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<p>Michael W. Carmel, Bar No. 007356 MICHAEL W. CARMEL, LTD. 80 East Columbus Ave. Phoenix, AZ 85012-2334 602-264-4965 AZ Bar No. 007356 michael@mcarmellaw.com</p> <p>Attorney for Debtors</p>	<p>C. Taylor Ashworth, Bar No.010143 Alan A. Meda, Bar No.009213 STINSON MORRISON HECKER LLP 1850 N. Central Ave. Ste 2100 Phoenix, AZ 85012 602-279-1600 ameda@stinsonmoheck.com</p> <p>Attorneys for Official Committee of Unsecured Creditors</p>
<p>Larry E. Wilk, AZ Bar No. 006510 Jonathan P. Ibsen, AZ Bar No. 023284 JABURG & WILK, P.C. 3200 N. Central Ave., 20th Floor Phoenix, AZ 85012-2415 (602) 248-1000 lew@jaburgwilk.com</p> <p>Attorneys for James C. Sell, Conservator</p>	

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA**

In re:
MATHON FUND, L.L.C., a Delaware limited liability company,

MATHON FUND I, L.L.C., a Delaware limited liability company,

W.S.F. – World Sports Fans, L.L.C., an Arizona limited liability company,

Debtors

Case No. 05-27993-PHX-GBN

Case No. 05-27994-PHX-GBN

Case No. 05-27995-PHX-GBN

(Jointly Administered)

**DISCLOSURE STATEMENT TO ACCOMPANY
DEBTORS' JOINT PLAN OF REORGANIZATION
DATED JULY 7, 2006**

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In re:

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Case No. 05-27993-PHX-GBN

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Case No. 05-27993-PHX-GBN

Debtors

(Jointly Administered)

**DISCLOSURE STATEMENT FOR
DEBTORS' JOINT PLAN OF REORGANIZATION
DATED JULY 7, 2006**

I. INTRODUCTION.

Mathon Fund, L.L.C., Mathon Fund I, L.L.C., and W.S.F. – World Sports Fans, L.L.C., Debtors in the above-captioned and numbered Chapter 11 cases, joined by the Official Committee of Unsecured Creditors and James Sell, as Conservator, have prepared this Disclosure Statement to solicit acceptances of a Plan of Reorganization filed with the United States Bankruptcy Court for the District of Arizona on July 7, 2006. The Plan is attached as Exhibit 1.

A. PURPOSE OF DISCLOSURE STATEMENT.

Debtors are disseminating this Disclosure Statement pursuant to § 1125 of the Bankruptcy Code to provide holders of claims against, and interests, in Debtors with sufficient information to permit them to cast votes to accept or reject the Plan. The Bankruptcy Court has approved this Disclosure Statement for use in this connection and has also established a deadline for casting ballots on the Plan. These dates are set forth on the Order and Notice sent with this Disclosure Statement.

DISCLOSURE STATEMENT

Case No. 01-03501-ECF-RTB
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B. CLASSES OF CLAIMS, VOTING ON PLAN AND CREDITORS' ELECTION.

The Plan provides that each Claim against, or Interest in, each Debtor will be placed into one of several Classes. The Plan also specifies the treatment provided for each such Class. The Classes and their treatment are described in the Plan and below, in Section IV.A beginning on page 17. Only holders of Claims or Interests in Classes that are "impaired" under the Plan are entitled to vote on the Plan.

If a holder of a Claim or Interest is entitled to vote, such holder may do so by completing and delivering the accompanying ballot form in the manner and within the time specified in the accompanying notice. If you are the holder of a Claim or Interest entitled to vote, **your vote on the Plan is important.**

Each holder of an Investor Claim (Classes 3.A.1 through 3.A.3) may elect between treatment as a Participating Investor or a Non-Participating Investor. The election is summarized in section IV.B hereof. The accompanying ballot form permits holders of such claims to make this election. **Your election is also important.**

C. OVERVIEW OF THE DISCLOSURE STATEMENT.

This Disclosure Statement is designed to afford creditors and holders of equity interests adequate information to make an informed judgment about the Plan. Creditors and Interest holders are urged to read the Plan in its entirety. In the event of a conflict between the Plan and the Disclosure Statement, the terms of the Plan and the Order of the Bankruptcy Court confirming the Plan shall control.

Section II. of the Disclosure Statement (beginning on page 8) provides historical information regarding Debtors' businesses, assets and liabilities, and the circumstances surrounding the filing of these bankruptcy proceedings. Section III (beginning on page 14) summarizes developments during the course of this Chapter 11 case. Section IV (beginning on page 15) summarizes the provisions of the Plan, including the classification and treatment of Claims and Interests. Section V (beginning on page 26) contains financial information regarding Debtors and describes projections of distributions under the Plan based upon the assumptions identified in the projections. Section VI (beginning on page 26) identifies the current and intended future management of the Debtors. Section VII (beginning on page 26) discusses the legal requirements for confirmation of the Plan. Section VIII

1 (beginning on page 28) discusses tax consequences of the Plan. Section IX (beginning on page 29)
2 contains the recommendation of Debtors and the Committee with respect to the Plan.

3 **D. OVERVIEW OF THE PLAN.**

4 **1. Advantages of Proposed Plan**

5 The Plan proponents have proposed the accompanying Plan of Reorganization as an
6 alternative to a liquidation of Debtors' assets followed by years of litigation among the Estates, parties
7 who may be liable to the Estates, and individual creditors of the Estates. The proponents believe that
8 the Plan offers a practical, efficient and equitable alternative that will maximize the recovery of
9 investors:

10 **Practical.** The Plan resolves -- without further litigation expense and uncertainty -- many
11 pending and potential disputes among Debtors, the principals, the ACC and the Investors. The Plan
12 provides that Debtors' assets (after required payments to priority and ordinary course creditors) will
13 be transferred to liquidating trusts to collect, sell or otherwise liquidate. The Plan also provides for the
14 creation of a separate trust (the "Participating Trust"), to be funded from the settlement with the
15 principals and other potentially liable parties. The proceeds of this separate trust will be distributed to
16 those investors who elect to release and/or assign their claims against these potentially liable parties.
17 The trusts will be administered jointly by the Conservator and a Trust Management Board
18 representing investors.

19 **Efficient.** The Plan provides a unified structure to settle (or pursue) claims that Debtors or
20 individual investors may have against various parties, including professionals and advisers, brokers
21 and salesmen, and other investors who received payments from, or for the benefit of, Debtors. The
22 Plan contemplates that, prior to the Effective Date of the Plan, Debtors will obtain approval of a
23 settlement with Duane Slade and Guy Williams, the principals of Debtors, and will also seek
24 settlements of claims with as many of the potentially liable parties as possible, subject to Bankruptcy
25 Court approval. After the Effective Date, any claims remaining unsettled will be pursued, any
26 settlements will be subject to approval by the Trust Management Board or the Bankruptcy Court, and

1 the proceeds of such settlements will be distributed to those investors who elect to release and/or
2 assign their claims.

3 **Equitable.** The Plan provides that each investor electing to release and/or assign its claims
4 will receive distributions based upon its "Net Investment Amount," *i.e.*, the aggregate amount invested
5 by such Investor with the various Mathon entities less the aggregate amount received on account of
6 such investment. Investors not electing to transfer and release their claims will not be released from
claims against them and will not participate in the settlement proceeds.

