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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING  
Whether there has been a violation  
of the Securities Act of the State  
of Washington by:

Meridian Mortgage Investors Fund V,  
LLC; Meridian Mortgage Investors Fund  
VI, LLC; Meridian Mortgage Investors  
Fund VII, LLC; Meridian Mortgage  
Investors Fund VIII, LLC; Meridian  
Mortgage Investors Fund IX, LLC;  
Meridian Mortgage Investors Fund X,  
LLC; Meridian Real Estate Opportunity  
Fund I, LLC; CS Note Holdco, LLC;  
Meridian Partnership Management, Inc.;  
MPM Investor Services, Inc.; F. Darren  
Berg; Gary Brown; Dennis Shay

Respondents.

Order Number S-10-250-10-FO01

ENTRY OF FINDINGS OF FACT AND  
CONCLUSIONS OF LAW AND FINAL ORDER  
TO CEASE AND DESIST AND TO IMPOSE  
FINES AS TO F. DARREN BERG

THE STATE OF WASHINGTON TO: F. Darren Berg

On September 10, 2010, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, to Recover Costs, and to Impose Fines S-10-250-10-SC01, hereinafter referred to as "Statement of Charges," against Respondent F. Darren Berg. The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing, hereinafter referred to "Notice of Opportunity for Hearing," and an Application for Adjudicative Hearing, hereinafter referred to as "Application for Hearing," was served on F. Darren Berg on September 15, 2010.

ENTRY OF FINDINGS OF FACT AND CONCLUSIONS  
OF LAW AND FINAL ORDER TO CEASE AND  
DESIST AND TO IMPOSE FINES AS TO F. DARREN  
BERG

1

DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760

1 The Notice of Opportunity for Hearing advised that a written application for an administrative  
2 hearing on the Statement of Charges must be received within twenty days from the date of receipt of the  
3 notice. Respondent F. Darren Berg failed to request an administrative hearing within twenty days of receipt  
4 of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing  
5 provided or otherwise.

6 Therefore the Securities Administrator adopts as final as to F. Darren Berg the Findings of Fact and  
7 Conclusions of Law as set forth in the Statement of Charges and enters a Final Order against F. Darren Berg  
8 to cease and desist and to impose fines.

9 The Securities Administrator makes the following findings of fact and conclusions of law:

10 **FINDINGS OF FACT**

11 Respondents

12  
13 1. Meridian Mortgage Investors Fund V, LLC (Fund 5) is a Washington limited liability  
14 company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. On  
15 July 9, 2010, Fund 5's creditors filed a petition with the United States Bankruptcy Court for the Western  
16 District of Washington to force Fund 5 into Chapter 11 bankruptcy proceedings.

17  
18 2. Meridian Mortgage Investors Fund VI, LLC (Fund 6) is a Washington limited liability  
19 company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. Fund  
20 6 filed for Chapter 11 bankruptcy in United States Bankruptcy Court for the Western District of Washington  
21 on July 28, 2010.

22 3. Meridian Mortgage Investors Fund VII, LLC (Fund 7) is a Washington limited liability  
23 company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. On

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1 July 9, 2010, Fund 7's creditors filed a petition with the United States Bankruptcy Court for the Western  
2 District of Washington to force Fund 7 into Chapter 11 bankruptcy proceedings.

3 4. Meridian Mortgage Investors Fund VIII, LLC (Fund 8) is a Washington limited liability  
4 company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. On  
5 July 9, 2010, Fund 8's creditors filed a petition with the United States Bankruptcy Court for the Western  
6 District of Washington to force Fund 8 into Chapter 11 bankruptcy proceedings.

7 5. Meridian Mortgage Investors Fund IX, LLC (Fund 9) is a Delaware limited liability company  
8 with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. Fund 9 filed for  
9 Chapter 11 bankruptcy in United States Bankruptcy Court for the Western District of Washington on July  
10 28, 2010.

11 6. Meridian Mortgage Investors Fund X, LLC (Fund 10) is a Delaware limited liability  
12 company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. Fund  
13 10 filed for Chapter 11 bankruptcy in United States Bankruptcy Court for the Western District of  
14 Washington on July 28, 2010.

15 7. Meridian Real Estate Opportunity Fund I, LLC (REO Fund 1) is a Washington limited  
16 liability company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA  
17 98101. REO Fund 1 filed for Chapter 11 bankruptcy in United States Bankruptcy Court for the Western  
18 District of Washington on August 16, 2010.

