

## STENGER & STENGER

A MICHIGAN PROFESSIONAL CORPORATION

PHILLIP S. STENGER  
ADMITTED IN MI, KY, MN, & GA  
KAY GRIFFITH HAMMOND  
ADMITTED IN MI  
LAURA D. DUSTON  
ADMITTED IN MI, KY, GA & CO  
JOSEPH M. JAMMAL  
ADMITTED IN MI & MN  
DUSTIN H. ALLEN  
ADMITTED IN IN  
JESSICA WASSENBERG  
ADMITTED IN MN  
JUSTIN WILSON  
ADMITTED IN MI

4095 EMBASSY DRIVE, S.E.  
SUITE A  
GRAND RAPIDS, MICHIGAN 49546

TELEPHONE (616) 940-1190  
FACSIMILE (616) 940-1190  
TOLL FREE (888) 305-7775

OF COUNSEL:  
LEWIS G. MOSBURG, JR.  
ADMITTED IN MI & OK  
LEE T. SILVER  
ADMITTED IN MI  
DOUGLAS W. VAN ESSEN  
ADMITTED IN MI  
DENISE M. HALLETT  
ADMITTED IN IN  
MELISSA HOFFMAN  
ADMITTED IN NJ & PA  
DANIEL A. MANCINI  
ADMITTED IN NJ & PA  
BRETT P. RILEY  
ADMITTED IN CO & WY

May 10, 2011

### VIA FEDERAL EXPRESS

The Honorable Lawrence P. Zatkoff  
United States District Court  
for the Eastern District of Michigan  
Federal Building  
526 Water Street, 2<sup>nd</sup> Floor  
Port Huron, MI 48060

Re: *Commodity Futures Trading Commission v. Alan James Watson, et al.*  
Case No: 11-cv-10949

Dear Judge Zatkoff:

This letter is my first report as Temporary Receiver for the assets of Defendants Cash Flow Financial LLC (“**CFF**”), Alan James Watson (“**Watson**”) and Michael S. Potts (“**Potts**”) (collectively, “**the Defendants**”) and certain assets of Relief Defendant, The Jedburgh Group (“**Jedburgh Group**” or “**Relief Defendant**”), and will summarize for the Court the various developments in the conduct of the Receivership since my appointment as Temporary Receiver.

### **BACKGROUND**

On March 10, 2011, the Commodity Futures Trading Commission (“**the Commission**” or “**CFTC**”) filed its *Complaint for Injunctive and Other Equitable Relief* (“**Complaint**”) and a *Motion for Emergency Ex Parte Statutory Restraining Order* (the “**Motion**”). On March 11, 2011, this Court issued a *Statutory Restraining Order, Order for Expedited Discovery, and Order to Show Cause Why a Preliminary Injunction Should Not Be Entered* (the “**SRO**”) wherein I was appointed as Temporary Receiver. On March 30, 2011, this Court issued three separate orders entitled *Consent Order of Preliminary Injunction with Asset Freeze* (“**Consent Orders**”) as to the Relief Defendant, Watson, CFF and Potts, which mandate that the SRO shall continue in full force and effect until further order of this Court. The SRO was subsequently modified on May 3, 2011.

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According to the Motion, the exhibits thereto and the Complaint, from at least November 28, 2007 through present, Watson, Potts and CFF fraudulently solicited and accepted \$46,131,191.17 from more than 600+ investors and entities to participate in a commodity pool to trade commodity futures contracts and securities. Throughout the relevant period, in order to induce participation in the commodity pool, Watson, acting as an unregistered commodity pool operator (“CPO”), and Potts, as an unregistered associated person (“AP”) of a CPO, failed to disclose material facts to actual and prospective pool participants, including that Watson was misappropriating pool participant funds for personal use and using pool participant funds to pay principal and purported returns to existing pool participants in a manner typical of a Ponzi scheme.

The Complaint alleges that Watson and Potts further made material misrepresentations, including that the commodity pool was profitable when it was not; and that all funds invested with CFF were being traded by an advisor named Trade LLC, when, in fact, only 20% of the \$46.1 million in CFF pool participant funds was transferred to Trade LLC for trading.<sup>1</sup> The remainder of solicited pool participant funds were: (1) deposited in non-Trade LLC trading accounts and schemes which the CFF pool participants had not authorized; (2) used to reimburse funds lost by individuals in a prior Ponzi scheme involving Safevest LLC; (3) used to reimburse current pool participants purported profits and principal, without accounting for losses incurred by the pool; (4) used to pay excessive commissions to Watson, Potts and other Executive Club members (“ECMs”); and (5) used to pay for Watson and his family’s day to day living expenses, including mortgage payments.

The Complaint further alleges that to conceal Watson’s trading losses, Ponzi scheme and the misappropriations, Watson issued or caused to be issued false monthly statements and/or other reports, falsely reflecting returns of at least 10% profit each month from trading commodity futures and/or securities on behalf of the pool using the Trade LLC program, and failing to reflect the substantial losses incurred as a result of Watson’s unauthorized use of CFF funds in non-Trade LLC schemes.<sup>2</sup>

Finally, the Complaint alleges that beginning in July 2009, after Trade LLC had ceased doing business, Watson issued additional false statements and omitted material information

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<sup>1</sup> On June 22, 2010, the United States Securities and Exchange Commission (“SEC”) and the Commission filed civil injunctive and enforcement actions against Trade LLC and its principals, Philip W. Milton, William H. Center and Gregory Center, in the United States District Court for the Southern District of Florida, West Palm Beach Division, entitled *SEC v Trade-LLC, et al*, Case No.: 10-cv-80737 (the “SEC Action”), and *CFTC v Phillip W. Milton, et al*, Case No.: 10-cv-80738, respectively. Jeffrey S. Schneider was appointed as receiver over Trade-LLC and the Relief Defendants, BD LLC, TWTT-LLC and CMJ Capital LLC (the “Trade LLC Receiver”) in the SEC Action.

