

**ROBB EVANS & ASSOCIATES, LLC**  
Receiver of  
**FOREX LIQUIDITY, LLC**

**REPORT OF TEMPORARY RECEIVER'S ACTIVITIES**  
**DECEMBER 17, 2007 THROUGH JANUARY 31, 2008**

This report covers the activities of the Receiver<sup>1</sup> since the inception of the receivership. This is the first Report to the Court on the progress of the receivership. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing progress of the receivership.

**Premises & Control**

On December 17, 2007, the Receiver took control of the business premises located at 6 Hutton Centre, Suite 1400, Santa Ana, CA. The receivership defendant, Forex Liquidity, LLC (FXLQ) rents the penthouse suite of a class A commercial building in an upscale business complex. The suite is accessible by an elevator that services only the FXLQ business premises. The elevator is only operational with use of a keypad code. The Receiver changed the code, securing entrance to the suite.

The Receiver suspended all operations and secured the computer software program utilized for customer service.

**Summary of the Receivership Defendant's Business Operations, Practices, and the Receiver's Initial Conclusions**

From its initial review of the records and practices of FXLQ, the Receiver has initially determined that the company was able to attract customers, and operate profitably. However, the Receiver has also determined that FXLQ used incorrect and often untruthful accounting records and supporting documents to inflate its assets, under-report its liabilities, and present a fraudulently calculated capital position to its regulators and to its customers.

Consequently, when the Receiver removed or reversed the incorrect and untruthful accounting entries, and in spite of FXLQ holding \$25.8 million in cash, the Receiver has concluded that FXLQ did not meet the minimum capital level of \$1.0 million required by its primary and secondary regulators.

---

<sup>1</sup> Reference to the Receiver in this report means the Receiver, the Receiver's deputies, its staff, and its counsel.

Before considering the minimum capital requirement, FXLQ had a capital deficit of about \$4.3 million, which resulted an undercapitalization for regulatory purposes of about \$5.3 million at December 14, 2007.

### **Business Operations**

Documentation obtained at the receivership defendant's office shows that FXLQ, a California Limited Liability Company, is owned by Robert Gray (95%) and his sister, Iris Sharnik (5%). The entity was formed September 26, 2005. FXLQ commenced its foreign exchange operation on February 2, 2006 when it became a Futures Commission Merchant registered with the Commodity Futures Trading Commission (CFTC) and a Forex Dealer Member of the National Futures Association (NFA). FXLQ was primarily engaged in soliciting and accepting customers' funds for the purpose of acting as counterparty under Client Agreements, or offering to act as the counterparty to foreign currency transactions.

FXLQ operated with or through at least four domestic affiliates or subsidiaries, a joint venture owned by companies in the British Virgin Islands which marketed foreign exchange services to Chinese consumers, and at least three other corporations formed and operating in China. The Receiver understands that it is typical for in excess of 90% of retail consumers participating in the foreign exchange market to lose money. From its position as the counterparty, and usually supported by certain hedging practices, companies such as FXLQ usually record gains when the consumers experience losses.

FXLQ's records showed that as of December 19, 2007, it had approximately 3,057 closed retail customer accounts (accounts with zero or negative balances) and 3,876 retail customer accounts with outstanding account balances totaling approximately \$14.4 million.

FXLQ was also the clearing dealer for three initiating dealers that introduced trades to FXLQ, which were completed for the customers of the initiating dealers. FXLQ carried three omnibus accounts on its books representing the activities of customers' accounts that were carried on the books of the three initiating dealers. According to certain records of FXLQ, the amount owed to the three initiating dealers was \$11.9 million. However, one of the dealers claimed the amount due was at least \$1.5 million more.

### **Financial Results and Financial Condition**

The complaint filed by the Commodity Futures Trading Commission (CFTC) in this matter described in detail the circumstances involving the National Future Association's (NFA) examination of FXLQ regarding an ABN AMRO Bank bond (the Alleged Bond) carried on FXLQ's books as a current asset with a market value

of \$35 million and other cash assets of FXLQ. As described in greater detail later, based on all of the information available to the Receiver, the Receiver believes this Alleged Bond was the foundation of a sham transaction intended to improperly and artificially inflate the assets of FXLQ.