19 8. CS Note Holdco, LLC (Holdco) is a Washington limited liability company with its principal  
20 place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101.

21 9. Meridian Partnership Management, Inc. (MPM) is a Washington corporation with its  
22 principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. MPM managed the  
23

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1 Respondents described in paragraphs one through eight of the Findings of Fact pursuant to Management and  
2 Servicing agreements. Berg is the chief executive officer and sole shareholder of MPM.

3 10. MPM Investor Services, Inc. (MIS) is a Washington corporation with its principal place of  
4 business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. MIS is a wholly owned subsidiary of  
5 MPM, and acted as the agent of Funds 5, 7, 8, 9, and 10 pursuant to Assignment and Security agreements  
6 entered into between those Funds and MIS. MIS was authorized to make disbursements from the custodial  
7 accounts of Funds 5, 7, 8, 9, and 10 into which all proceeds from the issue of notes from Funds 5, 7, 8, 9,  
8 and 10 and all remittances received from borrowers on the notes held by Funds 5, 7, 8, 9, and 10 were  
9 deposited.

10 11. F. Darren Berg (Berg) is a Washington resident. Berg owns the Respondent entities described  
11 in paragraphs one through ten of the Findings of Fact. Berg was CEO, Director, and President of Funds 9  
12 and 10. Berg was the only person with access to bank records for the Respondent entities and was the sole  
13 signatory on the Respondent entities' checking accounts. On July 27, 2010, Berg filed for Chapter 11  
14 bankruptcy in United States Bankruptcy Court for the Western District of Washington.

15 12. Gary Brown (Brown) is a Washington resident. Brown was employed by MPM as co-director  
16 of investor relations for Funds 5, 6, 7, 8, 9, and 10. In certain documents given to investors, Brown is  
17 identified as a Vice President of Fund 5, 6, 7, and 8. Brown was a Vice President of Investor Relations of  
18 REO Fund 1.

19 13. Dennis Shay (Shay) is a Washington resident. Shay was employed by MPM as co-director of  
20 investor relations for Funds 5, 6, 7, 8, 9, and 10. In certain documents given to investors, Shay is identified  
21 as Vice President of Fund 5, 6, 7, and 8. Shay was a Vice President of Investor Relations of REO Fund 1.

Scope of all offerings

1  
2       14.     Since as early as 2000, the Respondent entities described in paragraphs one through eight  
3 and two additional entities owned by Berg but not named as Respondents in this Statement of Charges  
4 offered and sold approximately \$202,223,796 worth of investments to approximately seven hundred  
5 investors in approximately twenty seven states, according to documents provided by Berg. The substantial  
6 majority of these investors are Washington residents.

Summary and scope of the offerings of Funds 5, 6, 7, 8, 9, and 10

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9       15.     Funds 5, 6, 7, 8, 9, and 10 offered and sold promissory notes to investors. The proceeds of  
10 these notes were to be used by MPM to purchase notes secured by mortgages on real property. Payments by  
11 borrowers were to be the source of payments to investors. MPM promised to buy underperforming and  
12 nonperforming assets from the Funds, except Fund 8, or to otherwise protect the Funds' investors from such  
13 assets.

14       16.     Beginning as early as 2004, Fund 5 offered and sold approximately \$39,873,038 worth of  
15 promissory notes to approximately 350 investors. Beginning as early as 2006, Fund 6 offered and sold  
16 approximately \$6,324,434 worth of promissory notes to approximately fifty investors. Beginning as early as  
17 2004, Fund 7 offered and sold approximately \$62,486,191 worth of promissory notes to approximately four  
18 hundred investors. Beginning as early as 2004, Fund 8 offered and sold approximately \$39,196,445 to  
19 approximately 210 investors. Beginning as early as November of 2009, Fund 9 offered and sold  
20 approximately \$3,302,616 worth of promissory notes to approximately seventeen investors. Beginning as  
21 early as November of 2009, Fund 10 offered and sold approximately \$1.075 million worth of promissory  
22 notes to approximately five investors.

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Nature of the Offerings

Funds 5, 6, 7, 8, 9, and 10

17. The minimum subscription amount that Funds 5 and 9 would accept was \$25,000. The minimum amount that Funds 6 and 7 would accept was \$50,000. The minimum amount Funds 8 and 10 would accept was \$100,000. With each of these offerings, MPM reserved the right to accept a smaller amount.

