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5 Pro Per

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CLERK
U.S. BANKRUPTCY
DISTRICT OF ARIZONA

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

10 In re:) In Proceedings Under Chapter 11
11 MORTGAGES LTD.,) Case No. 2:08-bk-07465-RJH
12 an Arizona corporation,) **CLAIMANT ROBERT G. FURST'S**
13 Debtor.) **RESPONSE TO ML LIQUIDATING**
14) **TRUST'S OMNIBUS OBJECTIONS TO**
15) **CLAIMS LISTED ON EXHIBIT J (NON-**
16) **INVESTOR CLAIMS)**

17 Claimant Robert G. Furst hereby submits his Response to ML Liquidating
18 Trust's Omnibus Objections to Claims Listed on Exhibit J (Non-Investor Claims).
19 Claimant was formerly an employee of Mortgages Ltd. and Mortgages Ltd. Securities,
20 L.L.C.
21

22 On November 9, 2009, the ML Liquidating Trust objected to two claims
23 previously filed by Claimant, namely, a \$1,400,000 wrongful termination claim and a
24 \$3,000,000 defamation claim. Claimant respectfully requests that the Court approve
25 his two claims in their entirety.
26
27
28

1 In support of his claims, Claimant Robert G. Furst alleges the following:

2 1. Robert Furst has had a distinguished academic and professional career,
3 including the following:
4

5 a. Robert Furst attended Scottsdale High School from 1965 through
6 1969, graduating first in a class of more than 350 students. He was
7 named Outstanding Junior Man in 1968 and Outstanding Senior Man
8 in 1969.
9

10 b. Robert Furst attended UCLA from 1969 through 1974, and graduated
11 with highest honors (*summa cum laude*) with a Bachelors of Arts
12 Degree in Economics.
13

14 c. Robert Furst became a member of Phi Beta Kappa, the national
15 honorary society in 1974.
16

17 d. Robert Furst attended the UCLA School of Law from 1974 through
18 1977 and graduated with a Juris Doctor degree.
19

20 e. From 1978 through 2005, Robert Furst practiced law in Beverly Hills,
21 California and Phoenix, Arizona, as a tax and estate planning attorney.
22

23 f. While practicing law, Mr. Furst co-authored articles for the U.S.C. Tax
24 Institute and the Practicing Law Institute.
25
26
27
28

1 2. After retiring from the practice of law, Mr. Furst joined Mortgages Ltd.
2 and Mortgages Ltd. Securities, L.L.C. in the fall of 2005 as a Managing
3 Director/Registered Representative.
4

5 3. Mortgages Ltd. Securities, L.L.C. ("Mortgages Ltd. Securities") was a
6 broker-dealer affiliated with Mortgages Ltd.
7

8 4. In the first quarter of 2008, Mortgages Ltd. was engaged in numerous
9 deceptive and/or fraudulent practices in relation to prospective and existing investors.
10

11 5. The principal executive officers of Mortgages Ltd. in 2008 were Scott
12 Coles, Christopher Olson, George Everette and Laura Martini.
13

14 6. Scott Coles was Chief Executive Officer of Mortgages Ltd. and
15 Mortgages Ltd. Securities.
16

17 7. Christopher Olson was the Chief Financial Officer of Mortgages Ltd. and
18 was also involved in the management of Mortgages Ltd. Securities.
19

20 8. George Everette was the Chief Information Officer and Vice President of
21 Mortgages Ltd. and was also involved in the management of Mortgages Ltd.
22 Securities.
23

24 9. Eva Yang was the Chief Compliance Officer of Mortgages Ltd.
25 Securities.
26

27 10. In the first quarter of 2008, Scott Coles, Christopher Olson, George
28 Everette and Eva Yang knew, or should have known, that Mortgages Ltd. and

1 Mortgages Ltd. Securities were engaged in numerous deceptive and/or fraudulent
2 practices in relations to its investors.
3

4 11. In the first quarter of 2008, Eva Yang, as Chief Compliance Officer, did
5 not take appropriate action to halt the deceptive and/or fraudulent practices of
6 Mortgages Ltd., Mortgages Ltd. Securities and their senior management.
7

8 12. Scott Coles, Christopher Olson, George Everette and Eva Yang actively
9 participated in serious wrongdoing at Mortgages Ltd. and Mortgages Ltd. Securities.
10

11 a. George Everette (among other things) intentionally concealed evidence
12 of serious wrongdoing by Mortgages Ltd., Mortgages Ltd. Securities
13 and their senior management from FINRA and its auditors.
14

15 b. Christopher Olson (among other things) prepared inaccurate and
16 misleading financial statements for Mortgages Ltd., which were later
17 disseminated to investors and regulatory agencies.
18

19 c. Eva Yang (among other things) intentionally concealed serious
20 wrongdoing by the senior management of Mortgages Ltd. and
21 Mortgages Ltd. Securities from FINRA, the SEC and other regulatory
22 agencies.
23

24 13. In 2008, George Everette and Christopher Olson deliberately concealed
25 the deteriorating financial condition of Mortgages Ltd. from other employees and
26 investors.
27
28

1 14. In the first quarter of 2008, Mortgages Ltd. received its finalized 2007
2 audited financial statements from its outside auditing firm, which revealed a
3 deteriorating financial condition for the company.
4

5 15. Knowing that the 2007 financial statements for Mortgages Ltd. revealed a
6 deteriorating financial condition of the company, Christopher Olson, as Chief
7 Financial Officer, concealed these financial statements from Robert Furst and other
8 investors.
9

10 a. Notably, in late May 2008 (after Robert Furst was no longer employed
11 by Mortgages Ltd.), Mr. Furst sent three e-mails to Christopher Olson,
12 as Chief Financial Officer, requesting copies of the 2007 financial
13 statements of Mortgages Ltd. and asking him about the financial status
14 of Mortgages Ltd.
15

16 b. Christopher Olson did not respond to any of Mr. Furst's requests.
17
18

19 16. A few days later, on June 2, 2008, Scott Coles committed suicide at his
20 Phoenix estate.
21

22 17. Shortly thereafter, national media attention was drawn to the demise of
23 Mortgages Ltd. and Scott Coles. (Exhibit 1)
24

25 18. On June 20, 2008, certain borrowers filed a Chapter 7 involuntary
26 bankruptcy petition against Mortgages Ltd.
27
28

1 19. On June 24, 2008, upon the request of Mortgages Ltd., the Bankruptcy
2 Court entered an order converting the proceedings to a Chapter 11 bankruptcy.

3
4 20. On February 27, 2009, The Arizona Department of Financial Institutions
5 issued a Notice of Hearing to Revoke the mortgage banking license of Mortgages Ltd.,
6 in which it alleged that, among other things, Mortgages Ltd. “[m]isrepresented [its]
7 loan funding ability.”
8

9 a. Notably, the Arizona Department of Financial Institutions alleged that
10 Mortgages Ltd. “approved mortgages loans with full knowledge that
11 the funds required to complete the contractually committed funding
12 were not available to the company.” (Exhibit 2)
13

14 b. The Arizona Department of Financial Institutions also alleged that
15 “[i]n at least two instances, [Mortgages Ltd.] was unable to fund
16 approved construction draw requests totaling \$32 million, resulting in
17 borrowers’ inability to complete construction projects that were
18 already in progress.”
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FIRST CLAIM

WRONGFUL TERMINATION OF EMPLOYMENT

21. Paragraphs 1 through 20 are incorporated herein by this reference.

22. In March 2008, Robert Furst (while he was still employed by Mortgages Ltd. and Mortgages Ltd. Securities) met with a representative of the Securities Division of the Arizona Corporation Commission to discuss his concerns about wrongdoing by Mortgages Ltd., Mortgages Ltd. Securities and their senior management.

23. On Monday, March 24, 2008 Robert Furst sent an e-mail to George Everette, Vice President of Mortgages Ltd., in which he stated that he wanted to:

- a. “[a]ssume a leadership role within the firm to independently investigate, expose and eliminate all deceptive practices and other wrongdoing in Mortgages Ltd. Securities;” and
- b. “[w]ork with independent counsel and regulators (if necessary) to immediately address these issues (including issues of ongoing and systemic securities fraud and other deceptive practices) in relation to both prospective and existing investors.” (Exhibit 3)

24. Later, on Monday, March 24, 2008, George Everette met with Robert Furst and, among other things, angrily criticized him for discussing any wrongdoing by

1 Mortgages Ltd. Securities and its senior management in the context of written e-mails
2 which could be later discovered by FINRA and/or the SEC.

3
4 25. Later, on Monday, March 24, 2008, Robert Furst met with Scott Coles to
5 discuss his concerns.

6
7 26. At that meeting, Scott Coles agreed to allow Mr. Furst to assume the
8 leadership role in conducting an internal investigation at Mortgages Ltd. Securities, as
9 he had requested.

10
11 27. Several employees offered to assist Robert Furst in the internal
12 investigation, provided that they were given assurances that there would be no negative
13 repercussions to them.

14
15 28. When George Everette received notification that Robert Furst would be
16 spearheading an independent internal investigation into wrongdoing at Mortgages Ltd.
17 Securities, he was enraged and sent two e-mails.

