

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

Re: *Commodity Futures Trading Commission vs. Alan J. Watson, Michael 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

Frequently Asked Questions

1. WHO IS THE CFF RECEIVER?

Phillip S. Stenger, Esq., of the law firm of Stenger & Stenger, P.C. has been appointed as the Receiver for CFF.

2. HOW DO I CONTACT THE CFF RECEIVER?

Phillip S. Stenger
Stenger & Stenger, P.C.
2618 East Paris Ave SE
Grand Rapids, MI 49546
Toll Free: 877-512-2483
Phone: 616-264-3256
Fax: 616-940-1192
Email: cffreceiver@stengerlaw.com
Website: www.cffreceiver.com

3. IS THE RECEIVER ACTING AS MY ATTORNEY OR FIDUCIARY?

No. The Receiver and his staff do not represent you and as such cannot give you legal, tax or financial advice.

4. WHAT DO I NEED TO DO TO PARTICIPATE IN THE CFF RECEIVERSHIP?

The Receiver has mailed to all known potential investors an Investor Response Form ("IRF"). You will need to complete this form and return it to the Receiver along with all supporting documentation of your claim.

5. IF I ALREADY SUBMITTED INFORMATION TO THE TRADE LLC RECEIVER, DO I NEED TO SUBMIT THE INVESTOR RESPONSE FORM IN THIS MATTER?

The CFF Receivership encompasses assets that are not a part of the Trade LLC Receivership. If you would like to participate in the CFF Receivership you will

need to complete and return the Investor Response Form with the appropriate documentation to evidence your claim in CFF.

6. WHERE CAN I OBTAIN A COPY OF THE INVESTOR RESPONSE FORM?

The Investor Response Form was recently mailed to all known potential investors and is posted on our website www.cffreceiver.com. You may also contact our office to request a copy.

7. WHAT DO I DO IF I DID NOT RECEIVE AN INVESTOR RESPONSE FORM IN THE MAIL BUT BELIEVE I WAS DEFRAUDED BY CFF?

You may obtain a copy of the Investor Response Form at www.cffreceiver.com or contact our office to request a copy be mailed to you.

8. WHEN WILL DISTRIBUTIONS BE MADE?

No distribution date has been set. The Receiver is in the process of determining the location and amount of the defendants' assets in addition to locating all potential investors and determining the amount of their potential claims. Investors will be kept informed as this process continues.

9. WHAT WILL HAPPEN WITH MY CLAIM IN THE TRADE LLC RECEIVERSHIP?

As Receiver for CFF, we have submitted a claim in the Trade LLC Receivership on behalf of all investors in CFF. The Trade LLC Receiver has distributed to the CFF Receiver the amount of \$1,480,139.91 which represents the first distribution to CFF under the Trade LLC Receivership. These funds will be combined with the remaining balance of any other assets returned to the CFF receivership estate and distributed to CFF investors as part of the CFF receivership distribution.

10. I RECEIVED A SCHEDULE K-1 WITH A \$0 BALANCE. DOES THIS MEAN THAT I DO NOT HAVE A CLAIM IN THE RECEIVERSHIP ESTATE?

No. The zero balance on the K-1 does not represent your potential restitution amount in the receivership.

11. WHY DOES MY K-1 INDICATE A \$0 BALANCE?

The 2010 K-1's were provided to all investors in Cash Flow Financial, LLC with a \$0 balance. As the CFF financial documents provided to us were incomplete and inaccurate, there was not enough financial information available for our accountants to accurately determine the actual amount of loss for the business at this time.

12. WHO DO I TALK TO IF I HAVE ANY QUESTIONS REGARDING THE K-1 I RECEIVED?

Please contact your personal tax consultant or legal advisor regarding any questions you may have pertaining to your 2010 K-1. This office cannot provide you with tax or legal advice.

13. HAVE ANY CRIMINAL CHARGES BEEN FILED AGAINST THE DEFENDANTS INVOLVED IN THE CFF MATTER?

A criminal case was filed against A.J. Watson on September 2, 2011 in the United States District Court for the Eastern District of Virginia, Case No: 1:11-cr-441("Criminal Matter"). The charge in the Criminal Matter is one count of wire fraud. (A copy of the Statement of Facts filed in the Criminal Matter is attached herein for your convenience.)

To date, no criminal charges have been filed against Mr. Potts.

14. WHAT IS THE STATUS OF THE CRIMINAL ACTION AGAINST MR. WATSON?

On September 22, 2011, Mr. Watson agreed to waive indictment and pled guilty to one count of wire fraud in violation of Title 18, United States Code, §1343. The court originally scheduled Mr. Watson's sentencing for December 9, 2011; however, a continuance was granted to Mr. Watson on December 5th, 2011, and the sentencing was rescheduled for March 2, 2012. Subsequently, the court granted a second continuance to Mr. Watson on February 28th, 2011, and the sentencing was rescheduled again for May 23, 2012.

