

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN
GREEN BAY DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

Civil Action No: 09-C-506

WEALTH MANAGEMENT LLC,
JAMES PUTMAN, and SIMONE FEVOLA,

Defendants, and

WML GRYPHON FUND, LLC;
WML WATCH STONE PARTNERS, L.P.; WML
PANTERA PARTNERS, L.P.; WML PALISADE
PARTNERS, L.P.; WML L3, LLC;
WML QUETZAL PARTNERS, L.P., and
EMPLOYEE SERVICES OF APPLETON, INC.,

Relief Defendants.

**STATUS REPORT OF FAYE B. FEINSTEIN, RECEIVER FOR WEALTH
MANAGEMENT LLC AND THE RELIEF DEFENDANTS**

Faye B. Feinstein, Receiver for Wealth Management LLC ("WM"), and the Relief Defendants, WML Gryphon Fund LLC ("Gryphon"), WML Watch Stone Partners, L.P. ("Watch Stone"), WML Pantera Partners, L.P. ("Pantera"), WML Palisade Partners, L.P. ("Palisade"), WML L3, LLC ("L3"), and WML Quetzal Partners, L.P. ("Quetzal", and together with Gryphon, Watch Stone, Pantera, Palisade, and L3, the "WM Funds") and Employee Services of Appleton, Inc. ("ESA"), hereby submits this status report (this "Report"), pursuant to the Court's *Order Administratively Closing Case*, entered as Docket No. 421 on March 27, 2013.

General Background

1. WM is a limited liability company organized under the laws of the State of Wisconsin. Gryphon is a Wisconsin limited liability company; Watch Stone is a Delaware

limited partnership; Pantera is a Delaware limited partnership; Palisade is a Delaware limited partnership; Quetzal is a Delaware limited partnership; and L3 is a Delaware limited liability company. Each of these WM Funds is itself invested in other investment funds and/or directly in alternative investments, which are generally not traded on recognized public markets and are therefore inherently difficult to value and liquidate (such investment funds and direct investments shall be collectively referred to herein, for convenience, as the "sub-funds").

2. The captioned enforcement action was initiated by a complaint filed by the SEC on May 20, 2009. On that same date, this Court entered an order appointing the Receiver and delineating her powers and responsibilities (the "Receiver Order"). Also on that date, the Court entered (a) an Order Freezing Assets (Docket No. 9), which prohibited WM and the WM Funds and anyone holding their monies or other assets from withdrawing, transferring, pledging, or otherwise dissipating any of their monies or other assets (excluding the segregated, individual accounts of advisory clients which were not invested in the WM Funds); and (b) a Temporary Restraining Order and Order For Emergency Relief (Docket No. 7) against WM and the WM Funds.

3. On May 26, 2009, by agreement of the parties, the Court entered (a) a modified version of the Receiver Order; (b) an Order Extending Asset Freeze (Docket No. 15); and (c) a Preliminary Injunction Order (Docket No. 17) against WM, James Putman, Simone Fevola, and the WM Funds. Subsequently, by minute order entered November 4, 2009, the Court struck, *nunc pro tunc*, any reference to Mr. Fevola in the Preliminary Injunction Order.

4. Notwithstanding the inherent difficulties in valuing and monetizing the WM Funds' interests in the sub-funds, the Receiver has successfully obtained millions of dollars for the WM Funds by liquidating interests in, negotiating settlements of claims against, or obtaining

distributions from many of the sub-funds; obtaining a \$500,000 settlement of claims against WM's provider of directors and officers insurance; settling fraudulent transfer complaints against certain defendants for \$400,000; obtaining a distribution from James Putman's chapter 7 bankruptcy estate and an order rendering non-dischargeable the remaining debt owed by Putman to the receivership estates, and otherwise working to accomplish the purposes of the approved Plan.

5. On March 27, 2013, the Court entered its *Order Administratively Closing Case*, in which the Court asked the Receiver to report on "what additional activity is anticipated before the estate is closed."

General Status

6. *The Receivership Estates*: The receivership estates comprise (a) cash in WM's accounts and in the accounts of the WM Funds; (b) investments in sub-funds held by the WM Funds (including investments by one WM Fund in another); (c) WM's own investments in certain WM Funds, and (d) causes of action against third parties.

7. *Plan of Distribution*: By orders entered on November 20 and November 30, 2009 (Docket Nos. 161 and 167, respectively) (the "Plan Approval Orders"), the Court approved the Receiver's *Second Amended Proposed Plan of Allocation of the Assets of Wealth Management LLC, WML Gryphon Fund LLC, WML Watch Stone Partners, L.P., WML Pantera Partners, L.P., WML Palisade Partners, L.P., WML L3, LLC, and WML Quetzal Partners, L.P.* (Docket No. 163) (the "Plan"). On appeal by certain investors, the United States Court of Appeals for the Seventh Circuit affirmed the Plan Approval Orders in all respects.