18
19 a. On March 25, 2008, at 3:37 A.M. in the morning, George Everette
20 sent an e-mail to Scott Coles, in which he stated, "Scott, if this is true
21 we need to talk today." (Exhibit 4)

22
23 b. On March 25, 2008, at 4:12 A.M. in the morning, George Everette sent
24 an e-mail to Robert Furst, in which he stated, "Let the Inquisition
25 begin!" (Exhibit 5)

26
27
28

1 29. Both Christopher Olson and George Everette were enraged at Robert
2 Furst because they knew that, if an independent internal investigation was conducted,
3 they would be implicated in serious wrongdoing.
4

5 30. On Tuesday, March 25, 2008, Christopher Olson angrily criticized Mr.
6 Furst for discussing any wrongdoing by Mortgages Ltd. Securities and its senior
7 management in the context of written e-mails which could be later discovered by
8 FINRA and/or the SEC. (Exhibit 6)
9

10 31. Christopher Olson and George Everette told Mr. Furst that they wanted
11 him to be fired because, among other things, his written allegations had implicated
12 them in serious wrongdoing.
13

14 32. From March 25, 2008 through March 27, 2008, Christopher Olson and
15 George Everette repeatedly attempted to convince Scott Coles that Robert Furst should
16 not lead any internal investigation into wrongdoing at Mortgages Ltd. and/or
17 Mortgages Ltd. Securities.
18

19 33. Scott Coles eventually decided to limit Robert Furst's efforts to conduct
20 an independent internal investigation.
21

22 34. Instead, at the urging of Christopher Olson and George Everette, Scott
23 Coles selected Eva Yang to conduct the internal investigation.
24

25 35. Scott Coles, Christopher Olson and George Everette acted in bad faith
26 because they knew that (a) any internal investigation conducted by Eva Yang would be
27
28

1 a sham, (b) Eva Yang would not conduct an "independent" investigation into
2 wrongdoing at Mortgages Ltd. and/or Mortgages Ltd. Securities, and (3) she would
3 unquestionably conclude that there was no basis for Mr. Furst's allegations of
4 wrongdoing at Mortgages Ltd. and/or Mortgages Ltd. Securities.
5

6 36. Robert Furst also knew that any internal investigation conducted by Eva
7 Yang would be a sham.
8

9 37. As a result, on Friday, March 28, 2008, Robert Furst met with Jon Cohen,
10 Esq., a senior partner at Snell & Wilmer, a prominent Phoenix law firm, to discuss the
11 numerous legal issues which concerned him about Mortgages Ltd., Mortgages Ltd.
12 Securities and their senior management.
13

14 38. On Friday, March 28, 2008, immediately following the meeting with Jon
15 Cohen, Esq., Robert Furst met with Eva Yang, the Chief Compliance Officer of
16 Mortgages Ltd. Securities, to (a) notify her that he had retained Snell & Wilmer to
17 represent him, and (b) inform her that he was concerned about numerous deceptive
18 and/or fraudulent practices of Mortgages Ltd., Mortgages Ltd. Securities and their
19 senior management.
20
21
22

23 39. In retaliation, when Robert Furst reported for work on the next business
24 day (Monday, March 31, 2008), he received written notice that Mortgages Ltd.
25 Securities had suspended his employment with pay. The written notice stated, among
26 other things, that "[m]aking baseless charges can impact your employment.
27
28

1 Accordingly, we are suspending you with pay for an indefinite period, and we reserve
2 the right to make future decisions regarding your employment.”

3
4 40. On Tuesday, April 1, 2008, Robert Furst sent a response e-mail, in which
5 he delineated numerous deceptive and/or fraudulent practices which concerned him.
6 (Exhibit 7)

7
8 41. During the following week, Robert Furst and Jon Cohen, Esq., his legal
9 counsel, met with legal counsel for Mortgages Ltd. and discussed many specific
10 instances of serious wrongdoing at Mortgages Ltd. and Mortgages Ltd. Securities.

11
12 42. When Eva Yang completed her “independent” internal investigation into
13 Robert Furst’s allegations of serious wrongdoing, she concluded that Robert Furst’s
14 allegations were baseless.

15
16 43. In fact, however, Eva Yang, together with Scott Coles, Christopher Olson
17 and George Everette, knew that Robert Furst’s allegations of serious wrongdoing at
18 Mortgages Ltd. and Mortgages Ltd. Securities were truthful and accurate.

19
20 44. On April 25, 2008, Mr. Furst’s employment was terminated by Mortgages
21 Ltd. Securities.

22
23 45. The termination of Robert Furst’s employment by Mortgages Ltd.
24 Securities constituted a retaliatory wrongful termination in violation of Arizona
25 Revised Statutes § 23-1501 (3) (c) (ii), which is the Arizona “whistleblower” statute.
26
27
28

1 46. At the time that Robert Furst's employment was wrongfully terminated by
2 Mortgages Ltd. Securities, his compensation was approximately \$670,000 per year,
3
4 under the terms of his employment agreement.

5 47. Robert Furst, as a direct and proximate result of his wrongful discharge
6 from employment by Mortgages Ltd. and Mortgages Ltd. Securities, has suffered
7
8 damages, including loss of income, emotional distress and mental anguish,
9
10 embarrassment and humiliation and the violation of his rights.

11 With regard to the First Claim, Robert Furst seeks a ruling that Mortgages Ltd.
12 and Mortgages Ltd. Securities wrongfully terminated his employment in violation of
13
14 A.R.S. § 23-1501(3)(c)(ii). Accordingly, Robert Furst seeks (1) actual loss of income
15 damages in the amount of \$470,000 from the date of termination through December
16
17 31, 2008; (2) treble damages resulting from his wrongful termination of employment,
18 in the aggregate amount of \$1,410,000 (i.e., \$470,000 x 3); and (3) reimbursement of
19
20 legal fees paid to Snell & Wilmer in the amount of \$45,000.
21
22
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1 **SECOND CLAIM**

2 **DEFAMATION**

3
4 48. Paragraphs 1 through 20 are incorporated herein by this reference.

5
6 49. Eva Yang, as the Chief Compliance Officer, was responsible for ensuring
7 that the operations of Mortgages Ltd. Securities were in full compliance with all rules
8 and regulations of FINRA, the SEC and all other regulatory agencies.
9

10 50. In the first quarter of 2008, Eva Yang knew about, and concealed, the
11 wrongdoing of senior management from the regulatory agencies.
12

13 51. Moreover, in the first quarter of 2008, Eva Yang did not take appropriate
14 action to halt the deceptive and/or fraudulent practices of Mortgages Ltd., Mortgages
15 Ltd. Securities and their senior management.
16

17 52. Eva Yang also knew that Robert Furst had an outstanding reputation for
18 integrity and performance at Mortgages Ltd. Securities, both with his investors and
19 senior management.
20

21 53. On or about May 19, 2008, Eva Yang (together with Greenberg Traurig)
22 prepared a Form U-5, Uniform Termination Notice for Securities Industry
23 Registration, in relation to Robert Furst's termination of employment. On behalf of
24 Mortgages Ltd. Securities, Eva Yang then submitted the Form U-5 to FINRA.
25
26 (Exhibit 8)
27
28

1 54. In the Form U-5, Eva Yang did not truthfully and accurately state the
2 actual reason for Mr. Furst's termination of employment. In other words, in the Form
3 U-5, Eva Yang did not state that:
4

- 5 a. Robert Furst, in discharge of his legal and ethical obligations as a
6 Registered Representative, reported deceptive and/or fraudulent
7 practices on the part of Mortgages Ltd., Mortgages Ltd. Securities and
8 their senior management; and
9
10 b. In retaliation, Mortgages Ltd. and Mortgages Ltd. Securities
11 terminated the employment of Robert Furst; and
12
13 c. The termination of Robert Furst's employment by Mortgages Ltd. and
14 Mortgages Ltd. Securities constituted a retaliatory termination in
15 violation of Arizona Revised Statutes § 23-1501(3) (c) (ii), which is
16 the Arizona "whistleblower" statute.
17
18

19 55. Instead, in the Form U-5, Eva Yang falsely stated that the reason for Mr.
20 Furst's termination of employment was the following:
21

22 "For months, we tried to work with Mr. Furst to adjust his
23 compensation. During a March meeting, he raised concerns
24 about possible operational and legal issues. The firm asked for
25 specifics and when Mr. Furst did not respond in a timely manner,
26 he was suspended. While suspended we again tried to reach an
27 agreement with him about his role and compensation. In the
28 interim, we learned that he may not be well suited to continue
working for us. For example, it appears he may have
misrepresented his credentials." (Exhibit 8)

1 56. Eva Yang signed the Form U-5 on page 4 and acknowledged that “I verify
2 the accuracy and completeness of the information contained in and with this form.”

3
4 (Exhibit 8)

5 57. With regard to the submission of the Form U-5 to FINRA, Eva Yang
6 claims that George Everette was actively “involved in the process.”
7

8 58. Mortgages Ltd., Mortgages Ltd. Securities, Scott Coles, Eva Yang and
9 George Everette acted with malice and knew, or should have known, that the reasons
10 for Robert’s Furst’s termination of employment, as set forth in the Form U-5, were
11 false and defamatory.
12

13 59. Mortgages Ltd., Mortgages Ltd. Securities, Scott Coles, Eva Yang and
14 George Everette knew, or should have known, that their egregious and defamatory
15 statements would inflict severe emotional distress upon Robert Furst.
16

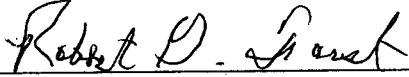
17 60. As a direct and proximate result of all of the defamatory statements,
18 including the defamatory statements contained in the Form U-5, Robert Furst has
19 suffered damages including loss of income, emotional distress and mental anguish,
20 embarrassment and humiliation and the violation of his rights.
21
22

23
24 With regard to the Second Claim, Robert Furst seeks a ruling that Mortgages
25 Ltd. is liable to Robert Furst for defamation in relation to the defamatory statements set
26 forth in the Form U-5. Accordingly, Robert Furst seeks (1) actual damages resulting
27
28

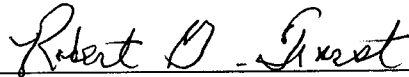
1 from defamation in the amount of \$1,000,000; and (2) punitive damages in the amount
2 of \$2,000,000.

3
4 DATED: November 30, 2009

5
6 Respectfully submitted,

7
8 
9 _____
10 Robert G. Furst

11
12
13
14 I, ROBERT G, FURST, declare that the foregoing statements are true and
15 correct, to the best of my knowledge.

16
17 
18 _____
19 Robert G. Furst



July 16, 2008

PAGE ONE

HARD MONEY

Real-Estate Financier's Death Hints At Trouble for Lenders

By JONATHAN KARP

July 16, 2008; Page A1

PHOENIX -- Flamboyant real-estate financier Scott Coles penned a farewell letter, put on a tuxedo and climbed into bed, where he was later found dead in what police believe was a suicide. The tragedy last month is drawing attention to the condition of the nation's commercial real-estate market, which is beginning to show mounting signs of distress.

