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7 Attorneys for Secured Creditor Socotra Capital, Inc.

8 UNITED STATES BANKRUPTCY COURT

9 NORTHERN DISTRICT OF CALIFORNIA, SANTA ROSA DIVISION

10 In re

11 LEFEVER MATTSON, a California
12 corporation, et al.,¹

13 Debtors.

Case No. 24-10545 (CN)

(Jointly Administered)

Chapter 11

14 In re

15 KS MATTSON PARTNERS, LP,

17 Debtor.

Case No. 24-10715

**SOCOTRA CAPITAL, INC.'S OPPOSITION
TO MOTION OF COMMITTEE OF
UNSECURED CREDITORS FOR
SUBSTANTIVE CONSOLIDATION OF
DEBTOR LEFEVER MATTSON AND KS
MATTSON PARTNERS, LP AND FOR
RELATED RELIEF**

Preliminary, Non-Evidentiary Hearing

Date: July 25, 2025

Time: 11:00 a.m. PST

Place: United States Bankruptcy Court
1300 Clay Street, Courtroom 215
Oakland, CA 94612

[Related to LFM ECF No. 1585 &
KSMP ECF No. 157]

1 The last four digits of LeFever Mattson's tax identification number are 7537. Due to the large number of debtor entities in these Chapter 11 Cases, a complete list of the Debtors and the last four digits of their federal tax identification numbers is not provided herein. A complete list of such information may be obtained on the website of the Debtors' proposed claims and noticing agent at <https://veritaglobal.net/LM>. The address for service on the Debtors is 6359 Auburn Blvd., Suite B, Citrus Heights, CA 95621.



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1 Secured creditor Socotra Capital, Inc., on behalf of itself and any of its affiliates as lender
2 and/or servicer (collectively, “Socotra” or “Lender”), respectfully submits this opposition (the
3 “Opposition”) to the *Motion of Committee of Unsecured Creditors for Substantive Consolidation*
4 *of Debtor LeFever Mattson and KS Mattson Partners, LP and for Related Relief* [LFM ECF No.
5 1585 and KSMP ECF No. 157] (the “Motion”)¹ filed by the Official Committee of Unsecured
6 Creditors (the “Committee”) appointed in the above-captioned chapter 11 cases (the “LFM
7 Chapter 11 Cases”) of debtor and debtor in possession LeFever Mattson, a California corporation
8 (“LFM”), and its affiliated debtors and debtors in possession (the “LFM Debtor Entities,” and
9 together with LFM, the “LFM Debtors”), which Motion the Committee also filed in the above-
10 captioned chapter 11 case of K.S. Mattson Partners, LP. In support of this Opposition, Socotra
11 represents the following:²

12 **I.**

13 **PRELIMINARY STATEMENT**

14 The Committee contends that the estates of LFM and K.S. Mattson Partners, LP (“KSMP”
15 and together with LFM Debtors, “Debtors”) should be substantively consolidated. However, as
16 recognized by the Court at prior hearings and admitted by the Committee in its amended notice of
17 hearing filed July 2, 2025 (the “Amended Hearing Notice”) [ECF. No. 1684], substantive
18 consolidation of LFM and KSMP—and the Motion currently before the Court—is premature,
19 relies on facts not yet established and risks significantly prejudicing the rights of certain creditors,
20 including Socotra. The Amended Notice states that the July 18, 2025 hearing on the Motion will
21 be a preliminary, non-evidentiary hearing. Moreover, this Court has indicated that it cannot
22 consider the Motion before KSMP has filed its schedules and creditors have had the opportunity to
23 review them. Finally, on July 14, 2025, the LFM Debtors and the Committee filed their Term
24 Sheet for Global Settlement and Plan of Liquidation [ECF. No. 1724] (the “Plan Term Sheet”), in
25

26 ¹ Capitalized terms not otherwise defined in this Opposition shall have the same meanings
ascribed to them in the Motion.

27 ² Socotra also joins in the *Response and Opposition of Umpqua Bank to Motion for Substantive*
28 *Consolidation of Debtors LeFever Mattson and KS Mattson Partners, LP*, filed on July 1, 2025, as
ECF No. 182.

1 which they state that as part of plan confirmation, they will seek substantive consolidation of all
2 Debtors, including KSMP. The Court should defer ruling on the pending Motion, and instead
3 consider substantive consolidation of all Debtors in connection with the forthcoming plan.

4 As the Court and Committee, as movant, have indicated that the July 25, 2025 hearing will
5 be a preliminary, non-evidentiary hearing, Socotra reserves all of its rights to object to, challenge,
6 and argue against the Committee Evidence (defined below). On July 11, 2025, or 20 days after
7 filing the Motion, 9 days after filing the Amended Hearing Notice, and 14 days before the hearing
8 on the Motion, the Committee filed additional evidence in support of the Motion in the form of
9 declarations from the Committee's counsel, financial advisor, and forensic expert with various
10 documentary evidence (collectively, the "Committee Evidence"). The Committee submitted over
11 1600 pages of redacted evidence and an unknown amount of evidence filed under seal. Socotra is
12 entitled to conduct its own discovery, including deposing the Committee's declarants. Socotra is
13 also in the process of retaining its own expert on, among other things, substantive consolidation,
14 and reserves all rights, including to rebut statements by the Committee's forensic expert.

15 The creditors of KSMP and the LFM Debtors cannot determine whether the legal
16 requirements for consolidation have been satisfied—including whether, prepetition, the creditors
17 viewed KSMP and LFM as a single economic unit, or whether Debtors' affairs are so hopelessly
18 entangled that consolidation would benefit all creditors. Notably, many KSMP creditors have not
19 yet been identified or afforded an adequate opportunity to assert their claims, and re-opening the
20 claims process for creditors of the LFM Debtors—contrary to established deadlines—threatens
21 substantial prejudice to creditors of the LFM Debtors that timely filed claims.

22 Moreover, while the Committee relies heavily upon an alleged Ponzi scheme perpetrated
23 by Kenneth Mattson to illustrate the entanglement between the LFM Debtors and KSMP, it has
24 presented no evidence that there was in fact a Ponzi scheme. An unproven indictment against
25 Kenneth Mattson is nothing more than allegations and any facts underpinning the allegations have
26 yet to be proven or admitted. The Committee's heavy reliance on these accusations as a substitute
27 for actual evidence required to meet the standards for substantive consolidation is both misplaced
28

1 and inappropriate. Such allegations, standing alone, do not satisfy the burden of establishing the
2 key elements necessary to justify the extraordinary remedy of substantive consolidation.

3 Furthermore, the Committee's Motion appears designed to marshal KSMP's assets to
4 benefit LFM's creditors under the guise of equitable treatment, but will in fact only erode KSMP
5 creditors' recoveries. In any case, if the Court were to grant the Motion, it should expressly find
6 and rule that substantive consolidation has no impact on whether, and may not be argued that, a
7 Ponzi scheme existed, and if so, the extent thereof.

8 Finally, the Committee seeks to selectively apply the consequences of consolidation. In
9 particular, under its proposed order, the Committee seeks to preserve potential avoidance claims
10 (such as "wrong payor" fraudulent transfer claims), while otherwise erasing KSMP's and LFM's
11 separateness. Case law, however, makes clear that substantive consolidation should not be applied
12 in a piecemeal fashion; either the estates should be consolidated in full, extinguishing wrong payor
13 claims, or not at all.

14 Based on the foregoing and as set forth below, Socotra requests that the Court deny the
15 Motion without prejudice, or alternatively, continue the Motion until (i) Socotra has the
16 opportunity to take its own discovery, including deposing the Committee's declarants and
17 obtaining its own expert report, and (ii) the creditors of the LFM Debtors and KSMP have a full
18 and fair opportunity to understand the scope of KSMP's assets and liabilities, how and which
19 creditors would be harmed or benefitted by substantive consolidation, and the anticipated costs
20 and burdens associated with untangling the transactions by and between KSMP and LFM, all of
21 which are integral to determining the consequences of substantive consolidation and whether
22 substantive consolidation is warranted. If the Court is inclined to continue the Motion, it should
23 set a continued hearing for at least four weeks after the KSMP bar date has passed, and in any case
24 no earlier than plan confirmation, when the LFM Debtors and the Committee will seek to
25 substantively consolidate all Debtors, including KSMP. Any hearing on this matter before plan
26 confirmation would be a waste of estate resources and unnecessarily create duplicative work.

1 II.

2 **BACKGROUND**

3 **A. General Background of the Chapter 11 Cases**

4 On August 6 and September 12, 2024, the LFM Debtors each filed voluntary petitions for
5 relief under chapter 11 of the Bankruptcy Code and requested joint administration of their Cases
6 for procedural purposes under LFM's lead case. No trustee or examiner has been appointed in the
7 LFM Debtors' Cases, and the LFM Debtors continue to operate their businesses and manage their
8 properties as debtors in possession under sections 1107(a) and 1108 of the Bankruptcy Code. *See*
9 *Mot.*, 4:20-22.

10 On November 24, 2024, LFM, in its capacity as a creditor of KSMP, filed Involuntary
11 Petitions for relief against Ken Mattson, individually ("Mattson"), and KSMP. KSMP ultimately
12 consented to entry of a stipulated order for relief in the involuntary case, and the Court entered
13 such order for relief on June 9, 2025. *See Mot.*, 5:17, 6:7-9; and KSMP Docket at ECF No. 131.
14 Pursuant to further order of the Court, Robbin L. Itkin has been appointed as the responsible
15 individual for KSMP. KSMP Docket at ECF No. 172. Additionally, Mattson consented to entry
16 of a stipulated order for relief in the involuntary case, and the Court entered such order for relief
17 on July 14, 2025. Mattson Docket at ECF No. 118.