8. *Distributions to WM Investors:* The Receiver has made three (3) interim distributions of receivership assets to investors in the WM Funds, totaling \$11,906,514.84, as follows:

- (a) On May 3, 2010, the Receiver distributed to investors in Gryphon, Palisade, Pantera, Quetzal, and Watch Stone an aggregate total of \$4,274,079.92;
- (b) On July 14, 2011, the Receiver distributed to investors in those same WM Funds an additional aggregate total of \$2,036,252.26; and
- (c) On August 15, 2012, the Receiver distributed to investors in those same WM Funds an additional aggregate total of \$5,596,182.66.¹

Principal Work Going Forward to Close Receivership Estates

9. The principal work that must be completed before the Receiver can close the receivership estates falls substantially into two categories: (a) prosecution to judgment or settlement of litigation brought by the Receiver's special counsel against numerous defendants in connection with investments made by certain of the WM Funds in life insurance premium financing vehicles (the "Baetis-Brown Litigation") and (b) liquidating or otherwise disposing of the WM Funds' remaining investments in the sub-funds, so that the six WM Funds can be closed. Related administrative tasks include distributing receivership assets to investors on a periodic basis – the Receiver anticipates making such distributions no more than annually – and preparing K-1 forms and tax returns for WM and the WM Funds on a go-forward basis until the receivership is closed.

The Baetis-Brown Litigation

10. Among the sub-funds in which the WM Funds invested are two life insurance premium financing vehicles: The Baetis Fund, L.P. ("Baetis"), and The Brown Fund, L.P.

¹ At the time of each of the First, Second, and Third Interim Distributions, the L3 Fund, in the Receiver's judgment, contained too little cash to justify the administrative expense of making distributions therefrom.

("Brown"). Gryphon and Pantera invested a total of \$32.2 million in Baetis (Gryphon: \$31.2 million; Pantera: \$1 million), while Palisade and Watch Stone invested a total of \$16.2 million in Brown (Palisade: \$1.2 million; Watch Stone: \$15 million).

11. Upon the Receiver's motion, this Court authorized the Receiver to retain attorney David Melnick and the firm of Melnick & Melnick, S.C. ("Melnick") to investigate potential causes of action against various entities for the losses sustained by investors in Palisade, Watch Stone, Gryphon, and Pantera on account of the investments made by them in Baetis and Brown.

12. In December of 2012, Melnick filed in Wisconsin state court a 125-page, 20-count complaint against 23 defendants (including three "nominal" defendants), including Wood, Hat & Silver, LLC, the general partner of Baetis and Brown, and its principal and several insurance companies and agents (the "Baetis-Brown Litigation").

13. Melnick estimates that the Baetis-Brown Litigation will conservatively require two to three years, and possibly more, to take to judgment. The 20 counts of the complaint allege statutory and common-law causes of action that include breach of contract, misrepresentation, breach of duty, conspiracy, and fraud. These are inherently fact-specific claims that will require extensive discovery and likely give rise to significant motion practice both before and after judgment.

14. On February 13, 2013, the defendants removed the Baetis-Brown Litigation to this Court, commencing Case No. 13-cv-00156. A motion to remand to Wisconsin state court has been filed and fully briefed, and the parties are presently awaiting this Court's determination regarding whether the Baetis-Brown Litigation will proceed in this Court or in the Wisconsin state court where it was originally filed.

15. The Baetis-Brown Litigation is the most significant remaining asset of four of the six WM Funds, and its resolution is a prerequisite to the Receiver's being able to close those four estates.

Liquidating/Monetizing Remaining Interests in Sub-Funds

16. Many of the sub-funds have made their final distributions to the WM Funds; in some cases, the Receiver has abandoned valueless interests in a sub-fund.

17. The WM Funds collectively still have an interest in 10 sub-funds; briefly, they are as follows (the WM Funds invested in each are indicated in brackets):

(a) **Alma, Inc.** [Gryphon; Pantera]: The investments are fractional interests in oil and gas leases. Since the wells underlying those leases have ceased producing and are operating at monthly deficits, the Receiver is in the process of negotiating an agreed disposition of the estates' interests.

(b) **Baetis** [Gryphon; Pantera]: Apart from the Baetis-Brown Litigation described above, Baetis is holding approximately \$603,000 of funds otherwise distributable to Gryphon and Pantera to cover the expenses, including potential legal fees, of winding Baetis down.

