



June 28, 2011

**Re: Status Update**

The following update addresses (1) distributions and K-1 forms; (2) litigation to recover large pre-receivership distributions made to certain investors in WML Gryphon Fund LLC (the "Disgorgement Complaints"); (3) efforts to obtain information from Wood, Hat & Silver, LLC, regarding investments in The Baetis Fund, L.P. ("Baetis"), and The Brown Investment Fund L.P. ("Brown"), and (4) the current status of the funds and other assets (collectively, the "sub-funds") in which the six Wealth Management funds (the "WM Funds") were invested as of the Receiver's appointment.

(1) **Distributions and K-1's**: The Receiver has asked her accountant to prepare the distribution calculations in order that checks may be issued for mailing during the first week of July.

As was the case last year, we cannot complete tax returns and issue K-1 forms until we receive K-1 forms from each of the sub-funds. We continue to press the sub-funds in that regard.

(2) **Status of the Disgorgement Complaints**: On January 20, 2011, the Receiver filed three complaints, seeking (in round figures) \$4.2 million, \$1.1 million, and \$500,000, respectively, all of which was transferred from Gryphon to the defendants, at the direction of James Putman.

As reported in the Receiver's March 10, 2011, update (available on the receivership website), the \$500,000 lawsuit has been settled for a payment of just over \$400,000. We have received payment, and the Court has dismissed that action.

The defendants in the remaining two lawsuits filed motions to dismiss all counts of each complaint. Briefing on those motions has been completed. The Court may rule based solely on the briefs, or may instead choose to schedule oral argument. We will continue to post all relevant pleadings and rulings on the Receiver's website ([www.wealthmgmt.com](http://www.wealthmgmt.com)).

(3) **Requests for Information Regarding Baetis and Brown Funds.** In order to obtain information about the investments made by the WM Funds in Baetis and Brown, the Receiver served a document subpoena upon their general partner, Wood, Hat & Silver LLC ("WHS"), and WHS's managing member, Joseph Aaron. The document request covered, in particular, information regarding (1) deposits made to Baetis and Brown, whether as investments or loans, and (2) withdrawals made from Baetis and Brown for any reason. Mr. Aaron has testified in a deposition that he, like James Putman and Simone Fevola, received payments in connection with the investments made by the WM Funds in Baetis and Brown, but that he deposited those commissions into Baetis and Brown. The Receiver served the subpoena in order, among other reasons, to verify those statements through the books and records of WHS.

WHS refused to comply with the subpoena, and the Receiver filed a motion to compel that compliance. Although the Court initially denied the motion, upon the Receiver's request that the Court reconsider, the Court changed its initial decision and granted the motion to compel. We have since received the requested information from WHS.

(4) **Status of Active Sub-Funds.** The following are brief descriptions of the current status of each of the sub-funds, as determined from information provided by the managers of

each sub-fund. In all cases, we continue to investigate the most cost-effective way of exiting each investment, including, without limitation, by redemption, sale back to the sub-fund itself, sale to a third-party, or distribution in kind of the interest in the sub-fund to the investors in the WM Fund that holds that particular sub-fund interest.

The sub-funds in which the WM Funds still have active interests are listed below, by WM Fund – note that each sub-fund will be described only one time, in connection with the first WM Fund (alphabetically) invested in it.

**I. GRYPHON:**

(a) **Alma, Inc.:** The investments are fractional interests in oil and gas leases. The wells underlying those leases have been producing and generating cash to Gryphon since May 2010 of about \$4,200 per month, and to Pantera of about \$620 per month, and we understand that the wells are likely to continue producing for an indefinite period. We believe it is beneficial to continue to hold these interests, although we are also considering a recent bid from Alma to re-purchase the Gryphon and Pantera interests.

(b) **The Baetis Fund, L.P.:** Baetis's principal investments were in life insurance premium financing. As of a year ago, Wood, Hat & Silver LLC ("WHS"), the managing member of Baetis, informed us that Baetis held \$800,000 in cash. We have tried to obtain a more current figure, but WHS has not updated that information or otherwise confirmed what amount of cash, if any, still remains in Baetis. WHS's attorney has told us that Baetis will not make redemption payments at this time.