18. The notes sold by Funds 5, 7, and 8 had twelve month terms. Notes sold by Funds 9 and 10 had terms ranging from twelve to twenty four months. Fund 6 notes had thirty six month terms. All notes would automatically renew if the investor did not request redemption in writing.

19. The notes issued by Funds 5, 7, 8, 9, and 10 provided for the payment of a fixed rate of interest. Investors in each of these Funds, except Fund 8, had the option of reinvesting the interest earned or receiving a monthly interest payment. Fund 8 investors did not have the option of receiving a monthly interest payment. Instead, interest on Fund 8's notes automatically converted to principal and was reinvested each month. The interest rate for notes issued by Funds 5, 7, 8, 9, and 10 was established by the issuing Fund at the time of purchase.

20. Fund 6 notes provided for a variable rate of interest. The initial interest rate represented the prime lending rate plus 1.5%. Fund 6 notes were to be adjusted quarterly to preserve this formula. Interest rates paid were not to decrease more than one percent below nor increase more than two percent over a note's initial interest rate. At the end of each quarter during a Fund 6 note's term, an investor had the option of reinvesting interest earned or receiving a quarterly interest payment.

1           21.     The proceeds from the offerings by Funds 5, 6, 7, 8, 9, and 10 were to be used to purchase  
2 primarily seller-financed notes and the mortgages on real property securing them. MPM would underwrite,  
3 initiate, and acquire these assets on behalf of these Funds pursuant to the Management and Servicing  
4 agreements entered into between MPM and the Funds. These Funds' offering materials discussed the  
5 criteria that these assets would have to meet to be eligible for purchase by MPM and placement in the  
6 Funds. Payments received from the borrowers on these notes were to be the source of payments to the  
7 Funds' investors.

8           22.     Fund 7 also planned to focus its lending activities around short term bridge loans originated  
9 by MPM under MPM's Bridge-It Loan Program which Fund 7's offering materials represented was a  
10 lending program specifically designed to aid in the timely facilitation of section 1031 tax-deferred  
11 exchanges. Fund 7 also anticipated acting as a direct lender to qualifying borrowers who needed short term  
12 real estate financing.

13           23.     Fund 8 focused on opportunistic acquisitions, intending to purchase real estate at below  
14 market value by paying quick cash to distressed property sellers and by purchasing poorly performing, non-  
15 performing, and performing defaulted seller-financed mortgages at deep discounts. Fund 8's offering  
16 materials described that Fund's mortgage rehabilitation and collection strategies for these assets. Similarly,  
17 Fund 10 was to focus its efforts toward purchasing poorly performing, non-performing, and performing  
18 defaulted, mortgage assets at deep discounts.

19           24.     MPM promised to buy poorly performing assets back from Funds 5, 6, 7, 9, and 10 or  
20 otherwise shield those Funds from loss arising from such assets. MPM promised to repurchase from Fund 5  
21 any asset that fell into default prior to the asset's entry into foreclosure. MPM promised to reimburse Funds  
22 6 and 7 the full amount of any loss Funds 6 and 7 incurred due to a foreclosure arising from a borrower's  
23 failure to make payments, or to retire the full principal and interest balance when due. MPM promised to

1 buy from Funds 9 and 10 assets in which the borrower(s) had declared bankruptcy, or had become  
2 delinquent, or in which the scheduled amortization of the subject mortgage was underperforming by more  
3 than ten percent.

4 25. The offering materials for Funds 5, 7, 9, and 10 provided that monthly disbursements would  
5 be made as follows: first, to investors; second to MIS for services rendered under the Assignment and  
6 Security agreements; third to MPM as fees for services rendered under the Management and Servicing  
7 agreements; and fourth, to Berg, if certain criteria concerning the assets held by those Funds were met.

8 26. MPM was entitled to earn a profit on the assets it sold to Funds 5, 6, 7, 8, 9, and 10. The  
9 offering materials of Funds 5, 7, 9, and 10 provided that such profit was equal to the lesser of ten percent of  
10 the unpaid principal balance of a given mortgage when MPM closed upon it or the difference between the  
11 amount MPM paid for a given mortgage and the amount for which MPM sold the mortgage to the Fund.  
12 Such sale price was to be determined by the pricing policy included in the Managing and Servicing  
13 agreements. The offering materials of Funds 6 and 8 did not describe how the profit would be determined.

