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September 12, 2018

VIA UPS

The Honorable Mark A. Goldsmith
United States District Court, Eastern District of Michigan
Theodore Levin U.S. Courthouse
231 W. Lafayette Blvd., Room 815
Detroit, MI 48226

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

Dear Judge Goldsmith:

I submit the following as my seventh report¹ 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 “Jedburgh”).

¹ This will supplement my previous six reports dated May 10, 2011 (Dkt. No. 32); September 5, 2012 (Dkt. No. 69); August 28, 2014 (Dkt. No. 110); January 20, 2015 (Dkt. No. 128); May 30, 2017 (Dkt. No. 180); and April 19, 2018 (Dkt. No. 189).

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BACKGROUND

The background of this case, detailed in my *Motion and Memorandum for Second Distribution of Receivership Assets* (“**Second Distribution Motion**”) dated June 14, 2018 (Dkt. No. 195), is well known to this Court and, in the interests of economy and brevity, will not be repeated here. This report will address events which have occurred in the Receivership since my sixth report to the Court dated April 19, 2018 (Dkt. No. 189).

MARSHALING OF ASSETS

From March 11, 2011, the date of my appointment as Temporary Receiver, through August 31, 2018, gross assets marshaled by the Estate totaled **\$9,114,796.97** (see attached **Exhibit A, “Sources and Uses of Funds,”** which is incorporated herein by reference), inclusive of **\$39,724.11** in earned interest through August 31, 2018, and an additional **\$435.62** in restitution proceeds received from April 19, 2018 through August 31, 2018, comprised of the following: **\$259.30** in restitution proceeds from Jason Michael Meyer, who was criminally prosecuted in Minnesota for his part in a fraudulent money leasing scheme; and **\$176.32** in restitution proceeds from Darlene Bishop, who was prosecuted in Texas for her part in the Apogee Fraud.

DISTRIBUTIONS OF RECEIVERSHIP ASSETS

As detailed on **Exhibit A, the Sources and Uses of Funds** report, the Receiver has marshalled a total of **\$9,114,796.97** and has distributed a total of **\$6,483,242.31** through August 31, 2018. After total expenses of **\$8,120,168.69**, through August 31, 2018, inclusive of the **\$6,483,242.31** distributed to investors to date, the Estate’s **net assets** are **\$994,628.28** as of **August 31, 2018**.

A. FIRST DISTRIBUTION: On December 7, 2015, my first distribution motion (“**Distribution Motion**”) (Dkt. No. 160) and supporting **Distribution Memorandum** (Dkt. No. 161) were filed with the Court, recommending

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distribution of a first interim **Distribution Fund** of **\$6,500,000** to Approved Investor Claimants in the ratio of their Adjusted Net Investor Claim (“ANIC”).

On January 4, 2016, Your Honor’s *Order Ratifying Approved Investor Claimants List and Authorizing Distribution of Receiver Assets* (“**Distribution Approval Order**”) (Dkt. No. 166) was entered.

Distribution checks totaling **\$6,500,000** were mailed on February 3, 2016, to the Approved Investor Claimants by U.S. First Class Mail to their last known addresses. Of the distribution checks mailed, a total of 768 checks totaling **\$6,478,164.35** were timely cashed (inclusive of two checks reissued pursuant to Small Estate Affidavits). Eight (8) checks, totaling **\$21,835.65**, were uncashed.²

B. SECOND DISTRIBUTION: On June 14, 2018, my second distribution motion and memorandum (“**Second Distribution Motion**”) (Dkt. No.195) were filed with the Court, recommending distribution of a **Second [and likely final] Distribution** of **\$800,000.00** to Approved Investor Claimants in the ratio of their Adjusted Net Investor Claim (“ANIC”).

On June 21, 2018, Your Honor’s *Order Ratifying Approved Investor Claimants List and Authorizing Second Distribution of Receiver Assets* (“**Second Distribution Approval Order**”) (Dkt. No. 196) was entered.

On August 31, 2018, 769 second distribution checks totaling \$800,000.00 were mailed to the Approved Investor Claimants by U.S. First Class Mail to their last known addresses. The Receiver implemented the Positive Pay security procedures to ensure the proper negotiation of each distribution check. Through

² Pursuant to the Distribution Approval Order, checks which were returned or had not been cashed by June 8, 2016 were void, the right to receive such payments terminated, and the funds (\$21,835.65) otherwise distributable to the Approved Investor Claimants were returned to the Distribution Fund, to be disposed of according to the Court’s further instructions.

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September 11, 2018, a total of 344 checks have cleared Positive Pay. The cash-by deadline for original second distribution checks is December 29, 2018.