7 **2. Principals Stipulation.**

8 The Plan provides for the implementation of the settlement agreement with Debtors'
9 principals. Under the Principals Stipulation, the Principals will transfer the equity interest in WSF and
10 the Other Conservatorship Entities, plus cash and other assets, to the Participating Trust, in
11 exchange for the releases described below in section V.A.3.a. The Principals Stipulation also
12 provides that, subject to the consummation of the Principals Stipulation, the ACC will not receive any
13 distributions from Debtors or the Other Conservatorship Entities on account of the ACC's claims
14 asserted against them in the Conservatorship Action. A copy of the Principals Stipulation is attached
to the Plan as Exhibit A.

15 **3. Continued Sale of Assets.**

16 The Plan provides for the continued sale of the assets of Debtors and the Other
17 Conservatorship Entities under the management of James Sell, as Conservator. After the Effective
18 Date, a Trust Management Board, consisting of investors or their representatives, will also participate
in decisions regarding sales or other liquidation of assets.

19 **4. Treatment of Priority Claims.**

20 Priority Claims (as described beginning in section IV.A.1, on page 17) other than Tax Claims
21 will receive payment of the full amount of their Allowed Claims on the Effective Date of the Plan, or, if
22 later, when Allowed. Tax Claims will be paid in full in installments over four (4) years or less.

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5. Treatment of Secured Claims.

Debtors believe that there are no Secured Claims owed by any Debtor. In the event that Secured Claims are asserted and allowed, the Plan provides for their treatment in accordance with the requirements of the Bankruptcy Code. Most Secured Claims (as described in section IV.A.2) will be paid in full in installments with interest at a rate to be determined by the Bankruptcy Court.

6. Treatment of Non-Investor Claims.

The Plan provides that creditors with unsecured claims not entitled to priority (except Investor Claims, Claims of Affiliates and the Claim of the ACC, will be classified as either Convenience Class Claims (if allowed for \$5,000 or less) or Ordinary Course Claims. Convenience Class Claims will be paid in full on the Effective Date of the Plan. Holders of Ordinary Course Claims may elect to be paid ninety percent (90%) of their Allowed Claim on the Effective Date or the full amount of their Claim, in installments with interest over five (5) years.

The Plan provides that Claims of Affiliates will be released in exchange for a release of claims against such Affiliates. The Plan also provides that, subject to the consummation of the Principals Agreement, the ACC will receive no distributions from Debtors or the Other Conservatorship Entities on account of the ACC Claims asserted against them in the Conservatorship Action.

7. Treatment of Participating Investor Claims.

The Plan incorporates the terms of the Principals Agreement with respect to the treatment of Participating Investors. Under the Agreement and the Plan, Investors who elect to be Participating Investors will be entitled to Allowed Claims in their respective Net Investment Amounts. Participating Investors will be eligible to receive distributions from the Liquidation Trust and the Participating Trust, and will be released from Avoidance Actions (as defined in the Plan), and the claims of other Participating Investors and Settling Parties. Participating Investors will release any claims they may have against the Other Conservatorship Entities, other Participating Investors, the Principals and their spouses, and other Settling Parties. A full description of the treatment of Participating and Non-Participating Investors is provided herein in Section V.A.3.a.

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8. Treatment of Non-Participating Investor Claims.

The Plan provides that Investors who do not elect this compromise treatment under the Principals Stipulation will be subject to challenges of their claims, as described in Exhibit 2 to this Disclosure Statement. To the extent such claims are Allowed, the holders will receive distributions solely from the Liquidating Trust, consisting of the proceeds of the liquidation of the Debtors' assets only. As described in Exhibit 2 to the Disclosure Statement, Debtors believe that Investor Claims will not be Allowed in an amount exceeding the Investors' Net Investment Amount and that such Investors will be subject to Avoidance Actions that will likely equal or exceed any Allowed Claim.

8. Management of Liquidation and Litigation.

The Plan provides for the appointment of a three member Trust Management Board on the Effective Date of the Plan, to work with the Conservator in the management of any litigation called for under the Plan and the sale of remaining assets of Debtors and the Other Conservatorship Entities. Certain major decisions by the Conservator, such as the commencement or settlement of litigation, will require either the Board's approval or the approval of the Bankruptcy Court.

9. Other Plan Provisions.

The Plan contains other provisions regarding discharge of claims, the procedures for allowance or disallowance of Claims, and the retention of jurisdiction by the Bankruptcy Court. Reference is made to the more detailed description following and the Plan for a description of such provisions.

E. DEFINITIONS.

Most words or phrases used in this Disclosure Statement have their usual and customary meanings. Words or phrases with initial capital letters have the definitions set forth in the Plan or in the Bankruptcy Code.

F. MATTERS MERITING SPECIAL ATTENTION.

Creditors and other interested parties are urged to read the entire Disclosure Statement and the Plan. The following matters are considered of special importance:

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DEADLINE FOR SUBMITTING BALLOTS

EXECUTED BALLOTS MUST BE RECEIVED NO LATER THAN 5:00 P.M., MOUNTAIN STANDARD TIME ON THE DUE DATE SET BY THE COURT. SINCE MAIL DELAYS MAY OCCUR, BALLOTS SHOULD BE MAILED OR DELIVERED WELL IN ADVANCE OF THE SPECIFIED DATE. ANY BALLOTS RECEIVED AFTER THE DUE DATE MAY NOT BE INCLUDED IN ANY CALCULATION TO DETERMINE WHETHER THE CREDITORS HAVE VOTED TO ACCEPT OR REJECT THE PLAN.

IMPORTANCE OF VOTE

YOUR VOTE IS IMPORTANT AND MAY DETERMINE WHETHER THE PLAN IS CONFIRMED. YOU ARE URGED TO STUDY THE PLAN CAREFULLY AND TO CONSULT WITH YOUR COUNSEL ABOUT ITS IMPACT UPON YOUR LEGAL RIGHTS BEFORE VOTING.

TREATMENT ELECTION

CREDITORS WITH INVESTOR CLAIMS OR ORDINARY COURSE CLAIMS MAY ELECT THEIR TREATMENT UNDER THE PLAN. TO MAKE THE ELECTION, EACH SUCH CREDITOR MUST COMPLETE THE APPROPRIATE PORTION OF THE PLAN BALLOT ACCOMPANYING THIS DISCLOSURE STATEMENT.

HEARING ON CONFIRMATION OF PLAN

THE BANKRUPTCY COURT WILL HOLD A HEARING ON CONFIRMATION OF THE PLAN COMMENCING AT THE TIME AND PLACE STATED IN THE ACCOMPANYING ORDER AND NOTICE. THE HEARING MAY BE CONTINUED FROM TIME TO TIME THEREAFTER WITHOUT FURTHER NOTICE EXCEPT AS GIVEN IN OPEN COURT. THE PLAN SHALL NOT BE EFFECTIVE UNLESS THE COURT ENTERS AN ORDER CONFIRMING THE PLAN.

NO OTHER REPRESENTATIONS AUTHORIZED

NO REPRESENTATIONS CONCERNING DEBTORS OR THE PLAN ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. YOU SHOULD NOT RELY ON ANY ADDITIONAL REPRESENTATIONS OR INDUCEMENTS TO SECURE YOUR VOTE ON THE PLAN.

ABSENCE OF AUDITED FINANCIAL INFORMATION

THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECTED TO A CERTIFIED AUDIT. SUCH INFORMATION AND OTHER STATEMENTS ARE BASED UPON DEBTORS' BOOKS AND RECORDS AND THE ESTIMATES AND ASSUMPTIONS STATED. ALL INFORMATION IS ACCURATE TO THE BEST KNOWLEDGE, INFORMATION AND BELIEF OF DEBTORS, ALTHOUGH DEBTORS ARE UNABLE TO WARRANT THAT NO INACCURACIES EXIST.