14 27. The remedies available to investors in Funds 5, 7, 9, and 10 on whose notes the issuing  
15 Fund(s) had defaulted were restricted by those Funds' offering materials. A default on a note issued by Fund  
16 5, 7, 9, or 10 by the issuing Fund did not give rise to a right of the investor to accelerate payment or  
17 commence collection remedies. A majority of investors had to vote to declare a default before MIS could  
18 pursue collection.

19 28. The availability of redemptions of notes issued by Funds 9 and 10 was limited by those  
20 Funds' offering materials. Notes issued by Funds 9 and 10 were subject to what those Funds' offering  
21 materials called gatekeeping agreements which provided, in part, that the total amount of redemptions paid  
22 in a given month by either Fund 9 or 10 may be no more than the lesser of five percent of the total aggregate  
23 balance of the notes that were outstanding to investors as of sixty days prior to the due date of the



1 redemption or the sum total of the amount of cash available in the issuing Fund's cash account as of the due  
2 date of the redemption.

3 29. The offering materials of Fund 5, 6, 7, 8, 9, and 10 discussed risks involving or arising from  
4 buying and owning mortgages and risks involving or arising from the structure of the company.

5 30. Most investors in Funds 5, 6, 7, 8, 9, and 10 learned of those Funds through Brown and Shay.  
6 Other investors learned of these Funds from Berg. Many of these Funds' investors knew Brown and/or Shay  
7 through previous real estate projects with which Brown and/or Shay were involved. Other investors were  
8 clients of investment advisory firms whose representatives knew Brown and/or Shay and proposed  
9 investment in these Funds to their clients. For this service, Brown and Shay received salaries from MPM.  
10 Brown and Shay also each received twenty percent of the Funds' "profits" each year, pursuant to consulting  
11 agreements Brown and Shay entered into with the Funds. Several securities salespersons outside of the State  
12 of Washington also solicited investment in and sold notes issued by Funds 5, 6, 7, 8, 9, and 10 to investors.

13 31. Investors in Funds 5, 6, 7, 8, 9, and 10 purchased notes by completing and submitting a  
14 subscription agreement and delivering a check payable to the Fund's custodial account.

15 32. The offering materials of Funds 5, 6, 7, 8, 9, and 10, state that the offer and sale of the Funds'  
16 notes were limited to accredited investors as that term is defined in Rule 501(a) of Regulation D.

17 Meridian Real Estate Opportunity Fund I, LLC

18 33. Beginning as early as March of 2009, REO Fund 1 offered and sold approximately \$6.885  
19 million worth of limited liability company interests to approximately fifty five investors. Under the terms of  
20 REO Fund 1's offering materials, each interest was valued at \$5,000. The minimum subscription that REO  
21 Fund 1 would accept was \$100,000. MPM reserved the right to accept smaller subscriptions. The offering  
22 was to close on August 31, 2009. Under the terms of its offering materials, REO Fund 1 offering was  
23 limited to accredited investors as that term is defined in Rule 501(a) of Regulation D.

1           34.     One hundred percent of the investor funds received during the offering were to be used to  
2 purchase real property, to hold real property, and to obtain “paper entitlements” on properties acquired.  
3 REO Fund 1 was to opportunistically acquire residential land assets at deeply discounted prices. Investors  
4 were advised that REO Fund 1 might purchase properties from MPM or other Berg-owned entities.  
5 Investors were to be repaid from property sales.

6           35.     According to REO Fund 1’s offering materials, proceeds generated by the sale of a property  
7 owned by REO Fund 1 would be distributed as follows: first, to investors such that they receive a preferred  
8 return equal to 10.5% simple interest calculated from the date of acceptance of the investor’s subscription  
9 agreement; second, to repay investors their principal investment amount; third, to be split eighty percent to  
10 the investors and twenty percent to the “owners.” MPM withheld a 1.5% acquisition fee for each property  
11 purchased by REO Fund 1 and a one percent disposition fee for each property sold.

12           36.     REO Fund 1’s offering materials summarized the REO Fund 1 LLC agreement, the  
13 management agreement between REO Fund 1 and MPM, federal and state tax and regulatory  
14 considerations, and key personnel of MPM.

15           37.     REO Fund 1’s offering materials described risks associated with buying and owning real  
16 estate and with the company’s structure.

