

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

August 22, 2011

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

Dear Sir or Madam:

As you are aware, on March 10, 2011, the Commodity Futures Trading Commission ("CFTC") filed a civil lawsuit ("**Complaint**") against Cash Flow Financial, LLC ("**CFF**"), A.J. Watson ("**Watson**") and Michael Potts ("**Potts**") entitled *Commodity Futures Trading Commission vs. Watson, Potts and Cash Flow Financial, LLC et al* ("**CFTC Action**"), alleging that the defendants defrauded investors in violation of Federal law. On March 11, 2011, the Court entered the Statutory Restraining Order ("**SRO**") against the defendants prohibiting them from transferring their assets and appointing me as temporary receiver ("**Receiver**"). On March 29 and 30, 2011, Consent Orders were entered into with all of the defendants which continued the SRO in full force and effect, including those provisions pertaining to the Receiver, until further order of the Court.

According to the Complaint and exhibits thereto, from at least November 28, 2007 through filing of the Complaint, 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 this 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 further alleges that Watson and Potts 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.¹ The

¹ On June 22, 2010, the United States Securities and Exchange Commission ("**SEC**") and the CFTC 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*

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.

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

The CFTC Action is currently on-going and remains in the early stages. All defendants have filed an answer to the civil Complaint and the CFTC is working on obtaining a swift resolution. You can follow the progress of the CFTC Action by monitoring the Receiver's website at www.cffreceiver.com, where you can obtain copies of pertinent pleadings filed with the Court. To date, no criminal charges have been filed against either Watson or Potts. Although our office is involved only in the civil CFTC Action, we will continue to update our website as to any information we receive pertaining to related criminal actions as well.

As Receiver in this matter, I am tasked with the responsibility of locating all assets belonging to CFF, Watson and Potts and recovering such funds for the benefit of the investors. To date, a total of \$3,277,029.67 in known assets was frozen pursuant to the SRO and is currently in the possession of the Receiver. In addition, we are investigating other sources of recovery, including various unauthorized investments made by Watson in non-Trade LLC investments.

As Receiver, we have also filed a claim in the Trade LLC Receivership matter on behalf of CFF in the amount of approximately \$6 million, which represents the net CFF funds that were transferred to Trade, LLC by CFF. In order to ensure the most efficient and cost effective return of funds without duplicating efforts, the Trade LLC Receiver has agreed to distribute any CFF monies recovered from the Trade LLC Receivership directly to me as Receiver for CFF. The

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.

Trade LLC funds will then be added to the other CFF assets recovered and to be recovered for distribution to the CFF investors. We do not expect to recover the entire amount of the \$6 million claim against Trade, LLC, because Trade, LLC does not have sufficient assets to pay all of its liabilities.

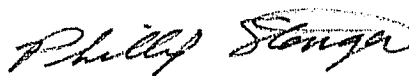
In addition to the recovery of assets, we are also tasked with the responsibility of establishing a plan for distribution of assets to CFF investors. You should have already received and completed an Investor Response Form ("IRF"). This office is currently reviewing the IRFs submitted by investors along with the additional CFF financial documentation we received from various other sources. We anticipate filing a motion with the Court within the next 30 days in which I will recommend a claims procedure plan and seek Court approval. Once the Court has approved the claims procedure, we will be able to provide investors with an anticipated time frame for distribution.

We will be filing the 2010 tax return for CFF by September 15, 2010. When the tax return is filed, we will also distribute 2010 K-1s to investors.

Please see the Receiver's website at www.cffreceiver.com for more information. We will continue to update you via our website as this process continues. If you have any questions you may contact the Receiver at (616) 264-3256 or toll free at (877) 512-2483; or you may direct email inquiries to cffreceiver@stengerlaw.com.

A copy of this letter will be posted on the CFF website and has been e-mailed to all investors for whom the Receiver has an e-mail address. If you would like future updates to be e-mailed to you, please provide the Receiver with your e-mail address at your earliest convenience.

Very truly yours,

A handwritten signature in black ink that reads "Phillip Stenger". The signature is written in a cursive, flowing style.

Phillip S. Stenger, Receiver