Mr. Coles, who was 48 years old, had built his company, Mortgages Ltd., into one of Arizona's biggest private lenders during the real-estate boom. It specialized in short-term, high-interest-rate loans to commercial developers -- builders of malls, office parks, condominiums and other projects -- who either had bad credit or a need for quick cash with no red tape. But he overreached, and the debacle that has devastated the U.S. housing market the past year is now squeezing Mortgages Ltd.

**Scott Coles**

To keep growing and outrun the problems, Mr. Coles leaned increasingly on loans -- totaling roughly \$200 million -- from an obscure company, Radical Bunny LLC, run by his accountant. He also sought to raise new money on terms that undermined his existing investors. These moves triggered the departure of several senior managers at the firm in recent months.


So far, the commercial-property market has been spared the devastating losses felt in the housing market because there wasn't flagrant overbuilding. But declining property values and a weakening U.S. economy are starting to bite: Mortgages Ltd. and other lenders are reporting a significant jump in loan defaults. That's placing enormous new pressure on the lenders, which have bet billions of dollars on new construction of commercial properties.

"Scott got overly optimistic and thought the good times would go on forever," says Elliott Pollack, a prominent Scottsdale, Ariz., economist and real-estate consultant who invested in Mortgages Ltd. "The world changed, and it's going to crush a lot of other lenders in the country."

Mr. Coles cut a larger-than-life profile. He owned several homes, including two adjacent mansions in Phoenix's exclusive Biltmore area, and a nearby estate with its own private 18-hole pitch-and-putt golf course. A regular on the Arizona charity circuit, he contributed to some 100 organizations and socialized with members of the Phoenix Suns basketball team, some of whom were his investors. His funeral drew a standing-room-only crowd of 700 people.

In the weeks before his death, Mr. Coles was beset by personal and professional difficulties. His second wife, 26-year-old Ashley Coles, had just left him for a 48-hour trial separation, according to the police report on his death. A lawyer for Ashley Coles declined to comment. At the same time, a string of lawsuits brought by

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Mortgages Ltd.'s borrowers and investors in Arizona Superior Court alleged fraud, racketeering and breach of fiduciary duty, among other things.

Mortgages Ltd. denies the allegations. President Laura Martini says "pre-emptive" lawsuits by struggling borrowers have exacerbated the firm's financial challenges stemming from the credit crisis. Lawyers for the company accuse borrowers of exploiting Mr. Coles's death to try to drive Mortgages Ltd. out of business. "This company has nothing to hide," lawyer John Clemency told a bankruptcy court.

On June 24, the company, which was founded by Mr. Coles's father 45 years ago, entered Chapter 11 bankruptcy-court protection.

Mortgages Ltd.'s troubles shine a light on the niche of so-called "hard money" lenders -- a high-risk, lightly regulated business that specializes in quick loans to real-estate developers with a minimum of red tape. These lenders estimate that they provide no more than 5% of overall lending. But they lubricate the wheels of commercial real estate, a quintessentially local business famous for developers whose lofty ambitions often outpace their cash resources.

Fast-growing Arizona alone saw the number of such lenders swell to 60 in 2006 from less than 10 just two years earlier, according to Investors Mortgage Holdings Inc., a Scottsdale-based rival to Mortgages Ltd. Local or regional specialist lenders like these are scattered around the country, from New York's Madison Realty Capital, which made more than \$500 million in commercial real-estate loans in 2007, to Point Center Financial Inc. in Aliso Viejo, Calif., to Avatar Financial Group LLC in Seattle. Mortgages Ltd. made \$928 million in loans last year, a tenfold increase from 2001.

1 RELATED DOCUMENT

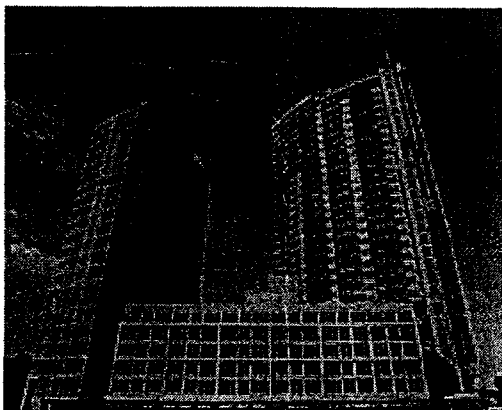
See the term sheet² for a \$51 million Mortgages Ltd. loan to Rightpath Ltd. Development Group to acquire land and develop an entertainment district in Glendale, Ariz., around the proposed spring-training stadium for the Los Angeles Dodgers and Chicago White Sox. The terms show the loan's high interest rate and upfront fees that account for 6.5% of the principal and thus raise the overall borrowing costs to 19%. Mortgages Ltd. earned most of its revenue from fees when loans were made or extended.



To fund its lending, Mortgages Ltd. took investments from wealthy local professionals -- so-called "doctor and dentist money." Investors were attracted by Mortgages Ltd.'s double-digit annual returns at a time of historically low earnings on more traditional investments. They entrusted Mr. Coles with some \$727 million of their money because of his track record of high returns and oft-repeated mantra that the company had "never lost a dime of principal for investors."

Today, hard-money lenders that didn't overextend themselves during the boom, and still have capital to lend, are poised to cash in as the credit crunch spurs traditional lenders like banks to stay on the sidelines. But many, like Mortgages Ltd., are suffering rising defaults and having a tougher time raising money as investors get gun-shy. This one-two punch threatens to deprive commercial developers nationwide of a last-stop borrowing source precisely when it's most needed to keep construction projects alive.

Mortgages Ltd. was started in 1963 by Charles Coles, whom his son idolized, says co-founder Ronald Anatole. The younger Mr. Coles took over the firm in the mid-1990s and initially stayed his father's conservative course. Until four years ago, the company rarely made loans bigger than \$20 million.



Then Mr. Coles changed tack and aggressively moved beyond modest mortgages for suburban land tracts. He sought bigger, longer-term and riskier loans on signature Phoenix-area projects: a boutique downtown hotel, an entertainment complex at the spring-training stadium for the Los Angeles Dodgers and Chicago White Sox, 21 chateau-style brownstones. His biggest loan, \$150 million, is funding the construction of Centerpoint, a towering 375-unit condo in Tempe, Ariz., replete with a swimming pool lined by sand to create an artificial beach.

A financial whiz, Mr. Coles created ways for doctors, lawyers and

Avenue Communities Centerpoint Condominiums in Tempe, Ariz., Mortgages Ltd.'s biggest client, needs at least \$50 million more to finish construction.

others who had a net worth of at least \$1 million to invest in Mortgages Ltd.'s loans. Like a Wall Street institution, he sold securities backed by pools of the company's mortgages. Like a commercial bank, he "syndicated" loans -- letting investors buy stakes in individual mortgages. The loans had interest rates averaging more than 12%, but fees boosted borrowing costs to more than 19%. (Comparable bank loans generally would have been below 10%.)

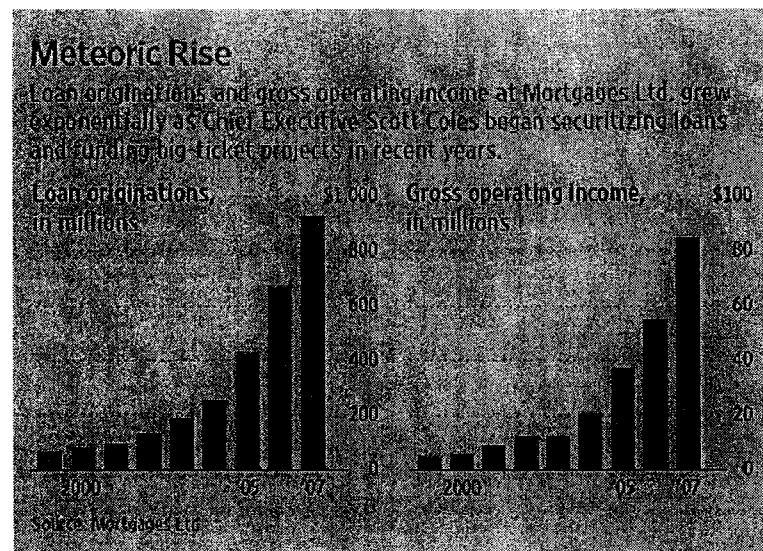
It was lucrative for investors in Mortgages Ltd. Their annual returns ranged from 9% to 18%.

"Scott wanted to be larger than life. He saw himself as building Phoenix," says Malcolm Jozoff, retired chairman of personal-care products maker Dial Corp., a friend and investor who often played golf at Mr. Coles's estate.

Public Profile

Mr. Coles cultivated a high public profile through celebrity events at his home, like a recent Super Bowl party featuring comedian Chris Rock. He hobnobbed with Phoenix Suns players.

"He was a sports groupie," says Eddie Johnson, the Suns television commentator and former player. "He took me under his wing and taught me all about his business," he adds, noting that he obtained a securities salesman's license before investing in Mortgages Ltd. Retired Suns center Mark West says he invested in Mortgages Ltd. County documents in Arizona show that former NBA star Penny Hardaway was also an investor. He has since cashed out at least some of his holdings.



Mr. Hardaway's agent didn't respond to a request for comment.

After a divorce from his first wife, Mr. Coles remarried in 2006 to Ashley Coles, whom he met in Las Vegas. Mr. Coles spent millions of dollars on Phoenix homes for their personal use. Near his main 12-acre estate, he bought a 19,000-square-foot Mediterranean, as well as the mansion next door, which he was renovating to be his and Ashley's new home.

Mr. Coles emulated his father's hands-on work ethic. Even as Mortgages Ltd. grew, he approved every loan and dictated terms of fees, the company's main revenue source. But to fuel rapid

growth, three years ago he ramped up his borrowing -- turning to a source outside his traditional base of wealthy individuals.

