

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA
LAS VEGAS, NEVADA

3685 SAN FERNANDO LENDERS, LLC,)	
et al.,)	
)	
Plaintiffs,)	
)	
vs.)	Case No.
)	3:07-CV-241-RCJ-VPC
COMPASS USA SPE, LLC, et al.,)	
)	
Defendants.)	
)	
<hr/> In re: USA COMMERCIAL MORTGAGE)	Case No.
COMPANY.)	2:07-CV-892-RCJ-GWF
)	

TRANSCRIPT OF PROCEEDINGS
OF
EVIDENTIARY HEARING
VOLUME 1
BEFORE THE HONORABLE ROBERT C. JONES
UNITED STATES DISTRICT JUDGE

Monday, October 1, 2007

Court Recorder: Araceli Catu

Proceedings recorded by electronic sound recording;
transcript produced by transcription service.

1 APPEARANCES:

2 For Compass Financial LINDA DAKIN-GRIMM, ESQ.
 3 Partners, LLC, and ROBERT J. MOORE, ESQ.
 4 Compass USA SPE, DANIEL M. PERRY, ESQ.
 5 LLC: PAUL TORRES, ESQ.
 6 GABE WEAVER, ESQ.
 Milbank, Tweed, Hadley & McCloy, LLP
 601 South Figueroa Street
 30th Floor
 Los Angeles, California 90017

7 DAVID S. COHEN, ESQ.
 8 TYSON M. LOMAZOW, ESQ.
 Milbank, Tweed, Hadley & McCloy, LLP
 1 Chase Manhattan Plaza
 9 New York, New York 10005

10 GEORGANNE W. BRADLEY, ESQ.
 11 Bullivant Houser Bailey, P.C.
 3883 Howard Hughes Parkway
 Suite 550
 12 Las Vegas, Nevada 89169

13 For the Plaintiff WALTER A. HERRING, ESQ.
 14 and Defendant LLCs: NORLYNN B. PRICE, ESQ.
 MARK WEIBEL, ESQ.
 15 MICHAEL W. ANGLIN, ESQ.
 Fulbright & Jaworski, LLP
 2200 Ross Avenue
 16 Suite 2800
 Dallas, Texas 75201

17 STANLEY W. PARRY, ESQ.
 18 Ballard, Spahr, Andrews & Ingersoll, LLP
 300 South Fourth Street
 19 Suite 1201
 Las Vegas, Nevada 89101

20 For Donna Cangelosi ALAN R. SMITH, ESQ.
 21 and the Lenders KEVIN A. DARBY, ESQ.
 Protection Group: Law Offices of Alan R. Smith
 22 505 Ridge Street
 Reno, Nevada 89501

23 For the Anderson JANET L. CHUBB, ESQ.
 24 Family, Kehl Family, Jones Vargas
 Mohave Canyon, Inc., 100 West Liberty
 25 and Baltas (phonetic): Twelfth Floor
 Reno, Nevada 89501

1 APPEARANCES (Cont.)

2 For Silar Advisors, RANDOLPH L. HOWARD, ESQ.
LP: Kolesar & Leatham, Chtd.
3 3320 West Sahara Avenue
Suite 380
4 Las Vegas, Nevada 89102

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

Witness	Direct	Cross	Red.	Red.	Voir Dire
TERRANCE CHASE HONIKMAN					
(By Mr. Herring)		39			
(By Mr. Smith)		46			
(By Ms. Dakin-Grimm)				54	
DONNA CANGELOSI					
(By Ms. Dakin-Grimm)		63			

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

E X H I B I T S

Number	Description	Page
Ex. 503	Declaration of Donna Cangelosi	63
Ex. 504	Declaration of Donna Cangelosi	63
Ex. 505	Declaration of Donna Cangelosi	63
Ex. 539	Declaration of Donna Cangelosi	63

1 (Court convened at 01:39:18 p.m.)

2 THE CLERK: All rise.

3 THE COURT: Thank you. Please be seated. Good
4 afternoon.

5 Before I start with appearances just to make clear what
6 cases we're here in, this is the U.S. District Court, and we're
7 here in at least three cases and maybe four if counsel will
8 correct it, 07-CV-892, in re Commercial.

9 The in re caption leads me to believe that's the one that
10 was withdrawn upon Judge Riegler's recommendation from
11 bankruptcy court, originally a motion by Compass, recast as an
12 adversary proceeding, and withdrawn and given a case number in
13 this court.

14 894, 07-CV-894, that could be the Reno case, originally
15 Judge Reed's and reassigned to myself. Again, correction of
16 counsel, please, as we go.

17 07-CV-1133, Compass versus Eagle, originally assigned to
18 Judge George, reassigned to myself, and there may be one other
19 one that we're here on. As I take your appearances, you'll be
20 clear, please, in who you represent in these proceedings.

21 And it's my understanding that we are here on evidentiary
22 hearing for which I've reserved this afternoon, and I also have
23 available tomorrow and Wednesday as well if need be evidentiary
24 hearings in countermotions, a request for a preliminary
25 injunction by Compass, that is to extend Judge Riegler's order

1 and to embody it in preliminary injunction, and counter motions
2 for termination of service rights and termination of
3 Judge Riegler's order, and I'll take -- on that basis I'll take
4 your appearances, please.

5 MS. DAKIN-GRIMM: Good morning, your Honor.
6 Linda Dakin-Grimm for -- I don't know if the microphone reaches
7 this far --

8 THE COURT: Compass.

9 MS. DAKIN-GRIMM: -- for Compass Partners in all
10 those proceedings. With me is my partner, Bob Moore; my
11 colleague, Dan Perry, and my other colleagues, David Cohen,
12 Tyson Lomazow, Paul Torres, and Gabe Weaver. Also our clients
13 from Compass, Boris Piskun and David Blatt, are in the
14 courtroom.

15 THE COURT: Um-h'm. Thank you.

16 MR. HERRING: Good afternoon, your Honor.

17 THE COURT: Afternoon.

18 MR. HERRING: I'm Walt Herring. I'm here on behalf
19 LLCs in the action that was transferred from Reno. With me is
20 Norlynn Price, Mark Weibel, and Mike Anglin, and our local
21 counsel Stan Parry.

22 THE COURT: Thank you.

23 MR. SMITH: Good afternoon, your Honor. Alan Smith
24 representing Donna Cangelosi. I think that for the purposes of
25 this hearing that's all I represent. With me is Ms. Cangelosi

1 sitting at the table. Also Mr. Darby, my associate, is sitting
2 in the front row.

3 THE COURT: Thank you.

4 MS. DAKIN-GRIMM: Your Honor, I neglected to
5 introduce our local counsel. Georganne Bradley is also
6 appearing for Compass.

7 THE COURT: Thank you. Okay.

8 Any other appearance?

9 Ms. Chubb.

10 MS. CHUBB: Good morning. Your Honor, I represent
11 the Anderson Family and the Kehl Family and Baltas (phonetic)
12 and Mojave.

13 And on Friday in the adversary, we filed an amended
14 complaint, and my clients are plaintiff in that action now, so
15 we are part of that adversary.

16 THE COURT: Thank you. And in that action, in that
17 particular case, are you seeking relief here in these
18 hearings --

19 MS. CHUBB: Yes.

20 THE COURT: -- today and, namely, termination of
21 service rights?

22 MS. CHUBB: Yes, sir.

23 THE COURT: Okay.

24 MS. CHUBB: Thank you.

25 THE COURT: Other appearances, please.

1 MR. HOWARD: Good afternoon, your Honor.
2 Randolph Howard, local counsel for Silar Advisors and
3 affiliates in the related case, the 3685 San Fernando Lenders,
4 Case No. 2411, appearing just for this limited purpose of
5 observing and making sure my clients, you know, is not
6 adversely affected other than matters set forth in the
7 pleadings.

8 Thank you.

9 THE COURT: Very good. Just for the record, several
10 things we've already done. The Court on the basis of prior
11 hearings entered a form of preliminary injunction intending to
12 continue Judge Riegler's order at least temporarily and
13 delineating some of the prohibited conduct or the conduct
14 prohibited in the preliminary injunction.

15 On Friday, I met with counsel to make sure we had the
16 correct form of an order. I told counsel, some of the counsel
17 that were involved, that I would not entertain new arguments or
18 anything that required a record, but, simply, we would discuss
19 to make sure that the order reflected what the Court had
20 already ordered on the phone. Again, I have this afternoon
21 and, potentially, Tuesday and Wednesday available.

22 And it's my understanding that Compass is proceeding on a
23 request to make the order in the form of a preliminary
24 injunction pending ultimate trial and, of course, I'll
25 entertain their evidence and arguments, and the other

1 complainants have filed countermotions to terminate the
2 servicer's rights.

3 I will say that I've had an opportunity now to read all
4 the declarations, and Compass and does have some substantial
5 complaints that you have to defend against.

6 Primarily, the complaints of violation of fiduciary duties
7 or cause are threefold, and, in my opinion at least, what's
8 alleged in the affidavits is extremely serious in my mind.

9 The fiduciary allegations are threefold. Number one,
10 failure to disclose. That is failure to disclose all
11 information necessary in making an informed decision when
12 Compass was soliciting consent or authorization for taking some
13 action.

14 Number two, failure to communicate which is a form of
15 failure to disclose. We're not talking about simply not
16 answering the phone or keeping people waiting or even acting
17 rudely. That wouldn't rise to the level of a fiduciary breach,
18 but rather failure to communicate critical status of loans or
19 negotiations in which Compass was engaged that, in fact, would
20 impair the direct lenders' ability to advise Compass, its
21 agent, on what action to take or knowing the status of the
22 loan.

23 Number three is conduct alleged, in fact, in violation of
24 the fiduciary duty to protect the best interests of the
25 principal. That is the direct lenders that is taking action to

1 support Compass' own interest or interests in the note or in
2 the servicing rights in contravention of, in delay, or in
3 actual detriment to direct lenders' interests. Those are the
4 three areas that I have read in the declarations.

5 The way that the Court has instructed you to prepare for
6 these evidentiary hearings is to file declarations which will
7 constitute the direct testimony, and then upon the request of
8 any opposing party to request the declarant to come forward to
9 be cross-examined with the right, of course, of further direct
10 testimony thereafter.

11 I'll entertain your opening arguments. They should be
12 brief since I already have briefs and have read those. You, of
13 course, may make lengthy closing arguments, and I expect you
14 will.

15 So I'll entertain first Compass' opening comment, what you
16 intend to prove, and what you intend to cover, and then
17 counterparty's opening statements as well, just one statement
18 on each side in the form of an opening statement.

19 MS. DAKIN-GRIMM: Thank you and good afternoon,
20 your Honor, Linda Dakin-Grimm for Compass. I'll make this very
21 brief because we do have a significant amount of evidentiary
22 material to go through today, and I appreciate your
23 availability tomorrow and Wednesday if need be.

24 As we understood the purpose of today's evidentiary
25 hearing and recognizing the seriousness of the matter as

1 your Honor just outlined for us on Compass' side of the table,
2 today's evidentiary hearing was requested by Mr. Smith, and it
3 concerns the issues that are on their side of the table. And
4 those are twofold.

5 First, Ms. Cangelosi's and others repeated violations of
6 orders of the bankruptcy court and her plan that we will prove
7 to you was conceived even before Compass became the winner of
8 the auction to obtain the rights at issue to steal what Compass
9 eventually paid for in that auction, and we will show you the
10 evidence of Ms. Cangelosi's actions from mid 2006 forward to
11 perpetuate that scheme.

12 Second, to make it appear to the Court that Compass had,
13 for example, issues with communication, with violation of
14 fiduciary duties and so forth, and we will show you the
15 evidence of how Ms. Cangelosi quite skillfully and with
16 knowledge manipulated the direct lenders very few of whom are
17 present here today. I don't think she's put out a call to
18 round up the troops like has happened in some of the other
19 hearings.

20 But, nevertheless, we will show the written documentary
21 evidence in Ms. Cangelosi's own hand that proved, for example,
22 that she and one of her direct-lender cohorts concocted a
23 scheme to inundate Compass with so many E-mails and
24 communications that it would bog the system at which point they
25 would then be able to come to court and say, your Honor,

1 they're not communicating with us. We have a number of
2 instances of preplanned conduct like that on Ms. Cangelosi's
3 part.

4 Another example, your Honor, was Ms. Cangelosi's scheme
5 even before Compass became the successful bidder to poison the
6 well if you will in terms of Compass' ability to become
7 licensed with the mortgage lending division in Las Vegas.

8 Ms. Cangelosi's very skilled effort to inundate Mr. Bice,
9 the then commissioner, with preprinted forms that said do not
10 give Compass a license, and so forth.

11 All of this was very carefully orchestrated by
12 Ms. Cangelosi to create the appearance of the kind of issues
13 your Honor just outlined.

14 The next issue that we will be presenting to you
15 your Honor is Ms. Cangelosi's repeated willful, and, frankly,
16 unapologetic interference with Compass' ability to perform its
17 obligations as servicer after February 16th of 2007 when
18 Compass' rights became final.

19 We will show you Ms. Cangelosi's and her cohort's repeated
20 interference with borrowers, her repeated conversations with
21 borrowers suggesting to the borrowers ways that they could
22 avoid paying default interest and late fees and so forth, the
23 very kinds of things that Compass purchased in the auction.

24 We will show that Ms. Cangelosi was represented by counsel
25 throughout the bankruptcy proceeding, that she was represented

1 by counsel and, in fact, attended proceedings before
2 Judge Riegler in which she was enjoined from engaging in the
3 very kind of behavior she continued to engage in.

4 We will show you that Ms. Cangelosi has, essentially, made
5 it impossible for Compass to resolve loans with borrowers who
6 are waiting for her to succeed in her effort to oust Compass
7 from its role as servicer.

8 And we will show Ms. Cangelosi's willful violation of
9 court orders at the conclusion of which we will ask your Honor
10 to hold Ms. Cangelosi in either civil or criminal contempt.

11 And then, finally, your Honor, we will present to you --

12 THE COURT: Of course, I can't hold her in criminal
13 contempt except for conduct in front of me.

14 MS. DAKIN-GRIMM: Certainly, your Honor, and that
15 would require a different proceeding in any event I believe.

16 We will also at your Honor's invitation present to you the
17 evidence of how Ms. Cangelosi we believe quite skillfully
18 concocted and engaged in a scheme that even today is still
19 little understood perhaps by many of the people in the gallery
20 to steal from these people a significant amount of money, a
21 portion of their investment, and to take for herself those
22 funds and walk away with them tomorrow if she chooses to, and
23 now I'm talking about her formation of the LLC interests.

24 Your Honor, at the conclusion of the evidence there, we
25 will ask that you refer the matter to the appropriate U.S.

1 attorney for violation of federal securities laws which will be
2 implicated in the examination of Ms. Cangelosi as her
3 activities certainly amounted to the sale of an unregistered
4 security that does not fall into any exemption, and, further,
5 is a violation of Nevada trade law.

6 THE COURT: Again, I don't --

7 MS. DAKIN-GRIMM: We will --

8 THE COURT: -- think referral is a matter for our
9 agenda today. But as a basis for any injunctive relief against
10 her, it may be a basis.

11 MS. DAKIN-GRIMM: We will show you, your Honor, the
12 evidence of how Ms. Cangelosi went about forming the limited
13 liability companies.

14 We will show you the evidence of what information she gave
15 to the direct lenders and how that differed from, in fact, what
16 she ultimately set up.

17 We will show you that a number of direct lenders
18 challenged Ms. Cangelosi, sent her E-mails and letters asking
19 her this doesn't look like what you told us in the road show
20 presentation we saw at the Rio Hotel, for example. It looks
21 like you're taking things that you didn't tell us you were
22 going to.

23 These solicitation materials that were provided were rife
24 with outright falsehoods and lies. And, ultimately, after the
25 direct lenders signed away their fractionalized interest in the

1 loans in question, Ms. Cangelosi unilaterally appointed herself
2 as the manager of every LLC and took for herself one percent of
3 every direct lenders' investment.

4 And in her own personal view, if the LLCs are terminated
5 by your Honor today, she can still walk away with that one
6 percent interest and do whatever she pleases with it.

7 That is not known to the direct-lender population because
8 although they repeatedly asked Ms. Cangelosi to explain the
9 various corporate entities she formed like FDH and L2L and tell
10 them who was behind these entities she declined to do so.

11 I'll --

12 THE COURT: Now, what witnesses by way of declaration
13 are you proffering at this time? By way of direct examination
14 which declarations are you proffering?

15 MS. DAKIN-GRIMM: By way of declaration, your Honor,
16 we have two declarations, one from Mr. Ned Homfeld. This would
17 be for cross-examination that we provided for declaration
18 Mr. Ned Homfeld, and you're going to have to --

19 (Colloquy not on the record).

20 MS. DAKIN-GRIMM: I'm sorry. And Mr. Terry Honikman.
21 They're --

22 THE COURT: This is by way of direct examination,
23 your direct examination?

24 MS. DAKIN-GRIMM: Yes. Which means pursuant to your
25 rules, we've submitted a declaration.

1 THE COURT: Right.

2 MS. DAKIN-GRIMM: By cross-examination, your Honor,
3 we have voluminous evidence and deposition testimony of
4 Ms. Cangelosi and Mr. Todd Hansen who is a former agent of
5 Compass who stole records and provided them, and Ms. Cangelosi
6 used them in these schemes.

7 THE COURT: And how about exhibits? What --

8 MS. DAKIN-GRIMM: Your Honor, we've provided a binder
9 there next to you.

10 THE COURT: Uh-huh.

11 MS. DAKIN-GRIMM: That is our binder of direct -- our
12 cross-examination evidence.

13 THE COURT: Is this the same exhibit list that you
14 gave me in the filing of September 26th?

15 MS. DAKIN-GRIMM: It is, your Honor.

16 THE COURT: And have you given a copy of the exhibit
17 list to Madam Clerk?

18 MS. DAKIN-GRIMM: We have a copy for the clerk, and
19 there's also a copy on the witness box for the witness.

20 THE COURT: If you'll provide that for Madam Clerk,
21 so that she can mark off when exhibits are offered or admitted,
22 but I'm --

23 MS. DAKIN-GRIMM: If --

24 THE COURT: -- assuming that you're offering all of
25 these exhibits attached to the declarations and, of course,

1 I'll give them an opportunity to object.

2 MS. DAKIN-GRIMM: Yes, your Honor. We will also have
3 additional evidence that is or may be implicated for
4 impeachment purposes if certain testimony is given as we
5 anticipate may or may not be used, and finally, your Honor, all
6 of the exhibits --

7 THE COURT: With respect to that, make sure that
8 there is an exhibit list that includes it, so that, again,
9 Madam Clerk may follow when that's offered or admitted.

10 MS. DAKIN-GRIMM: All of the exhibits have been
11 scanned and are loaded, and my technician has checked to make
12 sure that the Court's electronic system is working --

13 THE COURT: Okay.

14 MS. DAKIN-GRIMM: -- as well as the deposition --

15 THE COURT: You've --

16 MS. DAKIN-GRIMM: -- testimony --

17 THE COURT: -- provided copies --

18 MS. DAKIN-GRIMM: -- which is available.

19 THE COURT: -- of all of these to counsel?

20 MS. DAKIN-GRIMM: Yes, your Honor, pursuant to your
21 ruling at the last hearing --

22 THE COURT: Um-h'm.

23 MS. DAKIN-GRIMM: -- counsel met and conferred last
24 week and --

25 THE COURT: Okay.

1 MS. DAKIN-GRIMM: -- exchanged exhibit lists and
2 agreed --

3 THE COURT: Good.

4 MS. DAKIN-GRIMM: -- we would come up with our own
5 books of exhibits, but, yes, that has all been done.

6 THE COURT: Okay. So technically speaking, you're
7 offering at this time pursuant to foundation established in the
8 declarations Exhibits 1 through 133, yes or no?

9 MS. DAKIN-GRIMM: No, your Honor.

10 THE COURT: Okay.

11 MS. DAKIN-GRIMM: Many of those exhibits will be
12 authenticated and the foundation laid in our cross-examination
13 of Ms. Cangelosi and Mr. --

14 THE COURT: Okay.

15 MS. DAKIN-GRIMM: -- Hansen.

16 THE COURT: Any of them offered pursuant to
17 foundation in the two declarations, direct testimony?

18 MS. DAKIN-GRIMM: I don't believe so, your Honor.

19 THE COURT: Okay.

20 MS. DAKIN-GRIMM: I'd have to go back and check, but
21 the binder is primarily --

22 THE COURT: Very good.

23 MS. DAKIN-GRIMM: -- for Ms. Cangelosi and --

24 THE COURT: So there's --

25 MS. DAKIN-GRIMM: -- Mr. Hansen.

1 THE COURT: -- offer at this time. All right. Very
2 good. Thank you.

3 MS. DAKIN-GRIMM: Thank you, your Honor.

4 THE COURT: Um-h'm.

5 Please.

6 MR. HERRING: Do you want one from each side,
7 your Honor?

8 THE COURT: No.

9 MR. SMITH: Mr. Herring and myself, we're both -- I'm
10 sorry. (Indiscernible).

11 (Colloquy not on the record.)

12 MR. SMITH: Your Honor, on behalf of Ms. Cangelosi
13 here today, I agree that the purpose of this hearing was,
14 essentially, my request to get this matter before your Honor
15 and get it done with once and for all, and deal with the actual
16 evidence, instead of the innuendo and the comments that are
17 unsupported by evidence.

18 THE COURT: And what matter are we talking about?

19 MR. SMITH: Sanctions, civil sanctions, of
20 Ms. Cangelosi personally. That's what I understood it to be.

21 THE COURT: Okay. And I agree. That's one thing
22 we're considering is civil violation of Judge Riegle's order or
23 my preliminary orders.

