

Memorandum

February 6, 2012

Quarles & Brady LLP
Re: **Status Update**

NOTE: This status report omits descriptions of (a) matters that had been finally resolved as of the last status report of June 28, 2011, and (b) sub-funds that, as of the June 28 report, were fully liquidated or that, in the Receiver's judgment, based on information provided to her from the sub-fund managers, are unlikely to ever return any value to the WM Fund(s) invested in them, because of the nature of the assets involved, the amount of debt that must be paid ahead of investor interests, or a combination of both. You may find a copy of the June 28, 2011, status report at the receivership web site, www.wealthmgmt.com.

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

The defendants in the remaining two lawsuits filed motions to dismiss all counts of each complaint. The Court granted those motions, and the Receiver then filed motions to reconsider those dismissals, on the ground, in part, that the Court had refused to permit the Receiver to amend the complaints in ways that the Receiver believed could address the Court's asserted reasons for the dismissals. However, the Court continued to disagree with the Receiver's position and denied the motions to reconsider. After careful review of the Court's opinions, the

Receiver determined that it would not be cost-effective to appeal the dismissals to the Seventh Circuit Court of Appeals. All three of the complaints, therefore, have been disposed of by the Court.

The Court did leave open in its opinions the possibility that individual investors might be able to bring disgorgement complaints in their own rights, even if the Receiver may not. If any investor wishes to discuss this matter further, please contact the Receiver by e-mail at receiver@quarles.com.

(2) **Status of Active Sub-Funds.** Subject to the "NOTE" set forth above, 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. Since the last status report, we have been told that the wells underlying those leases have ceased producing profitably and have, instead, been operating at monthly deficits, which deficits are deductible from distributions. No distributions have been received from

Alma by Gryphon since December 2010 or by Pantera since May 2011, and Alma does not anticipate that the wells will return to profitable production or that distributions will recommence. The Receiver Team is evaluating Alma's prior offer to re-purchase the Gryphon and Pantera interests in light of this information about the productivity of the wells.

(b) **The Baetis Fund, L.P. ("Baetis")**: My special counsel, David Melnick, continues his investigation of potential causes of action against parties involved in the life insurance premium financing investments made by Baetis and by the Brown Investment Fund, L.P. We will soon be filing a motion to modify the terms of Mr. Melnick's engagement in order to address his continued work on this matter.

Counsel for Wood, Hat & Silver LLC ("WHS"), the managing member of Baetis, has informed us that Baetis currently holds about \$804,000 in cash. Mr. Melnick and I are investigating whether we can obtain a distribution of some or all of those funds.

(c) **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. While the Receiver Team is reviewing the most recent information received from MKA Opportunity, there is still hundreds of millions of dollars of debt ahead of equity investors; it therefore remains unlikely that Gryphon, Pantera, and L3 will receive any distributions from their capital accounts, which MKA Opportunity continues to value at zero.

(d) **Sagecrest II, LLC**: On November 22, 2011, we sent a memo to investors in Gryphon, Palisade, and Watch Stone regarding the plan of liquidation proposed for Sagecrest II, LLC ("Sagecrest"). A copy of that memo is available on the receivership web site. In brief, each equity investor in Sagecrest had a choice under the plan of receiving (1) a one-time cash payment equal to the investor's pro rata share of a fixed sum of \$5,000,000 or (2) a series of payments over several years, calculated as a percentage of payments made to the secured creditor.

The Receiver invited investors in Gryphon, Palisade, and Watch Stone to inform her of their preferences regarding those two options. Those WM investors overwhelmingly favored option (1), the one-time payment, and the Receiver elected that option in casting her ballots in favor of the Sagecrest plan. The plan was confirmed by the Sagecrest bankruptcy court in the United States; another plan, regarding certain off-shore Sagecrest entities, is to be heard February 2 by a court in Bermuda. Assuming the Bermuda court approves that plan, Sagecrest will create a liquidating trust from which checks will be issued, perhaps before the end of March 2012.