<sup>2</sup> Watson and CFF retained the Jedburgh Group to provide investigative services and assist CFF in locating and recovering the CFF pool participant funds that Watson had invested in the unauthorized non-Trade LLC schemes. The Jedburgh Group has recovered more than \$3.4 million of the pool participant funds to date, as detailed hereinafter.

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regarding the location and status of pool participant funds in order to conceal his investment losses, Ponzi scheme and misappropriations. He issued Schedule K-1s to pool participants for use in filing their tax returns that falsely reported profits on investment and falsely promised that funds would be returned in the near future.

## SUMMARY

### **(1) Requests for Assets and Information**

A total of \$3,277,029.67 in known assets was frozen pursuant to the SRO as detailed in the *CFF Asset Freeze Information Report* (the "**Report**"), a copy of which is attached as **Exhibit A**. Requests for verification and turnover of those assets were served on the institutions holding the funds. As detailed on the Report, \$3,277,028.99 of those frozen assets have been transferred to date into a secure "*CFTC vs. Cash Flow Financial et al Combined Settlement Fund*" account that we have opened at Huntington National Bank in Grand Rapids.<sup>3</sup>

Pursuant to Paragraph IV.B.2 of the SRO, every effort has been made to obtain the records and assets of the Defendants and certain identified assets of the Relief Defendant. Mr. Watson ran CFF out of his home in Clinton Township, Michigan. On March 24, 2011 I went to Mr. Watson's house and secured his business computer as well as all the CFF business records he maintained at that location. The computer was sent to the Commission in order to make forensic copies of the hard drive, which the Commission will then provide me. We have had several telephone conversations with Mr. Watson, who is not represented by an attorney in this matter. Mr. Watson has cooperated with us in our requests for information.

John Freeman has entered an appearance in this matter on behalf of Mr. Potts. On April 6, 2011, Mr. Freeman filed a *Combined Motion and Brief in Support of an Order Staying the Proceedings Against Defendant Michael Potts*. The CFTC has filed an opposition brief in response. This matter has not yet been reviewed by this Court. To date, Mr. Potts has not turned over any assets or records. Upon resolution of this matter, we will attempt to work with Mr. Potts' attorney, John Freeman, regarding turnover of assets.

I have also spoken with attorney Steve Schooley, who represented CFF in the Trade LLC litigation in Florida. Mr. Schooley has provided us with all CFF records in his possession.

On April 28, 2011, I met with Keith Freeman, CEO of the Jedburgh Group, the investigative company that Watson and CFF retained to assist in locating and recovering the CFF pool participant funds that Watson had invested in the unauthorized non-Trade LLC schemes. The Jedburgh Group has provided us with information on its recovery efforts to date and an

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<sup>3</sup> Merrill Lynch has reported that Watson's Merrill Lynch account has a balance of only \$0.99. The Commission has requested but not yet received a response from Wells Fargo Bank as to whether it is holding any assets of the Defendants.

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accounting of all recoveries obtained by the Jedburgh Group to date, as well as further detail on the ongoing recovery efforts.

**(2) Notices of Receivership**

Pursuant to 28 U.S.C. §754, Notices of Receivership with attached copies of the Complaint and SRO have been filed in the following federal districts where assets belonging to CFF, Watson or Potts may be located: District of South Carolina; District of Minnesota; District of Maryland; District of Nevada; Eastern District of Pennsylvania; District of Arizona; Eastern District of New York; Middle District of Florida; Southern District of Florida; Northern District of Illinois; Eastern, Central and Northern Districts of California; and Western District of Texas.

**(3) Investor Communications and Website**

On Thursday March 24, 2011, I mailed a letter to 1,060 potential investor/members of CFF advising them of the litigation. Based on the investor records we have received from various sources to date, it appears that the record keeping at CFF for investors was not complete and may not always have been accurate. As a result, in consultation with the Commission, we requested that investors complete and return to us Investor Response Forms, which will provide us with the information necessary to eventually process investor claims. The information we receive from the Investor Response Forms will also assist us in understanding how the investments were marketed and sold. A copy of the letter to investors along with the Investor Response Form is attached as **Exhibit B**. To date, we have received 420 completed Investor Response Forms from potential investors of CFF.

A website has also been established to provide investors with information regarding this matter and can be found at: [www.cffreceiver.com](http://www.cffreceiver.com). This website contains contact information for the Receiver, copies of all pertinent pleadings to date, a copy of the Investor Response Form, correspondence which was mailed to investors, and a list of Frequently Asked Questions. This site will be continually updated as the CFF Receivership proceeds. The website which was previously maintained by CFF-LLC has been shutdown and investors are re-directed to the CFF Receivership website.

