

Peggy Hunt (Utah State Bar No. 6060)
Milo Steven Marsden (Utah State Bar No. 4879)
Nathan S. Seim (Utah State Bar No. 12654)

DORSEY & WHITNEY LLP

136 South Main Street, Suite 1000

Salt Lake City, UT 84101-1685

Telephone: (801) 933-7360

Email: hunt.peggy@dorsey.com

marsden.steve@dorsey.com

seim.nathan@dorsey.com

Attorneys for D. Ray Strong, Liquidating Trustee of the Consolidated Legacy Trust

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF UTAH**

In re:

CASTLE ARCH REAL ESTATE
INVESTMENT COMPANY, LLC; CAOP
MANAGERS, LLC; CASTLE ARCH
KINGMAN, LLC; CASTLE ARCH
SECURED DEVELOPMENT FUND, LLC,
CASTLE ARCH SMYRNA, LLC; CASTLE
ARCH STAR VALLEY, LLC;
CASTLE ARCH OPPORTUNITY
PARTNERS I, LLC; *and* CASTLE ARCH
OPPORTUNITY PARTNERS II, LLC,

Debtors.

D. RAY STRONG, as Trustee of the
Consolidated Legacy Debtors Liquidating
Trust,

Plaintiff,

v.

WILLIAM GRUNDY, an individual,

Defendant.

Case Nos. 11-35082, 11-35237,
11-35243, 11-35242 and 11-35246
(Substantively Consolidated)

Case Nos. 11-35241 and 11-35240
(Jointly Administered)

(Chapter 11)

The Honorable Joel T. Marker

Adversary Proceeding No. _____

COMPLAINT

Plaintiff D. Ray Strong, in his capacity as Liquidating Trustee (the "Trustee" or "Plaintiff") of the Consolidated Legacy Debtors Liquidating Trust (the "Legacy Trust"), hereby

files this Complaint against Defendant William Grundy (“Defendant”), and states, alleges and avers as follows:

JURISDICTION AND VENUE

1. On October 17, 2011, Debtor Castle Arch Real Estate Investment Company, LLC (“CAREIC”) filed a petition seeking relief under Chapter 11 of the Bankruptcy Code, 11 U.S.C. § 101 *et seq.* (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Utah (the “Court”), thus commencing the above-captioned bankruptcy case.

2. On October 20, 2011, relevant Debtors CAOP Managers, LLC (“CAOP Managers”), Castle Arch Kingman, LLC (“CAK”), Castle Arch Secured Development Fund, LLC (“CASDF”), Castle Arch Smyrna, LLC (“CAS”) (collectively, the “CAREIC Affiliates” and together with CAREIC, the “Legacy Debtors”) also filed petitions seeking relief under Chapter 11 of the Bankruptcy Code in the Court, thus commencing the other bankruptcy cases noted in the caption above, which cases have been substantively consolidated with CAREIC’s bankruptcy case (CAREIC’s bankruptcy case, along with bankruptcy cases of the CAREIC Affiliates, are referred to herein collectively as the “Bankruptcy Case”).

3. The Court has subject matter jurisdiction of this proceeding pursuant to 28 U.S.C. §§ 157(a) and 1334(b).

4. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

5. On June 7, 2013, the Bankruptcy Court entered, among other things, an *Order Confirming Chapter 11 Trustee’s First Amended Plan of Liquidation Dated February 25, 2013 as Modified* [Main Case Docket No. 705] (the “Confirmation Order”), thus confirming the Chapter 11 plan styled as *Second Amended Chapter 11 Trustee’s Plan of Liquidation Dated*

February 25, 2013 [Main Case Docket No. 701] (the “Confirmed Plan”), pursuant to which the Bankruptcy Court retains jurisdiction over this proceeding, which arises under the Bankruptcy Code and arises in and is related to the Bankruptcy Case. Confirmed Plan, Art. X; *Findings of Fact and Conclusions of Law in Support of Confirmation Order* [Main Case Docket No. 704] (the “Findings and Conclusions”), ¶ R.

