust, and iii) that the Junior Liabilities secured by the Junior Mortgage are subordinated to the Senior Liabilities, all as more fully set forth herein below; and

**WHEREAS**, it is to the mutual benefit of the parties hereto that Senior Creditor not: i) take any formal action (which would entail time and expense and in which Senior Creditor would prevail) to establish the first and prior nature of the lien of the Senior Deed of Trust; ii) institute immediate action for foreclosure of the Senior Deed of Trust which might result in proceeds insufficient to defray both the Senior Liabilities and the Junior Liabilities (it being understood that Senior Creditor's forbearance in this regard is limited to Owner's default ("Owner's Recording Default") under the Senior Deed of Trust occasioned by the existence of the Junior Deed of Trust and not to any other current or future defaults under the Senior Deed of Trust, including, without limitation, failure to pay at maturity or to perform any other terms and conditions of the Senior Deed of Trust or the Purchase Money Note (herein, "Other Defaults")); and iii) presently enforce the right of Senior Creditor to charge interest at the default rate under the Senior Deed of Trust (it being understood that such forbearance is limited to the effect of Owner's Recording Default and not to any Other Defaults) which would be in priority to the Junior Liabilities, and Junior Creditor is willing to agree that the Senior Deed of Trust securing the Purchase Money Note shall constitute a lien or charge upon the Land which is unconditionally prior and superior to the lien or charge of the Junior Mortgage.

**NOW, THEREFORE**, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, and in order to induce Senior Creditor to forbear from taking formal actions to establish the lien priority of the Senior Deed of Trust, to not institute any foreclosure actions on account of Owner's Recording Default and not presently enforce interest at the default rate due on the Purchase Money Note on account of Owner's Recording Default, it is hereby declared, understood and agreed as follows:

(1) That the Senior Deed of Trust securing the Senior Liabilities, and any renewals or extensions thereof, shall unconditionally be and remain at all times a lien or charge on the Land therein described, prior and superior to the lien or charge of the Junior Mortgage.

(2) That this Agreement shall be the whole and only agreement with regard to the subordination of the lien or charge of the Junior Mortgage to the lien or charge of the Senior Deed of Trust.

(3) That Senior Creditor may amend the Senior Deed of Trust or the Purchase Money Note in any manner without the prior written consent of Junior Creditor. No renewal, modification or extension of time of payment of the Senior Liabilities, and no release or surrender of any security for the Senior Liabilities, or the obligations of any endorsers, sureties or guarantors thereof, or release from the terms of this or any other subordination agreement of any claims subordinated, and no delay or omission in exercising any right or power on account of or in connection with the Senior Liabilities, or under this Agreement, shall, in any manner, impair or affect the rights and duties of Senior Creditor or Junior Creditor. Senior Creditor, in its uncontrolled discretion, may waive or release any right or option accorded Senior Creditor under this Agreement without the consent Junior Creditor, and without otherwise in any way affecting the obligations Junior Creditor hereunder. Junior Creditor hereby waives notice of the creation, existence, renewal, modification or extension of the time of payment, of the Senior Liabilities.

(4) That Junior Creditor may not amend the Junior Mortgage in any manner that would materially and adversely affect the Senior Liabilities or the Property, including, without limitation, increasing the face amount of the Junior Liabilities, increasing the interest rate or any payment obligations under the Junior Liabilities, or expanding Junior Creditor's security interests and liens under the Junior Loan relating to the Property, without the prior written consent of the Senior Creditor. Junior Creditor shall give Senior Creditor written notice as well as copies of any such amendments within five (5) business days after such documents have been executed by Junior Creditor.

(5) That Junior Creditor shall send to Senior Creditor a written copy of any notices given to Owner regarding: (i) any default under the Junior Mortgage or Junior Liabilities; or (ii) any event, with the giving of such notice or the passage of time without cure, would result in a default under the Junior Mortgage or Junior Liabilities. Junior Creditor agrees that all such notices to Senior Creditor shall be sent contemporaneously with the sending of such notices to Owner. Senior Creditor shall send to Junior Creditor a written copy of any notices given to Owner regarding: (i) any default under any of the Purchase Money Note or the Senior Deed of Trust; or (ii) any event, with the giving of such notice or the passage of time without cure, would result in a default or Event of Default under either the Purchase Money Note or the Senior Deed of Trust. Senior Creditor agrees that all such notices to Junior Creditor shall be sent contemporaneously with the sending of such notices to Owner. Senior Creditor and Junior Creditor shall each have the right, but not the obligation, to cure any default by Owner under the Junior Mortgage, on one hand, or the Purchase Money Note or the Senior Deed of Trust; on the other hand, and respectively. In addition, at any time and from time to time, Junior Creditor, at its option, shall have the right to fully repay the Purchase Money Note in full, together with accrued but unpaid interest and all of Senior Lender's costs and fees thereunder, in which case Junior Creditor shall be entitled to all of the rights and benefits of Senior Lender thereunder.

(6) Notwithstanding any lien now held or hereafter acquired by the Junior Creditor, the Senior Creditor may take possession of, sell, dispose of, and otherwise deal with all or any part of the Property, and may enforce any right or remedy available to it with respect to the Owner or the Property, all without notice to or the consent of the Junior Creditor except as specifically required by applicable law or this Agreement. The Senior Creditor shall have no duty to preserve, protect, care for, insure, take possession of, collect, dispose of, or otherwise realize upon any of the Property, except in accordance with applicable law (including the Arizona Uniform Commercial Code), and in no event shall the Senior Creditor be deemed the Junior Creditor's agent with respect to the Property. All proceeds received by the Senior Creditor with respect to the Property, or any portion thereof, may be applied, first, to pay or reimburse the Senior Creditor for all costs and expenses (including reasonable attorneys' fees) incurred by the Senior Creditor in connection with the collection of such proceeds, and, second, to any Senior Liabilities secured by the Senior Deed of Trust in any order that it may choose or as otherwise required by the Purchase Money Note or applicable law, and, third, to the Junior Liabilities.

(7) That, until the Senior Liabilities are paid in full, Junior Creditor agrees, except as expressly set forth herein, to not take any action or exercise any remedies under the Junior Deed of Trust or with respect of the Junior Liability or to cause Owner to voluntarily or involuntarily seek relief from its creditors, appointment of a receiver, liquidator or trustee for all or a major part of its assets or file a pleading or answer in any proceeding admitting insolvency, bankruptcy or inability to pay its debts as they mature.



(9) That if: (a) there occurs any casualty to the buildings or improvements constructed on the Property that is covered by insurance; or (b) any portion of the Property is condemned or taken under a power of eminent domain, Senior Creditor shall have the sole right, without any involvement or rights of Junior Creditor, to adjust, collect and compromise, in its sole discretion, all insurance proceeds and compensation and awards issued on account of such action.

(10) That the Recitals set forth above are incorporated by reference into the body of the Subordination Agreement as if fully re-written herein.

(11) No addition to or modification of any term or provision of this Agreement shall be effective unless set forth in writing and signed by both Senior Creditor and Junior Creditor.

(12) That each of Senior Creditor and Junior Creditor and attorneys for each such party have participated in the drafting and preparation of this Agreement. Therefore, the provisions of this Agreement shall not be construed in favor of or against either Senior Creditor or Junior Creditor, but shall be construed as if both Senior Creditor and Junior Creditor equally prepared this Agreement.

(13) That this Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute a single agreement. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to any other counterpart identical thereto except having additional signature pages executed by the other party.

(14) That the laws of the State of Arizona applicable to contracts to be performed wholly within Arizona shall govern this Agreement.

**NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN SPECIFIC CONSIDERATION, A PORTION OF WHICH MAY BE EXPENDED, UTILIZED AND/OR APPLIED FOR OTHER PURPOSES THAN THE IMPROVEMENT OF THE LAND.**

**(ALL SIGNATURES MUST BE ACKNOWLEDGED)**

**IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS SUBORDINATION AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.**

**(Remainder of page intentionally blank.)**

SENIOR CREDITOR:

SELL WHOLESale FUNDING, LLC, an Arizona limited liability company

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF ARIZONA       )  
                                  )ss.  
County of Maricopa       )

On \_\_\_\_\_, before me, the undersigned Notary Public, personally appeared \_\_\_\_\_, the \_\_\_\_\_ of SELL WHOLESale FUNDING, LLC, an Arizona limited liability company, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal,

My Commission  
Expires:

\_\_\_\_\_  
Notary Public

**JUNIOR CREDITOR:**

**DENSCO INVESTMENT CORPORATION**, an Arizona corporation

By: \_\_\_\_\_  
Denny J. Chittick, President

STATE OF ARIZONA       )  
                                  )ss.

County of Maricopa       )

On \_\_\_\_\_, before me, the undersigned Notary Public, personally appeared Denny J. Chittick, President of DENSCO INVESTMENT CORPORATION, an Arizona corporation, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within Instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

My Commission  
Expires:

\_\_\_\_\_  
Notary Public

**AZBEN CONSENT**

The undersigned AZBEN LIMITED, L.L.C., an Arizona limited liability company, hereby consents to the foregoing Subordination Agreement between Sell Wholesale Funding, LLC, an Arizona limited liability company, as senior creditor, and Dénasco Investment Corporation, an Arizona corporation, as junior creditor, pertaining to the Land more particularly described on Exhibit "A" attached hereto.

AZBEN LIMITED, L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
Broc C. Hiatt, Manager

STATE OF ARIZONA            )  
  )ss.

County of Maricopa         )

On \_\_\_\_\_, before me, the undersigned Notary Public, personally appeared Broc C. Hiatt, Manager of AZBEN LIMITED, L.L.C., an Arizona limited liability company, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

My Commission  
Expires:

\_\_\_\_\_  
Notary Public

**EXHIBIT "A"**

**Description of Property**

Lot 176, of SUBDIVISION LINDSAY AND WARNER, according to the Plat of Record in the Office of the County Recorder of Maricopa County, Arizona, recorded in Book 610 of Maps, Page 17.

APN: 309-25-432

RECORDING REQUESTED  
BY AND WHEN RECORDED  
MAIL TO:

GEARED EQUITY, LLC  
6828 E. Camelback Rd.  
Scottsdale, Arizona 85251

Space Above This Line for Recorder's Use Only

### SUBORDINATION AGREEMENT

**NOTICE:** THIS SUBORDINATION AGREEMENT (THIS "AGREEMENT") RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION AGREEMENT ("Agreement"), made this \_\_\_\_ day of January, 2014, by GEARED EQUITY, LLC, an Arizona limited liability company (hereinafter referred to as "Senior Creditor"), whose mailing address is 6828 E. Camelback Rd., Phoenix, Arizona 85251, and DENSCO INVESTMENT CORPORATION, an Arizona corporation (hereinafter referred to as "Junior Creditor"), whose mailing address is 8132 W. Victoria Place, Chandler, Arizona 85226;

### WITNESSETH

THAT WHEREAS, Arizona Home Foreclosures, LLC, an Arizona limited liability company (hereinafter referred to as "Owner"), is the owner of the land hereinafter described on Exhibit "A" attached hereto and made a part hereof (the "Land" or the "Property"); and

WHEREAS, Owner, as mortgagor, executed a Mortgage ("Junior Mortgage") dated August 6, 2013, to and for the benefit of Junior Creditor, as mortgagee, and recorded on August 6, 2013 at 12:48 p.m., as Instrument No. 2013-0717138 in the Records of Maricopa County, Arizona ("Records"), purporting to encumber the Land, which Junior Mortgage purportedly secures payment of the sum of \$150,000.00 ("Junior Liabilities") which might come due under or pursuant to a purported loan made by Junior Creditor to Owner in such purported amount referenced in said Junior Mortgage. When used herein, the term "Junior Mortgage" shall not only mean and refer to the Junior Mortgage stated above, but also to: i) any re-recording thereof; and ii) that certain Deed of Trust and Assignment of Rents, of even date with the Junior Mortgage ("Junior Deed of Trust"), made by Owner, as trustor, to Trustee Corps, as trustee, to and for the benefit of Junior Creditor, as beneficiary, which Junior Deed of Trust was recorded August 21, 2013 as Instrument No. 2013-0760511 in the Records; and

WHEREAS, Owner, as trustor, also executed that certain Deed of Trust and Assignment of Rents ("Senior Deed of Trust") dated August 6, 2013, to Thomas C. Wilmer, Esq., as trustee, to and for the benefit of Senior Creditor, as beneficiary, which Senior Deed of Trust secures payment of a Promissory Note of Owner to Senior Creditor in the original stated principal amount of \$152,800.00 ("Purchase

Money Note"), recorded August 7, 2013 at 12:42 p.m. as Instrument No. 2013-0721399 in the Records. Proceeds from the Purchase Money Note were used to pay, and represent, purchase money of and for the Property. When used herein, the term "Senior Deed of Trust" shall not only mean and refer to the Senior Deed of Trust, but also to the re-recording thereof on August 22, 2013 as Instrument No. 2013-0765233 in the Records. Capitalized terms not otherwise defined herein shall have the meanings given them in the Senior Deed of Trust; and

WHEREAS, Senior Creditor and Junior Creditor have further agreed that the Junior Liabilities secured by the Junior Mortgage are and shall be subordinated to the Purchase Money Note and to other sums due and owing thereunder and under the Senior Deed of Trust (collectively, the "Senior Liabilities"), all in accordance with the terms hereof; and

WHEREAS, Senior Creditor and Junior Creditor have further agreed that i) the Senior Deed of Trust, securing the Purchase Money Note and representing purchase money for the Land, is a lien or charge upon the Land prior and superior to the lien or charge of the Junior Mortgage, ii) that Junior Creditor will specifically and unconditionally subordinate the lien or charge of the Junior Mortgage to the lien or charge of the Senior Deed of Trust, and iii) that the Junior Liabilities secured by the Junior Mortgage are subordinated to the Senior Liabilities, all as more fully set forth herein below; and

WHEREAS, it is to the mutual benefit of the parties hereto that Senior Creditor not i) take any formal action (which would entail time and expense and in which Senior Creditor would prevail) to establish the first and prior nature of the lien of the Senior Deed of Trust; ii) institute immediate action for foreclosure of the Senior Deed of Trust which might result in proceeds insufficient to defray both the Senior Liabilities and the Junior Liabilities (it being understood that Senior Creditor's forbearance in this regard is limited to Owner's default ("Owner's Recording Default") under the Senior Deed of Trust occasioned by the existence of the Junior Deed of Trust and not to any other current or future defaults under the Senior Deed of Trust, including, without limitation, failure to pay at maturity or to perform any other terms and conditions of the Senior Deed of Trust or the Purchase Money Note (herein, "Other Defaults")); and iii) presently enforce the right of Senior Creditor to charge interest at the default rate under the Senior Deed of Trust (it being understood that such forbearance is limited to the effect of Owner's Recording Default and not to any Other Defaults) which would be in priority to the Junior Liabilities, and Junior Creditor is willing to agree that the Senior Deed of Trust securing the Purchase Money Note shall constitute a lien or charge upon the Land which is unconditionally prior and superior to the lien or charge of the Junior Mortgage.

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, and in order to induce Senior Creditor to forbear from taking formal actions to establish the lien priority of the Senior Deed of Trust, to not institute any foreclosure actions on account of Owner's Recording Default and not presently enforce interest at the default rate due on the Purchase Money Note on account of Owner's Recording Default, it is hereby declared, understood and agreed as follows:

(1) That the Senior Deed of Trust securing the Senior Liabilities, and any renewals or extensions thereof, shall unconditionally be and remain at all times a lien or charge on the Land therein described, prior and superior to the lien or charge of the Junior Mortgage.

(2) That this Agreement shall be the whole and only agreement with regard to the subordination of the lien or charge of the Junior Mortgage to the lien or charge of the Senior Deed of Trust.

(3) That Senior Creditor may amend the Senior Deed of Trust or the Purchase Money Note in any manner without the prior written consent of Junior Creditor. No renewal, modification or extension of time of payment of the Senior Liabilities, and no release or surrender of any security for the Senior Liabilities, or the obligations of any endorers, sureties or guarantors thereof, or release from the terms of this or any other subordination agreement of any claims subordinated, and no delay or omission in exercising any right or power on account of or in connection with the Senior Liabilities, or under this Agreement, shall, in

any manner, impair or affect the rights and duties of Senior Creditor or Junior Creditor. Senior Creditor, in its uncontrolled discretion, may waive or release any right or option accorded Senior Creditor under this Agreement without the consent Junior Creditor, and without otherwise in any way affecting the obligations Junior Creditor hereunder. Junior Creditor hereby waives notice of the creation, existence, renewal, modification or extension of the time of payment, of the Senior Liabilities.

(4) That Junior Creditor may not amend the Junior Mortgage in any manner that would materially and adversely affect the Senior Liabilities or the Property, including, without limitation, increasing the face amount of the Junior Liabilities, increasing the interest rate or any payment obligations under the Junior Liabilities, or expanding Junior Creditor's security interests and liens under the Junior Loan relating to the Property, without the prior written consent of the Senior Creditor. Junior Creditor shall give Senior Creditor written notice as well as copies of any such amendments within five (5) business days after such documents have been executed by Junior Creditor.