18 The Committee asserts in the Motion that Mattson, through his control of the "Mattson
19 Enterprise," effectuated a Ponzi scheme. *See e.g.*, *Mot.*, 1:19-20; 2:6-7; 16:19-17:10. To the extent
20 there was a Ponzi or Ponzi-like scheme, as alleged in the Mattson Indictment (defined below), it
21 was limited to a relatively small number of investors in a very small portion of KSMP's and
22 LFM's operations and Socotra certainly had nothing to do with and never invested in any potential
23 Ponzi scheme.

24 **B. Socotra**

25 To secure certain loans Socotra or Lender made to KSMP or debtors Buckeye Tree LP and
26 Red Spruce Tree LP (collectively, the "Socotra Loans"), Lender holds first priority deeds of trust
27 (the "Socotra Deeds of Trust") against certain real property currently held by LFM Debtors and
28

1 KSMP (collectively, the “Socotra Properties”).³ The Socotra Deeds of Trust and accompanying
2 promissory notes constitute evidence of Socotra’s secured interests in the Socotra Properties as
3 granted to Lender to secure the Socotra Loans. Many of the Socotra Properties that KSMP owned
4 (and to whom Lender made the vast majority of the Socotra Loans) are currently held by LFM and
5 LFM Debtor Entities, such Socotra Properties having been transferred to LFM Debtors subject to
6 Lender’s liens and without Lender’s knowledge or consent in violation of the terms of the Socotra
7 Loans.

8 III.

9 **SUBSTANTIVE CONSOLIDATION OF THE LFM AND KSMP ESTATES**

10 **IS AN EXTREME REMEDY THAT THE COURT SHOULD**

11 **DENY AT THIS TIME WITHOUT PREJUDICE**

12 A. **Standard for Substantively Consolidating Cases**

13 Substantive consolidation, an equitable doctrine, “is no mere instrument of procedural
14 convenience ... but a measure vitally affecting substantive rights.” *Alexander v. Compton (In re*
15 *Bonham)*, 277 F.3d 750, 762 (9th Cir. 2000) (citing *Flora Mir Candy Corp. v. R.S. Dickson & Co.*
16 *(In re Flora Mir Candy Corp.)*, 432 F.2d 1060, 1062-63 (2d Cir. 1970)). “Two broad themes have
17 emerged from substantive consolidation case law: in ordering substantive consolidation, courts
18 must (1) consider whether there is a disregard of corporate formalities and commingling of assets
19 by various entities; and (2) balance the benefits that substantive consolidation would bring against
20 the harms that it would cause.” *Bonham*, 229 F.3d at 765. There is no uniform guideline for courts
21 to employ when contemplating ordering substantive consolidation but rather courts must review
22 the record, on a case-by-case basis, to “ensure that substantive consolidation effects its sole aim:
23 fairness to all creditors.” *Bonham*, 229 F.3d at 765 (quoting *Drabkin v. Midland–Ross Corp. (In re*
24 *Auto–Train Corp., Inc.)*, 810 F.2d 270, 276, (D.C.Cir.1987)).

25
26
27 ³ See, e.g., Socotra’s proofs of claim filed against certain of the LFM Debtors on January 30, 2025,
28 as Claim Nos. 324, 343, 387, 388, 389, 390, 392, 394, 396, 398, 399, 401, 404. Further, Socotra
intends, and reserves all rights, to file a proof of claim against KSMP.

1 To determine whether substantive consolidation is appropriate, courts must consider two
2 factors: “(1) whether creditors dealt with the entities as a single economic unit and did not rely on
3 their separate identity in extending credit; or (2) whether the affairs of the debtor are so entangled
4 that consolidation will benefit all creditors.” *Bonham*, 229 F.3d at 766 (citations omitted). “Orders
5 of substantive consolidation combine the assets and liabilities of separate and distinct—but
6 related—legal entities into a single pool and treat them as though they belong to a single entity.”
7 *Id.* at 764. Consolidation “almost invariably redistributes wealth among the creditors of the
8 various entities” because the consolidated entities are likely to have different debt-to-asset ratios.”
9 *Id.* at 761, (citing *Eastgroup Props. v. S. Motel Assoc., Ltd.*, 935 F.2d 245, 248 (11th Cir. 1991)
10 (quoted citations omitted)).

11 **B. The Court Should Deny the Motion at This Time as It Is Premature: Creditors**
12 **Cannot at This Time Adequately Assess the Impact of Consolidation**

13 Substantive consolidation is an extraordinary remedy that courts should sparingly order
14 and requires strict attention to the concept of due process. *See In re Morfesis*, 270 B.R. 28, 32–33
15 (Bankr. D.N.J. 2001). As in any other case, this Court must not overlook fundamental due process
16 considerations. While KSMP has filed a creditor matrix, KSMP has not yet filed its schedules or
17 statement of financial affairs (collectively, the “KSMP Schedules”), and the Court has not yet
18 established a deadline for creditors and interest holders to assert and file claims against KSMP (let
19 alone any bar date having passed). *See* KSMP Docket at ECF Nos. 148, 173 and 180. Based on
20 representations by proposed counsel for KSMP’s estate, Socotra understands that KSMP’s
21 professionals are working to gain a more comprehensive understanding of the KSMP case. KSMP
22 has been granted an extension of time through and including August 8, 2025, to file the KSMP
23 Schedules. *See* KSMP Docket at ECF No. 173.

24 Furthermore, the Court itself has expressed reservations about the propriety of
25 substantively consolidating the cases of LFM and KSMP at this stage. At the hearing on the
26 application to designate Ms. Itkin as KSMP’s responsible individual held on June 24, 2025, the
27 Court stated:
28

1 11 THE COURT: It's unlikely I'm going to rule on this at
2 12 the hearing date. How do you file a motion for substantive
3 13 consolidation, again, when the schedules haven't been filed
4 14 yet. Mr. Taylor?

5 *See* Tr. of Proceedings Before the Hon. Charles Novack, U.S. Bankruptcy Judge dated
6 June 24, 2025 (“6/24 Tr.”), 8:11-14, attached hereto as Exhibit 1

7 6 again, I've got this motion for substantive consolidation. If
8 7 it's granted -- and Mr. Taylor, you can chime in if you -- and
9 8 Ms. Wilson, you can chime in if you want here.
10 9 If it's granted, then one of these debtors has not had
11 10 a meeting of creditors because, again, I've got to -- no one's
12 11 asked me to continue the MOC date, but someone has to get
13 12 notice of the MOC date. So I'm being asked to substantively
14 13 consolidate a debtor that's gone through the meeting of
15 14 creditors, the IDI, the claims bar date has passed, with a
16 15 debtor who hasn't gone through a meeting of creditors, hasn't
17 16 had an IDI, and no claims bar date. So what does that do?

18 *See* 6/24 Tr., 10:6-16.

19 Moreover, just 14 days prior to the scheduled hearing on the Motion, the Committee
20 submitted voluminous additional evidence—over 1,600 pages of documents—to supplement the
21 arguments set forth in its initial filing. The Committee also submitted further materials under seal,
22 the contents of which remain unknown to Socotra and other creditors. This last-minute disclosure
23 is a tacit admission that the original Motion was deficient in supporting data. And on July 14,
24 2025, LFM Debtors and the Committee filed the Plan Term Sheet, reiterating statements made on
25 the record indicating their intent to seek substantive consolidation of all Debtors, including KSMP,
26 in connection with a plan of liquidation. Accordingly, any hearing on this matter would be
27 premature, as many of the factual issues presently before the Court will need to be addressed again
28 during plan confirmation with respect to all Debtors.

Both Socotra and similarly situated creditors now face the task of reviewing the substantial
volume of information, obtaining and analyzing the sealed materials, conducting necessary
depositions, and retaining their own experts to evaluate the data and reach independent
conclusions regarding the propriety of substantive consolidation. *See* 11 U.S.C. § 9014. Under
these circumstances, the Motion and any relief sought by the Motion is premature. Neither the

1 Court nor any creditors have been afforded a full and fair opportunity to thoroughly assess the
2 newly submitted evidence and weigh the potential benefits of substantive consolidation against the
3 possible harms, which is necessary to assess whether this extraordinary relief sought should
4 ultimately be granted.

5 Furthermore, Socotra requires additional information to adequately protect its interests,
6 and has requested to be designated a permitted party to access all investor proofs of claim and
7 interests in LFM. LFM Debtors⁴ have recently agreed, in principle, that Socotra be designated as
8 a permitted party, subject to providing notice to all claimants in accordance with the provisions of
9 that *Order (1) Establishing Bar Date; (2) Approving Form and Manner of notice of Bar Date and*
10 *Procedures with Respect Thereto; and (3) Approving Confidentiality Protocols* [ECF No. 459]
11 (the “Bar Date Order”). Socotra is preparing a stipulation. Once signed, all parties will be given
12 15 days to oppose. Similarly, Socotra has only recently (on or about June 25, 2025) been granted
13 access to discovery obtained by the Committee from BMO regarding, among the other things, the
14 1059 Account (the “BMO Discovery”). Socotra still is reviewing and analyzing the recently
15 obtained BMO Discovery. Further, not only KSMP’s schedules, but also proofs of claim and
16 interest against KSMP will not be filed until well after the currently scheduled preliminary hearing
17 on the Motion.