6. Venue is proper in this Court pursuant to 28 U.S.C. § 1409.

PARTIES

7. Plaintiff is the post-confirmation estate representative for the Legacy Debtors and is the duly appointed Liquidating Trustee of the Legacy Trust, and in that capacity may bring proceedings for and on behalf of the Legacy Trust, including all of the Legacy Debtors’ Claims and Causes of Action that have been transferred to the Legacy Trust under the Confirmed Plan. Confirmed Plan, Art. VI; Confirmation Order ¶¶ 2, 4-6; Findings and Conclusions ¶¶ I, L-M; Trust Agreements [Main Case Docket No. 677], Arts. 1-2.

8. Upon information and belief, Defendant is an individual residing in the State of Illinois who received funds from the Legacy Debtors for his solicitation of investors in the Legacy Debtors, as well as in affiliated debtors Castle Arch Opportunity Fund I, LLC and Castle Arch Opportunity Fund II, LLC (collectively, the “CAOP Debtors” and together with the Legacy Debtors the “Debtors”).

9. Upon information and belief, the Defendant is an insider of the Debtors.

FACTS

The Court's Consolidation Findings and Conclusions

10. On February 8, 2013, the Court entered an *Order Granting Chapter 11 Trustee's Motion to Substantively Consolidate* [Main Case Docket No. 590] (the "Consolidation Order") and *Findings of Fact and Conclusions of Law* in support of the Consolidation Order [Main Case Docket No. 591] (the "Consolidation Findings and Conclusions"), thus substantively consolidating the above-mentioned Legacy Debtors and non-debtor Castle Arch Star Valley, LLC with CAREIC as of October 17, 2011.

The Debtors' Pre-Petition Business Scheme

11. Prior to the filing of the Bankruptcy Cases, CAREIC managed, either directly or indirectly, all of the Debtors through a single paid management team. Consolidation Findings and Conclusions ¶¶ 17 & 107(c).

12. The Legacy Debtors claimed to be in the business of investing in and developing raw land.

13. A total of \$73,593,717.00 (as reported in a Master Tracking Sheet maintained by CAREIC to track investor funds) was raised, net of redemptions, from the Debtors' investors during the period of May 2004 through the filing of the Bankruptcy Case. Consolidation Findings and Conclusions ¶ 34 & Exhibit F.

14. "[A] large portion of the Legacy Debtors' business focused on fundraising." Consolidation Findings and Conclusions ¶ 41; *see id.* ¶¶ 40-45.

15. Upon information and belief, approximately 25% of all funds raised by the Debtors were used for executive compensation and related expenses and fundraising expenses, such as finders' fees and commissions. *Id.* ¶ 42.

16. CAREIC caused each of the Debtors to be formed as “a vehicle by which to obtain additional investor funds[.]” Consolidation Findings and Conclusions ¶ 107(d). In particular, as cash was consumed and additional cash was needed, CAREIC caused new securities offerings to be made, initially through CAREIC alone, and then later through the other Debtors that CAREIC cause to be formed. Consolidation Findings and Conclusions ¶ 35 & Exhibits F-G.

17. Cash raised from investors was “used indiscriminately by the Debtors to fund whatever entity was in need of cash at any given time.” Consolidation Findings and Conclusions ¶ 25; *see also id.* ¶¶ 46-59 & 107(b). Cash was used “as if part of one big ‘piggy bank,’ with funds from the account of whichever entity had cash on deposit being transferred, commingled, and used by the entity in need of cash at any given time.” *Id.* ¶ 58.

18. The Private Placement Memoranda issued by the Debtors to investors stated that investments were being solicited through licensed brokers.

19. At all times relevant hereto, the Legacy Debtors were insolvent.

20. At all relevant times hereto, the Legacy Debtors had at least one unsecured creditor.

The Defendant's Role

21. The Defendant was employed by CAREIC as its Regional Vice President for Business Development (Eastern Region).

22. Upon information and belief, as early as February 2005, the Defendant regularly and actively solicited investors in the Debtors, routinely advised investors on the merits of investing in the Debtors, and regularly effected transactions in securities for the Debtors, for which he received transaction-based compensation, including but not limited to bonuses and incentive rewards.

23. The Defendant did not obtain his Series 62 securities license until February 1, 2008.

24. The Defendant did not obtain his Series 63 securities license until June 30, 2008.

Compensation Transfers to Defendant

25. Attached hereto as Exhibit 1 and Exhibit 2 are summaries prepared from the Debtors' books and records in the Trustee's custody and control of transfers of cash made by the Legacy Debtors to Defendant prior to the filing of the Bankruptcy Cases.