(c) **Brown** [Palisade; Watch Stone]: Other than potential proceeds of the Baetis-Brown Litigation, Brown will make no further distributions to Palisade and Watch Stone.

(d) **CIP Equity, LLC** [L3]: CIP owns the Country Springs Hotel, Water Park, and Conference Center in Pewaukee, Wisconsin. The hotel has had financial difficulty, and the Receiver does not expect that distributions will be made from this sub-fund going forward.

(e) **Factory Conversions, LLC** [L3]: The investment comprises an interest in a former factory building that was converted to an office facility. The manager of the investment has informed the Receiver that the secured debt on the property exceeds its value and that distributions on this investment are unlikely.

(f) **MKA Real Estate Qualified Fund I, LLC ("MKA Qualified")** [Palisade; Watch Stone]: MKA Qualified made real estate loans and invested directly in real estate. Palisade invested \$1,075,000, and Watch Stone invested \$19,500,000, in MKA Qualified. MKA Qualified's manager has informed the Receiver that (i) MKA Qualified is working to obtain private construction loans to fund home construction in areas with above-average needs for housing and that it will also pursue personal guarantees on certain loans in its portfolio and (ii) no distributions are expected in the foreseeable future. The Receiver has explored possible exits from this investment and continues to do so, although exiting is complicated by the illiquidity of MKA Qualified's assets, MKA Qualified's indeterminate time-frame for monetizing the sub-fund's assets, and impediments under tax law to distributing the Palisade and Watch Stone interests in MKA Qualified directly, in-kind, to the investors in those two WM Funds.

(g) **Murvin & Meier Oil Company** [Pantera]: These investments are similar to those in Alma, Inc., except that the wells are still performing and generating modest but positive annual cash flows.

(h) **Ravinia Funding, LLC** [Palisade; Watch Stone]: Ravinia Funding invested in doubtful accounts receivable portfolios, primarily of consumer and credit card payment obligations, and has been liquidating its assets and making regular monthly distributions to Palisade and Watch Stone. The Receiver is informed that Ravinia

Funding may require as much as another two years to complete its liquidation and make its final distributions to the WM Funds.

(i) **Sports Venture Partners Real Estate I ("SVP I")** [L3] and **Sports Venture Partners II, L.P. ("SVP II")** [Quetzal]: SVP I has never returned any distributions to L3 on its \$75,000 investment, and SVP II has returned only a nominal amount to Quetzal on its \$300,000 investment. The Receiver is actively negotiating with the manager of the two sub-funds to exit those investments.

18. In addition to the above-described sub-funds, Gryphon is invested in (a) Valstone Opportunity Fund III(b), LLC; (b) Valstone Opportunity Fund III(b)-AIV I, LLC; (c) Valstone Opportunity Fund IV, LLC, and (d) Valstone Opportunity Fund IV-AIV I, LLC (collectively, "Valstone"). The Receiver has negotiated a settlement of claims by and against Valstone and has filed, or will soon file, a motion before this Court for approval of that settlement.

19. The Receiver continues to investigate the most cost-efficient ways of exiting from these sub-fund investments and winding-down the related WM Fund receivership estates. As noted above, the Receiver will be seeking approval in this Court of the proposed settlement with Valstone. It is also possible that the winding up of others of the sub-fund investments will take the form of negotiated settlements for which the Receiver may find it necessary or prudent to obtain Court approval. Other resolutions may entail abandoning sub-fund interests whose values are negative or highly uncertain, and the Receiver may also seek – if the investors in a relevant WM Fund so desire and the governing agreements for a particular sub-fund permit – making like-kind distributions directly to those WM Fund investors of interests in certain of the sub-funds.

20. Moreover, even if the Baetis-Brown Litigation ultimately goes forward in Wisconsin state court, any negotiated resolution may require motion practice in this Court as well as in the state court.

21. Finally, the Receiver will be filing with the Court reports on further distributions, and interim and final fee applications for her professionals, and, at the appropriate time, a motion to close the receivership estates.

22. While the Receiver cannot now predict how often or regularly she will seek to proceed before this Court on the matters described above, she can be certain that she will be making filings and seeking orders periodically during at least the next two to three years, which is the minimum period that she anticipates the receivership estates will remain open.

23. The Receiver therefore asks that the Court either re-open the captioned proceedings or otherwise ensure that she will have access to the Court while the receivership estates remain open.

Respectfully submitted this 26th day of April, 2013.

s/ Christopher Combest

Christopher Combest, One of the Receiver's Attorneys

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