18 Without the ability to assess the full scope of information on which the Committee bases
19 the Motion, the currently known creditors of KSMP and LFM are unable to determine whether
20 creditors generally dealt with KSMP and the LFM Debtors, including LFM, as a single economic
21 unit and did not rely on their respective separate identities in extending credit or whether the LFM
22 Debtors’ affairs are so entangled that consolidation will benefit all creditors—i.e. they cannot
23 assess the merits of the Motion. Moreover, and of critical importance, if (1) additional creditors of
24

25
26
27 ⁴ The Committee indicated that it will not take a position on the issue of Socotra being designated
28 as a permitted party, but the KSMP Debtors and Socotra have agreed to stipulate to Socotra’s
designation as a permitted party, subject to final documentation and satisfaction of the notice
requirements set forth in the Bar Date Order.

1 KSMP have not yet been identified or have not had a full opportunity to assert their claims, or (2)
2 as the Court previously noted, the LFM Debtors' creditors who did not timely file proofs of claim
3 or interest are provided with a second opportunity to do so—to the detriment of KSMP's creditors
4 or those LFM Debtors' creditors who timely asserted claims and interests—then substantive
5 consolidation may not be appropriate at all, and it is certainly not appropriate at this time.
6
7 Therefore, substantively consolidating the estates of LFM and KSMP at this juncture would
8 unfairly prejudice the rights of both known and potential creditors, and the Court should either
9 deny the Motion without prejudice to the Committee's or any other party in interest's rights to
10 seek such relief at a later date, or continue the Motion.

11 C. **Allegations that Mattson Conducted a Ponzi Scheme Do Not Support the**
12 **Committee's Request for Substantive Consolidation.**

13 In its Motion, the Committee argues in support of substantive consolidation that the (1)
14 federal grand jury indictment (the "Mattson Indictment") charging Mattson with, *inter alia*, wire
15 fraud (18 U.S.C. § 1343), money laundering (18 U.S.C. § 1957) and obstruction of justice in a
16 federal investigation (18 U.S.C. § 1519) and (2) SEC Complaint alleging Mattson operated a
17 "Ponzi-like" scheme support substantive consolidation because each proves that the LFM and
18 KSMP entities were "hopelessly entangled." *See, generally*, Mot. at 20-28. However, the
19 allegations against Mattson prove nothing of the sort—if anything, they display the efforts to
20 which Mattson went to separate any alleged Ponzi scheme from the Debtors' legitimate business
21 dealings.

22 As an initial matter, the Mattson Indictment merely contains allegations and cannot be
23 relied upon as evidence of any fact. Even if the Court were to accept the allegations in the Mattson
24 Indictment at face value, the facts presented show the complete separation of the criminal aspects
25 of the alleged Ponzi scheme from the legitimate businesses of LFM and KSMP. *See* Mattson
26 Indictment, ¶ 13. Specifically, the facts as alleged in the Mattson Indictment show how creditors,
27 including Socotra, were completely separated from the alleged Ponzi scheme.
28

1 Socotra’s business is to loan money secured by substantial equity (50% loan to value) in
2 real property. Socotra’s only involvement with the LFM Debtors and KSMP is that it made loans
3 to KSMP and certain of the LFM Debtors that were secured by real property, with such liens fully
4 insured by a title company and fully guaranteed by Mattson in his individual capacity. Socotra
5 made no “investments” with either Mattson, or any Debtors, including LFM and KSMP. The
6 payments made on the Socotra Loans over the past dozen or so years were distributed to the
7 investment vehicles that funded the Socotra Loans, either a Socotra fund or individual
8 beneficiaries.

9 The Committee’s decision to raise “Ponzi” allegations in the Motion and the Plan Term
10 Sheet signal its intent to rely on the so-called “Ponzi Presumption” to argue that all creditors,
11 including presumably secured lenders like Socotra who had no involvement whatsoever in the
12 alleged Ponzi scheme, are limited to recovering only principal—a result that would be completely
13 contrary to the facts, law and equity.⁵ As such, references by the Committee to Mattson’s alleged
14 orchestration of a Ponzi scheme, of which no court of law has found him guilty and to which he
15 has not confessed, amount to an inappropriately offensive use of the equitable remedy of
16 substantive consolidation potentially to disadvantage a particular group of legitimate creditors.
17 Thus, the Committee’s present call for substantive consolidation is that much more premature and
18 inappropriate at this time. *See In re Woodbridge Grp. of Companies, LLC*, 592 B.R. 761, 778
19 (Bankr. D. Del. 2018).

20 1. The Mattson Indictment Contains Mere Allegations of a Ponzi Scheme and Cannot
21 Be Relied Upon as Evidence.

22 As an initial matter, it is inappropriate to use an alleged Ponzi scheme in a criminal matter
23 involving neither the Debtors nor the creditors as an excuse to request the equitable remedy of
24 substantive consolidation in these Cases. The Mattson Indictment is merely an allegation of a
25 “Ponzi-like” scheme; it has not been proven beyond a reasonable doubt, nor has Mattson admitted
26

27 ⁵ The Committee has already raised this legal theory to Socotra’s counsel, relying on the recent
28 Ninth Circuit case *In re EPD Inv. Co., LLC*, 114 F.4th 1148 (9th Cir. 2024). As set forth below,
EPD is distinguishable from this case.

1 to such a scheme. The Ninth Circuit will not consider the existence of a Ponzi scheme in a
2 bankruptcy matter to avoid a transfer unless there is a final Ponzi finding. *See e.g. Kirkland v.*
3 *Rund (In re EPD Inv. Co., LLC)*, 114 F.4th 1148 (9th Cir. 2024) (court employed a civil jury
4 verdict finding existence of a Ponzi scheme). As such, the Court should not accept mere
5 allegations in the Mattson Indictment as fact. The information presented by the Mattson
6 Indictment and unproven allegations of a Ponzi scheme should not have any bearing at this time
7 on the Court's determination to substantively consolidate the estates of LFM and KSMP.

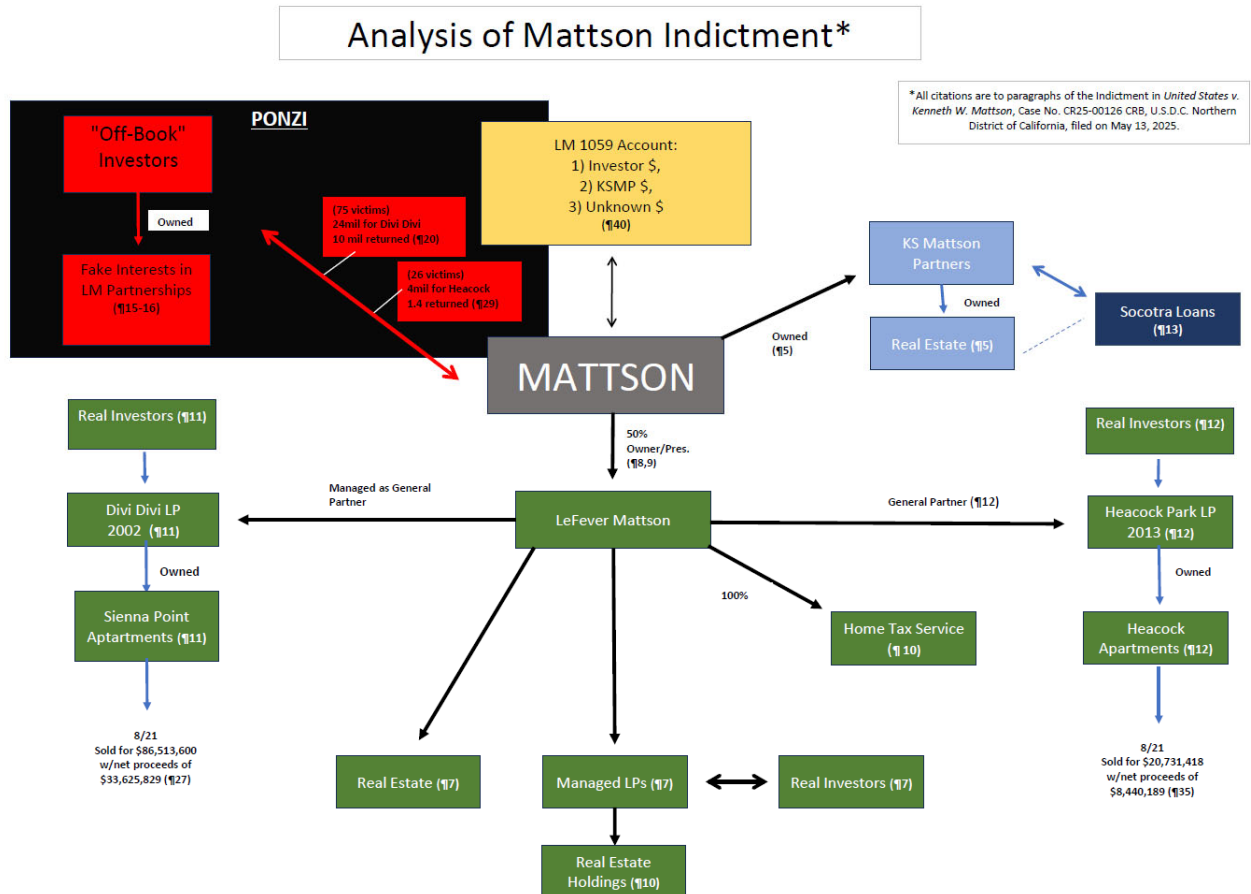
8 2. The Mattson Indictment Alleges Separation Between LFM, KSMP, and Mattson's
9 Alleged Ponzi Scheme

10 The Mattson Indictment alleges that Mattson alone orchestrated a Ponzi scheme to defraud
11 investors outside of his legitimate business dealings in KSMP and LFM. Nowhere does the
12 Mattson Indictment allege that any creditors, or anyone at LFM, took part in or had any
13 knowledge whatsoever of the alleged Ponzi scheme. In fact, the Indictment does not even mention
14 any secured creditors by name; it names only a "LENDING ENTITY 1".⁶ The Mattson Indictment
15 further states that LENDING ENTITY 1 made loans to KSMP, not LFM, for various properties in
16 California and had no dealings with other Debtor entities. *See Mattson Indictment*, ¶ 13. The
17 allegations simply do not support the fact that Debtors and KSMP were "hopelessly entangled."