(5) That Junior Creditor shall send to Senior Creditor a written copy of any notices given to Owner regarding: (i) any default under the Junior Mortgage or Junior Liabilities; or (ii) any event, with the giving of such notice or the passage of time without cure, would result in a default under the Junior Mortgage or Junior Liabilities. Junior Creditor agrees that all such notices to Senior Creditor shall be sent contemporaneously with the sending of such notices to Owner. Senior Creditor shall send to Junior Creditor a written copy of any notices given to Owner regarding: (i) any default under any of the Purchase Money Note or the Senior Deed of Trust; or (ii) any event, with the giving of such notice or the passage of time without cure, would result in a default or Event of Default under either the Purchase Money Note or the Senior Deed of Trust. Senior Creditor agrees that all such notices to Junior Creditor shall be sent contemporaneously with the sending of such notices to Owner. Senior Creditor and Junior Creditor shall each have the right, but not the obligation, to cure any default by Owner under the Junior Mortgage, on one hand, or the Purchase Money Note or the Senior Deed of Trust, on the other hand, and respectively. In addition, at any time and from time to time, Junior Creditor, at its option, shall have the right to fully repay the Purchase Money Note in full, together with accrued but unpaid interest and all of Senior Lender's costs and fees thereunder, in which case Junior Creditor shall be entitled to all of the rights and benefits of Senior Lender thereunder.

(6) Notwithstanding any lien now held or hereafter acquired by the Junior Creditor, the Senior Creditor may take possession of, sell, dispose of, and otherwise deal with all or any part of the Property, and may enforce any right or remedy available to it with respect to the Owner or the Property, all without notice to or the consent of the Junior Creditor except as specifically required by applicable law or this Agreement. The Senior Creditor shall have no duty to preserve, protect, care for, insure, take possession of, collect, dispose of, or otherwise realize upon any of the Property, except in accordance with applicable law (including the Arizona Uniform Commercial Code), and in no event shall the Senior Creditor be deemed the Junior Creditor's agent with respect to the Property. All proceeds received by the Senior Creditor with respect to the Property, or any portion thereof, may be applied, first, to pay or reimburse the Senior Creditor for all costs and expenses (including reasonable attorneys' fees) incurred by the Senior Creditor in connection with the collection of such proceeds, and, second, to any Senior Liabilities secured by the Senior Deed of Trust in any order that it may choose or as otherwise required by the Purchase Money Note or applicable law, and, third, to the Junior Liabilities.

(7) That, until the Senior Liabilities are paid in full, Junior Creditor agrees, except as expressly set forth herein, to not take any action or exercise any remedies under the Junior Deed of Trust or with respect of the Junior Liability or to cause Owner to voluntarily or involuntarily seek relief from its creditors, appointment of a receiver, liquidator or trustee for all or a major part of its assets or file a pleading or answer in any proceeding admitting insolvency, bankruptcy or inability to pay its debts as they mature.

(9) That if: (a) there occurs any casualty to the buildings or improvements constructed on the Property that is covered by insurance; or (b) any portion of the Property is condemned or taken under a power of eminent domain, Senior Creditor shall have the sole right, without any involvement or rights of Junior Creditor, to adjust, collect and compromise, in its sole discretion, all insurance proceeds and compensation and awards issued on account of such action.



(10) That the Recitals set forth above are incorporated by reference into the body of the Subordination Agreement as if fully re-written hereint.

(11) No addition to or modification of any term or provision of this Agreement shall be effective unless set forth in writing and signed by both Senior Creditor and Junior Creditor.

(12) That each of Senior Creditor and Junior Creditor and attorneys for each such party have participated in the drafting and preparation of this Agreement. Therefore, the provisions of this Agreement shall not be construed in favor of or against either Senior Creditor or Junior Creditor, but shall be construed as if both Senior Creditor and Junior Creditor equally prepared this Agreement.

(13) That this Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute a single agreement. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to any other counterpart identical thereto except having additional signature pages executed by the other party.

(14) That the laws of the State of Arizona applicable to contracts to be performed wholly within Arizona shall govern this Agreement.

**NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN SPECIFIC CONSIDERATION, A PORTION OF WHICH MAY BE EXPENDED, UTILIZED AND/OR APPLIED FOR OTHER PURPOSES THAN THE IMPROVEMENT OF THE LAND.**

**{ALL SIGNATURES MUST BE ACKNOWLEDGED}**

**IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS SUBORDINATION AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.**

**(Remainder of page intentionally blank.)**

**SENIOR CREDITOR:**

GEARED EQUITY, LLC, an Arizona limited liability company

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF ARIZONA        )  
                                  )ss.  
County of Maricopa        )

On \_\_\_\_\_, before me, the undersigned Notary Public, personally appeared \_\_\_\_\_ the \_\_\_\_\_ of GEARED EQUITY, LLC, an Arizona limited liability company, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

My Commission  
Expires:

\_\_\_\_\_  
Notary Public

**JUNIOR CREDITOR:**

**DENSCO INVESTMENT CORPORATION**, an Arizona corporation

By: \_\_\_\_\_  
Denny J. Chittick, President

STATE OF ARIZONA       )  
                                  )ss.  
County of Maricopa       )

On \_\_\_\_\_, before me, the undersigned Notary Public, personally appeared Denny J. Chittick, President of DENSCO INVESTMENT CORPORATION, an Arizona corporation, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

My Commission  
Expires:

\_\_\_\_\_  
Notary Public

**EXHIBIT "A"**

**Description of Property**

Lot 218, of Anthem – Unit 55, According to the Plat of Record in the Office of the County Recorder of Maricopa County, Arizona, Recorded in Book 665 of Maps, Page 30.  
EXCEPT therefrom all coal, oil, gas and other mineral deposits, as reserved in the patent to the land.

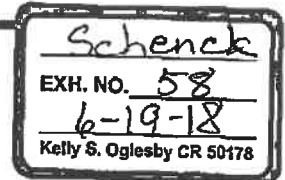
APN: 211-93-218

# **Exhibit 17**

DenSco/Workout

**Beauchamp, David G.**

**From:** Beauchamp, David G.  
**Sent:** Tuesday, January 21, 2014 3:26 PM  
**To:** Anderson, Robert G.  
**Cc:** Schenck, Daniel A.  
**Subject:** FW: update



I just confirmed with Denny that Scott and he agreed to ALSO use another title company to speed up the process. We will get the name of the escrow officer and the title company later today.

Thanks, David

**David G. Beauchamp**

CLARK HILL PLC

14850 N Scottsdale Rd | Suite 500 | Phoenix, Arizona 85254  
480.684.1128 (direct) | 480.684.1166 (fax) | 602.319.5602 (cell)  
[dbeauchamp@clarkhill.com](mailto:dbeauchamp@clarkhill.com) | [www.clarkhill.com](http://www.clarkhill.com)

---

**From:** Denny Chittick [mailto:[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)]  
**Sent:** Tuesday, January 21, 2014 2:13 PM  
**To:** Beauchamp, David G.  
**Subject:** Re: update

ok we'll use aonther title office. i've confirmed it with Scott.  
dc

**DenSco Investment Corp**  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
**602-469-3001 C**  
**602-532-7737 f**

---

**From:** "Beauchamp, David G." <[DBeauchamp@ClarkHill.com](mailto:DBeauchamp@ClarkHill.com)>  
**To:** Denny Chittick <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)>  
**Sent:** Tuesday, January 21, 2014 1:57 PM  
**Subject:** RE: update

Denny:

If I knew the attorney that they are now using, I could try to confirm the timing. If you or Scott talk to Dan or the others, please try to get a name.

I understand the fine line that you are taking. I am just very concerned about the payoffs getting so far ahead of the documentation. I have authorized the preparation of the Forbearance Agreement and the related documents. Under normal circumstances, this should be finalized and signed before you

advance all of this additional money. We plan to get the documents to you and Scott later this week. Hopefully, we can get the documents signed later this week.

Best, David

David G. Beauchamp

CLARK HILL PLC

14850 N Scottsdale Rd | Suite 500 | Phoenix, Arizona 85254  
480.684.1128 (direct) | 480.684.1166 (fax) | 602.319.5602 (cell)  
[dbeauchamp@clarkhill.com](mailto:dbeauchamp@clarkhill.com) | [www.clarkhill.com](http://www.clarkhill.com)

---

From: Denny Chittick [mailto:[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)]  
Sent: Tuesday, January 21, 2014 1:50 PM  
To: Beauchamp, David G.  
Subject: Re: update

we talked about that, she can run title for me and just tell me that i'm clear, she's also working with us to get the payoffs so we'll see how it works out, i understand the risk. i'm trying to walk a fine line between doing it right and doing it quickly! i know how to do it right, i just don't know how fast i have to do it to keep them at bay. i can do 2 million this week, which will cut it in 1/2 , with payoffs coming in through the end of the month, i should be able to have them completely paid off with in another 2 weeks , knocking some off a little at a time, i just don't know if they'll give us that time...

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

---

From: "Beauchamp, David G." <[DBeauchamp@ClarkHill.com](mailto:DBeauchamp@ClarkHill.com)>  
To: Denny Chittick <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)>  
Sent: Tuesday, January 21, 2014 1:42 PM  
Subject: RE: update

Denny:

If you do this outside escrow, you will probably not be eligible for title insurance. Under the circumstances, title insurance would be good to have to deal with the lien issues. You might want to ask Debbie what procedure you could use to expedite the pay-offs and still have her company be able to issue title insurance.

Would it make sense to split up the payoffs of these loans into two or three different escrows and title agencies?

Best, David

David G. Beauchamp

CLARK HILL PLC

14850 N Scottsdale Rd | Suite 500 | Phoenix, Arizona 85254  
480.684.1126 (direct) | 480.684.1168 (fax) | 602.319.5602 (cell)  
[dbeauchamp@clarkhill.com](mailto:dbeauchamp@clarkhill.com) | [www.clarkhill.com](http://www.clarkhill.com)

---

**From:** Denny Chittick [mailto:[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)]

**Sent:** Tuesday, January 21, 2014 12:42 PM

**To:** Beauchamp, David G.

**Subject:** update

we are going to pay off 6 tomorrow, title can't work fast enough, the earliest we can do more through title is friday based on what debbie is saying. we may need to get payoff directly from them and just exchange checks and releases outside of title.

dc

DenSco Investment Corp

[www.denscoinvestment.com](http://www.denscoinvestment.com)

602-469-3001 C

602-532-7737 f

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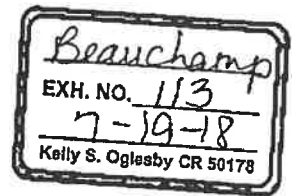
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Clark Hill attorney in the body of this e-mail or an attachment.

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# **Exhibit 18**



Beauchamp, David

Page 1 of 2

DenSco

2013  
POM

From: Denny Chittick [dcmoney@yahoo.com]  
Sent: Friday, June 14, 2013 12:24 PM  
To: Beauchamp, David  
Subject: Re: Attorney

ok 1 sentence should suffice!

DenSco Investment Corp  
www.denscoinvestment.com/  
602-469-3001  
602-532-7737 f

From: "Beauchamp, David" <David.Beauchamp@bryancave.com>  
To: "dcmoney@yahoo.com" <dcmoney@yahoo.com>  
Cc: "Beauchamp, David" <David.Beauchamp@bryancave.com>  
Sent: Friday, June 14, 2013 12:21 PM  
Subject: Re: Attorney

We will need to disclose this in POM.

Sorry, David

(Sent from my Blackberry wireless)  
David G. Beauchamp, Esq.  
Bryan Cave LLP  
Two North Central Avenue, Suite 2200  
Phoenix, Arizona 85004-4406

email: david.beauchamp@bryancave.com  
(602) 364-7060 | Direct Tel.  
(602) 716-8060 | Direct Fax  
(602) 319-5602 | Mobile Tel.

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IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (a) avoiding penalties under the Internal Revenue Code or (b) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

From: Denny Chittick [mailto:dcmoney@yahoo.com]  
Sent: Friday, June 14, 2013 12:07 PM  
To: Beauchamp, David  
Cc: Yomtov Menaged <smena98754@aol.com>  
Subject: Fw: Attorney

David:.

6/14/2013

DIC0003633

I have a borrower, to which i've done a ton o. business with, million in loans and hundreds of loans for several years, he's getting sued along with me.

He bought a property at auction, was issued a trustee's deed, i put a loan on it. Evidently the trustee had already sold it before the auction and received money on it FREO Arizona, LLC.

Easy Investments, has his attorney working on it, i'm ok to piggy back with his attorney to fight it, Easy Investments 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.

thx  
dc

DenSco Investment Corp  
[www.denscoinvestment.com/](http://www.denscoinvestment.com/)  
602-469-3001  
602-532-7737 f

----- Forwarded Message -----  
From: Scott Menaged <[smena98754@aol.com](mailto:smena98754@aol.com)>  
To: Denny Chittick <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)>  
Sent: Friday, June 14, 2013 11:53 AM  
Subject: Attorney

Denny,

Here is my attorneys info. If your attorney needs anything, just let me know!  
Thanks

Jeffrey J. Goulder | Partner | Stinson Morrison Hecker LLP  
1850 N. Central Avenue, Suite 2100 | Phoenix, AZ 85004-4584  
T: 602.212.8531 | F: 602.586.5217 | M: 602.999.4350  
[jgoulder@stinson.com](mailto:jgoulder@stinson.com) | [www.stinson.com](http://www.stinson.com)

---

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bclp2013

6/14/2013

DIC0003634



From: Denny Chittick  
Sent: Fri 6/14/2013 7:28 PM (GMT-00:00)  
To: Beauchamp, David  
Cc:  
Bcc:  
Subject: Lill's law suit  
Attachments: Lill law suit 7th Ave.pdf

This is another borrower, i've been working with since 2001.

She bought this property, there are 22k of back taxes, from what i can decipher from this document, they bought hte tax lien, she's going to pay the back taxes today or monday, so then this all goes away right?

i think it's funny his, dad or brother is his notary, which leads me to believe it's a one man show and lawsuit papermill.

thx  
dc

DenSco Investment Corp  
[www.denscoinvestment.com/](http://www.denscoinvestment.com/)  
602-469-3001  
602-532-7737 f

**COMMISSIONERS**  
GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS



ERNEST G. JOHNSON  
Executive Director

PATRICIA L. BARFIELD  
Director  
Corporations Division

**ARIZONA CORPORATION COMMISSION**

Date 06/05/2013

**DENSCO INVESTMENT CORPORATION**

6132 W VICTORIA PL  
CHANDLER, AZ 85226-

Dear Sir or Madam:

Enclosed is a copy of the following document(s) that were served upon the Arizona Corporation Commission on 06/04/2013 as agent for DENSCO INVESTMENT CORPORATION:

Case caption: MACWCF II, LLC v. DENSCO INVESTMENT CORPORATION,  
Case number: CV2013-092140 Court: MARICOPA COUNTY, SUPERIOR COURT

- ☒ Summons
- ☒ Complaint
- ☐ Subpoena
- ☐ Subpoena Duces Tecum
- ☐ Default Judgment
- ☐ Judgment
- ☐ Writ of Garnishment
- ☐ Motion For Summary Judgment
- ☐ Motion for
- ☒ Other CERTIFICATE OF COMPULSORY ARBITRATION

Sincerely,

Lynda B. Griffin  
Custodian of Records

Initials PTG  
File number 0987488-4

Rec08.doc  
Rev 10/09

1300 WEST WASHINGTON, PHOENIX, ARIZONA 85007-2920  
[www.arccs.gov](http://www.arccs.gov) • 602-442-3026

BC\_001969

COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTERS SMITH



JODI JERCH  
Executive Director

PATRICIA L. BARFIELD  
Director  
Corporations Division

ARIZONA CORPORATION COMMISSION

CERTIFICATION OF SERVICE ACCEPTED AND OF MAILING

Date: 06/05/2013

I, Peter Graham am an employee of the Arizona Corporation Commission ("ACC").

I hereby certify that on the 4TH day of JUNE, 2013, I accepted on behalf of the ACC service of the following documents upon the ACC as agent for DENSCO INVESTMENT CORPORATION.

Case caption: MACWGP II, LLC V. DENSCO INVESTMENT CORPORATION,

Case number: CV2013-092140

Court: MARICOPA COUNTY, SUPERIOR COURT

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Summons                                     | <input type="checkbox"/> Default Judgment    |
| <input checked="" type="checkbox"/> Complaint                                   | <input type="checkbox"/> Judgment            |
| <input type="checkbox"/> Subpoena   | <input type="checkbox"/> Writ of Garnishment |
| <input type="checkbox"/> Subpoena Duces Tecum                                   |  |
| <input type="checkbox"/> Motion for Summary Judgment                            |  |
| <input type="checkbox"/> Motion for   |  |
| <input checked="" type="checkbox"/> Other CERTIFICATE OF COMPULSORY ARBITRATION |  |

I declare and certify under penalty of perjury that the foregoing is true and correct.

Executed on this date: 06/05/2013

(Signature) \_\_\_\_\_

Rec07.doc  
Rev 10/03

1300 WEST WASHINGTON, PHOENIX, ARIZONA 85007-2523  
www.azcc.gov • 602-542-3028



**COMMISSIONERS**  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTERS SMITH



**ARIZONA CORPORATION COMMISSION**

**JODI JERICH**  
Executive Director

**PATRICIA L. BARFIELD**  
Director  
Corporations Division

I, Peter Graham, am an employee of the Arizona Corporation Commission ("ACC").

I hereby certify that on the 5TH day of JUNE, 2013, I placed a copy of the above listed documents in the United States Mail, postage prepaid, addressed to

**DENSCO INVESTMENT CORPORATION**

at its last known place of business as follows:

**6132 W VICTORIA PL  
CHANDLER, AZ 85226**

OR

I hereby certify that I was unable to mail the above listed documents to

because that entity is not a registered corporation or limited liability company in the State of Arizona, and the Arizona Corporation Commission has no record of its known place of business.

I declare and certify under penalty of perjury that the foregoing is true and correct.