24 MR. SMITH: Right.

25 THE COURT: That's what we're talking about there,

1 and it would be the basis -- it is the basis also as far as I
2 understand it of preliminary injunction. That is whether to
3 continue this preliminary injunction or whether to stop it.

4 MR. SMITH: Okay.

5 THE COURT: And the Court formally notifies all of
6 you that it will -- while these are preliminary determinations
7 for purposes of preliminary injunction purpose, I will fold
8 them into the ultimate trial --

9 MR. SMITH: Okay.

10 THE COURT: -- that takes place on all of these
11 complaints so --

12 MR. SMITH: So we won't repeat the evidence
13 presented --

14 THE COURT: Right.

15 MR. SMITH: -- of the --

16 THE COURT: Right.

17 MR. SMITH: I assumed in the trial as --

18 THE COURT: Unless --

19 MR. SMITH: -- well.

20 THE COURT: -- of course, there's a jury --

21 MR. SMITH: Okay.

22 THE COURT: -- involved.

23 MR. SMITH: Well, your Honor, our position from our
24 side is this is a very serious matter, and we take it very
25 seriously. The motion seeks sanctions for violation of a Court

1 order. That is the burden of proof for Compass.

2 And in our position that requires the Court order to be
3 identified, and, if necessary, the specific portion of the
4 Court order to be identified, and then, secondarily, the
5 specific conduct of Ms. Cangelosi to be identified.

6 It's not our job, and, unfortunately, we've been relegated
7 that position of trying to guess what exactly is the Court
8 order that's being supposedly violated and what exactly is the
9 action, and I look forward to hearing that today in testimony.

10 And hearing Ms. Dakin's argument, I mean, I have concern
11 about exactly what we're going to be doing today. It appears
12 that we've gone far beyond the scope of what initially was
13 intended to be this motion sanctions for violation of a Court
14 order. And I guess as we go through this today, I may raise
15 those types of objections.

16 THE COURT: I really think there's two, and that you
17 have clear notice of both of them. One is the preliminary
18 injunction.

19 MR. SMITH: Okay.

20 THE COURT: Whether I'm going to keep a preliminary
21 injunction in place, whether I'm going to terminate it --

22 MR. SMITH: Okay.

23 THE COURT: -- that's clearly in my mind an issue,
24 and, secondarily, is civil sanction for --

25 MR. SMITH: Right.

1 THE COURT: -- prior violation of the Court's order.

2 MR. SMITH: Well, and as I look at it, your Honor, I
3 see the two slightly related. I mean, I --

4 THE COURT: Sure.

5 MR. SMITH: -- think that the basis of the
6 preliminary injunction has something to do with the conduct of
7 Ms. Cangelosi.

8 THE COURT: Sure.

9 MR. SMITH: Just by way of background, your Honor,
10 this clearly is Compass' burden. We've produced,
11 approximately, 5600 documents -- I think more than that
12 actually with supplemental documents to Compass -- as a result
13 of which Compass then designated 133 exhibits which I spent
14 about eight to ten hours this weekend going over carefully.

15 I don't think any of the exhibits support the alleged
16 conduct that Ms. Dakin-Grimm alleges that Ms. Cangelosi did,
17 but we'll get to that as we go through each exhibit.

18 I also want to point out we submitted a total of 47
19 declarations that -- I think there's between 35 and 4,000
20 direct lenders. Out of all those Compass submitted two
21 declarations.

22 THE COURT: And can you delineate. I don't need you
23 to list by name, but what declarations are you talking about,
24 so that the record's clear --

25 MR. SMITH: Well, the record --

1 THE COURT: -- what direct --

2 MR. SMITH: -- should --

3 THE COURT: -- testimony I have.

4 MR. SMITH: -- show that there were 39 declarations
5 submitted prior to the previous hearing.

6 THE COURT: 39 declarations.

7 MR. SMITH: I believe so, and I think since then
8 we've submitted eight additional declarations.

9 THE COURT: Plus, some of them are just redoing,
10 updating of prior declarations, rights?

11 MR. SMITH: To a certain extent, yes, your Honor, but
12 we were concerned that some of the prior declarations were a
13 bit verbose and contained information that might not be
14 expressly relevant to the hearing today.

15 THE COURT: But some --

16 MR. SMITH: So --

17 THE COURT: -- of them are definitely the same
18 person, same declarant.

19 MR. SMITH: I'm not sure. Yes. Some of them are.

20 THE COURT: So formally for the record you're
21 proffering the direct testimony contained in 39 declarations,
22 plus 8 updated declarations.

23 MR. SMITH: Right. Some of which are duplicative,
24 and I'm not -- I don't know that the content's duplicative, but
25 it may be the same declarant.

1 THE COURT: Uh-huh.

2 MR. SMITH: My concern --

3 THE COURT: And exhibits, any exhibits attached
4 thereto are you offering at this time or will you offer --

5 MR. SMITH: Yes --

6 THE COURT: -- exhibits?

7 MR. SMITH: -- your Honor. I don't think -- the only
8 request for -- there's been only two requests as I understand
9 it for any of the declarants to be present today which will be
10 Donna Cangelosi who is present.

11 I also understand that Mr. Hansen was requested to be
12 present today. I don't represent Mr. Hansen. I understand he
13 had some family issues or something of the sort and can't be
14 present today. I think Mr. Herring will address that.

15 His deposition was, in fact, taken by Compass, so I submit
16 that maybe the requirements of the opportunity for
17 cross-examination have been satisfied, and his declaration
18 should be considered. I think Mr. Herring will address that in
19 more detail.

20 Your Honor, my concern today -- and I'll just say it
21 upfront. My concern today is that we will get into areas --
22 and it was confirmed by Ms. Dakin-Grimm's opening argument that
23 we get into areas that are not contempt areas.

24 This is not a free-for-all today. It's not to show
25 Donna Cangelosi did some things wrong or maybe isn't a good

1 person, et cetera.

2 The issue today is did she violate a Court order, and my
3 concern is we slip over into areas of breach of contract, for
4 example, or we slip over into areas of interference with
5 contract or even Ms. Cangelosi's character. I think at those
6 points when we start to get into those areas --

7 THE COURT: I don't think character has much
8 relevance here.

9 MR. SMITH: Well, I agree --

10 THE COURT: But --

11 MR. SMITH: I agree with --

12 THE COURT: But issues, for example, of beyond
13 conduct that simply violates the order, conduct, for example,
14 as alleged may be in violation of securities laws is,
15 potentially, appropriate to the question of the whether the
16 Court should continue or enter a preliminary injunction against
17 her.

18 MR. SMITH: Okay.

19 THE COURT: Not to civil sanctions, you're certainly
20 right on that point.

21 MR. SMITH: Right. And I think that's going to be
22 Mr. Herring's province to deal with those issues. We don't
23 think that occurred, but, obviously, you've expressed some
24 concerns about that.

25 In fact, that wasn't even raised by Compass. I think that

1 was your issue, and I think Mr. Herring's prepared to address
2 that.

3 So that's really my concern. I'm concerned about that
4 they are separate issues. What we do with the LLCs and what
5 goes on with the LLCs, I mean, that really has to do with the
6 issue of a great deal of people who are direct lenders who have
7 taken certain action which they believe will benefit them in
8 certain ways. And in my opinion, and I'll argue in closing
9 arguments as completely unrelated to any sanction that you may
10 consider for Donna Cangelosi.

11 In short, your Honor, after reviewing all of the exhibits,
12 all 133 exhibits, and all of the testimony of Donna Cangelosi,
13 I think you'll find that what she really did was do the very
14 best she could to organize a group of disorganized direct
15 lenders, to give them information, to help them out as best she
16 could throughout the course of these proceedings, and to form
17 and to take steps that she thought was necessary to terminate
18 Compass in accordance with the contract.

19 And the bankruptcy judge was quite clear. That following
20 close of escrow the contract was unauthored, and our position
21 is going to be that the steps Ms. Cangelosi took were in
22 accordance with the contract and were not in violation of any
23 Court order.

24 And I think you'll find that most of us, most of the
25 direct lenders, the overwhelming majority of the direct

1 lenders, supported the actions that Ms. Cangelosi took,
2 believed that they're in the best interest, and, in fact, are
3 in the best interest of the direct lenders.

4 You'll also hear that if any of them wanted out from this
5 process, didn't want to become a member of LLCs, they had a
6 right to get out. All they had to do was ask, and they can get
7 out.

8 So at this point, your Honor, I think I'll just sit back.
9 I'm anxious to hear what Ms. Dakin-Grimm can present as far as
10 actual evidence on the actual real issues, and that's my
11 opening argument. I appreciate it.

12 THE COURT: Okay. Thank you.

13 MR. HERRING: Thank you, your Honor. Walt Herring.
14 I will try not to repeat what Mr. Smith said, but these are
15 serious allegations.

16 Compass does have the burden of proof. It's a strict
17 burden of proof. It's not just talk. It's not just their
18 opinion. They've got to show a violation, a strict violation,
19 of a Court order by Ms. Cangelosi. We don't think they can do
20 that.

21 They have this vague description that Ms. Cangelosi
22 undermined their abilities. There's nothing wrong with an
23 individual -- I think Ms. Cangelosi could have started out this
24 process by saying I don't like Compass. I'm going to terminate
25 them and be as upfront about it as possible. There's nothing

1 wrong with Ms. Cangelosi attempting to say if you're violating
2 these contracts, I'm going to terminate you.

3 That's all we're going to see today is that Ms. Cangelosi
4 may have said if you're violating these contracts, I'm going to
5 terminate you. Fair warning Mr. Compass, we're coming after
6 you because we think you're wrong.

7 And here's why the evidence which we have shown in these
8 47 declarations is going to show that Compass was wrong.
9 Compass from the very beginning, before they even took over,
10 started to breach its fiduciary duties. That gave the alert
11 not just to Ms. Cangelosi. I mean, Compass is trying to focus
12 on Ms. Cangelosi.

13 As our declarations made clear, the direct lenders in
14 general were all concerned about Compass' actions, Compass'
15 actions to take default interest, to take late fees, to take
16 other fees before their principal and interest. That was a
17 huge concern that rallied them.

18 The first two or three or four instances where Compass
19 interacted with them on loans proved to them that Compass was
20 trying to do that. So the direct lenders become even more
21 concerned.

22 Compass is fulfilling what they believed Compass would do.
23 They are violating the loan service agreements and because of
24 that, not just Ms. Cangelosi -- she served as the leader of the
25 pack I guess, but there were many others because of that the

1 direct lenders organized, and the direct lenders tried to
2 organize realizing that they were facing a machine here, a
3 well-oiled and well-financed machine.

4 And how could they do that? They set up their own
5 independent initially chat rooms, not run by Ms. Cangelosi.
6 The chat room was run by another individual, Mr. Bob Ulm. They
7 set up -- no. I'm sorry. That's Mr. Oliver Chen. They set up
8 a Web site not run by Ms. Cangelosi, by a man named Bob Ulm.

9 They did many things. The loan-by-loan people organized
10 and made their own discussions about forming LLCs independent
11 of Ms. Cangelosi because they figured that would be a way where
12 they could organize, speak as a voice, and fund their defense.

13 We see nothing wrong with what she tried to do. We see
14 nothing wrong with holding Compass to the contractual
15 obligations that they took over.

16 THE COURT: And are you attempting to prosecute into
17 today's hearings a request to terminate the Judge Riegler order
18 and/or the preliminary injunction or temporary order that the
19 Court entered?

20 MR. HERRING: We are attempting to -- and I think we
21 had this discussion at the last one, your Honor -- allow the
22 LLCs or the direct lenders to terminate Compass as their
23 servicer. We're not prepared to go forward with -- we
24 understood from the last hearing that your Honor wanted to hear
25 cause hearings.

1 We're not prepared to go forward with a for-cause hearing
2 today, but we do believe that through these declarations that
3 we've shown and the evidence we'll put on at a hearing, if need
4 be, that we will be able to prove that they have, indeed,
5 violated these LSA's.

6 And we will be asking them to terminate Compass as the
7 servicer effective -- according to the Court's understanding,
8 effective 30 days after we filed that lawsuit. That's what
9 we're going -- that will be -- but that's an ultimate issue,
10 not here for today. We understand what we're here for today is
11 to talk about Ms. Cangelosi, and that's Mr. Smith --

12 THE COURT: I thought you wanted me also to consider
13 whether the preliminary injunction was going to continue or be
14 terminated.

15 MR. HERRING: Well, it was our understanding,
16 your Honor, based on the prior hearings that you were going to
17 enter an order, and were welcoming today the opportunity to
18 discuss the parameters of that order with you.

19 THE COURT: All right.

20 MR. HERRING: We do intend to do that, and I have a
21 number of things to talk to you about. But as far as the
22 evidentiary hearing goes, that's Mr. Smith will handle
23 Ms. Cangelosi, and I want to discuss with the Court the LLC
24 issue. The Court brought that up at our last hearing.

25 We have spent, my law firm has spent, a number of hours,

1 50, 60 hours, looking into the LLC issue. We are little behind
2 the eight ball I guess. It appears to me that we are looking
3 for a needle in a haystack in a field of haystacks.

4 We had no real direction on what we were supposed to be
5 looking for, but we looked at consumer law in the federal
6 Court, federal system. We can't find anything there.

7 We looked at the Nevada consumer law. We don't see
8 anything there.

9 We looked at federal security law. That's an interesting
10 discussion. There may be -- it's clearly a security, but we
11 believe that there are clear exemptions before that would
12 apply, and there's no evidence before the Court that they don't
13 apply.

14 THE COURT: What exemptions apply?

15 MR. HERRING: Well, there are three securities acts.
16 There's the '33 Act, the '34 Act --

17 THE COURT: Right.

18 MR. HERRING: -- and the 1940 Investment Company Act.

19 THE COURT: We're talking primarily about the
20 '34 Act --

21 MR. HERRING: Correct.

22 THE COURT: -- registration before issuance.

23 MR. HERRING: And the question there is whether there
24 is a general solicitation. This solicitation was made to, at
25 most, the 3500 direct lenders. That's an issue of whether or

1 not that's a general solicitation, to begin with. We believe
2 that, arguably, it's not a generally solicitation. You had to
3 be a member of this class before you got it.

4 THE COURT: That's not an exemption that I recognize.

5 MR. HERRING: More importantly, there's an exemption
6 that if there are 35 or less --

7 THE COURT: Sure.

8 MR. HERRING: -- "unqualified" isn't the right word,
9 but it's escaping me at the moment.

10 MS. DAKIN-GRIMM: Accredited.

11 MR. HERRING: Unaccredited. Thank you very much,
12 Ms. Grimm.

13 Unaccredited investors in there, in an LLC, it will not
14 apply. There will be no evidence today, and there's no
15 evidence before the Court.

16 THE COURT: Well, you've got an intrastate exemption.
17 That doesn't apply. You've got a Rule 144 exemption, 35 or
18 fewer, and you've got a small company exemption. What is it?
19 Less than whatever it is, less than 500,000 or something.

20 MR. HERRING: Well, it's less than -- but there's,
21 also, if there's 35 or less unaccredited investors in the
22 company it doesn't apply, and there's no --

23 THE COURT: Talking about --

24 MR. HERRING: We haven't --

25 THE COURT: -- Rule 144.

1 MR. HERRING: Correct. We haven't -- and if we
2 didn't know -- if that was what the Court was concerned about
3 we would be, we would have gone out and --

4 THE COURT: Sure it is.

5 MR. HERRING: -- done that.

6 THE COURT: Sure it is because one of the things that
7 I've suggested in the injunction that's issuing is a
8 requirement that that the LLCs return all of the interest that
9 it solicited.

10 MR. HERRING: Well, you did make that suggestion,
11 your Honor, but there was no --

12 THE COURT: It was really a ruling.

13 MR. HERRING: Okay.

14 THE COURT: But I recognize that the --

15 (Colloquy not on the record.)

16 THE COURT: Just a minute, please. I recognize that
17 this is darn serious. You better believe that Compass has got
18 some real things to answer, and I'll emphasize that to you at
19 the end of this hearing.

20 What I want to emphasize to you is that my preliminary
21 ruling subject to, of course, letting you submit evidence here
22 was that you have no exemption, that those were solicited
23 illegally, and, of course, there is no exemption for a 10(b)(5)
24 violation even in a small solicitation, and, therefore, why I
25 should not include in my preliminary injunction a mandatory

1 return of the interest solicited.

2 MR. HERRING: Well, when you have a good --

3 THE COURT: That is an issue I thought was on for
4 today's calendar.

5 MR. HERRING: Well, I'll be honest with you,
6 your Honor. I did not know that that particular issue was on
7 for this hearing, other than the discussion of what is the
8 violation that the Court believes we did.

9 We left the hearing on September 10th, at least from my
10 perspective in reviewing the transcript, with no clear
11 understanding of what our violation was. And because of that,
12 I have not gone out to determine whether or not there are 35 or
13 less unaccredited investors in each LLC. There very well may
14 be.

15 THE COURT: Yeah. If I said the 34 act, I misspoke.

16 MR. HERRING: Okay.

17 THE COURT: The '33 Act.

18 MR. HERRING: Well, more --

19 THE COURT: In other words, you didn't register this
20 sale of securities and/or you violated 10(b) filing.

21 MR. HERRING: I guess in addition to that which, you
22 know, we will address as best we can, your Honor, but in
23 addition to that, there's been no direct lender who has brought
24 an action to the Court complaining of this issue.

25 We believe, in all due respect to the Court, that we

1 cannot find any case law that supports the Court sua sponte
2 issuing an order to dissolve an LLC or requiring them to
3 transfer an interest back. That's to be brought by the direct
4 lenders themselves.

5 Now, there is a equitable remedy, and, clearly, there are
6 equitable remedies out there. The Court can offer rescision,
7 but that's in -- all of those have been in actions where the
8 investor has brought that. If we had an investor complaining
9 here, that would be different.

10 Compass has no ability to complain. They're not an
11 investor. They have no standing to make that complaint, so we
12 have a serious concern about whether the Court can in a
13 preliminary injunction order this to occur.

14 In addition, your Honor, I think that ordering this to
15 occur will serve serious -- have serious effects.

16 THE COURT: Now, we're getting into argument, so I'll
17 cut you --

18 MR. HERRING: Okay.

19 THE COURT: -- off at that point --

20 MR. HERRING: That's --

21 THE COURT: -- and I'll let you --

22 MR. HERRING: All right.

23 THE COURT: -- make that argument later.

24 MR. HERRING: Well, the irony of all this situation
25 is, your Honor, is that Compass is trying to blame

1 Donna Cangelosi for their failures to act as a servicer. They
2 are trying to think that Donna Cangelosi, an individual, has
3 brought them down. The reality of the situation is Compass
4 needs to reflect upon themselves and say what did we do to
5 cause this?

6 It's amply proven in all the declarations we've shown
7 Compass had the ability to step in here and act as a servicer,
8 act as a proper servicer, do the right thing, and they didn't.

9 So they're trying to push the blame off on Donna Cangelosi
10 and not doing any introspection on themselves about how they
11 are the problem, and how they could have remedied this.

12 Thank you, your Honor.

13 THE COURT: Thank you. Any other opening statement?
14 All right. Thank you.

15 You're offering Ned Homfeld and Terrance Honikman
16 declarations. I've received the direct testimony. Do you want
17 to cross-examine either of those declarants?

18 MS. DAKIN-GRIMM: Your Honor, may we start with
19 Ms. Cangelosi who is our first witness?

20 THE COURT: No.

21 MR. HERRING: Yes, we do, your Honor.

22 THE COURT: Which one?

23 MR. HERRING: I guess we'll start with Mr. Honikman.

24 (Colloquy not on the record.)

25 MR. HERRING: Now, we do have objections, your Honor,

1 that we filed on the declarations themselves, hearsay,
2 unfounded opinion testimony, et cetera. Has the Court had an
3 opportunity to review those --

4 THE COURT: I'm going to --

5 MR. HERRING: -- objections?

6 THE COURT: -- tentatively overrule those objections.
7 I mean, you may have serious objections there, but we have him
8 here for cross-examination, and I'll reconsider those rulings
9 subject to the cross-examinations.

10 Is Mr. --

11 MR. HERRING: We'll call --

12 THE COURT: -- Honikman here?

13 MR. HERRING: -- Mr. Honikman.

14 THE COURT: Please. Thank you, sir. If you'll come
15 forward. Thank you for coming.

16 (Colloquy not on the record.)

17 THE COURT: If you'll come up to the witness stand,
18 please. Thank you, sir. Right up behind the chair, please.
19 Remain standing. The clerk will swear you in.

20 Thereupon --

21 TERRANCE CHASE HONIKMAN

22 was called as a witness, and having been first duly sworn,
23 testified as follows:

24 THE WITNESS: I do.

25 THE CLERK: Please be seated. For the record, please

1 state your full name.

2 THE WITNESS: Terrance Chase Honikman.

3 THE CLERK: Please spell your last name.

4 THE WITNESS: H-o-n-i-k-m-a-n.

5 THE CLERK: Which city and state do you reside?

6 THE WITNESS: Santa Barbara, California.

7 THE CLERK: Thank you.

8 THE COURT: Thank you, you may inquire.

9 MR. HERRING: Good afternoon, Mr. Honikman. I'm
10 Wally Herring.

11 THE WITNESS: Hi.

12 CROSS-EXAMINATION

13 BY MR. HERRING:

14 Q. I'm here representing the LLCs. You understand that.

15 A. I do.

16 Q. You filed a declaration in this case, correct?

17 A. I did.

18 Q. And in that declaration you said in retrospect I wish that
19 I had not assigned my interest to Ms. Cangelosi's LLCs. Do you
20 recall making that statement?

21 A. Yes.

22 Q. What is it about the LLC structure, Mr. Honikman, that you
23 don't like?

24 A. There are several things about the LLC structure that I
25 don't like. The overwroughting problem is that I feel

1 Ms. Cangelosi's plan was based on setting me up to believe that
2 Compass was wholly evil and had none of my interests at heart.