18 The Mattson Indictment describes definitive separation between the alleged Ponzi scheme,
19 and the legitimate business dealings in which Mattson, through KSMP (and later, LFM by virtue
20 of debt service payments made to Socotra), engaged with creditors like Socotra. Based on
21 information in the Mattson Indictment, the following flowchart was prepared to show the
22 relationships between the various business entities involved and the activities alleged. As one can
23 clearly see, the illegal alleged Ponzi scheme was an isolated portion of Mattson's activity, and *not*
24 hopelessly intertwined with the balance of the KSMP and Debtors' enterprise. Distilling the
25 Mattson Indictment as reflected above shows that there is no allegation that the alleged Ponzi
26

27 ⁶ Socotra recognizes that it is likely the party called LENDING ENTITY 1, but the Department of
28 Justice's affirmative decision not to name Socotra is yet another indicator of its insignificance in
the alleged scheme.

scheme somehow infected or spilled over into the legitimate business activities conducted by KSMP or LFM. Moreover, it shows that Socotra had no connection to the alleged Ponzi scheme (see below diagram).⁷



The Mattson Indictment states that LENDING ENTITY 1 provided loans to KSMP “for various properties across California,” not to invest in the alleged Ponzi scheme, or become involved in LFM’s business. Mattson Indictment, ¶ 13. There is no allegation that those real estate loans were illegitimate, or that the real property securing those loans were part of the alleged Ponzi scheme. Furthermore, there is no allegation that Debtors also were embroiled in the alleged Ponzi scheme. In fact, when describing the alleged Ponzi scheme, the Mattson Indictment makes clear that Mattson received funds from the “sale of *unrelated* properties and loans, including from

⁷ Socotra also attaches as Exhibit 2 hereto an enlarged copy of the below diagram for ease of review.

1 LENDING ENTITY 1.” *Id.*, ¶ 37(h) (emphasis added). The Mattson Indictment itself says that the
2 sales of properties and the secured loans Mattson procured were unrelated to the alleged Ponzi
3 scheme. *Id.*, ¶ 37(h).

4 The only aspect of the Mattson Indictment that speaks to the comingling of assets
5 belonging to the different entities is the allegation that the “1059 Account” belonged to LFM but
6 was solely controlled by Mattson and that he commingled the bank accounts of KSMP, LFM with
7 investor and personal funds. *Id.* at ¶ 40. While the Committee relies on Mattson’s alleged
8 commingling of funds, assets, and receipts as a basis for substantively consolidating the estates of
9 KSMP and LFM, it fails to present evidence on the extent of such alleged commingling,
10 particularly as compared to the general operations of each company. Without substantial,
11 admissible evidence presented by the Committee, there is no reason to believe, solely based on the
12 allegations in the Mattson Indictment, that the misuse of this single “1059 Account” was so
13 significant and the funds so untraceable that substantive consolidation of LFM and KSMP at this
14 time (and eventually, of all the Debtors and KSMP), is the only equitable and appropriate remedy
15 in these Cases. At a minimum, parties in interest such as Socotra need additional time to fully
16 analyze discovery regarding the 1059 Account.

17 3. The Mere Existence of a Ponzi Scheme Does Not Establish a Basis for Substantive
18 Consolidation.

19 The Committee argues that “the nature of a Ponzi scheme fulfills the test for ‘hopeless
20 commingling.’” Mot. at 20:13 (citing *In re Woodbridge*, 592 B.R. at 778). However, in
21 *Woodbridge*, substantive consolidation was not granted merely because a Ponzi scheme existed; it
22 was granted because there was otherwise hopeless entanglement supported by the “substantial
23 evidence to demonstrate that Shapiro was running *the Debtors* as a Ponzi scheme.” *In re*
24 *Woodbridge*, 592 B.R. at 776 (emphasis added). Here, the Committee has made no presentation of
25 evidence that the Debtors were being run as a Ponzi scheme. In fact, the Mattson Indictment does
26 not even allege the vast majority of Debtors, including LFM itself, operated as a Ponzi scheme.
27 Consideration of the Ponzi scheme alleged against Mattson in this Motion is premature because it
28 is only an allegation, but even if one takes the allegations at face value, they do not describe

1 Mattson's use of each Debtor to support his alleged Ponzi scheme. Instead, the Mattson
2 Indictment alleges that one partner in a business operation defrauded the other by hiding separate,
3 illegal business dealings. That does not establish hopeless entanglement, but instead highlights the
4 particular usefulness of tracing the funds in these Cases to determine where the fraud began and
5 ended.

6 4. Any Reliance by the Committee on the "Ponzi Presumption" Is Misplaced.

7 The Committee may intend to rely on the recent Ninth Circuit case, *Kirkland v. Rund (In*
8 *re EPD Investment Co., LLC)*, *supra*, to argue that if Mattson ran a Ponzi scheme, all payments to
9 creditors (including lenders) by any entity connected to Mattson are voidable as intentionally
10 fraudulent transfers, or that, at a minimum, creditors' recoveries must be limited to principal only.
11 *See id.*, at 1157; *see also* 11 U.S.C. § 548(a)(1)(A)-(B)(i). Because there are no allegations that the
12 LFM Debtors participated in the alleged Ponzi scheme, Debtors would likely be unable to employ
13 the Ponzi Presumption without consolidating Debtors' estates with those of KSMP and/or
14 Mattson. However, allowing consolidation under such circumstances would significantly prejudice
15 certain creditors and amounts to the impermissible offensive use of the equitable remedy of
16 substantive consolidation.

17 "While substantive consolidation may be used defensively to remedy the identifiable
18 harms caused by entangled affairs, it may not be used offensively (for example, having a primary
19 purpose to disadvantage tactically a group of creditors in the plan process or to alter creditor
20 rights)." *In re Woodbridge*, 592 B.R. at 776. Allowing substantive consolidation based on the
21 allegations of a Ponzi scheme would not remedy harm caused by entangled affairs as no such
22 evidence that the businesses are so intertwined has been proffered. But substantively consolidating
23 the estates of KSMP and LFM would allow the Committee to attempt to offensively employ the
24 Ponzi Presumption to disadvantage secured creditors, like Socotra, with no link to the alleged
25 Ponzi scheme.

26 Additionally, any such reliance on this so-called "Ponzi Presumption" against secured
27 creditors like Socotra would be misplaced. *Kirkland v. Rund (In re EPD Investment Co., LLC)*
28

1 only establishes that lenders *can* be victims of a Ponzi scheme and be subject to the presumption
2 of fraudulent transfers, not that they always are. *See In re EPD*, 114 F.4th at 1161. As the Mattson
3 Indictment recognizes, and Socotra can demonstrate, Socotra’s role as lender is distinguishable
4 from the lender who was *involved* in the Ponzi scheme in *EPD*. Among other things, in *In Re*
5 *EPD*, (i) the appellant lender was the lawyer for the debtor, the wrongdoer, and their affiliates, (ii)
6 the debtor paid the personal mortgage of the appellant lender, and (iii) the loans made by the
7 appellant lender were unsecured at the time they were made, and only later did the appellant
8 lender file a UCC-1 financing statement against the debtor’s personal property assets, which were
9 worthless. *In re EPD*, 114 F.4th at 1154-1155. Thus, the appellant lender, as well as other
10 “lenders” who issued unsecured notes, were in effect investors. By contrast, Socotra made loans
11 to the borrowers under the Socotra Loans secured by real property with substantial equity.

12 Next, in concluding that the “lenders were in effect equity investors,” the *In re EPD*
13 majority found that the interest rates charged by the “lenders” were unreasonable. “A reasonable
14 lender, no less than an equity investor, would have understood that the above-market returns (as
15 high as 12%) that Pressman consistently promised them were investments because they were
16 subject to risk and depended in part on the success of the particular profit-making enterprise
17 Pressman claimed to operate.” *Id.*, at 1161, n. 8. By contrast, Socotra, a legitimate, licensed hard
18 money lender that made loans at industry customary rates, quite reasonably understood that it
19 would achieve the loan rates it charged, which did not depend on the success of Debtors’
20 enterprise. To the contrary, unlike the lenders *In re EPD* who were unsecured,⁸ Socotra obtained
21 first priority security interest on real property at a 50% loan to value to secure all its loans. But for
22 these bankruptcies that are delaying Socotra from monetizing its collateral and being paid off,
23 Socotra would be paid in full.