Executed on this date: 06/05/2013

(Signature) \_\_\_\_\_

Rec07.doc  
Rev 10/09

1300 WEST WASHINGTON, PHOENIX, ARIZONA 85007-2829  
www.azcc.gov • 602-542-3028

BC\_001971

1 KESSLER LAW OFFICES  
2 Eric W. Kessler, SBN 009158  
3 240 North Center Street  
4 Mesa, Arizona 85201  
5 (480) 644-9047  
6 (480) 644-0095 FAX  
7 [eric@kesslerlaw.phxcoxmail.com](mailto:eric@kesslerlaw.phxcoxmail.com)

8 Attorney for Plaintiff

9 IN THE SUPERIOR COURT OF THE STATE OF ARIZONA

10 IN AND FOR THE COUNTY OF MARICOPA

11 MACWCP II, LLC, a limited liability  
12 company,

13 Plaintiff,

14 vs.

15 LILI RUBIN INVESTMENT  
16 PROPERTIES, LLC, a limited liability  
17 company; DENSCO INVESTMENT  
18 CORPORATION, a corporation;  
19 JOHN DOE and JANE DOE;  
20 ABC CORPORATION;  
21 ALL UNKNOWN HEIRS OF ABOVE,

22 Defendants,

No. CV2013-092140

SUMMONS

If you would like legal advice from a lawyer,  
contact the Lawyer Referral Service at  
602-257-4434

or

[www.maricopalawyers.org](http://www.maricopalawyers.org)

Sponsored by the  
Maricopa County Bar Association

23 IN THE NAME OF THE STATE OF ARIZONA:

24 TO: All Defendants named above.

25 GREETINGS:

26 YOU ARE HEREBY SUMMONED and required to appear and defend in the  
above-entitled action brought against you by the above-named Plaintiff, in the County  
of Maricopa, State of Arizona, and answer to the Complaint filed in said Court at 222 E.  
Javelina, Mesa, AZ 85210, within twenty (20) days if served personally within the State

1 of Arizona, or thirty (30) days after completion of service outside of Arizona or by  
2 publication. You are notified that in case you fail to appear, Judgment by default will be  
3 rendered against you for the relief demanded in the complaint. Plaintiff's attorney is:  
4 Eric W. Kessler, 240 N. Center St., Mesa, AZ 85201. (480) 644-0093.  
5

6 GIVEN UNDER MY HAND THIS DATE: \_\_\_\_\_  
7

8 **COPY**

9 MAY 28 2013

10 Deputy Clerk



11 MICHAEL K. JEANES, CLERK  
12 M. GARCIA  
13 DEPUTY CLERK  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

1 KESSLER LAW OFFICES  
Eric W. Kessler, SBN 009158  
2 240 North Center Street  
Mesa, Arizona 85201  
3 (480) 644-9047  
4 (480) 644-0095 FAX  
eric@kesslerlaw.phxcoxmail.com

5 Attorney for Plaintiff

**COPY**

MAY 28 2013



MICHAEL K. JEANES, CLERK  
M. GARCIA  
DEPUTY CLERK

7 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**

8 **IN AND FOR THE COUNTY OF MARICOPA**

9 **MACWCP II, LLC, a limited liability**  
10 **company,**

11 **Plaintiff,**

12 **vs.**

13 **LILI RUBIN INVESTMENT**  
14 **PROPERTIES, LLC, a limited liability**  
15 **company; DENSCO INVESTMENT**  
16 **CORPORATION, a corporation;**  
17 **JOHN DOE and JANE DOE;**  
18 **ABC CORPORATION;**  
19 **ALL UNKNOWN HEIRS OF ABOVE,**

20 **Defendants.**

No. **CV2013-092140**

**COMPLAINT**

21 **COMES NOW** the Plaintiff, through counsel undersigned, and for its Complaint,  
22 **alleges as follows:**

23 **That** the properties set forth herein are in Maricopa County; that Defendants are  
24 **individuals, partnerships, corporations, associations or other entities as shown in the**  
25 **caption of this Complaint and reside in or have caused an event to occur herein; that**  
26 **JOHN DOE, JANE DOE and ABC CORPORATION are fictitious names designating an**

1 individual or other legal entity unknown to Plaintiff, and whose true name(s) Plaintiff will  
2 insert herein by amendment upon discovery thereof, that Defendants make some claim  
3 to the subject real property adverse to Plaintiff's claim, and that this Court has  
4 jurisdiction over these parties and the subject matter herein.

5  
6 II.

7 That in order to pay for delinquent taxes legally levied and assessed against the  
8 property, together with interest, penalties and charges thereon, the Maricopa County  
9 Treasurer sold a lien on the property known as Maricopa County tax parcel 158-29-046  
10 in February of 2010 and that the original of said Certificate of Purchase was sold to  
11 Plaintiff herein.

12  
13 III.

14 That the sale referred to in paragraph II above was valid and the taxes due and  
15 owing on the property were delinquent at the time of said sale.

16  
17 IV.

18 That the whole amount of all delinquent taxes, interest, penalties and charges  
19 legally due and owing on the property were paid to the Maricopa County Treasurer  
20 upon a Certificate of Purchase, the amounts being endorsed thereon; that more than  
21 three years have elapsed since the date of sale set forth above, and none of the  
22 property has been redeemed therefrom. Plaintiff is thus entitled to foreclose the rights  
23 of Defendants to redeem the property from said sale. Plaintiff is now the owner of the  
24 lien on the property, subject only to the rights of Defendants to redeem the property  
25 and to pay Plaintiff's costs and attorney's fees pursuant to A.R.S. §42-18206.  
26

V.

Plaintiff has complied with all notice requirements set forth in A.R.S. §42-18201, et seq.

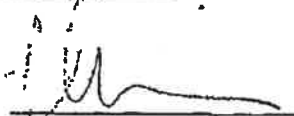
1. That if Defendants, or any of them, redeem the property, the Court shall render Judgment ordering payment by the redeeming party to Plaintiff for costs incurred for title search, filing and recording fees, service of process fees and all other costs incurred herein, together with a reasonable attorney's fee pursuant to A.R.S. §42-

~~18206, OR~~

2. That the Court declare that the sale of the lien, the Certificate of Purchase issued pursuant thereto, and the service of process on all Defendants are valid; that at the sale of the lien, the taxes thereon were delinquent; that more than three years have elapsed since the sale of the lien and the commencement of this action; that the rights of Defendant to redeem the property from said sale are forever foreclosed; and that Defendants are barred forever from having or claiming any right or title adverse to Plaintiff herein. Plaintiff further prays to be adjudged the owner in fee simple of the whole of the property; that the title to said property be quieted in favor of Plaintiff; and that the Maricopa County Treasurer be commanded to execute and deliver forthwith to Plaintiff a deed conveying the property to Plaintiff, in accordance with Title 42, Arizona Revised Statutes.

DATED THIS DATE:

5.27.13

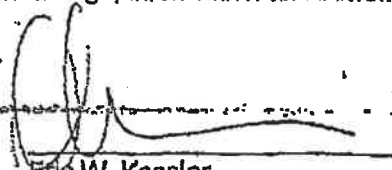
  
Eric W. Kessler  
Attorney for Plaintiff

1 STATE OF ARIZONA )

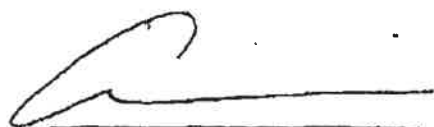
) ss.

2 County of Maricopa )

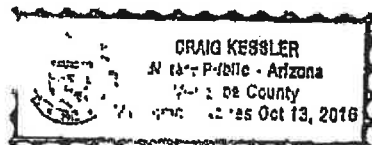
3       Undersigned counsel, upon his oath, deposes and says that he is the attorney  
4 for Plaintiff herein and is authorized to make this verification on behalf of Plaintiff; that  
5 he has read the foregoing Complaint and knows the contents thereof; and that the  
6 same are true and correct to the best of his knowledge, information and belief.  
7

8  
9  
10   
11 Eric W. Kessler  
12 Attorney for Plaintiff

13       Subscribed and sworn to before me this May 27, 2013, by ERIC W. KESSLER.

14  
15   
16 Notary Public

17  
18 My Commission Expires:  
19  
20 \_\_\_\_\_



1 KESSLER LAW OFFICES  
2 Eric W. Kessler, SBN 009158  
3 240 North Center Street  
4 Mesa, Arizona 85201  
5 (480) 644-9047  
6 (480) 644-0095 FAX  
7 eric@kesslerlaw.phxcoxmail.com

8 Attorney for Plaintiff

**COPY**



MAY 28 2013

MICHAEL K. JEANES, CLERK  
M. GARCIA  
DEPUTY CLERK

9 IN THE SUPERIOR COURT OF THE STATE OF ARIZONA

10 IN AND FOR THE COUNTY OF MARICOPA

11 MACWCP II, LLC, a limited liability  
12 company,

13 Plaintiff,

14 vs.

15 LILI RUBIN INVESTMENT  
16 PROPERTIES, LLC, a limited liability  
17 company; DENSCO INVESTMENT  
18 CORPORATION, a corporation;

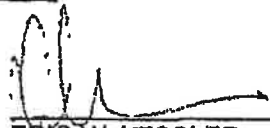
19 Defendants.

CV2013-092140  
No.

CERTIFICATE OF  
COMPULSORY  
ARBITRATION

20 Undersigned counsel hereby certifies that the largest award sought by Plaintiff,  
21 excluding punitive damages, costs and attorney's fees does not exceed the limits for  
22 compulsory arbitration. However, this action concerns title to real property and  
23 therefore is not subject to arbitration.

24 DATED THIS DATE: 5.27.13

25   
26 ERIC W. KESSLER  
Attorney for Plaintiff





From: Denny Chittick  
Sent: Fri 6/14/2013 7:37 PM (GMT-00:00)  
To: Beauchamp, David  
Cc:  
Bcc:  
Subject: Re: Lill's law suit

ok no problem.  
haven't been sued in all these years, now two the same  
day i get back from vacation!

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www.denscoinvestment.com/  
602-469-3001  
602-532-7737 f

---

From: "Beauchamp, David" <David.Beauchamp@bryancave.com>  
To: "dcmoney@yahoo.com" <dcmoney@yahoo.com>  
Cc: "Beauchamp, David" <David.Beauchamp@bryancave.com>  
Sent: Friday, June 14, 2013 12:34 PM  
Subject: Re: Lill's law suit

Denny:

I am at a seminar this afternoon, but I will read it and get back to you.

Thanks, David

(Sent from my Blackberry wireless)  
David G. Beauchamp, Esq.  
Bryan Cave LLP  
Two North Central Avenue, Suite 2200  
Phoenix, Arizona 85004-4406

email: david.beauchamp@bryancave.com  
(602) 364-7060 | Direct Tel.  
(602) 716-8060 | Direct Fax  
(602) 319-5602 | Mobile Tel.

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From: Denny Chittick [mailto:dcmoney@yahoo.com]  
Sent: Friday, June 14, 2013 12:28 PM  
To: Beauchamp, David  
Subject: Lill's law suit

This is another borrower, i've been working with since 2001.

She bought this property, there are 22k of back taxes, from what i can decipher from this document, they bought hte tax lien, she's going to pay the back taxes today or monday, so then this all goes away right?

i think it's funny his, dad or brother is his notary, which leads me to believe it's a one man show and lawsuit papermill.

thx  
dc

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bellp2013



From: Denny Chittick  
Sent: Fri 6/14/2013 8:43 PM (GMT-00:00)  
To: Beauchamp, David  
Cc:  
Bcc:  
Subject: Lili's suit

don't worry about that one, it was what i thought tax  
lien, she paid it today, so it will go away.  
thx  
dc

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[www.denscoinvestment.com/](http://www.denscoinvestment.com/)  
602-469-3001  
602-532-7737 f



From: Beauchamp, David  
Sent: Fri 6/14/2013 11:45 PM (GMT-00:00)  
To: 'Denny Chittick'  
Cc:  
Bcc:  
Subject: RE: MACWCP vs. Lil Rubin Investments

Denny:

Sounds good.

Best, David  
David G. Beauchamp, Esq.  
Bryan Cave LLP  
Two North Central Avenue, Suite 2200  
Phoenix, Arizona 85004-4408

email: david.beauchamp@bryancave.com  
(602) 364-7080 | Direct Tel.  
(602) 716-8060 | Direct Fax  
(602) 319-5602 | Mobile Tel.



---

From: Denny Chittick [mailto:dcmoney@yahoo.com]  
Sent: Friday, June 14, 2013 4:38 PM  
To: Beauchamp, David  
Subject: Fw: MACWCP vs. Lil Rubin Investments

all taken care of.  
thx  
dc

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www.denscoinvestment.com/  
602-469-3001  
602-532-7737 f

----- Forwarded Message -----

From: "Istolanova@cox.net" <Istolanova@cox.net>  
To: Denny Chittick <dcmoney@yahoo.com>  
Sent: Friday, June 14, 2013 3:42 PM  
Subject: Fw: MACWCP vs. Lil Rubin Investments

Sent from my BlackBerry® smartphone, powered by Cricket.

---

**From:** Craig Kessler <craig.kesslerlaw@gmail.com>  
**Date:** Fri, 14 Jun 2013 15:04:35 -0700  
**To:** <lstoianova@cox.net>  
**Subject:** MACWCP vs. Lil Rubin Investments

Lili,  
Attached is a payoff statement for the above referenced case.

--  
*Craig Kessler*  
*Legal Assistant*  
*Kessler Law Offices*  
*(480) 644 0093*



# **Exhibit 19**

Message

**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 2/3/2014 3:43:53 PM  
**To:** Scott Menaged [smena98754@aol.com]  
**Subject:** Re: Debbie

have you put a call in to jeff to get him on the phone with david and pound through their language arts assignment?

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[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

---

**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Monday, February 3, 2014 8:39 AM  
**Subject:** Re: Debbie

Ok I will send you a list and copy her

Sent from my iPhone

On Feb 3, 2014, at 8:36 AM, Denny Chittick <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)> wrote:

pick 7

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

---

**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Monday, February 3, 2014 8:33 AM  
**Subject:** Debbie

She is asking how many and which properties from her list we are doing this week and what day? Please let me know

Sent from my iPhone

# **Exhibit 20**

Message

---

**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 2/5/2014 9:58:16 PM  
**To:** SMena98754@aol.com  
**Subject:** Re: Jeff

i had him make some concenssions that you and i agreed to such as the dates of maturity, also a time line on the million at 3% so hopefully these two can come to an agreement.  
put them in their rooms until they play nice.  
dc

DenSco Investment Corp  
www.denscoinvestment.com  
602-469-3001 C  
602-532-7737 f

---

**From:** "SMena98754@aol.com" <SMena98754@aol.com>  
**To:** dcmoney@yahoo.com  
**Sent:** Wednesday, February 5, 2014 2:37 PM  
**Subject:** Re: Jeff

Jesus!

2 Babies!

In a message dated 2/5/2014 2:31:50 P.M. US Mountain Standard Time, dcmoney@yahoo.com writes:

ok i emailed him, i have a feeling he's going to send the original doc back!

DenSco Investment Corp  
www.denscoinvestment.com  
602-469-3001 C  
602-532-7737 f

**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Wednesday, February 5, 2014 12:12 PM  
**Subject:** Jeff

Spoke to Jeff about a meeting and he is fine with it but he said he is still going to wait for Davids reply to the changes.

Please have David email him the things he is not ok with so we can get this process over. I know for sure now they hate each other! Haha

Sent from my iPhone

# **Exhibit 21**

Message

---

**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 2/7/2014 5:56:08 PM  
**To:** Yomtov Menaged [smena98754@aol.com]  
**Subject:** david

i talked to him, i told him i sent you the doc and that you and i are going to go over it soley based on the terms. thus after any changes we agree to and make, david will amek them them. i tell david to send it to jeff, you tell jeff, the terms are agreeable bewteen us, and they can only fix spelling!  
dc

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

# **Exhibit 22**



Message

---

**From:** Denny [dcmoney@yahoo.com]  
**Sent:** 2/15/2014 3:45:59 PM  
**To:** Scott Menaged [smena98754@aol.com]  
**Subject:** Re: Ever ending

Attorneys sole purpose is to self perseverance

Sent from my iPad

> On Feb 15, 2014, at 7:25 AM, Scott Menaged <smena98754@aol.com> wrote:

>

> This reminds me of the Chris group!

>

> We went thru weeks of back and forth with attorneys for something I solved in a 45 minute phone conversation with no attorneys!

>

> I think with all of us in a room together without the he is ok with that and maybe I am ok with this we can be done with this. I hope you see my point on this.

>

> Sent from my iPhone

>

>> On Feb 15, 2014, at 7:39 AM, Denny <dcmoney@yahoo.com> wrote:

>>

>> David would like to know what the points of contention r. He feels like he put in there everything we agreed to

>>

>> Sent from my iPad

# **Exhibit 23**

Message

**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 2/14/2014 3:04:35 AM  
**To:** smena98754@aol.com  
**Subject:** Re: RE:

No shit and we solved another. What 20% of the problem

Sent from Yahoo Mail for iPhone

---

**From:** Scott Menaged <smena98754@aol.com>;  
**To:** Denny Chittick <dcmoney@yahoo.com>;  
**Subject:** Re: RE:  
**Sent:** Fri, Feb 14, 2014 3:03:35 AM

I feel like these lawyers are trying to prevent progress! And 50,000 later between 2 attorneys we still don't have anything!

Sent from my iPhone

On Feb 13, 2014, at 8:01 PM, Denny Chittick <dcmoney@yahoo.com> wrote:

Insure hope so!

Sent from Yahoo Mail for iPhone

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**From:** Scott Menaged <smena98754@aol.com>;  
**To:** Denny Chittick <dcmoney@yahoo.com>;  
**Sent:** Fri, Feb 14, 2014 2:54:06 AM

I have emailed Jeff. I know he is out of town tomorrow but I am sure he will call me at one point tomorrow have not had time to see the changes he made! Hopefully it works!!!!