17           38.     Most REO Fund 1 investors learned of REO Fund 1 through Brown and Shay. Other  
18 investors learned of REO Fund 1 from Berg. Many of REO Fund 1’s investors knew Brown and/or Shay  
19 through previous real estate projects with which Brown and/or Shay were involved. Other investors were  
20 clients of investment advisory firms whose representatives knew Brown and/or Shay and proposed  
21 investment in REO Fund 1 to their clients. For this service, Brown and Shay received salaries from MPM.  
22 Several securities salespersons outside of the State of Washington also solicited investment in and sold REO  
23 Fund 1 interests to investors.



1 43. Berg represented to investors that money invested in Holdco would be used to purchase, at a  
2 discount of thirty percent off their face value, promissory notes made by Funds 5, 7, and 8 and held by a  
3 fund administered by a Bellevue, Washington-based investment advisory firm. These notes, according to  
4 Berg, would be sold to a third party at a price greater than that Holdco would pay to purchase the notes.  
5 Berg did not disclose the identity of the third party purchaser. Berg represented to at least one investor, prior  
6 to his investment, that the agreement with the Bellevue-based firm in which the firm would sell the notes at  
7 a thirty percent discount was effectively completed, was in the process of being “papered,” and would be  
8 signed within days.

9 44. Holdco’s offering materials stated that Holdco would distribute back to investors as a return  
10 of capital any of the net proceeds of this offering that had not been invested by October 31, 2009. Berg  
11 promised monthly interest payments and a positive return prior to December 31, 2009. Berg further  
12 promised that Holdco would use all money received to purchase these notes.

13 45. Unbeknownst to Holdco’s investors, these notes were, at the time of Holdco’s offering, the  
14 subject of litigation initiated by the Bellevue-based firm against Berg, MPM, MIS, and Funds 5, 7, and 8  
15 when the firm wished to redeem certain notes it held and its request for redemption was rejected. On  
16 October 9, 2009, an Amended and Restated Settlement Agreement was entered into by Berg, MPM, MIS,  
17 and Funds 5, 7, and 8 and the fund administered by the Bellevue-based firm under which Berg agreed to pay  
18 an additional \$4 million.

19 46. Investors invested by completing and delivering the Holdco subscription agreement and  
20 delivering a check payable to CS Note Holdco, LLC.  
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1 Misrepresentations and Omissions by Funds 5, 6, 7, 8, 9, and 10

2 47. Funds 9 and 10 made material misrepresentations to investors concerning the use of investor  
3 funds. Notwithstanding representations that Funds 9 and 10 would use investor funds to purchase seller  
4 financed real estate mortgages made in Funds 9's and 10's offering materials, Funds 9 and 10 never  
5 purchased such assets. Instead, Funds 9 and 10 used investor funds exclusively to cover interest and/or  
6 redemptions for investors in other Funds.

7 48. Funds 5, 6, 7, 8, 9, and 10 failed to disclose material information which made the disclosed  
8 information misleading to potential investors. The Funds each failed to provide potential investors with  
9 material information concerning the Funds' financial condition to at least one investor. Moreover, the Funds  
10 failed to disclose material information concerning MPM's financial state to at least one investor. Without  
11 this information, potential investors could not evaluate the likelihood that MPM could fulfill its promises to  
12 the Funds to protect the Funds' investors from nonperforming and underperforming assets as described in  
13 paragraph twenty four of the Findings of Fact. Each Fund admitted in its offering materials that the success  
14 of each fund would depend, among other things, upon MPM's ability to perform pursuant to the  
15 Management and Servicing agreements between the Funds and MPM.

16 49. Funds 5, 6, 7, 8, 9, and 10 failed to disclose material information that made the disclosed  
17 information misleading to potential investors. The Funds each failed to identify the assumptions it had made  
18 concerning its ability to pay its notes.

19 50. Funds 5, 6, 7, 8, 9, and 10 failed to disclose material information that made the disclosed  
20 information misleading to potential investors. The Funds each failed to disclose to at least one investor the  
21 twenty percent consulting fees received by both Brown and Shay pursuant to Brown's and Shay's  
22 consulting agreements.

1           51.     The offering materials of Funds 5, 6, 7, 8, 9, and 10 represented that Berg was a graduate of  
2 the University of Oregon. Berg attended the University of Oregon for approximately two years but did not  
3 earn a degree.