Mr. Coles's main lender became Tom Hirsch, his accountant and trusted friend. Besides running an accounting practice, Mr. Hirsch controls Radical Bunny, a registered Arizona company whose primary activity appears to be lending money to Mortgages Ltd. The origin of the firm's name, Radical Bunny, is unclear.

Mr. Hirsch didn't respond to requests for comment.

Radical Bunny sought investors by offering 11% annual returns, according to several investors in the company. Radical Bunny then loaned money to Mortgages Ltd., in amounts that soared from a blip four years ago to total about \$200 million as of June.

About a year ago, this arrangement sparked qualms among some Mortgages Ltd. officers and advisers, people familiar with the matter say, because at the time Mr. Hirsch didn't have securities or investment-adviser licenses

to solicit investment and deal in financial products in return for compensation. Former associates of Mr. Coles and a major Mortgages Ltd. investor say that Mr. Coles refused to discuss their concerns about Mr. Hirsch.

By last fall, Mr. Coles was feeling financial heat. Several Mortgages Ltd. borrowers were unable to pay off their loans. Yet Mortgages Ltd. had to make monthly interest payments to its own investors. It also faced \$131 million in future obligations to borrowers. These were staggered loans, made on the assumption that money would be available when installments were due. But with borrowers defaulting and new investors balking, Mr. Coles increasingly couldn't meet those commitments.

Hungry for cash, Mr. Coles drew up a plan to raise new money that effectively undermined one of Mortgages Ltd.'s core principles: that its investors hold "senior" positions in loans, meaning they are first in line to get paid in event of a default. Under the new fund-raising plan, new investors would cut to the front of that line -- displacing previous investors. Mr. Coles had the right to do this, according to Mortgages Ltd. operating agreements.

"Scott Coles was a good person who made some bad decisions and got caught out, but it wasn't out of malice," says Michael Denning, then Mortgages Ltd. president. In December, he left because of the direction the company was heading. Other senior staff quit amid concerns about capital-raising efforts, loan quality and related issues, people familiar with the matter say.

Mortgages Ltd. declined to comment on the departures.

After its January launch, the fund-raising effort brought in less than \$10 million, much less than the company needed and had hoped to raise.

By spring, as Mortgages Ltd. failed to deliver on promised loans, construction slowed at key projects including the massive Tempe condo development. In March, a developer sued Mortgages Ltd. in Arizona Superior Court for negligent misrepresentation, alleging the lender had committed to loan \$47 million to build luxury brownstones without having sufficient funds.

The two parties settled, with Mortgages Ltd. agreeing that the developer didn't have to repay the loan. Mortgages Ltd. took over the project, which remains stalled.

Investor angst mounted in April, after Mr. Coles again asked for new investments. Instead, many investors rushed to withdraw their money. They were refused by Mr. Coles for lack of funds.

Retired plastic surgeon Ted Dodenhoff and his wife sued Mortgages Ltd. in late May in Superior Court for access to company records. The couple, who had invested more than \$500,000, alleged the firm misrepresented protections it would afford investors and breached its fiduciary duty with "an evil heart guided by an evil mind," the complaint says. Mr. Coles "was throwing the old investors under the bus to get new investors," says Christopher LaVoy, their lawyer.

The two sides have been negotiating a settlement, according to emails reviewed by The Wall Street Journal.

Rightpath Ltd. Development Group, which had agreed to borrow \$120 million to develop land around a baseball stadium, also sued in late May in Superior Court. It alleged Mortgages Ltd. made "fraudulent misrepresentations" about its financial wherewithal, changed funding schedules without consent and imposed "patently absurd" loan-extension fees as part of a scheme to "defraud Plaintiffs and lend money at a usurious rate."

Mortgages Ltd. dismisses the allegations as an attempt by a borrower to avoid repaying its debt.

Days after the lawsuits, an upbeat Mr. Coles hosted a charity poker tournament at his estate and vowed, "I'll fight

through" the tough times, says Mr. Pollack, the economist.

A Deal Falls Through

But the next week, a deal to secure fresh financing for his premier project, the Centerpoint condos in Tempe, fell through. Mounting tensions with his wife, Ashley, led to a decision to separate for 48 hours to "evaluate their relationship," according to the Phoenix Police Department report on his death.

Late on June 1, Mr. Coles faxed an amended will to his lawyer and wrote a letter to his first wife. Both documents had a "farewell tone" to them, the police report says. He placed a quote from Shakespeare on his bed and, wearing a tuxedo, climbed under the covers with a cardboard photograph of Ashley. He was found dead on June 2 with no signs of trauma or foul play, the police said. The county medical examiner is soon expected to report on the official cause of death.

In the aftermath of the tragedy, the Arizona Department of Financial Institutions said it is conducting a "standard compliance examination." The Arizona Corporation Commission declined to comment. The Securities and Exchange Commission also has requested documents, Mortgages Ltd. executives say, without elaborating.

The SEC declined to comment.

As Mortgages Ltd. seeks new funding to keep operating, only 27 of 71 borrowers are currently making payments, the company says. Mr. Coles had long touted Mortgages Ltd.'s ability to survive recessions. "There is an art to what we do," he told investors in a 2007 newsletter, just as the subprime-lending crisis was unfolding. This month, for the first time in memory, Mortgages Ltd. so far hasn't made its scheduled interest payments to investors.

Write to Jonathan Karp at jonathan.karp@wsj.com³

URL for this article:

<http://online.wsj.com/article/SB121617220846656637.html>

Hyperlinks in this Article:

(1) <http://online.wsj.com/documents/coles-07162008.pdf>

(2) <http://online.wsj.com/documents/coles-07162008.pdf>

(3) <mailto:jonathan.karp@wsj.com>

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9
10 **IN THE UNITED STATE BANKRUPTCY COURT**
FOR THE DISTRICT OF ARIZONA

11 In re:

12 MORTGAGES LTD.,

13 Debtor.

Chapter 11

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

14 **NOTICE OF FILING OF**
ADMINISTRATIVE ACTION
15 **BY THE ARIZONA DEPARTMENT**
OF FINANCIAL INSTITUTIONS

16
17 NOTICE IS HEREBY GIVEN that the Arizona Department of Financial Institutions
18 issued a Notice of Hearing to Revoke on February 27, 2009, *In the Matter of the Mortgage*
19 *Banker License of Mortgages, Ltd.*, No. 09F-BD-058-BNK, a copy of which is attached
20 hereto as Exhibit A.

21 DATED this 2nd day of March, 2009.

22 TERRY GODDARD
Attorney General

23
24 By: /s/Craig A. Raby

25 Craig A. Raby, Assistant Attorney General
Consumer Protection & Advocacy Section
Attorneys for the Arizona Department of
26 Financial Institutions

EXHIBIT 2

1 COPY of the foregoing electronically transmitted
2 on March 2, 2009, to the Clerk's Office using the
3 CM/ECF System for filing and transmittal of a Notice
4 of Electronic Filing to CM/ECF registrants and via e-mail
and/or mail to parties not registered as participants of the
CM/ECF System to parties on the attached Service List.

5 /s/Susan L. Hill
231381; PHX-AGN-2008-0432

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MORTGAGES LTD. SERVICE LIST
2:08-bk-07465

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407508; PHX-AGN-2008-0432

EXHIBIT A

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ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

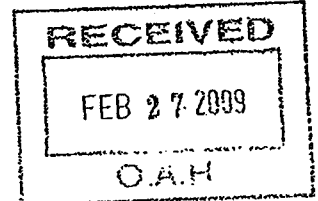
In the Matter of the Mortgage Banker License
of:

MORTGAGES LTD.
4455 E. Camelback Road
Phoenix, AZ 85018

Respondent.

No. 09F-BD058-BNK

NOTICE OF HEARING TO REVOKE



PLEASE TAKE NOTICE that, pursuant to Arizona Revised Statutes ("A.R.S.") §§ 6-138, and 41-1092.02, the above-captioned matter will be heard through the Office of Administrative Hearings, an independent agency, and is scheduled for April 16 and 17, 2009, at 9:00 a.m., at the Office of Administrative Hearings, 1400 West Washington, Suite 101, Phoenix, Arizona, (602) 542-9826 (the "Hearing").

The purpose of the Hearing is: (1) to determine whether grounds exist to suspend or revoke Respondent's mortgage banker license; (2) to order any other remedy necessary or proper for the enforcement of statutes and rules regulating mortgage bankers in Arizona pursuant to A.R.S. §§ 6-123 and 6-131; and (3) to impose a civil money penalty pursuant to A.R.S. § 6-132.

Pursuant to A.R.S. § 6-138, the Superintendent of Financial Institutions for the State of Arizona (the "Superintendent") delegates the authority vested in the Superintendent, whether implied or expressed, to the Director of the Office of Administrative Hearings or the director's designee to preside over the Hearing as the Administrative Law Judge, to make written recommendations to the Superintendent consisting of proposed Findings of Fact, Conclusions of Law, and Order. The Office of Administrative Hearings has designated Brian Tully, at the address and phone number listed above, as the Administrative Law Judge for these proceedings. Pursuant to Arizona Administrative Code ("A.A.C.") Rule 2-19-104 and A.R.S. §§ 41-1092.01(H)(1) and 41-1092.08, the Superintendent retains authority to enter orders granting a stay, orders on motions for rehearing, final decisions pursuant to A.R.S. § 41-1092.08 or other order or process which the Administrative Law Judge is specifically prohibited from entering.

1 Motions to continue this matter shall be made in writing to the Administrative Law Judge not
2 less than fifteen (15) days prior to the date set for the Hearing. A copy of any motion to continue
3 shall be mailed or hand-delivered to the opposing party on the same date of filing with the Office of
4 Administrative Hearings.

5 A.R.S. § 41-1092.07 entitles any person affected by this Hearing to appear in person and by
6 counsel, or to proceed without counsel when submitting evidence, to have a reasonable opportunity
7 to inspect all documentary evidence, to cross-examine witnesses, to present evidence and witnesses
8 in support of his/her interests, and to have subpoenas issued by the Administrative Law Judge to
9 compel attendance of witnesses and production of evidence. Pursuant to A.R.S. § 41-1092.07(B),
10 any person may appear on his or her own behalf or by counsel.