STATUS OF RECOVERY EFFORTS

Developments in the following matters since my sixth report to the Court on April 19, 2018, are summarized below:

A. Jedburgh Group Disgorgement Obligation. The Consent Order and Final Judgment entered against Jedburgh Group on August 15, 2012 (Dkt. No. 67), ordering Jedburgh Group to pay a principal disgorgement obligation of \$21,568.15 to the Receiver, plus post-judgment interest, remains unsatisfied. Discovery in aid of execution conducted in the related case of *Stenger v. Freeman, et al.*, Case No.14-cv-10999-MAG-RSW (E.D. Mich.) ("**Freeman**"), discussed below, has not to date identified any Jedburgh Group assets available to satisfy the \$21,568.15 Final Judgment.

B. *Stenger v. Freeman.* The Amended Judgment entered against Keith Freeman on December 1, 2015 in the amount of \$1.5 million remains unsatisfied. A writ of garnishment served on Bank of America ("BOA"), where Freeman has bank accounts, disclosed \$4,637.79 subject to the writ. A motion for final judgment against garnishee BOA in that amount was filed on September 4, 2018. Discovery in aid of execution is ongoing against Freeman. If we become aware of any other assets available to satisfy the Amended Judgment against him, we will take appropriate actions.

WINDING UP THE RECEIVERSHIP

While it is possible that the Receiver may recover further assets from the various unsatisfied judgments referenced above, the Receiver recommends

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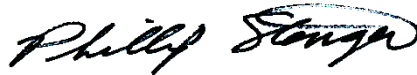
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winding up the Receivership rather than waiting on the judgment enforcement efforts to resolve.³

Subject to unforeseen circumstances and factoring in the time required to complete processing of the second distribution checks, we estimate that a motion to terminate the receivership will be filed during the first quarter of 2019.

I hope this Status 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 (1): Exhibit A: Sources and Uses of Funds Report

C: Daniel J. Grimm, Peter A. Caplan, Harry H. Wise, III, Sonya N. Goff, Erika L. Butler, and Alan J. Watson.

³ If outstanding judgment enforcement efforts result in enough execution proceeds to warrant it, we would move for a further distribution before moving to close the Receivership estate.

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EXHIBIT A
To
RECEIVER'S SEVENTH REPORT TO THE COURT DATED SEPTEMBER 12, 2018

Sources and Uses of Funds Report
(through August 31, 2018)

CFTC v CASH FLOW FINANCIAL

SOURCES AND USES OF FUNDS

AS OF 8/31/18

SOURCES OF FUNDS FROM CFF, WATSON AND JEDBURGH

Jedburgh Group Escrow	\$ 36,863.64
Bank of America #6179 Alan Watson	1,042.98
Bank of America #3383 Alan Watson	7,670.82
Frinkebeiner Trust Account	3,226,233.77
Christian Financial CU 91031 Alan Watson	40.01
Christian Financial CU 211456 Alan Watson	830.09
Merrill Lynch	0.99
Total Received from CFF, Watson and Jedburgh:	<u>3,272,682.30</u>

OTHER SOURCES OF FUNDS

Trade Station Securities	138.90
PFG, Inc	1,729.00
TD Ameritrade Inc	2,303.56
Restitution Received	3,787,959.18
Interest Earned	39,724.11
Fulton Bank Potts	156.26
Stenger & Stenger -open account -2620	200.00
Trade LLC	2,009,903.66
Total Received from Other Sources:	<u>5,842,114.67</u>

TOTAL SOURCES OF FUNDS:9,114,796.97**USES OF FUNDS**

Bank Service and Check Charges	15,015.02
Professional Fees & Expenses	1,497,431.29
Distribution settlement to investors	6,483,242.31
Return order-Jeffrey Schneider	123,880.07
Tax Penalties	600.00

see Note 1

TOTAL USES OF FUNDS	<u>8,120,168.69</u>
NET SOURCES OF FUNDS AS OF 8/31/18:	<u><u>994,628.28</u></u>
Fifth Third Bank - savings money market-2612	50,090.20
Fifth Third Bank - checking-2638	127,738.84
Fifth Third Bank - checking-2620	816,799.24
BALANCE IN CFTC V CFF BANK ACCOUNTS ON 8/31/18	<u><u>994,628.28</u></u>

Note 1: Professional Fees & Expenses Paid Through 8/31/18:

Stenger & Stenger	1,213,391.97
Plante Moran	45,258.42
Harry Wise, III	146,140.58
Cotton Bledsoe	72,860.46
Edward Mitchell	11,456.33
Alice Romsek, expert witness	1,500.00
Holland & Knight	6,823.53
	<u><u>1,497,431.29</u></u>