3 The next issue is that I didn't understand the financial
4 responsibility or the financial relationship between
5 Ms. Cangelosi's management options in litigating this issue and
6 my interests.

7 And finally, I felt almost railroaded into joining the LLC
8 because the urgency with which she needed people to join the
9 LLCs was highlighted by a statement or a threat that if we
10 didn't join now, we would have to pay to join later.

11 Q. Those are your three concerns?

12 A. From memory. There may be more, but I don't have
13 (indiscernible) now.

14 Q. Did you attend any of the seminars that Ms. Cangelosi put
15 on prior to joining the LLC?

16 A. No.

17 Q. Where did you get your information, then, on how the LLCs
18 were formulated and how the LLCs were to operate?

19 A. From the documents that were distributed by the loan
20 captains.

21 Q. And did you have the opportunity to review those documents
22 with your attorneys?

23 A. No, I did not.

24 Q. You were prevented from reviewing them with your attorneys?

25 A. Well, I didn't have an opportunity to review them with --

1 Q. Could you have --

2 A. -- my attorneys.

3 Q. Could have reviewed those with your attorney, Mr. Honikman?

4 A. No. I didn't have an opportunity to do that.

5 Q. And how were you prevented from doing that?

6 A. A matter of timing and urgency.

7 Q. And when did you receive the information?

8 A. I don't recall the exact dates, but I recall there was
9 something like a two- or, perhaps, three-week period between my
10 first becoming aware of the proposed structure and the due
11 date.

12 Q. So in that two or three-week period, you had no opportunity
13 to meet with your attorneys or accountants or advisors?

14 A. That is correct.

15 Q. And you do recall in the information you did receive the
16 loan captains, and in the information provided they suggested
17 you meet with your advisors and attorneys, do you not?

18 A. Actually, I don't recall that statement. I did not recall
19 that statement until reviewing the documents in preparation for
20 signing my declaration.

21 Q. And in reviewing the documents in preparation for signing
22 your statement, you recall now that the documents did suggest
23 that you meet with your advisors, correct?

24 A. I saw one statement to that effect. Yes.

25 Q. Have you ever asked for your interest back since you said

1 that you wish you hadn't done it?

2 A. No. I decided to wait for the outcome of this hearing.

3 Q. Well, would you like them back, Mr. Honikman?

4 A. I would.

5 MR. HERRING: May I approach the witness, your Honor.

6 THE COURT: Do you have an exhibit?

7 MR. HERRING: Well, this is in rebuttal. This is
8 going to be -- it's not an exhibit. I'm just going to hand him
9 his assignments back.

10 THE COURT: No, sir.

11 MS. DAKIN-GRIMM: Your Honor, I've not seen this
12 before. Whatever it is counsel --

13 THE COURT: That's fine. You may not.

14 BY MR. HERRING:

15 Q. Well, you are in three loans, are you not, Mr. Honikman?

16 A. Correct.

17 Q. You are in the Del Valle Livingston, the Marlton Square,
18 and Eagle Meadows?

19 A. That's correct.

20 Q. Okay. And you would like to receive these back.

21 A. I would.

22 Q. Have you ever been told that you wouldn't be able to get
23 them back?

24 A. No.

25 Q. And if you get these interests back, and if the LLCs are

1 successful in their action here, and, indeed, Compass is not
2 allowed to get its default interest and late fees ahead of your
3 principal and your interest, you will financially benefit from
4 that, will you not?

5 A. From what I understand, Mr. Cangelosi's management
6 structure will receive those late fees and default interest
7 instead of Compass.

8 Q. And where do you get that understanding?

9 A. From a late read of the documents sent to us by
10 Ms. Cangelosi or the loan captains. I'm not sure which.

11 Q. And this is your read. It's nothing the loan captain has
12 told you. This is your read. Nothing an attorney told you,
13 nothing your accountant told you, correct?

14 A. That's correct.

15 Q. So if you do benefit, and Compass is prevented from taking
16 its default interest and late fees ahead of your principal, and
17 you do financially benefit, do you intend to contribute to the
18 legal fund that helped you gain that benefit?

19 A. As I understand it, if I receive my interests back from the
20 LLCs, then I may not benefit as you just described, and so I --
21 I don't understand how the question relates.

22 Q. So then if you financially benefit, do you or do not,
23 Mr. Honikman, intend to contribute to the legal fund that got
24 you that benefit?

25 MS. DAKIN-GRIMM: Objection.

1 THE COURT: I don't understand the question. In
2 other words, do you intend to make a contribution to
3 Ms. Cangelosi's legal fund?

4 MR. HERRING: No.

5 BY MR. HERRING:

6 Q. If, indeed, Compass is prevented from getting its penalty
7 -- I mean, default interest and late fees, it will benefit
8 direct lenders whether they're in the LLCs or not. Isn't that
9 true, Mr. Honikman?

10 MS. DAKIN-GRIMM: Objection.

11 THE COURT: If you understand the question, sir, you
12 may answer.

13 THE WITNESS: I don't understand enough of it to --
14 to answer so --

15 BY MR. HERRING:

16 Q. Well, you are a direct lender, are you not?

17 A. I am.

18 Q. And if Compass takes default interest and late fees ahead
19 of your principal and interest, that is an economic damage to
20 you, is it not?

21 A. The only loan that I'm aware of having a deal on the table
22 has been set up so that Compass would take fees, and if we
23 would recover 100 cents on the dollar of principal and some
24 fraction of the interest that was originally planned.

25 Q. I appreciate that, Mr. Honikman. My question was --

1 A. In an underfunded loan?

2 Q. In an underfunded loan, and you have two other loans that
3 you say, correct?

4 A. Yes.

5 Q. If there's an underfunded loan, and Compass takes its
6 default interest and late fees ahead of your principal and
7 interest, that will be an economic damage to you, will it not?

8 A. That would be.

9 Q. Okay. And if the LLCs are successful in their action here,
10 in preventing Compass from taking default interest and late
11 fees ahead of the principal and interest, you will benefit,
12 will you not?

13 A. Only if those default-interest and late-fee payments were
14 distributed to the direct lenders.

15 Q. And if they are distributed to the direct lenders, do you
16 then intend to contribute to the legal fund that got you that
17 benefit?

18 MS. DAKIN-GRIMM: Objection.

19 THE COURT: If you know, sir, you --

20 THE WITNESS: That -- that's too hypothetical. There
21 are too many unknowns in your question for me to give you a
22 reasonable answer.

23 MR. HERRING: No further questions.

24 THE COURT: Thank you.

25 (Colloquy not on the record.)

CROSS-EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. SMITH:

Q. Mr. Honikman, do you have -- I'm sorry. My name's Alan Smith. I represent Donna Cangelosi.

A. How do you do, sir?

Q. Good afternoon. Do you have a college degree, sir?

A. Yes.

Q. What is your degree in?

A. I beg your pardon?

Q. In what subject is your college degree?

A. Engineering.

Q. And have you been involved in business?

A. Yes.

Q. What business?

A. I've been involved in several businesses as an employee, as an officer, and as a principal.

Q. And what type of businesses?

A. One was a defense think tank, one was a solar energy company, and currently I'm a consultant.

Q. In what respect are you a consultant, sir?

THE COURT: Are you talking about what subject matter?

MR. SMITH: Well, he's a consultant to --

BY MR. SMITH:

Q. In what subject matter then are you a consultant?

1 A. Automobile accident injury litigation.

2 Q. Okay. And do you consult with attorneys in that respect?

3 A. Yes.

4 Q. Okay. Now, when you had some concerns about these actions
5 that you just spoke about, did you ever attempt to contact
6 Donna Cangelosi?

7 A. Yes. I believe -- you mean in response to the concerns?

8 Q. Well, to get answers to your questions, sir. If you had
9 questions, I want to find out what you did to find out answer
10 to your questions.

11 A. I think that by the time I started having concerns about
12 the -- the structure, Ms. Cangelosi was no longer responding to
13 my E-mails. I had subsequent several E-mails from the loan
14 captains.

15 Q. Here's my specific request, so that it's not misunderstood.
16 Did you ever attempt to contact Ms. Cangelosi?

17 A. I believe I did. I don't have a specific recollection of
18 an E-mail or a phone call --

19 Q. Okay.

20 A. -- in -- in response to your question.

21 Q. So you can't recall for sure.

22 A. That's correct.

23 Q. Okay. Did you ever attempt to contact anyone else to get
24 your questions answered?

25 A. Yes.

1 Q. Who?

2 A. The loan captains.

3 Q. Okay. Which one?

4 A. All three. I -- I -- at the moment I can't recall their
5 names.

6 Q. And how did you attempt to contact them?

7 A. By E-mail and telephone.

8 Q. And did they respond?

9 A. In some cases, they did. In others, not.

10 Q. Okay. And other than that, did you make any further -- did
11 you contact attorneys to discuss these issues?

12 A. I don't believe when I was exploring concerns that I ever
13 contacted attorneys.

14 Q. When did you make the decision that you'd made a mistake?

15 A. I think that turning point was when I participated or
16 listened in on the telephone call about the Marlton Square
17 resolution.

18 Q. Okay. And did you communicate with anyone that you had
19 made a mistake?

20 A. I did, yes.

21 Q. Who?

22 A. With members of my family who have also been investors.

23 Q. Did you communicate with Ms. Cangelosi?

24 A. No.

25 Q. You never asked for a return of the assignment of your deed

1 of trust; is that correct?

2 A. I did not.

3 Q. Why not?

4 A. Because at -- at one point soon after that, before I had
5 satisfied myself that I had made a mistake, I read the
6 transcripts in these hearings, and, perhaps, naively, concluded
7 that the Judge had decided to roll back the LLCs. My request
8 or my concern would be resolved in that matter.

9 Q. So you thought someone else would take care of it for you?

10 A. It seemed as though that was in process.

11 Q. So you just decided to wait and see what happened?

12 A. That's correct.

13 Q. And by the hearing, you're talking about the September 10th
14 hearing before this Court?

15 A. I believe that's correct.

16 Q. So by September 10th, you hadn't made a decision yet of
17 whether you wanted to request it back. You thought you'd wait
18 and see what would happen in Court.

19 A. I don't remember the exact dates of my decision. This has
20 been a developing concern.

21 Q. Now, you had some conversations I assume with somebody from
22 Compass?

23 A. Yes.

24 Q. Who was it?

25 A. I spoke, initially, with Boris Piskun and, subsequently,

1 with the attorneys from -- or one attorney from -- representing
2 Compass.

3 Q. Which attorney?

4 A. Tyson Lomazow.

5 Q. Okay. When was that?

6 A. I believe it was either -- oh. It wasn't this week, of
7 course. It was last week.

8 Q. And that's what -- those conversations was what led to the
9 preparation of your declaration?

10 A. Yes.

11 Q. Who typed your declaration?

12 A. I don't know.

13 Q. Somebody at their law firm?

14 A. I presume so.

15 Q. Okay. Did you handwrite out your declaration?

16 A. No.

17 Q. Well, how was it prepared?

18 A. We had a discussion. I had a telephone call with
19 Mr. Lomazow in which he told me was dictating or recording my
20 comments.

21 Q. And you told Mr. Lomazow that you thought you'd made a
22 mistake?

23 A. Yes.

24 Q. But you told him, also, you hadn't communicated that to
25 Ms. Cangelosi.

1 A. I don't recall telling him that.

2 Q. You didn't tell him that you hadn't communicated to
3 Ms. Cangelosi that you'd made a mistake?

4 A. I don't recall telling him that.

5 Q. Okay. Now, I wasn't quite tracking your answers to
6 Mr. Herring's questions.

7 Are you favor of default interest being taken out of your
8 principal and interest? In other words, by that I mean default
9 interest being paid first before your entire principal and
10 interest are paid?

11 MS. DAKIN-GRIMM: Objection. 402, 403.

12 THE COURT: No. I'll let him answer it.

13 Are you against that.

14 THE WITNESS: I didn't hear, your Honor.

15 THE COURT: Repeat the question if you would.

16 BY MR. SMITH:

17 Q. Are you in favor of the default interest that's payable to
18 Compass to be paid to Compass before you retain recovery of
19 your full principal and interest on your loans?

20 A. No.

21 Q. All right. Did you understand that that was Compass'
22 position?

23 A. Yes.

24 Q. And was it your decision to go ahead and stick with
25 Compass, even though that was their position?

1 A. Well, no. As you know, I -- I decided to join the LLC.

2 Q. Right.

3 A. That was the primary motivating factor.

4 Q. Sure. But now that you know all you know, and it's your
5 decision to get out, is that what I understand that -- do you
6 want out?

7 A. Yes.

8 Q. And what do you understand is Compass' position with
9 respect to the default interest? Do you know?

10 A. I'm not a lawyer, so I'm going to give you an engineer's
11 answer to that question.

12 Q. Okay. Well, I used to be an engineer. Maybe I'll
13 understand it.

14 A. My understanding is that Compass has been guided by the
15 Court that in underfunded loans, the default interest and
16 success fees or whatever the -- the fees at issue here will be
17 paid on a pro rata basis. In other words, there will be a
18 sharing between Compass and the direct lenders.

19 Q. And that's okay with you?

20 A. I beg your pardon?

21 Q. That's okay with you? That's acceptable to you?

22 A. If the Judge rules that, I'm not qualified to counter his
23 ruling.

24 Q. Well, my question is you got these two people here. You
25 got Compass, and then you got Ms. Cangelosi's companies. You

1 need to make the decision. Is it your preference to stay with
2 Compass and stick with that situation where it's a pro rata
3 default interest, principal and interest are all pro rata?

4 MS. DAKIN-GRIMM: Objection. 402, 403.

5 THE COURT: Overruled.

6 But I don't know how he can answer the question, Counsel.
7 It's whatever the Court determines is the law. That's --

8 MR. SMITH: All right.

9 THE COURT: Obviously, he wants as much of a recovery
10 as he can get.

11 BY MR. SMITH:

12 Q. Sir, did you understand that under the proposal by
13 Ms. Cangelosi that the default interest is not paid until
14 principal and interest is paid in full?

15 A. I think I understood your question. The answer is yes.

16 Q. Okay. And did you make any special arrangements with
17 Compass in connection with preparing your declaration?

18 A. Give me an example.

19 Q. Did you receive any special consideration on your loans?

20 A. No.

21 Q. Did you receive any compensation or any favors in any way,
22 whatsoever?

23 A. No.

24 MR. SMITH: Okay. Thanks. That's all I have.

25 THE COURT: Thank you.

1 You may redirect, but I'm going to ask you to hone to the
2 scope rule, so that we're not just simply repeating the
3 declarations which I've read. Keep it to the scope of what was
4 in the cross-examination.

5 MS. DAKIN-GRIMM: I will do that, your Honor.

6 REDIRECT EXAMINATION

7 BY MS. DAKIN-GRIMM:

8 Q. Mr. Honikman, in I believe it was the first counsel's
9 questioning of you, you testified something about Ms. Cangelosi
10 leading you to believe that Compass was evil or something like
11 that. Do you remember that general -- that may not have been
12 your precise words, but that general critique you made?

13 A. Yes.

14 Q. Can you explain what you meant.

15 A. Yes. I think the -- the term "predator" was used, and I
16 think, in general, the impression that I was given and led to
17 believe was that Compass was unfeeling, care less about the
18 direct lenders, only interested in lining their own pockets,
19 and that they would do so to the expense of or at the expense
20 of the direct lenders, and that Ms. Cangelosi was standing up
21 for all the disorganized and unrepresented direct lenders to
22 counter this predatory action.

23 Q. Now, when Ms. Cangelosi made those kinds of representations
24 to you initially, did you believe them?

25 A. Yes.

1 Q. And you talked about -- you gave three things in response
2 to counsel's question. Those kinds of statements about
3 characterizing Compass was the first. The second you said was
4 you didn't fully understand the financial arrangements of the
5 LLCs.

6 A. Yes.

7 Q. Can you explain what it was that you didn't understand and
8 have come to understand.

9 A. Yes. Very specifically, I didn't understand that in
10 managing the LLCs, Ms. Cangelosi would have the control and
11 power to borrow money against the underlying assets with which
12 to litigate or do anything else that the LLCs decided to do.

13 And when I learned that, I became very concerned that
14 there was not only a very real risk of losing capital, but of
15 being on the hook for additional payments beyond my capital,
16 and I -- I found myself in a position of being absolutely
17 uncontrolled or out of control of -- of my asset.

18 First, I was out of control because this predatory Compass
19 had come in and was going to take its cut before returning any
20 principal, and then I found, on the other hand, that the LLC
21 was, in fact, potentially going to send me a bill.

22 Q. Did Ms. Cangelosi tell you in her materials that you had
23 obtained that there was also a possibility of cash calls?

24 A. I don't recall that.

25 Q. Have you come to learn that there exists the possibility of

1 cash calls under Ms. Cangelosi's scheme, in addition to the one
2 percent she's taking of your interest?

3 A. No. I haven't learned that yet.

4 Q. Was there anything else about the financial arrangements
5 that you didn't initially understand, but have come to
6 understand?

7 A. Yes. The -- the one percent off the top bothers me because
8 I didn't understand that. I couldn't glean that from reading
9 the documents before I decided to as I in urgency joined the
10 LLC.

11 Q. Did Ms. Cangelosi ever tell you that she didn't have any
12 personal experience herself in this loan-workout business?

13 A. No.

14 Q. Did she ever provide you a curriculum vitae or anything
15 from which you could deduce her experience in workout of loans
16 like these?

17 A. No. The closest I got to that was a Google search or the
18 answer to a Google search.

19 THE COURT: Counsel, again, stick to the scope,
20 please. Don't repeat or elicit now what you should have done
21 in the declaration.

22 BY MS. DAKIN-GRIMM:

23 Q. Mr. Honikman, you mentioned in response to Mr. Smith's
24 question he was asking you about communications with
25 Ms. Cangelosi at a certain period in time, and you said

1 something like, well, she had stopped responding to my E-mails
2 by then.

3 MR. SMITH: No. I object, your Honor. That's -- I
4 object. That incorrectly characterizes the testimony.

5 THE COURT: I'll let you ask the question. You may
6 ask the question, however.

7 BY MS. DAKIN-GRIMM:

8 Q. Did you testify to that in words or substance?

9 A. That was my intent. Yes.

10 Q. Had you been communicating with Ms. Cangelosi at some point
11 in time?

12 A. Yes. I believe I had several E-mails and, perhaps, some
13 phone calls.

14 Q. Okay. And can you describe those.

15 A. I -- I think the best way to characterize those phone calls
16 or communications was that I formed the impression that
17 Ms. Cangelosi was experienced, capable, knowledgeable, and a
18 person who would organize a disorganized group.

19 Q. And then at some point in time, she stopped responding to
20 your E-mails. When was that?

21 A. I don't recall a date, but I got the impression that she
22 had become extremely busy.

23 Q. Now, you testified -- and I'm sorry. I've forgotten which
24 counsel it was that asked you, but whether there was a point in
25 time when you knew you made a mistake and --

1 A. Yeah.

2 Q. -- you said yes. It was a Marlton Square resolution phone
3 call?

4 A. That's correct.

5 Q. And then counsel didn't let you explain what that was
6 about. What was that about? How did you learn that you'd made
7 a mistake?

8 A. I learned afterwards. I joined the call late, so I didn't
9 know who was handling the call for Compass, but I learned
10 afterwards that it was Mr. Blatt.

11 And I was struck by the clarity of his presentation, his
12 answers, the fairness and reasonableness with which he
13 responded to questions.

14 And, in particular, there was one direct lender who said
15 this is not a question, but a comment, and he said words to the
16 effect I think it's unconscionable that Compass should take a
17 fee while the Marlton II investors are left dangling, and I was
18 struck by the openness of his response. He said --

19 Q. Is the he Mr. Blatt?

20 A. Mr. Blatt's response. He responded -- excuse me. I hear
21 what you say, and I will take it under advisement.

22 And one or two days later I read that Compass had elected
23 to forego another 1-point-some -- 1.5 million dollars of their
24 fee to provide some relief to the Marlton II investors.

25 And at that point, I was highly impressed by two things.

1 One was what seemed to me to be a very reasonable response on
2 the part of Compass, and the other was the distinction between
3 what I had come to believe Compass represented and what I heard
4 on that phone call.

5 Q. Mr. Blatt's conduct was different then how Ms. Cangelosi
6 had led to you believe he would behave?

7 MR. HERRING: Objection. Leading, your Honor.

8 THE COURT: Sustained.

9 BY MS. DAKIN-GRIMM:

10 Q. What was it about Mr. Blatt's conduct that surprised you?

11 A. It was 180 degrees counter to what I expected.

12 Q. Now, Ms. Cangelosi's counsel asked you a bunch of questions
13 about you preferring Compass. Do you prefer Compass, sir?

14 A. I prefer to get my principal and interest back.

15 (Colloquy not on the record.)

16 BY MS. DAKIN-GRIMM:

17 Q. Do you have a preference one way or another how that gets
18 done as long as you get your money and interest back?

19 A. Yes.

20 Q. What's your preference?

21 A. Soon.

22 (Colloquy not on the record.)

23 BY MS. DAKIN-GRIMM:

24 Q. And do you have a view, sir, on whether Ms. Cangelosi's
25 team has the ability to accomplish your goal?

1 A. I really don't have a way to assess her experience or
2 capability, so I -- I respectfully have to decline to answer
3 that. I -- I just don't have a way to tell you.

4 Q. She hasn't provided you with information on that?

5 A. No.

6 MS. DAKIN-GRIMM: Thank you.

7 THE COURT: Thank you. Thank you, sir. That's all.
8 You may step down.

9 THE WITNESS: Thank you.

10 THE COURT: On Ned Homfeld, do you request
11 cross-examination?

12 MR. HERRING: Yes, your Honor.

13 MS. DAKIN-GRIMM: Your Honor --

14 THE COURT: Please.

15 MS. DAKIN-GRIMM: -- I've just been told.

16 Mr. Homfeld, obviously, is not represented by my firm, and he
17 did not come today. He had some childcare issue. If we could
18 put him at the end of the order, I would appreciate it. I
19 understand Mr. Hansen didn't come today, either.