For those investors who do not have access to the Internet or who prefer the telephone, we created an "Investor Hot Line". The Hot Line provides a recorded message, which details the status of the case and allows investors to either leave a telephone message or speak to a representative about their investment. The CFF Receivership toll free number is: **1-877-512-2483**. To date we have had 159 telephone conversations with investors.

**(4) Pending Litigation and Recovery Efforts**

As previously stated, The Jedburgh Group has assisted in the recovery of more than \$3.2 million to date. Recovery efforts are ongoing, including the following pending litigation matters:

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(a). *Trade LLC v. New Life Club LLC* [Case No. 09-81215-CIV (SD FL)]

On July 21, 2009, Trade LLC filed an interpleader action in Florida state court naming CFF, Watson and New Life Club LLC, in connection with requests it had received from CFF and New Life Club for the return of funds invested with Trade LLC (the "**Florida Interpleader Action**"). Trade LLC was holding in excess of \$6.4 million and sought guidance from the court, contending that it could not determine whether the original source of the funds came from members of private trading clubs or whether the funds belonged to third parties. CFF and Watson retained attorney Steven R. Schooley of Orlando, Florida to represent them in that matter. On August 21, 2009, CFF removed the case to the District Court for the Southern District of Florida. There CFF answered and also counter-claimed against Trade LLC and its principals, William H. Center, Greg T. Center and Philip H. Milton, for the return of all CFF funds held by Trade LLC, alleging that CFF had transferred \$7.6 million to Trade LLC. Trade LLC successfully moved to have the case remanded to Florida state court. A remand order was entered on November 17, 2009.

Subsequently, on June 22, 2010, the Commission and the United States Securities and Exchange Commission filed lawsuits against Trade, LLC in the Southern District of Florida ("**Florida Enforcement Actions**") (See FN1). The court appointed Jeffrey Schneider as receiver over the assets of Trade, LLC in the Florida Enforcement Actions (the "**Trade Receiver**"). The Florida Interpleader Action has been effectively stayed since the filing of the Florida Enforcement Action and appointment of the Trade Receiver.

We have been in contact with the Trade Receiver, who will be conducting a claims process in connection with the funds he is holding. We are in the process of filing a proof of claim in the Florida Enforcement Actions on behalf of CFF in the approximate amount of \$6 million, which represents the funds sent directly from CFF to Trade LLC less any funds returned by Trade LLC to CFF. The funds recovered from the Trade Receiver will be distributed to CFF investors. We have been advised that the Trade LLC Receivership is expected to have total claims of approximately \$28 million and has assets of approximately \$7 million.

(b). *C.F.F. v. Meyer, et al.* [Case No. 2:09-CV-05002 (ED NY)]

On November 13, 2009, CFF, represented by attorney Harry H. Wise, III, filed a complaint against Jason Meyer, Lawrence Durbin, Anthony Cappaze and their related entities to recover \$3.9 million in CFF pool participant funds that CFF wired at Meyer's direction for investment in a money leasing investment scheme which Meyer represented as having "little or no risk." Meyer distributed \$500,000 to Durbin and related entities and individuals for an investment in "historical Mexican bonds" that did not exist;

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distributed \$500,000 to Cappaze to be used to buy "Zero Coupon Treasury Bills;" and retained the remainder of CFF's funds for himself and his companies. Cappaze later returned \$200,000 to CFF, and Meyer returned \$635,000. After deducting the money returned, the Complaint seeks \$3,065,000 in damages, as well as punitive damages and treble damages under RICO. Kenneth Morelli, an attorney who provided his escrow account to the other defendants and was instrumental in distributing funds to the co-conspirators, is also named as a defendant. CFF has moved for summary judgment, the defendants have filed a response in opposition and CFF's reply brief will be filed next week. It is not clear at this time what the prospects of recovery are should we prevail in this action.

(c). *C.F.F. v. Bishop, et al* [Case No. MO-09-CV-29 (WD Tex)]

CFF, again represented by Harry Wise, sued Darlene Bishop (d/b/a Paradize Funding), Aisha Hall, Linda Tortoriello (Bishop's sister) and her entity, Superior Contracting of the NE, Inc., in connection with \$4.85 million that CFF, at Bishop's direction, wired to Paradize Funding for the purpose of "leasing" large amounts of money in accounts at Wells Fargo Bank that could be used for investing. Supposedly the funds were to be managed by Aisha Hall, through her related entity, Apogee Financial ("Apogee"). The defendants paid Wells Fargo employees to produce fraudulent proof of funds and other bank documentation that showed the existence of accounts with \$200 million dollar balances. Of the \$4.85 million wired by CFF, about \$2.450 million went to accounts controlled by Aisha Hall.

A bench trial was held before Judge Robert Junell on January 31, 2011, who entered an Advisory Opinion on February 8, 2011, finding defendants Bishop, Tortoriello and Superior Contracting liable to CFF for common-law fraud finding Bishop liable for \$1.225 million, Tortoriello for \$300,000 and Superior Contracting for \$225,000. Judge Junell is expected to issue a memorandum opinion and final judgment shortly.

Bank accounts of defendants Paradize Funding, Bishop, Tortoriello and Superior Contracting, frozen at the inception of the case, reportedly hold less than \$100,000. We are currently exploring how much additional money, if any, we will be able to collect on the judgment. Bishop purchased an \$800,000+ home in Odessa, Texas within 2-3 days of her receipt of the CFF funds. We are currently exploring recovery options as to the house in Texas, including either asserting a judgment lien in Texas or requesting that this Court enter a turnover order requiring Ms. Bishop to return the proceeds of the fraud directly to the Receiver.