11 Pursuant to A.R.S. § 41-1092.07(E), a clear and accurate record of the proceedings will be
12 made by a court reporter or by electronic means. Any party that requests a transcript of the
13 proceedings shall pay the cost of the transcript for the court reporter or other transcriber.

14 Questions concerning issues raised in this Notice of Hearing should be directed to Assistant
15 Attorney General Craig A. Raby, (602) 542-8889, 1275 West Washington, Phoenix, Arizona 85007.

16 NOTICE OF APPLICABLE RULES

17 The hearing will be conducted pursuant to A.A.C. R20-4-1201 through R20-4-1220 and the
18 rules governing procedures before the Office of Administrative Hearings, A.A.C. R2-19-101 through
19 R2-19-122. A copy of these rules is enclosed.

20 Pursuant to A.A.C. R20-4-1209, Respondent shall file a written answer **within twenty (20)**
21 **days** after issuance of this Notice of Hearing. The answer shall briefly state the Respondent's
22 position or defense and shall specifically admit or deny each of the assertions contained in this
23 Notice of Hearing. If the answering Respondent is without or is unable to reasonably obtain
24 knowledge or information sufficient to form a belief as to the truth of an assertion, Respondent shall
25 so state, which shall have the effect of a denial. Any assertion not denied is deemed admitted.
26 When Respondent intends to deny only a part or a qualification of an assertion, or to qualify an

1 assertion, Respondent shall expressly admit so much of it as is true and shall deny the remainder.

2 Any defense not raised in the answer is deemed waived.

3 **If a timely answer is not filed, pursuant to A.A.C. R20-4-1209(D), Respondent will be**
4 **deemed in default** and the Superintendent may deem the findings in this Notice of Hearing as true
5 and admitted and the Superintendent may take whatever action is appropriate, including (1)
6 suspension or revocation of Respondent's license; (2) any other remedy necessary or proper for the
7 enforcement of statutes and rules regulating mortgage bankers in Arizona pursuant to A.R.S.
8 §§ 6-123 and 6-131; and (3) imposing a civil money penalty pursuant to A.R.S. § 6-132.

9 Respondent's answer shall be mailed or delivered to the Arizona Department of Financial
10 Institutions, 2910 North 44th Street, Suite 310, Phoenix, Arizona 85018, with a copy mailed or
11 delivered to the Office of Administrative Hearings, 1400 West Washington, Suite 101, Phoenix,
12 Arizona 85007 and to Assistant Attorney General Craig A. Raby, Consumer Protection & Advocacy
13 Section, Attorney General's Office, 1275 West Washington, Phoenix, Arizona 85007.

14 **Persons with disabilities may request reasonable accommodations such as interpreters,**
15 **alternative formats, or assistance with physical accessibility.** Requests for special
16 accommodations must be made as early as possible to allow time to arrange the accommodations. If
17 accommodations are required, call the Office of Administrative Hearings at (602) 542-9826.

18 COMPLAINT

19 1. Respondent Mortgages Ltd. is an Arizona corporation authorized to transact business in
20 Arizona as a mortgage banker, license number BK-0007577, within the meaning of A.R.S. §§ 6-941,
21 *et seq.* The nature of Mortgages Ltd.'s business is that of making, negotiating, or offering to make
22 or negotiate loans secured by Arizona real property, within the meaning of A.R.S. § 6-941(5).

23 2. Richard M. Feldheim is the President and CEO of Mortgages Ltd.

24 3. Respondent failed to maintain a surety bond, as required by A.R.S. § 6-943(H), while
25 conducting business as a mortgage banker, which is grounds for denial, suspension or revocation
26 pursuant to A.R.S. § 6-945(A)(7); specifically:

- 1 a. On or about December 15, 2008, the Department received a Notice of Cancellation or
2 Nonrenewal from Great American Insurance Company advising the Department that
3 Mortgages Ltd.'s Bond, Number 3373981, was cancelled effective January 9, 2009;
- 4 b. On December 17, 2008, the Department sent a letter via certified mail to Respondent
5 informing it of the bond cancellation and of its statutory obligation as a mortgage
6 banker licensee to replace the cancelled bond. The letter was received and signed for
7 on December 18, 2008;
- 8 c. On January 15, 2009, the Department received a letter from Respondent, stating that
9 the bond had been canceled in error, it was working on getting its bond reinstated, and
10 asked for a one week extension; and
- 11 d. The Department still has not received an original bond.
- 12 4. Beginning on June 4, 2008, through January 30, 2009, the Department conducted an
13 examination of the mortgage banker business of Mortgages Ltd. and found that Respondent:
- 14 a. Failed to prominently display its mortgage banker license in the office of the mortgage
15 banker as required; specifically:
- 16 i. The examiners were informed that the mortgage banker license was in one of the
17 second floor offices, and had never been on display in the main lobby of
18 Respondent's building;
- 19 b. Failed to notify the Superintendent before changing the address of the principal place
20 of business; specifically:
- 21 i. Respondent changed the address of its principal place of business in March,
22 2008. The Department was not notified of the address change until April 17,
23 2008. In addition, the incorrect original license was received with the
24 application for the address change;
- 25 ii. On December 15, 1999, Respondent informed the Department that it lost its
26 original license during its move from 2833 North Third Street, Phoenix, AZ

- 1 85004 to 55 East Thomas Road, Phoenix, AZ 85012; and
- 2 iii. On April 17, 2008, the Department received the original license from the Third
- 3 Street address that was reported "lost" in 1999 for Respondent's move to 4455
- 4 East Camelback Road, Phoenix, AZ 85018, instead of the correct 55 E. Thomas
- 5 Road original license;
- 6 c. Failed to obtain the Superintendent's prior written consent before control of the
- 7 mortgage banker license was acquired through a stock purchase or other device;
- 8 specifically:
- 9 i. The sole owner of Respondent is the SMC Revocable Trust U/T/A dated
- 10 December 22, 1994, as amended ("SMC Trust"). Scott M. Coles ("Coles") was
- 11 the sole trustee of the SMC Trust. Coles passed away on June 2, 2008 and,
- 12 according to the terms of the SMC Trust, Tom Hirsch ("Hirsch") automatically
- 13 became the successor trustee; and
- 14 ii. Respondent's attorney filed articles of organization for NMLC, LLC, a limited
- 15 liability company organized under the laws of Arizona, on June 9, 2008. On the
- 16 same day, Hirsch executed a proxy granting NMLC, LLC the power to vote all
- 17 shares of the capital stock of NMLC, LLC. This action was a 100% (one
- 18 hundred percent) change of control of the voting shares of Respondent;
- 19 d. Failed to use its license number within regulated advertising in at least four (4)
- 20 advertisements and/or solicitations;
- 21 e. Failed to conduct the minimum elements of reasonable employee investigations prior
- 22 to hiring at least fifteen (15) employees; specifically:
- 23 i. The Employment Eligibility Verification (Form I-9) was incomplete for at least
- 24 one (1) employee;
- 25 ii. Obtained an Employment Eligibility Verification (Form I-9) after the hire date
- 26 of at least six (6) employees;

- 1 iii. A completed and signed employment application was incomplete for at least one
2 (1) employee;
- 3 iv. The signed statement attesting to all of an applicant's felony convictions,
4 including detailed information regarding each conviction, was incomplete for at
5 least one (1) employee;
- 6 v. Conducted an incorrect felony inquiry (ten year limit on convictions) for at least
7 one (1) employee;
- 8 vi. Failed to consult with the applicant's most recent or next most recent employer
9 or failed to date said inquiry for nine (9) employees;
- 10 vii. Failed to inquire regarding an applicant's qualifications and competence for the
11 position or failed to date said inquiry for nine (9) employees;
- 12 viii. Failed to obtain a current credit report from a crediting reporting agency prior to
13 hiring at least six (6) employees;
- 14 ix. Failed to investigate further after at least three employees' credit report
15 contained derogatory information; and
- 16 x. Failed to correct this violation from their previous examination;
- 17 f. Failed to keep and maintain at all times correct and complete records clearly reflecting
18 the financial condition of Mortgages Ltd.; specifically:
- 19 i. Since Respondent did not record a reserve for loan impairment, owned real
20 estate, a doubtful loan receivable and a demand for payment under a guarantee
21 of another's debt, its financial statements do not accurately reflect the financial
22 condition of the business. Had Respondent recorded such a reserve and/or
23 liability, its equity would have been negatively affected and would have been
24 stated at negative <\$47.7 million> in its unaudited financial statements dated
25 May 31, 2008;
- 26 g. Failed to update and reconcile, on a monthly basis, records having more than ten (10)

1 transactions in a calendar quarter; specifically:

2 i. Since Respondent's bank accounts incur more than ten transactions during a
3 calendar quarter, Respondent must reconcile its accounts monthly.

