

STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION

IN THE MATTER OF DETERMINING ) Order Number S-10-250-10-SC01  
Whether there has been a violation of the )  
Securities Act of Washington by: ) STATEMENT OF CHARGES AND NOTICE  
) OF INTENT TO ENTER ORDER TO CEASE  
) AND DESIST, TO RECOVER COSTS, AND  
Meridian Mortgage Investors Fund V, ) TO IMPOSE FINES  
LLC; Meridian Mortgage Investors )  
Fund VI, LLC; Meridian Mortgage )  
Investors Fund VII, LLC; Meridian )  
Mortgage Investors Fund VIII, LLC;  
Meridian Mortgage Investors Fund IX,  
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

THE STATE OF WASHINGTON TO: 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;  
Meridian Partnership Management,  
Inc.  
MPM Investor Services, Inc.  
CS Note Holdco, LLC;  
F. Darren Berg;

STATEMENT OF CHARGES AND NOTICE OF  
INTENT TO ENTER ORDER TO CEASE AND DESIST,  
TO RECOVER COSTS, AND TO IMPOSE FINES

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

Gary Brown;  
Dennis Shay

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, 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, and Dennis Shay have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations. The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

Respondents

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

2. Meridian Mortgage Investors Fund VI, LLC (Fund 6) is a Washington limited liability company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle,

1 WA 98101. Fund 6 filed for Chapter 11 bankruptcy in United States Bankruptcy Court for the  
2 Western District of Washington on July 28, 2010.

3 3. Meridian Mortgage Investors Fund VII, LLC (Fund 7) is a Washington limited  
4 liability company with its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle,  
5 WA 98101. On July 9, 2010, Fund 7's creditors filed a petition with the United States  
6 Bankruptcy Court for the Western District of Washington to force Fund 7 into Chapter 11  
7 bankruptcy proceedings.

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

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

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

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

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

3 9. Meridian Partnership Management, Inc. (MPM) is a Washington corporation with  
4 its principal place of business at 1501 Fourth Avenue, Suite 1900, Seattle, WA 98101. MPM  
5 managed the Respondents described in paragraphs one through eight of the Tentative Findings of  
6 Fact pursuant to Management and Servicing agreements. Berg is the chief executive officer and  
7 sole shareholder of MPM.

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

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

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



1 offered and sold approximately \$1.075 million worth of promissory notes to approximately five  
2 investors.

3 Nature of the Offerings

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

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

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

13 19. The notes issued by Funds 5, 7, 8, 9, and 10 provided for the payment of a fixed  
14 rate of interest. Investors in each of these Funds, except Fund 8, had the option of reinvesting the  
15 interest earned or receiving a monthly interest payment. Fund 8 investors did not have the option  
16 of receiving a monthly interest payment. Instead, interest on Fund 8's notes automatically  
17 converted to principal and was reinvested each month. The interest rate for notes issued by Funds  
18 5, 7, 8, 9, and 10 was established by the issuing Fund at the time of purchase.

19 20. Fund 6 notes provided for a variable rate of interest. The initial interest rate  
20 represented the prime lending rate plus 1.5%. Fund 6 notes were to be adjusted quarterly to  
21 preserve this formula. Interest rates paid were not to decrease more than one percent below nor  
22 increase more than two percent over a note's initial interest rate. At the end of each quarter  
23 during a Fund 6 note's term, an investor had the option of reinvesting interest earned or receiving  
24 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  
2 purchase primarily seller-financed notes and the mortgages on real property securing them.  
3 MPM would underwrite, initiate, and acquire these assets on behalf of these Funds pursuant to  
4 the Management and Servicing agreements entered into between MPM and the Funds. These  
5 Funds' offering materials discussed the criteria that these assets would have to meet to be  
6 eligible for purchase by MPM and placement in the Funds. Payments received from the  
7 borrowers on these notes were to be the source of payments to the Funds' investors.

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

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

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

1 which the borrower(s) had declared bankruptcy, or had become delinquent, or in which the  
2 scheduled amortization of the subject mortgage was underperforming by more than ten percent.

3 25. The offering materials for Funds 5, 7, 9, and 10 provided that monthly  
4 disbursements would be made as follows: first, to investors; second to MIS for services rendered  
5 under the Assignment and Security agreements; third to MPM as fees for services rendered under  
6 the Management and Servicing agreements; and fourth, to Berg, if certain criteria concerning the  
7 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  
9 10. The offering materials of Funds 5, 7, 9, and 10 provided that such profit was equal to the  
10 lesser of ten percent of the unpaid principal balance of a given mortgage when MPM closed upon  
11 it or the difference between the amount MPM paid for a given mortgage and the amount for  
12 which MPM sold the mortgage to the Fund. Such sale price was to be determined by the pricing  
13 policy included in the Managing and Servicing agreements. The offering materials of Funds 6  
14 and 8 did not describe how the profit would be determined.