4           52.     Funds 5, 7, 9, and 10 failed to disclose material information that made the disclosed  
5 information misleading to potential investors. The Funds each failed to disclose the risks inherent in a  
6 default by the issuing Funds being contingent upon an affirmative vote, including, but not limited to, other  
7 investors arbitrarily withholding an affirmative vote.

8           53.     Funds 5, 6, 7, 8, 9, and 10 failed to disclose material information that made the disclosed  
9 information misleading to potential investors. The Funds failed to disclose the risks presented by the Funds  
10 having inadequate cash to honor multiple simultaneous redemption requests to at least one investor.  
11 Moreover, the Funds failed to disclose the cash flows of previous offerings.

12           54.     Although the offering materials of Funds 5, 6, and 7 represented that accurate records of  
13 those Funds' assets would be maintained, Berg falsified the records of assets owned by Funds 5, 6, and 7.  
14 Berg altered the records of Funds 5, 6, and 7 to indicate that those Funds had purchased approximately one  
15 hundred loans that those Funds had not in fact purchased. Berg has stated that Fund 6 held only two genuine  
16 loans.

17           55.     Funds 6 and 8 failed to disclose material information that made the disclosed information  
18 misleading to potential investors. Funds 6 and 8 failed to disclose how the profit on the assets MPM sold to  
19 Funds 6 and 8 to which MPM was entitled would be determined.

20           56.     Fund 7 made a misrepresentation of material fact concerning where money received from  
21 borrowers on notes purchased by Fund 7 would be deposited. A significant portion of money received from  
22 borrowers on notes purchased by Fund 7 was never transferred to Fund 7. However, Fund 7's offering  
23 materials represented that funds received from borrowers would be held in Fund 7's operating account.

Misrepresentations and Omissions by Meridian Real Estate Opportunity Fund I, LLC

57. REO Fund 1 made material misrepresentations to investors concerning the use of investor funds. Notwithstanding representations that one hundred percent of the investor funds received during the offering was to be used to purchase real property, to hold real property, and to obtain paper entitlements on properties acquired, funds received from investors were used to pay investors in other Funds. In fact, according to Berg, REO Fund 1 was formed to raise money to pay investors in other Funds. Berg viewed REO Fund 1 as the only way to correct the problems presented by the other Funds.

58. REO Fund 1 failed to disclose material information concerning MPM's financial state, notwithstanding REO Fund 1's admission in its offering materials that the success of REO Fund 1 would depend, among other things, upon MPM's ability to perform pursuant to the Management agreement between REO Fund 1 and MPM.

59. REO Fund 1 failed to disclose material information that made the disclosed information misleading to potential investors. REO Fund 1 failed to identify the assumptions it had made concerning its ability to pay its investors the returns described in paragraphs thirty five and thirty nine of the Findings of Fact.

60. REO Fund 1 failed to disclose material information that made the disclosed information misleading to potential investors. REO Fund 1 failed to disclose the risks of liability arising from injury to persons and damage to property occurring on owned real estate and such liability's potential effect on REO Fund 1's ability to pay investors the returns described in paragraphs thirty five and thirty nine of the Findings of Fact.

61. REO Fund 1's offering materials represented that Berg was a graduate of the University of Oregon. Berg attended the University of Oregon for approximately two years but did not earn a degree.

Misrepresentations and Omissions by CS Note Holdco, LLC

62. Holdco and Berg failed to disclose material information that made the disclosed information misleading to investors. Holdco and Berg failed to disclose the litigation initiated by the Bellevue-based investment advisory firm described in paragraph forty five of the Findings of Fact to at least one investor. Moreover, Holdco and Berg failed to disclose to at least one investor the Amended and Restated Settlement Agreement described in paragraph forty five of the Findings of Fact.

63. Berg made an untrue statement of material fact concerning the Bellevue-based firm's assent to sell its notes to Holdco at a thirty percent discount. The Bellevue-based firm never agreed to such a transaction.

64. Berg and Holdco made an untrue statement of material fact concerning the use of investor money. The funds of several investors were used to pay the Bellevue-based firm the \$4 million it was owed under the Amended and Restated Settlement Agreement stemming from the firm's litigation against Berg, MPM, MIS, and Funds 5, 7, and 8, instead of being used to purchase the firm's notes as represented by Holdco's offering materials and by Berg.