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27 ⁸ As noted above, with respect to the appellant “lender” (as distinct from all the other “lenders”),
28 while the appellant lawyer filed a UCC-1 financing statement well after making his loan, (i) the
loan was unsecured when made, and (ii) after filing the UCC-1, the loan effectively was unsecured
because all of debtor’s assets were fully encumbered. *See In re EPD*, 114 F.4th at 1154.

Moreover, unlike the appellant lender in *EPD*, the Mattson Indictment clearly alleges that LENDING ENTITY 1 made loans to KSMP, not that LENDING ENTITY 1 facilitated or participated in Mattson’s alleged Ponzi scheme. Additionally, LENDING ENTITY 1’s loans were secured by real property with legitimate business purposes, unlike the “loans” in *I EPD*, which were short-term, high interest promissory notes in the traditional fashion of a Ponzi scheme. *Id.* at 1153. Lastly, and most relevant to the Motion, *In re EPD* invoked the Ponzi Presumption against a debtor who actually ran a Ponzi scheme. *See id.* The Committee does not allege here that Debtors ran the alleged Ponzi scheme described in the Mattson Indictment. Thus, substantive consolidation should not be weaponized to artificially combine LFM or any other Debtors with the architects of the alleged Ponzi scheme to limit the estates’ obligations to secured creditors.

D. The Motion Should Be Denied Because Substantive Consolidation May Benefit LFM at the Expense of KSMP.

Substantive consolidation of KSMP and LFM threatens to significantly prejudice the rights of KSMP’s creditors. The central benefit identified by the Committee in support of consolidation is the \$50 million of equity that KSMP purportedly holds, which would be used to bolster the positions of the LFM Debtors, presumably for the benefit of their respective creditors. *See Mot.*, 3. This reveals the true nature of the proposed consolidation: primarily to marshal the available equity in KSMP assets to benefit creditors of LFM, and eventually the LFM Debtors, under the guise of serving the interests of all creditors in accordance with their respective claims and entitlements, but in fact to the detriment of KSMP’s creditors, who may or may not overlap with the LFM Debtors’ creditors.

Case law makes clear that such a result is precisely the sort of harm substantive consolidation doctrine should be wary of and make every effort to minimize. *See, e.g., In re Auto-Train Corp., Inc.*, 810 F.2d 270, 276, (D.C. Cir. 1987) (“because every entity is likely to have a different debt-to-asset ratio, consolidation almost invariably redistributes wealth among the creditors of the various entities”); *In re Tanglewood Farms, Inc. of Elizabeth City*, 2011 WL 672060, *2 (Bankr. E.D. N.C. 2011) (substantive consolidation denied when effect would be to significantly dilute the claims of creditors of one of the debtors); *In re Snider Bros., Inc.*, 18 B.R.

1 230, 234, (Bankr. D. Mass. 1982) (differing asset-to-liability ratios prejudice creditors of entity
2 with higher ratio). Here, the proposed consolidation would, in effect, dilute recoveries available to
3 KSMP creditors in order to benefit those of LFM (and eventually, all LFM Debtors), contrary to
4 their legitimate expectations and in direct contravention of established precedent.

5 Therefore, based on both the admitted purpose behind the proposed consolidation and case
6 law, KSMP's creditors are likely to be substantially prejudiced if the Court grants the Motion.
7 Their potential recoveries will be eroded to benefit LFM's creditors. The Court must appropriately
8 weigh the risk of such significant prejudice and deny substantive consolidation at this stage.

9 Additionally, ordering substantive consolidation now would exacerbate the divergent
10 interests and conflicts among the creditors and investors of both LFM and KSMP. Creditors hold
11 direct claims against KSMP and LFM, in most instances secured by relevant collateral, whereas
12 investors hold interests, resulting in fundamentally different legal and economic positions.
13 Granting consolidation would further complicate matters for the Committee, expanding its
14 constituents to include both creditors and investors from KSMP and LFM. This expanded
15 constituency introduces inherent conflicts: creditors and investors of the two entities may have
16 competing interests, and the situation is further complicated by the fact there is a significant
17 distinction between Ponzi victim investors and non-Ponzi victim investors. These groups are not
18 aligned, and their interests may directly conflict regarding the distribution of estate assets. For
19 example, with respect to properties such as Divi Divi and Heacock Park, Ponzi victim creditors
20 and investors are at odds with their non-Ponzi victim counterparts because, among other things,
21 according to the Mattson Indictment, investors related to Divi Divi and Heacock Park obtained no
22 actual interests in properties or the owners of properties, while investors in other LFM Debtor
23 entities obtained actual interest. Moreover, by having both creditors and investors as constituents,
24 the Committee already has a conflict because creditors are senior to equity. Substantive
25 consolidation in this context would not resolve these disputes; rather, it would aggravate existing
26 conflicts and jeopardize an equitable outcome for the various stakeholder groups.

27

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1 **E. The Motion Should Be Denied Because the Proposed Order Improperly Permits the**
2 **Committee to Partially Consolidate.**

3 Paragraph 5 of the proposed order for substantive consolidation provides:

4 “Notwithstanding any other provision herein, the substantive consolidation
5 provided for in this Order shall not: (1) affect the separate legal existence of the
6 Consolidated Debtors for purposes other than under chapter 11 of the Bankruptcy
7 Code; or (ii) constitute or give rise to any defense, counterclaim, or right of
8 netting or setoff with respect to any cause of action of the estate of either
9 Consolidated Debtor.”

10 Pursuant to this provision, the Committee improperly seeks to preserve the “separate legal
11 existence” of the consolidated debtors for purposes other than those under chapter 11 of the
12 Bankruptcy Code and deny creditors sued in avoidance actions defenses they would have based on
13 substantive consolidation, including what are called “wrong payor” fraudulent transfer claims.
14 However, the entire purpose of substantive consolidation is to treat all assets and liabilities of the
15 consolidated entities as though they belong to a single entity. *See Bonham*, 229 F.3d at 764
16 (“[o]rders of substantive consolidation combine the assets and liabilities of separate and distinct—
17 but related—legal entities into a single pool and treat them as though they belong to a single
18 entity.”)

19 The Committee cites no legal authority to support the notion that it may cherry-pick which
20 consequences of consolidation apply and are attempting to preserve potential avoidance claims
21 while otherwise eradicating separateness. The law does not support such selectivity; rather, courts
22 have held that substantive consolidation either applies in full or not at all, and that inter-entity
23 (“wrong payor”) fraudulent transfer claims are necessarily extinguished if estates are consolidated.

24 *In re Pearlman*, 450 B.R. 219 (Bankr. M.D. Fla. 2011), explains why substantive
25 consolidation requires the extinguishment of wrong payor claims. There, the trustee sought limited
26 consolidation to both recognize operational reality and preserve “wrong payor” avoidance claims.
27 The court rejected this hybrid approach, holding that “partial consolidation is inherently
28 incompatible with the goals of consolidation. Either substantive consolidation is warranted and
‘wrong payor’ claims disappear, or substantive consolidation is not merited. No half-way point
rightfully exists.” *Id.* at 225-226. The *Pearlman* court also cited to a case in this circuit called *In*

1 *Re Parkway Calabasas Ltd.*, 89 B.R. 832 (Bankr. C.D. Cal. 1988). In *Parkway Calabasas*, the
2 court concluded that the trustee could not pursue “wrong payor” constructive fraudulent transfer
3 claims after substantive consolidation because those claims were destroyed when the debtors’
4 estates were consolidated. *Id.* at 840.

5 While the court in *Bonham*, 229 F.3d 750 (9th Cir. 2000), allowed partial consolidation to
6 preserve constructive fraudulent transfer claims, the court did so because the only reason the
7 trustee sought consolidation was to provide funding to enable the trustee to bring fraudulent
8 transfer actions. That was not the case in *Pearlman* and is not the case here. Nowhere in the
9 motion does the Committee state that it is seeking substantive consolidation to obtain funds to
10 pursue fraudulent transfer actions.⁹ To the contrary, the Committee seeks substantive
11 consolidation because allegedly, among other things, (i) the business and financial affairs of
12 KSMP and LFM are so intertwined and poorly documented as to render the exercise of
13 disentangling their affairs needlessly expensive, complicated and likely futile, and (ii)
14 consolidation will spare investors the very substantial cost of employing a separate and duplicative
15 set of estate professionals. Ninth Circuit authority permitting partial consolidation for the narrow
16 purpose of preserving avoidance actions is inapposite here, where the facts and underlying
17 justification for consolidation mirror those in *Pearlman*, and partial consolidation would be
18 inconsistent with both the doctrine and the facts of the case.

19 Therefore, if the Court finds that substantive consolidation is appropriate and determines to
20 grant the Motion, it should (i) not further permit the Committee to preserve the “separate legal
21 existence” of the consolidated debtors to preserve wrong payor claims, and (ii) order that
22 consolidation shall have no impact on, or include a “Ponzi” finding, such that all existing defenses
23 to fraudulent transfer claims are preserved.

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⁹ Rather, the Committee simply slips paragraph 5 into the proposed order without making any
argument in the Motion.

1 IV.

2 **CONCLUSION**

3 Based on the foregoing, Socotra respectfully requests that the Court either (i) deny the
4 Motion without prejudice, (ii) continue the Motion, or (iii) defer ruling on the Motion until plan
5 confirmation, when the Court will be considering substantive consolidation of all Debtors,
6 including KSMP.