On February 27, 2007, Swiss Imperial Trust A.G., a company incorporated under the laws of Switzerland, supposedly transferred the Alleged Bond to Malory Investments, LLC (Malory), a U. S. Broker Dealer, which is apparently no longer operating. Malory ultimately was to credit the Alleged Bond to the account of FXLQ. Since the Alleged Bond apparently never existed, a legitimate financial instrument was never transferred to Malory to support the accounting entries it created, first on behalf of Robert Gray, and then on behalf of FXLQ.

Mallory prepared monthly statements detailing activities of the accounts of FXLQ, including a reported, but actually fictitious, liquidation of the Alleged Bond by Swiss Imperial Trust A.G. for \$45.8 million. Consistent with the fictitious asset and its fictitious activity, neither the accounting records prepared and provided by Malory to the Receiver nor Malory's bank account records obtained by the Receiver showed \$45.8 million was received.

The 2006 audited financial statements of FXLQ showed net income of \$3,958,491. For the period from January 1, 2007 to December 14, 2007, FXLQ's accounting records showed net income of \$24,361,125.54. However, in spite of its profits and holding \$25.8 million in cash, the Receiver has concluded that FXLQ did not meet the minimum capital level of \$1.0 million required by its primary and secondary regulators. The undercapitalized amount was evident when the Receiver removed or reversed incorrect and untruthful accounting entries related to the Alleged Bond.

In addition to removing and correcting the fictitious assets created by the Alleged Bond, the Receiver also determined there were substantial unrecorded liabilities. Beginning in April 2007 FXLQ began transferring funds to Malory for further distribution under a \$4.0 million settlement agreement and capitalized the payment as "Funds at Counterparty, Malory Investments."

When the payment was completed, FXLQ did not reverse the capitalized payment and record a liability and a loss on its books. Consequently, during the period from April 25, 2007 to December 14, 2007, FXLQ's books, Form 1-FR-FCM and the Weekly NFA Worksheets presented to the NFA overstated the balances of both the asset account "Funds at Counterparty, Malory Investments" and the capital account "Members Equity" by at least \$4.1 million, and understated the liabilities over the settlement-payment period.

## **Additional Discussion, Schedules, and Documentation**

### **The Receivership Defendant and Affiliates**

Documentation obtained at FXLQ's office identifies the following domestic companies:

Multibank FX, LLC, a California Limited Liability Company, was formed November 28, 2006 and owned 100% by Robert Gray.

Multibank Corp, a Delaware Corporation, was formed September 13, 2006. Robert Gray owns 1,000 shares and is a Director and Chairman of the Board. The Receiver did not locate any documentation as to any other shareholders.

Multi FX International, Inc., a Delaware Corporation, was formed October 12, 2006. Robert Gray owns 1,000 shares of common stock and is a Director and Chairman of the Board. The Receiver did not locate any documentation as to any other shareholders.

Multi Forex Asia, Inc., a Delaware Corporation, was formed October 26, 2006. Robert Gray owns 1,000 shares of common stock and is a Director and Chairman of the Board. The Receiver did not locate any documentation as to any other shareholders.

The Receiver did not locate corporate books or minutes on site and was told they are in the possession of attorney Jeffrey A. Slott, Esq. of the Law Offices of Jeffrey A. Slott located in Woodland Hills, CA. The Receiver requested copies from Mr. Slott.

### **Business Operations**

#### ***General***

FXLQ commenced its foreign exchange operation on February 2, 2006 when it became a Futures Commission Merchant registered with the CFTC and a Forex Dealer Member of the NFA.

FXLQ was primarily engaged in soliciting and accepting customers' funds for the purpose of acting as a counterparty under Client Agreements, or offering to act as the counterparty to foreign currency transactions.

### ***Joint Ventures with Forex Asia International Corp.***

The Receiver has reviewed documents obtained at FXLQ's office showing that FXLQ was promoted in the People's Republic of China under the name of MultiBank FX.