Sent from my iPhone

# **Exhibit 24**

Message

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**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 2/11/2014 3:56:56 PM  
**To:** Scott Menaged [smena98754@aol.com]  
**Subject:** Re:

12%  
interest can be paid monthly , quarterly.

however, i 've not taken any new investors, so if i do, i have to disclose a lot to them, which is all about you!

i might have 500k in from someone, know soon.

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
602-469-3001 C  
602-532-7737 f

---

**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny <dcmoney@yahoo.com>  
**Sent:** Tuesday, February 11, 2014 8:54 AM  
**Subject:**

What are you paying your investors? I have a couple people I can call to see if I can get them to invest with you. They are family and the family rule is we don't so business together to keep everything good! However I know they have funds they have been looking to put somewhere

Sent from my iPhone

# **Exhibit 25**

Message

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**From:** Denny Chittick [dcmoney@yahoo.com]  
**Sent:** 5/28/2014 11:09:36 AM  
**To:** SMena98754@aol.com  
**Subject:** Re: Finally.....

i guess they heard about us

due to potential fraud

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602-532-7737 f

---

**From:** "SMena98754@aol.com" <SMena98754@aol.com>  
**To:** dcmoney@yahoo.com  
**Sent:** Wednesday, May 28, 2014 10:59 AM  
**Subject:** Finally.....

Dear YOMTOV S MENAGED ARIZONA HOME FORECLOSURES, LLC,

As you requested, we've changed your current transaction limit for Wire Transfers.

As of 2014-05-28 13:52:15, your new limit for Wire Transfers will be 1000000.

Please note that all transactions are still subject to available funds in your account. We may revoke access to transactions at any time due to potential fraud or other security concerns.

If applicable, we also recommend that you adjust any limits for Authorized Users accordingly in Access & Security Manager(SM).

If you have questions, please contact your Chase Banker.

Thanks for being a valued Chase Online customer.

Sincerely,

Chase Online for Business Team

# **Exhibit 26**



Message

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**From:** Denny [dcmoney@yahoo.com]  
**Sent:** 8/22/2015 9:51:52 AM  
**To:** Scott Menaged [smena98754@aol.com]  
**Subject:** Re: (no subject)

I am in so many violations with my current investors it's nuts.

UT guys said they would get back to me if I don't hear Monday I will call Tuesday

We r not that far off. I have money coming in this week, I am thinking between 500k and what I get in, we will be darn close by Monday At 5 pm 100% I don't know but I know it will be one or two properties at most and they can't kill the deal for that

Sent from my iPad

On Aug 22, 2015, at 9:47 AM, Scott Menaged <[smena98754@aol.com](mailto:smena98754@aol.com)> wrote:

Is there no way you can show new investors you are profitable and your track history and plenty of references ? Do you have to give them a memorandum? I know lots of lenders who never do a memorandum ? Either they are by law required to or your attorney was too strict wit you, I honestly don't know which one is true!

Did the UT guys tell you when you would hear from them?

As far as modifying the payoffs, I guess it would be the same thing as moving money paid to principal. I don't think it makes a difference either way. It's just rearranging the spreadsheets for now. To this day I still don't plan on you taking any loss, but it is foolish to pay the IRS now so all that we will have to figure out later . Maybe what you write off we will do a separate spreadsheet for and I can pay you it in cash in time. We can figure that out

On Aug 22, 2015, at 9:28 AM, Denny <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)> wrote:

The only problem , is that like I said I can't get new investors, I can't give them the documentation that is necessary. I am hoping the Utah guys will come through.

As far as where I put the money or transfer the past payments, that will have to be worked out later.

I think for now I will modify my payoffs for Belmont and the next one so I just receive cash and take a loss .

Sent from my iPad

On Aug 22, 2015, at 9:14 AM, [SMena98754@aol.com](mailto:SMena98754@aol.com) wrote:

Here are my thoughts:

I like you am ready to put this behind me. Like you I cant live this way, never had so much stress ever but we are close to it being over and that's what I keep reminding myself!

They already know which banks now to not give me and they have not and they have been doing what they said. Your thought process is correct except I already told them about the banks not to send me. I also told them they can send about 1.5 a day and I can handle that knowing the payoffs. Clearly some days it is not exact, but as you know it goes up and down. So Doing what you said with the properties wont work. If they keep giving me 1.5 and I keep having 1.5 in payoffs, which is why I told them 1.5 was ok, I still am 2 Mill Short and believe me there is no going back now and changing anything we spoke about. I am not on their favorite list right now, I will be in time but I have to prove I can do what I said. I will provide my speadsheet to them once a week to show them what the numbers are which is what I told them so they see it and know where we have to be at.

You moving the money from Interest to Principle is a great Idea, Considering it is just moving over to the interest workout and it will show a lower principal balance on the workout which

is good for many reasons all of what we discussed a couple days ago. You are not taking a loss for that interest, just going on a different spreadsheet. There is no reason to pay real money to the IRS When that same money can help the business.

As far as taking a loss on the AFG Properties and modifying the payoff, that will clearly only make sense based on the profitability of this year for densco. I would first move interest over and see if there is even enough room to do anymore. Again, I think the money should stay vs going to the IRS For no reason right now. Where I am not ok is with densco witting some things off and it not benefiting you with the taxes. If after you play with the workout interest, there is no more room, we just continue doing the AFG'S As we have been.

The wholesale balance as you said cant not go to 30 Mill Or over. I agree, that is why I came up with the ideas I did and have someone now for the overage. This way we are not going past 27 Mill approx. It would be impossible for it to go past that, because everyone is on the same page. Everyone knows Thursday I go though the numbers with them and we decide what Friday will look like.

The UT Guys would be a help if we had 90 days. Here is my math:

Assuming I get the commitment on Monday morning for another 500,000 from someone, That means I raised 85% Of the problem funds and believe me it was not easy. We have 1.5 Mill to work though

Once I pay off these Properties , here is how I see this happening:

Every Friday 100,000.00 Gets paid towards the workout

I plan on giving you 6 months of checks up front so every week you can scan a 100,000 check in to workout and the only wires I will do is when we settle the wholesale out weekly.

Based on the number on Thursday , I will know what I can do and cant do friday, meaning through the week I got 6 Mill in Properties , and payoffs came to 5.8, then that week you will at least receive the 200,000 back.

I am about 30 days away from going into a very good season for furniture king, which will help out as well, I may for a good 6 months be able to pay more than 100k a week towards workout or Start to accumulate some part of the wholesale props on my own and get it slowly paid off.

I will make sure in cash flow you receive at least 600k a month whether that be in wholesale or workout, does not matter at that point, it is cash flow.

The Wholesale Balance does not go up (again it cant based on how it will now happen)

Based on a 60 mill \$ Portfolio you still have about 15 Million to turn with other investors. Personally during this time, I would go out and look for more money to grow the portfolio bigger. Remember you did not want to grow a couple years ago because you wanted it to be a 1 man operation, Even if it grows it still is a 1 man operation, because what we do and our accounting for you and releases should take no more than an hour or so a day, on your side which it is much more time consuming dealing with 100 Customers. I would think at this point there are times you are board!

Will you be hanidcaped for a month or 2 until the weekly payments start to come in for the wholesale and workout? Yes, However I only see a brighter future after that. If the balance can only go in 1 direction, than that is positive by itself.

Originally I thought the best course would be for me to start to pay off the AFG, I guess for piece of mind sake, but Now I think it would be stupid, instead of

me doing that, it would be a lot smarter for me to pay towards the workout for cash flow to densco vs paying off afg. Afg is not bothering us and as much as it would be nice to get rid of them in the next 60 days, we are so close to the end , if it takes another few months, it would kill either of us .

So advancing 1.5 Mill , that is paid back in less than 2 months towards workout and interest on wholesale assuming principal does not move down.

I do think the spreadsheet for the wholesale would be good for you only because of cash flow. You dont have to keep even a penny in the account to commit to me and you can plan accordingly based on available funds who you want to lend to. If accounting it does not work for you, we can still wire daily. That is a call you can make . For me it does not matter, we will just look at how much you wired for the week and how much I did and I will know what has to happen friday.

If the UT Guys come through even if it is for 60 Days, in 60 days you will have the money back just in workout payments and interest paid, Plus over the next few months if you get another few investors and you get some payoffs from other investors, you are sitting ok again with knowing whatever is in your account,

you dont have to hold on to for the wholesale business.

Once the Workout balance is at 0 , then I plan on taking that same money and throwing 1/2 to the interest on the workout and 1/2 to the into the wholesale properties, so every week , the balance goes down by 50k on wholesale numbers and 50k on interest and yet, I still have the wholesale balance and it is a savings account for me.

Thank Goodness I got the 3 Mill and poss 500k (Which i believe will be ok, problem with the 500k is it is just for a short period of time, but we will figure that out then, right now it is getting over the hurdle) or none of this would even be a discussion and it would not be good, we are now so close we have to pull it off and I do believe we will. Like you said no way you could have come up with the 5 Mill.

So in Summary us pulling this off we have 5 Mill a year coming off the workout and coming back to Densco to reinvest and 2 1/2 years later the workout is at 0!

That is my thinking right now

i knowi'll sleeptongith  
becuz i can't go 3 nights  
iwth no sleep.  
i've had heart palpitation  
all day. hopefully this will  
make it go away.

first off, i think that these  
guys have to work with  
you. i had no idea, it was  
at 5 million. there was no  
way in the world i could  
have given you 5 million in  
the last month. like i kept  
saying i was out of money.  
if there is only 2 million  
left, based on teh ave size  
of the houses, that's  
basically 6 max 7 houses

i see that if you can pull  
just one house off a day  
for the next 6 days, then  
we have 1.5 or so million a



day, in and out, you'll catch up. using the theory you can look at a bank, trustee/lawyer which ever and go this is no use in pursuing. that alone will solve the problem. it might take 8-9 days but big deal. so if they give you a list of 6 props and you say no to one, but you catch up on one that's 250k same money in and out and old one gets caught up and one that would be returned, you pay interest and nothing gained from it gets skipped, waste of time and money averted.

i tried raising more money. my nieghbor the other go to guy for funds, simply said, "i'm comfortable with the amount of money i

ahve with you" which means no. trust me. i went to as far as calling the guys in UT (if you remember the nightmare i had with them 18 months ago) they actually are considering it. their problem they want to give it to me for 30 days. which won't work because once i put it in to the wholesale, the number never goes down and i'll never have money to give back to them. i told them i needed a min of 90 days. they are going to get back to me.

i thought of a lot of things a million things.

one thing is i'm going to go back and apply interest payments to the workout. i have to balance it based

on trying to remain profitable, but not too much and not too little. i haven't spent enough time on it, i don't know if that is a 500k swing or 100k swing. but we need to get that balance down. so say i move 250k down on the workout that i used to say was interest payment. i would just move that interest to the work out spreadsheet like we've been doing with the accrued interest that's not being paid now anyway. worry about it later.

all payments that you make to work out, are 100% principle. it's more important to lower the balance then receive the interest. again, i have to balance it out with trying to

be profitable. it's too early to make those calculations.

i was thinking about the remaining afg's. it's not an afg but belmont. they need a 110k so they can send me 240k or something. i should modify my payoff so that no cash is needed to close and i'll just take a loss on this one and once again just move it off balance sheet o the spreadsheet and worry about it later. like i said above.

i might do that with the remaining ones too. i have to look at it, cuase it's in coordination with moving the interest against hte work out wich make me more unprofitable. there

might be a mix i don't know i've not worked through the numbers. but i don't want to have a huge tax bill and still have a huge balance on the work out.

some kind of happy medium along with keeping my accountant happy!

i've got about a million supposed to close next week too. several are yours. i've got to pay interest at the end of the month and i've got just 2 deals left to fund. i still have 400k to return to me. i'll just have to say no to everything else. i said no to two deals today, which were 60% LTV's to two great borrowers. i even had an investor call,

didn't want his money out,  
wanted me to lend him  
money monday on a  
property, but i told him no.  
that was uncomfortable.

if i put another 500k or  
more on the wholesale  
and doesn't come back  
down, i'm just losing the  
ability to function as  
business. that's why i had  
to put the brakes on it in  
july. there isn't enough  
money outside of what  
you have to turn over to  
make a business run.

i don't have a silver bullet.  
i can't make 2 million  
show up. i can't have the  
wholesale go over 30  
million and never come  
down.

those are my thoughtst so far.

DenSco Investment Corp  
[www.denscoinvestment.com](http://www.denscoinvestment.com)  
m 602-469-3001 C 602-  
532-7737 f

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**From:** Scott Menaged <[smena98754@aol.com](mailto:smena98754@aol.com)>  
**To:** Denny <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)>  
**Sent:** Friday, August 21, 2015 4:24 PM  
**Subject:** Re: (no subject)

Ok I think I came up with 500k more but won't know till Monday morning

If I get that it would have to be paid back last day in December

Sent from my iPhone

On Aug 21, 2015, at 4:16 PM, Denny <[dcmoney@yahoo.com](mailto:dcmoney@yahoo.com)> wrote:

Yes and on the phone, I am with my boys I will email u later

Sent from my iPad

On Aug 21, 2015, at 3:59 PM, [SMena98754@aol.com](mailto:SMena98754@aol.com) wrote:

I hope you have been brainstorming like I Have all day!

# **Exhibit 27**



Message

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**From:** Denny [dcmoney@yahoo.com]  
**Sent:** 2/15/2014 3:45:59 PM  
**To:** Scott Menaged [smena98754@aol.com]  
**Subject:** Re: Ever ending

Attorneys sole purpose is to self perseverance

Sent from my iPad

> On Feb 15, 2014, at 7:25 AM, Scott Menaged <smena98754@aol.com> wrote:

>

> This reminds me of the Chris group!

>

> We went thru weeks of back and forth with attorneys for something I solved in a 45 minute phone conversation with no attorneys!

>

> I think with all of us in a room together without the he is ok with that and maybe I am ok with this we can be done with this. I hope you see my point on this.

>

> Sent from my iPhone

>

>> On Feb 15, 2014, at 7:39 AM, Denny <dcmoney@yahoo.com> wrote:

>>

>> David would like to know what the points of contention r. He feels like he put in there everything we agreed to

>>

>> Sent from my iPad

# **Exhibit 28**

# DenSco Investment Corporation

## Investor Balances

	Dec 31, 15	Jun 30, 16	Change
Long Term Liabilities			
Alber Family Trust	60,000	60,000	-
Angels Investments, LLC	200,000	200,000	-
Badiani, Nishel	-	-	-
BLL Capital, LLC	87,870	93,276	5,406
Brinkman, Rob	350,685	372,259	21,574
Brown, Craig & Tomie	500,000	500,000	-
Bunger Estate, LLC	795,000	795,000	-
Bunger, Alexandra	-	-	-
Bunger, Cassidy	-	-	-
Bunger, Connor	-	-	-
Bunger, Steven	1,655,000	2,055,000	400,000
Burdett, Tony - IRA	648,104	687,975	39,871
Burkhart, Kennen	167,546	167,546	-
Burkhart, Kennen - IRA	564,885	599,637	34,752
Bush, Warren	257,170	257,170	-
Butler, Mary - IRA	396,855	421,270	24,415
Butler, Van	298,361	304,412	6,051
Butler, Van - IRA	396,855	421,270	24,415
Byrne, Thomas & Sara Living Tru	250,000	250,000	-
Careywood on Eagle Wings, LLC	-	-	-
Caro McDowell Revocable Trust	300,000	300,000	-
Carr, Bev	-	-	-
Carrick, Erin Trust	200,067	200,067	-
Carrick, Gretchen Trust	250,000	250,000	-
Cate, Averill	100,000	100,000	-
Chittick, Arden	399,473	411,577	12,104
Chittick, Denny	-	-	-
Chittick, Denny - 401k	-	-	-
Chittick, Denny - DB Plan	-	-	-
Chittick, Eldon	797,748	811,452	13,704
Cohen, Herb	250,000	250,000	-
Davis, Glen	688,302	730,646	42,344
Davis, Glen - IRA	316,150	335,599	19,450
Davis, Jack	75,952	80,625	4,673
Davis, Jack/Samantha	59,458	59,458	-
Detota, Scott	213,951	213,951	-
Dirk Wright Memorial Schoolarsh	-	-	-
Dirk, Amy - IRA	108,697	115,384	6,687
Dirks, Bradley - IRA	242,262	257,166	14,904
Dupper Living Trust	800,000	800,000	-
Einck, Todd	200,000	200,000	-
Farfante, Dino	-	-	-
Fischer Family Holdings, LLC	-	-	-
Four Futures Corp	-	-	-
Gelbricht, Jacqueline	-	-	-
Global Qwest, Inc.	-	-	-
Gould, Scott - IRA	-	-	-
Grant, Stacy - IRA	126,833	134,636	7,803
Griswold, Russ	100,000	100,000	-
Griswold, Russ - IRA	136,957	145,383	8,426
Gumbert, Mike	800,000	800,000	-
Hafiz, Nihad	500,000	500,000	-
Hahn Family Limited Trust	440,178	442,650	2,472
Harvey, Chris	-	-	-
Hey, Ralph	90,480	90,480	-
Hickman, Dale	961,770	1,019,400	57,630
Hickman, Kathy	-	-	-
Hood, Craig	1,501,694	1,594,079	92,384
Howze, Lee	80,000	80,000	-
Hughes, Bill - IRA	582,627	589,127	6,500
Hughes, Bill & Judy	125,000	125,000	-