7
8 Dated: July 18, 2025

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

9 By

/s/ Theodore A. Cohen

10 THEODORE A. COHEN

11 JEANNIE KIM

CAROLINE SISCHO

12 Attorneys for Socotra Capital, Inc.
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Exhibit 1

Transcript of Proceedings Before
the Hon. Charles Novack, U.S. Bankruptcy Judge
Held on June 24, 2025

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA

-oOo-

In Re:) Case No. 24-10545)
LEFEVER MATTSON, A CALIFORNIA) Chapter 11)
CORPORATION, ET AL.) Oakland, California)
Debtors.) Tuesday, June 24, 2025)
11:00 AM)

In Re:) Case No. 24-10715)
KS MATTSON PARTNERS, LP) 1. DEBTOR'S MOTION FOR ORDER
Debtor.) AUTHORIZING DESIGNATION OF
ROBBIN L. ITKIN AS
RESPONSIBLE INDIVIDUAL
PURSUANT TO B.L.R. 4002-1.
[133]; CONT'D FROM 6/13/25
2. MOTION OF DEBTOR FOR ENTRY
OF AN ORDER (I) EXTENDING
TIME TO FILE SCHEDULES OF
ASSETS AND LIABILITIES,
STATEMENTS OF FINANCIAL
AFFAIRS AND LIST OF EQUITY
SECURITY HOLDERS, AND (II)
SUSPENDING THE
NONGOVERNMENTAL BAR DATE.
[149] SHORTEN TIME

24-10545:
MOTION TO DESIGNATE CREDITOR
KS MATTSON PARTNERS, LP AS A
"PERMITTED PARTY" UNDER THE
COURT'S 12/13/24; ORDER FILED
BY INTERESTED PARTY KS
MATTSON PARTNERS, LP. [1195]

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE CHARLES NOVACK
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES: (All parties appearing via Zoom)

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9
10 ALSO PRESENT: Robbin Itkin,
11 Responsible Individual for KSMP
12
13
14
15

16 Court Recorder: RUBY BAUTISTA
17 United States Bankruptcy Court
18 1300 Clay Street
19 Oakland, CA 94612

20 Transcriber: SHARONA SHAPIRO
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26 Proceedings recorded by electronic sound recording;
27 transcript provided by transcription service.
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OAKLAND, CALIFORNIA, TUESDAY, JUNE 24, 2025, 11:05 AM

-oOo-

(Call to order of the Court.)

THE CLERK: Line item number 2, Your Honor, KS Mattson Partners, LP.

And I'll bring in the appearances, Your Honor.

MS. BRADY: Good morning, Your Honor. Can you hear me?

THE COURT: Yes.

MS. BRADY: Good morning, Your Honor. It's Erin Brady, from Hogan Lovells, proposed counsel to KSMP. And Robbin Itkin, the responsible individual, is also on the line this morning.

And we've got two matters up today.

THE COURT: Well, hang on. Hang on. Hang on.

MS. BRADY: Yep.

THE COURT: We've got a full complement of attorneys who want to make their appearance.

MS. BRADY: Yes.

THE COURT: Okay. Mr. Taylor?

MR. TAYLOR: Yes. Your Honor, good morning. David Taylor, from Keller Benvenuto Kim, for LeFever Mattson and its affiliated debtors.

THE COURT: Mr. Kaplan?

MS. FAIRBANK: Good morning, Your Honor. Micheline

1 Fairbank --

2 THE COURT: Yes, Ms. Fairbank. I apologize. Go
3 ahead.

4 MS. FAIRBANK: That's okay. Thank you, Your Honor.
5 Micheline Fairbank, outgoing attorney for K.S. Matson Partners.

6 THE COURT: Anyone else want to make an appearance
7 today?

8 MR. KAPLAN: Yes. Good morning, Your Honor. Robert
9 Kaplan for Umpqua Bank.

10 MS. WILSON: Good morning, Your Honor. Brooke Wilson,
11 from Pachulski Stang Ziehl & Jones, for the committee of the
12 LeFever Mattson debtors.

13 MS. SISCHO: Good morning, Your Honor. Caroline
14 Sischo for secured creditor, Socotra capital.

15 MR. SHINE: Good morning, Your Honor. Phillip Shine,
16 appearing on behalf of the United States Trustee.

17 THE COURT: Okay. Good morning to you all. There's a
18 few -- as Ms. Brady mentioned, there's a few matters on
19 calendar. Let's first deal with the continued hearing in the
20 debtor's motion for authority to designate Ms. Itkin as the
21 responsible individual. I did see Ms. Itkin's supplemental
22 declaration. I didn't see any opposition by the U.S. Trustee.

23 Mr. Shine, any opposition to her appointment?

24 MR. SHINE: Your Honor, we have resolved opposition
25 through the proposed order.

1 THE COURT: Okay. So the application to appoint her
2 as the responsible individual is granted. And Mr. Shine,
3 again, just upload -- Ms. Brady or Mr. Shine, upload the order
4 and I'll take a look at it and sign it hopefully.

5 Okay. We also have the debtor's motion to extend the
6 time to file schedules -- I mean, the bankruptcy schedules and
7 statement of financial affairs, list of equity security
8 holders. Let's first deal with that.

9 Well, the creditors' matrix was timely filed, correct,
10 Ms. Brady?

11 MS. BRADY: Yes, it was.

12 THE COURT: Okay.

13 MS. BRADY: Although I fully anticipate it will be
14 amended as we continue to find additional --

15 THE COURT: Right.

16 MS. BRADY: -- information and creditors.

17 THE COURT: You read my mind. Okay. How much time do
18 you need to file the schedules and statement of financial
19 affairs?

20 MS. BRADY: Your Honor, we're asking for sixty days,
21 which puts us -- sixty days after the order for relief, which
22 puts us at August 8th. And we're asking for that simply
23 because we're literally reconstructing the books and records,
24 and it doesn't make a whole lot of sense to file schedules that
25 are completely incomplete only to spend the time and money to

1 amend them. So we were hoping to get a reasonable amount of
2 time that would give us an opportunity to do it --

3 THE COURT: Right.

4 MS. BRADY: -- hopefully right.

5 THE COURT: Okay. How is that going to -- and again,
6 there may not be an answer for this today, but I've got this
7 looming motion for substantive consolidation. And how is that
8 request -- and I'm not saying there's a reason -- this isn't a
9 reason to deny it. I'm going to grant the debtor more time.
10 Just the question I have is --

11 MS. BRADY: Yes.

12 THE COURT: -- what impact does that -- and again, I
13 think I'm hearing the motion for substantive consolidation
14 before August 8th, or at least the initial hearing. How is
15 that going to affect a motion for substantive consolidation,
16 which leads me to the next question, which is who gets
17 served -- creditors of KS Mattson Partners, L.P. get served
18 with the motion for substantive consolidation, even though it's
19 been filed already, correct?

20 MS. BRADY: That is correct. My understanding, if
21 I -- and counsel for the LeFever Mattson committee can correct
22 me if I'm wrong. My understanding was that we provided them a
23 copy of our creditor matrix, and they filed -- they served it
24 upon the creditors on our matrix as well as their creditor
25 group.

1 THE COURT: Right.

2 MS. BRADY: I think that, to your point, there will
3 probably be new creditors that are uncovered between now and
4 the time -- the 16th of July, for sure. And I'm assuming that
5 they're going to go ahead and serve that as a supplemental
6 service on those creditors. But I'll defer to them as it's
7 their motion.

8 THE COURT: But it may be a fait accompli if -- again,
9 I think I've already said I'm not going to rule on it.

10 MS. BRADY: Right.

11 THE COURT: It's unlikely I'm going to rule on this at
12 the hearing date. How do you file a motion for substantive
13 consolidation, again, when the schedules haven't been filed
14 yet. Mr. Taylor?

15 MS. BRADY: I --

16 THE COURT: Go ahead, Ms. Brady.

17 MS. BRADY: Yeah.

18 THE COURT: I mean, again --

19 MS. BRADY: Yeah. So I --

20 THE COURT: Again, I'm just raising questions that I'm
21 going to repeat. Again, it all relates to the debtor's
22 reasonable request for more time to file schedules. So I'm
23 just giving you some advance notice of what my questions are
24 most likely going to be.

25 MS. BRADY: Your Honor, I think that we also believe

1 that we can't really evaluate a substantive consolidation
2 motion until we have our arms around what our creditor body
3 looks like and how that would impact our creditor body. So I
4 think Your Honor made the point at our last hearing that the
5 July 16th hearing would be a preliminary hearing. We can
6 obviously talk about it. The committee has been very willing
7 to talk with us about it, very open and communicating.

8 THE COURT: Okay.

9 MS. BRADY: And so I do think -- I think, as an
10 initial matter, obviously, we need to understand who the
11 creditors are, what the assets are, all of that, that will go
12 into the statements and schedules. So regardless of whether
13 there's a sub-con or not, this all needs to be figured out.
14 But I do agree with Your Honor that we need to have a handle on
15 what's in this estate as part of evaluating whether substantive
16 consolidation is appropriate.

17 THE COURT: Right. Just so I can -- this debtor owns
18 real property -- the property that this debtor owns or has an
19 interest in, does it have full fee title to those properties?

20 MS. BRADY: For some. There's also tenancy in common
21 on other properties.

22 THE COURT: But there's -- okay. And some of this --
23 and I assume that there's secured debt against the property?

24 MS. BRADY: I believe some, but not all.

25 THE COURT: Okay. So then I've got a request to

1 suspend the nongovernmental bar date, claims bar date, A,
2 probably because we don't have a full creditors matrix -- or
3 the creditors' matrix probably isn't complete.