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NO OBLIGATION TO SUPPLEMENT

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN. NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE PLAN SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE OF THIS DISCLOSURE STATEMENT AND THE MATERIAL RELIED UPON IN PREPARATION OF THIS DISCLOSURE STATEMENT WERE COMPILED. DEBTORS ASSUME NO DUTY TO UPDATE OR SUPPLEMENT THE DISCLOSURES CONTAINED HEREIN AND DO NOT INTEND TO UPDATE OR SUPPLEMENT THE DISCLOSURES.

NO INDEPENDENT VERIFICATION BY COURT OR SECURITIES AND EXCHANGE COMMISSION

THE COURT HAS NOT VERIFIED THE ACCURACY OF THE INFORMATION, AND THE COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT MEANS ONLY THAT, IF THE INFORMATION IS ACCURATE, IT IS SUFFICIENT TO PROVIDE AN ADEQUATE BASIS FOR CREDITORS TO MAKE INFORMED DECISIONS WHETHER TO ACCEPT OR REJECT THE PLAN. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED ON THE ACCURACY OR ADEQUACY OF THE STATEMENTS IN IT.

II. HISTORY OF DEBTORS OPERATIONS.

A. FORMATION AND EQUITY OWNERSHIP.

The Debtors in these chapter 11 proceedings consist of three separate entities, owned, directly or indirectly, by Duane Slade and Guy Williams.

Mathon Fund, L.L.C., the Debtor in Case No. 05-27993-PHX-GBN, was formed as a Delaware limited liability company on November 21, 2003. The sole member of Mathon Fund is Mathon Management Corporation, a corporation owned by the Principals. From November 2003 through approximately April 2005, Mathon Fund, L.L.C., received cash or other valuable consideration from Investors pursuant to the terms of a "private placement memorandum."

Mathon Fund I, L.L.C., the Debtor in Case No. 05-27994-PHX-GBN, was formed as an Arizona limited liability company on February 5, 2002. The sole member of Mathon Fund I is Mathon

1 Management Corporation. From approximately April 2002 through November 2003, Mathon Fund I,
2 L.L.C., issued various promissory notes to individual parties in exchange for cash or other valuable
3 consideration.

4 **W.S.F. – World Sports Fans, L.L.C.**, the Debtor in Case No. 05-27995-PHX-GBN, was
5 formed as an Arizona limited liability company on October 10, 2001. The sole members of WSF are
6 the Principals. Beginning in approximately April 2002, WSF received transfers from Mathon, Mathon I
7 and other related entities and acquired a number of assets and investments with such funds.

8 Debtors were three of many entities established from time to time by the Principals to engage
9 in a wide variety of real estate and other commercial lending, funded for the most part through
10 participations or other investments from third parties. Many of the related entities have been included
11 as "Conservatorship Defendants" in the Conservatorship Action discussed below, and are identified in
12 Exhibit B to the Plan.

13 **B. HISTORY OF DEBTORS' BUSINESS ACTIVITIES.**

14 **1. Investment Programs.**

15 Debtors and its related entities were presented to potential investors as investment vehicles
16 that raised capital (in exchange for debt and equity interests), which was then loaned and invested in
17 sub-prime or niche borrowers in the form of allegedly secured loans and equity investments. The
18 companies also raised money from investors and made bridge loans and equity investments.
19 Investors were told that these loans returned a higher than market rate of return to its creditors and
20 investors were safe and secured with few, if any, historical defaults.

21 Duane Slade and Guy Williams, the Principals of all of the Mathon-related companies,
22 primarily approached members of their church as the main source of investments. Related
23 companies also purported to provide consulting services to companies and individuals looking for
24 capital.

25 The companies attracted large numbers of investors by promising high returns on short term
26

1 cash investments. The Conservator contends that investors were convinced to invest in Mathon in
2 part because of such promised returns, in part because of "references" from other "satisfied" investors
3 who had actually received repayment with substantial profits. The Conservator contends that these
4 "satisfied" investors were being paid from money - at least in part - collected from new investors and
5 not payments on the loans to third parties.

6 Debtors and their related companies began these operations in July 2000, and operated
7 continuously until April 5, 2005, when most of them were placed under the control of a Receiver.
8 Throughout their operational life, all the Mathon Entities shared common control and operational
9 attributes.

10 **July 2000 through March 2003.**

11 Aspen Grove Ventures was the first "Mathon" offered investment. It was a venture fund
12 started in 2001 and it raised money and made equity investments into technology companies. To
13 provide operating capital for Aspen Grove's operations, Aspen Grove sold "points" in its management
14 company's "carry" (the fund manager's profit after the investors in Aspen Grove received their profit
15 component) which gave the point owner a share of the carry on Aspen Grove's investments. These
16 points were originally sold for \$25,000 each to investors by Duane Slade and Russell Sewell through
17 Round Valley Capital and Aspen Grove.

18 The Principals then began operation of Round Valley Capital, which provided consulting
19 services to companies. These services ranged from companies looking for strategic partners to grow
20 their revenues, to companies in need of bridge financing. Round Valley Capital raised investors'
21 money and made bridge loans for a total of approximately \$800,000. This included a loan to
22 Molecular Diagnostics for \$750,000 which was a successful loan in which Round Valley Capital
23 investors received their principal and interest in May 2003 when the borrower repaid the loan.

24 Mathon I loaned over \$12 Million through first Quarter 2003 including approximately \$6.5
25 Million to Mill Creek. The Conservator contends that, from the fall of 2002 through spring 2003, Mill
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1 Creek, an entity controlled by Duane Slade and Guy Williams, purchased the Aspen Grove points
2 from investors because there was no ready market for these Aspen Grove points. Mill Creek paid for
3 these points with funds loaned to it by Mathon I. Mathon I, in turn, raised the funds to make the loan
4 to Mill Creek through the sale of promissory notes to investors. The Conservator contends that, as a
5 result, the initial investors in Aspen Grove "points" received essentially phantom "profits," solely from
6 the funds of new investors in Mathon I. Mill Creek's books carried the Aspen Grove "points" at a cost
7 of \$8.6 Million in 2003 even though Aspen Grove had no prospects for additional distributions to the
8 points holder. The Conservator contends that Mathon I and its related entities manufactured returns
9 for initial investors in Aspen Grove points, but left the new investors in Mathon I, with nothing of value
10 for the loans made to Mill Creek.

11 **April 2003 through January 2004.**

12 Mathon Fund I ramped up its bridge lending through the end of 2003 and made loans totaling
13 approximately \$75 Million dollars to borrowers in a variety of industries including real estate, oil, coal,
14 construction, travel and leisure. In order to raise these funds, Duane Slade assembled a sales force
15 of Mathon Management salesmen to raise the funds. The Conservator contends that when the Mill
16 Creek and other Mathon Fund I loans began defaulting, Mathon I did not advise new or prospective
17 investors of the defaults and, instead, simply refinanced the loans with new Mathon Fund I investors'
18 money to show that the loan portfolio was performing. Loans to borrowers were rewritten through the
19 use of forbearance agreements and new promissory notes without necessarily obtaining additional
20 collateral to support the new loan.

21 In the fall of 2003, the Utah Department of Commerce, Division of Securities issued an Order
22 to Show Cause why Mathon was not in violation of the Utah Securities Act. In the fall of 2004,
23 Mathon and the Utah Department of Commerce, Division of Securities entered into a Stipulation
24 agreeing to a Cease & Desist Order to prevent Mathon from selling securities until its salesmen were
25 properly licensed in accordance with NASD guidelines. The Conservator contends that Mathon
26

1 continued to sell the promissory notes until March 2005 because it was dependent on new investors'
2 funds to pay the old investors.