The sentencing hearing was held as scheduled on May 23, 2012, and Mr. Watson was sentenced to one hundred forty-four (144) months in prison. Mr. Watson will be allowed to self-surrender and remains free on \$500,000 bond until the date of surrender as directed by the United States Marshal Service. (Copies of Mr. Watson's Plea Agreement, the Orders for Continuance of Sentencing, and the Minute Entry regarding the sentencing are attached herein for your convenience.)

15. WILL MR. WATSON GO TO JAIL AS A RESULT OF THE CRIMINAL CASE?

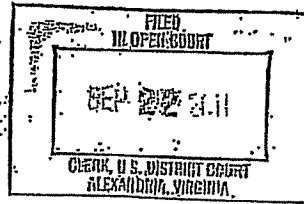
Per the results of the hearing held on May 23, 2012, Mr. Watson was sentenced to one hundred forty-four (144) months in prison. The location where he will serve this sentence will be determined by the Bureau of Prisons based on the judge's recommendation that he be incarcerated somewhere near his home.

16. IS THE CFF RECEIVER PROSECUTING OR INVOLVED IN THE CRIMINAL MATTER AGAINST MR. WATSON?

No. Our office is not involved in any criminal proceedings against Mr. Watson and/or Mr. Potts.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

Alexandria Division



UNITED STATES OF AMERICA,

v.

ALAN JAMES WATSON,

Defendant.

Criminal No. 1:11 CR 441

STATEMENT OF FACTS

The United States and the defendant, Alan James Watson, agree that had this matter proceeded to trial, the United States would have proven the following facts beyond a reasonable doubt.

I. Introduction

1. In or about 2004, the Defendant, Alan James Watson ("defendant" or "Watson") created a Michigan Limited Liability Company which later functioned as an investment club ("IC") with over 750 investor/members that resided throughout the United States and Canada, including in the Eastern District of Virginia. From in or about April 2008 through in or about April 2010, Watson directed the investments for IC, functioning as IC's Chief Executive Officer, during which period Watson made material misrepresentations and omissions to IC's investor/members via emails, website postings and account statements, about the true nature, status, and returns of the investor/members's investments, all in violation of Title 18, United States Code, Section 1343.

II. The Investment Scheme

2. From in or about 2006 through July 2009, Defendant Watson collected approximately \$40 million from IC's investor/members. Watson represented to the investor/members that all of the \$40 million that was collected was being invested in Company A, a company whose investment strategy, Watson represented through IC's website, was to "trade equities on an intraday basis with the aid of a system developed by the club's expert consultant, [Company A]."

3. Beginning in or about May 2007, Watson told prospective and existing investor/members of IC, through emails and website postings, that Watson would invest all of the funds collected by IC (\$40 million) with Company A. Watson also represented to IC's member/investors that IC was earning a return of ten percent per month on the funds IC had sent to Company A.

4. Despite these representations, Watson only caused approximately \$6 million (of the \$40 million collected) to be invested with Company A. The remaining funds (approximately \$34 million) were secretly invested by Watson with over 25 other unrelated investment ventures which resulted in a complete or near complete loss of the \$34 million of IC investor/member money that was not invested with Company A as represented.

5. Despite the significant and ongoing losses Watson experienced in the non - Company A investments, Watson continued to misrepresent to IC's member/investors that all of their money had been invested with Company A. These repeated and continuing misrepresentations by Watson allowed IC and Watson to obtain additional investor/members and to retain investor/members that contemplated withdrawing their investments from IC.

6. From in or about April 2008 through in or about April 2010, Watson prepared, or caused to be prepared, account statements that presented IC member/investors' account balances and account activity. In these statements, Watson misrepresented to investor/members that all of their investments funds remained with Company A and continued to garner the ten percent monthly returns Watson had previously represented, all the while knowing that these representations were false. Watson posted these false member/investor account statements to IC's website, which was accessed by IC member/investors, to include individuals residing within the Eastern District of Virginia.

7. In addition, Watson failed to disclose in the monthly account statements to IC member/investors that \$34 million of the total of \$40 million collected from IC member/investors had not been invested in Company A and that Watson's direction of the \$34 million in other non Company A investments had resulted in a complete or near complete loss of that money.

8. Watson also put "bonus" items on the account statements that appeared as trading profits. In fact, many of Watson's "bonus" items simply represented promised returns from non Company A investments that never materialized. Thus, Watson ultimately operated IC as a Ponzi scheme., i.e. using new member/investors' principal to pay successive member/investors as their return on investments became due or were demanded.

9. On or about November 18, 2008, Watson caused an email to be sent from IC to member/investor M.S. that contained instructions for wiring funds to IC for investment by IC and Watson, in furtherance of Watson's investment scheme.

10. In March 2009, Watson stopped investing IC member/investor funds with Company A. However, in his website postings and emails, Watson continued to falsely tell IC's member/investors that he was investing their money with Company A. It was not until April 2010 that Watson informed IC's member/investors that he had discontinued investing their money with Company A a year earlier, and that Watson had failed all along to invest most of their money with Company A, contrary to his earlier website postings, emails and account statements.