20 THE COURT: Okay. Very good. You will need to make
21 him available.

22 MS. DAKIN-GRIMM: You do have cross-examination,
23 correct?

24 MR. HERRING: Yes, your Honor.

25 THE COURT: Okay. Thank you. I'll trail that.

1 Now you wish to call Ms. Cangelosi and/or Mr. Hansen.

2 MS. DAKIN-GRIMM: Ms. Cangelosi, please.

3 THE COURT: Ms. Cangelosi, please.

4 (Colloquy not on the record.)

5 MS. DAKIN-GRIMM: Your Honor, the witness doesn't
6 need to bring anything to the stand with her. All the
7 documents are there.

8 THE COURT: I'll let her bring it up.

9 But you'll need to put over here, ma'am, unless counsel
10 asks you to refer to notes.

11 (Colloquy not on the record.)

12 THE COURT: Thank you, ma'am. If you'll raise your
13 right hand, please.

14 Thereupon --

15 DONNA CANGELOSI

16 was called as a witness, and having been first duly sworn,
17 testified as follows:

18 THE WITNESS: Yes, I do.

19 THE CLERK: Please be seated. For the record, please
20 state your full name.

21 THE WITNESS: Donna Cangelosi.

22 THE CLERK: Please spell your last name.

23 THE WITNESS: C-a-n-g-e-l-o-s-i.

24 THE CLERK: Which city and state do you reside?

25 THE WITNESS: Reno, Nevada.

1 THE CLERK: Thank you.

2 THE COURT: And by the way, we have a declaration of
3 Ms. Cangelosi filed in this matter. Do you have any objections
4 to the Court receiving it?

5 MS. DAKIN-GRIMM: No, your Honor.

6 THE COURT: I'll --

7 MR. HERRING: Your Honor --

8 THE COURT: -- receive --

9 MR. HERRING: -- there are actually --

10 THE COURT: -- it.

11 MR. HERRING: There are actually four declarations
12 filed in this matter.

13 THE COURT: Let's see. For the record, please.

14 (Colloquy not on the record.)

15 MR. HERRING: With what they are?

16 THE COURT: Right. I've got Document 35.

17 MR. HERRING: There is a declaration --

18 THE COURT: August of --

19 MR. HERRING: -- filed on --

20 THE COURT: -- '0 --

21 MR. HERRING: -- 08/13/07, 08/23/07, and 09/03/07,
22 and they are in the witness list and exhibit list as --

23 THE COURT: Okay. In which exhibit list?

24 MR. HERRING: The defendant's or the LLC and
25 Cangelosi's exhibit list that were filed on Wednesday --

1 THE COURT: Okay.

2 MR. HERRING: -- items 4, 5, 6, and the last one was
3 Exhibit No. 539, so they were actually -- I'm sorry --
4 Exhibits 503, 504, 505, and 539.

5 THE COURT: Any objection to the Court receiving all
6 of those, so that you can cross-examine?

7 MS. DAKIN-GRIMM: No, your Honor. I do not.

8 THE COURT: Okay.

9 (Exhibit Nos. 503, 504, 505, and 539
10 were received into evidence.)

11 MS. DAKIN-GRIMM: I do have a concern. I'm not sure
12 what Ms. Cangelosi brought up to the stand with her, if those
13 are materials that were produced in discovery. I'd ask that if
14 they are not, that she not be allowed to use them from the
15 stand.

16 THE COURT: I can't answer that. We'll wait to see
17 if she needs to refer to notes.

18 MS. DAKIN-GRIMM: Good afternoon, Ms. Cangelosi.

19 THE WITNESS: Good afternoon.

20 MS. DAKIN-GRIMM: I'm Linda Dakin-Grimm. I represent
21 Compass in these proceedings.

22 CROSS-EXAMINATION

23 BY MS. DAKIN-GRIMM:

24 Q. We've not met, have we?

25 A. I'm sorry?

1 Q. We've not met, have we, ma'am?

2 A. No, we have not.

3 Q. Okay. You gave a declaration last week that was called
4 declaration in opposition to motion for sanctions. Did you
5 write that?

6 A. Yes, I did.

7 Q. Great. And in that declaration, you said that following
8 the commencement of the USA bankruptcy in April of 2006 you
9 began your organizing activities. Was that true?

10 A. That is -- I began activities --

11 Q. Ma'am, just yes or no. Is it true?

12 A. That's correct.

13 Q. Thank you. And you also testified that you realized when
14 you began your organizational activities that many of the
15 direct lenders were elderly and did not understand what was
16 occurring. That was true, wasn't it, ma'am?

17 A. That is yes.

18 Q. You understood that from very early on in the proceedings
19 that many of the direct lenders did not fully understand what
20 was going on, didn't you, ma'am?

21 A. In the bankruptcy, yes.

22 Q. Yes. And your group that you formed you called, initially,
23 the Lender Protection Group, right?

24 A. We did not call that the Lender Protection Group until
25 December.

1 Q. You called the group that you formed as you stated in
2 paragraph 6 of your declaration, initially, the Lender
3 Protection Group. That was your name for it, wasn't it, ma'am?

4 A. May I see my declaration? I may -- I -- I don't know what
5 time frame you're referring to.

6 Q. There is --

7 A. I'm sorry.

8 Q. -- no time-frame reference, ma'am. I can read it to you.
9 "Initially, the Lender Protection Group was primarily concerned
10 with the prepaid-interest issue and objected to plan
11 confirmation on that basis as well as certain other reasons."
12 There's no date given.

13 A. In November --

14 THE COURT: What is your question, ma'am?

15 Q. You referred --

16 THE COURT: What is your question?

17 BY MS. DAKIN-GRIMM:

18 Q. -- to your group, Ms. Cangelosi, as the Lender Protection
19 Group, didn't you?

20 A. That was a legal -- the -- the legal fundraising group that
21 we organized to be able to raise money to fight prepaid --

22 Q. Ma'am --

23 A. -- interest.

24 Q. -- I'm not asking you the purpose. Please listen to my
25 question. You referred to the group you organized as the

1 Lender Protection Group as you stated in your declaration,
2 didn't you?

3 A. Yes.

4 Q. Thank you. Now, within the binder, the white binder there
5 in front of you, ma'am, if you could take a look at that, and
6 I'm going to ask you some questions about the documents in
7 there. If you could start with Exhibit 108, please.

8 Exhibit 108 is the asset purchase agreement dated
9 December 8th, 2006, by which Compass obtained assets. You're
10 familiar with that document, are you not, ma'am?

11 A. Yes, I am.

12 Q. And you actually obtained a copy of this document from
13 Todd Hansen before it was approved by the Court, didn't you?

14 A. I obtained a copy of this draft, a draft of this agreement.
15 I don't believe it's the final agreement.

16 Q. You obtained a copy of the asset purchase agreement that
17 was eventually entered by the Court, a draft, did you not?

18 A. I can't answer whether it was the same agreement that was
19 entered by the Court. There was numerous asset purchase
20 agreements. There was the stalking-horse --

21 Q. Ma'am --

22 A. -- asset --

23 Q. -- did you obtain a copy of a draft of the asset purchase
24 agreement from Todd Hansen in December?

25 A. I did, yes.

1 Q. And you familiarized yourself with its terms, did you not,
2 ma'am?

3 A. I reviewed the document, yes.

4 Q. Okay. Would you look at Exhibit 109 in the binder.

5 A. Yes.

6 Q. Exhibit 109 is an order confirming the debtor's third
7 amended joint Chapter 11 plan of reorganization. The hearing
8 date is December 19, 2006, and the actual order was entered on
9 the docket on January 8th, 2007, by the Honorable Linda Riegler.
10 Ma'am, you attended hearings in Judge Riegler's court a number
11 of times, did you not --

12 A. Yes, I did.

13 Q. -- including the confirmation hearing on the plan, right?

14 A. Yes, I did.

15 Q. And you possessed a copy of this order confirming the
16 debtor's third amended joint Chapter 11 plan, right?

17 A. Yes.

18 Q. And you were familiar with its contents, were you not?

19 A. I am.

20 Q. Now, if you could turn, Ms. Cangelosi, to Exhibit 132 in
21 that binder. Exhibit 132 for the record is an order
22 re emergency motion of Compass Financial Partners, LLC.

23 The hearing date was May 31, 2007, and the order was
24 entered on the docket June 8th, 2007. This is another order
25 that you are familiar with, is it not, ma'am?

1 A. Yes, I am.

2 Q. And you attended the hearings in Judge Riegler's courtroom
3 in which Compass sought emergency relief for your violations of
4 the confirmed bankruptcy-plan order, did you not?

5 A. Could you repeat the question? I'm sorry.

6 Q. Yes. You attended the hearings in Judge Riegler's courtroom
7 in which Compass sought relief for your violations of
8 Judge Riegler's orders, did you not?

9 A. Yes, I did.

10 Q. Okay. And in this particular order, on page 2 in
11 Exhibit 132, you were aware, ma'am, were you not, that
12 Judge Riegler ordered, "That pending further order of this Court
13 the status quo as of May 15, 2007, is hereby preserved such
14 that Compass shall be and remain the loan servicer with respect
15 to all loans for which it acquired servicing rights." You were
16 aware of that, weren't you?

17 A. Yes, Ms. Grimm.

18 Q. You were aware of that in May of 2007, right?

19 A. Yes, I am.

20 Q. If you could turn to Exhibit 133, please, Exhibit 133 is
21 another order of the bankruptcy court, Judge Linda Riegler,
22 hearing date June 20, 2007, entered on the docket July 02,
23 2007. You attended the hearing on June 20, 2007, right?

24 A. Yes.

25 Q. And you had been aware of Judge Riegler's ruling and this

1 order since June 20, 2007, have you not?

2 A. Yes.

3 Q. And if you could look at Exhibit 110 in the binder, please,
4 Exhibit 110 is a supplemental order re emergency motion of
5 Compass.

6 This is further to the hearing of June 20, 2007, and was
7 entered by Judge Riegler on the docket on August 1st, 2007.

8 This is yet another order with which you are familiar, is it
9 not, ma'am?

10 A. Yes, I am.

11 Q. You familiarized yourself with the provisions in it, did
12 you not?

13 A. I would have to refer to my notes in my binder, but, yes, I
14 believe I did.

15 Q. Would you look at page 3 of the order, please, ma'am. You
16 were familiar with the language contained in lines 12 through
17 16 that says, "It is further ordered that pending further order
18 of the Court no direct lender shall initiate contact with the
19 borrower in any loan which, small parentheses, I, end
20 parentheses, undermines Compass' exclusive authority to act on
21 behalf of the direct lenders as loan servicer or, small
22 parentheses, II, end parentheses, purports that an entity other
23 than Compass is authorized to negotiate with the borrower on
24 behalf of the direct lenders in such loan."

25 A. Yes.

1 Q. Thank you. And, Ms. Cangelosi, you'd agree with me that
2 it's important to follow the orders of Judge Riegler, would you
3 not?

4 A. Yes, Ms. Grimm.

5 Q. And you had a duty to do so, did you not?

6 A. I'm sorry?

7 Q. You had a duty to do so, did you not?

8 A. Yes.

9 Q. And having told me that you were aware early on in April of
10 2006 or so that many of the direct lenders were elderly and did
11 not fully comprehend what was going on, it was important for
12 you to be completely honest with them when you communicated
13 with them, was it not?

14 A. Yes.

15 Q. And it was important, was it not, Ms. Cangelosi, for you
16 not to make false statements to the direct lenders, wasn't it?

17 A. Yes.

18 Q. It was important for you not to puff up your credentials
19 and make it appear that you had credentials that you do not,
20 wasn't it, ma'am?

21 A. Yes.

22 Q. And it was also important for you not to say false things
23 about Compass, wasn't it?

24 A. Yes.

25 Q. I'm going to actually show you some documents,

1 Ms. Cangelosi, from your recent document production. If you
2 could start with Exhibit 1, please.

3 Exhibit 1 is an exchange of E-mails between you,
4 Ms. Cangelosi, and a direct lender called Charles Jensen. This
5 is in August of 2006. You remember this exchange?

6 A. Not really, but it's a year ago.

7 Q. All right. If you could turn to the second page of the
8 document. About an inch down, you can see that Mr. Jensen
9 wrote to you, "Sir" -- I'm sorry. You wrote to Mr. Jensen,
10 "Sir, I saw in the chat room that you were inquiring who I
11 was." You see that?

12 A. Yes.

13 Q. You remember communicating with Mr. Jensen and other direct
14 lenders about yourself in August of 2006 before a plan was even
15 before Judge Riegler?

16 A. I recall that there was some interest in the chat room
17 regarding the house that I lived in.

18 Q. Okay. Now, if you can look at the top E-mail just to put
19 this in context. Mr. Jensen wrote to you, "Donna, I thought I
20 read that you had your own Web group. If so, I would like to
21 join. Please advise. I am the new Rome Development note
22 personally as a trustee," and then he lists some other notes.

23 You received communications like this from direct lenders
24 in August of 2006 before there was a bankruptcy plan, didn't
25 you, ma'am?

1 A. Yes.

2 Q. And then this is your response to Mr. Jensen that we see
3 following, isn't it?

4 A. I believe so.

5 Q. Okay. And you characterize yourself here as a
6 successfully-retired businesswoman who invested in USA Capital,
7 correct?

8 A. Yes.

9 Q. You say, "Back in April when this fiasco started, I
10 organized a meeting of all the people we could find to form a
11 group if the need arose to get legal representation," and
12 that's a true statement, is it not?

13 A. Yes.

14 Q. You state, "We decided two things at that meeting. First
15 is that we needed to have a way by which people could
16 communicate; therefore, the chat room was initiated," right?

17 A. Correct.

18 Q. And you created a chat room together with other direct
19 lenders in approximately April of 2006, did you not, ma'am?

20 A. I did not create the chat room.

21 Q. And you also created at a later period in time a Web page
22 different than the chat room, did you not --

23 A. I --

24 Q. -- a Web --

25 A. -- did not.

1 Q. -- address?

2 A. I did not create the Web address.

3 Q. You caused it to be created, did you not?

4 A. Actually, Ms. Grimm, I was quite surprised when somebody
5 told me that they had created it. I had nothing to do with it.

6 Q. We'll come back to that in other documents that you've
7 drafted. You go on, Ms. Cangelosi, in the document. To
8 describe yourself, you say in the next paragraph, "Many people
9 are totally lost in this legal jungle and the lack of answers.
10 Through my education, I have had two years of legal training."
11 Ma'am, you've not gone to law school, have you?

12 A. That's misleading.

13 Q. Ma'am, you have not gone --

14 A. No.

15 Q. -- to law school, have you?

16 A. No.

17 Q. Okay. You say you --

18 MR. HERRING: I'm sorry. Was she finished with her
19 answer, your Honor?

20 MS. DAKIN-GRIMM: She said no.

21 THE COURT: Did you finish your answer, ma'am?

22 THE WITNESS: No. I did not go to law school.

23 MS. DAKIN-GRIMM: Thank you.

24 MS. DAKIN-GRIMM:

25 Q. You say, "I have taken and run" -- I'm sorry. Let me read

1 this correctly. You say you have "significant practical
2 experience having run and taken companies public." Do you see
3 that?

4 A. Yes.

5 Q. Now, let's see in your deposition what you said you meant
6 by taking companies public. This is clip 95, please.

7 THE COURT: That's an improper method, ma'am, of --

8 MS. DAKIN-GRIMM: Your Honor, under --

9 THE COURT: -- examination.

10 MS. DAKIN-GRIMM: Under Federal Rule 32, a party can
11 be -- deposition testimony can be admitted for any purpose.
12 This is not for impeachment.

13 THE COURT: I'm not going to let you do that.

14 MS. DAKIN-GRIMM: Okay.

15 BY MS. DAKIN-GRIMM:

16 Q. Isn't it true, ma'am, that you claim that what you meant by
17 taking companies public is Softnet?

18 A. Yes. That's one of -- one -- one, yes.

19 Q. Oh, it's the only one you identified in your deposition,
20 isn't it, ma'am --

21 A. Yes.

22 Q. -- when you were asked this question?

23 A. Yes.

24 Q. And your testimony is that you took Softnet public, and
25 that it traded on NASDAQ, right?

1 A. There's a team that took Softnet public. I said I led a
2 team, yes.

3 Q. You said that it traded on NASDAQ --

4 A. It --

5 Q. -- correct, ma'am?

6 A. Yes.

7 Q. That's not true, is it?

8 A. No. That is true. Ms. Grimm, that's very true.

9 Q. Isn't it true, Ms. Cangelosi, that Softnet was a public
10 company since the '70s?

11 A. Softnet was a public company since the '70s. It was --

12 Q. Thank you, ma'am. And isn't it true that it does --

13 MR. HERRING: I'm sorry. Was she finished with her
14 answer, your Honor?

15 THE COURT: Sustained.

16 Finish your answer, please.

17 THE WITNESS: It was taken -- Softnet was a public
18 company since the '70s. It was taken in a reversal private and
19 then brought out republic, Ms. Grimm.

20 MS. DAKIN-GRIMM: H'mm. We'll look at some documents
21 about that, Ms. Cangelosi.

22 BY MS. DAKIN-GRIMM:

23 Q. Softnet has never traded on NASDAQ, has it?

24 MR. SMITH: I'm sorry, your Honor. I --

25 THE COURT: Sustained. I'll strike the last

1 statement.

2 MR. SMITH: I just have just kind of a general
3 objection. I think the laughing at the witness and such is
4 inappropriate, and that's my only comment. I mean, I think
5 questions or --

6 THE COURT: I didn't notice that.

7 Overruled.

8 Of course, she won't laugh at her.

9 But, again, your last statement is stricken. You may not
10 comment about what we're going to do in the future. Ask
11 questions, please.

12 MS. DAKIN-GRIMM: I think my last comment,
13 your Honor, was Softnet has never traded on NASDAQ, and I
14 didn't get an answer.

15 THE COURT: I've stricken your last comment that
16 we'll look into that in a few minutes.

17 MS. DAKIN-GRIMM: Oh, okay. That's fine, your Honor.
18 I think that was a couple of comments back.

19 THE COURT: It is fine --

20 MS. DAKIN-GRIMM: But I understand.

21 THE COURT: -- because I so ruled.

22 Go ahead.

23 MS. DAKIN-GRIMM:

24 Q. Ms. Cangelosi, Softnet has always traded on AMEX, hasn't
25 it?

1 A. I'm sorry. Yes. It has traded on AMEX.

2 Q. Right. I don't see anything in this E-mail, Ms. Cangelosi,
3 explaining your career background. You didn't provide that,
4 did you, here?

5 A. No.

6 Q. A CV? You didn't provide a CV here, did you?

7 A. A --

8 Q. A "curriculum vitae", you're familiar with that term?

9 A. I did not provide that, no.

10 Q. Okay. You didn't explain your educational or career
11 experience to Mr. Jensen, did you?

12 A. No, I did not.

13 Q. Okay. And if you could look at your E-mail on August 10th,
14 2006, on the first page, you can see in the second to the last
15 paragraph that begins, "I very much wish we weren't in this
16 situation." Do you see that?

17 A. Yes, I do.

18 Q. You write, "All the damage we are incurring needs to go
19 into a lawsuit against MNH (phonetic) once we understand the
20 full impact." You've been anticipating pursuing lawsuits since
21 2006, have you not?

22 A. As investors, we were extremely distressed over what the
23 principals had caused to happen, and the principal -- and the
24 investors as well as myself would like to see some justice
25 against the principals.

1 Q. Ms. Cangelosi, I'm not asking about other people, what
2 other people think. I'm asking about you, and that's all
3 you're allowed to testify, about your own personal knowledge.
4 You, Donna Cangelosi, have been anticipating filing lawsuits
5 since at least August of 2006, have you not?

6 A. We were hopeful --

7 MR. SMITH: I object, your Honor. This is only one
8 lawsuit referenced here, I mean, one lawsuit against MNH.

9 THE COURT: Correct.

10 Frame your question.

11 MS. DAKIN-GRIMM: Your Honor, I can ask her whether
12 she anticipated other lawsuits, can't I?

13 THE COURT: Sure, you can.

14 MS. DAKIN-GRIMM: Sure.

15 BY MS. DAKIN-GRIMM:

16 Q. You anticipated filing this and other lawsuits, did you
17 not, Ms. Cangelosi, you, Ms. Cangelosi, not others?

18 A. No.

19 Q. No. And you anticipated investigating a lawsuit against
20 MNH in August of 2006, didn't you?

21 A. We were hopeful the bankruptcy trustee or the bankruptcy
22 professionals would file a lawsuit, yes. I was --

23 MS. DAKIN-GRIMM: Move to strike --

24 THE WITNESS: -- hopeful.

25 MS. DAKIN-GRIMM: -- your Honor, and I'd ask that the

1 witness be instructed to answer it not we, but based on her
2 personal knowledge.

3 THE COURT: Overruled.

4 BY MS. DAKIN-GRIMM:

5 Q. Ms. Cangelosi, did you personally intend to sue as you've
6 just testified?

7 A. No. I was hopeful that the professionals within the
8 bankruptcy estate would sue.

9 Q. Okay. Let's look at Exhibit 2, please.

10 A. Yes.

11 Q. Would you agree with me, Ms. Cangelosi, that it was
12 important for you in communicating with the hundreds of direct
13 lenders that you dealt with not to use inflammatory language to
14 try and move their feelings in one way or another?

15 A. Yes.

16 Q. And did you write Exhibit 2 and send it to direct lenders
17 following September 28th, 2006?

18 A. Yes.

19 Q. Let's look at some of the things that you said.
20 Incidentally, you had an E-mail list of 800 to 1200 people that
21 you routinely sent things to in this time period, didn't you?