The Receiver has reviewed a Multibank (Asia) and FX International Markets China Joint Venture Development Agreement (the China Joint Venture Development Agreement) dated February 22, 2006. The agreement shows that Robert Gray and Forex Asia International Corp. (Forex Asia International), a British Virgin Islands (BVI) company, formed a joint venture named FX International Markets, which was registered in the BVI. FX International Markets is owned equally by the two entities. FXLQ and Forex Asia International also formed a joint venture named Multibank (Asia), also known as Multibank FX Asia, which is owned equally by the two entities. Forex International Markets and Multibank FX Asia ultimately joined together under the China Joint Venture Development Agreement in order to penetrate the China foreign exchange market.

The China Joint Venture Development Agreement was subsequently amended on October 11, 2006, pursuant to which Multibank FX International, a Delaware company, was formed and owned equally by FXLQ and Forex Asia International to primarily promote FXLQ in Asia and the Middle East. The amended agreement required FXLQ to open an account at a bank in Hong Kong with Robert Gray as the signatory. The Receiver has requested details on this bank account from Mr. Gray's attorney.

In summary, Forex Asia International and its subsidiaries in China introduced customers through Multibank FX International to deposit and trade funds with FXLQ. The president of Forex Asia International informed the Receiver that Forex Asia International and its subsidiaries had two offices in Beijing and one office in Shenzhen, Canton Province with a workforce of approximately 160 people who engaged primarily in soliciting and serving customers for FXLQ.

FXLQ's books showed it paid \$2,857,000 to "Forex Asia" between April 13, 2006 and November 23, 2007. \$2,063,000 was recorded as business development expense, \$600,000 as a loan receivable, a current asset account, \$120,000 as rebate expense, \$42,000 as software licensing expense, and \$32,000 as marketing and promotion expense.

Forex Asia International has represented to the Receiver that these payments, except for the \$600,000 loan, reflect monies paid from the gross profit of Multibank FX International primarily to cover the operating expenses of Multibank FX International being managed by Forex Asia International in offices in China, which had an overhead of approximately \$250,000 per month.

Forex Asia International has further represented that the \$600,000 payment was not a loan, rather it was a belated payment of a portion of the net operating profits under the Joint Venture. The Receiver has not located any separate accounting records for the Joint Venture. The Receiver requested accounting records for the Joint Venture from Forex Asia International but no accountings have been turned over.

FXLQ did not list the \$600,000 loan receivable amount on its Weekly NFA Worksheet as of December 14, 2007.

Forex Asia International has claimed it is owed its 50% share of prior earned and unpaid profits, or \$1,516,950.30, resulting from China customers' trading losses at FXLQ. FXLQ carried a \$313,185.83 accrued commission expense payable to Forex Asia International on its books as of December 14, 2007 but did not list any accrued expenses on its Weekly NFA Worksheet as of December 14, 2007. The CFTC's instructions for completing Form 1-FR-FCM are as follows: "Line 27.A. – Accounts payable and accrued expenses, that "Report all accounts payable, accrued expenses, and other such liability items not classified elsewhere."

The Receiver believes that a contingent liability in favor of Forex Asia International of \$1,516,950.30 should have been listed on the Weekly NFA Worksheet as of December 14, 2007.

### ***Retail Customers***

FXLQ's records showed that as of December 19, 2007, FXLQ had approximately 3,057 closed retail customer accounts (accounts with zero or negative balances) and 3,876 retail customer accounts with outstanding account balances totaling approximately \$14.4 million comprised primarily of margin deposits plus/minus transaction gains/losses, of which approximately \$4.8 million was owed to approximately 2,902 customers in China.

Of the 3,876 outstanding retail customer accounts, approximately 357 accounts had open positions, i.e. unsettled foreign currency buy and sell orders. If all open positions had been marked to market on December 19, 2007 for purposes of determining profit or loss on currency positions in retail customer trading accounts, adjustments totaling approximately \$763,000 would have been made to decrease customer funds owed to adjust those contracts to current values.

In summary, if all positions had been settled, FXLQ would have owed approximately \$13.6 million to approximately 3,876 retail customers as of December 19, 2007, of which approximately \$4.4 million was owed to approximately 2,902 customers in China.

The Receiver was authorized by this Court to liquidate any and all customer open trading positions. On January 11, 2008, the Receiver liquidated all customer open trading positions which resulted in a payable to 3,876 retail customers totaling \$13,466,652.34, of which \$4,368,795.21 is payable to 2,902 customers in China.