11. At present, CFF has less than \$1,000 left in its bank accounts.

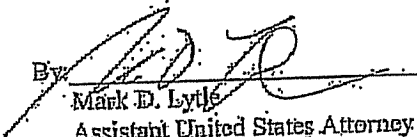
12. This statement of facts includes those facts necessary to support the plea agreement between the Defendant and the Government. It does not include each and every fact known to the Defendant or the Government, and it is not intended to be a full enumeration of all the facts surrounding the Defendant's case.

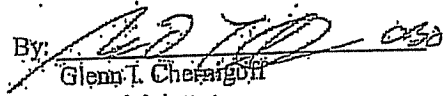
13. At all times, the actions of the Defendant as recounted above were in all respects knowing, deliberate, and willful, and were not committed by mistake, accident, or other innocent reason.

Respectfully submitted,

Neil H. MacBride
United States Attorney

Denis J. McInerney
Chief, Fraud Section
Criminal Division
United States Department of Justice

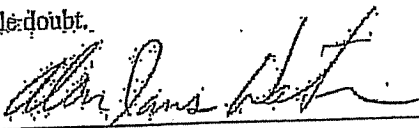
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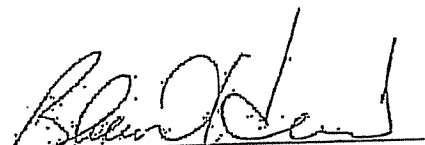
Defendant's Stipulation and Signature: After consulting with my attorneys and pursuant to the plea agreement I entered into this day with the United States, I hereby stipulate that the above statement of facts is true and accurate, and that had the matter proceeded to trial, the United States would have proven the same beyond a reasonable doubt.

Date: 2-14-11


Alan James Watson
Defendant

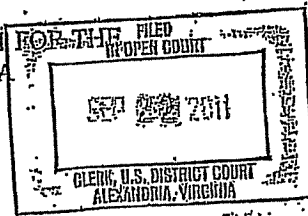
Defense Counsel's Signature: I have carefully reviewed the above statement of facts with my client, Alan James Watson. To my knowledge, his decision to stipulate to these facts is an informed and voluntary one.

Date: 2-18-11


Blair D. Howard
Counsel for the Defendant Watson

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

Alexandria Division



UNITED STATES OF AMERICA

v.

ALAN JAMES WATSON,

Defendant,

Criminal No. 1:11CR441

PLEA AGREEMENT

The United States of America, by and through the undersigned counsel for the United States Attorney for the Eastern District of Virginia; Fraud Section, Criminal Division, United States Department of Justice ("collectively referred to as the "United States"), Alan James Watson (hereinafter referred to as the "defendant"), and the defendant's counsel enter into following agreement pursuant to Rule 11 of the Federal Rules of Criminal Procedure. The terms of the agreement are as follows:

1. Offense and Maximum Penalties

The defendant agrees to waive indictment and plead guilty to a one count criminal information charging the defendant with wire fraud, in violation of Title 18, United States Code, Section 1343. The maximum penalty is a maximum term of 20 years imprisonment, a fine of \$250,000, or twice the amount of gross gain or loss, full restitution, a special assessment, and three years of supervised release. The defendant understands that this supervised release term is in addition to any prison term the defendant may receive, and that a violation of a term of supervised release could result in the defendant being returned to prison for the full term of supervised release.

2. Factual Basis for the Plea

The defendant will plead guilty because the defendant is in fact guilty of the charged offense. The defendant admits the facts set forth in the statement of facts filed with this plea agreement and agrees that those facts establish guilt of the offense charged beyond a reasonable doubt. The statement of facts, which is hereby incorporated into this plea agreement, constitutes a stipulation of facts for purposes of Section 1B1.2(a) of the United States Sentencing Commission's Sentencing Guidelines Manual.

3. Assistance and Advice of Counsel

The defendant is satisfied that the defendant's attorneys have rendered effective assistance. The defendant understands that by entering into this agreement, the defendant surrenders certain rights as provided in this agreement. The defendant understands that the rights of criminal defendants include the following:

- a. the right to plead not guilty and to persist in that plea;
- b. the right to a jury trial;
- c. the right to be represented by counsel – and if necessary have the court appoint counsel – at trial and at every other stage of the proceedings; and
- d. the right at trial to confront and cross-examine adverse witnesses, to be protected from compelled self-incrimination, to testify and present evidence, and to compel the attendance of witnesses.

4. Role of the Court and the Probation Office

The defendant understands that the Court has jurisdiction and authority to impose any sentence within the statutory maximum described above, but the defendant also understands that

the Court will determine the defendant's actual sentence in accordance with 18 U.S.C. § 3553(a). The defendant understands that the Court has not yet determined a sentence and that any estimate of the advisory sentencing range under the Sentencing Guidelines Manual the defendant may have received from the defendant's counsel, the United States, or the Probation Office is a prediction, not a promise, and is not binding on the United States, the Probation Office, or the Court. Additionally, pursuant to the Supreme Court's decision in *United States v. Booker*, 543 U.S. 220 (2005), the Court, after considering the factors set forth in 18 U.S.C. § 3553(a), may impose a sentence above or below the advisory sentencing range, subject only to review by higher courts for reasonableness. The United States makes no promise or representation concerning what sentence the defendant will receive, and the defendant cannot withdraw a guilty plea based upon the actual sentence.