Aisha Hall was criminally prosecuted, pled guilty to conspiracy to commit wire fraud and obstruction of justice, and is currently serving time, as are certain of the bank employees involved in the scheme. Bank accounts controlled by Hall totaling approximately \$4.2 million were seized by the U.S. Secret Service in related criminal

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cases in the Southern District of New York. CFF filed a victim claim form in the amount of \$4.85 million with the Department of Justice and has been recognized as one of 15 victims of the fraudulent scheme entitled to restitution. The total of all claims (including CFF's) approved to date in that matter is \$6.850 million. Additional claims may be filed and or approved in the future. Of the \$4.2 million in funds being held in that matter it is expected that approximately \$3.2 million will be made available for restitution to the 15 (or more) claimants. If no additional claimants are approved in this matter, and \$3.2 million is distributed, CFF's share of the distribution should be approximately \$2.26 million.

(d). *C.F.F. v. Ison and Blue Diamond Excavating, et al* [Case No. 10-cv-00459 (CD CA)]

CFF, represented by attorney Edward Mitchell, filed suit in the Central District of California on April 13, 2010, against William Ison and his related entities, Blue Diamond Excavation ("BDE"), Olathe Mining Company and Sundial Investment Group, in connection with \$1 million in CFF pool participant funds that CFF advanced, at Ison's direction, ostensibly to invest in US Treasury instruments. Ison promised a \$5 million plus interest return on CFF's \$1 million in a matter of months, and claimed that the investment was safe because it was secured by a note issued by BDE, purportedly a solvent and well-capitalized company. [In addition to the \$1 million sought in the Complaint, our review of the CFF accounts has revealed an additional wire of \$500,000 to Olathe Mining; the Jedburgh Group and Attorney Mitchell were never told of this additional wire transfer by Watson.]

CFF negotiated a settlement in principle with defendants Ison, BDE and Olathe (the "Settling Defendants"), pursuant to which they were to pay \$1 million in monthly installments of \$100,000. By stipulation filed on September 13, 2010, CFF and the Settling Defendants consented to entry of a partial final judgment on CFF's breach of contract claim against them, with the remaining counts of the complaint to be dismissed. On September 29, 2010, a partial final judgment, incorporating the consent stipulation, was entered, but the settlement agreement was not made part of the record. No settlement proceeds have been received to date and the Settling Defendants, now in default, never signed the settlement agreement despite repeated requests that they do so, apparently holding back because they hope to foist financial responsibility on remaining defendant Sundial. Sundial, apparently little more than a now empty bank account run by fraudsters out of Africa, has evaded service to date. The Jedburgh Group has determined that the mining leases owned by Olathe (Ison's company) have no current value and little chance of ever producing, and Ison has no personal assets. Mr. Mitchell recommends repudiating the settlement agreement because it was never executed or consummated by any defendant, commencing an alter ego action against individual principals of BDE and taking discovery of assets from them in enforcement of the

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judgment against the corporation. We are evaluating whether it would be cost-effective to do so.

(e). *C.F.F. v. Soldado Corp., et al* [Case No. 10-cv-1394 (ND CA)]

On April 1, 2010, CFF and Watson, again represented by Ed Mitchell, filed suit in the Northern District of California, to recover funds wired by CFF, purportedly to lease a \$100 million bank account at Hong Kong and Shanghai Banking Corporation ("HSBC") for use in an investment program. The money-leasing scheme was perpetrated by defendants Soldado Corporation and its principal, Gabriel Gonzales, JC Funding Solutions and its principal, Castillo Robles (a Mexican national), and Brian J. Engle and his entity, BJE, Inc. A fake letter from HSBC and a fake computer screen printout of the account were provided as evidence that the account existed. Based on those misrepresentations, CFF wired \$800,000 in CFF pool participant funds. Defendants Soldado Corp., and its principal, Gonzales, are represented by competent counsel and both have answered. The case against them is scheduled to go to trial in January 2012. Defendants Engle and BJE, Inc. are in default and Mr. Mitchell will be moving for entry of default judgments against them. Castillo Robles, the Mexican national who has most of the money, has fled and is in hiding in Mexico. The Jedburgh Group advises that it would be both expensive and dangerous to attempt to serve him in Mexico. Mr. Mitchell will be dismissing Castillo from the case and attempting to broker a settlement with Gonzales and Soldado.

(f). *Hallmark Consulting Corp. v Ferguson, et al* [Case No. 08-cv-10398 (SD NY)]

In September and October 2008, at the direction of defendant Charles Ferguson, CFF wired \$650,000 of CFF pool participant funds to an attorney trust account of defendant Michael Garber as an investment in an Arizona-based money-leasing scheme that turned out to be fraudulent. Investors, including CFF, transferred a total of \$1.1 million into the scheme. Watson wired \$500,000 in CFF pool participant funds to Garber on September 22, 2008 on CFF's behalf, and an additional \$150,000 in CFF pool participant funds on October 24, 2008 (the later amount purportedly as an investment on behalf of Mindy Baransky (who had led Watson to the Ferguson investment opportunity), supposedly replaying a loan from Baransky). The investors appointed Hallmark Consulting Corporation ("HCC") as their attorney-in-fact to seek recovery of the funds. Represented by Harry Wise, HCC filed suit against Ferguson, Garber and their related entities in December 2008. The court ordered \$325,000 seized from Garber's account, and an additional \$140,000-\$150,000 was frozen in an HSBC account in the Isle of Jersey. A default judgment was entered against Ferguson and related entities on March 25, 2009, in the amount of \$3.330 million. Ferguson was prosecuted by the State of Arizona for felony fraud, pled guilty and is serving a 5 year sentence. The \$325,000 seized from Garber's accounts was turned over to the State of Arizona for pro rata distribution to victims. The total restitution owed to all victims is \$1.8 million, including