# DenSco Investment Corporation

## Investor Balances

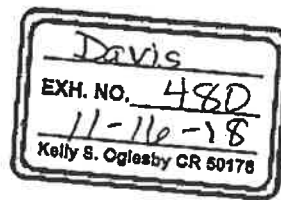
	<u>Dec 31, 15</u>	<u>Jun 30, 16</u>	<u>Change</u>
Hughes, Judy - IRA	244,430	250,930	6,500
Imdieke Revocable Trust	5,900,000	5,900,000	-
Jetton, James	69,874	74,173	4,299
Jones, Les	-	-	-
Jones, Les - IRA	327,803	347,969	20,166
Kasier, Ralph - IRA	372,567	395,487	22,920
Kelly, Mike	-	-	-
Kent, Mary	381,227	381,227	-
Kent, Mary - IRA	-	-	-
Kent, Paul	251,746	251,746	-
Kimble, Don	-	-	-
Kimble, Don - IRA	-	-	-
Koehler, Robert - IRA	252,295	267,817	15,521
Kopel, Jemma	114,191	121,216	7,025
Kopel, Roy - IRA	226,504	240,438	13,935
Lawson, Robert	140,491	149,134	8,643
Ledet, Wayne	322,841	396,216	73,376
Ledet, Wayne - IRA	375,597	398,703	23,107
Ledet, Wayne - ROTH IRA	137,552	146,014	8,462
Lee Group, Inc.	300,000	300,000	-
Lee, Terry & Lil	100,000	100,000	-
Lent, Lillian - IRA	56,781	60,274	3,493
Lent, Manuel	-	-	-
Lent, Manuel - IRA	134,983	143,287	8,304
LJL Capital, LLC	105,040	111,502	6,462
Locke, Bill & Jean	187,990	196,171	8,182
McArdle, James	542,781	542,781	-
McCoy, James & Lesley Trust	400,000	400,000	-
Meikle, Gregg	-	-	-
Miller, LF Fund	100,000	100,000	-
Miller, Mar & Pat Trust	1,515,000	1,515,000	-
Miller, Marv & Pat Major	-	-	-
Minchuk, Lawrence Trust	-	-	-
Moss Family Trust	131,597	139,693	8,096
Moss, Kaylene - IRA	370,109	392,878	22,769
Muscat, Vince	500,000	500,000	-
Nesta Capital, Inc.	-	-	-
Non Lethal Defense, Inc	100,000	100,000	-
Odenthal, Brian	197,465	209,613	12,148
Odenthal, Brian - IRA	83,521	95,506	11,986
Page, Jolene	2,780,708	2,836,041	55,333
Patel, Greg	-	-	-
Paxton, Smalerie	1,004,856	1,004,856	-
Pearce, Marelene - IRA	147,166	156,220	9,054
Pearce, Marlene	-	-	-
Petranek, Doriann	296,321	314,550	18,230
Phalen Family Trust	845,000	845,000	-
Phalen, Jeff - IRA	527,609	560,067	32,459
Potempa, Kevin	-	-	-
Preston Revocable Living Trust	160,000	160,000	-
Princeville Investment Group SW	-	-	-
Quigley, Karen	-	-	-
Ray, John	-	-	-
Rivera, Ray	-	-	-
Rzonca, Pete	200,000	200,000	-
Saltire LLC	150,000	150,000	-
Sanders, JoAnn	92,538	98,231	5,693
Schlotz GB 12, LLC - IRA	204,371	153,253	(51,118)
Schloz, Mary - IRA	165,200	175,363	10,163
Schloz, Stanley - IRA	164,193	174,294	10,101
Schloz, Stanley - ROTH IRA	-	-	-
Schloz, Stanley L	177,040	181,780	4,740

# DenSco Investment Corporation

## Investor Balances

	Dec 31, 15	Jun 30, 16	Change
Schreiber, John	-	-	-
Scroggin, Annette - IRA	215,977	229,264	13,287
Scroggin, Annette - ROTH	69,226	73,485	4,259
Scroggin, Mike	150,000	150,000	-
Scroggin, Mike - IRA	534,173	567,036	32,862
Scroggin, Mike - ROTH	123,285	130,869	7,585
Sherriff, Stewart	150,000	150,000	-
Siegford, Gary	514,684	514,684	-
Siegford, GE	1,085,597	1,096,453	10,856
Smith Trust, Carsyn P	-	-	-
Smith Trust, Mckenna	-	-	-
Smith Trust, Tony & Sandra	500,000	500,000	-
Smith, Tony - IRA	340,349	361,287	20,938
Sterling, Donald	50,000	50,000	-
Sundance Debt Partners, LLC	-	-	-
Swirt, Nancy	92,158	98,063	5,905
Swirtz, William	1,630,000	1,630,000	-
Thermogen	-	-	-
Thomas Stevenson	-	-	-
Thompson, Coralee	2,128,047	2,170,820	42,774
Thompson, Gary	1,866,977	1,904,503	37,526
Trainor, Jimmy	500,239	519,355	19,117
Tsal, Jeff	-	-	-
Tuttle, Steve	137,600	137,600	-
Underwood, Wade	135,889	144,249	8,360
Walterscheid, Leonard	-	-	-
Weiskopf Enterprises, LLC	-	-	-
Weiskopf Trust	-	-	-
Weiskopf, Laurie - IRA	-	327,980	327,980
Weiskopf, Tom - IRA	-	15,388	15,388
Wellman Family Living Trust	105,000	105,000	(0)
Wellman, Carol	135,000	135,000	0
Wellman, Carol - ROTH	57,668	61,215	3,548
Wenig, Brian	148,021	157,127	9,106
Wenig, Mark	400,476	400,476	-
Will, John	-	-	-
Zones, Michael	800,000	800,000	-
<b>Total Long Term Liabilities</b>	<b>49,803,682</b>	<b>51,588,783</b>	<b>1,785,101</b>

# **Exhibit 29**



MICHAEL K. JEANES CLERK  
BY  
T SHEPARDSON FILED

2016 DEC -9 PM 4:35

PAID  
\$ 27.00  
25028131

1 GUTTILLA MURPHY ANDERSON, P.C.

2 Ryan W. Anderson (Ariz. No. 020974)

3 Alisan M. B. Patten (Ariz. 009795)

4 5415 E. High St., Suite 200

5 Phoenix, Arizona 85054

6 Email: randerson@gamlaw.com

7 Phone: (480) 304-8300

8 Fax: (480) 304-8301

9 Attorneys for Receiver

10 IN THE SUPERIOR COURT OF THE STATE OF ARIZONA

11 IN AND FOR THE COUNTY OF MARICOPA

12 In the Matter of the Estate of

Cause No. PB 2016-051754

13 DENNY J. CHITTICK,

14 Deceased.

NOTICE OF CLAIM AGAINST ESTATE OF  
DENNY J. CHITTICK

(Assigned to Commissioner Andrew  
Russell)

15 1. The Claimant is Peter S. Davis in his capacity as court appointed Receiver of DenSco  
16 Investment Corporation ("DenSco") in *Arizona Corporation Commission v. DenSco Investment*  
17 *Corporation, an Arizona corporation*, Maricopa County Superior Court, case No. CV2016-014142  
18 ("Receiver").

19 2. The Estate of Denny J. Chittick is indebted to the Receiver in the amount of  
20 \$46,811,635.54 as detailed in paragraph 3 below.

21 3. The Receiver's claims against Estate of Denny J. Chittick are as follows:

A. At all material times, Chittick was the sole owner, officer, employee and  
shareholder of DenSco. From and after November 27, 2013, Chittick was aware that DenSco had  
been defrauded. At that point DenSco was insolvent, or would soon be insolvent, or was, or would

1 become, unable to pay its debts as they became due. On or about December 31, 2014, Chittick  
2 transferred all of the funds in his DenSco 401(k) Plan (\$359,609.00) and transferred it to a new  
3 account at Vanguard. Likewise, on or about December 31, 2014, Chittick transferred all of the funds  
4 from the DenSco Defined Benefit Plan (\$1,817,243.03) to a certificate of deposit at an FDIC insured  
5 bank. Additionally, on or about December 31, 2014, Chittick's caused DenSco to convert  
6 \$1,448,460.49 from his personal investment in DenSco, into DenSco stock in Chittick's name, as a  
7 book entry.

8 I. CHITTICK'S PERSONAL INVESTMENT ACCOUNT

9 On December 31, 2014, Chittick converted \$1,448,460.49 from his personal investment in  
10 DenSco into DenSco stock. Between January 29, 2015 and June 28, 2016, Chittick caused DenSco to  
11 make "distributions" to Chittick, in the total sum of \$555,000.00 (cash), which were funded by a  
12 corresponding liquidation of Chittick's shares of DenSco stock. In other words, Chittick caused  
13 DenSco to redeem Chittick's shares of DenSco stock for a total amount of \$555,000.00, during a time  
14 period when the true value of the shares of stock would have been worthless, or nearly worthless,  
15 given that DenSco had been defrauded out of millions of dollars and was insolvent or would soon be  
16 insolvent, or was, or would become, unable to pay its debts as they became due.

17 Additionally, Chittick caused DenSco to transfer \$120,000 (cash) as "distributions," to  
18 Chittick, between January 31, 2014 and December 26, 2014. These "distributions" were in addition to  
19 the annual wages Chittick was paid by DenSco and were made at a time that DenSco was insolvent,  
20 or would soon be insolvent, or was, or would become, unable to pay its debts as they became due.

21 Last, Chittick caused DenSco to transfer \$11,963.90 as "wages" to Chittick's minor children.  
These funds may have been deposited into an IRA account for the benefit of the children.



1                   II. CHITTICK'S 401(K) PLAN.

2           On or about December 31, 2014, Chittick caused, or directed, the transfer of all funds in his  
3 401(k) Plan from DenSco into a 401(k) plan at Vanguard in Chittick's name. At this time, the funds  
4 in the 401(k) Plan had been invested in DenSco, so the true value of the 401(k) investment was  
5 worthless or nearly worthless. Still, Chittick transferred \$359,609.00 as "funds of the plan" to the  
6 new account at Vanguard. Even if the value of the 401(k) plan was worth \$359,609.00 at the time of  
7 its transfer, \$121,799.71 belonged to DenSco. These funds include \$84,800.00 from transfers made to  
8 the 401(k) plan which Chittick characterized as "wages," but in reality were a type of distribution  
9 from DenSco to Chittick, from and after December 23, 2013. Additionally, the \$121,799.71 includes  
10 \$36,999.71 in interest that accrued on the 401(k) Plan's investor balance after November 27, 2013, on  
11 the date that Chittick became aware of the fraud committed against DenSco by Menaged. These  
12 transfers left DenSco with even less money to pay its creditors, at a time when it already was  
13 insolvent, or would soon be insolvent, or was, or would become, unable to pay its debts as they  
14 became due.

15                   III. CHITTICK'S DEFINED BENEFIT PLAN

16           Chittick participated in a Defined Benefit Pension Plan at DenSco. All of the funds in this  
17 account were invested in DenSco. On or about December 24, 2014, Chittick caused the liquidation of  
18 all "funds" in the Defined Benefit Pension Plan at DenSco and directed the transfer of the liquidated  
19 funds to a secure investment in the form of a certificate of deposit at an FDIC insured bank. The  
20 actual value of the investment in the Defined Benefit Pension Plan was worthless, or nearly  
21 worthless. Still, Chittick transferred \$1,817,243.03 out of the Defined Benefit Plan into the  
certificate of deposit. Even if the value of the investment in the Defined Benefit Plan was  
\$1,817,243.03 at the time of its transfer, \$867,289.00 of these funds were the property of DenSco

1 because \$867,289.00 was transferred to the Defined Benefit Plan as a type of distribution for Chittick  
2 over and above his annual wages, plus \$9,405.49 in interest that accrued on the Defined Benefit  
3 Pension Plan's investor balance, after November 27, 2013, or the date that Chittick became aware of  
4 the fraud committed against DenSco by Menaged. The \$1,817,243.03 is funds belonging to DenSco.  
5 Even if the value of the Defined Benefit Pension Plan was truly worth \$1,817,243.03 on the date of  
6 its transfer, at least \$876,694.49 of those funds belongs to DenSco. These transfers left DenSco with  
7 even less money to pay its creditors, at a time when it already was insolvent, or would soon be  
8 insolvent, or was, or would become, unable to pay its debts as they became due.

9 Claims: As a result of the foregoing actions by Chittick, the Receiver has the  
10 following claims against Chittick: Conversion, common law fraud, breach of fiduciary duty as  
11 director and officer of DenSco, fraudulent transfer (both actual and constructive) pursuant to A.R.S.  
12 §§ 44-1004 et seq., unjust enrichment, or, alternatively, gross negligence or negligence as an officer  
13 or director of DenSco.

14 B. Chittick was the sole owner, officer, employee and shareholder of DenSco. Chittick  
15 transferred funds in the form of purported secured loans from DenSco to Yomtov Scott Menaged or  
16 his related entities as an investment of the cash assets of DenSco. Menaged was to sign a Promissory  
17 Note for the monies loaned to him from DenSco, purchase real property with the lent funds, and sign  
18 a first position Deed of Trust, or mortgage, with DenSco as a beneficiary on the real property  
19 purchased by Menaged or his related entities. All DenSco monies loaned to Menaged were to be  
20 repaid by Menaged with interest. If a default occurred, DenSco's first priority secured interest in the  
21 real property purchased by Menaged was intended to protect DenSco's loans. However, Menaged  
defrauded DenSco by taking advantage of DenSco's lending practices and in numerous instances.

1 DenSco's loans to Menaged or his related entities were not secured with a first position deed of trust  
2 or Menaged failed to even purchase any real property the proceeds of the DenSco loans to Menaged.

3 To date, the Receiver has identified 91 remaining DenSco loans to Menaged, or his related  
4 entities, totaling \$43,947,819.61. From these 91 loans, it appears that only 6 real properties were  
5 actually purchased by Menaged or his related entities, however, these properties are not secured by a  
6 1<sup>st</sup> position lien in favor of DenSco. The Receiver has determined that of the \$43,947,819.61 that was  
7 lent to Menaged or his related entities, \$14,339,339.79 was advanced to Menaged under a  
8 forbearance agreement to purportedly ensure DenSco had first position liens on property previously  
9 purchased by Menaged with previous DenSco loans, and \$28,122,300.00 appears to represent  
10 unsecured loans to Menaged. It is not yet known what Menaged has done with the \$28,122,300.00  
11 of DenSco funds. Menaged filed for Chapter 7 bankruptcy relief on April 20, 2016.

12 Chittick failed to institute or follow proper management and control of DenSco's business  
13 operations which enabled and contributed to the fraud committed against DenSco by Menaged.  
14 Chittick was aware of the fraud committed against DenSco, by Menaged, at least by November 27,  
15 2013. Despite his actual knowledge of the fraud by Menaged, Chittick continued to accept monies  
16 for investors into DenSco, and continued to make loans to Menaged and his related entities, adding to  
17 the liabilities of DenSco which could not be met. Chittick's failure to provide proper management  
18 and control of DenSco's operations also included the preparation of false, or inaccurate financial  
19 records of DenSco, upon which the tax liability of DenSco was based, resulting in artificially inflated  
20 tax liabilities of DenSco. The tax liability of DenSco was borne by Chittick since DenSco was  
21 treated as an S corp for tax purposes. However, DenSco presumably would reimburse Chittick for the  
tax liability he paid related to DenSco's income in the form of draws and/or payroll. Therefore, to  
the extent that DenSco transferred funds, or other value, to Chittick that was based upon an

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5115 E. High Street, Suite 200  
Phoenix, AZ 85054  
(480) 304-3300

1 artificially inflated tax liability of DenSco, DenSco was harmed in an amount to be determined, in  
2 addition to the loss of the \$43,947,819.61, earlier discussed.

3 Claims: As a result of the foregoing actions by Chittick, the Receiver has the following  
4 claims against Chittick: common law fraud, misrepresentation, breach of fiduciary duty as director  
5 and officer of DenSco, fraudulent transfer (both actual and constructive) pursuant to A.R.S. §§ 44-  
6 1004 et seq., aiding and abetting Yomtov Scott Menaged in his torts against DenSco, unjust  
7 enrichment, or, alternatively, gross negligence or negligence as an officer or director of DenSco.

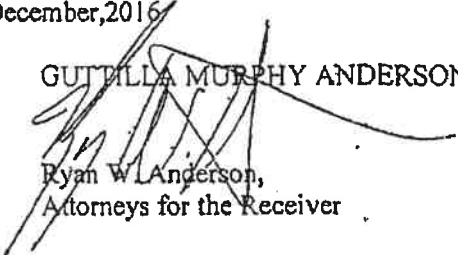
8 4. Given the complexity of the issues surrounding DenSco and the Receiver's ongoing  
9 investigations into DenSco and its business operations, the Receiver believes further discovery into  
10 the actions or omissions of Chittick may expose additional potential claims and/or monetary damages  
11 against Estate of Denny J. Chittick. Accordingly, the Receiver may amend this Notice of Claim if and  
12 when new information is discovered.

13 5. The Receiver's claims against the Estate of Denny J. Chittick are unsecured.

14 6. The Receiver shall mail a copy of the Notice of Claim against Estate of Denny J.  
15 Chittick to the Personal Representative.