5. Sentencing Guidelines

In accordance with Rule 11(c)(1)(B) of the Federal Rules of Criminal Procedure, the United States and the Defendant will recommend to the Court that the following provisions of the sentencing guidelines apply:

- a. The base offense level is 7 pursuant to U.S.S.G. § 2B1.1(a)(1);
- b. The base offense level is increased by 22 levels pursuant to U.S.S.G. § 2B1.1(b)(1)(L) because the loss amount is more than \$20,000,000, but less than \$50,000,000.
- c. The base offense level is increased by 6 levels because the offense involved 250 or more victims pursuant to U.S.S.G. § 2B1.1(b)(2)(C).

- d. The United States and the defendant agree that the defendant has assisted the government in the investigation and prosecution of the defendant's own misconduct by timely notifying authorities of the defendant's intention to enter a plea of guilty, thereby permitting the government to avoid preparing for trial and permitting the government and the Court to allocate their resources efficiently. If the defendant qualifies for a two-level decrease in offense level pursuant to U.S.S.G. § 3E1.1(a) and the offense level prior to the operation of that section is a level 16 or greater, the government agrees to file, pursuant to U.S.S.G. § 3E1.1(b), a motion prior to, or at the time of, sentencing for an additional one-level decrease in the defendant's offense level.

6. Waiver of Appeal, FOIA, and Privacy Act Rights

The defendant also understands that 18 U.S.C. § 3742 affords a defendant the right to appeal the sentence imposed. Nonetheless, the defendant knowingly waives the right to appeal the conviction and any sentence within the statutory maximum described above (or the manner in which that sentence was determined) on the grounds set forth in Section 3742 or on any ground whatsoever, in exchange for the concessions made by the United States in this plea agreement. This agreement does not affect the rights or obligations of the United States as set forth in 18 U.S.C. § 3742(b). The defendant also hereby waives all rights, whether asserted directly or by a representative, to request or receive from any department or agency of the United States any records pertaining to the investigation or prosecution of this case, including without limitation any records that may be sought under the Freedom of Information Act, 5 U.S.C. § 552, or the

Privacy Act, 5 U.S.C. § 552a.

7. Special Assessment

Before sentencing in this case, the defendant agrees to pay a mandatory special assessment of one hundred dollars (\$100.00) per count of conviction.

8. Payment of Monetary Penalties

The defendant understands and agrees that, pursuant to 18 U.S.C. § 3613, whatever monetary penalties are imposed by the Court will be due and payable immediately and subject to immediate enforcement by the United States as provided for in Section 3613. Furthermore, the defendant agrees to provide all of his financial information to the United States and the Probation Office and, if requested, to participate in a pre-sentencing debtor's examination. If the Court imposes a schedule of payments, the defendant understands that the schedule of payments is merely a minimum schedule of payments and not the only method, nor a limitation on the methods, available to the United States to enforce the judgment. If the defendant is incarcerated, the defendant agrees to participate in the Bureau of Prisons' Inmate Financial Responsibility Program, regardless of whether the Court specifically directs participation or imposes a schedule of payments.

9. Restitution for Offense of Conviction

The defendant agrees to the entry of a restitution order for the full amount of the victims' losses. At this time, the government has not completed an analysis of the amount of losses or anticipated losses that victims have suffered. The United States and the defendant are aware that the losses to victims will total more than \$20 million but less than \$40 million. However, specific loss amounts for each individual victim have yet to be calculated. The total loss

amounts for restitution and sentencing purposes will be updated as soon as additional loss figures are available.

10. Immunity from Further Prosecution in This District

The United States Attorney for the Eastern District of Virginia and the Fraud Section, Criminal Division, United States Department of Justice will not further criminally prosecute the defendant in the Eastern District of Virginia for the specific conduct described in the information or statement of facts.

11. Defendant's Cooperation

The defendant agrees to cooperate fully and truthfully with the United States and provide all information known to the defendant regarding any criminal activity as requested by the government. In that regard:

- a. The defendant agrees to testify truthfully and completely at any grand juries, trials, or other proceedings.
- b. The defendant agrees to be reasonably available for debriefing and pre-trial conferences as the United States may require.
- c. The defendant agrees to provide all documents, records, writings, or materials of any kind in the defendant's possession or under the defendant's care, custody, or control relating directly or indirectly to all areas of inquiry and investigation.
- d. The defendant agrees that, at the request of the United States, the defendant will voluntarily submit to polygraph examinations, and that the United States will choose the polygraph examiner and specify the

procedures for the examinations.