65. Berg and Holdco made untrue statements of material fact concerning the return of investor funds. Notwithstanding Holdco's offering materials' assertion that Holdco would distribute back to investors as a return of capital any of the net proceeds of this offering that had not been invested by October 31, 2009 and Berg's promise of a positive return prior to December 31, 2009, at least two Holdco investors have not received their funds back from Holdco.



Registration Status

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2       66.     On March 21, 2005, the Securities Division received a Notice of Exempt Offering of  
3 Securities filed on behalf of Fund 5 pursuant to Section 18(b)(4)(D) of the Securities Act of 1933 and WAC  
4 460-44A-506.

5       67.     On July 3, 2006, the Securities Division received a Notice of Exempt Offering of Securities  
6 filed on behalf of Fund 6 pursuant to Section 18(b)(4)(D) of the Securities Act of 1933 and WAC 460-44A-  
7 506.

8       68.     On March 21, 2005, the Securities Division received a Notice of Exempt Offering of  
9 Securities filed on behalf of Fund 7 pursuant to Section 18(b)(4)(D) of the Securities Act of 1933 and WAC  
10 460-44A-506.

11       69.     On March 13, 2009, the Securities Division received a Notice of Exempt Offering of  
12 Securities filed on behalf of Fund 8 pursuant to Section 18(b)(4)(D) of the Securities Act of 1933 and WAC  
13 460-44A-506.

14       70.     On June 16, 2009, the Securities Division received a Notice of Exempt Offering of Securities  
15 filed on behalf of REO Fund 1 pursuant to Section 18(b)(4)(D) of the Securities Act 1933 and WAC 460-  
16 44A-506. Pursuant to WAC 406-44A-506, REO Fund 1 was required to comply with the conditions of  
17 Regulation D.

18       71.     Fund 9 is not currently and has not previously been registered to sell its securities in the State  
19 of Washington, and has not filed a claim of exemption.

20       72.     Fund 10 is not currently and has not previously been registered to sell its securities in the  
21 State of Washington, and has not filed a claim of exemption.

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1 73. Holdco is not currently and has not previously been registered to sell its securities in the State  
2 of Washington, and has not filed a claim of exemption.

3 74. MPM is not currently registered as a broker-dealer in the State of Washington and has not  
4 previously been so registered.

5 75. MIS is not currently registered as a broker-dealer in the State of Washington and has not  
6 previously been so registered.

7 76. Berg is not currently registered as a securities salesperson or broker-dealer in the State of  
8 Washington, and has not previously been so registered.

9 77. Brown is not currently registered as a securities salesperson or broker-dealer in the State of  
10 Washington, and has not previously been so registered.

11 78. Shay is not currently and has not previously been registered as a securities salesperson or  
12 broker-dealer in the State of Washington, and has not previously been so registered.

13  
14 **CONCLUSIONS OF LAW**

15 Based on the above Findings of Fact, the following Conclusions of Law are made:

16 1. The offer or sale of promissory notes by Funds 5, 6, 7, 8, 9, and 10 and the offer or sale of  
17 limited liability company interests by REO Fund 1 and Holdco described above each constitutes the offer or  
18 sale of a security as defined at RCW 21.20.005(10) and (12).

19 2. The website designed for REO Fund 1, Brown's and Shay's active solicitation of Brown's  
20 and Shay's network of contacts for referrals of potential investors for REO Fund 1 and distribution of  
21 passwords for the website to persons unknown to them violate the prohibition of general solicitation and  
22 general advertising of 17 CFR 230.502(c). Therefore, REO Fund 1 failed to meet the requirements

1 necessary to claim the exemption available under Rule 506 of the Securities Act of 1933 and WAC 460-  
2 44A-506.

3 3. The offer or sale of securities by Funds 9, 10, REO Fund 1, and Holdco violate RCW  
4 21.20.140 because no registration is on file with the Securities Administrator and no valid claim of  
5 exemption under WAC 460-44A-506 exists.

6 4. Brown, Shay, and Berg have violated RCW 21.20.040 by offering or selling securities issued  
7 by Funds 9 and 10, and REO Fund 1 while not registered or exempted from registration as a securities  
8 salesperson or broker-dealer in the State of Washington. Berg has violated RCW 21.20.040 by offering or  
9 selling securities issued by Holdco while not registered or exempted from registration as a securities  
10 salesperson or broker-dealer in the State of Washington. MPM has violated RCW 21.20.040 by offering or  
11 selling securities issued by Funds 9 and 10, and REO Fund 1 while not registered or exempted from  
12 registration as a broker-dealer in the State of Washington. MIS has violated RCW 21.20.040 by offering or  
13 selling securities issued by Funds 9 and 10 while not registered or exempted from registration as a broker-  
14 dealer in the State of Washington.  
15

16 5. Respondents have violated RCW 21.20.010 because, as set forth in the Findings of Fact,  
17 Respondents, in connection with the offer or sale of securities, made misstatements of material fact or  
18 omitted to state material facts necessary in order to make the statements made, in light of the circumstances  
19 under which they were made, not misleading.