3 In the fall of 2003, Mathon hired a new Chief Compliance Officer and Chief Financial Officer
4 to bring up the new Mathon Fund, which began doing business in December 2003. At the direction of
5 the Chief Compliance Officer, investors were able to convert their Mathon Fund I promissory notes in
6 exchange for an equity interest in Mathon Fund. This reduced the debt on Mathon Fund I's books
7 and the Investors effectively became equity holders in Mathon Fund. These investors were then
8 billed as Mathon Fund. Mathon Fund I remaining assets were transferred -- in their entirety - to
9 Mathon Fund.

10 The Conservator contends that, to retire the debt owed by Mill Creek to Mathon Fund I,
11 Duane Slade and Guy Williams sold approximately 14 points in Mathon Management Company for
12 \$800K to \$1 Million per point to another generation of investors. Mathon Management then used
13 \$8.6 Million of the proceeds of the sale of these points to retire the Mill Creek loan. Mathon
14 Management point holders received a percentage of the monthly 2.083% management fee being
15 charged to Mathon Fund, which was, in turn, funded from the continued sale of interests in the
16 "successful" Mathon Fund program.

17 **January 2004 through April 2005.**

18 The Conservator contends that Mathon Fund raised almost \$52 Million from new investors, of
19 which only approximately \$3.6 Million was loaned to new third-party borrowers. The Conservator
20 contends that Mathon Fund investors' monies were the main source of funds for both the operating
21 expenses of all of the related entities and also the payment of principal and "profits" to Mathon Fund I
22 investors who did not exchange their notes from Mathon I for interests in Mathon Fund. The monthly
23 operating fee charged to Mathon Fund by Mathon Management was based on the fund balance and
24 ranged from \$519,000 in May 2004 to \$1,337,000 in February 2005 against a fund of non-performing
25 loans. The Conservator contends that the monthly operating fee was paid from new investors in
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1 Mathon Fund - not cash flow from operations. Although the bridge loans were non-performing,
2 Mathon Management continued to receive its management fee and continued to pay point holders
3 their share of Management's fees.

4 The Conservator contends that the accounting records of Mathon Management and its
5 related entities did not accurately reflect the dire financial condition of the companies, in part because
6 of deceptive accounting practices which artificially inflated the value of Mathon Fund's assets and
7 equity. The Conservator contends that the practices included over-accruing interest on Mathon Fund
8 bridge loans, overstating its equity investment in related entities, failing to writedown significant
9 related party loans which were not collectible, and raiding a reserve for Mathon Fund which was
never funded and a credit insurance policy on Mathon Fund which was never put in place.

10 The Mathon Fund Entities raised a total of \$167.6 Million from investors from July 2000
11 through April 2005. The Conservator contends that, by the end of this period, substantially all of the
12 remaining loan portfolio was in default.

13 **The State Conservatorship Action.**

14 In April 2005, the Arizona Corporation Commission caused to be filed, in the Superior Court
15 in and for the State of Arizona (the "Conservatorship Court"), a Verified Complaint against the Mathon
16 Entities and certain individual defendants - including Duane Slade and Guy Williams - alleging, *inter*
17 *alia*, various violations of Arizona's Securities Laws, and seeking the appointment of a Receiver over
18 the named Defendants (the "Receivership Action"). On April 5, 2005, the Conservatorship Court
19 issued its Order appointing James C. Sell Receiver for the Mathon Entities named in the complaint.
20 Thereafter, the Receiver took possession of the assets of Debtors and the Other Conservatorship
21 entities. Subsequently, after notice and hearing, the State Court on April 14, 2005 issued its Order
22 approving the Stipulation Regarding Order Appointing Conservator, in which the title of James C. Sell
23 was changed from Receiver to Conservator. The rights and obligations of the Conservator remained
24 identical to those of the Receiver.

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C. REASONS FOR FILING CHAPTER 11.

During the course of the Conservatorship Action, a number of disputes arose among the Principals, the Conservator, the ACC, and a committee, initially appointed by the Conservatorship Court but supplemented by a number of additional participants. As a result of these disputes, and the inherent limitations on conservatorship actions, all of these parties concluded that chapter 11 bankruptcy proceedings were necessary to facilitate the liquidation of assets, to negotiate and complete settlements with the Principals and other parties, to facilitate the participation of all Investors, and to arrange a fair and equitable distribution among Investors. Accordingly, on October 25, 2005, the State Court authorized chapter 11 filings for three of the Conservatorship Defendants, Mathon Fund I, LLC, Mathon Fund, LLC and W.S.F. – World Sports Fans, LLC.

III. .POST PETITION DEVELOPMENTS.

A. DEVELOPMENTS IN THE CHAPTER 11 CASES.

1. Continuation of Conservator's Management.

Upon the commencement of these proceedings, the Conservator continued to manage the affairs of Debtors, and the Other Conservatorship Entities, and acted as the responsible party for the Debtors as Debtors in Possession. On January 9, 2006, Debtors and the Committee jointly filed a motion establishing procedures for the Bankruptcy Court to review and approve fees and expenses of the Conservator and his staff, as well as other professionals employed in the proceedings. This motion was granted by the Court on February 17, 2006. The Court also approved the joint administration of the three cases on January 12.

2. Employment of Professionals.

On November 15, 2005, Debtors obtained Bankruptcy Court approval for the employment of **Michael Carmel**, of Phoenix, Arizona, as bankruptcy counsel for Debtors. Debtors also obtained Bankruptcy Court approval for the employment of **Jaburg & Wilk**, as special counsel for the remaining Debtors.

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3. Creditors' Committee.

The United States Trustee's Office appointed an Official Creditors' Committee to represent the interests of unsecured creditors in all cases. The members of the Committee are all Investors. The Committee has retained **Stinson Morrison Hecker LLP** as its counsel.

4. Sales and Settlements.

Debtors have sought and obtained bankruptcy Court approval to sell a number of assets owned by Debtors. The properties and sale terms are described on Exhibit 3 attached to this Disclosure Statement.

5. Principals Stipulation.

Since prior to the commencement of the bankruptcy proceedings, the ACC, the Principals, the Conservator and various investors have conducted negotiations to resolve potential claims against the Principals by compromise to avoid protracted and expensive litigation. These negotiations continued during the bankruptcy proceeding and, on July 7, resulted in the execution of a comprehensive settlement agreement among the ACC, Debtors and the Principals.

The Principals Stipulation requires Debtors to file a plan of reorganization to implement the terms of the Stipulation. In accordance with this requirement, Debtors have filed the Plan.

IV. DESCRIPTION OF THE PLAN.

The following section of the Disclosure Statement contains a description of the more important terms of the Plan of Reorganization. The Plan itself is attached hereto as Exhibit 1. Creditors and other parties in interest are encouraged to read the Plan in its entirety. In case of a conflict between the description in this summary and the terms of the Plan, the terms of the Plan shall control.

A. GENERAL SUMMARY.

The Plan provides for the continuation of the sale of Debtors' assets under the direction of the Conservator, with the proceeds of such sales being transferred to a Liquidating Trust. The Plan also provides for the creation of a Participating Trust, to which the proceeds of the sale of the assets of WSF and Other Conservatorship Entities will be transferred, along with the proceeds of the Principals Stipulation settlement and settlements with other Settling Parties.

1 After the Effective Date, a Trust Management Board will participate in management of both
2 Trusts, and the consent of a majority of the Board or the approval of the Bankruptcy Court will be
3 required to institute litigation, settle claims, or dispose of properties.