- e. The defendant agrees that the statement of facts is limited to information to support the plea. The defendant will provide more detailed facts relating to this case during ensuing debriefings.
- f. The defendant is hereby on notice that the defendant may not violate any federal, state, or local criminal law while cooperating with the government, and that the government will, in its discretion, consider any such violation in evaluating whether to file a motion for a downward departure or reduction of sentence.
- g. Nothing in this agreement places any obligation on the government to seek the defendant's cooperation or assistance.

12. Use of Information Provided by the Defendant Under This Agreement

The United States will not use any truthful information provided pursuant to this agreement in any criminal prosecution against the defendant in the Eastern District of Virginia, except in any prosecution for a crime of violence or conspiracy to commit, or aiding and abetting, a crime of violence (as defined in 18 U.S.C. § 16). Pursuant to U.S.S.G. § 1B1.8, no truthful information that the defendant provides under this agreement will be used in determining the applicable guideline range, except as provided in Section 1B1.8(b). Nothing in this plea agreement, however, restricts the Court's or Probation Officer's access to information and records in the possession of the United States. Furthermore, nothing in this agreement prevents the government in any way from prosecuting the defendant should the defendant knowingly provide false, untruthful, or perjurious information or testimony, or from using information

provided by the defendant in furtherance of any forfeiture action, whether criminal or civil, administrative or judicial. The United States will bring this plea agreement and the full extent of the defendant's cooperation to the attention of other prosecuting offices if requested.

13. Defendant Must Provide Full, Complete, and Truthful Cooperation

This plea agreement is not conditioned upon charges being brought against any other individual. This plea agreement is not conditioned upon any outcome in any pending investigation. This plea agreement is not conditioned upon any result in any future prosecution that may occur because of the defendant's cooperation. This plea agreement is not conditioned upon any result in any future grand jury presentation or trial involving charges resulting from this investigation. This plea agreement is conditioned upon the defendant providing full, complete, and truthful cooperation.

14. Motion for a Downward Departure

The parties agree that the United States reserves the right to seek any departure from the applicable sentencing guidelines, pursuant to Section 5K1.1 of the Sentencing Guidelines and Policy Statements, or any reduction of sentence pursuant to Rule 35(b) of the Federal Rules of Criminal Procedure, if, in its sole discretion, the United States determines that such a departure or reduction of sentence is appropriate.

11. The Defendant's Obligations Regarding Assets Subject to Forfeiture

The defendant agrees to identify all assets over which the defendant exercises or exercised control, directly or indirectly, within the past five (5) years, or in which the defendant has or had during that time any financial interest. The defendant agrees to take all steps as requested by the United States to obtain from any other parties by any lawful means any records

of assets owned at any time by the defendant. The defendant agrees to undergo any polygraph examination the United States may choose to administer concerning such assets and to provide and/or consent to the release of the defendant's tax returns for the previous five years. Defendant agrees to forfeit to the United States all of the defendant's interests in any asset of a value of more than \$1000 that, within the last five (5) years, the defendant owned, or in which the defendant maintained an interest, the ownership of which the defendant fails to disclose to the United States in accordance with this agreement.

15. Forfeiture Agreement

The defendant agrees to forfeit all interests in any Cash Flow Financial or related assets that the defendant owns or over which the defendant exercises control, directly or indirectly, as well as any property that is traceable to, derived from, fungible with, or a substitute for property that constitutes the proceeds of his offense. The defendant further agrees to waive all interest in the asset(s) in any administrative or judicial forfeiture proceeding, whether criminal or civil, state or federal. The defendant agrees to consent to the entry of orders of forfeiture for such property and waives the requirements of Federal Rules of Criminal Procedure 32.2 and 43(a) regarding notice of the forfeiture in the charging instrument, announcement of the forfeiture at sentencing, and incorporation of the forfeiture in the judgment. The defendant understands that the forfeiture of assets is part of the sentence that may be imposed in this case. The United States agrees to recommend to the Asset Forfeiture and Money Laundering Section, United States Department of Justice, that any forfeited property be used to pay the defendant's court-ordered restitution.

16. Waiver of Further Review of Forfeiture

The defendant further agrees to waive all constitutional and statutory challenges in any manner (including direct appeal, habeas corpus, or any other means) to any forfeiture carried out in accordance with this Plea Agreement on any grounds, including that the forfeiture constitutes an excessive fine or punishment. The defendant also waives any failure by the Court to advise the defendant of any applicable forfeiture at the time the guilty plea is accepted as required by Rule 11(b)(1)(J). The defendant agrees to take all steps as requested by the United States to pass clear title to forfeitable assets to the United States, and to testify truthfully in any judicial forfeiture proceeding. The defendant understands and agrees that all property covered by this agreement is subject to forfeiture as traceable to, derived from, fungible with, or a substitute for property that constitutes the proceeds of his offense.