22 A. By this time frame, I believe it was quite large.

23 Q. 800 to 1200 people as you said in your deposition?

24 A. I believe so.

25 Q. Right. Look at the fourth paragraph. "Today the court

1 session will cover mostly the payment of the outrageous
2 professional fees with the lawyers putting in a great effort to
3 account for their every second."

4 And then you write, "Our bankruptcy trustee, Augie Landis,
5 has not filed an objection to these fees, so I guess he finds
6 them reasonable despite my pleadings with him to do so on
7 everyone's behalf."

8 Did you tell Mr. Landis that you were writing critical
9 things to him to thousands of direct lenders?

10 MR. SMITH: Your Honor, I'm going to raise an
11 objection at this point. I mean, it's what I was concerned
12 about at the beginning, and I just want to bring it up at this
13 point. I thought we were talking about contempt for violation
14 of a court order. I think we're way off track, and I object.

15 THE COURT: Well, I'm going to overrule it. We are
16 on track on two issues, civil sanctions and whether I should in
17 this preliminary injunction mandate that the LLCs' interest be
18 returned. We're also litigating that question.

19 MR. SMITH: Okay. I understand, and the only reason
20 I bring it up is because what's going on with Mr. Landis and
21 whether or not they object to the fees I don't see the possible
22 connection to anything.

23 THE COURT: I don't see that relevance of that
24 certainly to the civil-sanctions issue, and the relevance to
25 the injunction is spare.

1 MS. DAKIN-GRIMM: I will tie all of this in,
2 your Honor, if you give me some latitude. There's a --

3 THE COURT: Um-h'm. I'm giving you that latitude.

4 MS. DAKIN-GRIMM: Thank you.

5 THE WITNESS: Would you repeat your question?

6 MS. DAKIN-GRIMM: Well, I've lost the question at
7 this point now, ma'am. Let me try it again.

8 BY MS. DAKIN-GRIMM:

9 Q. Did you tell Mr. Landis that you were writing comments like
10 this to thousands of direct lenders?

11 A. No, I did not.

12 Q. If you could look a little bit further down in the
13 paragraph, you write, "Nor has there been any effort to curtail
14 the fees or get everyone to work for a fixed contract price. I
15 guess normal business practices don't apply to bankruptcy. I
16 have learned that it should be called 'legal rape'." That was
17 your word?

18 A. Those were my words, yes.

19 Q. And, in fact, you used that term, "legal rape", on a number
20 of occasions to describe what Judge Riegler did to these direct
21 lenders, have you not, ma'am?

22 A. As to whether I've used it a number of times, I don't
23 recall.

24 Q. Isn't it true, ma'am, that you have routinely communicated
25 with the direct lenders that they have been abused and

1 mistreated by Judge Riegler in the bankruptcy court and,
2 instead, should follow your advice?

3 A. I have offered no advice to the direct lenders regarding
4 any alternatives to the bankruptcy.

5 Q. Well, isn't it true, ma'am --

6 A. Um-h'm.

7 Q. -- that around this time you, in fact, started providing
8 legal advice to the direct lenders?

9 A. No.

10 Q. Could you turn the page, please. In page 2 of the
11 document, you state, "There is a lot of confusion over the
12 proof-of-claim forms."

13 And then you describe proof-of-claim forms and give
14 instructions to direct lenders on when and how to fill them
15 out. Did you consider that to be legal advice, Ms. Cangelosi?

16 A. I considered it to be just synthesizing into English what
17 the proof-of-claim form was about. Many lenders didn't know
18 what the proof-of-claim form was about.

19 I had hundreds of E-mails at that time requesting what is
20 a proof of claim or what shall I do, and I just considered it
21 synthesizing. No. I didn't consider it legal advice.

22 Q. And you didn't write to the direct lenders, perhaps, you
23 should retain somebody appropriately trained to get legal
24 advice, did you?

25 A. No.

1 Q. Would you turn to Bates page 806, please. It's the third
2 page or fourth page in the document. This is also your report
3 to direct lenders following the May 3rd hearing before
4 Judge Riegler, is it not?

5 THE COURT: Which exhibit are we on?

6 MS. DAKIN-GRIMM: It's the same exhibit, your Honor.
7 It's the fourth page in, Bates page 806, and this was produced
8 by Ms. Cangelosi.

9 THE COURT: Um-h'm.

10 BY MS. DAKIN-GRIMM:

11 Q. This is another report that you submitted, is it not,
12 ma'am?

13 A. Yes.

14 Q. And you took it upon yourself as we can see in the
15 enumerated paragraphs to advise thousands of direct lenders on
16 issues such as, No. 2, "We wanted to understand if the judge
17 had a grasp of the magnitude of this situation and see if she
18 was investor friendly." That was one of your purposes in
19 sending this, wasn't it, ma'am?

20 A. When we initially met for the first time in April of 2006,
21 many investors had asked shall we hire legal counsel to
22 represent ourselves in the bankruptcy.

23 During that period of time, we had numerous bankruptcy
24 professionals, attorneys, that were calling direct lenders and
25 that they thought would be on the committee. I was one of

1 them.

2 I -- we were being advised by those professionals that
3 were if you will hoping to become counsel for the -- the lender
4 committee or the -- any -- you know, the creditor committee.
5 That the committees would take care of the issues of the direct
6 lenders.

7 And so one of the things that I had written in here is
8 after I had gone to the first May 3rd hearing -- that was the
9 first one I attended -- Judge Riegler -- you know, that was one
10 of our goals to see if Judge Riegler was investor friendly.

11 Q. Ma'am, if you could listen to my question. Just focus on
12 the document in front of you. One of your purposes in sending
13 the report in front of you to thousands of direct lenders was
14 to advise them on your views, Donna Cangelosi, your views, on
15 whether Judge Riegler was investor friendly, right?

16 A. First off, Ms. Grimm, at this particular point, I probably
17 was in touch with maybe about 100 E-mails. This was way in the
18 beginning of the -- this was way in the beginning of the -- of
19 the process, but many had asked me to please go to the hearing
20 and express my views, so I was just responding back to their
21 request.

22 Q. Ma'am, was it your purpose in sending this communication --

23 THE COURT: Counsel --

24 BY MS. DAKIN-GRIMM:

25 Q. -- to direct lenders --

1 THE COURT: -- I'm going to have to echo Mr. Smith's
2 objection. I don't see the relevance of this unless you're
3 showing me some predicate or predisposition to violate
4 Judge Riegler's subsequent orders.

5 MS. DAKIN-GRIMM: That is what I'm doing, your Honor.
6 I --

7 THE COURT: But it's not showing me that at all.

8 MS. DAKIN-GRIMM: I haven't --

9 THE COURT: So move on, please.

10 MS. DAKIN-GRIMM: All right. Let's move into the
11 document, then, ma'am.

12 BY MS. DAKIN-GRIMM:

13 Q. You can move into Bates page 808. In the paragraph that
14 you bolded at the bottom, you write, "How did Penny and I read
15 Mr. Allison?" And now we're talking about the court-appointed
16 chief restructuring officer, right?

17 A. That is correct.

18 Q. And you were giving the direct lenders your personal take
19 on Mr. Allison's abilities and qualifications, right?

20 A. That is correct.

21 Q. And at this point in time, you thought Mr. Allison was
22 capable, right?

23 A. Yes.

24 Q. And at a subsequent point in time, you started reporting to
25 the direct lenders that he was a liar, did you not?

1 A. After a bait and switch on the plan in terms of -- and when
2 I say bait and switch, I don't mean to say that. But after a
3 -- him representing many, many times that the direct lenders
4 were going to receive their prepaid interest -- their prepaid
5 interest was going to be paid to the people with diverted
6 principal, and then the lenders did not get that plan at all,
7 it was something totally different, yes, we were upset.

8 Q. And you --

9 A. I was upset.

10 Q. And you started advising the direct lenders that he was a
11 liar, didn't you, ma'am?

12 A. I believe I said once that he was a liar. I did not advise
13 the direct lenders that he was a liar on any --

14 Q. And in this document, you say, "By patience, I mean" --
15 this is when you liked to Mr. Allison. "I mean, he shows
16 respect for the vulture lawyers, even when their
17 cross-examination is redundant or ridiculous," and it was your
18 opinion in Judge Riegle's court that the lawyers were all
19 vultures and unprofessional.

20 MR. HERRING: Objection --

21 THE COURT: What does that --

22 MR. HERRING: -- as to relevancy --

23 MR. SMITH: Your Honor --

24 MR. HERRING: -- your Honor.

25 THE COURT: What does it matter? I mean, a person

1 can think that the bankruptcy proceedings are corrupt or that
2 the lawyers are corrupt. That has nothing to do with the
3 issues in front of us.

4 MS. DAKIN-GRIMM: Your Honor, if I can just make an
5 offer of proof?

6 THE COURT: Uh-huh.

7 MS. DAKIN-GRIMM: I believe that what you'll see in
8 many of these documents is that Ms. Cangelosi first began
9 blasting E-mails like this to thousands of people
10 characterizing the proceedings in Judge Riegler's court in such
11 a way as to engender their disrespect if you will, and --

12 THE COURT: Anything illegal in that?

13 MS. DAKIN-GRIMM: In the sense that she then contends
14 that those people support what we will build up to as her
15 violations of Judge Riegler's orders, yes. I think it is
16 important --

17 THE COURT: I'm going to sustain --

18 MS. DAKIN-GRIMM: -- for you to see -

19 THE COURT: -- the objection on relevance.

20 Move on.

21 MS. DAKIN-GRIMM: Okay.

22 BY MS. DAKIN-GRIMM:

23 Q. Would you turn to page 809, please.

24 (Colloquy not on the record.)

25 By MS. DAKIN-GRIMM:

1 Q. Under independent lawyers representing clients or their own
2 desires to be involved, do you see that, Ms. Cangelosi?

3 A. Yes, I do.

4 Q. And that was your language, "Without pulling any punches,
5 if I had hired any of the law firms representing clients, I
6 would have fired them after seeing them in action," right?

7 A. Yes.

8 Q. But you didn't tell the direct lenders that you yourself
9 are not a lawyer, did you?

10 A. No. I didn't represent --

11 MR. HERRING: Objection --

12 THE WITNESS: -- that I was.

13 MR. HERRING: -- relevance again, your Honor.

14 (Colloquy not on the record.)

15 THE COURT: I agree.

16 (Colloquy not on the record.)

17 MS. DAKIN-GRIMM:

18 Q. Could you turn to Exhibit 101, please, ma'am.

19 (Colloquy not on the record.)

20 BY MS. DAKIN-GRIMM:

21 Q. Exhibit 101 is an E-mail copied to you and produced by you
22 in the recent document production concerning the Lender
23 Protection Group dated November 27, 2006, is it not, ma'am?

24 A. Yes, it is.

25 Q. And the document was sent to thousands of direct lenders,

1 was it not?

2 A. I am not aware of the distribution of this document,
3 Ms. Grimm. I know I received a copy of it. That's all.

4 Q. And Mr. Ulm, the to person right above your name, was one
5 of your key colleagues in the Lender Protection Group, was he
6 not?

7 A. He was a lender who was involved in the Lender Protection
8 Group.

9 Q. He was --

10 A. Yes.

11 Q. -- a key direct lender, was he not? He was heavily
12 involved, not just one --

13 A. He --

14 Q. -- of the members.

15 A. He was involved, yes.

16 Q. And, Ms. Cangelosi, your view is that the Lenders
17 Protection Group although it is a plaintiff in a lawsuit
18 against my client doesn't really exist, right?

19 A. My group is that it's not an organized body. It's
20 basically a number of people who contributed money into a legal
21 fund to be able to create a defense fund.

22 And, initially, Ms. Grimm, it was a legal fund to be able
23 to raise some objections to the confirmation plan as it related
24 to prepaid interest and the ability to offset.

25 Q. Ms. Cangelosi, your testimony is that the LPG no longer

1 exists, right?

2 A. The LPG fund no longer exists, so, therefore, I guess the
3 LPG doesn't exist any longer.

4 MS. DAKIN-GRIMM: Your Honor, if we could play the
5 deposition testimony of Ms. Cangelosi, clip 1, page 7, line 23,
6 through page 8, line 6.

7 THE COURT: Did you testify -- the proper question is
8 did you so testify, ma'am. That's the question. You can look
9 at the screen there on your left, please.

10 THE WITNESS: Yes.

11 (Thereupon, the recorded DVD was played
12 at 03:24:13 p.m.)

13 THE COURT: Just a minute. Turn it off. Stop.

14 (Thereupon, the recorded DVD was stopped
15 at 03:24:16 p.m.)

16 (Colloquy not on the record.)

17 THE COURT: Does everyone have it on their screens?

18 (Colloquy not on the record.)

19 THE COURT: You may play it.

20 (Thereupon, the recorded DVD was played at 03:24:24 p.m.
21 through 03:24:51 p.m.)

22 BY MS. DAKIN-GRIMM:

23 Q. That was true testimony when you gave it, wasn't it, ma'am?

24 A. Yes.

25 Q. Now, going back to Exhibit 101 in front of you, isn't it

1 true, ma'am, that at the time that the Lenders Protection Group
2 was created it had two concerns, and you can see this under
3 No. 2, Lender Protection Group concerns, diverted principal,
4 and it says Mesirow says 46,000,000 was diverted, and so forth,
5 and prepaid interest. Those were the two initial concerns,
6 were they not?

7 A. Those were our two primary concerns, yes.

8 Q. All right. And Mesirow was the court-appointed chief
9 restructuring officer for USA, was he not?

10 A. Yes.

11 Q. Okay. And your objectives, the Lender Protection Group
12 objectives, were contained under bullet point 3, were they not?

13 A. Yes.

14 Q. And among them was limit the servicing fees charged to our
15 loans, right?

16 A. That is correct. We were never charged a loan-servicing
17 fee prior to the bankruptcy.

18 Q. Ma'am --

19 A. And now we will be asserted a one-percent to a
20 three-percent loan-servicing fee that was unprecedented.

21 Q. Your objective was to limit the servicing fees charged to
22 your loans, was it not? Yes or no.

23 A. Yes. Because at the time, the estate was withholding three
24 percent, and our agreement said one percent.

25 Q. And what you're talking about is activity by Mr. Mesirow

1 (sic), the chief -- or by Mr. Allison, the chief restructuring
2 officer at Mesirov, right?

3 A. I'm not clear on your question. I'm sorry. The --

4 Q. You just gave an explanation for why this was your goal and
5 how you were being charged unprecedented, and so forth. You're
6 talking about conduct by the chief restructuring officer,
7 right?

8 MR. SMITH: Your Honor, I only object because she's
9 not talking here. This isn't her talking. It's somebody else.
10 So, I mean, to infer that this is her E-mail, that's my
11 objection. It's not her E-mail. She was copied on it.

12 MS. DAKIN-GRIMM: Your Honor, I asked the witness a
13 question. She gave an explanation. We're not even looking at
14 the E-mail for this question and answer. He's trying to divert
15 the witness.

16 THE COURT: I had misunderstood. I thought you were
17 offering this as her report, her statements.

18 MS. DAKIN-GRIMM: No. Ms. --

19 THE COURT: No?

20 MS. DAKIN-GRIMM: I'm not. I'm not. I'm using it to
21 ask her points about the Lenders Protection Group.

22 THE COURT: Okay. With that clarification.

23 Thank you.

24 THE WITNESS: Okay. No.

25 BY MS. DAKIN-GRIMM:

1 Q. The testimony that you just gave about how the Lenders
2 Protection Group objective was to limit the servicing fees, you
3 testified that you were being charged a servicing fee that was
4 unprecedented, and so forth.

5 A. That is --

6 Q. You're talking about conduct by the chief restructuring
7 officer in this time period, right?

8 A. Either the chief restructuring officer or the -- the
9 bankruptcy proceedings. It's -- it's not clear.

10 Q. Right. This doesn't have anything --

11 MR. SMITH: Your Honor --

12 BY MS. DAKIN-GRIMM:

13 Q. -- to do with Compass, yet, because it's November of 2006,
14 right?

15 A. That is correct.

16 MR. SMITH: Your Honor --

17 MS. DAKIN-GRIMM: Your Honor, I can't --

18 MR. SMITH: -- I'm sorry to raise this again, but I
19 have the same objection, and that is that this seems completely
20 unrelated to the issue before the Court. We're going to be
21 hours on this sort of thing, and it just --

22 THE COURT: Well, if this is her document, it's
23 getting a little bit closer and a little bit more relevant I
24 would say, but I --

25 MR. SMITH: But it's not her --

1 THE COURT: I had misunderstood. This, apparently,
2 was not her document. Okay. I am going to overrule the
3 objection on that.

4 MS. DAKIN-GRIMM: Your Honor, I also notice the
5 witness looking. I can't be looking in both directions at the
6 same time, but there may be some signaling going on. I don't
7 think --

8 MR. HERRING: Okay.

9 MS. DAKIN-GRIMM: -- she should --

10 MR. HERRING: Your Honor --

11 MS. DAKIN-GRIMM: -- be looking --

12 MR. HERRING: -- I find --

13 MS. DAKIN-GRIMM: -- over here.

14 MR. HERRING: -- that offensive. There's no
15 signaling going on.

16 THE COURT: I'll strike it.

17 MR. SMITH: Yeah. Thank you, your Honor.

18 BY MS. DAKIN-GRIMM:

19 Q. Going back to Exhibit 101, Ms. Cangelosi, under Lender
20 Protection Group action plan, do you see that?

21 A. Yes.

22 Q. And that is an action plan that you and Mr. Ulm and other
23 key Lender Protection Group members created, is it not?

24 A. Yes.

25 Q. Okay. And one of your objectives in the action plan was to

1 move the Court for a review of unreasonable loan-servicing fees
2 that USACM was unilaterally interpreting without explaining the
3 calculations or obtaining Court-approval review, right?

4 A. I can't -- I -- as -- as to the way -- Ms. Grimm, I didn't
5 write this E-mail, so I can say to you that we as a matter of
6 fact did object to the loan-servicing fees that were levied
7 unprecedentedly upon the lenders.

8 That was one of the actions of the Lenders Protection
9 Group, and we did do so in court. We did object to those
10 loan-servicing fees.

11 Q. Yes. You didn't like what USA, the receiver, was doing
12 with respect to the servicing fees, did you, Ms. Cangelosi?

13 A. Nobody would like to pay more money than what they normally
14 had paid in the past. No. We didn't like it.

15 Q. I'm asking you about you, ma'am. You didn't like what the
16 receiver was doing, did you?

17 (Colloquy not on the record.)

18 THE WITNESS: Some things I -- I -- I supported, and
19 some things I didn't.

20 BY MS. DAKIN-GRIMM:

21 Q. You did not like what Mesirov and Allison were doing with
22 the loan-servicing fees at this time, did you, ma'am?

23 A. We did not like to be charged the loan-servicing fees that
24 we were being charged that are agreements didn't state were
25 required.

1 Q. Okay. And you, in fact, raised objections before
2 Judge Riegler, and she disagreed with your position, didn't she?

3 A. I believe that Judge Riegler adjusted -- or through the plan
4 confirmation, all of our loan-servicing fees were adjusted to
5 the appropriate percentage.

6 Q. Ms. Cangelosi, wasn't --

7 THE COURT: Now, Counsel, I'm going to have to
8 admonish you. You need to get to the core issue. The issue,
9 core issue, is did she violate the judge's orders. Number two,
10 did she make misrepresentations in soliciting the LLC
11 interests. That's the core issue. None of this really
12 pertains -- I've given you latitude, I've allowed you, and it's
13 just not relevant.

14 MS. DAKIN-GRIMM: I --

15 THE COURT: Move on, please --

16 MS. DAKIN-GRIMM: I will move on --

17 THE COURT: -- to the core issues.

18 MS. DAKIN-GRIMM: -- your Honor. But just for the
19 record, my goal here is to show that Ms. Cangelosi disagreed
20 with what Judge Riegler did, and that led to the violation of
21 the orders.

22 THE COURT: Nothing --

23 MS. DAKIN-GRIMM: But --

24 THE COURT: -- illegal about that --

25 MS. DAKIN-GRIMM: Okay.

1 THE COURT: -- absolutely nothing.

2 BY MS. DAKIN-GRIMM:

3 Q. Isn't it --

4 THE COURT: Get to the core issue.

5 BY MS. DAKIN-GRIMM:

6 Q. Isn't it true, Ms. Cangelosi, that in this time period you
7 began attempting to raise money to fight in court through the
8 Lenders Protection Group?

9 MR. SMITH: I'm going to object as to the time
10 period. I think it needs to be specified. It's very critical
11 in this case.

12 MS. DAKIN-GRIMM: Well --

13 THE COURT: Well, that's true, but she can ask at any
14 time period.

15 MS. DAKIN-GRIMM: This --

16 THE COURT: At any time period --

17 MR. SMITH: Okay.

18 THE COURT: -- is her initial question.

19 MR. SMITH: Well, she's --

20 MS. DAKIN-GRIMM: In the November --

21 MR. SMITH: No. She said at this time period, and so
22 that's why I objected.

23 THE COURT: Okay. Clarify your question.

24 MS. DAKIN-GRIMM: I will.

25 THE COURT RECORDER: Mr. Smith, please move the

1 microphone closer.

2 MR. SMITH: Oh I'm sorry.

3 THE COURT RECORDER: Thank you.

4 BY MS. DAKIN-GRIMM:

5 Q. I'm looking at Exhibit 101, ma'am, which is dated
6 November 2006. Did you understand that?

7 A. Yes, I do.

8 Q. Okay. In this time period, you began to try and raise
9 money for the Lenders Protection Group efforts, did you not?

10 A. Yes, we did.

11 Q. Okay. And you can see that in the document. Contribute
12 with your dollars even if you've already voted yes, right?