20 6. Funds 9 and 10 are debenture companies as defined at RCW 21.20.705(1). By failing to  
21 register its debentures with the Securities Administrator, Funds 9 and 10 deprived those Funds' investors of  
22 the protections provided by RCW 21.20.732, 21.20.734, 21.20.740, and 21.20.745. Pursuant to these  
23

1 provisions, the Securities Administrator could have issued a cease and desist order against Funds 9 and 10  
2 when those Funds began engaging in unsafe or unsound practices in conducting their businesses and would  
3 have had an opportunity to evaluate those Funds' financial and business conditions.

4 7. Berg violated RCW 21.20.720(2)(a) by using funds received from investors and held by  
5 Funds 9 and 10 other than for current and necessary payments as authorized by Funds 9's and 10's boards of  
6 directors, namely by using Funds received from Fund 9 and 10 investors to pay interest and redemptions to  
7 investors in other Funds.

8  
9 **FINAL ORDER**

10 It is hereby ORDERED that the Respondent, F. Darren Berg, his agents, and employees each  
11 cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.140,  
12 the section of the Securities Act of Washington requiring registration.

13 It is further ORDERED that F. Darren Berg, his agents, and employees each cease and desist  
14 from violation of RCW 21.20.010, the anti-fraud section of the Securities Act.

15 It is further ORDERED that F. Darren Berg, his agents, and employees each cease and desist  
16 from violation of RCW 21.20.040, the broker-dealer and securities salesperson registration section of  
17 the Securities Act.

18 It is further ORDERED that F. Darren Berg shall be liable for and pay a fine of \$25,000. Payment  
19 of such fine is deferred until all investors of Meridian Mortgage Investors Fund V, LLC, Meridian  
20 Mortgage Investors Fund VI, LLC, Meridian Mortgage Investors Fund VII, LLC, Meridian Mortgage  
21 Investors Fund VIII, LLC, Meridian Mortgage Investors Fund IX, LLC, Meridian Mortgage Investors  
22

23  
24 ENTRY OF FINDINGS OF FACT AND CONCLUSIONS  
25 OF LAW AND FINAL ORDER TO CEASE AND  
26 DESIST AND TO IMPOSE FINES AS TO F. DARREN  
27 BERG

1 Fund X, LLC, Meridian Real Estate Opportunity Fund I, LLC and CS Note Holdco, LLC have been  
2 repaid in full.

3 **AUTHORITY AND PROCEDURE**

4 This Final Order is entered pursuant to the provisions of RCW 21.20.390, and is subject to the  
5 provisions of Chapter 34.05 RCW. Respondent F. Darren Berg has the right to petition the superior  
6 court for judicial review of this agency action under the provisions of chapter 34.05 RCW. For the  
7 requirements for filing a Petition for Judicial Review, see RCW 34.05.510 and sections following.  
8 Pursuant to 21.20.395, a certified copy of this order may be filed in Superior Court. If so filed, the  
9 clerk shall treat the order in the same manner as a Superior Court judgment as to the fine, and the fine  
10 may be recorded, enforced, or satisfied in like manner.

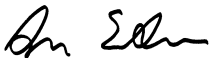
11 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

12 DATED AND ENTERED this 12th day of October, 2010.

13  
14  
15  
16 

17 \_\_\_\_\_  
18 William M. Beatty  
19 Securities Administrator

20 Approved by:

21 

22 \_\_\_\_\_  
23 Suzanne Sarason  
24 Chief of Enforcement

20 Presented by:

21 

22 \_\_\_\_\_  
23 Edward R. Thunen  
24 Enforcement Attorney

25 ENTRY OF FINDINGS OF FACT AND CONCLUSIONS  
26 OF LAW AND FINAL ORDER TO CEASE AND  
27 DESIST AND TO IMPOSE FINES AS TO F. DARREN  
BERG