4 Respondent's Tax Impound Account and Collection Trust Account have not
5 been reconciled, per Respondent's own admission;

6 h. Failed to maintain a complete corporate organizational file; specifically:

7 i. The stock ledger and stock certificates maintained by Respondent have not been
8 updated as required;

9 ii. The last issuance date for a new stock certificate for the non voting shares is
10 November 1, 1995. The last issuance date for a new stock certificate for the
11 common voting shares is November 1, 1995 as well. These stock certificates
12 were issued in the name of the SMC-FLC Revocable Trust dated 12/22/94; and

13 iii. Before his death, the sole trustee amended/restated the trust documents at least
14 three times. At least one amendment/restatement was a name change to the
15 Trust, yet the stock transfer ledger does not indicate that a new stock certificate
16 was issued;

17 i. Made a false promise or misrepresentation or concealed an essential or material fact in
18 the course of the mortgage banking business; specifically:

19 i. Misrepresented loan funding ability:

20 1. Respondent approved mortgage loans for construction projects on a "delayed
21 funding" basis, meaning that a large portion of the approved funds would be
22 provided to borrowers in increments, at a date later than the initial close
23 date;

24 2. Respondent approved mortgage loans with the full knowledge that the funds
25 required to complete the contractually committed funding were not available
26 to the company and would have to be satisfied through other means; and

- 1 3. In at least two instances, Respondent was unable to fund approved
2 construction draw requests totaling \$32 million, resulting in borrowers'
3 inability to complete construction projects that were already in progress;
- 4 ii. Misrepresented true financial position:
- 5 1. The May 31, 2008 financial statements misrepresented the true financial
6 condition of Respondent because Respondent failed to accrue and record
7 various items. Respondent did not record reserves for loan impairment or
8 the decline in value of its owned real estate portfolio;
- 9 2. Respondent did not accrue a reserve for a \$6 million loan to the SMC
10 Revocable Trust, whose collectibility is uncertain and did not disclose that it
11 had guaranteed a \$12 million loan taken out by SM Coles LLC; and
- 12 3. The recordation of all relevant adjustments would have had a negative
13 impact of \$57.5 million on Respondent's balance sheet. Respondent's
14 equity at May 31, 2008 would have gone from \$9.8 million dollars to a
15 negative equity of <\$47.7 million>;
- 16 j. Failed to meet at all times its statutorily required minimum net worth of not less than
17 two hundred fifty thousand dollars (\$250,000.00); specifically:
- 18 i. Respondent's net worth, after all required adjustments as described in the
19 "Generally Accepted Accounting Principles" violation set forth below would
20 have been stated at negative <\$47.7 million> as of May 31, 2008;
- 21 k. Respondent is insolvent as defined in A.R.S. § 47-1201(23), which is grounds for
22 denial, suspension or revocation pursuant to A.R.S. § 6-945(A)(1); specifically:
- 23 i. On June 23, 2008, Respondent filed a motion in the United States Bankruptcy
24 Court to convert an involuntary petition for a Chapter 7 bankruptcy to a case
25 under Chapter 11. The Chapter 7 proceeding was brought by certain borrowers
26 of Respondent;

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ii. On June 24, 2008, the Bankruptcy Court approved Respondent's motion and Respondent became the debtor-in-possession with respect to the Chapter 11 proceeding, *In Re Mortgages Ltd.*, U.S. Bankruptcy Court, District of Arizona, No. 2:08-bk-07465-RJH; and

- iii. Respondent is insolvent; specifically:
1. Respondent was unable to pay interest in the amount of \$1.165 million on \$197 million of Notes Payable due to its primary lender in June, 2008;
 2. Respondent was unable to fund \$32 million of approved draws under outstanding loan agreements;
 3. Unrecorded reductions in assets or increases in liabilities, amounting to \$57.5 million, would have caused Respondent's May 31, 2008 unaudited financial statements to disclose a negative equity of <\$47.7 million>; and
 4. Respondent's future commitment to fund the 46 loans reviewed was \$203 million as of June 30, 2008. Respondent's unaudited financial statements as of May 31, 2008 indicated that Respondent had less than \$1 million in cash on hand and no ability to borrow the needed funds;

l. Failed to furnish information to the Superintendent within a reasonable time, which is grounds for denial, suspension or revocation pursuant to A.R.S. § 6-945(A)(3); specifically:

- i. During the course of the examination, Respondent was asked to provide financial statement information on the SMC Revocable Trust and SM Coles LLC. Respondent made a loan to the SMC Revocable Trust in the amount of \$6 million, and the collectibility of the note was in question. Numerous transactions occurred between Respondent and SM Coles LLC. An understanding of these transactions was sought to determine what effect they might have on the company; and

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- ii. Respondent's CFO was asked to provide the aforementioned information, but the information was never provided;
- m. Failed to maintain a statutorily correct trust subsidiary ledger and failed to verify each trust balance to each trust subsidiary ledger at reconciliation; specifically:
 - i. Failed to include in Respondent's trust subsidiary ledger for the tax impound account provisions for:
 - 1. Amount received;
 - 2. Date received;
 - 3. Date deposited into the trust account;
 - 4. Amount disbursed;
 - 5. Date disbursed; and
 - 6. Disbursement's payee and purpose;
 - ii. Failed to reconcile each trust balance to each trust subsidiary ledger at each reconciliation; and
 - iii. Failed to correct this violation from its previous examination;
- n. Failed to observe Generally Accepted Accounting Principles ("GAAP") in preparation of its financial statements; specifically:
 - i. In its May 31, 2008 unaudited financial statements, Respondent:
 - 1. Failed to record mortgages held for investment and sale at the lower of cost or fair market value;
 - 2. Failed to recognize that the cost of their mortgages held as security for RevOp investors exceeded their fair market value;
 - 3. Failed to recognize the decline in fair market value of its real estate investments held for sale;
 - 4. Failed to assess the collectibility of a \$6 million note receivable from a related party, and failed to record an allowance against such note; and

- 1 h. A.A.C. R20-4-1806(C) by failing to update and reconcile, on a monthly basis, records
- 2 having more than ten (10) transactions in a calendar quarter;
- 3 i. A.A.C. R20-4-1806(B)(9) by failing to maintain a complete corporate organizational
- 4 file;
- 5 j. A.R.S. § 6-947(L) by making a false promise or misrepresentation or concealing an
- 6 essential or material fact in the course of the mortgage banking business;
- 7 k. A.R.S. § 6-943(C)(3)(b) by failing to meet at all times its statutorily required
- 8 minimum net worth of not less than two hundred fifty thousand dollars (\$250,000.00);
- 9 l. A.R.S. § 6-945(A)(1) by its insolvency as defined in A.R.S. § 47-1201(23);
- 10 m. A.R.S. § 6-945(A)(3) by failing to furnish information to the Superintendent within a
- 11 reasonable time, which is grounds for denial, suspension or revocation;
- 12 n. A.A.C. R20-4-1806(B)(5), by failing to maintain a trust subsidiary ledger and failing
- 13 to verify each trust balance to each trust subsidiary ledger at reconciliation; and
- 14 o. A.R.S. § 6-946(B) and A.A.C. R20-4-102 by failing to observe generally accepted
- 15 accounting principles in preparation of its financial statements.

16 3. Respondent is insolvent within the meaning of A.R.S. § 47-1201(23), which is grounds
17 for the suspension or revocation of Respondent's mortgage banker license, pursuant to A.R.S.
18 § 6-945(A)(1)

19 4. Respondent failed, within the reasonable time, to furnish any information or make any
20 report as required by the Superintendent, which is grounds for the suspension or revocation of
21 Respondent's mortgage banker license, pursuant to A.R.S. § 6-945(A)(3).

22 5. Respondent failed to maintain the required surety bond, a violation of A.R.S. § 6-943(H),
23 thereby failing to conduct business in accordance with the law and violating A.R.S. Title 6, Chapter
24 9 and the rules related to Chapter 9, which is grounds for the suspension or revocation of
25 Respondent's mortgage banker license, pursuant to A.R.S. § 6-945(A)(7).

26 6. The violations, set forth above, constitute grounds for the pursuit of any other remedy

1 necessary or proper for the enforcement of statutes and rules regulating mortgage bankers in Arizona
2 pursuant to A.R.S. §§ 6-123 and 6-131.

3 7. Pursuant to A.R.S. § 6-132, Respondent's violations of the aforementioned statutes are
4 grounds for a civil penalty of not more than five thousand dollars (\$5,000.00) for each violation for
5 each day.

6 WHEREFORE, if after a hearing, the Superintendent makes a finding of one or more of the
7 above described violations or other grounds for disciplinary action, the Superintendent may: (1)
8 suspend or revoke Respondent's mortgage banker license pursuant to A.R.S. § 6-945; (2) order any
9 other remedy necessary or proper for the enforcement of statutes and rules regulating mortgage
10 bankers in Arizona under A.R.S. §§ 6-123 and 6-131; and (3) impose a civil money penalty pursuant
11 to A.R.S. § 6-132.

12 DATED this 27 day of February, 2009.

13 Felecia A. Rotellini
14 Superintendent of Financial Institutions

15 By Robert D. Charlton
16 Robert D. Charlton
Assistant Superintendent of Financial Institutions

17 ORIGINAL of the foregoing filed this 27th
18 day of February, 2009, in the office of:

19 Felecia Rotellini
20 Superintendent of Financial Institutions
21 Arizona Department of Financial Institutions
22 ATTN: Susan Longo
23 2910 N. 44th Street, Suite 310
24 Phoenix, AZ 85018

25 COPY mailed/delivered same date to:

26 Brian Tully, Administrative Law Judge
Office of the Administrative Hearings
1400 West Washington, Suite 101
Phoenix, AZ 85007

1 Craig A. Raby, Assistant Attorney General
Attorney General's Office
2 1275 West Washington
Phoenix, AZ 85007

3
4 Robert D. Charlton, Assistant Superintendent
Richard Fergus, Licensing Division Manager
Joan Doran, Senior Examiner
5 Arizona Department of Financial Institutions
2910 N. 44th Street, Suite 310
6 Phoenix, AZ 85018

7 AND COPY MAILED SAME DATE, by
Certified Mail, Return Receipt Requested to:

8
9 Mortgages Ltd.
c/o Richard M. Feldheim, President and CEO
4455 E. Camelback Road
10 Phoenix, AZ 85018

11 Mortgages Ltd.
c/o Christopher J. Olson, Chief Financial Officer
12 4455 E. Camelback Road
Phoenix, AZ 85018

13 George A. Everette, Statutory Agent For:
14 Mortgages Ltd.
4455 E. Camelback Road
15 Phoenix, AZ 85018

16 Carolyn J. Johnsen, Esq.
Bradley J. Stevens, Esq.
17 JENNINGS, STROUSS & SALMON, P.L.C.
The Collier Center, 11th Floor
18 201 E. Washington Street
Phoenix, AZ 85004-2385
19 Attorneys for Respondent

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21 
407141; PHX-AGN-2008-0432

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Robert Furst

From: Robert Furst
Sent: Monday, March 24, 2008 11:40 AM
To: George Everette
Subject: Proposal

Hi George:

Based upon my high degree of professionalism, my outstanding track record and my excellent rapport with existing and prospective investors, Scott Coles wants me to assume an expanded role by working with broker-dealers and registered investment advisors (in addition to my existing responsibilities working with individual investors). In connection with this expanded role on my part, I propose the following:

1. My compensation rate would be maintained this year but gradually increased over time. At the present time, I receive a commission equal to 0.0025 x total assets under management. I have been an extraordinary asset with our investors, and I should be duly rewarded over time.
2. Andree Caldwell would continue to work as my assistant, and an additional assistant would be hired to assist me in my expanded role. With Andree's assistance, I presently manage almost \$270 million in assets, but we need additional support.
3. Because of my image of professionalism and high integrity, I would be presented as one of the "faces" of the firm to the public. As you have acknowledged, Mortgages Ltd. has a serious image problem, and I think I can be a major part of the solution.
4. I would assume a leadership role within the firm to independently investigate, expose and eliminate all deceptive practices and other wrongdoing in Mortgages Ltd. Securities (and to implement high standards of integrity and candor). As you know, many people, both inside and outside of the firm, are questioning the integrity of Mortgages Ltd. I want to work with independent counsel and regulators (if necessary) to immediately address these issues (including issues of ongoing and systemic securities fraud and other deceptive practices) in relation to both prospective and existing investors. (In my opinion, this is the most urgent problem facing Mortgages Ltd. at this time, and, to date, I have been repeatedly attacked for attempting to properly address it.)