4 The Plan provides for the classification of claims against Debtors into various classes, based
5 upon the priority of the claims within the Bankruptcy Code's priority structure and certain other
6 factors. As required by the Bankruptcy Code, the Plan provides for the payment in full of all non-tax
7 priority claims on the Effective Date. Tax Priority Claims and Secured Tax Claims will be paid in full
8 with interest over five years or less. In accordance with the Principals Stipulation, the ACC will
9 receive no distributions from Debtors or the other Conservatorship Entities on account of the ACC
10 Claim asserted in the Conservatorship Action. General creditors will be classified as Convenience
11 Claims (if the Allowed Claim is \$5,000 or less) or Ordinary Court Claims. Convenience Claims will be
12 paid in full on the Effective Date. Ordinary Course Claims will be paid either (i) ninety percent (90%)
13 of the Allowed Amount of the Claim on the Effective Date, or (ii) 100% of the Allowed Amount, in
14 installments over five years with interest at a rate determined by the Bankruptcy Court.

15 Investors who elect to do so will be eligible to participate in distributions from both the
16 Liquidating Trust and the Participating Trust. Distributions to Participating Investors will be prorated
17 based upon their respective Net Investment Amount. Net Investment Amount shall be determined for
18 each Participating Investor as the greater of (i) \$1,000 or (ii) the aggregate of all cash invested with
19 Mathon Investment Entities less the aggregate of all distributions or payments made on account of
20 such investments, whether the payments were denominated, interest, dividends, "points," or principal
21 repayment. Participating Investors will release claims against other Participating Investors, the
22 Principals and Other Settling Parties and will transfer their claims against Potentially Liable Parties to
23 the Participating Trust. Participating Investors will be released from claims of the Debtors, including
24 Avoidance Claims, and claims of other Participating Investors, the Principals and Other Settling
25 Parties.

26 Investors who do not elect to participate will be subject to avoidance litigation and other
disputes with respect to their claims. To the extent, if any, their claims are allowed, such holders will
receive payments only from the Liquidating Trust. Non-Participating Investors will not give or receive
the releases described above.

1 Consummation of the Plan is conditioned upon (i) approval by the Bankruptcy Court and the
2 Conservatorship Court of the Principals Stipulation, (ii) the entry of a Confirmation Order, and (iii) the
3 election by at least 90% of the Investors (by Net Investment Amount) to be Participating Investors
(unless this condition is modified or waived by agreement of the Principals, Debtors and the ACC).

4 The Plan contains provisions governing the filing of claims, objections to such claims, and the
5 allowance and disallowance of claims. The Plan provides that no distributions will be made on
6 account of claims until such claims are Allowed or Estimated in accordance with the terms of the Plan
and the Bankruptcy Code.

7 **A. TREATMENT OF CLAIMS AND INTERESTS.**

8 The Plan classifies, and specifies the treatment of, all claims against, and interests in,
9 Debtors, whether such claims are liquidated or unliquidated, fixed or contingent, disputed or
10 acknowledged, and whether such claims or interests are the subject of proofs of claim or interest.
The following sections describe the classes and specify their respective treatments.

11 **1. Priority Claims.**

12 Section 507 of the Bankruptcy Code identifies certain types of Claims entitled to payment
13 with priority over all other claims. Certain of the priority claims must be paid in full on the Effective
14 Date of the Plan, pursuant to Section 1129(a)(9)(A) and (B) of the Bankruptcy Code for a plan to be
15 confirmed. The Plan defines three classes of such claims as Priority Claims and provides for
payment in full of such claims as follows:

16 *a. Class 1.A. Administrative Claims*

17 The Plan classifies all administrative claims and expenses allowable under § 503(b) and
18 entitled to priority under § 507(a)(1) as Class 1.A. Administrative claims, as defined in § 503 of the
19 Code and in the Plan, consist of the actual, necessary costs and expenses of preserving the Estate,
20 including taxes incurred, salaries or commissions for services rendered after the commencement of
21 the case, fees of professionals employed by Debtor, and fees and charges assessed against the
22 Estate under Chapter 123 of Title 28 of the United States Code. Notwithstanding the foregoing, in
accordance with the requirements of the Bankruptcy Code, professional fees classified within Class
1.A. shall be paid only pursuant to Court authorization.

1 Under § 1129(a)(9)(A), administrative claims must be paid in full on the Effective Date for a
2 plan to be confirmed. The Plan complies with this requirement by providing that Class 1.A. Claims
3 will be paid in full on the Effective Date of the Plan, or upon allowance, whichever later occurs, except
4 to the extent a holder of an Administrative Claim otherwise agrees to other, less favorable treatment.
5 Amounts due to holders of Class 1.A. Claims will be funded from Debtors' available funds from the
6 liquidation of assets.

7 Debtors anticipate that the following administrative expenses will accrue during these
8 proceedings and will be payable on the Effective Date of the Plan.

9 Professional Fees. The Bankruptcy Code requires that fees and expenses of attorneys, the
10 Conservator, and other professionals be subject to Court approval under § 330 of the Bankruptcy
11 Code. Accordingly, the Plan provides that the fees of such professionals shall not be paid until Final
12 Orders of the Bankruptcy Court have been entered approving and authorizing payment of such fees.
13 Debtors anticipate that these fees will aggregate approximately \$600,000 through these proceedings,
14 including the fees of Debtors' counsel and special counsel, counsel for the Committee, and the
15 Conservator and his staff. Debtors anticipate that substantially all of the fees that accrue prior to the
16 Effective Date will have been paid prior to the Effective Date pursuant to existing orders authorizing
17 interim compensation.

18 Operating Expenses. Class 1.A. Claims also include general operating expenses of the
19 Debtors, including salaries, utilities, and general overhead. Debtors anticipate that these expenses
20 will continue to accrue at their current rate, and that, as of the Effective Date, these expenses will be
21 paid currently.

22 Cure Payments. Class 1.A. Claims also include any payments Debtors are required to make
23 to assume executory contracts and leases. Debtors do not anticipate that any executory contracts
24 will be assumed or require cure payments.

25 Because the Plan provides for payment in full of Class 1.A Claims as of the Effective Date,
26 the Class 1.A Claims are not impaired.

b. Class 1.B. Wage Claims

The Plan classifies claims for wages entitled to priority under § 507(a)(3) as Class 1.B.
Claims. Such claims include claims for wages, salaries, and commissions, including severance, sick

1 pay and vacation leave, to the extent the claims were incurred within the 90-day period immediately
2 prior to the bankruptcy filing. The amount of each such claim entitled to priority is limited to \$4,650
3 per claimant. Claims for wages outside the 90-day period or in excess of the dollar amount limitation
are classified as non-priority claims.

4 Under Section 1129(a)(9)(B) of the Bankruptcy Code, claims for wages entitled to priority
5 must be paid in full in order to confirm a plan. The Plan complies with this requirement by providing
6 that such claims will be paid in full in cash on the Effective Date. Debtors believe that there are no
Wage Claims outstanding against any of the Debtors.

7 Because the Plan provides for payment in full of Class 1.B Claims as of the Effective Date,
8 the Class 1.B Claims are not impaired.

9 *c. Class 1C. Tax Claims*

10 The Plan classifies claims for taxes entitled to priority under § 507(a)(8) as Class 1.C. Claims.
11 Under Section 1129(a)(9)(C), claims for taxes entitled to priority must be paid in full within five years
12 from Petition Date in order to confirm a plan. The Plan complies with this requirement by providing
that such claims will be paid in full in installments over five years after the Petition Date, with interest.