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\$500,000 in restitution owing to CFF, and \$150,000 owing to Baransky. In the initial Ferguson restitution fund distribution, \$77,905.86 was paid to CFF c/o the Jedburgh Group. The State of Arizona has initiated a return of the funds frozen in the Isle of Jersey under the Mutual Legal Assistance Treaty. CFF's restitutionary share of those funds, once repatriated, will be approximately \$35,000, which will be paid to the Receivership Estate. The Estate is working to secure future restitutionary distributions which would otherwise be payable to Baransky. In reviewing the books and records recently turned over to the Receivership Estate by Watson, it has since come to light that two additional wire transfers of CFF pool participant funds were made to Garber in July 2008, totaling another \$200,000.

(g). *CFF vs. Jason McDermott, et al* [Case No. 34-2010-00070865 (CA Superior Court)]

At the direction of defendant Jason McDermott, Watson wired \$1 million in CFF pool participant funds to McDermott's entity, Gold Pacific Development (Hong Kong), on April 13, 2009, in what turned out to be another fraudulent scheme. CFF and Watson, represented by Ed Mitchell, instituted suit against the defendants in California state court to recover the funds. Defendants are actively evading service of process. A motion for service by publication is in process. Defendants are expected to default and default judgments will then be obtained against them. According to the Jedburgh Group, the likelihood of any ultimate recovery in the matter is relatively weak.

We are continuing our review of the Jedburgh Group's records and awaiting further details from Jedburgh on more than two dozen additional recovery matters involving wire transfers of CFF pool participant funds to other non-Trade LLC investments. Because of the large amount of information related to these other potential recoveries, it is not possible at this time to reasonably estimate the time it will take to determine whether or not recoveries are feasible and to effect recoveries where feasible.

(5) **Jedburgh Group/ CI Solar**

As discussed above, Relief Defendant, the Jedburgh Group, is an investigative firm retained by Mr. Watson in the latter part of 2008 to reclaim bad investments made by Mr. Watson. In reviewing the accounting records of CFF, we learned that Mr. Watson invested \$1.5 million in the first half of 2009, in a company named CI Solar, which is majority owned by Dale Toler, who works at the Jedburgh Group. We have requested that Mr. Toler repay the investment as soon as possible. Mr. Toler has indicated his intention to do so. We will continue to work with Mr. Toler to recover this investment and take whatever actions are necessary or appropriate if the funds are not returned.

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(6) **Tax Issues**

Pursuant to IRC §6036 and Treasury Regulation 301.6036-1(a)(3), which require every receiver to give notice of his qualification as such to the IRS, we have filed a Form 56 Notice Concerning Fiduciary Relationship with the IRS in connection with CFF with an attached copy of the SRO. A request for an extension of CFF's tax return for 2010 has been filed.

CFF previously filed tax returns and issued K-1's to investors for the tax years 2008 and 2009. Those tax returns showed that CFF made profits which were allocated to investors as taxable events. We now of course know that CFF was a Ponzi Scheme which did not make any profits, and as a result, it would appear that investors were allocated phantom income on their K-1's. We have retained the accounting firm of Plante & Moran to assist us in tax preparation work, including possibly filing amended tax returns for 2008 and 2009 to recast income to return of principal for investors.

We have also obtained a taxpayer identification number for the Qualified Settlement Fund which the Estate is now holding. We will make the required filings and tax payments (if necessary) for the Qualified Settlement Fund.

(7) **Claims Procedure**

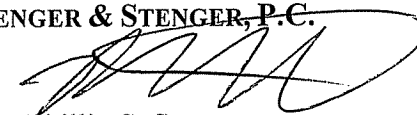
I expect to be in a position to move the Court for approval of a formal claims procedure within the next 30 to 60 days. At this time, due to the number of unresolved issues, it is not possible to estimate the time frame in which the receivership would be concluded.

\* \* \*

I hope this Report has been informative. I would be happy to discuss any aspect of this Report with the Court, the Commission or counsel for the parties.

Very truly yours,

STENGER & STENGER, P.C.