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

20 28. The availability of redemptions of notes issued by Funds 9 and 10 was limited by  
21 those Funds' offering materials. Notes issued by Funds 9 and 10 were subject to what those  
22 Funds' offering materials called gatekeeping agreements which provided, in part, that the total  
23 amount of redemptions paid in a given month by either Fund 9 or 10 may be no more than the  
24 lesser of five percent of the total aggregate balance of the notes that were outstanding to  
25



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

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

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

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

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

22 Meridian Real Estate Opportunity Fund I, LLC

23 33. Beginning as early as March of 2009, REO Fund 1 offered and sold  
24 approximately \$6.885 million worth of limited liability company interests to approximately fifty  
25 five investors. Under the terms of REO Fund 1's offering materials, each interest was valued at

1 \$5,000. The minimum subscription that REO Fund 1 would accept was \$100,000. MPM  
2 reserved the right to accept smaller subscriptions. The offering was to close on August 31, 2009.  
3 Under the terms of its offering materials, REO Fund 1 offering was limited to accredited  
4 investors as that term is defined in Rule 501(a) of Regulation D.

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

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

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

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

22 38. Most REO Fund 1 investors learned of REO Fund 1 through Brown and Shay.  
23 Other investors learned of REO Fund 1 from Berg. Many of REO Fund 1’s investors knew  
24 Brown and/or Shay through previous real estate projects with which Brown and/or Shay were  
25 involved. Other investors were clients of investment advisory firms whose representatives knew

1 Brown and/or Shay and proposed investment in REO Fund 1 to their clients. For this service,  
2 Brown and Shay received salaries from MPM. Several securities salespersons outside of the  
3 State of Washington also solicited investment in and sold REO Fund 1 interests to investors.

4 39. A password-protected website, [www.realestateopportunityfund.com](http://www.realestateopportunityfund.com), was  
5 assembled to promote REO Fund 1. The website described REO Fund 1 and its objectives. The  
6 website also described the investors' preferred return, an anticipated annualized return of twenty  
7 percent or more based on what the website called conservative assumptions, and key personnel  
8 and their contact information. Investors could download copies of REO Fund 1's offering  
9 materials and subscription agreement from the website. Brown and Shay directed potential  
10 investors to this website and distributed passwords to potential investors who requested one. In  
11 an e-mail to a potential investor, Shay indicated that he and Brown were happy to provide a  
12 unique password to anyone referred to them and solicited such referrals.

13 40. Investors purchased interests by completing and returning the REO Fund 1  
14 subscription agreement and delivering a check payable to Meridian Real Estate Opportunity  
15 Fund I, LLC.

16 CS Note Holdco, LLC

17 41. Beginning as early as September of 2009, Holdco offered and sold at least \$4.055  
18 million worth of limited liability company interests to at least twelve investors. Each interest was  
19 valued at \$10,000. Holdco's minimum subscription amount was \$100,000. Holdco's offering  
20 materials state that the offer and sale of Holdco's limited liability company interests were limited  
21 to accredited investors as that term is defined in Rule 501(a) of Regulation D.

22 42. According to Holdco's offering materials, one hundred percent of investor funds  
23 were to be used for the opportunistic purchase, from their current holders, of notes previously  
24 made by Funds 5, 7, and 8 at a minimum discount of thirty percent. The offering materials  
25

1 further stated that Holdco would distribute each month one hundred percent of the cash flow  
2 received from Holdco's ownership of these notes to investors on a pro rata basis.

3 43. Berg represented to investors that money invested in Holdco would be used to  
4 purchase, at a discount of thirty percent off their face value, promissory notes made by Funds 5,  
5 7, and 8 and held by a fund administered by a Bellevue, Washington-based investment advisory  
6 firm. These notes, according to Berg, would be sold to a third party at a price greater than that  
7 Holdco would pay to purchase the notes. Berg did not disclose the identity of the third party  
8 purchaser. Berg represented to at least one investor, prior to his investment, that the agreement  
9 with the Bellevue-based firm in which the firm would sell the notes at a thirty percent discount  
10 was effectively completed, was in the process of being "papered," and would be signed within  
11 days.  
12

13 44. Holdco's offering materials stated that Holdco would distribute back to investors  
14 as a return of capital any of the net proceeds of this offering that had not been invested by  
15 October 31, 2009. Berg promised monthly interest payments and a positive return prior to  
16 December 31, 2009. Berg further promised that Holdco would use all money received to  
17 purchase these notes.  
18

19 45. Unbeknownst to Holdco's investors, these notes were, at the time of Holdco's  
20 offering, the subject of litigation initiated by the Bellevue-based firm against Berg, MPM, MIS,  
21 and Funds 5, 7, and 8 when the firm wished to redeem certain notes it held and its request for  
22 redemption was rejected. On October 9, 2009, an Amended and Restated Settlement Agreement  
23 was entered into by Berg, MPM, MIS, and Funds 5, 7, and 8 and the fund administered by the  
24 Bellevue-based firm under which Berg agreed to pay an additional \$4 million.  
25

1 46. Investors invested by completing and delivering the Holdco subscription  
2 agreement and delivering a check payable to CS Note Holdco, LLC.