17. Breach of the Plea Agreement and Remedies

This agreement is effective when signed by the defendant, the defendant's attorney, and an attorney for the United States. The defendant agrees to entry of this plea agreement at the date and time scheduled with the Court by the United States (in consultation with the defendant's attorney). If the defendant withdraws from this agreement, or commits or attempts to commit any additional federal, state, or local crimes, or intentionally gives materially false, incomplete, or misleading testimony or information, or otherwise violates any provision of this agreement, then:

- a. The United States will be released from its obligations under this agreement, including any obligation to seek a downward departure or a reduction in sentence. The defendant, however, may not withdraw the

guilty plea entered pursuant to this agreement.

- b. The defendant will be subject to prosecution for any federal criminal violation, including, but not limited to, perjury and obstruction of justice, that is not time-barred by the applicable statute of limitations on the date this agreement is signed. Notwithstanding the subsequent expiration of the statute of limitations, in any such prosecution, the defendant agrees to waive any statute-of-limitations defense.
- c. Any prosecution, including the prosecution that is the subject of this agreement, may be premised upon any information provided, or statements made, by the defendant, and all such information, statements, and leads derived therefrom may be used against the defendant. The defendant waives any right to claim that statements made before or after the date of this agreement, including the statement of facts accompanying this agreement or adopted by the defendant and any other statements made pursuant to this or any other agreement with the United States, should be excluded or suppressed under Fed. R. Evid. 410, Fed. R. Crim. P. 11(f), the Sentencing Guidelines, or any other provision of the Constitution or federal law.

Any alleged breach of this agreement by either party shall be determined by the Court in an appropriate proceeding at which the defendant's disclosures and documentary evidence shall be admissible and at which the moving party shall be required to establish a breach of the plea agreement by a preponderance of the evidence. The proceeding established by this paragraph

does not apply, however, to the decision of the United States whether to file a motion based on "substantial assistance" as that phrase is used in Rule 35(b) of the Federal Rules of Criminal Procedure and Section 5K1.1 of the Sentencing Guidelines and Policy Statements. The defendant agrees that the decision whether to file such a motion rests in the sole discretion of the United States.

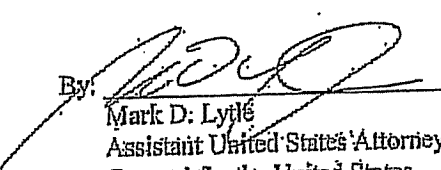
18. Nature of the Agreement and Modifications

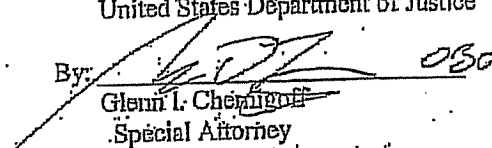
This written agreement constitutes the complete plea agreement between the United States, the defendant, and the defendant's counsel. The defendant and his attorney acknowledge that no threats, promises, or representations have been made, nor agreements reached, other than those set forth in writing in this plea agreement, to cause the defendant to plead guilty. Any modification of this plea agreement shall be valid only as set forth in writing in a supplemental or revised plea agreement signed by all parties.

Respectfully submitted,

Neil H. MacBride
United States Attorney

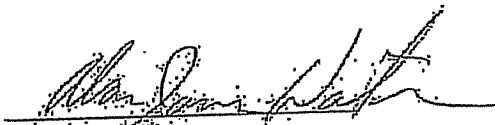
Dennis J. McInerney
Chief, Fraud Section
Criminal Division
United States Department of Justice

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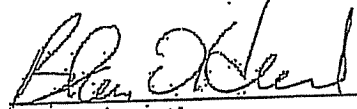
Defendant's Signature: I hereby agree that I have consulted with my attorney and fully understand all rights with respect to the pending criminal information. Further, I fully understand all rights with respect to 18 U.S.C. § 3553 and the provisions of the Sentencing Guidelines Manual that may apply in my case. I have read this plea agreement and carefully reviewed every part of it with my attorney. I understand this agreement and voluntarily agree to it.

Date: 2-17-11


Alan James Watson
Defendant

Defense Counsel's Signature: I am counsel for the defendant in this case. I have fully explained to the defendant the defendant's rights with respect to the pending information. Further, I have reviewed 18 U.S.C. § 3553 and the Sentencing Guidelines Manual, and I have fully explained to the defendant the provisions that may apply in this case. I have carefully reviewed every part of this plea agreement with the defendant. To my knowledge, the defendant's decision to enter into this agreement is an informed and voluntary one.

Date: 2-18-11


Blair D. Howard
Counsel for Defendant Watson

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

UNITED STATES OF AMERICA;)	
)	
)	
)	
v.)	Case No. 1:11-CR-441
)	
ALAN JAMES WATSON,)	
)	
Defendant.)	

ORDER

THIS MATTER is before the Court on Defendant's Motion for Continuance. (Dkt. No. 14.) Defendant requests that the Court continue the sentencing hearing currently scheduled for December 9, 2011. The government does not oppose this motion. For good cause shown, it is hereby

ORDERED that Defendant's Motion for Continuance is GRANTED.
It is further

ORDERED that the Defendant's sentencing hearing is scheduled for March 2, 2012.