13 A. Yes.

14 Q. And you were never able to raise enough money just by
15 asking people in E-mails to contribute to the Lenders
16 Protection Group in your view, were you?

17 A. I don't know how to answer that question, Ms. Grimm.

18 Q. Well, isn't it true, ma'am, that it was the fact that you
19 were not able to amass a war chest to fight litigation that led
20 you to create the LLC structure?

21 A. No. That's not exactly true.

22 Q. Isn't it true, ma'am, that in December of 2006 you were
23 contacted by Mr. Hansen who was a former agent of Compass to
24 give you information about the bankruptcy?

25 A. Mr. Hansen contacted me December 4th.

1 Q. All right. And Mr. Hansen told you that he was a former
2 Compass employee, didn't he?

3 A. He told me he was a former Compass affiliate. Whether he
4 told me he was an employee or an agent, I don't recall.

5 Q. Okay. And isn't it true that in December of 2006 you began
6 to work with Mr. Hansen to deal with borrowers in the various
7 loans?

8 A. No. That's not true at all, Ms. Grimm.

9 Q. Mr. Hansen was useful to you, was he not, because he told
10 you Compass' position on various issues concerning the
11 bankruptcy, right?

12 A. Mr. Hansen did tell me certain facts or allegations, if you
13 will, regarding what he believed Compass' positions were. Yes.

14 Q. Right. Mr. Hansen told you the way that Compass was
15 looking to value the asset purchase agreement, didn't he?

16 A. Yes, he did.

17 Q. Okay. He explained Compass' view on how it would create
18 its bid, if you will, right?

19 A. I can't say that he created -- he -- that he told me how
20 they planned to create their debt. I think --

21 Q. He told you how they were looking to value the servicing
22 rights, didn't he, ma'am?

23 A. I believe that he -- he mentioned that, yes.

24 Q. Okay. And he told you that the way that Compass was
25 valuing the servicing rights would be something that you should

1 look into because it in his view would be harmful to direct
2 lenders, right?

3 A. Yes.

4 Q. And you began to understand in the December 5/6, 2006, time
5 period that Compass was valuing the asset based on its ability
6 to capture default interest and late fees, didn't you, ma'am?

7 A. Very rudimentarily, I began to understand that. It was not
8 an issue that we had even thought about during the entire
9 bankruptcy process.

10 Q. And Mr. Hansen actually told you the ballpark range of what
11 Compass intended to bid in the auction for the servicing fees,
12 didn't he, ma'am?

13 A. I believe there was a number.

14 Q. And you understood that the amount that Compass was bidding
15 in the auction included that number for the right to collect
16 default interest and late fees under the servicing agreements,
17 didn't you?

18 A. At the time, I believe that our counsel raised this in
19 court, also. We understood that Compass was bidding for the
20 right to service. As to -- as to specifically what their
21 behavior would be, we -- we did not know.

22 Q. I'd like to refer you to your deposition, ma'am, at page
23 76, lines 19 through 22 which is clip --

24 THE COURT: By the way, the entire deposition can be
25 published, and you'll make sure we have the original of it,

1 please.

2 MS. DAKIN-GRIMM: Yes, your Honor.

3 THE COURT: You may proceed to a page and a line.

4 BY MS. DAKIN-GRIMM:

5 Q. Page 76, line 19 through 22. This is clip 52.

6 (Colloquy not on the record.)

7 (Thereupon, the recorded DVD was played at 03:36:25 p.m.

8 through 03:36:44 p.m.)

9 BY MS. DAKIN-GRIMM:

10 Q. That was true testimony, wasn't it, ma'am?

11 A. I believe so, yes. Um-h'm.

12 Q. And Mr. Hansen wrote to you on December 5th. If you would
13 like to look at Exhibit 3, please. This is an exchange of
14 E-mails between you and Mr. Hansen, is it not?

15 A. That is correct.

16 Q. And on December 4th, he (sic) wrote to you, and -- I'm
17 sorry. You wrote to him, "Todd, I'm not sure if you are asking
18 me a question in response to his E-mail below," and then he
19 wrote to you on December 4th, "Please call me on my cell to
20 discuss. I recently resigned from Compass Partners," and then
21 back and forth. This is your exchange of E-mails with
22 Mr. Hansen, right?

23 A. That's correct.

24 Q. Okay. Mr. Hansen sent you a copy of the asset purchase
25 agreement, did he not?

1 A. I recall that he did send me a copy of the asset purchase
2 agreement, yes.

3 Q. And if you could look at Exhibit 4, please. This is an
4 E-mail that you received from him, and the attachment was the
5 then-existing draft of the asset purchase agreement, wasn't it?

6 A. Yes, it was.

7 Q. And he wrote to you, "Donna, please look at the purchase
8 agreement from Compass still under confidentiality, but this is
9 public info that I am giving you from the court," and then in
10 the last paragraph after the reference to payment of \$8,000,000
11 for the servicing rights he says, "How much do you think it
12 will cost investors if they are paying 8,000,000 for the
13 rights?" You were aware of that information before the auction
14 even took place, were you not?

15 A. Yes.

16 Q. Okay. And you actually attended the bankruptcy court
17 auction with your counsel, Mr. Smith, didn't you?

18 A. Yes, I did.

19 Q. And you were aware that the bidders included
20 Desert Capital, Compass, and Silver Point, right?

21 A. Yes.

22 Q. And you had a number of discussions yourself with Silver
23 Point representatives, didn't you, ma'am?

24 A. Yes, I did.

25 Q. Mr. Smith, your attorney, actually spoke at the auction

1 hearing on your behalf, did he not?

2 A. On behalf of myself and the Lenders Protection Group.

3 Q. Well, Ms. Cangelosi, there was an official committee that
4 represented the interests of direct lenders in the bankruptcy,
5 was there not?

6 A. Yes, there was.

7 Q. And you attempted to become a member of that committee, but
8 were not selected, right?

9 A. I did not attempt to -- people had offered me proxies to
10 see --

11 Q. You were --

12 A. -- if I could --

13 Q. -- not selected.

14 A. I'm sorry? Yes. I was not selected.

15 MR. SMITH: Well, I'm not sure, your Honor, if she
16 got an opportunity to answer the question. The question was
17 did she ask to be on the committee.

18 MS. DAKIN-GRIMM: The question was you were not
19 selected.

20 MR. SMITH: Oh, okay. I --

21 THE COURT: That's fine.

22 MR. SMITH: I misheard that.

23 BY MS. DAKIN-GRIMM:

24 Q. Ma'am, if you could look at Exhibit 54, please. Exhibit 54
25 is a document that you prepared to send to direct lenders

1 concerning Judge Riegler's conduct in the plan-confirmation
2 hearing, right?

3 A. That is -- it actually was regarding the plan confirmation.

4 Q. Yes. And you characterized what happened in the hearing
5 and sent this to thousands of people, did you not?

6 A. This document was only sent to the members who had funded
7 the Lender Protection Group. It was not sent any further than
8 the clients of Mr. Smith.

9 Q. You can see in the second sentence on the document, "I will
10 look into creating a confidential chat room for Lender
11 Protection members only." You actually did that, didn't you,
12 ma'am?

13 A. No, we didn't.

14 Q. Not we. You.

15 A. No, I did not.

16 Q. Judge Riegler overruled your counsel's objection at the
17 bankruptcy hearing because it had not been timely made, did she
18 not?

19 A. I believe she overruled his objection on one point because
20 it was not timely made.

21 Q. Okay. And you so reported in this document, didn't you?
22 It's in the plan-vote section.

23 A. Ms. Grimm, I believe she overruled it as it related to the
24 voting process. The rest of his objections were not overruled
25 on the basis of untimeliness. We had filed a brief.

1 Q. And, Ms. Cangelosi, you reported to the direct lenders that
2 Judge Riegler was rude, condescending, and abusive to your
3 attorney, did you not?

4 A. Yes, I did.

5 Q. Now, at this point in time, the time of the bankruptcy
6 auction, Compass had not started any servicing, had it?

7 A. From my understanding, Compass had not started any
8 servicing. I've since read a declaration from a borrower that
9 had represented that they hadn't been contacted by Compass even
10 before the auction stating that they were the servicer. But
11 from my understanding, no.

12 Q. Now, Ms. Cangelosi, you understand that the asset purchase
13 agreement did not become final until Judge Riegler confirmed the
14 order and a certain period of time went by, don't you?

15 A. Yes.

16 Q. And that was February 16th of 2007, was it not?

17 A. Yes.

18 Q. And that's when Compass obtained legally through the
19 bankruptcy process the right to service loans under the
20 loan-service agreements it acquired, correct?

21 A. Ms. Grimm, it was my understanding that Compass actually
22 commenced servicing activities prior to that. That was my
23 understanding.

24 Q. Could you turn to Bates page 832 within your report.

25 A. I'm sorry? 8 --

1 Q. 832.

2 A. Okay.

3 Q. Now, within this document in the third paragraph under
4 loan-servicing agreements, you wrote to direct lenders, "We
5 believe we can see Compass' intent. I am concerned that they
6 plan to hold the loans in default for as long as they can while
7 realizing large returns based on the default-interest rate, 20
8 percent, and at our expense." Compass hadn't even started
9 doing anything at this point in time, had it, ma'am?

10 A. At this particular point in time, Ms. Grimm, my
11 understanding of this was based upon the -- the way Compass was
12 answering certain objections that we were raising in court and
13 in addition to, perhaps, some information I had learned.

14 Um-h'm.

15 Q. And you reported this to hundreds if not thousands of
16 direct lenders, right?

17 A. This was only -- I believe if this is the same document,
18 Ms. Grimm, this was only sent to the members of the LPG who
19 were funding Mr. Smith's counsel.

20 Q. And then if you can go down a little bit further in the
21 document on the same page you wrote, "Judge Riegler allows
22 unbelievable latitude to the debtor and committee counsels to
23 bully us," and then you go on to say that she's not giving you
24 your right to due process, right?

25 A. Ms. Grimm, we --

1 MR. SMITH: Your Honor --

2 THE WITNESS: -- felt --

3 MR. SMITH: -- I'm going to --

4 THE WITNESS: -- like --

5 MR. SMITH: I'm sorry to stand up again, but I see
6 the same problem repeated over and over. There's really no
7 direction. It is not relevant to the issue, and we're
8 basically dealing in --

9 THE COURT: I'm going to overrule it, a very slim
10 relevance, but I'm going to overrule it.

11 BY MS. DAKIN-GRIMM:

12 Q. Did you report to other direct lenders, Ms. Cangelosi, that
13 Judge Riegler had deprived you of your right to due process? If
14 you need to turn over the page, you can see that you write,
15 "Our rights to due process."

16 A. We felt that we were deprived of our rights to have an
17 adversary proceeding regarding the fraudulent transfer of
18 prepaid interest, yes.

19 Q. And isn't it true, Ms. Cangelosi, that before Compass had
20 even obtained approval from the Court to take over the
21 servicing rights you, Donna Cangelosi, determined that you
22 needed to concentrate your efforts on moving the loans to a
23 more-friendly loan servicer?

24 A. Ms. Grimm, when we had raised the objections in court both
25 at the confirmation hearing as well as with Judge Riegler, she

1 had assured us of two things. Number one is if a servicer
2 had -- was going to behave in a manner that was in conflict
3 with the lenders, the stay was lifted after the plan was
4 confirmed, and the other thing she told us is that our
5 agreements are what they are, and that she was not changing our
6 agreements. Those are the only basis of my facts.

7 Q. Could you, Ms. Cangelosi, look under the paragraph, now
8 what do we do. Do you see your point No. 2?

9 A. Yes, I do.

10 Q. Let me read it. "2, concentrate on moving the loans to a
11 more-friendly loan servicer." Those were your words in
12 December of 2006, right?

13 A. That was an option that counsel --

14 Q. Were those your words in December of 2006, ma'am?

15 A. Yes, they were.

16 Q. And you determined in December of 2006 that you did not
17 want to go back in front of Judge Riegler, didn't you?

18 A. Yes.

19 Q. And you determined in December of 2006 that under the
20 Judge Riegler confirmed plan, Compass would be entitled to
21 collect all default-rate interest, late fees, and back-end
22 accident success fees from the direct lenders even if the
23 borrower has not paid them, didn't you?

24 A. At this point, there was the initial draft of the
25 confirmation order that was being passed around, and there was

1 language in that confirmation order that actually was in there
2 regarding this. Yes.

3 Q. Okay. And at this time, December and January of 2006, and
4 January of 2007, isn't it true, Ms. Cangelosi, that you began
5 to work with Mr. Hansen to deal with borrowers yourself?

6 A. That's incorrect. No, Ms. Grimm.

7 (Colloquy not on the record.)

8 BY MS. DAKIN-GRIMM:

9 Q. Would you look at Exhibit 7, please.

10 MR. SMITH: I'm sorry. Which exhibit?

11 MS. DAKIN-GRIMM: 7.

12 BY MS. DAKIN-GRIMM:

13 Q. Isn't it true, Ms. Cangelosi, that you viewed Mr. Hansen as
14 a "conduit", your word, to borrowers based on his experience
15 dealing with borrowers at Compass?

16 A. I don't understand. When you say "conduit", my word, I may
17 have used that word.

18 Q. In --

19 A. But --

20 Q. In your deposition, that was the word you used.

21 A. Okay. My understanding, he is -- is he was a conduit for
22 information, yes.

23 Q. Information to and from borrowers.

24 A. Not -- not -- not to, only from.

25 Q. Look at Exhibit 7. This is an E-mail Mr. Hansen wrote to

1 Mr. Ulm and you on January 7th of 2007 concerning a particular
2 borrower on the Elizabeth May loan. Do you see that?

3 A. Yes, I do.

4 Q. And does that refresh your recollection that in January of
5 2007, you were working with Mr. Hansen on the Elizabeth May
6 loan with the borrower?

7 A. Ms. Grimm, I was not working with the Elizabeth May loan.
8 This E-mail is not to me. It's actually to Mr. Ulm. I was
9 merely copied on this E-mail, and this was an information
10 source for me, but I was not working with the borrower.

11 Q. You --

12 A. No.

13 Q. You received this E-mail from Mr. Hansen on or about the
14 date it's dated, did you not?

15 A. I -- I gave it to you, so I must have. Yes.

16 Q. Right. And you can see within the document Mr. Hansen
17 writes, "The borrower is ready to pay off the loan, but does
18 not believe they should be subject to default- or late-fee
19 charges. Here is a case where the fiduciary duty of a servicer
20 should be to accept the payoff and distribute the money to the
21 lenders with principal and interest. Do we agree? Well, we
22 have cooperation of borrower," and it goes on.

23 That's a reference to you and Mr. Hansen's and Mr. Ulm's
24 dealing with Mr. Nyugen, the borrower on the Elizabeth May
25 loan, isn't it?

1 A. No.

2 MR. HERRING: Objection, your Honor. This calls for
3 speculation about what Mr. Hansen meant in an E-mail to her.
4 Mr. Hansen wrote this.

5 MR. SMITH: He wrote it to Mr. -- excuse me. He
6 wrote it to Mr. Ulm.

7 THE COURT: Clarify your question, please. Don't
8 request speculation, but you may inquire, of course, what she
9 knew.

10 BY MS. DAKIN-GRIMM:

11 Q. You understood when you received this document,
12 Ms. Cangelosi, that Mr. Hansen was in touch with Mr. Nyugen,
13 didn't you?

14 A. As a matter of fact, Ms. Grimm, I'm going to -- that's the
15 first time I'm ever hearing this borrower's name. No. I was
16 not under the impression of that or --

17 Q. Don't you remember when Mr. Hansen -- you attended his
18 deposition, didn't you?

19 A. I did.

20 Q. He talked about Mr. Nyugen back and forth in his
21 deposition. You didn't hear him talk about that?

22 A. I don't recall the name, Mr. Nyugen, no.

23 Q. Okay. And isn't it true that your view in this January
24 2007 time period was that the direct lenders were able and had
25 the authority to forgive default interest and late fees in

1 their sole discretion?

2 A. By this point, we had reviewed our promissory notes and
3 certainly had -- were under the impression under the terms of
4 our promissory notes that the lenders had certain discretions.

5 But as to this payoff, I was not aware that this was going
6 on, and I don't believe that the lenders -- I -- I don't know.
7 I can't say from -- from Mr. Ulm, but I was not aware of this,
8 and there was no contact with Mr. Hansen to get into contact
9 with the borrower on this loan.

10 Q. So when Mr. Hansen testified about this in his deposition
11 at which you were present, you were surprised to learn that he
12 had been trying to work out a deal with Mr. Nyugen to forgive
13 default interest and late fees?

14 A. Frankly, Ms. Grimm, I don't recall Mr. Hansen saying at
15 deposition that he was trying to work out a deal to forgive
16 default fees and late fees. I don't recall that.

17 Q. You don't recall. Isn't it true that borrowers have
18 offered to you from time to time since this time period to pay
19 principal and interest and not default and late fees?

20 A. The borrowers have suggested that they could make offers to
21 that extent, but they've never offered it to me. I've always
22 replied to the borrowers if they could honor their agreements
23 and pay all the moneys that were due under the agreements, it
24 would solve all of our problems.

25 Q. Ms. Cangelosi, I'd like to refer you to your deposition at

1 page 125 and 126 starting at line 11, and this is clip 82 and
2 83.

3 (Colloquy not on the record.)

4 (Thereupon, the recorded DVD was played at 03:52:50 p.m.
5 through 03:54:18 p.m.)

6 MS. DAKIN-GRIMM: And clip 83, please.

7 (Thereupon, the recorded DVD was played at 03:54:19 p.m.
8 through 03:54:33 p.m.)

9 BY MS. DAKIN-GRIMM:

10 Q. That was true testimony, wasn't it, ma'am?

11 A. May I clarify?

12 Q. No. Was your testimony true in deposition or not?

13 A. That -- my testimony was -- was true in deposition that
14 borrowers --

15 MR. SMITH: So, your Honor, I --

16 THE WITNESS: -- had told --

17 MS. DAKIN-GRIMM: Thank you.

18 MR. SMITH: I have to object because I can't track
19 the page number. She jumped clips around, and we're trying to
20 track the testimony --

21 MR. HERRING: And she didn't finish --

22 MR. SMITH: -- to make sure that the answer is
23 complete, so could I have the page number of that last clip,
24 please?

25 THE COURT: Right. Page number.

1 MR. HERRING: She cut her off in the middle of the
2 answer.

3 MS. DAKIN-GRIMM: No, I did not.

4 (Colloquy not on the record.)

5 MS. DAKIN-GRIMM: 126, line 5 through 7.

6 MR. HERRING: 126, 5 through 7?

7 MR. SMITH: No. It's not it.

8 (Colloquy not on the record.)

9 MS. DAKIN-GRIMM: Okay. "In your experience, has a
10 borrower ever made that offer to you?" Answer, "Yes." The
11 next statement is by Mr. Parry.

12 MR. SMITH: It's not on that page.

13 MS. DAKIN-GRIMM: Yes, it is.

14 (Colloquy not on the record.)

15 MR. HERRING: Well, we have a different transcript it
16 looks like.

17 MS. DAKIN-GRIMM: Well, I'm using the official
18 transcript, your Honor.

19 MR. SMITH: Well, that's why, your Honor -- I'm
20 sorry. The official transcript should be open and published
21 and available for opposing counsel because, otherwise, we can't
22 track this.

23 MS. DAKIN-GRIMM: The --

24 THE COURT: Correct.

25 MS. DAKIN-GRIMM: The official transcript was made

1 available by the Court order to anybody that bought it. I'm
2 sure. I'm confident that they did.

3 MR. SMITH: I was told by the court reporter and I
4 think Mr. Herring was --

5 THE COURT: Why do we have --

6 MR. SMITH: -- as well --

7 THE COURT: -- two different transcripts?

8 MR. SMITH: -- that it wasn't available.

9 MS. DAKIN-GRIMM: I have no idea, your Honor. There
10 is only one version as far as I know.

11 THE COURT: Where is the original?

12 MS. DAKIN-GRIMM: I don't know.

13 THE COURT: Publication requires that you hand it up
14 to the Clerk of the Court.

15 UNIDENTIFIED SPEAKER: I've got one.

16 (Colloquy not on the record.)

17 MS. DAKIN-GRIMM: We'll have to find it, your Honor.

18 THE COURT: Okay. Let's take a ten-minute recess,
19 please, so that we have the same deposition transcript we're
20 referring to.

21 (Colloquy not on the record.)

22 MS. DAKIN-GRIMM: Thank you.

23 THE COURT: Thank you, ma'am.
24 About ten minutes.

25 (Colloquy not on the record.)

1 THE CLERK: All rise.

2 (Recess at 03:56:30 p.m.)

3 (Court reconvened at 04:17:01 p.m.)

4 THE CLERK: All rise.

5 (Colloquy not on the record.)

6 THE COURT: Thank you. Please be seated.

7 You may continue.

8 Thank you.

9 MR. HERRING: Your Honor, at this time under Federal
10 Rule 106, we would like to read into the record for
11 (indiscernible) completeness the answer to the last question.
12 The video ended with the word --

13 UNIDENTIFIED SPEAKER: Yes.

14 MR. HERRING: -- "yes". The question by Mr. Perry
15 was, "Now, have you ever -- in your experience, has a borrower
16 ever made that offer to you?" The answer was, "Yes."

17 Mr. Parry, Defense counsel, or Ms. Cangelosi made the
18 definite -- Mr. Parry, "Now, are we saying ever in her
19 experience because that's the way the question was asked?"
20 Mr. Perry, Dan Perry, "Well, that's a helpful clarification.

21 The witness, Ms. Cangelosi, "Thank you because that's not
22 -- that's a truthful answer." Mr. Perry, I'm talking with
23 respect to the loans."