Phillip S. Stenger  
Temporary Receiver

Attachments:

- Exhibit A: CFF Asset Freeze Report
- Exhibit B: Investor Letter and Investor Response Form

*Commodity Futures Trading Commission v Alan James Watson, et al*  
Case No.: 11-cv-10949

**EXHIBIT A TO TEMPORARY RECEIVER'S FIRST REPORT TO THE COURT**

**CFF ASSET FREEZE REPORT**

CFF ASSET FREEZE INFORMATION  
(Last Updated 4/22/2011)

CFTC v Watson, et al  
1:1000.990

ACCOUNT NAME	BANK/FCM	ACCOUNT NO.	ASSETS VALUE	DATE OF LAST TRANSACTION	OPEN OR CLOSED	TOTAL AMOUNT REMOVED	NOTES	FREEZE ORDER SENT	FREEZE ORDER CONFIRMED	AMOUNT FROZEN	RECEIPT DATE	AMOUNT RECOVERED
Alan J. Watson	Bank of America	6179	\$1,042.98	3/11/11	Open			3/16/2011	3/18/2011	\$1,042.98	3/23/2011	\$1,042.98
Alan J. Watson	Bank of America	3383	\$7,670.82	3/11/11	Open			3/16/2011	3/18/2011	\$7,670.82	3/23/2011	\$7,670.82
Jedburgh Group Escrow	Bank of America	4493	\$36,863.64		Open			3/16/2011	3/18/2011	\$36,863.64	3/23/2011	\$36,863.64
Cash Flow Financial LLC	Charter One	4503883401	\$0.00	3/10/11	Closed; 3/10/11	\$6.99	Overdraft fee	3/16/2011	3/22/2011	\$0.00		
Alan James Watson	Charter One	4512006086	\$0.00	7/1/10	Closed; 7/1/10	\$176.81	Overdraft charge off	3/16/2011	3/22/2011	\$0.00		
Alan James Watson	Charter One	4549145545	\$0.00	7/1/10	Closed; 7/1/10	\$4.74	Withdrawal	3/16/2011	3/22/2011	\$0.00		
Alan J. Watson	Christian Financial Credit Union	91031	\$40.01	1/22/11	Open		Acc balance of \$45.01 includes \$5 that must remain in account to be a member	3/16/2011	3/22/2011	\$40.01	3/25/2011	\$40.01
Alan J. Watson	Christian Financial Credit Union	211456	\$830.00	3/14/11	Open			3/16/2011	3/22/2011	\$830.09	3/25/2011	\$830.09
Alan Watson	E*Trade Financial	6044-7321	\$0.00	N/A	Closed; 6/6/09			3/16/2011	3/30/2011	\$0.00		
Michael Polts	Fulton Bank	3624-41089	\$156.26	3/9/11	Open			3/16/2011	4/14/2011	\$156.26	4/14/2011	\$156.26
Michael Polts	Fulton Bank	3-171	\$0.00	N/A	Open			3/16/2011		\$0.00		
Cash Flow Financial	GAIN Capital Group, LLC	10280700	\$0.00	N/A	Open			3/16/2011	3/25/2011	\$0.00		
Alan Watson	Merrill Lynch	xxxx-3961	\$0.99	6/18/09	Open			3/16/2011	3/18/2011	\$0.99		
Alan Watson	PFG, Inc.	525-03802	\$1,749.00	2/18/11	Open			3/16/2011	3/16/2011	\$1,749.00	3/22/2011	\$1,749.00
Cash Flow Financial LLC	TD Ameritrade Inc.	788-903559	\$2,303.50	8/3/09	Open			3/16/2011	3/18/2011	\$2,303.52	3/22/2011	\$2,303.52
Alan James Watson												
Alan Watson	TD Ameritrade Inc.	89328470	\$0.00	N/A	Open		No activity has occurred in the account since inception date of 8/4/09	3/16/2011	3/18/2011	\$0.00	3/22/2011	
Alan J. Watson	TradeStation Securities, Inc.	2107886A	\$138.90	8/24/09	Closed; 3/11/10	\$20,000.00		3/16/2011	3/17/2011	\$138.90	3/22/2011	\$138.90
Frank G. Finkbeiner Trust Account CFF	SunTrust Bank		\$3,226,233.77		Open		Note: Account No. is 1000108015412 (cell under Column C would not accept this number)	3/16/2011	3/16/2011	\$3,226,233.77	3/22/2011	\$3,226,233.77
			\$3,277,029.87							\$3,277,029.98		\$3,277,029.99

*Commodity Futures Trading Commission v Alan James Watson, et al*  
Case No.: 11-cv-10949

**EXHIBIT B TO TEMPORARY RECEIVER'S FIRST REPORT TO THE COURT**  
**INVESTOR LETTER AND INVESTOR RESPONSE FORM**

**PHILLIP S. STENGER**  
**RECEIVER**  
**CASH FLOW FINANCIAL, LLC**  
**ALAN JAMES WATSON and MICHAEL POTTS**

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March 23, 2011

Re: *Commodity Futures Trading Commission vs. Watson, Potts and Cash Flow Financial, LLC, et al.* (U.S. District Court, Eastern District Michigan, Southern Division) (Case No. 11-cv-10949)(Honorable Lawrence P. Zatkoff)

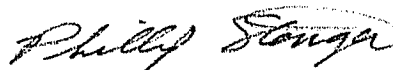
Dear Sir or Madam:

On March 10, 2011, the Commodities Futures Trading Commission (“CFTC”) filed a law suit against Cash Flow Financial, LLC (“CFF”), A.J. Watson and Michael Potts alleging that the defendants had defrauded investors in violation of Federal law. The CFTC requested that the Court enter an order restraining the defendants from transferring their assets and appointing myself as temporary receiver (the “**Restraining Order**”). On March 11, 2011, the Court entered the Restraining Order against the defendants prohibiting them from transferring their assets, ordering the defendants to appear before the Court on March 30, 2011, at 10:30 a.m. to show cause why the Restraining Order should not be continued and appointing me as temporary receiver.