The Receiver has been informed by Sagecrest that distributions under the option elected for the WM Funds will be just over 2.68% of each Fund's equity claim, as follows:

GRYPHON – equity claim of \$1,245,702 = distribution of \$33,439;

PALISADE – equity claim of \$1,071,009 = distribution of \$28,750;

WATCH STONE – equity claim of \$10,422,122 = distribution of \$279,769.

(e) **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.

During 2011, Valstone III(b) sold certain of its assets for an amount in excess of \$15.8 million, of which Gryphon's share was \$1,098,170. Gryphon has received payment of that amount.

The K-1 forms received from Valstone III(b) and Valstone IV for calendar year 2010 value Gryphon's capital accounts in those sub-funds at about \$1.448 million and \$228,500, respectively. Because investors do not have a right to periodically redeem their interests in Valstone III(b) and IV, Gryphon would not ordinarily receive other distributions from its capital accounts in those sub-funds until they dissolved, which is expected to happen in July 2013 for Valstone III(b) and July 2016 for Valstone IV. Further, the manager of the Valstone funds has alleged that Gryphon has failed to honor its capital commitments in the amounts of \$71,353.58 (Valstone III(b)) and \$2,292,850 (Valstone IV), respectively. The manager of the Valstone funds has proposed a resolution of the situation involving the sale or refunding of Gryphon's interests in or contributions to the Valstone funds.

II. L3:

(a) **CIP Equity, LLC**: CIP owns the Country Springs Hotel, Water Park, and Conference Center in Pewaukee, Wisconsin. The hotel remains in financial difficulty and is still losing money, although the rate of loss appears to have slowed in the last year.

CIP has informed us that it is "highly unlikely" that any distributions will be made going forward. The Receiver is investigating a potential sale of L3's interest back to CIP.

(b) **MKA Real Estate Opportunity Fund I, LLC ("MKA Opportunity")**:

See discussion under GRYPHON.

(c) **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 not met capital calls during the receivership. The Receiver Team is currently considering strategic options regarding this investment.

III. PALISADE

(a) **The Brown Investment Fund, L.P. ("Brown")**: As described in more detail in the Receiver's March 10 and June 28, 2011, status reports (available on the receivership website), Brown has made a final distribution to the Receiver of \$127,500, in settlement of litigation brought by the Receiver against certain parties who alleged that they had lent money to Brown and that they should receive repayment of those loans before payment to investors in Brown, including Palisade and Watch Stone.

My special counsel, David Melnick, continues his investigation of potential causes of action against parties involved in the life insurance premium financing investments made by Brown and Baetis. We will soon be filing a motion to modify the terms of Mr. Melnick's engagement in order to address his continued work on this matter.

(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. The Receiver Team has obtained recent information from the manager regarding the value of the assets held by MKA Qualified and the nature of the projects, both contemplated and in process, in which MKA Qualified is involved. We are comparing those reports to earlier ones and will be following up with the manager to determine whether MKA Qualified's financial performance is improving and to investigate what ways might exist for exiting from this investment.

(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 2010, Ravinia has distributed an average of about \$11,171 per month to Palisade

and \$9,320 per month to Watch Stone. Ravinia has advised us that it expects to continue making distributions through mid-2013, with the majority being made before 2013. The estimate made by Ravinia's counsel of total future returns during the next two years is \$103,000 to Palisade and \$86,000 to WatchStone. We intend to continue to hold the interests in Ravinia.

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

IV. **PANTERA**

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

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

(c) **MKA Real Estate Opportunity Fund I, LLC ("MKA Opportunity")**:

See discussion under GRYPHON.

(d) **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 \$635 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, but will explore exit strategies.

V. **QUETZAL**

(a) **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 during the first half of 2012.

(b) **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 (c) under L3, above): Quetzal invested \$300,000 of a \$500,000 commitment made to SVP II. The Receiver Team is currently considering strategic options regarding this investment.

(c) **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. As of December 31, 2011, Quetzal's remaining capital account is booked at approximately \$32,300. 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.*