26. Upon information and belief, and as shown on the attached Exhibit 1, the Legacy Debtors made transfers to Defendant in the total amount of \$536,750.04 as compensation for soliciting investments in, referring investors to, or raising funds for the Legacy Debtors prior to June 30, 2008 (the "Commission Transfers").

27. Upon information and belief, and as shown on the attached Exhibit 2, the Legacy Debtors paid Defendant additional compensation in the form of payroll in the total amount of \$83,440.89 for soliciting investments in, referring investors to, or raising funds for the Debtors prior to June 30, 2008 (these salary transfers, together with the Commission Transfers, are collectively referred as the "Compensation Transfers").

28. Upon information and belief, the Compensation Transfers were made by the Legacy Debtors at a time when Defendant was not a licensed securities broker or dealer authorized to sell or solicit investments in securities.

29. Each of the Compensation Transfers is a transfer of an interest of the named Legacy Debtors in property.

30. Upon information and belief, the Compensation Transfers were made by the Legacy Debtors, or the obligations of the Legacy Debtors to make the Compensation Transfers to the Defendant, were made with actual intent to hinder, delay or defraud the Legacy Debtors' creditors and investors.

31. Upon information and belief, the Compensation Transfers were made by the Legacy Debtors, or the obligations of the Legacy Debtors to make the Compensation Transfers to the Defendants, were for services for which the Legacy Debtors received less than a reasonably equivalent value in exchange for such Compensation Transfers or obligations.

32. Upon information and belief, the Allowed Claims against the Consolidated Legacy Estate will not be paid in full.

Defendant's Proofs of Claims

33. Defendant filed several Proofs of Claim in the Bankruptcy Case, designated as Claim Nos. 7 through 11.

34. By Order entered on May 22, 2012 [Main Case Docket No. 236], the Court disallowed Claim Nos. 7, 8, 10 and 11 in their entirety.

35. Thus, at this time, the Defendant has an asserted general unsecured claim against the Legacy Debtors in the amount of \$314,853.00 pursuant to Claim No. 9 (the “Grundy Claim”), a copy of which is attached hereto as Exhibit 3.

Loan To CAREIC

36. As set forth in the Grundy Claim, the Defendant made at least two loans to the Legacy Debtors. *See* Exhibit 3.

37. The Defendant asserts that he was not paid points and had penalties owed on the first loan which was rolled into the principal of the second loan. *Id.*

38. The second loan was made to the Legacy Debtors in or about September 2010. *Id.*

39. The Defendant further asserts that he was not repaid the second loan and his claim is based on an asserted right to payment for unpaid principal and interest, plus to the extent unpaid points and penalties on the first loan. *Id.*

40. During the one-year period prior to the petition date, the Defendant admits and the Trustee’s records show that the Defendant was paid a total of \$60,000.00 on the loans (the “Loan Transfers”). *See Id.* & Exhibit 4.

41. The Defendant has not attached any loan documents to the Grundy Claim to establish the basis therefor and, although he states on the face of the Grundy Claim that the claim is secured by real property, there are not documents that establish a secured claim of any nature. *See* Exhibit 3.

42. Any claim that the Defendant has for the loans are not secured claims, but rather general unsecured claims.

FIRST CLAIM FOR RELIEF

(Avoidance of Compensation Transfers Under 11 U.S.C. § 544(b) and Utah Code Annotated §§ 25-6-5(1)(a) and 25-6-8)

43. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

44. At all times hereto, the relevant Legacy Debtors had at least one unsecured creditor.

45. The Compensation Transfers were transfers of an interest of the Legacy Debtors in property.

46. The Compensation Transfers were made or were based on obligations incurred with actual intent to hinder, delay or defraud the Legacy Debtors' creditors.

47. The Compensation Transfers are avoidable by the Trustee under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-5(1)(a) and 25-6-8.

SECOND CLAIM FOR RELIEF

(Avoidance of Compensation Transfers Under 11 U.S.C. § 544(b) and Utah Code Annotated §§ 25-6-5(1)(b) and 25-6-8)

48. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

49. The Compensation Transfers were transfers of an interest of the Legacy Debtors in property.

50. The Legacy Debtors did not receive reasonably equivalent value in exchange for the Compensation Transfers or any obligation of the Legacy Debtors to make the Compensation Transfers.