3 Misrepresentations and Omissions by Funds 5, 6, 7, 8, 9, and 10

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

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

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

22 50. Funds 5, 6, 7, 8, 9, and 10 failed to disclose material information that made the  
23 disclosed information misleading to potential investors. The Funds each failed to disclose to at  
24

1 least one investor the twenty percent consulting fees received by both Brown and Shay pursuant  
2 to Brown's and Shay's consulting agreements.

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

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

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

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

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

23 56. Fund 7 made a misrepresentation of material fact concerning where money  
24 received from borrowers on notes purchased by Fund 7 would be deposited. A significant portion  
25 of money received from borrowers on notes purchased by Fund 7 was never transferred to Fund

1 7. However, Fund 7's offering materials represented that funds received from borrowers would  
2 be held in Fund 7's operating account.

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

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

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

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

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

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

4                           Misrepresentations and Omissions by CS Note Holdco, LLC

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

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

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

19           65.     Berg and Holdco made untrue statements of material fact concerning the return of  
20 investor funds. Notwithstanding Holdco’s offering materials’ assertion that Holdco would  
21 distribute back to investors as a return of capital any of the net proceeds of this offering that had  
22 not been invested by October 31, 2009 and Berg’s promise of a positive return prior to December  
23 31, 2009, at least two Holdco investors have not received their funds back from Holdco.



Registration Status

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

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

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

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

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

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

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

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



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

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

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

19           6.       Funds 9 and 10 are debenture companies as defined at RCW 21.20.705(1). By  
20 failing to register its debentures with the Securities Administrator, Funds 9 and 10 deprived those  
21 Funds' investors of the protections provided by RCW 21.20.732, 21.20.734, 21.20.740, and  
22 21.20.745. Pursuant to these provisions, the Securities Administrator could have issued a cease  
23 and desist order against Funds 9 and 10 when those Funds began engaging in unsafe or unsound  
24  
25

1 practices in conducting their businesses and would have had an opportunity to evaluate those  
2 Funds' financial and business conditions.

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

8 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

9 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities  
10 Administrator intends to order, pursuant to RCW 21.20.390(1), that Meridian Mortgage  
11 Investors Fund V, LLC, Meridian Mortgage Investors Fund VI, LLC, Meridian Mortgage  
12 Investors Fund VII, LLC, Meridian Mortgage Investors Fund VIII, LLC, Meridian Mortgage  
13 Investors Fund IX, LLC, Meridian Mortgage Investors Fund X, LLC, Meridian Real Estate  
14 Opportunity Fund I, LLC, CS Note Holdco, LLC, Meridian Partnership Management, Inc., MPM  
15 Investor Services, Inc., F. Darren Berg, Gary Brown, and Dennis Shay, their agents and  
16 employees each cease and desist from violations of RCW 21.20.010 and RCW 21.20.140.

17 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities  
18 Administrator intends to order, pursuant to RCW 21.20.390(1), that Meridian Partnership  
19 Management, Inc., MPM Investor Services, Inc., F. Darren Berg, Gary Brown, and Dennis Shay,  
20 their agents and employees each cease and desist from violations of RCW 21.20.040.  
21

22  
23 **NOTICE OF INTENT TO RECOVER COSTS**

24 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and  
25 Conclusions of Law, the Securities Administrator intends to order that Meridian Mortgage



1 Pursuant to RCW 21.20.110(1) and RCW 21.20.395, and based upon the Tentative  
2 Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that F.  
3 Darren Berg shall be liable for and pay a fine of \$25,000.

4 Pursuant to RCW 21.20.110(1) and RCW 21.20.395, and based upon the Tentative  
5 Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that  
6 Meridian Partnership Management, Inc., MPM Investor Services, Inc., Gary Brown and Dennis  
7 Shay shall each be liable for and pay a fine of \$5,000.

8 Payment of the fines described above shall not be due until the investors of Meridian  
9 Mortgage Investors Fund V, LLC, Meridian Mortgage Investors Fund VI, LLC, Meridian  
10 Mortgage Investors Fund VII, LLC, Meridian Mortgage Investors Fund VIII, LLC, Meridian  
11 Mortgage Investors Fund IX, LLC, Meridian Mortgage Investors Fund X, LLC, Meridian Real  
12 Estate Opportunity Fund I, LLC, CS Note Holdco, LLC have been repaid in full.  
13

#### 14 **AUTHORITY AND PROCEDURE**

15 This Statement of Charges is entered pursuant to the provisions of Securities Act and is  
16 subject to the provisions of RCW 34.05. The respondents may each make a written request for a  
17 hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY  
18 FOR HEARING accompanying this order.

19 If a respondent does not request a hearing, the Securities Administrator intends to adopt  
20 the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease  
21 and desist permanent as to that respondent.  
22

#### 23 **CONTINUING INVESTIGATION**

24 The Securities Division is continuing to investigate the matters described herein to  
25 determine the use of investors' funds and to identify additional investors, if any.

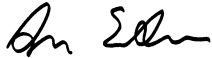
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DATED AND ENTERED this 10th day of September, 2010.



WILLIAM M. BEATTY  
Securities Administrator

Approved by:



SUZANNE SARASON  
Chief of Enforcement

Presented by:



Edward R. Thunen  
Enforcement Attorney