13 Debtors are “flow-through” entities for federal and state income tax purposes, and,
14 accordingly, do not have any liabilities for tax measured by their income. Debtors’ operations do,
15 however, may have created liability for sales tax, rent tax and property taxes. Debtors are not aware
of any current Tax Claims.

16 Because the Plan provides for payment in full of Class 1.C. Claims and complies with the
17 requirements of § 1129(a)(9)(C), holders of Class 1.C Claims are not considered a voting class
pursuant to § 1123(a)(1).

18 **2. Secured Claims.**

19 Secured claims, as defined in §§ 506 and 1111 of the Bankruptcy Code, consist of claims
20 secured by liens or other security interests in property of the Estates. Under § 506(a) of the
21 Bankruptcy Code, a secured claim is ordinarily limited to the lesser of (i) the amount of the claim
22 secured, together with interest and costs, or (ii) the value of the collateral, as determined by the
23 Court. If the value of the collateral is less than the amount of the claim, the balance of the claim is
treated as an unsecured claim.

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The Plan identifies and separately classifies classes of Secured Claims, as follows:

a. Class 2.A. Lessor Secured Claims.

The Plan classifies claims arising from "equipment lease agreements" that are re-characterized as secured transactions as Class 2.A. Claims. Debtors may have acquired interests in certain equipment through "equipment leases," some of which provide for an option to acquire the equipment at the end of the lease term for a nominal amount. Under applicable law, such agreements are often re-characterized as a purchase of the equipment on terms.

Debtors do not believe there are any Class 2.A. Claims against any of them. Nevertheless, the Plan provides that, if any such Claims exist and are Allowed, the holders of such claims will receive payment in the amount of the Allowed Secured Claim, with interest at a rate determined in accordance with the Plan, in monthly installments over the balance of the lease term.

The Class 2.A Claims are impaired.

b. Class 2.B. Deposit Secured Claims.

The Plan classifies claims secured by deposits furnished to the holder thereof as Class 2.B Claims. The Plan provides that the holders of such claims will be entitled, on the Effective Date, to apply the deposits in full payment of the secured portion of their claims. In the event that the total claim exceeds the amount of the deposit, the balance of the claim shall be treated as a General Claim in Class 3.C. Debtors believe that there are no Class 2.B. Claims.

The Class 2.B Claims are impaired.

c. Class 2.C. Secured Tax Claims.

The Plan classifies claims of governmental authorities for taxes that are secured by liens imposed as a matter of law as Class 2.C Claims. The Plan provides that these claims will be treated in the same manner as Tax Claims, except that the holder will retain a lien on any collateral to secure payment of the amounts provided for in the Plan. Debtors believe that there are no Secured Tax Claims.

The Class 2.C Claims are impaired.

3. Unsecured Claims.

The remaining claims against Debtors consist of unsecured claims not entitled to priority under the Bankruptcy Code. The Plan identifies five separate classes of such claims, consisting of

1 Investor Claims (Class 3.A) (Claims of Investors in Mathon Investment Entities, based on promissory
2 notes, contracts, securities law, fraud or other theory); Affiliate Claims (Class 3.B) (Claims of the
3 Other Conservatorship Entities or other Affiliates of the Principals); the ACC Claim (Class 3.C) (the
4 Claim asserted by the ACC against Debtors in the Conservatorship Action); Convenience Class
5 Claims (Class 3.D)(Claims of \$5,000 or less not otherwise classified); and Ordinary Course Claims
(Claims of \$5,000 or more not otherwise classified).

6 *a. Class 3.A. Investor Claims.*

7 The Plan classifies the Claims of Investors who invested in Mathon Investment Entities as
8 Class 3.A Claims. These Claims may arise as direct claims against Debtors when individual notes
9 executed by Debtors were provided Investors, or they may arise based upon non-contract claims
10 asserted by such Investors, including fraud, securities fraud, and other tort theories for recovery. For
11 reasons discussed in Exhibit 2 to this Disclosure Statement, Debtors believe that such Claims will
likely be limited to the Investors' Net Investment Amount, and will not include earned or unearned
interest, principals, fees or costs.

12 The Plan provides that each holder of an Investor Claim will be entitled to elect between
13 treatment as a Participating Investor or treatment as a Non-Participating Investor. Each holder of an
14 Investor Claim will be requested to indicate its treatment election on the ballot for acceptance or
15 rejection of the Plan, on a form approved by the Bankruptcy Court. The deadline for making the
16 election will be the same deadline as that set by the Bankruptcy Court for voting on the Plan. Once
17 an election is made, it may be changed only with the consent of Debtors or the trustee of the
Participating Trust, or by Final Order of the Bankruptcy Court.

18 Each Participating Investor will be entitled to an Allowed Class 3.A. Claim in the Net
19 Investment Amount for such investor. "Net Investment Amount," for each Investor means the
20 aggregate amount of all funds deposited by such Investor with, or for the benefit of a Mathon
21 Investment Entity, for investment), less the amount of all funds received by such Investor on account
22 of such investments, whether such funds were denominated return of principal, profit participation,
23 interest, "points" or other designation. The Conservator shall, prior to voting on the Plan, prepare a
listing of his calculation of each investors' Net Investment Amount.

1 Each Participating Investor will be eligible to share in distributions from the Liquidating Trust
2 and the Participating Trust, *pro rata* based on Net Investment Amount. Each Participating Investor
3 other than Ineligible Investors will also receive a release of Avoidance Claims.

4 By making this election, each Participating Investor will also elect to exchange a series of
5 releases, effective as of the Effective Date of the Plan. Each Participating Investor will be released
6 from any claims that the Principals and their spouses, other Participating Investors, other Settling
7 Parties, or Debtors might assert against such Investor, provided that an Ineligible Investor will not be
8 released from Avoidance Claims. Each Participating Investor will release any claims it might have
9 against other Participating Investors, the Principals and their spouses, and other Settling Parties.
10 Each Participating Investor will also assign to the Participating Trust any claims it may have against
11 other Potentially Liable Parties.

12 Investors who assert a Claim against Debtors and elect to be Non-Participating Investors will
13 have their claims challenged by Debtors. To the extent the holder of an Investor has an Allowed
14 Claim, such holder will be entitled to participate *pro rata* with all Investors in distributions from the
15 Liquidating Trust. Non-Participating Investors will be subject to Debtors' Avoidance Claims and will
16 not be eligible to participate in distributions made from the Participating Trust.

17 Class 3.A Claims are impaired.

18 *b. Class 3.B. Affiliate Claims.*

19 The Plan classifies all Claims held by Affiliates or Insiders of the Debtors or of the Principals
20 as Class 3.B Claims. Debtors believe that there are numerous claims among Debtors and related
21 entities *inter se*, arising from the use of loan proceeds, and from the use of properties without
22 compensation.

23 The Plan provides that the holders of Class 3.B Claims will release all such Claims against
24 other Debtors and Other Conservatorship Entities and be released from such claims.

25 Class 3.B Claims are impaired.

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c. Class 3.C. ACC Claim.

The Plan classifies the ACC Claim resolved in the Principals Stipulation in Class 3.C. Under the terms of the Principals Stipulation, the ACC will not receive any distributions from Debtors or the Other Conservatorship Entities on account of this Claim.

Class 3.C Claims are impaired.

d. Class 3.D. Convenience Claims.

The Plan classifies all Claims not otherwise classified in the Plan as Class 3.D Claims to the extent such Claim is Allowed in an amount of \$5,000 or less. Debtors estimate that Class 3.D Claims aggregate less than \$50,000.