***Institutional Customers***

FXLQ was the clearing dealer for three initiating dealers and carried three omnibus (institutional) accounts on its books representing the activities of customers' accounts that were carried on the books of the three dealers introducing the trade. The funds owed to the three institutional customers according to FXLQ's Weekly NFA Worksheet as of December 14, 2007 are as follows:

Interbank FX	\$ 9,167,499.80
Hamilton Williams LLC	2,209,752.44
Solid Gold Financial Services Inc.	<u>500,000.00</u>
	<u><u>\$11,877,252.24</u></u>

On December 21, 2007, Interbank FX informed the Receiver that the funds currently due from FXLQ to Interbank FX is \$10,752,204.39, which is \$1,584,704.59 higher than the \$9,167,499.80 amount shown on both the December 4, 2007 statement of Interbank FX's account prepared by FXLQ and the FXLQ's Weekly NFA Worksheet as of December 14, 2007. The \$10,752,204.39 amount is also \$2,467,533.05 higher than the \$8,284,671.34 total liabilities to Interbank FX carried on FXLQ's books as of December 14, 2007.

A summary of activities and comparison of the above amounts follows:

	<b>Per Records of IBFX</b>	<b>Per FXLQ's Account Statements to IBFX</b>	
		<b>Books</b>	<b>to IBFX</b>
Beginning balance, January 1, 2007	\$ 1,640,744	\$ 1,640,744	\$ 1,640,744
Payments by Interbank FX (IBFX) to FXLQ	89,000,000	89,000,000	89,000,000
Foreign exchange losses of IBFX, recorded as income by FXLQ	(88,193,892)	(88,193,892)	(88,193,892)
Swap credit recorded by both IBFX and FXLQ	<u>4,437,832</u>	<u>4,437,832</u>	<u>4,437,832</u>
Net balance, recorded by FXLQ as payable to IBFX	<u>6,884,684</u>	<u>6,884,684</u>	<u>6,884,684</u>
Swap credit not on FXLQ's books but shown on the account statements sent by FXLQ to IBFX	<u>2,282,816</u>	-	<u>2,282,816</u>

Rebates of IBFX, recorded by FXLQ as accrued expense	<u>1,399,987</u>	<u>1,399,987</u>	-
Rebates of IBFX between December 1 and December 4, 2007 unrecorded by FXLQ	<u>184,717</u>	-	-
Amount of withdrawal requested by IBFX on December 21, 2007	<u>\$10,752,204</u>		
Total payables due to IBFX as shown on the books of FXLQ as of December 14, 2007			<u>\$ 8,284,671</u>
Balance shown on the December 4, 2007 Omnibus and Multi Contributor Balance Statement sent by FXLQ to IBFX (attached under Tab 1)			<u>\$ 9,167,500</u>

In a letter dated January 23, 2008, Mr. Gray's attorney informed the Receiver that FXLQ did not dispute the \$1,584,704 rebates (sum of \$1,399,987 and \$184,717 listed above) claimed by Interbank FX but rejected Interbank FX 's swap credit claims totaling \$6,720,648 (sum of \$4,437,832 and \$2,282,816 listed above); therefore, FXLQ believed that the actual amount it owed to Interbank FX was \$4,031,556 (the \$10,752,204 claim amount minus the \$6,720,648 rejected swap credits).

Interest rate swap charge or credit represents the price a customer is charged or credited reflecting the difference in interest rates between the two currencies when the customer rolls over an open buy or sell order overnight.

The January 23, 2008 letter stated that Interbank FX was not an Introducing Broker of FXLQ, instead, Interbank FX and FXLQ each acted as an arm's-length, independent counterparty at all times; therefore, FXLQ had no direct relationships to Interbank FX's customers and consequently, it was the responsibility of Interbank FX, the entity that carried its own customer accounts and funds, not FXLQ, to make payments for those interest rate swap charges in favor of Interbank FX's customers arose in 2007.

The January 23, 2008 letter also stated that the issue of the monthly swap charges was not resolved between FXLQ and Interbank FX; and further stated "however, at no time did Gray or FXLQ acquiesce in IBFX's position on the swap interest charges, nor does it do so now."