The Clerk is directed to forward a copy of this Order to counsel of record.

Entered this 5th day of December, 2011.

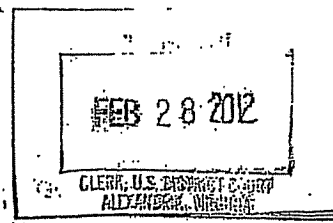
Alexandria, Virginia

12 / 05 / 11

/s/
Gerald Bruce Lee
United States District Judge

UNITED STATES DISTRICT COURT
FOR THE
EASTERN DISTRICT OF VIRGINIA

Alexandria Division



UNITED STATES OF AMERICA

v.

ALAN JAMES WATSON

Defendant.

)
)
) Docket No.: 1:11CR441
)
)
)

MOTION FOR CONTINUANCE

COMES NOW the Defendant, Alan James Watson (A.J. Watson), by counsel, Blair D. Howard, and moves this Honorable Court for a continuance of the sentencing date now set for March 2, 2012 at 9:00 AM before the Honorable Judge Gerald Bruce Lee. In support of this request, the Defendant respectfully states the following:

1. In the late summer of 2010, A.J. Watson and Counsel began cooperating with Assistant U.S. Attorney, Mark D. Lytle, and Agent Michael Kelly by attending meetings with federal agents, U.S. Attorneys, and providing documents requested in the fraud investigation involving Cash Flow Financial, LLC (CFF, LLC). Defendant has filed with the Court a Sentencing Memorandum in support of Mr. Watson's cooperation with civil lawyers as well as criminal investigators reflecting his efforts to recover monies lost by the CFF, LLC, investors. Defendant files today, an Amendment to his Sentencing Memorandum under Title 18 § 3553(a). In the Amendment Counsel references further favorable

developments in recovery of CFF, LLC, funds.

2. Since Defendant is continuing to cooperate with the investigators in this case in Virginia, it is respectfully requested that client's sentencing be continued until May of 2012.
3. Based on Defense Counsel's recent discussions with Assistant U.S. Attorney, Mark D. Lytle, it is Counsel's understanding that the Government has no objection to Defense Counsel's request for a continuance.

WHEREFORE it is respectfully requested that the Court grant a continuance of the sentencing hearing over into the month of May 2012 in order that Mr. Watson continue to assist the Government's investigation.

Respectfully submitted,

Alan James Watson,
By counsel

/s/ Blair D. Howard
Blair D. Howard, Esquire
Va. Bar No. 04947
Howard, Morrison, Ross and Whelan
31 Garrett Street
Warrenton, Virginia 20186
(540) 347-1000
FAX (540) 349-4422
Counsel for Defendant

*Motion granted.
This case will be heard
on Wednesday May 23, 2012
at 11:00 AM.*

Adm 2/28/12

/s/
Gerald Bruce Lee
United States District Judge

CRIMINAL GUIDELINES SENTENCING MINUTES

Judge: Lee
 Reporter: R. Wilson
 Start: 9:07
 End: 9:34

Date: 5-23-12

UNITED STATES OF AMERICA
 VS.

1:11 CR 441
 Case Number

Wire fraud

Alan James Watson

Counsel/Government: Mark Lytle + Kelly Muldorf, Justice
 Counsel/Defendant: Blair Howard

Court adopts PSI _____ without exceptions _____ with exceptions: Atty. Wise spoke
from the courtroom answering a question/explaining an issue, in behalf
of A, but was not present @ counsel's table.

Offense Level: _____ Court departs from Guidelines pursuant to:
 Criminal History: _____ USSG 5H1.4
 Imprisonment Range: _____ to _____ USSG 5K1.1
 Supervised Release Range: _____ to _____ USSG 5K2.12
 Fine Range: X None in light of fine _____ USSG 5C1.2
 Special Assessment \$ immed. Other: _____
 Restitution \$ T.B.D. incarceration PA. to victims on rotating basis, based on
12 yrs. somewhere around Excluded
#36,615,344.67
 BOP for _____ months Probation for _____ months
 Supervised Release for _____ years

VICTIMS' statements are
 compelling (Court read some
 15 yrs. is excessive)

SPECIAL CONDITIONS:

- ☐ Dft. to remain drug free, submit to In/Out patient testing as directed.
- ☐ Dft. must participate in _____ counseling as directed.
- ☐ No new credit
- ☒ Access to all financial records.
- ☒ Dft. must notify employer
- ☒ Dft. must pay restitution in monthly install. of \$ 300 to begin 60 days after release from custody.
- ☒ Drug testing waived @ discretion of P.O.
- ☐ Home confinement for the first _____ months to only leave the home for employment, attend medical needs, meet with attorneys, probation officer, or to attend any religious services.
- ☐ Dft. must fully cooperate w. INS in any deportation proceedings; may not re-enter w/o perm.
- ☒ Other winnings
- ☒ NO business access to OTHER money

RECOMMENDATIONS TO BOP:

- ☒ Dft. designated to facility close to home
- ☐ Dft. designated to facility to receive intensive drug treatments.
- ☐ Dft. designated to facility to participate in ICC (Boot Camp) type program
- ☐ Dft. to participate in 500 hrs Intensive Drug Treatment Program
- ☐ Dft. designated to minimum level security facility

Defendant _____ Remanded ☒ Cont'd on Bond to Self-Surrender as directed by USMS
 _____ to be Deported Immediately

90 days ext. to get an accurate restitution figure.