Copies of the complaint and the Restraining Order are posted on the receiver’s CFF website at [www.cffreceiver.com](http://www.cffreceiver.com). As additional developments occur in this matter we will post them on the website. To assist the receiver, we request that you complete and return the attached **Investor Response Form**.

If you have any questions, you may contact the receiver at (616) 940-1190 or you may direct email inquiries to: [cffreceiver@stengerlaw.com](mailto:cffreceiver@stengerlaw.com).

Very Truly Yours,



Phillip S. Stenger, Receiver

4095 Embassy Drive S.E.  
Grand Rapids Michigan 49546  
Telephone: (616) 940-1190 Facsimile: (616) 940-1192  
[cffreceiver@stengerlaw.com](mailto:cffreceiver@stengerlaw.com)

**INVESTOR RESPONSE FORM**

Re: COMMODITY FUTURES TRADING COMMISSION

Plaintiff,

v.

ALAN JAMES WATSON, MICHAEL POTTS, AND CASH FLOW  
FINANCIAL, LLC, et al.

Defendants,

Case No. 11-cv-10949  
Hon. Lawrence P. Zatkoff  
United States District Court  
Eastern District of Michigan, Southern Division

To: Phillip S. Stenger, Receiver  
Stenger & Stenger, P.C.  
4095 Embassy Dr., S.E. Ste. A  
Grand Rapids, MI 49546  
Toll Free No. (877) 512-2483  
Telephone No. (616) 264-3256  
Fax No. (616) 940-1192  
Email: [cffreceiver@stengerlaw.com](mailto:cffreceiver@stengerlaw.com)  
Web Site: [www.cffreceiver.com](http://www.cffreceiver.com)

**INVESTOR CONTACT INFORMATION**

\_\_\_\_\_  
(First Name) (Middle Initial) (Last Name)

**Soc. Security No./Tax ID:** \_\_\_\_\_

**Address:** \_\_\_\_\_

**Phone No.:** \_\_\_\_\_

**Cell Phone:** \_\_\_\_\_

**Email Address:** \_\_\_\_\_

Please check if you would like to be on the Receiver's emailing list

\_\_\_\_\_  
(First Name) (Middle Initial) (Last Name)

**Soc. Security No./Tax ID:** \_\_\_\_\_

**Address:** \_\_\_\_\_

**Phone No.:** \_\_\_\_\_

**Cell Phone:** \_\_\_\_\_

**Email Address:** \_\_\_\_\_

Please check if you would like to be on the Receiver's emailing list

My investment was made through:

- Individual       Corporation       General Partnership
- Limited Partnership    Limited Liability Company    Estate for Decedent
- Guardian for \_\_ Minor \_\_ Incompetent (mark one)
- Custodian    Trust       Other \_\_\_\_\_  
(explain)

Name Investment was made under (if different from above):

\_\_\_\_\_

Please Initial: \_\_\_\_\_

**Guidelines for Completing This Form:**

1. If you wish to file a claim with the Receiver you must complete and submit this form, with relevant documentation, to the Receiver at the address shown above.
2. *Please complete and return the Investor Response Form even if you have already completed a Claim Form for the Trade LLC receiver.*
3. Attach copies of all records that support your claim: do not send your originals to the Receiver.
4. ***Initial each page.***
5. If a particular item does not apply to you specifically, write "not applicable." If you do not know the answer to a particular item, write "not known." **Do not leave a question blank.**
6. The Response Form must be signed and dated by you in the space provided on the final page. **If you made an additional investment, jointly, with another individual, or on behalf of another individual, please return a SEPARATE Response Form for that investment. If there are Co-Investors, each Investor must sign the form.**
7. We ask that you complete and return this Investor Response Form within 30 days of your receipt of Investor Response Form.
8. Correspondence concerning your claim should be addressed to Stenger & Stenger, attorneys for the Receiver, at the address shown above for the Receiver. The firm of Stenger & Stenger is a legal firm for the Receiver and cannot give you personal legal advice concerning your own claim, such advice must come from your own attorney or other advisor. Likewise, information communicated by you to Stenger & Stenger is not confidential and will be utilized by the Receiver in administering the Receivership Estate, including the resolution of your claim. In the interest of reducing expense to the Receivership Estate so that distributions to the Investors can be maximized, all such communications should be in writing.
9. This Response Form consists of 8 pages. If you did not received all 8 pages, please notify Stenger & Stenger at the address shown above. **Please be sure to return all 8 pages of the Response Form, along with any other requested documentation.**
10. The Receiver reserves the right to request additional information from you.
11. Remember, **this Response Form is submitted by you under penalties of perjury!** If you have any questions concerning how to complete this form, consult your own attorney or other independent advisor. ***The Receiver recommends that you secure such independent advice.***

Please Initial: \_\_\_\_\_

**Investment Information**

1. I/We have invested in Cash Flow Financial, LLC, aka CFF-LLC, CFF-LLC Investment Club, and/or CFF-LLC Club (“CFF”), as follows (attach additional sheets if necessary):

CFF Account Number	CFF Investment		Method of Payment*	Paid To**
	Date	Amount		
Totals				

**PLEASE ATTACH PROOF OF INVESTMENT(S) INCLUDING CANCELLED CHECKS, CONTRACTS, AGREEMENTS, NOTES OR ANY OTHER EVIDENCE.**

\*Please indicate method of payment: Cash, Check, Credit Card, Wire Transfer, Cashier's Check, Money Order, roll over from other investment, including but not limited, to Safevest LLC, etc.)  
 If other, please explain \_\_\_\_\_

\*\*Please name payee on check or recipient of wire transfer or other payment.