The Plan provides that each holder of a Class 3.D. Claim shall receive payment in full on the Effective Date. Convenience Claims will be funded from Debtors' available funds on the Effective Date prior to distributions to the Liquidating Trust.

Class 3.D Claims are not impaired.

e. Class 3.E. Ordinary Course Claims.

The Plan classifies all Claims not otherwise classified in the Plan as Class 3.E Claims to the extent such Claim is Allowed in an amount of more than \$5,000. Debtors estimate that Class 3.E Claims aggregate less than \$100,000.

The Plan provides that each holder of a Class 3.E. Claim may elect to receive either (i) ninety percent (90%) of the Allowed Amount of such Claim in cash on the Effective Date, or (ii) 100% of such Claim in equal quarterly installments, over five years from the Effective Date, with interest at a rate to be determined by the Bankruptcy Court. Payments on account of a Class 3.E. Claim will be paid from the Liquidating Trust of the Debtor subject to such Claim.

Class 3.E Claims are impaired.

4. Equity Interests.

a. Class 4.A. Interests in Debtor.

The Plan classifies all equity interests in Debtors as Class 4.A. The Plan provides that the holders of Class 4A Interests will receive nothing on account of their interests in Mathon and Mathon I. Pursuant to the Principals Stipulation, the equity interest in WSF will be transferred, on the

1 Effective Date, to the Participating Trust, after payment or allowance for Allowed Claims against
2 WSF.

3 **B. PROCEDURE FOR INVESTOR ELECTION.**

4 An Investor, or other Person who requests a form therefor, may complete and file an Investor
5 Election Form. Each Person who timely files such form, may thereby elect to be a Participating
6 Investor or a Non-Participating Investor, whether or not such Person has filed a proof of claim, or
7 accepts, rejects, or does not vote on the Plan. Once a Person submits its election, the election will be
8 irrevocable, unless the Bankruptcy Court orders otherwise. Debtors (prior to the Effective Date) or
9 the Trustee of the Participating Trust (on and after the Effective Date) may, but shall not be required
10 to, accept a late election. If an Investor has submitted no election, the holder shall be conclusively
11 deemed, for all purposes, to have made the same election as the majority (by dollar amount) of
12 electing holders of Allowed Investor Claims.

13 **C. FUNDING OF AND DISTRIBUTIONS FROM LIQUIDATING TRUST.**

14 The Liquidating Trust shall be formed on or before the Effective Date. The Liquidating Trust
15 shall be funded from the proceeds of the liquidation of the Debtors' assets after payment of (or
16 allowance for) all Priority Claims, Secured Claims and non-priority Claims other than Investor Claims.
17 Proceeds from the liquidation of each Debtor shall be separately maintained and shall be used to pay
18 only Claims against such Debtor. If all Claims against a Debtor are paid in full under the Plan, the
19 balance of any proceeds from the liquidation of that Debtor shall be transferred to the Participating
20 Trust.

21 Distributions to Investors will be distributed pro rata based upon the Net Investment Amount
22 of each Investor. Provided, that distributions attributable to Participating Investors shall be
23 transferred to the Participating Trust for distribution from that Trust.

24 **D. FUNDING OF AND DISTRIBUTIONS FROM PARTICIPATING TRUST.**

25 The Participating Trust shall be formed on or before the Effective Date. The Participating
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1 Trust shall be funded from the proceeds of (i) the Principals Stipulation, including the proceeds of
2 liquidation of the Other Conservatorship Entities; (ii) settlements with other Settling Parties; (iii)
3 recoveries from other Potentially Liable Parties; and (v) the proceeds of any Avoidance Actions; and
4 (v) any funds from the liquidation of Debtors assets remaining after payment of other creditors by the
Liquidating Trust.

5 Distributions to Participating Investors will be *pro rata* based upon the Net Investment
6 Amount of each Participating Investor.

7 **E. MANAGEMENT OF TRUSTS.**

8 The Conservator shall act as the Trustee of both Trusts. In managing the affairs of the Trust,
9 the Trustee shall periodically consult with the Trust Management Board, which shall initially consist of
10 three persons selected by the Committee, who may be removed or replaced by vote of the
11 Participating Investors.

12 The following actions may be taken only with the consent of a majority of the Board or by
13 order of the Bankruptcy Court.

- 14 • The sale, transfer, exchange or abandonment of any asset owned, directly or
indirectly, by a trust.
- 15 • The institution, dismissal, or settlement of a claim against a Potentially Liable Party
- 16 • The liquidation, dissolution or abandonment of an Other Conservatorship Entity.
- 17 • A modification of the Plan or a trust agreement.
- 18 • The terms of employment of counsel to pursue litigation on behalf of a trust.
- 19 • The establishment of reserves and the amount and timing of distributions from a
20 trust.

21 **F. RETENTION OF BANKRUPTCY COURT JURISDICTION**

22 The Plan provides for the retention of jurisdiction in the Bankruptcy Court to interpret and
23 enforce the Plan, to resolve disputed claims and to enforce the obligations under the Plan.

1 THE FOREGOING IS ONLY A SUMMARY OF THE PLAN. CREDITORS ARE
2 URGED TO READ THE PLAN IN FULL AND TO CONSULT WITH THEIR
3 COUNSEL AND/OR FINANCIAL ADVISERS REGARDING THE PLAN'S TERMS
AND LEGAL EFFECT. CREDITORS ARE ADVISED THAT, SHOULD THE PLAN
BE CONFIRMED, THE PLAN AND THE ORDER CONFIRMING PLAN SHALL BE
BINDING ON CREDITORS, DEBTORS, AND THE REORGANIZED DEBTOR.

4 **V. FINANCIAL INFORMATION AND PROJECTIONS.**

5 **A. DEBTORS' CURRENT FINANCIAL CONDITION.**

6 The Conservator has prepared a summary of the results of liquidation of the Debtors to date,
7 and Debtors' estimate of future recoveries from liquidation. Such projection is included as Exhibit 3.

8 **VI. CURRENT AND PROPOSED MANAGEMENT.**

9 Debtors are currently being managed by James Sell, as Conservator. Mr. Sells' resume is
10 attached as Exhibit 4.

11 **VII. LEGAL REQUIREMENTS FOR CONFIRMATION.**

12 This Section VII of the Disclosure Statement discusses the legal requirements for
13 Confirmation of the Plan as established by § 1129 and other provisions of the Bankruptcy Code.

14 **A. ACCEPTANCE OF PLAN BY CREDITORS.**

15 A Class of Claims impaired under the Plan "accepts" the Plan only if (a) more than one-half of
16 the holders who submit ballots for Claims in that Class vote to accept, and (b) the holders of Claims
17 accepting the Plan hold at least two-thirds, by dollar amount, of the voted Claims within that Class. A
18 Class of Interests impaired under the Plan "accepts" the Plan only if two-thirds of the voted Interests
19 in such Class have voted to accept the Plan. If the requisite acceptances of each Class of Claims or
Interests are obtained and the Plan is confirmed, the Plan will be binding with respect to all holders of
Claims and Interests of each Class, including members who did not vote or who voted to reject the
Plan.

20 **B. BEST INTERESTS OF CREDITORS.**

21 Section 1129(a)(7) provides that, as a condition to confirmation, a Plan must provide that any
22 creditor not voting to accept the Plan must receive, under the Plan, distributions of a value at least
23 equal to that which such creditor would receive if Debtor were liquidated under Chapter 7 of the
Bankruptcy Code. This provision is generally referred to as the "best interests test."