51. At the time the Compensation Transfers were made or the obligations were incurred, the Legacy Debtors (a) were engaged or were about to engage in a business or a transaction for which the remaining assets of the Legacy Debtors were unreasonably small in relation to the business or transaction; or (b) intended to incur, or believed or reasonably should have believed that they would incur debts beyond their ability to pay as they became due.

52. The Compensation Transfers are avoidable by the Trustee under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-5(1)(b) and 25-6-8.

THIRD CLAIM FOR RELIEF

(Avoidance of Compensation Transfers Under 11 U.S.C. §544(b) and Utah Code Ann. §§ 25-6-6(1) and 25-6-8)

53. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

54. Each of the Compensation Transfers was a transfer of an interest of the Legacy Debtors in property.

55. The Legacy Debtors did not receive reasonably equivalent value in exchange for the Compensation Transfers or any obligation of the Legacy Debtors to make the Compensation Transfers.

56. The Legacy Debtors were insolvent at the time the Compensation Transfers or any obligations to make the Compensation Transfers were made, or became insolvent as a result of the Transfers.

57. The Compensation Transfers are avoidable by the Trustee under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-6(1) and 25-6-8.

FOURTH CLAIM FOR RELIEF

(Avoidance of Preferential Loan Transfers Under 11 U.S.C. § 547(b))

58. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

59. The Loan Transfers were a transfer of an interest of the Legacy Debtors in property.

60. The Loan Transfers were made to the Defendant as a creditor of the Legacy Debtors.

61. The Loan Transfers were made on account of an antecedent debt owed by the Legacy Debtor before such Loan Transfers were made.

62. The Loan Transfers were made while the Legacy Debtors were insolvent.

63. The Loan Transfers were made within one-year of the Legacy Debtor's petition date to an insider.

64. As a result of the Loan Transfers, the Defendant received more than he would have received if the Bankruptcy Case were a case under Chapter 7 of the Bankruptcy Code, the Loan Transfers had not been made, and the Defendant received payment of his debt to the extent provided by the Bankruptcy Code.

FIFTH CLAIM FOR RELIEF

(Recovery of Avoided Transfers Under 11 U.S.C. §§ 550 and 551)

65. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

66. The Compensation Transfers are avoidable under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-5, 25-6-6, and 25-6-8.

67. The Loan Transfers are avoidable under 11 U.S.C. § 547(b).

68. The Trustee may recover and preserve for the benefit of the Legacy Trust the avoided Commission and Loan Transfers under 11 U.S.C. §§ 550 and 551.

SIXTH CLAIM FOR RELIEF
(Disallowance of Claim—11 U.S.C. § 502)

69. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

70. To the extent Defendant asserts a claim against the Legacy Debtors, such claim, to the extent not asserted in the Grundy Claim, cannot be asserted and is barred under applicable law, the Confirmed Plan, and Confirmation Order.

71. The Grundy Claim has not been allowed by the Court, and the Trustee hereby objects to it pursuant to 11 U.S.C. § 502(b) because, for all of the reasons set forth herein, it is not an allowable claim or, alternatively, it is not enforceable in whole or in part against the Legacy Debtors for at least the following reasons: (a) it is not supported by appropriate documentation to prove the amounts asserted; (b) there does not appear to be any support for the points and penalties on the first loan and no documentation has been provided to support that claim; (c) there is no basis for 18% interest and no documentation to support that portion of the claim; (d) the Grundy Claim asserts a right to post-petition interest which is not allowable; (e) the Grundy Claim asserts that it is secured by the value of the Smyrna property, but provides no proof of any secured interest in any property; (f) credit does not appear to have been made for the Loan Transfers.

72. The Grundy Claim also must be disallowed under 11 U.S.C. § 502(d) because the Compensation Transfers and the Loan Transfers are recoverable from the Defendant under 11

U.S.C. 550 and the Defendant is a transferee of the Compensation Transfers and the Loan Transfers which are avoidable under 11 U.S.C. §§ 544 and 547(b), respectively, and the Defendant has not paid the amount for which it is liable under 11 U.S.C. § 550.

SEVENTH CLAIM FOR RELIEF
(Subordination—11 U.S.C. § 510(c))

73. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

74. Upon information and belief, Defendant is an insider of the Legacy Debtors who has engaged in wrongful behavior and acted in bad faith in relation to the Legacy Debtors, including without limitation by raising funds for the Debtors in an unlawful manner.