2. a. If more than one person invested in CFF, how is the investment held (i.e. joint ownership with rights of survivorship, tenants in common)? \_\_\_\_\_

b. If ownership is tenants in common, what is the percentage of ownership of each investor? \_\_\_\_\_

c. If ownership is tenants in common, have you named a beneficiary for the investment in any documentation? \_\_\_\_\_ If so, who? \_\_\_\_\_

3. a. Please indicate the name of the individual(s) who solicited your investment(s):

\_\_\_\_\_

b. Provide any contact information you may have for this individual including name of company, if any, address, phone and/or email:

Please Initial: \_\_\_\_\_

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4. a. Did you solicit any investments on behalf of CFF or in any way act as an Executive Club Member ("ECM") on behalf of CFF?  Yes  No

b. If Yes, provide the names and contact information for those investors whom you solicited.

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c. Did you receive any commissions or other compensation of any nature from CFF?

Yes  No If Yes, please include in the table below.

5. Did you receive any distributions from your investment in the form of interest, return on principal or any other type of distribution? \_\_\_\_\_ (Yes or No)

If Yes, please complete the following information: (attach additional sheets if necessary)

CFF Account Number	Date of Distribution	Amount of Distribution	Form of Payment Received *	ECM Commissions

**\*Please indicate method of payment: Cash, Check, Credit Card, Wire Transfer, Cashier's Check, Money Order or Other) and attach proof of any payments**

6. Have you received any other monies or anything else of value from the defendants, or anyone acting on their behalf, in regards to your investment in CFF?  Yes  No  
If Yes, please explain:

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7. Have you sued, threatened suit, or currently have a lawsuit pending against any of the defendants, or any other third party regarding your investment in CFF?  Yes  No  
If Yes, please provide details including, case name, location, date filed, disposition and amounts of any monies received:

Please Initial: \_\_\_\_\_

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8. Are you related<sup>1</sup> to any of the named defendants (see case caption on first page) in this matter or any former employee of CFF or ECM?  Yes  No

If Yes:

a. To whom and what is the relationship? \_\_\_\_\_

b. Have you ever occupied the same residence as this person?  Yes  No

c. Have you ever received from or given financial support of any type, including loans, gifts of property, or financial assistance of any type to this person?  Yes  No  
If Yes, please provide details \_\_\_\_\_

d. Did this person provide any portion of your investment, directly or indirectly, including by loan or other financial assistance?  Yes  No  
If Yes, please provide details \_\_\_\_\_

e. If your relationship is with an entity, are you an officer, director, manager, partner, shareholder or other equity holder, employee, consultant, advisor or controlling person of such entity?  Yes  No  
If yes, please provide details \_\_\_\_\_

9. If you invested through an entity (e.g., a corporation, general or limited partnership, limited liability company, trust, etc.):

a. List your officers, directors, managing partners, managers, key employees, consultants, advisors, trustee(s) and/or controlling persons:

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<sup>1</sup>A related party would included: Family members (blood or marriage); Entities such as corporations, trusts, and partnerships in which you (or any of your family members) were officers, directors, general partners, trustees, beneficiaries, equity owners, otherwise place a significant role or held a significant position; and if you, yourself, are a "legal entity" (corporation, trust, partnership, etc.) rather than a "natural person", your related parties would include your own officers, directors, general partners, trustees/beneficiaries, equity owners, etc.

Please Initial: \_\_\_\_\_

Name	Position

b. List your shareholders, partners, members and other direct and indirect equity owners, including any beneficial interest owners, and the percentage ownership of each:

Name	Ownership

***ATTACH ADDITIONAL PAGES IF NECESSARY***

**PLEASE ATTACH PROOF OF INVESTMENT(S) INCLUDING CANCELLED CHECKS, CONTRACTS, AGREEMENTS, NOTES OR ANY OTHER EVIDENCE.**

Please Initial: \_\_\_\_\_

**By Signing My/Our Name Below, I/We Acknowledge and Affirm that:**

- **I/we will supplement this Response Form if any information given later becomes inaccurate or incomplete.**
- **I/we acknowledge that I/we am/are an Investor in Cash Flow Financial, LLC and/or one of the entities implicated in the Ponzi Scheme.**
- **I/we hereby affirm that the answers provided herein are truthful.**
- **I/we understand that this Response Form is submitted under penalties of perjury.**

**PLEASE COMPLETE AND RETURN ALL 8 PAGES OF THIS INVESTOR RESPONSE FORM AND ATTACH PROOF OF INVESTMENT(S) INCLUDING CANCELLED CHECKS, CONTRACTS, AGREEMENTS, NOTES OR ANY OTHER EVIDENCE.**

Please sign and date below and forward this **Investor Response Form** to the Receiver by mail at 4095 Embassy Drive, SE, Grand Rapids MI 49546; by fax to (616) 940-1192; or by email to [CFFReceiver@stengerlaw.com](mailto:CFFReceiver@stengerlaw.com).

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_ (*First Investor*)

Print Name: \_\_\_\_\_

Print Title (if applicable): \_\_\_\_\_

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_ (*Second Investor*)

Print Name: \_\_\_\_\_

Print Title (if applicable): \_\_\_\_\_