1 Debtors believe that the best interests test is satisfied by the Plan. Under the Plan, holders of
2 Priority, Secured, Convenience Class and Ordinary Course Claims are paid in full. Non-Participating
3 Investors will receive distributions of cash based upon the liquidation of each Debtor's assets.
4 Participating Investors will be eligible to receive distributions from Liquidating Trust and the
5 Participating Trust. Debtors believe that the Debtors' assets will have substantially more value if
6 liquidated in an orderly fashion rather than the rapid liquidation contemplated under Chapter 7.

7 For the purpose of applying the "best interest" test, Debtors have prepared an estimate of the
8 results of a liquidation, which is included in Exhibit 3 to this Disclosure Statement

9 **C. CONFIRMATION POSSIBLE WITHOUT ACCEPTANCE BY ALL CLASSES.**

10 Debtors intend to request the Bankruptcy Court to confirm the Plan even if a Class of Claims
11 or Interests does not accept the Plan. To do so, the Bankruptcy Court must find that the Plan is fair
12 and equitable with respect to each Class of Claims or Interests that is impaired and has not accepted
13 the Plan. Debtors believe that the Plan will satisfy the fair and equitable requirements of the
14 Bankruptcy Code to the extent such requirements are applicable based upon the vote of Creditors on
15 the Plan.

16 **1. Fair and Equitable Treatment of Secured Claims.**

17 With respect to a Class of Secured Claims that does not accept the Plan, the Bankruptcy
18 Code's "fair and equitable" standard includes a requirement that the holders of the Claims either
19 (i) retain their liens on the collateral and receive cash payments, on the Effective Date or in
20 installments, of a value equal to the amount of the Secured Claim, or (ii) receive the realization of the
21 indubitable equivalent of the Secured Claim. Debtors believe that this standard is satisfied by the
22 Plan, which provides that each holder of a Secured Claim will receive payment of the full amount of
23 its Secured Claim, with interest at a rate to be determined by the Bankruptcy Court, and will retain the
24 holders' lien on the collateral to secure payment of the amounts specified by the Plan.

25 **2. Fair and Equitable Treatment of Unsecured Claims.**

26 With respect to an unsecured, non-accepting Class of Claims, the Bankruptcy Code's "fair
and equitable" standard includes a requirement that either (i) the holders of the Claims receive cash
payments, on the Effective Date or in installments, of a value equal to the amount of the Claim, or (ii)
no Class of junior Claims or Interests receives anything on account of such junior Claim or Interest.

1 Debtors believe that this standard is satisfied by the Plan, as Unsecured Claims (other than Investor
2 Claims) will be paid in full with interest and equity interests will receive nothing on account of their
interests.

3 **3. Acceptance by at Least One Impaired Class of Claims.**

4 Section 1129(a)(10) of the Bankruptcy Code requires that the Plan must be affirmatively
5 accepted by at least one impaired Class of Claims, excluding any acceptances of any Insider.
6 Debtors believe that each Class of Secured Claims and each Class of unsecured Claims is impaired
7 under the Plan and includes Claims by non-insiders, and that, accordingly, the acceptance of the Plan
by any of such Classes will satisfy this requirement of the Bankruptcy Code.

8 **VIII. TAX CONSEQUENCES OF PLAN.**

9 The filing of these Chapter 11 proceedings and/or the consummation of the Plan may have
10 significant federal and state insured tax consequences on Debtors, its equity holders, and creditors.
11 Some of the potential conveyances are summarized below.

12 Since formation, most of the Debtors have been “flow through” entities for income tax
13 purposes. Accordingly, Debtors’ income, expenses and tax attributes have, in general been “passed
14 through” to equity holders, and Debtors have not been obligated directly as a federal income tax
taxpayer. On the Effective Date of the Plan, Debtors will continue to be flow through entities.

15 Debtors anticipate that the consummation of the Plan of Reorganization may result in some
16 recognition of “discharge of indebtedness income,” ordinarily taxable under § 61(a)(12)) of the Tax
17 Code. The Trustee believes that such income will likely be excluded from Debtors’ gross income
18 pursuant to §1361(a)(1). However, any cancellation of indebtedness income may require a reduction
19 in Debtors’ basis in its assets and other tax attributes in accordance with §108(b).

20 In general, creditors receiving cash under the Plan may recognize an ordinary or capital loss
21 based upon the difference between the amount of their claim and the value of the assets received by
them under the Plan.

22 **IN NO EVENT WILL DEBTORS OR ANY AFFILIATE OF PROFESSIONAL**
23 **ADVISORS ENGAGED BY ANY OF THEM BE LIABLE IF, FOR ANY REASON,**

1 THE FEDERAL TAX CONSEQUENCES OF THE PLAN ARE OTHER THAN AS
2 ANTICIPATED. CREDITORS MUST LOOK SOLELY TO AND RELY SOLELY
3 UPON THEIR OWN ADVISORS AS TO THE FEDERAL TAX CONSEQUENCES OF
4 THIS PLAN.

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7 **IX. RECOMMENDATION OF DEBTORS AND COMMITTEE.**

8 Debtors and the Committee recommend that the Plan of Reorganization be approved
9 because the Plan represents an efficient method of liquidating the assets of Debtors and recovering
10 from the Principals and other parties without excessive and expensive litigation and disputes among
11 investors.

12 The Plan Proponents believe that the Plan is superior to a liquidation of the Debtors under
13 Chapter 7. First, Plan Proponents believe that the establishment of liquidating trusts with creditor
14 participation in the management of those trusts will result in a more orderly, and more successful
15 liquidation of the assets. Secondly, Plan Proponents believe that the terms of the Principals
16 Stipulation will maximize recovery by creditors from these sources. Finally, Plan Proponents believe
17 that the proposed consensual treatment of the many potential claims and counterclaims among
18 Debtors, Other Conservatorship Entities, Participating Investors and other Potentially Liable Parties
19 affords all parties an opportunity for an expedited and efficient resolution of these claims that will
20 maximize recoveries and minimize litigation expenses and delays.

21 Plan Proponents have considered whether the Plan should include provisions for the
22 substantive consolidation of some or all of the Other Conservatorship Entities, so that the assets of
23 these entities would be administered as if all such entities were only one legal entity. Plan
24 Proponents believe that these entities have been managed and administered jointly and that the legal
25 separation of these entities has been ignored in many instances. However, at least some of these
26 entities have separately acquired assets and have incurred debts to creditors that are not creditors of
the Debtors' estates. Accordingly, Plan Proponents have concluded that substantive consolidation of
all of the entities is not necessary at this time and could simply create additional, unnecessary
litigation and expense. The Plan does, however, provide that Debtors may seek substantive
consolidation of some or all of the Conservatorship Entities at a later time. If substantive
consolidation is approved by the Bankruptcy Court, the assets and liabilities of the consolidated
entities will be treated under the provisions of the Plan.

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DEBTORS' DISCLOSURE STATEMENT

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DATED this 7th day of July 2006.

DEBTORS and CONSERVATOR

LAW OFFICE OF MICHAEL W. CARMEL

By/s/Michael W. Carmel
80 E. Columbus Avenue
Phoenix, Arizona 85012-2334
Attorneys for Debtor

JABURG & WILK, P.C.

By/s/ Larry E. Wilk
3200 N. Central Ave., 20th Floor
Phoenix, AZ 85012-2415
Special Counsel

By /s/ James Sell
James Sell, Conservator

COMMITTEE

STINSON MORRISON HECKER LLP

By/s/ Alan A. Meda
1850 N. Central Ave. Ste 2100
Phoenix, AZ 85012
Attorneys for Committee