75. Defendant's actions have harmed the Legacy Debtors' creditors and investors, all of whom are beneficiaries under the Legacy Trust.

76. To the extent that any portion of the Grundy Claim is held to be an allowed claim, such claim must be subordinated pursuant to 11 U.S.C. § 510(c).

EIGHTH CLAIM FOR RELIEF
(Constructive Trust)

77. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

78. The Compensation Transfers to Defendant were comprised of property of the Legacy Debtors and were made by the Legacy Debtors improperly or are based on illegal obligations because any agreement to make payments to the Defendant was related to the unlicensed sale of securities.

79. Allowing Defendant to retain the Compensation Transfers would unjustly enrich Defendant and would be inequitable.

80. The Compensation Transfers can be traced to the wrongful behavior of the Legacy Debtors, their officers, and/or Defendant.

81. An injustice would result if Defendant was allowed to keep the Compensation Transfers.

82. A constructive trust for the benefit of the Legacy Trust must be imposed in the amount of the Compensation Transfers made to Defendant.

NINTH CLAIM FOR RELIEF
(Unjust Enrichment and Disgorgement)

83. The Trustee re-alleges and incorporates herein by reference each of the preceding allegations as if set forth completely herein.

84. The Compensation Transfers to Defendant were comprised of property of the Legacy Debtors.

85. The Compensation Transfers conferred a benefit upon Defendant.

86. Upon information and belief, Defendant knowingly benefitted from the Compensation Transfers.

87. Allowing Defendant to retain the Compensation Transfers would unjustly enrich Defendant and would be inequitable.

88. Absent return of the Compensation Transfers, the Legacy Trust will be damaged by Defendant's unjust enrichment and may have no adequate remedy at law.

89. Defendant must disgorge the amount of the Compensation Transfers for the benefit of the Legacy Trust.

PRAYER FOR RELIEF

WHEREFORE, the Trustee prays for Judgment against Defendant as follows:

- A. Pursuant to the Trustee's First Claim for Relief, judgment against Defendant avoiding the Compensation Transfers under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-5(1)(a) and 25-6-8.
- B. Pursuant to the Trustee's Second Claim for Relief, judgment against Defendant avoiding the Compensation Transfers under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-5(1)(b) and 25-6-8.
- C. Pursuant to the Trustee's Third Claim for Relief, judgment against Defendant avoiding the Compensation Transfers under 11 U.S.C. § 544(b) and Utah Code Ann. §§ 25-6-6(1) and 25-6-8.
- D. Pursuant to the Trustee's Fourth Claim for Relief, judgment against Defendant avoiding the Loan Transfers under 11 U.S.C. § 547(b).
- E. Pursuant to the Trustee's Fifth Claim for Relief, judgment against Defendant recovering and preserving for the benefit of the Legacy Trust all avoided Compensation Transfers and Loan Transfers under 11 U.S.C. §§ 550 and 551.
- F. Pursuant to the Trustee's Sixth Claim for Relief, disallowance of the Grundy Claim and any other Claim asserted by the Defendant under 11 U.S.C. § 502.
- G. Pursuant to the Trustee's Seventh Claim for Relief, subordination under 11 U.S.C. § 510(c) of the Grundy Claim and any other Claim of the Defendant that has been or may be determined to be an allowed Claim.

H. Pursuant to the Trustee's Eighth Claim for Relief, judgment against Defendant imposing a constructive trust for the benefit of the Legacy Trust on all Compensation Transfers made to Defendant.

I. Pursuant to the Trustee's Ninth Claim for Relief, judgment against Defendant for unjust enrichment in the amount of the Compensation Transfers.

J. Judgment for pre-judgment interest, costs, and fees, including reasonable attorneys' fees, as may be allowed by law.

K. For such other and further relief as the Court deems just and proper.

DATED this 30th day of October, 2014.