Forfeiture Order entered and filed.



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NEWS



Investment Club Manager Sentenced To 12 Years In Prison For \$40 Million Fraud

FOR IMMEDIATE RELEASE

May 24, 2012

WASHINGTON – Alan James Watson, 47, of Clinton Township, Mich., was sentenced today to 12 years in prison for fraudulently soliciting and accepting \$40 million from more than 900 members of his investment club, Cash Flow Financial LLC (CFF). Watson subsequently lost nearly all of the investors' money through non-disclosed, high-risk investments. Victims were located in Virginia and nationwide. Watson was also ordered to forfeit \$36,615,344.

U.S. District Judge Gerald Bruce Lee in the Eastern District of Virginia also sentenced Watson to three years of supervised release. Watson pleaded guilty to one count of wire fraud on Sept. 22, 2011.

The sentencing was announced by U.S. Attorney for the Eastern District of Virginia Neil H. MacBride; Assistant Attorney General Lanny A. Breuer of the Justice Department's Criminal Division; James W. McJunkin, Assistant Director in Charge of the FBI's Washington Field Office; and Postal Inspector in Charge of Criminal Investigations Gerald O'Farrell of the U.S. Postal Inspection Service (USPIS).

"The pitch Mr. Watson made to investors was a big fat lie, and he kept lying until his scheme collapsed and investors lost nearly everything," said U.S. Attorney MacBride. "Based on these lies, investors recommended Mr. Watson's club to their friends and family, and the damage to these relationships was just as harmful as the financial devastation itself."

"Mr. Watson deceived members of his investment club from early on and drove his scheme deeper and deeper while investors remained none the wiser," said Assistant Attorney General Breuer. "His lies destroyed lives, and today's sentence ensures he will pay for his destructive actions. The 12-year prison sentence handed down today is a signal to fraudsters that criminal deception born from greed will not be tolerated."

"More than 900 unwitting victims thought they had done their homework and calculated their investment wisely; instead, they were met with false documentation that yielded no return on their investment," said FBI Assistant Director in Charge McJunkin. "Investigating white collar crime has been and will continue to be a priority for the FBI and our law enforcement partners, as demonstrated by this case and today's sentence."

According to court documents, Watson created CFF in 2004 and served as the club's chief executive officer. From 2006 to 2009, Watson received almost \$40 million from investors. Watson purported that the money would be invested through an equities-trading system developed by an expert consultant, Trade LLC, with a promised return on investment of 10 percent per month. In reality, Watson admitted that only \$6 million of the \$40 million was ever invested in Trade LLC, while the remaining \$34 million was secretly invested in miscellaneous, high-risk ventures without the consent of investment club members. These high-risk investments resulted in a near complete loss of the \$34 million.

According to court documents, despite the losses for the investors, Watson continued to create false monthly account statements showing net gains from their investments. In addition, Watson included "bonus" items on the account statements that appeared as trading profits, the result of a Ponzi scheme he orchestrated to use new investor funds to pay off earlier investors.

In March of 2009, Watson ceased investing in Trade LLC and re-deposited those funds in separate unauthorized ventures. In 2010, nearly a year after he had fully withdrawn finances from Trade LLC, Watson informed investment club members that he had not invested their money as promised, and that none of the reported returns had ever materialized. This resulted in a combined \$40 million loss for investment club members.

The Commodity Futures Trading Commission (CFTC) has filed a related civil case in the Eastern District of Michigan.

STOPFRAUD.GOV
FINANCIAL FRAUD ENFORCEMENT TASK FORCE

Protect yourself from fraud, and
report suspected cases of financial
fraud to local law enforcement.

DON'T
lose yourself in a
GANG

Talk to your kids about gangs and how
to avoid them.



Help us combat the proliferation of sexual
exploitation crimes against children.

This case was investigated by the FBI's Washington Field Office, USPIS, the CFTC and the U.S. Securities and Exchange Commission. The department thanks these agencies for their substantial assistance in this matter.


Trial Attorney Kevin B. Muhlendorf of the Criminal Division's Fraud Section and Assistant U.S. Attorney Mark D. Lytle of the Eastern District of Virginia are prosecuting the case on behalf of the United States.

The investigation has been coordinated by the Virginia Financial and Securities Fraud Task Force, an unprecedented partnership between criminal investigators and civil regulators to investigate and prosecute complex financial fraud cases in the nation and in Virginia. The task force is an investigative arm of the President's Financial Fraud Enforcement Task Force, an interagency national task force.

President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

For more information about the task force visit: www.stopfraud.gov.

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