My special counsel, David Melnick, is pursuing his investigation of potential causes of action against parties involved in Baetis's and Brown's life insurance premium financing investments.

(c) **Gulf Islands Water Park, LLC (sold)**: As we have previously reported, we sold Gryphon's remaining interest in this entity in June 2009 for \$90,000. Gryphon invested \$500,000 in Gulf Islands and, including the June 2009 sale proceeds, received \$349,207 over the life of that investment.

(d) **Matlin Patterson Distressed Opportunity Fund, L.P. (closed)**: This sub-fund made its final distributions in May 2010. During Matlin Patterson's lifetime, it distributed \$3,968,513 to Gryphon on account of Gryphon's \$5.5 million investment, and \$335,769 to Pantera on account of Pantera's \$500,000 investment.

(e) **MKA Real Estate Opportunity Fund I, LLC ("MKA Opportunity")**: MKA Opportunity made secured loans to real estate developers and also acquired real estate itself for development or to hold for appreciation, which real estate is encumbered by mortgages. MKA Opportunity's manager continues to wind down the MKA Opportunity sub-fund, but, with over \$300 million of debt ahead of equity investors, it is unlikely that Gryphon, Pantera, and L3 will receive any payments from their capital accounts, which MKA Opportunity values at zero.

(f) **Sagecrest II, LLC**: A separate status memorandum regarding Sagecrest was posted on the Receiver's website on February 1, 2011, and we refer interested investors to that memo. In brief, Sagecrest is a debtor in a chapter 11 bankruptcy case pending in Connecticut; its secured lender is owed over \$100 million, and the appraised value of Sagecrest's assets (in large part, life insurance premium financing) makes very uncertain whether any amounts will be available for equity holders, like Gryphon, Palisade, and Watch Stone. The liquidation of those assets is likely to take 3 years or more. When and if a plan of liquidation is confirmed by the bankruptcy court, we will

have a better understanding of the timing and amounts of any distributions from Sagecrest.

(g) **Silar Special Opportunities, LP (closed)**: This sub-fund has been liquidated and final distributions made to Gryphon. During Silar's lifetime, it distributed \$219,611 on Gryphon's \$2 million investment.

(h) **Valstone (formerly "Touchstone") Opportunity Fund III(b), LLC ("Valstone III(b))", and Valstone (formerly "Touchstone") Opportunity Fund IV, LLC ("Valstone IV")**: Both Valstone III(b) and Valstone IV invest in debt obligations of other companies.

The manager of Valstone III(b) calculates the value of Gryphon's capital account at about \$1.6 million as of December 2010, but, because investors do not have a right to periodically redeem, Gryphon will not receive distributions from its capital account until Valstone III(b) has dissolved, which is expected to happen in July 2013. We are considering an offer from Valstone III(b) for a re-purchase of Gryphon's interests in Valstone III(b) and Valstone IV. We have also discussed with certain third parties their interests in purchasing Gryphon's position in Valstone III(b); as interest is expressed, we will coordinate discussions between those potential purchasers and the manager of Valstone III(b).

As to Valstone IV, Gryphon has failed to honor its full \$3.5 million investment commitment, having invested only \$350,000. The manager of Valstone IV has informed us that Gryphon is treated on the books of Valstone IV as being owed a receivable of \$350,000, but it is subject to (i) reduction for \$14,000 previously distributed to Gryphon and (ii) offset for the amount of missed capital calls, penalties for missing such calls, and

expenses permitted to be set off under the operating agreement (such as legal and management fees). Because investors do not have a right to periodically redeem, Gryphon will not receive distributions from Valstone IV until that fund has terminated and dissolved, which the manager anticipates to occur in July 2016.