DORSEY & WHITNEY LLP

 /s/ Peggy Hunt
Peggy Hunt
Milo Steven Marsden
Nathan S. Seim
Attorneys for Plaintiff

EXHIBIT 1

LEGACY TRUST

Transfer Analysis Through June 2008 (William Grundy)

Trans Date	Clear Date	Reference	Payee/Payor	Amount
02/11/05	02/22/05	5168	Grundy, Bill	\$ (7,500.00)
02/21/05	02/28/05	5180	Grundy, Bill	(2,500.00)
03/09/05	03/21/05	5201	Grundy, Bill	(7,500.00)
03/28/05	04/05/05	5239	Grundy, Bill	(2,500.00)
07/22/05	07/27/05	5541	Grundy, Bill	(13,000.00)
08/25/05	08/31/05	5586	Grundy, Bill	(14,000.00)
10/01/05	10/05/05	5630	Grundy, Bill	(15,000.00)
10/25/05	10/28/05	5691	Grundy, Bill	(15,000.00)
11/23/05	11/29/05	5756	Grundy, Bill	(15,000.00)
12/23/05	12/29/05	5825	Grundy, Bill	(15,000.00)
01/25/06	02/13/06	5899	Grundy, Bill	(15,000.00)
02/24/06	03/03/06	5977	Grundy, Bill	(15,000.00)
03/24/06	04/05/06	6040	Grundy, Bill	(15,000.00)
04/26/06	05/31/06	6117	Grundy, Bill	(15,000.00)
05/25/06	06/05/06	6169	Grundy, Bill	(16,666.67)
06/26/06	07/03/06	6251	Grundy, Bill	(16,666.67)
07/25/06	08/03/06	6359	Grundy, Bill	(15,941.67)
07/27/06	08/03/06	6367	Grundy, Bill	(725.00)
08/22/06	09/05/06	6410	Grundy, Bill	(16,666.67)
09/25/06	10/04/06	1026	Bill Grundy	(16,666.67)
10/25/06	11/01/06	1054	Bill Grundy	(16,666.67)
11/27/06	12/04/06	1094	Bill Grundy	(16,666.67)
12/27/06	01/05/07	1113	Bill Grundy	(16,666.67)
01/29/07	02/01/07	1136	Bill Grundy	(16,666.67)
02/21/07	03/05/07	1171	Bill Grundy	(16,666.67)
03/23/07	04/04/07	1210	Bill Grundy	(16,666.67)
04/25/07	05/02/07	1248	Bill Grundy	(16,666.67)
05/23/07	06/01/07	1276	Bill Grundy	(16,666.67)
06/26/07	07/05/07	1322	Bill Grundy	(18,750.00)
07/25/07	08/02/07	1370	Bill Grundy	(18,750.00)
08/27/07	08/31/07	1402	Bill Grundy	(18,750.00)
09/26/07	10/03/07	1022	Bill Grundy	(18,750.00)
10/25/07	11/06/07	1045	Bill Grundy	(18,750.00)
11/26/07	12/03/07	7644	Grundy, Bill	(18,750.00)
12/27/07	01/03/08	7733	Grundy, Bill	(16,666.67)
01/09/08	01/14/08	1073	Bill Grundy	(2,083.33)
01/28/08	02/04/08	1088	Bill Grundy	(20,833.33)
04/01/08	04/07/08	7949	Grundy, Bill	(1,000.00)

Total Legacy Debtor Transfers **\$ (536,750.04)**

EXHIBIT 2

LEGACY TRUST

Transfer Analysis Based on Payroll Records Through June 2008

William Grundy

<u>Trans Date</u>	<u>Reference</u>	<u>Payee/Payor</u>	<u>Amount</u>
03/05/08	10187	Grundy, William F	\$ (20,833.33)
04/04/08	10203	Grundy, William F	(107.57)
04/01/08	10198	Grundy, William F	(20,833.33)
05/01/08	10207	Grundy, William F	(20,833.33)
06/01/08	8	Grundy, William F	(20,833.33)
Total Transfers			\$ (83,440.89)

EXHIBIT 3

UNITED STATES BANKRUPTCY COURT District of Utah Page 22 of 26 PROOF OF CLAIM

Name of Debtor: Castle Arch Real Estate Investment Company, LLC Case Number: 11-35082

NOTE: This form should not be used to make a claim for an administrative expense arising after the commencement of the case. A request for payment of an administrative expense may be filed pursuant to 11 U.S.C. § 503.

Name of Creditor (the person or other entity to whom the debtor owes money or property):
Bill Grundy Check this box to indicate that this claim amends a previously filed claim.