16 DATED this 9th day of December, 2016.

17 GUTILLA MURPHY ANDERSON, P.C.

18   
19 Ryan W. Anderson,  
Attorneys for the Receiver

20 Original of the foregoing filed  
21 this 9th day of December, 2016, with:

Clerk of the Maricopa County Superior Court

Gutilla Murphy Anderson, P.C.  
5415 E. Highland Street, Suite 200  
Phoenix, AZ 85054  
(480) 504-6300

1 Copy of the foregoing hand-delivered this  
2 9th day of December, 2016 to:

3 Commissioner Andrew Russell  
4 Maricopa County Superior Court  
5 Northeast Regional Center  
6 18380 N. 40<sup>th</sup> Street  
7 Phoenix, Arizona 85032

8 Copy of the foregoing mailed this  
9 this 9th day of December, 2016 to:

10 Clark Hill, PLC  
11 Darra Lynn Rayndon  
12 Michelle M. Tran  
13 14850 N. Scottsdale Road  
14 Suite 500  
15 Scottsdale, Arizona 85254  
16 Attorneys for Shawna C. Heuer, Personal Representative  
17 of the Estate of Denny J. Chittick, Deceased

18 James F. Polese  
19 Christopher L. Hering  
20 Gammage & Burnham, P.L.C.  
21 Two North Central Avenue  
15<sup>th</sup> Floor  
Phoenix, Arizona 85004  
Attorneys for the Estate of Denny Chittick, Deceased  
And Densco Investment Corporation

Scott A. Swinson, Esq.  
2400 E. Arizona Biltmore Circle, Suite 1300  
Phoenix, AZ 85016  
Attorney for Robert Brinkman Family Trust

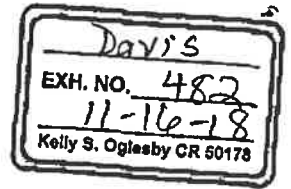
Peter S. Davis, Receiver of Densco Investment Corporation  
3200 North Central Avenue  
Suite 2460  
Phoenix, Arizona 85014

By: 

# **Exhibit 30**

**GUTTILLA MURPHY  
ANDERSON**

5415 E. HIGH STREET, SUITE 200  
PHOENIX, ARIZONA 85054  
(480) 304-8300  
FAX (480) 304-8301



**Hand Delivered**

Our No. 2359-001

August 8, 2017

The Honorable Teresa Sanders  
Maricopa County Superior Court  
101 West Jefferson  
East Court Building, Courtroom 811  
Phoenix, AZ 85003

Re: *Arizona Corporation Commission v. DenSco Investment Corporation*  
Cause No. CV 2016-014142

Dear Judge Sanders:

As you have been recently assigned the above referenced receivership proceeding and our law firm represents Peter S. Davis, as the Court's Receiver ("Receiver") under the *Order Appointing Receiver* entered in this case (copy attached), of the DenSco Investment Company ("DenSco"), I thought it would be helpful to provide you with some background information and key documents in the receivership.

As some background, this proceeding involves the administration of DenSco's unlicensed hard money lending business. Established in 2001, DenSco primarily engaged in funding the purchase of real estate, secured by deeds of trust, using over \$40,000,000.00 that DenSco raised from individual investors. The receivership was established on August 17, 2016, after the sole principal of DenSco, Denny Chittick, died suddenly and serious concerns were raised about DenSco's business operations. Soon thereafter, the Arizona Corporation Commission filed a Complaint against DenSco seeking the appointment of a Receiver to take over control of DenSco and, among other things, marshal its assets for the benefit of DenSco's investors and creditors.

During his appointment, the Receiver has uncovered that DenSco was both the victim of a series of fraudulent schemes perpetrated by one of its lenders, but also was operating as a Ponzi investment scheme while intentionally misleading its investors, as to its financial solvency. In the initial year of the receivership, the Receiver has diligently worked to uncover the factual basis behind the collapse of DenSco and address a myriad of issues in the administration the receivership case.

In order to establish rules governing the procedures in the receivership, Judge Bustamante entered *Order Re: Petition No. 2*, a copy of which is also enclosed. [See attached as Ex 1] This order is nearly identical to procedural orders entered in other receivership proceedings before the Superior Court of Arizona. This order provides for the filing of petitions, rather than motions, and for a Court to conduct hearing on petitions. The order also provides for the

Receiver to obtain hearing dates from the Court and to give written notice of such hearings to all persons on the Master Service List. The Master Service List is maintained by counsel to the Receiver and includes the assigned judge, the parties, legal counsel appearing in the case, and all persons who have requested to be notified of filings in the receivership. A copy of the Master Service List as of August 8, 2017, is enclosed [See attached as Ex 2] and reflects you as the assigned judge in the receivership. These procedures are intended to provide a reasonable opportunity to all interested parties, most of who are not lawyers and are not even parties to the litigation, to have a say in the conduct of the receivership and this Court's supervision of the receivership. In addition, if persons not on the Master Service List are known to have an interest in a particular Petition, those persons are also served with the Petition, Notice of Hearing and proposed order.

In an ongoing effort to keep the Court and interested parties up to date on the activities of the Receiver, the Receiver has issued a series of reports of his investigation and the Receiver maintains a website, [www.Denscoinvestment.com](http://www.Denscoinvestment.com), on which he posts copies of all petitions, orders and other written documents relating to the receivership. Attached hereto is a copy of the Receiver's status reports dated September 19, 2016 and December 23, 2016.

#### Pending Matters

There are a series of petitions currently pending before the Court. Two are currently set for hearing.

- Petition No. 11. *Petition to Fill Corporate Vacancies Created By Death of Denny Chittick; Confirmation That the DenSco Retirement Plan is Not a Receivership Asset and to Retain Accounting Professional to Amend DenSco Tax Returns.* The hearing on this Petition has been continued multiple times and is currently set for hearing for September 7, 2017 at 8:45 A.M. [Given that this Petition is set for a future hearing no action is currently required on Petition No. 11]
- Petition No. 27. *Petition for Order Approving Fees and Costs Incurred By the Receiver, Guttilla Murphy Anderson, P.C., and Frazer Ryan Goldberg & Arnold, LLP from April 1, 2017 through April 31, 2017 and Snell & Wilmer, L.L.P. from December 1, 2016 through January 31, 2017.* Petition No. 27 was filed on June 15, 2017. No objections have been filed in response to Petition No. 27 and a hearing has not been set on Petition No. 27.
- Petition No. 28. *Petition to Confirm Sale of Real Property Located at 707 East Potter Drive, Phoenix, Arizona.* A hearing on this Petition is scheduled for August 8, 2017 at 11:00 A.M.
- Petition No. 29. *Petition for Order Approving Fees and Costs Incurred By the Receiver, Guttilla Murphy Anderson, P.C., and Frazer Ryan Goldberg & Arnold, LLP and Snell & Wilmer, L.L.P from May 1, 2017 to May 31, 2017.* Petition No. 27 was filed on July 7, 2017. No objections have been filed in response to Petition No. 29 and a hearing has not been set on Petition No. 29.



- Petition No. 30. Petition for Order Approving Fees and Costs Incurred By the Receiver, Guttilla Murphy Anderson, P.C., and Frazer Ryan Goldberg & Arnold, LLP and Snell & Wilmer, L.L.P from June 1, 2017 to June 30, 2017. Petition No. 27 was filed on August 2, 2017. No objections have been filed in response to Petition No. 30 and a hearing has not been set on Petition No. 30.
- Petition No. 31. Petition for Order Approving Payment to Special Counsel Osborn Maledon. Petition No. 31 was filed on August 3, 2017. No objections have been filed in response to Petition No. 30 and a hearing has not been set on Petition No. 31.

#### **Claims Adjudication**

On March 29, 2017, Judge Bustamante entered *Order Re: Petition No. 19, Order Establishing Procedures for the Adjudication of Claims*, which established procedures for the filing and eventual adjudication of creditor claims in the DenSco Receivership case. A copy of that order is enclosed.[See attached as Ex 3]. The claims bar date has passed and the Receiver received one hundred and nineteen 119 claims seeking a total of \$32,942,060.54. In accordance with *Order Re: Petition No. 19*, the Receiver has prepared a claims report and made initial recommendations on the filed claims. [See attached as Ex 4]. Pursuant to Court's *Order Re: Petition 19*, the Receiver's recommendations have been made public and delivered to the DenSco claimants who now have an opportunity to respond to the Receiver's claim recommendations. After consideration of the creditors' objections, the Receiver expects to file a Petition seeking the Court approval of each individual creditor claim in this case.

#### **Pending Matters**

There are several related matters that are pending:

1. Yomtov "Scott" Menaged Bankruptcy Case. DenSco's largest lender Yomtov "Scott" Menaged filed a personal Chapter 7 Bankruptcy on April 20, 2016. At the time of his bankruptcy, Mr. Menaged owed a total of \$43,947,820.00 to DenSco in the form of 91 individual loans. The Receiver eventually determined that Mr. Menaged perpetrated a series of fraudulent schemes upon DenSco and filed a proceeding, currently pending in bankruptcy Court, for a determination that the debt owed to DenSco by Mr. Menaged was not able to be discharged in bankruptcy. Despite Mr. Menaged being recently criminally indicted for his alleged role in an unrelated scheme, the Receiver has recently reached a settlement with Mr. Menaged that resulted in the award of a non-dischargeable judgment in the amount of \$31,000,000.00 in favor of DenSco. The Receiver intends to file a Petition to approve this settlement shortly.
2. DenSco Claims against former Legal Counsel. During the initial months of the Receivership, the Receiver initially determined that DenSco may hold significant claims against DenSco's former legal advisors, including the law firm of Clark Hill PLC. The Court has approved the engagement of Special Counsel Osborn Maledon PA to investigate and potentially litigate these claims.
3. Ancillary Receivership of Furniture King During the initial months of the Receivership, the Receiver initially determined that DenSco was a secured creditor of Yomtov "Scott" Menaged's furniture businesses. Moreover, these furniture businesses (Furniture King, LLC, Scott's Fine Furniture, LLC and Furniture and Electronic King, LLC (Collectively

The Honorable Teresa Sanders  
August 8, 2017  
Page 4

"Furniture King") had a massive amount of furniture inventory that needed to be liquidated. Accordingly, in a cooperative effort with the Bankruptcy Trustee of Yomtov "Scott" Menaged, this Court placed the furniture assets of Furniture King into Receivership and directed the Receiver to liquidate the furniture for the benefit of Furniture King's creditors. The Receiver recently completed the liquidation of these assets and intends to complete administration of the Furniture King assets by filing a Petition in the near future.

#### Conclusion

While this letter is not intended to provide the Court with a comprehensive review of all of the pending and intended activity in the DenSco Receivership, I hope this information and the enclosed documents are helpful to you. The Receiver anticipates that there will be a significant amount of activity in this case in the coming months and is prepared to address any questions or concerns that you may have regarding the receivership proceeding.

Sincerely,

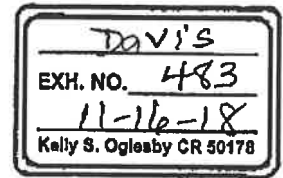


Ryan W. Anderson

RWA:cma  
Enclosures

cc: All persons listed on attached Master Service List  
(w/only the Master Service List enclosed)

# **Exhibit 31**



**GUTTILLA MURPHY  
ANDERSON**

5415 E. HIGH STREET, SUITE 200  
PHOENIX, ARIZONA 85054  
(480) 304-8300  
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COPY

Our No. 2359-014

September 21, 2017

Stewart Gross  
Law Offices of Stewart F. Gross PLLC  
3401 North 32<sup>nd</sup> Street  
Phoenix, Arizona 85018

Re: *DenSco Receivership*, Maricopa County Superior Court,  
Cause No. CV2016-014142.

Dear Mr. Gross:

This firm represents Peter S. Davis, the court-appointed Receiver of DenSco Investment Corporation ("DenSco") in the above-captioned matter pending in Maricopa County Superior Court.

Please accept this letter in response to your letter to Mr. Davis dated August 9, 2017 and as overview of the law and facts related to the Receiver's demand for the return of \$1,336,644.30 from the Four Futures Corporation, the McKenna Smith Trust and Carsyn Smith Trust.

As you know, the Receiver has determined that your clients, the Four Futures Corporation, the McKenna Smith Trust and Carsyn Smith Trust received a collective ponzi "profit" of \$1,336,644.30 in excess of their collective principal investments into DenSco. While I have read your letter, I am concerned that you have misunderstood the Receiver's demand. I hope this letter will help you better understand this nuanced area of the law and the factual and legal basis for the Receiver's demand.

As an initial matter, before the Receiver can make a claim for the return of any "ponzi profits", the Receiver must first determine that the DenSco fraud scheme was in fact a ponzi scheme. Here the Receiver has conducted a forensic recreation of the books and records of DenSco and has determined that DenSco was operated as a ponzi scheme. While I will not repeat the entire factual basis of the Receiver's investigation in this letter, I have enclosed a copy of the Receiver's Status Report dated December 23, 2016 ("Status Report"). The Status Report will provide you with a detailed overview of the Receiver's investigation into DenSco, his solvency analysis of DenSco and the factual justification for his determination that as of December 2012, DenSco was insolvent and operating as a Ponzi scheme. Simply put, it cannot be reasonably disputed that DenSco used new investors money to pay older investors obligations

September 21, 2017

and that DenSco was hopelessly insolvent when the transfers of "profit" were made to your clients and the other DenSco "winners".

As you may suspect, the law supports the recovery by a court-appointed Receiver of funds in received excess of principal invested into a Ponzi scheme. Under statute, lawsuits are maintained by Receivers against "Ponzi winners" under provisions of the Uniform Fraudulent Transfer Act.<sup>1</sup> While there are numerous legal theories under which the Receiver is entitled to recover the "ponzi win" this letter will focus on the law of fraudulent transfer. Under A.R.S. § 44-1004(A)(1), a fraudulent conveyance is shown by proof of actual fraud. A fraudulent transfer under the statute exists where there is "clear and satisfactory evidence of an 'actual intent to hinder, delay or defraud any creditor of the debtor' or of a debtor receiving no reasonable consideration for a transfer or obligation." *Gerow v. Covill*, 192 Ariz. 9, 17, 960 P.2d 55, 63 (App.1998). Actual Intent may be shown by direct proof or by circumstantial evidence from which actual intent may be reasonably inferred. *Id.* A myriad of cases have uniformly held that the existence of a Ponzi scheme provides the necessary proof that that the transferor had the requisite intent to defraud. Moreover, transfers made in furtherance of Ponzi schemes have achieved a special status in fraudulent-transfer law. *Warfield v. Alaniz*, 453 F.Supp.2d 1118, 1136-38 (D. Ariz. 2006) (proof of the existence of a Ponzi scheme showed that there was actual intent to defraud and thus the receiver, as a matter of law, had shown the existence of a fraudulent transfer). *In re Grafton Partners*, 321 B.R. 527, 532 (9th Cir. BAP 2005) (proof that the transferor was running a Ponzi scheme can suffice to warrant a finding of actual fraud); *In re Cohen*, 199 B.R. 709, 717 (9th Cir. BAP 1996) (whether transfers were made with actual intent either to hinder or to delay or to defraud creditors is the same under the Bankruptcy Code and UFTA, proof of a Ponzi scheme is sufficient to establish the operator's actual intent to hinder, delay, or defraud creditors for purposes of actually fraudulent transfers); *accord In re Agricultural Research and Tech. Group, Inc.*, 916 F.2d 528, 535 (9th Cir.1990) (debtor's actual intent to hinder, delay or defraud its creditors may be inferred from the mere existence of a Ponzi scheme), *In re World Vision*, 275 B.R. 641, 656 (Bankr.M.D.Fla.2002) (in cases involving a Ponzi scheme, the analysis is simplified because fraudulent intent is inferred). One can infer an intent to defraud future undertakers from the mere fact that an individual was running a Ponzi scheme, because no other reasonable inference is possible. *In re Slatkin*, 310 B.R. 740, 748 (C.D.Cal.2004), *aff'd* 222 Fed.Appx. 545, 2007 WL 135881 (9th Cir. 2007) (unpublished opinion). The orchestrator of the scheme must know all along, from the very nature of his activities, that investors at the end of the line will lose their money. *Id.* Knowledge to a substantial certainty constitutes intent in the eyes of the law, and this knowledge that future investors will not be paid is sufficient to establish his actual intent to defraud them. *Id.*

In interpreting the Washington state fraudulent transfer statute, which is similar to Arizona's statute, the 5<sup>th</sup> Circuit Court of Appeals concluded that the receiver did not have to prove that investors, who receive returns in excess of their investments in a Ponzi scheme, knowingly participated in the fraud. To recover the transfers from the estate to the investors, the court concluded that proof of an actual intent to defraud was satisfied by showing that the investment involved a Ponzi scheme, which was, as a matter of law, insolvent from its inception. *Warfield v. Byron*, 436 F.3d 551 (5<sup>th</sup> Cir. 2006)<sup>2</sup>.

<sup>1</sup> Please see A.R.S. Title 44, Chapter 8, Article 1.

<sup>2</sup> If you are unfamiliar with this area of litigation, I've found that the 9<sup>th</sup> Circuit Court of Appeals decision in *Donell vs. Kowell*, 533 F.3d 762 provides an informative overview of the last decade of litigation in this area of the law and addresses the typical arguments raised in defense of these claims advanced by Receivers.

September 21, 2017

Assuming that your collective clients will argue that they acted in good faith in accepting the funds from DenSco, they also must show that DenSco received an equivalent value for the funds that were transferred to your clients. "The primary consideration in analyzing the exchange of value for any transfer is the degree to which the transferor's net worth is preserved." *Warfield v. Byron*, 436 F.3d at 560 (citing *Builer Aviation Int'l v. Whyte*, 6 F.3d 1119, 1127 (5th Cir.1993)). See also, *S.E.C. v. Resource Development International, LLC*, 487 F.3d 295, 301-02 (5th Cir. 2007). According to the commentary to the Uniform Fraudulent Transfer Act ("UFTA"), "value is to be determined in light of the act's purpose, in order to protect the creditors." *In re Agric. Res. & Tech. Group, Inc.*, 916 F.2d at 540. Here, the net worth of DenSco was diminished by the transfer of funds to certain investors to detriment of other investors and thus did not furnish a reasonably equivalent value to the estate. See *In re Whaley*, 229 B.R. 767, 775 (Bankr.Minn.1999) ("A payment made solely for the benefit of a third party, such as a payment to satisfy a third party's debt, does not furnish reasonably-equivalent value to the debtor.") (citing *In re Bargfrede*, 117 F.3d 1078, 1080 (8th Cir.1997)). The good faith defense will fail in this matter because your clients will be unable to prove that they exchanged reasonably equivalent value for the funds that they received from DenSco.