(i) **WMS Washington Fund, LLC (closed)**: Final distributions were received in 2009. During WMS's life, it distributed \$934,645 on Gryphon's \$1,036,638 investment, and \$1,459,007 on Palisade's \$1,500,000 investment.

## II. **L3**:

(a) **CIP Equity, LLC**: CIP owns the Country Springs Hotel, Water Park, and Conference Center in Pewaukee, Wisconsin. The hotel lost \$799,000 in 2009, and the hotel remains in financial difficulty. CIP has informed us that it is "highly unlikely" that any distributions will be made going forward. We are investigating the possibility of CIP repurchasing L3's interest.

(b) **Factory Conversions, LLC (inactive)**: This company owned an interest in a factory that had been converted to offices. We have been informed that the project has not been profitable and that it is subject to senior debt of over \$2.3 million. We do not, therefore, anticipate any distributions on, or return of principal from, this investment.

(c) **MKA Real Estate Opportunity Fund I, LLC ("MKA Opportunity")**:  
*See discussion under GRYPHON.*

(d) **MWP Investors LLC (closed)**: L3 invested \$510,000 to become a member of this limited liability company, which owned 31 acres of vacant land in Appleton, Wisconsin. The mortgage lender has foreclosed on the property, and there will therefore be no return on this investment.

(e) **Sports Venture Partners Real Estate I, L.P. ("SVP I")**: This sub-fund invested in other funds, whose managers were expected by SVP I to identify undervalued or inefficiently priced assets which presented opportunities for real estate returns during various phases of a broader real estate cycle.

L3 invested only \$75,000 of its original \$300,000 commitment and has refused to meet capital calls during the receivership. If any distributions were to be made, and SVP I does not foresee any in the near future, SVP I would have the right to withhold the remaining \$225,000 of L3's commitment before distributing any remaining cash to L3. We continue to have discussions with SVP I's manager concerning the repurchase of L3's interest, and continue to seek third-party purchasers for these interests, although we have found that the outstanding capital commitment to be made up in connection with a transfer of L3's interest is a disincentive.

### III. **PALISADE**

(a) **The Brown Investment Fund, L.P. ("Brown")**: As described in the Receiver's March 10, 2011, status report (available on the Receiver's website), certain parties (the "Noteholders") alleged that they had lent money to Brown and that they should receive repayment of those loans before investors in Brown, including Palisade and Watch Stone, received any distributions from Brown. We litigated the issue before the receivership Court, which ruled in favor of the Noteholders; we then filed an appeal to the Seventh Circuit, and, ultimately, settled the litigation for a payment from Brown of \$127,500, which we have received. There will be no further distributions from Brown on the investments of Palisade (\$1.2 million) and Watch Stone (\$15 million), although my special counsel, David Melnick, is investigating potential causes of action against parties

involved in Brown's life insurance premium financing business, including insurance companies and brokers, as he is also doing with regard to the Baetis Fund (see item (b) under GRYPHON, above).

(b) **MKA Real Estate Qualified Fund I, LLC ("MKA Qualified")**: MKA Qualified made real estate loans and invested directly in real estate. MKA Qualified's manager has informed us that the restructuring plan proposed last year (pursuant to which the assets of MKA Qualified were to be transferred to a new corporation owned by current MKA Qualified investors) is no longer being pursued. The manager has informed us that MKA Qualified is instead working to obtain private construction loans and, using the loaned funds, will begin to build properties in areas that MKA Qualified's management believes have above-average needs for housing.

The manager has informed us that no distributions are expected in the foreseeable future, and that the manager cannot predict the potential value or timing of returns to investors in MKA Qualified, because such returns will be dependent on the real estate market and the success of the manager in obtaining project financing and collecting on loans. We are working with the manager to obtain more detailed information about loans and owned real estate, about the nature of the projects, both under way and contemplated, and expected returns, and to determine the best way to monetize the Palisade and Watch Stone interests.