Hopefully, this will serve as a discussion outline for the two of us. Please let me know when you are available.

Thank you.



Robert Furst
Senior Managing Director

rfurst@mtg ltd.com
P: 602.287.3070
C: 602.377.3702
F: 602.287.3076

MortgagesLTD.SECURITIES
55 E Thomas Rd
Phoenix AZ, 85012

03/24/2008

EXHIBIT 3

Robert Furst

From: George Everette
Sent: Tuesday, March 25, 2008 3:37 AM
To: Robert Furst
Cc: Mgmt
Subject: RE: Alleged Improprieties

Scott, if this is true then we need to talk today.

George Everette
 Vice President and CIO

Mortgages Ltd.
 p. 602-287-3094
 c. 602 686-2350
geverette@mtgltd.com

This email and any attachments are confidential and may not be copied, forwarded, or distributed beyond the named recipient without prior permission of the sender. If you have received this email in error, please contact the sender. Thank you.

From: Robert Furst
Sent: Mon 03/24/2008 9:09 PM
To: George Everette
Subject: RE: Alleged Improprieties

Hi George:

I have spoken to Scott Coles, and I will be assuming the leadership role which I requested. I will serve in this administrative role through the end of the 2008 calendar year (in addition to my regular duties as Managing Director). At that time, Scott Coles and I will review this arrangement in good faith.

Over the next several weeks (and probably longer), I will be gathering information and interviewing employees, including you. I will then prepare a series of memoranda addressing all areas of concern. Several employees have offered to assist me in this time-consuming endeavor, provided that they are given assurances that there will be no negative repercussions to them.

I look forward to your cooperation.



Robert Furst
 Senior Managing Director

rfurst@mtgltd.com
 P: 602.287.3070
 C: 602.377.3702
 F: 602.287.3076

Please note our new address as of 3/31 is listed below

MortgagesLTD.SECURITIES
 4455 E Camelback Rd
 Phoenix AZ, 85018

03/25/2008

EXHIBIT 4

12/01/2009

Robert Furst

From: George Everette
Sent: Tuesday, March 25, 2008 4:12 AM
To: Robert Furst
Cc: Mgmt
Subject: RE: Alleged Improprieties

I acknowledge receipt of your email.

Let the Inquisition begin!

George Everette
Vice President and CIO

Mortgages Ltd.
p. 602-287-3094
c. 602 686-2350
geverette@mtg ltd.com

This email and any attachments are confidential and may not be copied, forwarded, or distributed beyond the named recipient without prior permission of the sender. If you have received this email in error, please contact the sender. Thank you.

From: Robert Furst
Sent: Mon 03/24/2008 9:09 PM
To: George Everette
Subject: RE: Alleged Improprieties

Hi George:

I have spoken to Scott Coles, and I will be assuming the leadership role which I requested. I will serve in this administrative role through the end of the 2008 calendar year (in addition to my regular duties as Managing Director). At that time, Scott Coles and I will review this arrangement in good faith.

Over the next several weeks (and probably longer), I will be gathering information and interviewing employees, including you. I will then prepare a series of memoranda addressing all areas of concern. Several employees have offered to assist me in this time-consuming endeavor, provided that they are given assurances that there will be no negative repercussions to them.

I look forward to your cooperation.



Robert Furst
Senior Managing Director

rfurst@mtg ltd.com
P: 602.287.3070
C: 602.377.3702
F: 602.287.3076

Please note our new address as of 3/31 is listed below

MortgagesLTD.SECURITIES
4455 E Camelback Rd

03/25/2008

EXHIBIT 5

12/01/2009

Robert Furst

From: Christopher J. Olson, CPA
Sent: Tuesday, March 25, 2008 7:13 AM
To: Robert Furst
Cc: Mgmt
Subject: RE: VTL Resent to include all prior emails

Bob,

I find it incomprehensible for you to make statements such as you have done in the email below. You have made very serious, criminal-activity related comments about myself and the firm. In the time that I have known you, I have found many of your comments to be unfounded in truth or facts and normally they are your self-serving opinions. Your comments below fall into the latter category.

I have never and will never knowingly engage in any illegal, immoral or unethical activity or any form of securities or other fraud. Such activity or even the hint of such activity would have a devastating affect on my standing as a CPA and on my ability to provide for my wife and children. I DEMAND that you retract your statements below or provide some facts or documentation to substantiate your comments; this you will not be able to accomplish as none exist.

As an attorney, I would think you, of all people, would realize the potential serious, life-altering implications that can come from someone making such careless, slanderous and unsubstantiated comments about others. If, as you claim, you are aware of illegal activity, then you are derelict in your duties and guilty-by-association for not reporting such activity to the Chief Compliance Officer and Principal of the firm.

Your concoction that myself and senior management consider you a "whistleblower" is preposterous. I am not aware of anyone at Mortgages Ltd. nor in senior management that have ever referred to you as such. By using this term, you are again alleging improper or even illegal activity. Again, I demand that you withdraw this statement or provide facts to back up your allegation.

I want specific examples of how you feel that I, and management, have "unnecessarily and unfairly harassed" you or I demand that you retract that statement as well. The Company has written specific policies against harassment and if you feel you have a complaint, then submit it to Human Resources.

I do not understand your statements regarding VTL. As I told you and Andree in the parking lot last Thursday and as I have told many people, my position regarding the proper procedures for processing VTL investments comply with the terms of the POM. Cash is the only method of investment in VTL; not transferring loans into VTL. You completely twisted around my very clear concise statement.

I would much rather meet in person to discuss your issues but since you had to do so in a public forum, I had no choice but to respond in one. I suggest we further this discussion in person to make sure we completely understand each other (interpretations can be misconstrued in emails).

Finally, after reading your comments below, I find your desire to "work cooperatively with" me to be disingenuous and lacking of integrity. If you truly wanted to work together you would not make such wreckless, careless, unfounded statements in such an unprofessional manner as an email.



Christopher J. Olson, CPA
 CFO

colson@mtg ltd.com

03/25/2008

EXHIBIT 6

12/01/2009

Veronica Sas

From: rgfurst@aol.com
 Sent: Tuesday, April 01, 2008 11:00 PM
 To: Veronica Sas
 Subject: Suspension With Pay

CONFIDENTIAL

Hi Veronica:

Yesterday afternoon (Monday, March 31, 2008), I arrived at the new office after my colonoscopy earlier in the morning. You immediately notified me that I was suspended with pay for an indefinite period.

At our meeting, you also gave me an undated letter with an illegible signature, the contents of which were apparently intended to justify my suspension. The author of the letter claimed that "Scott Coles asked [me] to submit substantive and detailed information within 48 hours which would support the allegations [I] have been making," and that I had "not done so." Nothing could be further from the truth.

Contrary to the statements contained in this letter, there was no demand by Scott Coles for "substantive and detailed information," and there was no "48 hour" deadline which I missed. When I last communicated with Scott Coles on Thursday night (March 27, 2008), he simply asked me to provide "an outline of that which may be in question" and "my suggestions as to what [I] deem the correct approach for moving forward." He then wished me good luck on my move and stated that he would see me on Monday. The tone was entirely cordial, not combative or accusatory. There was no mention of "allegations;" rather, Scott Coles simply requested an outline of "questions" and "suggestions."

Clearly, someone is now attempting to retroactively create a false record as a basis to wrongfully terminate my employment. Nothing happened after my last communication with Scott Coles on Thursday night, except that (1) I spoke with legal counsel on Friday, March 28, 2008, and (2) I informed Eva Yang, the Chief Compliance Officer, later that day that I wanted to talk to her. That is certainly not valid grounds for suspension.

As far as the outline (which was requested by Scott Coles) is concerned, I believe that that there are numerous factual and legal issues which should be addressed in relation to the following:

1. Revolving Opportunity Program Investors Who Are Victims of a Default by Mortgages Ltd.
2. Capital Opportunity Program Investors Who Are Victims of a Default by Mortgages Ltd.
3. Mortgages Ltd. / Radical Bunny Securities Issues
4. Mortgage Pool Investors Disclosure Issues
5. Value-to-Loan Fund Disclosure Issues
6. Investors Who Did Not Grant Discretion to Mortgages Ltd.
7. Investors Who Wanted to Receive Their 2007 Reinvested Interest But Did Not Receive It

04/02/2008

EXHIBIT 7

12/01/2009

8. Mortgages Ltd. 401(k) Plan Participant Issues
9. Broker Dealers and Registered Investment Advisors Disclosure Issues
10. Solvency Issues of Mortgages Ltd.
 11. Loan Summary Sheets and Related Disclosure Issues
 12. Borrowers Who Are Victims of a Default by Mortgages Ltd.
 13. Loan Workouts Questioned by Investors
 14. Discrimination in Treatment Among Investors by Mortgages Ltd.