In what perhaps may feel like insult to injury, in the 9<sup>th</sup> and other circuits, Receivers can even seek to recover prejudgment interest on the Ponzi "win" from the date that the transfer was made to your clients. See *Slatkin* at 820, *Agritech* at 541-42 and *In re P.A. Bergner & Co.*, 140 F.3d 1111, 1123 (7th Cir.1998).

Not only may the Receiver maintain a claim against your clients under the Arizona Fraudulent Transfer Act, but as the Receiver's letter to your clients intimates, the Receiver may maintain claims against your clients that all excess proceeds paid to them were made with funds of the defrauded investors of DenSco, thus these "excess" funds are the subject of constructive trust at the time of their transfer to your clients. See generally *Burch & Cracchiolo, P.A. v. Pugliani*, 697 P.2d 674 (1985) regarding the establishment of constructive trust. The true "owner" of these funds is the Receiver as substitute trustee of the funds. The Receiver has determined that the funds used to pay your clients can be directly traced to the comingled investor funds in DenSco. Once the funds are rightly returned to the Receiver, they can be distributed to the beneficiaries of the constructive trust, i.e. the defrauded investors of DenSco.

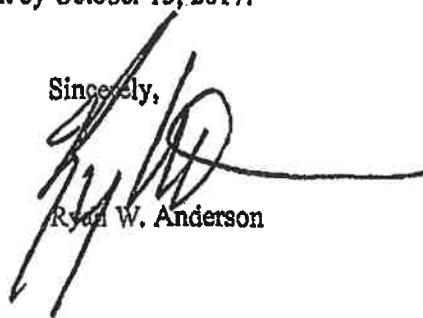
While I can only imagine that this request by the Receiver may be disturbing to your clients, it must be noted that they are one of very, very few "lucky" DenSco investors. Unknown to your clients, we believe that DenSco sought to "pay back" a certain number of investors in order to ensure that they received a return of their principal investment (plus profits) for reasons that remain unclear. While the Receiver continues to investigate the motivation behind selecting your clients for the preferential repayment of their investment in DenSco, it should be noted that the other investors in DenSco have collective losses of \$31,446,001.79.

After you have had a moment to review the cases and the statutory basis for the Receiver's proposed litigation against your clients, please advise if your clients will be voluntarily disgorging the Ponzi profits to the DenSco Receivership Estate. If they elect not to, I suspect your clients will be the subject of multi-party litigation to recover the proceeds of their Ponzi profits.

September 21, 2017

Please let me know of your client's intent by October 15, 2017.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ryan W. Anderson', is written over the word 'Sincerely,'.

Ryan W. Anderson

RWA:rwa

Enclosures

Cc: Peter S. Davis, Receiver of DenSco (w/o enclosures) ✓

297224

# **Exhibit 32**



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Geoffrey M. T. Sturr, No. 014063  
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Attorneys for Plaintiff

JUN 28 2019

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 SIXTH DISCLOSURE  
STATEMENT**

(Assigned to the  
Honorable Daniel Martin)

Pursuant to Rule 26.1(a), Plaintiff Peter S. Davis, as the court-appointed receiver of DenSco Investment Corporation (the "Receiver"), makes the following disclosures. Changes from the Receiver's Fifth Disclosure Statement are identified in the mark-up attached as **Appendix G**.

On August 18, 2016, the Receiver was appointed to serve as the Receiver for DenSco Investment Corporation ("DenSco") under an order entered by the Maricopa County Superior Court in *Arizona Corporation Commission v. DenSco Investment Corporation*, CV2016-014142 (the "Receivership Court"). After the Receiver and his

1 office," had secured all of the loans in question, and had purposefully defrauded  
2 DenSco.

3 c. **On January 7, 2014, Clark Hill Received an Email From**  
4 **Chittick in Which He Admitted That He Had Grossly**  
5 **Mismanaged DenSco's Loan Portfolio, Failed to Comply**  
6 **With the Lending Practices Disclosed in the 2011 POM,**  
7 **and Caused DenSco to Suffer Substantial Losses.**

8 211. On Tuesday, January 7, 2014, Beauchamp received an email from  
9 Chittick, copied to Menaged, which contained information relevant to the demand letter  
10 and said that Chittick was bringing Menaged to the planned January 9, 2014 meeting.

11 212. Chittick's email said that DenSco had, since 2007, loaned \$50 million to  
12 "a few different LLC's" controlled by Menaged. Beauchamp knew or should have  
13 known that those companies included the two entities identified in the demand letter:  
14 Easy Investments (a defendant in the June 2013 *Freo* lawsuit) and Arizona Home  
15 Foreclosures.

16 213. Chittick's email said that "[b]ecause of our long term relationship, *when*  
17 *[Menaged] needed money, [I] would wire the money to his account and he would pay*  
18 *the trustee*" (emphasis added), Menaged would sign a Mortgage that referenced the  
19 payment to the trustee, and Chittick would cause the Mortgage to be recorded.

20 214. Chittick attached to his email a form of Mortgage, Deed of Trust, and  
21 Note Secured by Deed of Trust that he routinely used in making loans to Menaged,  
22 which Chittick described as "docs you have reviewed and have been reviewed by a guy  
23 at your last law firm, maybe two firms ago in 2007."

24 215. Chittick's email confirmed what was evident from the demand letter, and  
25 brought home the red flags Beauchamp had missed when he prepared the 2011 POM  
26 and when he reviewed the *Freo* lawsuit six months earlier:

27 a. Chittick had been grossly negligent in managing DenSco's loan  
28 portfolio, by not complying with the terms of the Mortgage, which called for

1 DenSco to issue a check payable to the Trustee, and instead wiring money to  
2 Menaged, trusting Menaged to actually use those funds to pay a Trustee.

3 b. Chittick's admitted practice of giving DenSco's funds directly to  
4 Menaged, rather than paying them directly to a Trustee through a check made  
5 payable to the Trustee, made the statements in the 2011 POM about DenSco's  
6 lending practices materially misleading.

7 216. Chittick's reference to "docs you have reviewed and have been reviewed  
8 by a guy at your last law firm, maybe two firms ago in 2007" suggested that Chittick  
9 might blame Beauchamp for the problems DenSco now faced because of DenSco's use  
10 of those documents.

11 217. Chittick's email went on to say that Menaged had told him in November  
12 2013 that DenSco had been defrauded by Menaged's "cousin," who allegedly worked  
13 with Menaged in managing Easy Investments and Arizona Home Foreclosures.  
14 Menaged claimed that his "cousin" had "receiv[ed] the funds from [DenSco], then  
15 request[ed] them from . . . other lenders [who] cut a cashiers check for the agreed upon  
16 loan amount . . . [took] it to the trustee and . . . then record[ed] a [deed of trust].  
17 immediately."

18 218. Chittick explained that "sometimes" DenSco had recorded its mortgage  
19 before another lender's deed of trust was recorded, but in other cases it had not.

20 219. According to Chittick, "[t]he cousin absconded with the funds.  
21 [Menaged] figured this out in mid November. He came to me and told me what was  
22 happening. He said he talked to the other lenders and they agreed that this was a mess,  
23 and as long as they got their interest and were being paid off they wouldn't foreclose,  
24 sue or anything else."

25 220. Chittick went on to describe the "plan" that he and Menaged had been  
26 executing since November: to "sell off the properties and pay off both liens with  
27 interest and make everyone whole." He acknowledged that there were "short falls" on  
28 each property, representing the difference between the value of the property and the

1           423. This action was filed on October 16, 2017.

2           424. On December 22, 2017, the Receiver issued a status report describing the  
3 status of the receivership, which the Receiver incorporates by reference in this  
4 disclosure statement.

5           425. On March 15, 2019, the Receiver issued a status report describing the  
6 status of the receivership, which the Receiver incorporates by reference in this  
7 disclosure statement.

## 8       **II. LEGAL BASIS FOR CLAIMS**

9           The Receiver has filed substantive motions in the case. The Receiver  
10 incorporates by this reference all substantive pleadings filed by the Receiver including  
11 pleadings on a prima facie case for punitive damages, pleadings on the common law  
12 defense of in pari delicto, and pleadings on matters of evidence.

### 14           **A. Count One (Legal Malpractice)**

15           The Receiver asserts that Defendants were negligent. To sustain that claim, the  
16 Receiver “must prove the existence of a duty, breach of duty, that the defendant’s  
17 negligence was the actual and proximate cause of injury, and the ‘nature and extent’ of  
18 damages.” *Glaze v. Larsen*, 207 Ariz. 26, 29, ¶ 12, 83 P.3d 26, 29 (2004) (citing  
19 *Phillips v. Clancy*, 152 Ariz. 415, 418, 733 P.2d 300, 303 (App. 1986)).

20           That Defendants owed a duty to DenSco is undisputed, established by, *inter alia*,  
21 the engagement letter Clark Hill issued in September 2013.

22           The Receiver will establish, through expert testimony, that Clark Hill fell below  
23 the standard of care by, *inter alia*, (i) failing to advise DenSco at the outset of  
24 representation of DenSco in September 2013 that DenSco could not sell any promissory  
25 notes without first issuing a new POM; (ii) failing to advise DenSco of the  
26 consequences of having previously sold promissory notes without an adequate  
27 disclosure document; (iii) accepting the responsibility of preparing a new POM and then  
28

1 following Chittick's instruction not to perform work on the new POM until Chittick  
2 wished to do so, knowing that DenSco was continuing its business operations and  
3 selling promissory notes to rollover investors and others; (iv) failing to properly advise  
4 DenSco during the first week of January 2014 about the actions DenSco was required to  
5 take in light of the loan losses caused by Chittick's gross mismanagement of DenSco's  
6 lending practices and Chittick's intent to pursue a "work out" with Menaged; (v)  
7 advising DenSco in January 2014 and thereafter that it could sell promissory notes  
8 without first issuing a new POM and could continue its business operations, including  
9 the sale of promissory notes, while indefinitely delaying the issuance of a new POM;  
10 (vi) negligently advising DenSco during January 2014 about the procedures DenSco  
11 should employ in loaning monies to Menaged; and (vii) failing to withdraw from the  
12 representation of DenSco in September 2013 and at later points in time when it was  
13 apparent that Chittick intended to take actions that were harmful to the interests of  
14 DenSco and its creditors, including its investors.

15 The Receiver will establish that, but for Defendants' negligence, DenSco would  
16 not have suffered the losses described in the expert report of David Weekly. Those  
17 losses were reasonably foreseeable to Beauchamp and others at Clark Hill.

18 The Receiver alternatively asserts that Clark Hill and Beauchamp breached  
19 fiduciary duties they owed DenSco. "[T]he essential elements of legal malpractice  
20 based on breach of fiduciary duty include the following: (1) an attorney-client  
21 relationship; (2) breach of the attorney's fiduciary duty to the client; (3) causation, both  
22 actual and proximate; and (4) damages suffered by the client." *Cecala v. Newman*, 532  
23 F. Supp. 2d 1118, 1135 (D. Ariz. 2007) (internal citations omitted).

24 The Receiver will establish through expert testimony that Defendants breached  
25 their duty of loyalty to their only client, DenSco, by taking actions after September 12,  
26 2013 that were intended to advance Chittick's rather than DenSco's interests, and by  
27 failing to take actions that would have advanced DenSco's interests. The Receiver will  
28

1 establish that, but for Defendants' breach of fiduciary duty, DenSco would not have  
2 suffered the losses described in the expert report of David Weekly and that those losses  
3 were reasonably foreseeable to Beauchamp and others at Clark Hill.

4 In addition to the losses DenSco suffered as a result of Defendants' breach of  
5 fiduciary duty, DenSco also seeks an order requiring Clark Hill to disgorge fees it  
6 received from DenSco for work performed after Clark Hill breached its fiduciary duties.  
7 DenSco relies on Restatement (Third) of the Law Governing Lawyers § 37, which  
8 states: "A lawyer engaging in clear and serious violation of duty to a client may be  
9 required to forfeit some or all of the lawyer's compensation for the matter.

10 Considerations relevant to the question of forfeiture include the gravity and timing of  
11 the violation, its willfulness, its effect on the value of the lawyer's work for the client,  
12 any other threatened or actual harm to the client, and the adequacy of other remedies."  
13 The Receiver relied on § 37 in denying Clark Hill's proofs of claim.

14 **B. Count Two (Aiding and Abetting Breach of Fiduciary Duty)**

15 The Receiver asserts that Clark Hill and Beauchamp aided and abetted Chittick  
16 in breaching fiduciary duties Chittick owed DenSco. Arizona recognizes that "lawyers  
17 have no special privilege against civil suit" and are "subject to liability to a client or  
18 nonclient when a nonlawyer would be in similar circumstances" including claims for  
19 aiding and abetting. *Chalpin v. Snyder*, 220 Ariz. 413, 424, ¶¶ 44-45, 207 P.3d 666, 677  
20 (2008) (internal citations omitted). It is also generally recognized that "a corporate  
21 attorney may be liable . . . for aiding and assisting the directors and officers in breaching  
22 their fiduciary duties." 3 William Fletcher, *Cyclopedia of the Law of Private*  
23 *Corporations* § 839.10 (Apr. 2018 update).

24 To sustain this claim, the Receiver must establish that: "(1) [Chittick breached a  
25 fiduciary duty he owed DenSco] causing injury to [DenSco]; (2) [Defendants] knew  
26 [Chittick] breached a duty; (3) [Defendants] substantially assisted or encouraged  
27 [Chittick] in the breach; and (4) a causal relationship exists between the assistance or  
28

1 encouragement and [Chittick's] breach." *Security Title Agency, Inc. v. Pope*, 219 Ariz.  
2 480, 491, ¶ 44, 200 P. 3d 977, 988 (App. 2008).

3 Chittick, as DenSco's only director and officer, owed fiduciary duties to DenSco.  
4 "In Arizona a director of a corporation owes a fiduciary duty to the corporation and its  
5 stockholders. This duty is in the nature of a trust relationship . . . ." *Atkinson v.*  
6 *Marquart*, 112 Ariz. 304, 306, 541 P.2d 556, 558 (1975) (citations omitted). These  
7 fiduciary duties are both "implied by law," *Dooley v. O'Brian*, 226 Ariz. 149, 154, ¶ 18,  
8 244 P.3d 586, 591 (App. 2010), and codified by statute. *See* A.R.S. § 10-830 (duties of  
9 directors); A.R.S. § 10-842 (duties of officers).

10 Chittick also owed fiduciary duties to DenSco's creditors, including its investors.  
11 Under Arizona law, a director's fiduciary duties "can apply even to creditors when a  
12 corporation enters the zone of insolvency, without regard to the terms of the underlying  
13 contracts." *Dooley*, 226 Ariz. at 154, ¶ 18, 244 P.3d at 591. "Once a corporation  
14 becomes insolvent, the creditors join the class of persons to whom directors owe a  
15 fiduciary duty to maximize the economic value of the firm for *all* of the firm's  
16 creditors." *Dawson v. Withycombe*, 216 Ariz. 84, 107, ¶ 71, 163 P.3d 1034, 1057  
17 (2008).

18 Among Chittick's duties was the duty of loyalty. He was required to act in  
19 "good faith" and in the manner he "reasonably believe[d] to be in the best interests of  
20 the corporation." A.R.S. § 10-830(A)(1), (3); A.R.S. § 10-842(A)(1), (3). "The duty of  
21 loyalty mandates that the best interest of the corporation . . . take precedence over any  
22 interest possessed by a director." *Fletcher, supra*, at § 837.60; *see also AMERCO v.*  
23 *Shoen*, 184 Ariz. 150, 160, 907 P.2d 536, 546 (App. 1995) (approving jury instruction  
24 to the effect that "defendants were obliged to place the corporation's interest before  
25 their own"). Loyalty therefore includes "a duty to disclose information to those who  
26 have a right to know the facts." *Fletcher, supra*, at § 837.50.

27 Chittick also owed a separate duty of care. He was required to exercise a "high  
28 degree of care," *Atkinson*, 112 Ariz. at 306, 541 P.2d at 558, including "the care an

1 ordinarily prudent person in a like position would exercise under similar  
2 circumstances.” A.R.S. §§ 10-830(A)(2), 10-842(A)(2). Care includes ensuring that  
3 the corporation complies with the law. *See, e.g., Big 4 Advert. Co. of Phx. v. Clingan*,  
4 15 Ariz. 34, 38, 135 P. 713, 715 (1913) (“It is the duty of the board of directors to see  
5 that the law’s requirements are observed.”).

6 Care also includes investigation. For example, “[t]he existence of a ‘red flag’  
7 that might cause suspicion may require a director to make reasonable inquiries.”  
8 *Fletcher, supra*, at § 1034.80. While the business judgment rule sometimes calls for  
9 judicial deference to a director’s decision, that rule does not apply when, for instance,  
10 the director fails to gather “all material information reasonably available” or is  
11 “personally interested” in the decision. *Resolution Trust Corp. v. Dean*, 854 F. Supp.  
12 626, 636, 644 (first quoting *Blumenthal v. Teets*, 155 Ariz. 123, 128, 745 P.2d 181, 186  
13 (App. 1987); then citing *Shoen v. Shoen*, 167 Ariz. 58, 65, 804 P.2d 787, 794 (App.  
14 1990)); *see also Fletcher, supra*, at § 1040 (“To gain the protection of the business  
15 judgment rule, a director must have been disinterested, independent, and informed.”).  
16 Even under the business judgment rule, a director still is liable for “gross negligence.”  
17 *Resolution Trust Corp.*, 854 F. Supp. at 635; *see also Fletcher, supra*, at § 1040 (“[T]he  
18 presumptions arising from the business judgment rule may be overcome by showing  
19 irrationality or inattention on the part of corporate officers or directors.”).