(c) **Ravinia Funding, LLC**: This fund invested in doubtful accounts receivable portfolios, primarily of consumer and credit card payment obligations. Ravinia continues to liquidate its assets and to make distributions as it does so. Since May of 2010, Ravinia has distributed an average of about \$14,260 per month to Palisade

and \$11,907 per month to Watch Stone. Ravinia has advised us that it expects to continue making distributions over the next two years, with the majority being made during the next 12 months. The estimate of future returns is more than \$600,000 to Palisade and more than \$500,000 to Watch Stone. We intend to continue to hold the interests in Ravinia.

(d) **Sagecrest II, LLC**: *See discussion under* GRYPHON.

(e) **WMS Washington Fund, LLC (closed)**: *See discussion under* GRYPHON.

#### IV. **PANTERA**

(a) **Alma, Inc.**: *See discussion under* GRYPHON.

(b) **The Baetis Fund, L.P.**: *See discussion under* GRYPHON.

(c) **Matlin Patterson Distressed Opportunity Fund, L.P. (closed)**: *See discussion under* GRYPHON.

(d) **MKA Real Estate Opportunity Fund I, LLC ("MKA Opportunity")**: *See discussion under* GRYPHON.

(e) **Murvin & Meier Oil Company**: The investments are fractional interests in oil and gas leases. The wells underlying those leases have been producing and generating cash to Pantera since May 2010 of about \$720 per month, and we understand that the wells are likely to continue producing for another 15-30 years. We believe it is beneficial to continue to hold these interests for the time being, although we have also solicited a bid from Murvin & Meier to re-purchase the Pantera interest.

#### V. **QUETZAL**

(a) **Discovery Equity Partners, L.P. (closed)**: A first and final distribution of \$1,119,998 was received in April 2010 on Quetzal's \$1,000,000 investment.

(b) **GPS Income Fund, L.P.**: This sub-fund is in liquidation. Its manager informs us that Quetzal will receive a final distribution of about \$14,000 before the end of 2011.

(c) **MHS Capital Partners, L.P. (sold)**: Quetzal invested only \$180,000 of its \$1 million commitment to MHS Capital. Moreover, the limited partnership agreement between Quetzal and MHS Capital permitted MHS Capital's general partner to write down Quetzal's interest to zero, as a result of unpaid capital calls totaling \$170,000. After negotiations with MHS's general partner and one of the other limited partners in MHS, in April 2011, we closed a sale of Quetzal's interest in MHS Capital to that limited partner for a payment of \$110,000.

(d) **Sports Venture Partners II, L.P. ("SVP II")**: This sub-fund invested in other private equity funds, which themselves invested in portfolio companies.

The situation with SVP II is essentially the same as for SVP I (see item (b) under L3, above): Quetzal invested \$300,000 of a \$500,000 commitment made to SVP II, and, if any distributions were to be made, which SVP II does not foresee in the near future, SVP II would have the right to withhold the remaining \$200,000 of Quetzal's commitment before distributing any remaining cash to Quetzal. We continue to seek third-party purchasers for these interests, although we have found that the outstanding capital commitment to be made up in connection with a transfer of Quetzal's interest is a disincentive.

(e) **Tellus, L.P.**: This sub-fund invested in portfolios of securities and commodities managed by third-party managers.

Tellus has returned \$1,050,380 against Quetzal's \$1,000,000 principal investment. One of the funds in which Tellus is invested has suspended redemptions, however, and has informed Tellus that it does not have any target date for resuming payments to Tellus. Quetzal's remaining capital account is booked at approximately \$51,400. We are seeking third-party buyers for Quetzal's remaining interest in Tellus, as Tellus has informed us that it does not have any interest in re-purchasing it.

## VI. **WATCH STONE**

(a) **The Brown Investment Fund, L.P. ("Brown")**: *See discussion under PALISADE.*

(b) **MKA Real Estate Qualified Fund I, LLC ("MKA Qualified")**: *See discussion under PALISADE.*

(c) **Ravinia Funding, LLC**: *See discussion under PALISADE.*

(d) **Sagecrest II, LLC**: *See discussion under GRYPHON.*