In response to the Receiver's inquiry regarding swap interest charges, on February 1, 2008 Interbank FX emailed the Receiver and stated "They were agreed to by FXLQ by both Robert Gray and their operations manager."

The Receiver received from Interbank FX an Interbank FX Rebate Schedule prepared by FXLQ and an FXLQ boilerplate Authorized Introducing Broker Agreement.

The agreement was signed by Interbank FX but not signed by FXLQ. Also, FXLQ's books show that in addition to the undisputed accrued rebate expense of \$1,399,987 at December 14, 2007 as shown in the table above, it made rebate payments to Interbank FX totaling approximately \$5.9 million and \$25.9 million in 2006 and 2007, respectively. These payments seem to contradict Mr. Gray's representation that Interbank FX was not an Introducing Broker of FXLQ.

As to the issue of swap interest, the Receiver noticed that, in addition to the above-mentioned swap credit amounts included in either FXLQ's books or statements of Interbank FX's account, interest rate swap was also charged or credited to retail customers against whom FXLQ acted as a counterparty. In addition, an attorney representing Hamilton Williams LLC, another institutional customer of FXLQ discussed below, informed the Receiver on January 30, 2008 that the net effect of swap interest/premiums and credits was taken into account in calculating the current funds owed Hamilton Williams LLC by FXLQ. Consequently, Mr. Gray's representation that Interbank FX and FXLQ each acted as an independent counterparty at all times and therefore FXLQ was not responsible for the interest rate swap in favor of Interbank FX's customers, is subject to dispute.

The CFTC's instructions for completing Form 1-FR-FCM regarding accounts payable and accrued expenses also state that "Accruals should be made for contingent liabilities when occurrence of a loss is probable, and the amount can be reasonably estimated, including liabilities resulting from guarantees. In some circumstances GAAP require the fair value of a financial guarantee to be recognized even when the occurrence of a loss is not probable."

Based on the above, the Receiver believes that even though the issue of swap interest has not been settled between FXLQ and Interbank FX, total liabilities of \$10,752,204.39 to Interbank FX should have been reported on FXLQ's Weekly NFA Worksheet as of December 14, 2007, of which \$9,167,499.80 as funds owed to the omnibus account holder and \$1,584,704.59 as accrued rebate expense. Both parties have made some strong arguments to the Receiver about the issue of swap interest, however, this issue may need to be mediated before it will be finally settled between the parties. This does not change the Receiver's opinion that the \$6,720,648 contingent liability should have been reported on the Weekly NFA Worksheet.

Hamilton Williams LLC (Hamilton) has informed the Receiver that the \$2,209,752.44 amount represents the balance of the omnibus account at December 4, 2007, the balance at December 5, 2007 was reduced to \$1,974,255.68, and rebates totaling \$257,854.80 was due from FXLQ to Hamilton as of December 5, 2007. FXLQ's books show that it paid rebates/commissions of approximately \$582,000 and \$2,801,000 to Hamilton in 2006 and 2007, respectively.

Therefore, the Receiver believes that total liabilities of \$2,232,110.48 to Hamilton should have been reported on FXLQ's Weekly NFA Worksheet as of December 14, 2007, of which \$1,974,255.68 as funds owed to the omnibus account holder and \$257,854.80 as accrued rebate expense.

Solid Gold Financial Services Inc. (Solid Gold) made a \$500,000 deposit with FXLQ on October 13, 2006 intended for hedging purposes, however, no trades were ever executed.

***Accounts Maintained at Counterparties***

FXLQ maintained accounts at certain counterparties to hedge against or to speculate on foreign exchange price fluctuations. The funds due from such counterparties according to FXLQ's Weekly NFA Worksheet as of December 14, 2007 are as follows:

Malory Investments, LLC	\$ 7,127,469.12
Solid Gold	2,051,074.33
HotSpot FXR (HotSpot)	125,389.18
OANDA Corporation (OANDA)	111,988.22
ADM Derivatives Inc. (ADM)	98,509.52
FIMAT International Banque SA (UK)	<u>2,611.84</u>
	<u>\$ 9,517,042.21</u>

As discussed in detail below, the Receiver believes that the \$7,127,469.12 balance at Malory Investments, LLC did not exist.

OANDA confirmed a \$112,051.90 balance to the Receiver, which is \$63.68 higher than the \$111,988.22 balance recorded by FXLQ.