4 How long of a suspension do you think is appropriate?
5 Because, again, let me just add the other question, which is,
6 again, I've got this motion for substantive consolidation. If
7 it's granted -- and Mr. Taylor, you can chime in if you -- and
8 Ms. Wilson, you can chime in if you want here.

9 If it's granted, then one of these debtors has not had
10 a meeting of creditors because, again, I've got to -- no one's
11 asked me to continue the MOC date, but someone has to get
12 notice of the MOC date. So I'm being asked to substantively
13 consolidate a debtor that's gone through the meeting of
14 creditors, the IDI, the claims bar date has passed, with a
15 debtor who hasn't gone through a meeting of creditors, hasn't
16 had an IDI, and no claims bar date. So what does that do?

17 So does that mean I reopen the claims bar date for
18 everyone, Mr. Taylor, should I grant the request?

19 MR. TAYLOR: So Your Honor, there are a number of
20 questions along those lines that we've discussed internally but
21 don't yet have proposed answers for. I would assume, on the
22 IDI, there would be one that goes to debtors of KSMP -- or
23 creditors of KSMP. And the bar date question is a good one.
24 We're still evaluating that ourselves. Ms. Wilson should speak
25 as well, but that's my take.

1 MS. WILSON: That's my understanding as well, Your
2 Honor. I'm trying to figure out the logistics of if it, if the
3 estates were substantively consolidated, would there be a
4 supplemental bar date and how that would proceed.

5 THE COURT: Because then you may be giving people --
6 again, not that there's anything wrong with this, but you're
7 giving people who blew the first bar date a second bite at the
8 apple. And I don't know how you distinguish those creditors.
9 And I don't know how much time should be spent trying to
10 distinguish those creditors. Okay. So --

11 MS. BRADY: That's right, Your Honor. I just wanted
12 to add that I think -- I don't -- I can't -- sitting here
13 today, I don't know when the right time is to set that bar
14 date. But I think there's a concern -- or two concerns. One
15 is a lot of the creditors overlap, and whatever we do, we want
16 to --

17 THE COURT: Well, we don't -- I mean, we --

18 MS. BRADY: -- not create confusion between the two
19 estates.

20 THE COURT: Again, I -- we don't know if that's true
21 or not. We have no idea. We have no idea if Mr. Mattson
22 solicited -- or the creditors -- sorry -- if the creditors in
23 KS Mattson Partners overlap at all. I mean, at least I don't.
24 I mean, you folks probably have a much better -- obviously have
25 a much better or should have a much better idea than I do. But

1 I don't know. I mean, maybe he kept these two businesses, from
2 that perspective, distinct. Who knows?

3 MS. BRADY: Your Honor, I can say that we, as the KSMP
4 debtor, don't know. I think that there may have been some
5 information, in some of the proofs-of-interest that were filed,
6 that might glean some light on that. But I haven't seen those
7 yet, so I do not know the answer to that.

8 THE COURT: Okay.

9 MS. BRADY: And so I think that just kind of plays
10 into, before we go out with the bar date, I think, at the KSMP
11 level, we want to understand what the lay of the land is, what
12 the claims that have already been asserted in the other case
13 look like, because I understand there were some parties who
14 asserted claims against both debtors. And then also just I
15 don't want to -- I think there's a tension between setting a
16 bar date and having people do a bar date for KSMP. And if
17 there is a substantive consolidation, how does that look like?

18 So I think the marching orders for us, along with the
19 other parties in this situation, is to figure out the most
20 efficient and least confusing way to communicate with the
21 investors and creditors so that we get it right.

22 THE COURT: I agree. Okay. So let me -- so the
23 request to extend the deadline for filing schedules and
24 statement of financial affairs to August 8th is granted.

25 The bar date, again, I'll -- I'm going to continue

1 this motion. And we'll pick a date. And I may continue it to
2 the -- again, July -- when's the hearing on the motion for
3 substantive -- July 9th?

4 THE CLERK: July 18th.

5 THE COURT: July 18th. Excuse me.

6 THE CLERK: Yes.

7 THE COURT: I'll continue that to July 18th. But the
8 clerk's office has asked me what should be done with regard to
9 the meeting of creditors notice.

10 Mr. Shine, any comments? Because, again --

11 MR. SHINE: Your Honor, I --

12 THE COURT: Go ahead. I'm sorry.

13 MR. SHINE: Your Honor, I don't have a date selected
14 yet. I think we're working on that.

15 THE COURT: No, that's not my question. Can we set a
16 date? I mean, again, I have -- the Court has to issue a notice
17 of a meeting of creditors date. That's what we do. But you
18 haven't picked a date. Again, the clerk's office has asked me
19 essentially to ask you what do you want to do about this, about
20 the MOC, just hold it in abeyance until you contact them and
21 say set it for this date?

22 MR. SHINE: Your Honor, I'll ensure that we reach out
23 to the clerk's office.

24 THE COURT: Okay. And it probably has to be in
25 conjunction -- yeah, please do. And I'll tell them to tell me

1 or to remind me what the result of that is, or B, if they
2 haven't heard from you.

3 And you may need to do that in consultation with Ms.
4 Brady, Mr. Taylor, and Ms. Wilson's office because, again, the
5 notice goes out to the creditors' matrix, and that's
6 incomplete. Again, a lot of moving parts here. I just want to
7 make sure that everyone -- that people are working in sync.

8 Okay. So the August 8th deadline for schedules and
9 statement of financial affairs, I'm continuing the request to
10 suspend the nongovernmental claims bar date to July 18th. And
11 we will see how things proceed.

12 Let's call the LeFever Mattson matter now.

13 THE CLERK: Yes, Your Honor. Line item number 3,
14 LeFever Mattson, a California Corporation.

15 THE COURT: Are the same parties appearing here? Then
16 we can just --

17 MR. TAYLOR: Yes, Your Honor.

18 MS. BRADY: Yes, Your Honor.

19 THE COURT: I see that Mr. Kaplan may have dropped
20 off. But other than that, it looks as if the same parties are
21 appearing. And the record should reflect that.

22 Okay. This is the motion -- continued hearing on
23 KSMP's motion to designate it as a permitted party under the
24 claims order. I think we were waiting to have Ms. Itkin, the
25 "interim" word removed from her title, which it has now been.

1 So is this still a live matter?

2 MS. BRADY: Your Honor, I think we've submitted an
3 order. Either we have or will be submitting an order that
4 would name us the permitted -- we have agreements with the
5 parties.

6 THE COURT: Okay.

7 MS. BRADY: So I think that we're resolved.

8 THE COURT: I believe Mr. Wynne did submit an order.
9 I didn't sign it because we hadn't had this hearing yet.

10 MS. BRADY: Yes.

11 THE COURT: Okay.

12 MS. BRADY: So my understanding is that we're all
13 resolved on this, and counsel will correct me if I'm wrong.

14 THE COURT: Okay. Let me.

15 MR. TAYLOR: Agreed.

16 THE COURT: Okay. Now, the LeFever Mattson -- again,
17 I look at the docket every time it's on just to see what's
18 coming up. And again, I know that I've got a motion for
19 substantive consolidation. I've got fee applications. And
20 I've got this motion for inter-debtor borrowing.

21 And just so that people are prepared, Mr. Taylor,
22 Keller Benvenuto is going to have to demonstrate to me,
23 obviously, that that is in the best interest of the estate.
24 And part of that process for me is what are these funds going
25 to be used for and how they're going to get repaid. Because

1 I'm looking -- again, I do look at the docket when I have a
2 hearing. And there have been numerous sales, but the net
3 proceeds of those sales are barely enough to pay the monthly
4 administrative expense of this case.

5 So someone is going to have to explain to me, at that
6 hearing, where these funds are going to be -- how these funds
7 are going to be consumed, how they're going to get repaid, and
8 whether, all of this work that's going to be done and funded by
9 these funds, what it's all going to lead to. And by that I
10 mean, if this work isn't going to lead to some tangible return
11 to creditors, and perhaps equity, then I need to know this now,
12 because we're now a couple million dollars into this case. I
13 need to know where this case is going.

14 Finding an answer to where all of this money went to
15 is a laudable goal, but an unsatisfactory one if it's not going
16 to result in a dividend. And we're spending money so quickly,
17 at such a pace, that all of the sales proceeds -- and again, I
18 haven't seen any of the largest sales; I think they've all been
19 under five million -- it's being fully consumed by
20 administrative expenses. So I'm not quite sure what this is
21 all going to lead to. And again, this isn't a product by your
22 design but by the factors that led us to this place.

23 And finally --

24 MR. TAYLOR: Your Honor?

25 THE COURT: Finally, I've raised this before, and I'm

1 going to raise it again. Again, I'm just giving you fair
2 warning that these are questions that I'm going to need answers
3 to. Putting aside the substance of the motion, the borrowing
4 motion -- and again, all I've done is just look at it. I just
5 note these are questions that I have that I'd like answers to.
6 And again, I'm going to raise it again, which is I don't know
7 how Keller Benvenutti can be on both sides of these
8 transactions. I don't know how. But again, if it's
9 appropriate, then someone needs to tell me -- someone needs to
10 show me some case law saying it's appropriate, because this has
11 been an ongoing concern that I've had, and I think we need to
12 address it.