Name and address where notices should be sent: Strike any pre-printed text if incorrect AND type or print correct information
Bill Grundy
65 Covered Bridge Rd
Barrington, IL 60010-9524
Telephone number: 847-867-1503
Court Claim Number: _____
(If known)
Filed on: _____
 Check this box if you are aware that anyone else has filed a proof of claim relating to your claim. Attach copy of statement giving particulars.
 Check this box if you are the debtor or trustee in this case

Name and address where payment should be sent (if different from above):
Telephone number: _____
5. Amount of Claim Entitled to Priority under 11 U.S.C. §507(a). If any portion of your claim falls in one of the following categories, check the box and state the amount.

1. Amount of Claim as of Date Case Filed: \$ 309,853 w/interest thru 12/1/2012
Specify the priority of the claim.
 Domestic support obligations under 11 U.S.C. §507(a)(1)(A) or (a)(1)(B).
 Wages, salaries, or commissions (up to \$11,725*) earned within 180 days before filing of the bankruptcy petition or cessation of the debtor's business, whichever is earlier - 11 U.S.C. §507(a)(4).
 Contributions to an employee benefit plan - 11 U.S.C. §507(a)(5).
 Up to \$2,600* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use - 11 U.S.C. §507(a)(7).
 Taxes or penalties owed to governmental units - 11 U.S.C. §507(a)(8).
 Other - Specify applicable paragraph of 11 U.S.C. §507(a)(____).
Amount entitled to priority: \$ _____
*Amounts are subject to adjustment on 4/1/13 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.

2. Basis for Claim: Loan to Castle Arch
(See instruction #2 on reverse side.)

3. Last four digits of any number by which creditor identifies debtor: _____
3a. Debtor may have scheduled account as: _____
(See instruction #3a on reverse side.)

4. Secured Claim (See instruction #4 on reverse side.)
Check the appropriate box if your claim is secured by a lien on property or a right of setoff and provide the requested information.
Nature of property or right of setoff: Real Estate Motor Vehicle Other
Describe: Secured by shares/Value of Smyrna TN property
Value of Property: \$ _____ Annual Interest Rate _____ %
Amount of arrearage and other charges as of time case filed included in secured claim, if any: \$ _____ Basis for perfection: _____
Amount of Secured Claim: 309,853 plus accrued interest Amount Unsecured: \$ _____

6. Credits: The amount of all payments on this claim has been credited for the purpose of making this proof of claim.
7. Documents: Attach redacted copies of any documents that support the claim, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, judgments, mortgages, and security agreements. You may also attach a summary. Attach redacted copies of documents providing evidence of perfection of a security interest. You may also attach a summary. (See instruction 7 and definition of "redacted" on reverse side.)
DO NOT SEND ORIGINAL DOCUMENTS. ATTACHED DOCUMENTS MAY BE DESTROYED AFTER SCANNING.
If the documents are not available, please explain: _____

Date: 11/8/2011
Signature: The person filing this claim must sign it. Sign and print name and title, if any, of the creditor or other person authorized to file this claim and state address and telephone number if different from the notice address above. Attach copy of power of attorney, if any.
William F. Grundy

FOR COURT USE ONLY
Please mail this claim form to:
U.S. Bankruptcy Court
350 South Main St., Rm. 311
Salt Lake City, Utah 84103
FILED IN THE UNITED STATES BANKRUPTCY COURT DISTRICT OF UTAH NOV 18 PM 12:17

Penalty for presenting fraudulent claim: Fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571.

3 009178

Bill Grundy Note Payable
 Star Valley, WY

Initial Principal	\$	300,000
Points on Back-end from Previous loan	\$	3,000
Penalty for breach of term on previous loan	\$	7,000
Total new Principal Balance	<u>\$</u>	<u>310,000</u>
Rate		18.0%

Payments are Principal Only - Interest is to accrue.