24 Mr. Parry, "The loans being the loans at issue here?"
25 Mr. Perry, "The 50 loans." Mr. Parry, "Okay." Witness, "May I

1 expand your question?" Mr. Perry, "You may. Okay."

2 Ms. Cangelosi, "With respect to the 50 USA Capital loans,
3 there was only one borrower that ever made an offer to pay off
4 principal and interest to me, and I told him that he needed to
5 deal with Compass, and that we could not interfere with
6 Compass' negotiations because Compass was the servicer, and
7 that he should pay the full amount of his loan, and that nobody
8 has a problem."

9 THE COURT: Thank you.

10 MR. HERRING: Thank you.

11 MS. DAKIN-GRIMM: Your Honor, to answer your question
12 about the deposition transcript, it turns out that counsel did
13 have the final version, just didn't have it here, so it was
14 brought over for them. We will lodge the original tomorrow
15 with the Court's permission if that's okay.

16 THE COURT: Please.

17 MS. DAKIN-GRIMM: Thank you. All right.

18 BY MS. DAKIN-GRIMM:

19 Q. Now, Ms. Cangelosi, isn't it true that on December 19th you
20 attended as we established earlier this afternoon the
21 confirmation hearing?

22 A. Yes, I did.

23 Q. And if you could look back at Exhibit 109 that we looked at
24 earlier which is the Court's order confirming the third amended
25 plan, you'll see that was entered on January 8th, 2007, the

1 first page, and then if you could turn within that document to
2 page 9 of 29. From lines 25 through 28, you'll see that Judge
3 Riegle ordered, "Following the closing."

4 And for a moment, let me -- I believe we established
5 earlier that you knew that was February 16th, but it says,
6 "Following the closing, no holder of an interest in the sellers
7 shall interfere with the asset purchaser's title to or use and
8 enjoyment of the acquired assets based on or related to such
9 interest or any actions that the sellers may take in their
10 Chapter 11 cases." You were aware that Judge Riegle had so
11 ordered, were you not, ma'am?

12 A. Yes, I was.

13 Q. And you, Ms. Cangelosi, never bid on the servicing rights,
14 did you?

15 A. No, I did not.

16 Q. Okay. And you considered doing so, and you actually talked
17 to Mr. Allison at Mesirow about it, didn't you?

18 A. Very, very briefly, yes.

19 Q. Well, based on the conversation you had with Mr. Allison of
20 Mesirow, you determined that it was not something you wanted to
21 be involved with, right?

22 A. That's correct.

23 Q. And that was because Mr. Allison had told you that 90 loans
24 in the portfolio or 95 loans in the portfolio were in default,
25 and that he would have collected down on 54 of the loans by the

1 time the asset was transferred, so it was going to be a really
2 difficult portfolio, right?

3 A. That's one of the reasons. Yes.

4 Q. Okay. And you had very minimal experience in handling the
5 workout of loans compared to an entity like Mesirow or Midland
6 or other entities, right?

7 A. Yes.

8 Q. In fact, you had only ever handled the workout of your own
9 interest in a loan. You had never done it on behalf of a group
10 of other people, right?

11 A. No.

12 Q. And you never even tried to pool enough capital to make a
13 bid in the bankruptcy auction, did you?

14 A. No.

15 Q. Isn't it true, Ms. Cangelosi, that before February 16th,
16 before the finality of the closing date under the order we
17 looked at as Exhibit 109, you were already shopping for new
18 loan servicers based on the premise that you were going to
19 terminate Compass.

20 A. No. I wasn't shopping at that point for new loan
21 servicers.

22 Q. Would you look at Exhibit 102, ma'am.

23 A. Yes.

24 Q. Exhibit 102 is the document that you produced to us
25 pursuant to subpoena from Howard Justus to Donna Cangelosi

1 dated Monday, January 22nd, 2007, and he writes "Donna,
2 attached is our proposal for the loan servicing," and then the
3 attachment icon says Cangelosi proposal. You received this
4 from Mr. Justus on or about January 22nd, did you not?

5 A. Yes, I did.

6 Q. And the attachment to the document is the proposal that you
7 solicited from Mr. Justus, isn't it, Ms. Cangelosi?

8 A. I did not solicit this proposal, no, Ms. Grimm.

9 Q. Mr. Justus writes, "Proposal to provide loan servicing for
10 certain loans in the USA Commercial portfolio," and he
11 addresses it to Donna Cangelosi, director of the Lenders
12 Protection Group. You received this from him, right?

13 A. Yes, I did.

14 Q. And look under the services that he anticipated providing
15 for you under B. It says, "Create strategic plan options for
16 the liquidation of the loan with options to provide the direct
17 lenders with the greatest possible return in the shortest
18 possible time."

19 Wasn't it true that you had discussions with Mr. Justus in
20 January before Compass even became the loan servicer about his
21 organization, Vindrauga, becoming the loan servicer?

22 A. At that particular time, Mr. Justus was pursuing -- I
23 believe he planned to pursue the assignment of loan servicing
24 for a loan by the name of Fiesta Oak Valley, and I don't recall
25 exactly, but I believe that when I asked him under which terms

1 he would service that loan, this was the proposal that he had
2 provided me back.

3 Q. Isn't it true, Ms. Cangelosi, that you and Mr. Hansen in
4 this same general period of time, January of 2007, were also
5 considering pulling the Palm Harbor loan from Compass and
6 retaining a loan servicer to act on that loan, notwithstanding
7 Judge Riegler's confirmation order?

8 A. I believe that Mr. Hansen had suggested that that would be
9 an option for Palm Harbor. I was not involved in that. I was
10 not part of that process.

11 Q. Could you look at Exhibit 10, please.

12 A. Yes.

13 Q. Exhibit 10 is an E-mail Mr. Hansen wrote to you,
14 Donna Cangelosi, on Thursday, January 25th, 2007, produced by
15 you. You received it, didn't you, ma'am?

16 A. Yes, I did.

17 Q. And Mr. Hansen writes, "Small analysis on the proposal. I
18 am down on this proposal only because I do not feel that one
19 cent of equity should be released to anyone that has an
20 inferior position to that of lenders."

21 You didn't produce the document that was attached with the
22 icon here. What was that, ma'am?

23 A. I'm sorry. If I didn't produce it, I -- I apologize first
24 off. My understanding of this process is at this particular
25 point in time the proposal to Mr. --

1 Q. Sir (sic) --

2 A. -- to which --

3 Q. Ma'am, all I'm asking you is what was the icon document.
4 I'm not asking for anything else.

5 A. I believe the icon document was a proposal -- was a -- a
6 document that was circulating at the time regarding -- Palm
7 Harbor had made a proposal to the lenders regarding the
8 reduction of collateral.

9 Let me -- let me recall. I think it was regarding -- Palm
10 Harbor is a condominium project, and they have a requirement to
11 release a certain amount of money per unit, and I believe at
12 this time this document was regarding Palm Harbor had made a
13 proposal to request the lenders reduce the amount of collateral
14 per unit that was being released.

15 I don't believe that this was a proposal at all regarding
16 loan servicing. I believe it was regarding the -- getting the
17 lenders to modify the agreement to accept less collateral per
18 unit. It would in theory take longer to pay off, but it was
19 not -- you know, it was a proposal requiring the reduction of
20 collateral per unit that was sold. That's what I believe this
21 was.

22 Q. And in look the fourth line down. Mr. Hansen writes to
23 you, "Important to pull this loan from Compass. Here is a loan
24 that creates cash flow by selling units and, secondly, by
25 renting them out. FYI, I have a rent-roll info on this project

1 as of 01/05/2007," and it goes on. "If Compass keeps the loan,
2 I am going to assume that they will keep moneys for late charge
3 and default. At this point, they could make a case for at
4 1,000,000 for maturity default." You remember Mr. Hansen
5 stating that to you, right?

6 A. Frankly, Ms. Grimm, I really didn't get too much involved
7 in this one. No. I --

8 Q. You don't remember?

9 A. I don't -- I don't recall, specifically, focussing at all
10 on this.

11 Q. And then Mr. Hansen says, "I have spoken to Lilly." Lilly
12 is the borrower on this loan, right?

13 A. I believe so, yes.

14 Q. Right. And you're not a lender on this loan, are you,
15 Ms. Cangelosi?

16 A. I -- my husband is, yes.

17 Q. You are not a lender, are you?

18 A. No. I am not, but my husband.

19 Q. And your husband has his interests as separate property,
20 doesn't he, ma'am?

21 A. Only because he --

22 Q. Ma'am, yes or no. I don't need an explanation.

23 A. I hold --

24 MR. HERRING: Your Honor --

25 THE WITNESS: -- the power of attorney --

1 MR. HERRING: Your Honor --

2 THE WITNESS: -- for his -- for his -- for his
3 investments.

4 BY MS. DAKIN-GRIMM:

5 Q. Your husband holds his interests as separate property, does
6 he not, Ms. Cangelosi?

7 A. Yes, he does.

8 Q. And you're not in the Standard Property loan, either, are
9 you, ma'am?

10 A. No.

11 Q. Okay. Would you look at Exhibit 11, please.

12 A. Yes.

13 Q. Now, Exhibit 11 is a letter to direct lenders on the
14 Standard Property loan dated February 2nd, 2000. That's still
15 before the closing date under Judge Riegler's order, correct?

16 A. Yes.

17 Q. And you obtained a copy of this letter from Allison, the
18 chief restructuring officer, Mesirow, sometime in this time
19 period, didn't you?

20 A. No, I did not. I retained it -- I was sent this by a -- I
21 believe I was sent this by a lender.

22 Q. Sure. Let me ask a better question. You obtained a copy
23 of this letter that was addressed to direct lenders on the
24 Standard Property loan, even though you weren't a lender on
25 that loan, right?

1 A. I -- I received this numerous times from the lenders.

2 Q. But not from the chief restructuring officer. You got it
3 from somebody else.

4 A. I believe so.

5 Q. Okay. And you were not a lender in this loan, and you
6 understood that the lenders in this loan were represented by a
7 lawyer called Spencer Judd.

8 A. Yes.

9 Q. Okay. And you didn't think much of him, did you?

10 A. I really had no experience with Mr. Judd. That's --

11 Q. You understood when you received this document before
12 Compass obtained the right to service loans that Mesirov was
13 offering 90 percent of principal on the loan, right?

14 A. Could you ask your question again? I'm sorry.

15 Q. Sure. When you received this letter which was before
16 Compass took over servicing, you understood that the chief
17 restructuring officer was offering 90-percent principal to the
18 direct lenders, right?

19 A. My understanding is that Compass had agreed to the offer
20 according to the paragraph on the following page that it was
21 Compass that was going to be deriving ten percent of the
22 lenders' principal and -- in principal in order to satisfy
23 default fees and late fees.

24 Q. Well, you understood, didn't you, Ms. Cangelosi, that if
25 there was payments and adjustments made prior to the closing

1 date, Compass was entitled to get money back as an adjustment
2 to its purchase price under the asset purchase agreement,
3 right?

4 A. I'm aware that there was some arrangement like that. Yes.

5 Q. Right. Okay. And at this point in time, the offer from
6 the Allison/Mesirow entity was at 90 percent, was it not?

7 A. It was 90 cents on \$1.

8 Q. Okay. And you wrote a letter to all the Standard Property
9 investors recommending that they reject the offer, didn't you,
10 ma'am?

11 A. Yes.

12 Q. Okay. And if you could look at Exhibit 13, please. This
13 is your letter, isn't it?

14 A. Yes.

15 Q. This is Saturday, February 3rd of 2007, Donna Cangelosi to
16 USA Cap Investors at googlegroups.com. This is something you
17 posted on your Web site or chat room there, isn't it?

18 A. I believe so.

19 Q. Okay. And you say I understand that USA Capital has sent a
20 payoff letter for Standard Properties asking for the 90-percent
21 payoff," and then the next paragraph your recommendation was,
22 "The lenders should reject this proposal immediately," right?

23 A. Yes.

24 Q. And in sending this information, did you provide to the
25 direct lenders any information about your qualification to

1 render investment advice?

2 A. At this particular point in time, I believe that I had
3 already provided, furnished, a -- the copy of the Standard
4 letter to counsel, and it was under counsel's direction I was
5 doing -- responding.

6 You must understand during this period of time, Ms. Grimm,
7 the lenders -- there was a collection of lenders out there that
8 had no legal representations, and many of them were not under
9 Mr. Judd's representation in the Standard loan.

10 Many people were contacting me saying could you please
11 help us. We got this letter. We don't understand it. Could
12 you please help us.

13 So I conferred with counsel, and counsel and I came up
14 with a strategy to be --

15 Q. Ms. --

16 A. -- able to --

17 Q. I need to interrupt you. I'm not interested in anything
18 that you learned or did with your counsel. That's privileged,
19 ma'am.

20 My question to you is did you, Ms. Cangelosi, when you
21 sent this letter to Standard Property lenders, make any
22 disclosure of your qualification to render investment advice?

23 A. No.

24 Q. Isn't it true, ma'am, that you consulted with Mr. Ulm about
25 whether it was a good idea to render that investment advice to

1 the Standard Property lenders?

2 A. I believe that we discussed it, yes.

3 Q. Okay. And if you could look at Exhibit 14, please.

4 THE COURT: Again, it has some relevance, so I'm
5 letting you ask it, but I don't understand the relevance to any
6 basis for alleging her violation of any order because she's
7 giving investment advice.

8 MS. DAKIN-GRIMM: Understood, your Honor. Just as an
9 offer of proof, I believe this is related more to the buildup
10 to the issue of the formation of LLCs. I'm establishing that
11 at no time did Ms. Cangelosi give any information about her
12 background, but it's a very predicate question.

13 BY MS. DAKIN-GRIMM:

14 Q. You have Exhibit 14, ma'am?

15 A. Yes.

16 THE COURT: Nor do I think she would be required to
17 be a licensed investment adviser in this context. She's a
18 party in interest in the bankruptcy case.

19 MS. DAKIN-GRIMM: I understand that, your Honor.

20 BY MS. DAKIN-GRIMM:

21 Q. Ms. Cangelosi, is this an exchange of E-mails between you
22 and Mr. Ulm about sending an E-mail to standard investors?

23 This is the second E-mail in the list --

24 A. Yes.

25 Q. -- February 3rd. You wrote to him, "Can I send an E-mail

1 to Standard investors," and then he wrote to you, "Can 51
2 percent of lenders vote to bind all lenders in a loan to pay
3 for the cost of litigation?" You exchanged that information
4 with Mr. Ulm?

5 A. Yes.

6 Q. Now, isn't it true, Ms. Cangelosi, that at this point in
7 time you and Mr. Ulm were realizing that simply contacting
8 direct lenders and asking them to chip in money to the Lenders
9 Protection Group wasn't generating enough funds?

10 A. No. As a matter of fact, people were contributing heavily
11 at this point. They started contributing heavily at this point
12 to the Lenders Protection Group, either at this point or a
13 little bit later.

14 Q. Now, would you look at page 2 of the document in front of
15 you. Mr. Ulm writes to you on February 3rd, "I am thinking
16 that the desires of the LPG and the Standard people diverge. I
17 am thinking that we can't fund everything, and that the
18 Standard population is already tired of fighting and has
19 already spent money in litigation," and so on. "What we needed
20 is a way to spread the cost of defending themselves around."
21 You received that E-mail from Mr. Ulm, didn't you?

22 A. Yes.

23 Q. And then you responded, right?

24 A. I don't believe I responded to those points, but I did
25 respond. Yes.

1 Q. You responded to his E-mail. Right. And then a little bit
2 further down you say, "The Standard lenders" -- this is the
3 very last paragraph. "The Standard lenders might not get the
4 full impact of the issue and be unwilling to fund it, but they
5 might go along if they had enough support. They might even go
6 along if they could be bound by the majority."

7 MR. SMITH: I object.

8 BY MS. DAKIN-GRIMM:

9 Q. "The LPG needs more money to do all of this."

10 MR. SMITH: I object to the statement --

11 BY MS. DAKIN-GRIMM:

12 Q. Isn't it true, ma'am?

13 MR. SMITH: -- that she's indicated that
14 Ms. Cangelosi said that. Clearly, that's not --

15 MS. DAKIN-GRIMM: You're right.

16 MR. SMITH: -- her E-mail.

17 MS. DAKIN-GRIMM: I have misspoken. Let me withdraw.

18 THE COURT: Um-h'm.

19 BY MS. DAKIN-GRIMM:

20 Q. Isn't it true, ma'am, Mr. Ulm wrote that to you, and you
21 responded to his E-mail? Isn't it true that at this point in
22 time you and Mr. Ulm were concerned that the Lenders Protection
23 Group needed more money to do everything you had in mind?

24 A. What we were concerned about is that lenders were starting
25 to become alarmed over -- the Standard lenders, for example,

1 were alarmed over the proposal from USA Capital where it stated
2 that Compass was going to take ten percent of their principal
3 for default fees and late fees.

4 What we were concerned over is the fact that if we had to
5 do this 58 or 60 times, the lenders would not have the money to
6 be able to defend themselves. That's what they were -- we were
7 concerned about --

8 Q. And you wanted --

9 A. -- if we had to go one by one by one, so we were very -- we
10 were very concerned over, you know, the ability of lawyers on
11 every single loan.

12 Q. And you wanted to have a fund whereby you could have money
13 from lenders on loan A be used on loan B if you found it to be
14 necessary, right?

15 A. That wasn't really the situation. No. No. What we were
16 just concerned over is the lenders were -- were asking for us
17 to help, and we had the only legal fund because we were in the
18 appeal process, and so we didn't have the money to be able to
19 protect our rights on every single loan, and we were worried
20 about that, but we were, but --

21 Q. Now, isn't it true that Mr. Ulm told you, Ms. Cangelosi,
22 that it would be dangerous to urge people to vote no on
23 Standard property? That wasn't your business?

24 A. Those are Mr. Ulm's words, and I can't say that. No. I --
25 I can't say that. I -- I suppose he said that that was

1 dangerous. Yes.

2 Q. And isn't it true, ma'am, that in this time period you and
3 Mr. Ulm discussed the fact that Compass could buy out interests
4 of lenders who disagreed at 100-percent principal thereby
5 weakening your power?

6 A. I believe that those were Mr. Ulm's words. I didn't
7 discuss this with Mr. Ulm.

8 Q. Would you look at Exhibit 15, please. Exhibit 15 is an
9 E-mail exchange between you and Mr. Ulm on February 4th of
10 2007. And in the second paragraph, you see he wrote, "Urging
11 people to vote no publicly is dangerous business I reiterate."
12 You remember receiving that from him, right?

13 A. After my review of these documents, yes.

14 Q. Right. And he's saying I reiterate. He had discussed that
15 with you as well, hadn't he, ma'am?

16 A. I don't recall whether he discussed it with me or it was --

17 Q. Okay. And he asked you in his point No. 5, "Is it
18 necessary to gather 51 percent to pull the LSA. Is this a
19 questionable strategy, anyway, given Riegle and keeping in mind
20 we want Compass out of here entirely and soon?"

21 Isn't it true, Ms. Cangelosi, that you and Mr. Ulm are the
22 we referred to in this E-mail, and that by February 4 of 2007
23 before Compass had taken over you had decided that you wanted
24 Compass out of there entirely and soon?

25 MR. HERRING: Objection, your Honor. This is

1 hearsay, and, again, it calls for speculation on this witness
2 as to what Mr. Ulm was referring to.

3 THE COURT: Sustained.

4 Rephrase it.

5 BY MS. DAKIN-GRIMM:

6 Q. Isn't it true, ma'am, that you and Mr. Ulm in February of
7 2007 had decided that you wanted Compass out of there entirely
8 and soon?

9 A. From my perspective because all I can answer is from my
10 perspective, we were concerned over Compass asserting that they
11 had the rights over our agreements to be able to take priority
12 of -- not prepaid interest -- default interest and late fees
13 and other fees, as a matter of fact.

14 We were concerned over that, and we were watching it as to
15 whether we wanted -- as to whether Compass was going to be able
16 to be terminated or not was going to be based upon their own
17 merits and their own behavior. It was certainly an option that
18 we were looking at. We were very concerned.

19 Q. And you never wrote back to Mr. Ulm in response to
20 Exhibit 15 telling him we haven't made up our minds, yet. We
21 don't want Compass out of here entirely and soon. We're just
22 looking into things, did you, ma'am?

23 A. I believe that someplace in these E-mails there's something
24 that says that you better go slowly. Somewhere in your
25 documents that you've produced, I believe that there's a

1 document that responds back that says you better go slow.

2 Q. Look at No. 6. Mr. Ulm writes to you, "Having a few no
3 votes will cause a delay, but I can also see Compass buying out
4 the interest of a few dissidents --

5 A. Oh, I'm sorry.

6 Q. -- on the side, so we have to get as large a number of
7 rejectors as possible. We cannot inform these lenders of this
8 dynamic. Let that dog keep sleeping."

9 Did you, Ms. Cangelosi, ever inform the direct lenders in
10 an E-mail from you that Compass might be interested in buying
11 out their interests, and they could get something better than
12 what you would be offering?

13 A. Ms. Grimm, I wasn't offering anything at that time nor have
14 I.

15 Q. Now, Ms. Cangelosi, you wrote to the direct lenders
16 encouraging them not to accept the 90-percent offer, and the
17 offer was increased, wasn't it?

18 A. I believe it was. I -- but I didn't write to the direct
19 lenders. I think -- I think ultimately what happened was
20 through counsel, Mr. Judd, I believe that he was the one that
21 wrote to Compass regarding that.

22 Q. I asked you, ma'am, about writing to the direct lenders.
23 And if I could refresh your recollection, we saw Exhibit 13.
24 That was your E-mail to the direct lenders --

25 A. Yes.

1 Q. -- saying the lenders should reject this proposal
2 immediately.

3 A. Yes. I -- I -- I'm sorry. I misunderstood. I thought you
4 meant after this time frame.

5 Q. Okay. And, in fact, Compass increased the offer to the
6 direct lenders, didn't it?

7 A. My understanding is that the offer was increased to include
8 all principal.

9 Q. Right. And you're aware that a request for consent to the
10 100 percent of principal office was sent on March 2nd -- I'm
11 sorry -- March 7th to reflect the 100 percent of principal,
12 right?