Solid Gold, HotSpot and ADM have confirmed the above-listed balances with the Receiver.

FIMAT International Banque SA (UK branch) is located in London and the Receiver was unable to confirm the account balance; however, the account balance is immaterial and close to that shown on the account statement.

On December 19, 2007 Solid Gold offered to turn over the net funds of \$1,551,074 owed to FXLQ. On December 24, 2007 Solid Gold wire transferred \$500,000 to the Receiver. Solid Gold's attorney informed the Receiver that the balance of the funds owed to FXLQ was held by their counterparty in Macau.

The Receiver had several communications with Solid Gold's attorney regarding the funds owed to FXLQ. To date, the balance of those funds has not been turned over to the Receiver.

### ***Cash in Banks***

FXLQ's Weekly NFA Worksheet as of December 14, 2007 shows total cash in banks of \$25,816,782.39. The Receiver confirmed all bank account balances, which totaled \$25,840,056.29.

### ***Operating Results and Payments to Robert Gray***

The 2006 audited financial statements of FXLQ showed net income of \$3,958,491 and total earnings distributions of \$1,540,000 to the member. According to FXLQ's books, \$1,540,000 was paid to FX ARB in 2006, of which \$1,395,000 was originally recorded as commissions, \$141,000 was recorded as order-flow rebates, and \$4,000 was recorded as computer software. According to public records, FX ARB Corp. is a Nevada corporation with Robert Gray listed as President and Director. The Receiver has requested copies FX ARB bank statements from Mr. Gray's attorney.

FXLQ's books showed net income of \$24,361,125.54 for the period from January 1, 2007 to December 14, 2007. The books also showed that during this period, \$342,000 was paid to FX ARB, of which \$207,000 was recorded as software expense and \$135,000 was recorded as loan to member; and \$1,580,000 was paid to Robert Gray, of which \$1,557,000 was recorded as loans to member, \$20,000 was recorded as business development expense, and \$3,000 was recorded as payroll expense.

In total, FXLQ paid \$3,462,000 to Robert Gray and his company, FX ARB, in 2006 and 2007. As discussed below, the Receiver believes that FXLQ has made additional payments to another one of Robert Gray's companies, Pro. Fi. S.A., through Malory.

### **Swiss Imperial Trust A.G., Malory Investments, LLC, Commonwealth Financial P.M.S.**

The CFTC complaint in this matter described in detail the circumstances involving the NFA's examination of FXLQ regarding a current asset of a bond carried on FXLQ's books for a market value of \$35,000,000 and other cash assets of FXLQ. As described in detail in the following paragraphs, based on all of the information available to the Receiver, the Receiver believes this Alleged Bond was a sham transaction intended to artificially inflate the assets of FXLQ.

***The \$50 Million Loan in the Form of a Bank Bond Granted by Swiss Imperial Trust A.G. and Recorded by FXLQ as an Asset***

Swiss Imperial Trust A.G. (SITAG) is a company incorporated under the laws of Switzerland. The Receiver has reviewed an Investment and Loan Agreement dated February 22, 2007 between SITAG and Robert Gray, pursuant to which the facility of \$50 million was to be granted by SITAG to Robert Gray in liquid assets in the form of negotiable Prime Bank Bonds with a facility period of four years from the date of issue of the \$50 million bond to be assigned to Mr. Gray. As a loan arrangement fee, Mr. Gray was required to transfer to SITAG 1.5% of his shares in Multibank FX International.

FXLQ's in-house attorney informed the Receiver that "Robert Gray's entrepreneurial vision" was the collateral for the \$50 million loan.

On February 19, 2007, three days before the February 22, 2007 loan agreement, a \$50 million ABN AMRO Bank Bond ISIN NL0000456382, was assigned to Robert Gray's personal account at Malory. On March 14, 2007, the Alleged Bond was transferred to FXLQ's Investment Account maintained at Malory.

For the transferred Alleged Bond, FXLQ recorded \$35 million and \$15 million as member's equity and loan payable to member, respectively. The Receiver obtained all of FXLQ's account statements issued by Malory at FXLQ's premises.