Principal Balance	Payment	Date	Period Interest	Accumulated Interest
\$310,000		9/1/2010		
\$300,000	9/30/10 \$10,000	9/1/2010	\$ -	\$ -
\$290,000	10/31/10 \$10,000	10/1/2010	\$ 4,438.36	\$ 4,438.36
\$280,000	11/1/10 \$10,000	11/1/2010	\$ 4,433.42	\$ 8,871.78
\$270,000	12/1/10 \$10,000	12/1/2010	\$ 4,142.47	\$ 13,014.25
\$260,000	1/10/11 \$10,000	1/1/2011	\$ 4,127.67	\$ 17,141.92
\$250,000	2/1/11 \$10,000	2/1/2011	\$ 3,974.79	\$ 21,116.71
\$240,000	3/3/11 \$10,000	3/1/2011	\$ 3,452.05	\$ 24,568.77
\$230,000	4/8/11 \$10,000	4/1/2011	\$ 3,669.04	\$ 28,237.81
\$220,000	\$10,000	5/1/2011	\$ 3,402.74	\$ 31,640.55
\$210,000	\$10,000	6/1/2011	\$ 3,363.29	\$ 35,003.84
\$200,000	\$10,000	7/1/2011	\$ 3,106.85	\$ 38,110.68
\$190,000	\$10,000	8/1/2011	\$ 3,057.53	\$ 41,168.22
\$180,000	\$10,000	9/1/2011	\$ 2,904.66	\$ 44,072.88
\$170,000	\$10,000	10/1/2011	\$ 2,663.01	\$ 46,735.89
\$160,000	\$10,000	11/1/2011	\$ 2,598.90	\$ 49,334.79
\$150,000	\$10,000	12/1/2011	\$ 2,367.12	\$ 51,701.92
\$140,000	\$10,000	1/1/2012	\$ 2,293.15	\$ 53,995.07
\$130,000	\$10,000	2/1/2012	\$ 2,140.27	\$ 56,135.34
\$120,000	\$10,000	3/1/2012	\$ 1,859.18	\$ 57,994.52
\$110,000	\$10,000	4/1/2012	\$ 1,834.52	\$ 59,829.04
\$100,000	\$10,000	5/1/2012	\$ 1,627.40	\$ 61,456.44
\$90,000	\$10,000	6/1/2012	\$ 1,528.77	\$ 62,985.21
\$80,000	\$10,000	7/1/2012	\$ 1,331.51	\$ 64,316.71
\$70,000	\$10,000	8/1/2012	\$ 1,223.01	\$ 65,539.73
\$60,000	\$10,000	9/1/2012	\$ 1,070.14	\$ 66,609.86
\$50,000	\$10,000	10/1/2012	\$ 887.67	\$ 67,497.53
\$40,000	\$10,000	11/1/2012	\$ 764.38	\$ 68,261.92
\$30,000	\$10,000	12/1/2012	\$ 591.78	\$ 68,853.70
\$20,000	\$10,000	1/1/2013	\$ 458.63	\$ 69,312.33
\$10,000	\$10,000	2/1/2013	\$ 305.75	\$ 69,618.08
\$0	\$10,000	3/1/2013	\$ 138.08	\$ 69,756.16

*Default
 may 2011*

May 13, 2011

Jeff Austin
CEO
Castle Arch
16246 Santa Barbara Lane
Huntington Beach, CA 92649

Subject: Notice of Default of Loan to Castle Arch from Bill Grundy.

Dear Jeff,

This letter is to notify and inform each Board of Director Member and Glen Martinsen Controller of Castle Arch that the loan from Bill Grundy to Castle Arch is in default as of 5/1/2011.

The loan of \$300,000 began 3/18/2009. It was to be a short term loan of 18 months or less due date 9/18/2010. On 9/1/2010 Doug Child established an extension and new loan terms of a new starting Principal Balance of \$310,000.

As of 5/1/2011 monthly payment on the loan was not made putting the loan in default with a balance due of \$261,640.55. Please call me and notify me when payment in full is going to be made.

Regards,

Bill Grundy

EXHIBIT 4

LEGACY TRUST
One Year Loan Transaction Analysis (William Grundy)

Trans Date	Clear Date	Reference	Payee/Payor	Amount	Payment Type
11/01/10	11/01/10	ACH	Grundy, Bill	\$ (10,000.00)	Principal
12/01/10	12/01/10	ACH	Grundy, Bill	(10,000.00)	Principal
01/07/11	01/19/11	DEB	Grundy, Bill	(10,000.00)	Principal
02/01/11	02/03/11	DEB	Grundy, Bill	(10,000.00)	Principal
03/02/11	03/21/11	DEB	Grundy, Bill	(10,000.00)	Principal
04/08/11	04/08/11	Wire	Grundy, Bill	(10,000.00)	Principal
Total Transfers				\$ (60,000.00)	