13 A. Yes, I am.

14 Q. Okay. And, Ms. Cangelosi, you understand that if Compass
15 negotiates a 100-percent payoff of the principal balance,
16 Compass is entitled to take its servicing fee before the unpaid
17 principal is paid to the direct lenders, right?

18 A. Yes. Yes.

19 Q. Okay. And you understood that this --

20 THE COURT: I didn't understand your question. The
21 100 percent of principal only or 100 percent of all that was
22 due?

23 MS. DAKIN-GRIMM: The question was 100-percent
24 principal, your Honor, and that's because that's --

25 THE COURT: Did you understand, ma'am? The question

1 was did you understand that if 100 percent of principal only
2 was to be paid, they had the right to collect their default
3 interest?

4 MS. DAKIN-GRIMM: No, your Honor. It was just the
5 servicing fee. The question was just --

6 THE COURT: The servicing fee --

7 MS. DAKIN-GRIMM: -- the servicing fee.

8 THE COURT: -- on the principal.

9 MS. DAKIN-GRIMM: Yes.

10 THE COURT: Okay.

11 MS. DAKIN-GRIMM: And that was consistent with how
12 she answered in her deposition.

13 THE COURT: Very good.

14 BY MS. DAKIN-GRIMM:

15 Q. And you understood back in March of 2 --

16 THE COURT: What was the servicing fee, by the way,
17 one percent, two percent, three percent?

18 MS. DAKIN-GRIMM: The question was not with respect
19 to a particular loan, your Honor. It was just in general.

20 THE COURT: I know. But with respect to Standard,
21 per the documents, what was the servicing fee?

22 MS. DAKIN-GRIMM: I don't know the answer. I'll have
23 to find out and tell you.

24 THE COURT: Does counsel know what it was?

25 (Colloquy not on the record.)

1 MR. HERRING: Well, your Honor, the servicing fee
2 depends on the loan-service agreements, and they vary from one
3 percent to three percent.

4 THE COURT: So they're just all over the map. A
5 person signs one percent, two percent, three percent, and then
6 they list all the loans underneath the servicing agreements?

7 MR. HERRING: Well, I wish it was that easy. They
8 don't list all the loans. When the initial loan occurs or when
9 the initial investment occurs, they sign one loan-servicing
10 agreement.

11 THE COURT: Right.

12 MR. HERRING: That was to apply to all future loans,
13 and that has a one or to a three percent depending on when you
14 invested with the loan service -- when you initially invested
15 with the loan service.

16 THE COURT: Of course, you've raised the issue as to
17 whether that's a valid provision under Nevada law.

18 THE WITNESS: Yeah, it is.

19 THE COURT: Can a servicing agreement bind for all
20 and any loans in the future?

21 MR. HERRING: We've raised that issue, your Honor,
22 yes.

23 THE COURT: So with respect to Standard, you're just
24 simply telling me that there may or may not be a valid
25 servicing agreement at all with respect to certain lenders.

1 MR. HERRING: With respect to certain lenders, there
2 may not be a valid servicing agreement.

3 THE COURT: And to those who signed a servicing
4 agreement that listed the Standard loan, it varies from one to
5 three percent.

6 MR. HERRING: Well, the loan-servicing agreement
7 didn't list -- and you all can correct me if I'm wrong. You've
8 been in the case longer than I have, but it didn't list the
9 loans.

10 THE COURT: I thought there were blank lines, and the
11 loans were annotated in.

12 MR. HERRING: It was not my understanding,
13 your Honor.

14 THE COURT: Okay.

15 MR. HERRING: But when you initially invested, you
16 signed a loan-servicing agreement at that time.

17 (Colloquy not on the record.)

18 MR. HERRING: And then if you subsequently invested
19 in other loans, USA Capital Mortgage took the position that
20 your initial loan-servicing agreement it applied to those
21 loans.

22 THE COURT: Huh. And whether valid or invalid under
23 Nevada law. And what was happening? If a \$300 loan payment
24 was made, was the one, two, or three percent per the servicing
25 agreement per lender collected?

1 MR. HERRING: It varied.

2 THE COURT: Withheld?

3 MR. HERRING: It varied, your Honor.

4 THE COURT: Varied. Sometimes, it was. Sometimes,
5 it wasn't.

6 MR. HERRING: That's my understanding.

7 THE COURT: And if it was, sometimes, Commercial
8 Mortgage got it, and, sometimes, they just put it back in the
9 commingled pool.

10 MS. DAKIN-GRIMM: I don't believe that's accurate,
11 your Honor.

12 THE COURT: Uh-huh.

13 MS. DAKIN-GRIMM: I --

14 MR. HERRING: That's beyond me.

15 THE COURT: Okay. So, sometimes, they took it.
16 Sometimes, they didn't.

17 MR. HERRING: I believe --

18 MS. DAKIN-GRIMM: That I disagree with --

19 MR. HERRING: -- that --

20 MS. DAKIN-GRIMM: -- your Honor.

21 MR. HERRING: I'm sorry?

22 MS. DAKIN-GRIMM: I don't think counsel is
23 testifying, but I disagree with that statement if that's what
24 he is trying to assert.

25 MR. HERRING: That is beyond me, your Honor. I --

1 THE COURT: Okay. Well, I want an answer to my
2 question at some point in time.

3 MS. DAKIN-GRIMM: I do agree with what counsel
4 represented about the different loan-servicing agreements
5 within Standard Property, but we'll answer your question with
6 more specificity, your Honor.

7 THE COURT: Okay.

8 MR. SMITH: Your Honor, if it helps, I'm sure the
9 witness knows the answer to those questions.

10 THE COURT: You can ask.

11 MS. DAKIN-GRIMM: Yeah.

12 BY MS. DAKIN-GRIMM:

13 Q. Ms. Cangelosi, just to make sure we're clear, you
14 understand, hypothetically, that if Compass negotiated 100
15 percent return of principal, the principal balance, Compass was
16 entitled to take just its servicing fee off the top before
17 returning the principal balance to lenders, right --

18 THE COURT: Per lender.

19 BY MS. DAKIN-GRIMM:

20 Q. -- per lender.

21 A. My understanding was that Compass was entitled to its
22 servicing fee.

23 Q. Let's look at your deposition, so that we have a very clear
24 answer. It's clip 99, page 153, lines 7 through 12.

25 (Colloquy not on the record.)

1 (Thereupon, the recorded DVD was played at 04:47:46 p.m.
2 through 04:48:12 p.m.)

3 BY MS. DAKIN-GRIMM:

4 Q. And you knew in this case of Standard Property now -- I'm
5 asking about the specific case -- that the 100 percent of
6 principal-balance offer that Compass made was not going to
7 entail Compass taking the servicing fee out of the principal
8 balance, right?

9 A. At the time, no.

10 Q. Okay. Isn't it true, ma'am, that you knew that Compass was
11 going to get the servicing fee on the 100-percent principal
12 from the borrower?

13 A. No. I didn't know that at the time.

14 Q. Let's look at clip 100 which is Ms. Cangelosi at page 153,
15 line 22 through 154, line 15.

16 (Thereupon, the recorded DVD was played at 04:48:59 p.m.
17 through 04:50:23 p.m.)

18 BY MS. DAKIN-GRIMM:

19 Q. And, Ms. Cangelosi, isn't it true that you also learned
20 that Compass was going to be paid some, but not all, of its
21 default interest and late fees by the borrower?

22 A. I later learned that. Yes.

23 Q. Now, Robert Bender was the --

24 THE COURT: I'm going to interrupt you now, ma'am,
25 just to take the opportunity to supplement the record here as

1 to my ruling. I think I already included this in the prior
2 ruling. We did discuss it in the conference we had on Friday.

3 I made a prior legal ruling that the property interest
4 transferred to Compass, a portion of it, at least, was a
5 property interest, was coupled with an interest to the extent
6 that you bought deed-of-trust interests or you bought servicing
7 rights in notes that contained a right in the note and deed of
8 trust to default interest and fees. That was an interest, in
9 essence, if you will coupled with a property interest.

10 But for clarification, I think I added at our conference,
11 and I thought maybe I addressed it. I'm sure not whether I
12 had, so I'm clarifying it at this point.

13 If the only thing that embodies the right to a fee is the
14 servicing agreement, that particular interest you purchased was
15 a contract right, not any kind of a property interest coupled
16 with an interest, if you will.

17 So I'm going to take the opportunity to interrupt and make
18 sure that's clear on the record. I think I included that in my
19 prior ruling, but that is part of my prior legal ruling.

20 (Colloquy not on the record.)

21 THE COURT: Now, let's see. How much longer do you
22 have with this witness, please?

23 MS. DAKIN-GRIMM: I have quite a lot to go through.
24 I'm in --

25 THE COURT: Okay.

1 MS. DAKIN-GRIMM: -- February, and I have to bring
2 us --

3 THE COURT: All right.

4 MS. DAKIN-GRIMM: -- to current --

5 THE COURT: Let's recess --

6 MS. DAKIN-GRIMM: -- in 2007.

7 THE COURT: -- at this point. We'll continue
8 tomorrow morning at 9:00 a.m., and how much longer, roughly, do
9 you have with this witness?

10 MS. DAKIN-GRIMM: At least three hours.

11 THE COURT: Three hours, and then what other
12 witnesses are you intending to --

13 MS. DAKIN-GRIMM: Our only other witness -- well,
14 there's Mr. Hansen, and then --

15 THE COURT: And how long with Mr. Hansen?

16 MR. HERRING: Your Honor, Mr. Hansen lives in
17 Indiana. He's not under anyone's controls here. As far as I'm
18 aware, he's not even in Las Vegas. He hasn't been subpoenaed.
19 They had an opportunity to depose.

20 THE COURT: My obligation -- we do have his
21 deposition?

22 MR. HERRING: Yes. They took his deposition.

23 THE COURT: My obligation here is to strike his
24 declaration unless you produce him for cross-examination,
25 unless all counsel agree that I've got everything I need in the

1 deposition and can read the deposition.

2 MR. HERRING: Well, it --

3 (Colloquy not on the record.)

4 MS. DAKIN-GRIMM: We notified counsel consistent with
5 your ruling last Wednesday that we advised of witnesses, and
6 that we insisted --

7 (Colloquy not on the record.)

8 MS. DAKIN-GRIMM: -- on our right to cross-examine
9 Mr. Hansen. They responded that he wasn't their client, and
10 they didn't control him, but we advised them that we would then
11 ask you to strike the testimony.

12 (Colloquy not on the record.)

13 MR. HERRING: Your Honor, he was here at the last
14 hearing to be cross-examined.

15 (Colloquy not on the record.)

16 MR. HERRING: Compass has sued him in Indiana. He
17 has counsel in Indiana. They deposed him after his declaration
18 was filed and deposed him intently on his declaration at the
19 deposition. There are pages going over his declaration --

20 THE COURT: Well --

21 MR. HERRING: -- and his deposition.

22 THE COURT: -- it's a valid comment. You've had the
23 chance to cross-examine, and I can read the deposition or you
24 can read it to me --

25 MS. DAKIN-GRIMM: Well, if --

1 THE COURT: -- portions of it.

2 MS. DAKIN-GRIMM: We believe, your Honor, that you
3 should strike his declarations. There was plain and fair
4 notice of the rules here. But if you're not inclined to do
5 that, we would prefer to play portions of the deposition edited
6 into the record in open court.

7 THE COURT: I'm going to do that. Under the rules
8 that we established here, I would be striking, but you've
9 submitted an appropriate substitute. That is that, in fact,
10 they had the chance to cross-examine him. They did so, and
11 they did it on the content of the declaration.

12 So I'm going to deny the request to strike it. But, of
13 course, you can use the deposition to propound that
14 cross-examination.

15 And do you have any witnesses after Hansen?

16 MS. DAKIN-GRIMM: Other than that, Mr. Homfeld would
17 be the next witness for them to cross.

18 THE COURT: Now, there's a problem because I've gone
19 beyond today and freeing up Tuesday and Wednesday, but I intend
20 to address the issue of whether or not these other declarations
21 and whether I should continue any injunction stopping
22 determination of any of the rights to service on these notes
23 during these three days, so I think I'm going to limit you.

24 You may proceed until tomorrow midday, period, and then
25 you'll have an opportunity to present that same question. That

1 is the declarations that you've submitted and cross-examination
2 of those declarations --

3 MS. DAKIN-GRIMM: Your Honor --

4 THE COURT: -- so that you both have half the time.

5 MS. DAKIN-GRIMM: Your Honor, I know Mr. -- one of
6 the two counsel --

7 MR. HERRING: Mr. Herring?

8 MS. DAKIN-GRIMM: -- made comments earlier about the
9 scope of this hearing. But in pouring over the transcript of
10 the September 10th hearing, it was I think both sides'
11 understanding -- it certainly was my understanding -- that the
12 scope of this hearing was simply Ms. Cangelosi's formation of
13 the LLCs --

14 THE COURT: I fully --

15 MS. DAKIN-GRIMM: -- and contempt.

16 THE COURT: -- appreciate that. But in the meantime,
17 I've read the declarations.

18 MS. DAKIN-GRIMM: Okay.

19 THE COURT: And you have a problem.

20 MS. DAKIN-GRIMM: But, your Honor, when we --

21 THE COURT: And I'm going to require that they be
22 given half the time to present that issue subject to setting
23 further hearings, separate hearings, for separate notes.

24 MS. DAKIN-GRIMM: But, your Honor, my issue is I
25 understand that you've read the declarations. But when we put

1 together our case and designated our witnesses, that was
2 limited to the issue of Ms. Cangelosi, so we haven't put
3 together witnesses or asked people to come to testify on our
4 side of the street --

5 THE COURT: That's fine.

6 MS. DAKIN-GRIMM: -- if you will.

7 THE COURT: But I'm advising you I'm not going to
8 sign the order or the injunction, and these folks are not
9 stayed from terminating your rights without a review of that
10 issue.

11 We've talked about an order that embodied what I ruled,
12 previously, and we came to some conclusion about the language
13 of it, and I'm not going to sign it, and there's going to be no
14 injunction unless we cover that issue.

15 MS. DAKIN-GRIMM: Well, then --

16 THE COURT: Okay.

17 MS. DAKIN-GRIMM: -- how will we bring --

18 THE COURT: Tomorrow morning at --

19 MS. DAKIN-GRIMM: -- our witnesses, your Honor?

20 (Colloquy not on the record.)

21 THE COURT: Tomorrow morning at 9:00 a.m.

22 (Colloquy not on the record.)

23 MS. CHUBB: I have to be in court in Reno tomorrow.

24 Is it possible to call in maybe later in the day?

25 (Colloquy not on the record.)

1 THE COURT: You can listen only, Ms. Chubb.

2 MS. CHUBB: Yes. I'll listen only. Absolutely.

3 THE COURT: You will not be allowed to ask
4 questions --

5 MS. CHUBB: I wasn't asking for that.

6 THE COURT: -- or argue.

7 MS. CHUBB: Thank you.

8 (Colloquy not on the record.)

9 MR. MOORE: Your Honor, may I pose a question, and
10 Mr. Parry (indiscernible) Court did have a chance to speak to
11 you Friday in chambers about (indiscernible). Excuse me.

12 Again, Robert Moore of Milbank, Tweed on behalf of
13 Compass. My understanding from the September 10 hearing was
14 that you had ordered -- and I had incorporated that into a
15 proposed order -- that on ten-days' notice the Court would hear
16 a termination --

17 THE COURT: Please be seated. I'm sorry.

18 MR. MOORE: And I just am trying to understand -- I
19 did not understand what the Court wants to see in this hearing
20 because I thought you had already ordered that as a preliminary
21 matter, so that would be in the preliminary injunction, and
22 they moved to reconsider it --

23 THE COURT: Okay. Your --

24 MR. MOORE: -- on shortened notice.

25 THE COURT: Your conference with me with counsel was

1 to make sure that we had the ruling embodied in the order --

2 MR. MOORE: Right.

3 THE COURT: -- as it issues. What I'm telling you is
4 I've read these declarations, and I'm not sure based upon the
5 declarations -- obviously, they're subject to cross-examination
6 and presentation of counterevidence -- that I should be
7 enjoining anybody from terminating the servicing rights of
8 Compass. That's what I'm advising you, so what I'm advising
9 you is I may not be signing that order, unless and until I
10 resolve that issue --

11 MR. MOORE: All right, your Honor.

12 THE COURT: -- in my mind.

13 MR. MOORE: Because I understood you did not want an
14 injunction against termination, but I thought that we were
15 going to be given ten-days' notice to prepare to respond to any
16 kind of evidence that was going to be offered. That was my
17 understanding.

18 THE COURT: The understanding is they could request a
19 hearing on termination one by one. They were otherwise
20 enjoined.

21 MR. MOORE: Right.

22 THE COURT: Judge Riegler's order we just saw a minute
23 ago enjoined it.

24 MR. MOORE: I understand, but you reversed I think
25 that portion of it Friday. I think it was clear to me --

1 THE COURT: So it's your understanding --

2 MR. MOORE: -- you were saying --

3 THE COURT: -- that there is no injunction at all --

4 MR. MOORE: There's no injunction --

5 THE COURT: -- on their termination.

6 MR. MOORE: -- against terminating, but they would
7 have to obtain a court order for cause on ten-days' notice
8 before you. That was all I thought we were going to do with
9 the order. I just want to clarify why I think Ms. Dakin-Grimm
10 is surprised by what you were saying today.

11 THE COURT: She may be. She may not be.

12 MS. DAKIN-GRIMM: But, your Honor, we didn't invite
13 in -- we didn't ask to cross-examine any of those declarants,
14 and we would like to cross-examine them. They're not on our
15 witness list because we were not apprised that that was the
16 scope of this hearing.

17 THE COURT: You wanted to cross-examine those folks.
18 You told them. You told them.

19 MR. SMITH: No.

20 MR. HERRING: No.

21 MS. DAKIN-GRIMM: No, your Honor. We did not ask --
22 the only witnesses we asked for were Ms. Cangelosi and
23 Mr. Hansen because we believed that the scope of this
24 hearing --

25 THE COURT: Okay.

1 MS. DAKIN-GRIMM: -- was simply Ms. Cangelosi's
2 conduct.

3 THE COURT: You understood all of their declarations
4 were part of this hearing.

5 MS. DAKIN-GRIMM: But they were being offered to
6 defend Ms. Cangelosi, not for purposes of a termination
7 hearing. We were told that those would be done on loan-by-loan
8 basis when counsel asked for such a hearing. I think both
9 sides believed that that was the scope this proceeding. That's
10 what counsel said at the beginning of the hearing.

11 So we'd need to amend our witness list if you're adding.
12 We didn't have fair notice that that was the scope of this
13 hearing.

14 THE COURT: Well, maybe the fair thing to do then is
15 to say I'm not going to sign an order. We'll limit it to just
16 the issue that you thought was going forward, Ms. Cangelosi's
17 contempt, but I will not sign an order that stays in any
18 respect their termination.

19 MR. MOORE: So the Riegle order would remain in place
20 or are you --

21 THE COURT: No. I'll be terminating that.

22 MR. MOORE: All right. If I could also
23 (indiscernible), on September 10 as I recall, we did designate
24 this 39 or 28 or however many declarants that they had offered
25 to be present for cross-examination.

1 We didn't have time to do that because it was your motion
2 calendar, and, therefore, I do think that it was contemplated
3 that if those were going to be offered as evidence, we would
4 have the opportunity to cross-examine them.

5 In other words, there was no statement on the record by
6 counsel as to who was even in the present in the courtroom that
7 day --

8 MR. HERRING: That's not true.

9 MR. MOORE: -- for (indiscernible).

10 MR. SMITH: No. That's not --

11 MS. DAKIN-GRIMM: There was (indiscernible).

12 MR. HERRING: I put it on at the end --

13 MS. DAKIN-GRIMM: There was.

14 MR. HERRING: -- Bob.

15 MS. DAKIN-GRIMM: There was.

16 MR. MOORE: All right.

17 MS. DAKIN-GRIMM: Yeah.

18 MR. MOORE: So there was a statement of who was
19 there, but there was no opportunity to cross-examine them.

20 MR. HERRING: Well, may I speak, your Honor? I
21 believe we understood the declarations were being submitted to
22 support all our motions and had been from my involvement in the
23 case in mid August until now.

24 So we are in agreement with the Court that those
25 declarations have been file, and they're supporting everything

1 we're doing. They have had the opportunity to depose them if
2 they wanted to, but they haven't asked for any of those
3 depositions.

4 THE COURT: I think the fair way --

5 MR. HERRING: And they're all --

6 THE COURT: -- to address this is if you honestly
7 thought that's all we were doing --

8 MS. DAKIN-GRIMM: Yes.

9 THE COURT: -- then I'm going to limit it to that,
10 but I certainly will schedule you additional hearings, and I'm
11 advising you right now I will not sign any order that enjoins
12 anybody, and I will not let Judge Riegler's order continue that
13 enjoins anybody from terminating Compass' rights until I have
14 the question of those declarations resolved in my mind.

15 MR. HERRING: Thank you, your Honor.

16 (Colloquy not on the record.)

17 MR. SMITH: Thanks, your Honor.

18 THE COURT: Tomorrow morning at 9:00 o'clock, please.

19 (Colloquy not on the record.)

20 THE CLERK: All rise.

21 (Court concluded at 05:01:51 p.m.)

22

23

24

25

1 I certify that the foregoing is a correct transcript from
2 the electronic sound recording of the proceedings in the
3 above-entitled matter.

4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

/s/ Michele Phelps
Michele Phelps, Transcriptionist

10/08/07
Date