13 Mr. Taylor, you were about to say something? And
14 again, I'm just -- I have in no way, shape, or form concluded,
15 obviously, what the answers to these questions are. I'm just
16 telling you I have questions.

17 MR. TAYLOR: Fully understood. And frankly, it's very
18 helpful for us to hear this in advance of the hearing. I'm not
19 going to try to answer all of them now, just a couple of --

20 THE COURT: And I'm not expecting answers again,
21 because --

22 MR. TAYLOR: Yeah.

23 THE COURT: -- I'm just telling you these are
24 questions I'm going to have. That's all.

25 MR. TAYLOR: Yeah. So just briefly on the financial

1 aspect of the cases that you mentioned, we're quite focused on
2 that ourselves. There is a budget that's attached to the
3 motion. I think that's going to be spruced up and updated in
4 time for the hearing. And I think we'll show that we've
5 plotted out when we expect property sales to happen, how much
6 we expect the net proceeds to be, and how we're going to pay
7 for things. And sharing more of that for you, I think, will be
8 helpful. And there's also the committee's substantive
9 consolidation motion, which only goes to KSMP and the LeFever
10 Mattson --

11 THE COURT: Right.

12 MR. TAYLOR: -- may be a preview, though, of a broader
13 substantive consolidation that I think we think may be helpful
14 on some of these fronts.

15 THE COURT: Right. Okay.

16 MR. TAYLOR: So --

17 THE COURT: No, I understand, but okay, this is a
18 question of where's the cart and where's the horse here, for
19 example, on your firm's fee application. Again, you're on both
20 sides of every transaction that's been part of this case. And
21 again, someone's going to have to explain to me how that fact
22 affects your firm's ability to seek fees, again, because there
23 is no motion for substantive consolidation in front of all
24 these cases. Again, I'm just --

25 MR. TAYLOR: Understood.

1 THE COURT: I --

2 MR. TAYLOR: And certainly we can provide law and
3 briefing on that.

4 THE COURT: Right, because it's important for you,
5 it's important for me, it's important for the committee. Okay.

6 MR. TAYLOR: May I ask raise one housekeeping issue
7 that's --

8 THE COURT: Sure.

9 MR. TAYLOR: -- sort of a heads up before we close?

10 THE COURT: Yep.

11 MR. TAYLOR: So you've also seen on the docket that,
12 on May 25th, two equity interest holders in Live Oak filed a
13 trustee motion for Live Oak Investments, one of the debtors.
14 That motion was filed in the Live Oak case, contrary to the
15 joint administration order, which says everything should be
16 filed in the LeFever Mattson case. And our concern is that --

17 THE COURT: Talk to Mr. Kelly or Mr. --

18 MR. TAYLOR: So we've -- yeah, that's where I'm
19 going.

20 THE COURT: -- whoever filed it.

21 MR. TAYLOR: We've sent Mr. Kelly -- I just want to
22 give you a preview just --

23 THE COURT: No, no, I understand, Mr. Kelly's not here
24 and I don't want to --

25 MR. TAYLOR: And Mr. Kelly has not, unfortunately,

1 responded to our three emails, over the last month, asking him
2 to file it there. So there will be -- in addition to a
3 substantive response in our opposition on Friday, there will be
4 a motion to strike.

5 THE COURT: No, I understand, and --

6 MR. TAYLOR: Okay.

7 THE COURT: -- I'll deal with that when I see it.

8 Okay.

9 MR. TAYLOR: I just wanted to give you a heads up.
10 That's it.

11 THE COURT: I appreciate it. Okay. So I'll sign that
12 order, Ms. Brady, that Mr. Wynne submitted. And that should
13 take care of that.

14 Okay. Thank you all.

15 MS. BRADY: Thank you, Your Honor.

16 (Whereupon these proceedings were concluded at 11:28 AM)

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I N D E X

RULINGS:	PAGE	LINE
Application to appoint Robbin Itkin as the	5	25
responsible individual is granted.		
Request to extend the deadline for filing	12	22
schedules and statement of financial affairs		
to August 8th is granted.		

C E R T I F I C A T I O N

I, Sharona Shapiro, certify that the foregoing transcript is a true and accurate record of the proceedings.



/s/ SHARONA SHAPIRO, CET-492

eScribers

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Phoenix, AZ 85020

Date: June 26, 2025

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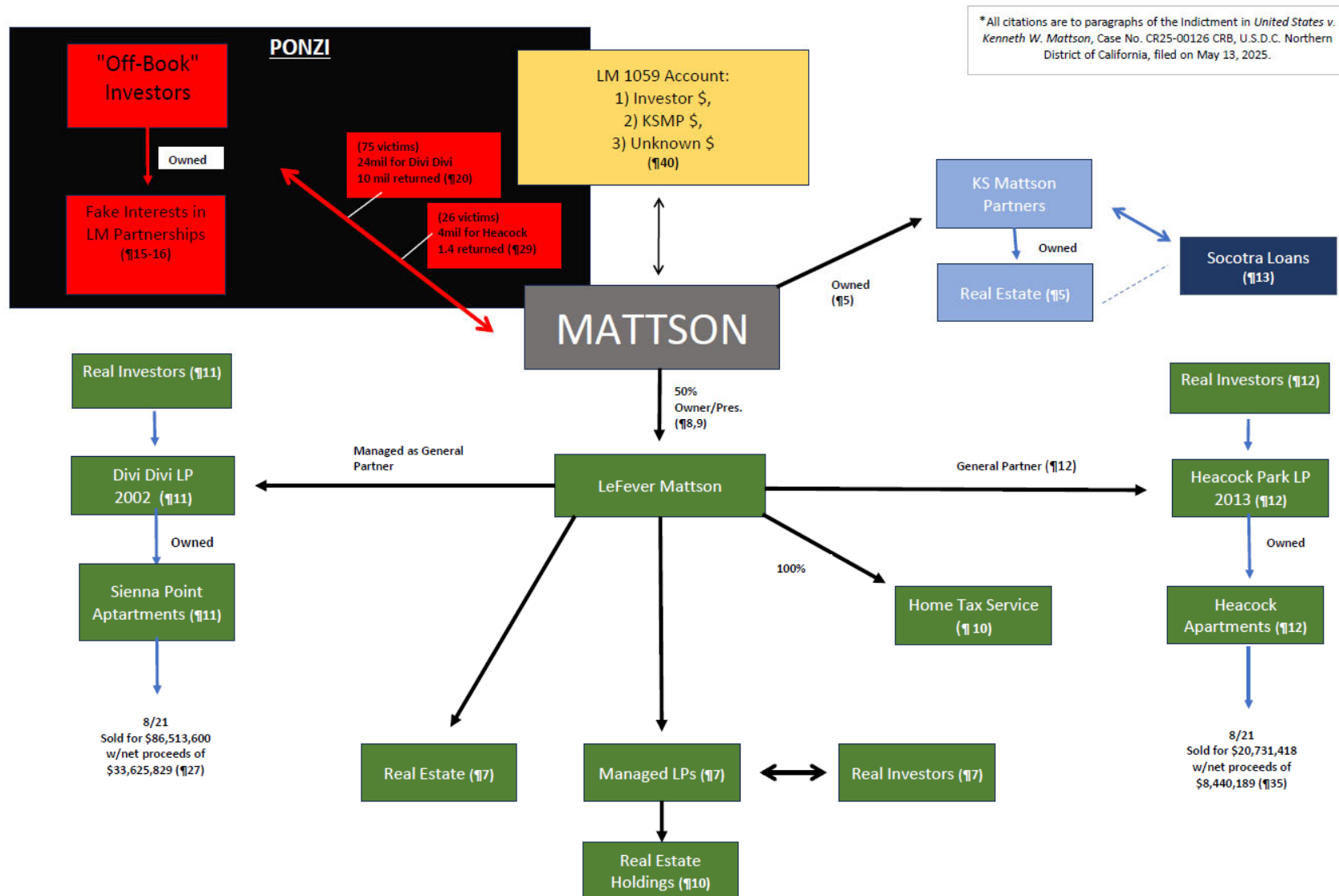
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Exhibit 2

Analysis of Mattson Indictment*



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8 UNITED STATES BANKRUPTCY COURT

9 NORTHERN DISTRICT OF CALIFORNIA, SANTA ROSA DIVISION

10 In re

11 LEFEVER MATTSON, a California
12 corporation, et al.,

13 Debtors.

Case No. 24-10545 (CN)

(Jointly Administered)

Chapter 11

14 In re

15 KS MATTSON PARTNERS, LP,

16 Debtor.

Case No. 24-10715

CERTIFICATE OF SERVICE

1 PROOF OF SERVICE

2 STATE OF CALIFORNIA, COUNTY OF SAN FRANCISCO

3 At the time of service, I was over 18 years of age and **not a party to this action**. I am
4 employed in the County of Los Angeles, State of California. My business address is 350 South
Grand Avenue, 40th Floor, Los Angeles, CA 90071-3460.

5 On July 18, 2025, I served true copies of the following document(s) described as **Socotra Capital,**
6 **Inc.'s Opposition to Motion of Committee of Unsecured Creditors for Substantive**
7 **Consolidation of Debtor Lefever Mattson's and KS Mattson Partners, LP and For Related**
Relief on the interested parties in this action as follows:

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1 I declare under penalty of perjury under the laws of the United States of America that the
2 foregoing is true and correct.

3 Executed on July 18, 2025, at Los Angeles, California.

4
5 /s/ Margo Tzeng
6 Margo Tzeng
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