20 Clark Hill knew that Chittick owed fiduciary duties to DenSco and its investors,  
21 as is evidenced by numerous emails Beauchamp authored. *See, e.g.,* Feb. 4, 2014 Email  
22 from Beauchamp to Chittick, at DIC0006673 (“you cannot obligate DenSco to further  
23 help Scott, because that would breach your fiduciary duty to your investors.”); Feb. 9,  
24 2014 Email from Beauchamp to Chittick, at DIC0006703 (“Denny: Please understand  
25 that you are limited in what risk or liability you can assume. Your fiduciary duty to  
26 your investors makes this a difficult balancing act.”); Feb. 14, 2014 Email from  
27 Beauchamp to Chittick, at DIC0006698 (“Unfortunately, it is not your money. It is  
28 your investors’ money. So you have a fiduciary duty.”).



1 Clark Hill continues to acknowledge that Chittick owed these duties. See  
2 Defendants' Fifth Supplemental Rule 26.1 Disclosure Statement at 12-13, 15 (referring  
3 to Chittick's "fiduciary duty" to DenSco's investors); see also Deposition of David  
4 George Beauchamp, 7/19/2018, at 135:8-10 (stating that Chittick's "fiduciary duty was  
5 to DenSco and the investors"), 157:19-21 ("Q. Mr. Beauchamp, DenSco owed  
6 fiduciary duties to its investors. True? A. Correct."), 162:17-20 ("Q. You understand  
7 that DenSco owed a duty of loyalty to its investors. That's part of a fiduciary duty,  
8 correct? A. Correct."), 172:22-173:1 ("Q. . . . DenSco has a fiduciary duty to disclose  
9 material facts to its investor. True? A. That is correct."), 330:24-331:3 ("Q. . . .  
10 DenSco had a fiduciary duty of loyalty and disclosure to its investors. True? A.  
11 Correct."); 337:11-15 ("Q. DenSco had a fiduciary duty of diligence to its investors.  
12 True? [Objection to form.] A. It had a fiduciary duty to use sound business judgment  
13 in doing the loans, yes.").

14 Chittick breached these fiduciary duties by, *inter alia*,

- 15 • failing to acquire the manpower and resources necessary to effectively  
16 manage DenSco's ever-increasing loan volume;
- 17 • using lax and grossly negligent lending practices that violated the terms of  
18 DenSco's loan documents and representations made to investors in  
19 DenSco's POMs;
- 20 • instructing Clark Hill not to do any work on a new POM while causing  
21 DenSco to continue selling promissory notes between September and  
22 December 2013;
- 23 • failing to acknowledge that the loan losses evident from Bryan Cave's  
24 January 6, 2014 demand letter and the claims of other hard money lenders  
25 were the result of his own grossly negligent practice of disbursing loan  
26 proceeds to Menaged, contrary to the terms of the Mortgage form and  
27 representations made to investors in DenSco's POMs;
- 28 • failing to question, much less investigate, the veracity of Menaged's claim

- 1           that his “cousin” had caused those losses;
- 2           • failing to investigate where the funds supposedly taken by Menaged’s
- 3           “cousin” had gone;
- 4           • pursuing a work out plan with Menaged that was not in the best interests
- 5           of DenSco and its investors and other creditors, instead of pursuing legal
- 6           remedies against Menaged;
- 7           • deciding to continue giving loan proceeds directly to Menaged, rather than
- 8           a Trustee, contrary to the terms of the Mortgage form and representations
- 9           made to investors in DenSco’s POMs;
- 10          • causing DenSco to sell promissory notes between January and May 2014
- 11          without first issuing a new POM;
- 12          • instructing Clark Hill to not do more work on a new POM other than the
- 13          limited work that Clark Hill performed in May 2014 to prepare a new
- 14          POM; and
- 15          • causing DenSco to sell promissory notes between June 2014 and June
- 16          2016 without first issuing a new POM;

17          Defendants’ knowledge of Chittick’s breaches of fiduciary duty can be inferred

18          from the circumstances. *Pope*, 219 Ariz. at 491, ¶ 45, 200 P. 3d at 988. Indeed, some

19          courts have held that “[c]onstructive knowledge is adequate when the aider and abettor

20          has maintained a long-term or in-depth relationship with the fiduciary.” *Chem-Age*

21          *Industries, Inc. v. Glover*, 652 N.W. 2d 756, 775 (S.D. 2002) (internal citation omitted).

22          The facts set forth above demonstrate Clark Hill’s intimate knowledge of, and

23          participation in, Chittick’s breaches of fiduciary duty.

24          Causation “requires proof of a causal connection between the defendant’s

25          assistance or encouragement and the primary tortfeasor’s commission of the tort,

26          although ‘but for’ causation is not required.” *Pope*, 219 Ariz. at 491, ¶ 47, 200 P.3d

27          at 988. “The test is whether the assistance makes it ‘easier’ for the violation to occur,

28          not whether the assistance was necessary.” *Wells Fargo Bank v. Ariz. Laborers*,

1 *Teamsters & Cement Masons Local No. 395 Pension Trust Fund*, 201 Ariz. 474, 485, ¶  
2 31, 38 P.3d 12, 23 (2002). *Cf. Granewich v. Harding*, 329 Or. 47, 59, 985 P.2d 788,  
3 800 (1999) (allegation that lawyer for corporate client took actions “outside the scope of  
4 any legitimate employment on behalf of the corporation” sufficient to allege substantial  
5 assistance in aiding and abetting non-client corporate constituent’s breach of fiduciary  
6 duties).

7 The facts set forth above demonstrate that Clark Hill provided substantial  
8 assistance to Chittick’s breaches of fiduciary duty over an extended period of time.

9 **C. Punitive Damages**

10 The Receiver seeks punitive damages. To recover punitive damages, the  
11 Receiver must “prove by clear and convincing evidence that the defendant engaged in  
12 aggravated and outrageous conduct with an ‘evil mind.’ A defendant acts with the  
13 requisite evil mind when he intends to injure or defraud, or deliberately interferes with  
14 rights of others, ‘consciously disregarding the unjustifiable substantial risk of significant  
15 harm to them.’ Important factors to consider when deciding whether a defendant acted  
16 with an evil mind include (1) the reprehensibility of defendant’s conduct and the  
17 severity of the harm likely to result, (2) any harm that has occurred, (3) the duration of  
18 the misconduct, (4) the defendant’s awareness of the harm or risk of harm, and (5) any  
19 concealment of it.” *Hyatt Regency Phoenix Hotel Co. v. Winston & Strawn*, 184 Ariz.  
20 120, 132, 907 P.2d 506 (App. 1995) (citations omitted).

21 Punitive damages are appropriately awarded when, as here, an attorney breaches  
22 fiduciary duties, acts out of self-interest, and attempts to conceal his misconduct. *See*,  
23 *e.g., Elliott v. Videan*, 164 Ariz. 113, 791 P.2d 639 (App. 1989) (punitive damages were  
24 appropriate where attorney had conflict of interest, concealed it from client, and acted to  
25 benefit at client’s expense); *Asphalt Engineers v. Galusha*, 160 Ariz. 134, 770 P.2d  
26 1180 (App. 1989) (affirming award of punitive damages against attorney who breached  
27 ethical duties to his client and concealed his misconduct).

1        “[Clark Hill] can be vicariously liable in punitive damages for acts that its  
2 partner [Beauchamp] performed in the ordinary course of the partnership’s business.”  
3 *Hyatt Regency*, 184 Ariz. at 130, 907 P.2d at 130.

4        The Receiver has established a prima facie case for punitive damages based on  
5 Beauchamp’s and Clark Hill’s: (i) aiding and abetting Denny Chittick’s breaches of  
6 fiduciary duty to DenSco and investors of DenSco, which in turn breached duties they  
7 owed DenSco; (ii) conflicts of interest; and (iii) actions taken to conceal their  
8 misconduct.

9        Evidence of that prima facie case is drawn from the documents produced by  
10 Clark Hill to date, Clark Hill’s Rule 26.1 Initial Disclosure Statement, Beauchamp’s  
11 answers to interrogatories, the depositions and exhibits thereto of Beauchamp, Daniel  
12 Schenck, and Robert Anderson, and the evidence supporting the Receiver’s motion that  
13 it has made a prima facie case for punitive damages, which are incorporated herein by  
14 reference. Without limiting the evidence on which the Receiver may rely, the evidence  
15 developed to date includes the following facts or inferences drawn therefrom:

16            a.        When Clark Hill undertook the representation of DenSco in  
17 September 2013, it knew through Beauchamp that DenSco’s 2011 POM had expired on  
18 July 1, 2013 and that DenSco had not issued a new POM, even though one-half of  
19 DenSco’s investors held promissory notes that were due to expire, and would almost  
20 certainly be renewed through the sale of new promissory notes between July and  
21 December 2013. Despite that knowledge, Clark Hill and Beauchamp agreed with  
22 Chittick, as a condition of opening a file to prepare a new POM, that the firm would do  
23 no work on a new POM until Chittick instructed Clark Hill to do so.

24            b.        As a result of Clark Hill’s and Beauchamp’s knowing participation  
25 in this breach of fiduciary duty by Chittick, DenSco sold more than \$8 million of  
26 promissory notes between September and December 2013 to investors who did not  
27 receive a new POM, and were unaware of DenSco’s perilous financial condition and  
28 Chittick’s gross mismanagement of DenSco’s loan portfolio. Those investors would not

1 have purchased promissory notes if they had known those facts. Without those funds,  
2 and funds DenSco raised thereafter through Clark Hill's and Beauchamp's assistance,  
3 DenSco could not have continued operating.

4 c. In January 2014, Clark Hill and Beauchamp received clear,  
5 unequivocal evidence that Chittick's mismanagement of DenSco's loan portfolio,  
6 specifically his decision to give loaned funds directly to borrowers, rather than to a  
7 Trustee, as DenSco's loan documents required and as DenSco's POMs had represented,  
8 had resulted in a potential loss to DenSco of between \$11.6 and \$14.5 million, or  
9 between 25% and 30% of the \$47 million that Clark Hill understood DenSco had raised  
10 as of June 2013.

11 d. Clark Hill and Beauchamp knew that DenSco's interests and  
12 Chittick's interests were then in conflict, and that DenSco was their only client.

13 e. Clark Hill and Beauchamp nevertheless advised Chittick that:  
14 (1) he could pursue a "work out" with Menaged that was eventually documented in the  
15 Forbearance Agreement which was not in DenSco's interests and was intended to  
16 protect Chittick from claims by DenSco's investors; (2) DenSco could continue to sell  
17 promissory notes without issuing a new POM; and (3) DenSco could continually delay  
18 the issuance of a new POM while Chittick pursued this workout plan.

19 f. Clark Hill and Beauchamp acted out of their own self-interest,  
20 knowing that if DenSco instead terminated its relationship with Menaged and informed  
21 its investors of Chittick's mismanagement, Clark Hill and Beauchamp faced potential  
22 claims by investors who had purchased \$8 million of promissory notes from DenSco  
23 without adequate disclosure during the four-month period that Clark Hill and  
24 Beauchamp had been advising the firm on securities law matters, but failed to advise  
25 Chittick that DenSco could not sell those notes without first issuing a new POM and had  
26 abided by Chittick's instruction not to prepare the new POM the firm had been retained  
27 to prepare.  
28

1           g.     In January 2014, Clark Hill knew that Menaged was an unreliable  
2 creditor, that Chittick had flagrantly disregarded DenSco's lending documents and  
3 representations made to investors through DenSco's previous POMs by giving millions  
4 of loaned funds directly to Menaged, rather than to a Trustee. Clark Hill also knew that  
5 Chittick needed to continue loaning money to fund the planned "work out" and wanted  
6 to continue his past practice of giving loaned funds directly to Menaged. Rather than  
7 tell Chittick that his past practices were a breach of fiduciary duty and could not  
8 continue, Clark Hill acquiesced in Chittick's plan to continue giving loaned funds  
9 directly to Menaged, thereby exposing DenSco and its investors to even greater losses  
10 than those caused by Chittick's gross mismanagement before that date.

11           h.     With Clark Hill's knowing assistance, Chittick caused DenSco to  
12 sell more than \$5 million of promissory notes between January and May 2014 to  
13 investors who did not receive a new POM, and were unaware of DenSco's perilous  
14 financial condition, Chittick's gross mismanagement of DenSco's loan portfolio, and his  
15 pursuit of a "work out" with Menaged that was not in DenSco's interests and exposed  
16 the company and its investors to additional financial loss. Those investors would not  
17 have purchased promissory notes if they had known those facts. Without those funds,  
18 and funds DenSco raised thereafter through Clark Hill's assistance, DenSco could not  
19 have continued operating.

20           i.     In May 2014, at Chittick's request, Clark Hill agreed to stop the  
21 minimal steps it had taken to prepare a new POM and assured Chittick that DenSco  
22 could continue its operations, including the sale of promissory notes, while indefinitely  
23 delaying the issuance of a new POM.

24           j.     Clark Hill continued to represent DenSco, awaiting his decision to  
25 finally direct the firm to finish preparing a new POM. Chittick continued to operate  
26 DenSco, selling still more promissory notes to investors who did not receive a new  
27 POM and were not given information about DenSco's financial condition and Chittick's  
28 management of the company.

1           k.     After Chittick's death, Clark Hill and Beauchamp failed to  
2 withdraw from representing DenSco despite their knowledge of Chittick's  
3 mismanagement of DenSco and evidence that Chittick blamed Clark Hill and  
4 Beauchamp for having negligently represented DenSco.

5           l.     In addition to undertaking that conflicted representation, Clark Hill  
6 and Beauchamp agreed to also represent the Estate of Denny Chittick, despite knowing  
7 that the interests of DenSco and the Estate were adverse, because DenSco had  
8 substantial claims against the Estate arising from Chittick's multiple breaches of  
9 fiduciary duty he owed DenSco.

10           m.    Clark Hill and Beauchamp sought to represent DenSco and the  
11 Estate because it hoped to cover up evidence of its own misconduct and deter the ACC,  
12 investors, or the Receiver from pursuing claims against them.

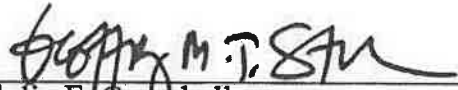
13           n.    As part of their plan to protect themselves from liability, Clark Hill  
14 and Beauchamp began stating, during their representation of DenSco, that they had  
15 terminated their representation of DenSco because of Chittick's alleged failure to follow  
16 their advice. They continued to make that claim and have done so in this litigation. The  
17 Receiver believes the claims are untrue, as they are: (1) contrary to Clark Hill's and  
18 Beauchamp's actual course of conduct; (2) not evidenced by any document; (3) in  
19 conflict with certain documents in Clark Hill's possession, some of which Clark Hill  
20 failed to disclose; and (4) inconsistent with what a reasonable law firm would have done  
21 if it had, in fact, terminated the representation of a client who failed to follow the firm's  
22 advice and was engaging in violations of law.

23           o.    Clark Hill and Beauchamp also colluded with the Estate and its  
24 counsel to conceal material information from the Receiver and/or delay his receipt of  
25 that information by, among other things, making knowing false statements to the  
26 Receivership Court. Clark Hill did so with the knowledge and participation of its Office  
27 of General Counsel.

1 h. on June 4, 2019, the Receiver's counsel produced to  
2 Defendants' counsel documents numbered RECEIVER\_005197-005542.  
3 DATED this 28<sup>th</sup> day of June, 2019.

4 OSBORN MALEDON, P.A.

6 By

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

7  
8  
9  
10 *Attorneys for Plaintiff*

11  
12  
13 COPY of the foregoing served by  
14 hand delivery this 28<sup>th</sup> day of June,  
2019, to:

15 John E. DeWulf  
16 Marvin C. Ruth  
17 Vidula U. Patki  
18 Coppersmith Brockelman PLC  
19 2800 N Central Ave., Suite 1900  
Phoenix, AZ 85004  
jdewulf@cblawyers.com  
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20 *Attorneys for Defendants*

21  
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23 8123385  
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1. I am the court-appointed receiver of DenSco Investment Corporation and in that capacity am the plaintiff in this action.

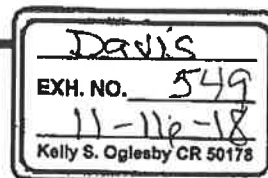
3. That document was prepared by Special Counsel, Osborn Maledon, and reflects information that Special Counsel has compiled based on its review of relevant documents.

**I declare under penalty of perjury that the foregoing is true and correct.**

  
Peter S. Davis

# **Exhibit 33**

**From:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Friday, June 27, 2014 10:04 AM  
**To:** Scott Menaged  
**Subject:** Re:



no, it's my mom's meeting with my other borrowers!

DenSco Investment Corp  
www.denscoinvestment.com  
602-469-3001 C  
602-532-7737 f

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**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Friday, June 27, 2014 10:01 AM  
**Subject:** Re:

Ok hope you are not meeting with an investor who is looking for the memorandum! Haha

Sent from my iPhone

On Jun 27, 2014, at 9:57 AM, Denny Chittick <dcmoney@yahoo.com> wrote:

i hould be back here by 2pm or so.

DenSco Investment Corp  
www.denscoinvestment.com  
602-469-3001 C  
602-532-7737 f

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**From:** Scott Menaged <smena98754@aol.com>  
**To:** Denny Chittick <dcmoney@yahoo.com>  
**Sent:** Friday, June 27, 2014 9:51 AM  
**Subject:**

What time later will you be available to go over everything for today? I

remember you saying you had somewhere to go today

Sent from my iPhone