Please forward the foregoing outline to Scott Coles at your earliest convenience. This outline is not exhaustive, but it is a good starting point. With a virtually endless number of disgruntled investors and borrowers, and millions of dollars in defaulted obligations by Mortgages Ltd. to both its borrowers and investors, it is absurd for anyone to suggest that my concerns are "baseless." (Unless I hear otherwise from you, I trust that this e-mail answers all of your questions.)

Finally, as you know, your actions in disconnecting my telephone earlier today caused me a lot of anguish. My diabetic mother was extremely worried all day; my doctor could not reach me; and my privacy was invaded. Once again, this action was needless and retaliatory. As an officer of the Company, I must hold you accountable.

Bob Furst

Planning your summer road trip? Check out AOL Travel Guides.

**FORM U5
UNIFORM TERMINATION NOTICE FOR SECURITIES INDUSTRY
REGISTRATION**

U5 - FULL
05/19/2008

Rev. Form U5 (10/2005)

NOTICE TO THE INDIVIDUAL WHO IS THE SUBJECT OF THIS FILING

Even if you are no longer registered you continue to be subject to the jurisdiction of regulators for at least two years after your registration is terminated and may have to provide information about your activities while associated with this firm. Therefore, you must forward any residential address changes for two years following your termination date or last Form U5 amendment to: CRD Address Changes, P.O. Box 9495, Gaithersburg, MD 20898-9495.

1. GENERAL INFORMATION

First Name: ROBERT	Middle Name: GARY	Last Name: FURST	Suffix:
Firm CRD #: 127935	Firm Name: MORTGAGES LTD. SECURITIES, L.L.C.	Firm NFA #:	
Individual CRD #: 4972803	Individual SSN: 527-76-0615	Individual NFA #:	Firm Billing Code:

Office of Employment Address

CRD Branch #	NYSE Branch Code #	Firm Billing Code	Address	Private Residence	Type of Office	Start Date	End Date
BD Main			4455 E CAMELBACK ROAD PHOENIX , AZ 85018	N	Located At	10/01/2005	04/25/2008
266046			4455 E CAMELBACK ROAD PHOENIX , AZ 85018 UNITED STATES	N	Located At	05/30/2006	04/25/2008

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2. CURRENT RESIDENTIAL ADDRESS

NOTICE TO THE FIRM

This is the last reported residential address. If this is not current, please enter the current residential address.

From	To	Street	City	State	Country	Postal Code
05/2004	PRESENT	201 OCEAN AVENUE, #903-B	SANTA MONICA	CA	USA	90402

Rev. Form U5 (10/2005)

3. FULL TERMINATION

Is this a FULL TERMINATION? Yes No

Note: A "Yes" response will terminate ALL registrations with all SROs and all jurisdictions.

Reason for Termination: * Discharge * Provide an explanation below

EXHIBIT 8

FOR MONTHS, WE TRIED TO WORK WITH MR. FURST TO ADJUST HIS COMPENSATION. DURING A MARCH MEETING, HE RAISED CONCERNS ABOUT POSSIBLE OPERATIONAL AND LEGAL ISSUES. THE FIRM ASKED FOR SPECIFICS AND WHEN MR. FURST DID NOT RESPOND IN A TIMELY MANNER, HE WAS SUSPENDED. WHILE SUSPENDED WE AGAIN TRIED TO REACH AN AGREEMENT WITH HIM ABOUT HIS ROLE AND COMPENSATION. IN THE INTERIM, WE LEARNED THAT HE MAY NOT BE WELL SUITED TO CONTINUE WORKING WITH US. FOR EXAMPLE, IT APPEARS HE MAY HAVE MISREPRESENTED HIS CREDENTIALS.

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4. DATE OF TERMINATION

Date Terminated (MM/DD/YYYY): 04/25/2008

A complete date of termination is required for full or partial termination. This date represents the actual date that the termination of registration is effective.

Rev. Form U5 (10/2005)

6. AFFILIATED FIRM TERMINATION

No Information Filed

Rev. Form U5 (10/2005)

7. DISCLOSURE QUESTIONS

IF THE ANSWER TO ANY OF THE FOLLOWING QUESTIONS IN SECTION 7 IS 'YES', COMPLETE DE S
OF ALL EVENTS OR PROCEEDINGS ON APPROPRIATE DRP(S). IF THE INFORMATION IN SECTION AS
ALREADY BEEN REPORTED ON FORM U4 OR FORM U5, DO NOT RESUBMIT DRPs FOR THESE ITE
REFER TO THE EXPLANATION OF TERMS SECTION OF FORM U5 INSTRUCTIONS FOR EXPLANAT YF
ITALICIZED WORDS.

Investigation Disclosure

7A. Currently is, or at termination was, the individual the subject of an *investigation* or *proceeding* by a YES NO
domestic or foreign governmental body or *self-regulatory organization* with jurisdiction over
investment-related businesses? (Note: Provide details of an *investigation* on an Investigation
Disclosure Reporting Page and details regarding a *proceeding* on a Regulatory Action Disclosure
Reporting Page.)

Internal Review Disclosure

7B. Currently is, or at termination was, the individual under internal review for fraud or wrongful taking YES NO
of property, or violating *investment-related* statutes, regulations, rules or industry standards of
conduct?

Criminal Disclosure

7C. While employed by or associated with your *firm*, or in connection with events that occurred while YES NO
the individual was employed by or associated with your *firm*, was the individual:
1. convicted of or did the individual plead guilty or nolo contendere ("no contest") in a domestic,
foreign or military court to any *felony*?

2. charged with any felony? YES NO
3. convicted of or did the individual plead guilty or nolo contendere ("no contest") in a domestic, foreign or military court to a *misdemeanor involving*: investments or an *investment-related* business, or any fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses? YES NO
4. charged with a *misdemeanor* specified in 7(C)(3)? YES NO

Regulatory Action Disclosure

- 7D. While employed by or associated with your *firm*, or in connection with events that occurred while the individual was employed by or associated with your *firm*, was the individual *involved* in any *disciplinary action* by a domestic or foreign governmental body or *self-regulatory organization* (other than those designated as a "*minor rule violation*" under a plan approved by the U.S. Securities and Exchange Commission) with jurisdiction over the *investment-related* businesses? YES NO

Customer Complaint/Arbitration/Civil Litigation Disclosure

- 7E. 1. In connection with events that occurred while the individual was employed by or associated with your *firm*, was the individual named as a respondent/defendant in an *investment-related*, consumer-initiated arbitration or civil litigation which alleged that the individual was *involved* in one or more *sales practice violations* and which:
- (a) is still pending, or; YES NO
- (b) resulted in an arbitration award or civil judgment against the individual, regardless of amount, or; YES NO
- (c) was settled for an amount of \$10,000 or more. YES NO
2. In connection with events that occurred while the individual was employed by or associated with your *firm*, was the individual the subject of an *investment-related*, consumer-initiated complaint, not otherwise reported under question 7(E)(1) above, which alleged that the individual was *involved* in one or more *sales practice violations*, and which complaint was settled for an amount of \$10,000 or more? YES NO
3. In connection with events that occurred while the individual was employed or associated with your *firm*, was the individual the subject of an *investment-related*, consumer-initiated, written complaint, not otherwise reported under questions 7(E)(1) or 7(E)(2) above, which:
- (a) would be reportable under question 14I(3)(a) on Form U4, if the individual were still employed by your *firm*, but which has not previously been reported on the individual's Form U4 by your *firm*; or YES NO
- (b) would be reportable under question 14I(3)(b) on Form U4, if the individual were still employed by your *firm*, but which has not previously been reported on the individual's Form U4 by your *firm*. YES NO

Termination Disclosure

- 7F. Did the individual voluntarily *resign* from your *firm*, or was the individual discharged or permitted to *resign* from your *firm*, after allegations were made that accused the individual of:
1. violating *investment-related* statutes, regulations, rules or industry standards of conduct? YES NO
2. fraud or the wrongful taking of property? YES NO
3. failure to supervise in connection with *investment-related* statutes, regulations, rules or industry standards of conduct? YES NO

8. SIGNATURE

Please Read Carefully

All signatures required on this Form U5 filing must be made in this section.

A "Signature" includes a manual signature or an electronically transmitted equivalent. For purposes of an electronic form filing, a signature is effected by typing a name in the designated signature field. By typing a name in this field, the signatory acknowledges and represents that the entry constitutes in every way, use, or aspect, his or her legally binding signature.

8A. FIRM ACKNOWLEDGMENTThis section must be completed on all U5 form filings submitted by the *firm*.**INDIVIDUAL ACKNOWLEDGMENT AND CONSENT**

8B. This section must be completed on amendment U5 form filings where the individual is submitting changes to Part II of the INTERNAL REVIEW DRP or changes to Section 2 (CURRENT RESIDENTIAL ADDRESS).

8A. FIRM ACKNOWLEDGMENT

I VERIFY THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN AND WITH THIS FORM.

Person to contact for further information

EVA YANG

Telephone # of person to contact

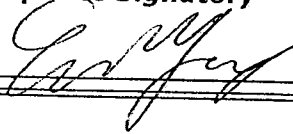
602-287-3042

Signature of Appropriate Signatory

EVA YANG

Date (MM/DD/YYYY)

05/16/2008

Signature _____


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INVESTIGATION DRP

No Information Filed

Rev. Form U5 (10/2005)

INTERNAL REVIEW DRP

No Information Filed

Rev. Form U5 (10/2005)

CRIMINAL DRP

No Information Filed

Rev. Form U5 (10/2005)

TERMINATION DRP

No Information Filed

Rev. Form U5 (10/2005)

REGULATORY ACTION DRP

No Information Filed

Rev. Form U5 (10/2005)

CUSTOMER COMPLAINT/ARBITRATION/CIVIL LITIGATION DRP

No Information Filed