Under Tab 2 is a Combined Summary of Activities of the Investment Account and the Prime Brokerage Account Maintained at Malory, which summarized the activities of FXLQ's Investment Account maintained at Malory. The summary shows that the Investment Account received proceeds of approximately \$46 million from sale of the Alleged Bond, earned interest income of approximately \$258,000, received transfers totaling approximately \$14 million from the Prime Brokerage Account, which is discussed below, transferred \$47.8 million to Commonwealth Financial P.M.S. and had a balance of \$12,440,172.89 at November 30, 2007.

The Receiver subpoenaed the records of Malory's bank account. Malory's bank records show no deposits of proceeds from the sale of the Alleged Bond or any payments to Commonwealth Financial P.M.S. Consequently, the Receiver believes that the Investment Account statements provided by Malory to FXLQ were false.

Even if the Alleged Bond did exist, to capitalize an asset, GAAP requires, in substance, the transfer of the ownership to the recording entity. As described above, the facility period of the loan in the form of the Alleged Bond was four years, which means that the ownership and control of the Alleged Bond was never transferred to Mr. Gray.

Based upon the above, the Receiver concludes that the capitalization of the Alleged Bond by FXLQ was a sham and that the \$12,440,172.89 Investment Account balance and the \$47,800,000 Commonwealth Financial P.M.S. account balance carried on FXLQ's books were false.

The SITAG loan agreement also stipulated that Mr. Gray shall pay SITAG half of all interest entitlements payable and arising out of the Alleged Bond for so long as the Alleged Bond is in the possession of Mr. Gray. On November 29, 2007, FXLQ wire transferred \$1,067,750 to William O'Bryan Client Trust Account and recorded the payment as a prepaid legal expense. Mr. Gray's attorney has indicated that the payment was made to cover accrued and unpaid interest on the Alleged Bond. However, the Receiver did not find any Bond interest payments received by FXLQ's Investment Account maintained at Malory or directly by FXLQ. The Receiver will conduct further investigation on the \$1,067,750 payment to William O'Bryan Client Trust Account.

### **FXLQ's Prime Brokerage Account at Malory and Malory's Trading Account at Pro. Fi. S.A.**

The Receiver has reviewed all statements of FXLQ's Prime Brokerage Account at Malory (the Prime Brokerage Account) from its inception, March 14, 2007, to November 30, 2007. During this period, FXLQ wire transferred \$29,440,000 to Malory and received \$6,937,482.60 back from Malory, which nets to \$22,502,517.40. The Receiver has verified all of these transactions. In addition, the statements also showed that during the period, the Prime Brokerage Account transferred \$36,636,343.55 to and received transfers totaling \$22,450,000 from the Investment Account, which nets to \$14,186,343.55. The Receiver made demand on Malory to turn over documents and accounting records related to the FXLQ account. The accounting records prepared and provided by Malory to the Receiver indicated that no such cash transfers had actually occurred.

The activities of the Prime Brokerage Account are summarized on the Combined Summary of Activities of the Investment Account and the Prime Brokerage Account Maintained at Malory under Tab 2.

The Receiver has obtained documents from Malory, which show that Malory maintained a Trading Account (the Trading Account) at Pro. Fi. S.A. (Pro Fi). Pro Fi is a company formed in the Republic of San Marino in Europe. Under Tab 3 is a document, which shows that Robert Gray has a 95% ownership interest in Pro Fi.

In early January, the Receiver learned of a computer server dedicated to Pro Fi that was located with FXLQ's servers at an offsite location. On January 11, 2008 the Receiver caused the administrative passwords to this server to be changed.

The Pro Fi server show total customer balances totaling about \$10.6 million, of which approximately \$9.7 million was Malory's balance. The Receiver did not liquidate any of the open positions carried on the Pro Fi server.

The Receiver has also reviewed the statements of the Trading Account provided by Malory for the months of March 2007 through October 2007. Under Tab 4 is a Comparison of Month-End Account Balances between FXLQ's Prime Brokerage Account at Malory and Malory's Trading Account at Pro Fi, which reflected mirror images between the month-end balances of the Prime Brokerage Account and the Trading Account. In other words, funds were moved from FXLQ to Pro Fi using Malory as a conduit.

Under Tab 5 is a Combined Summary of Malory's Accounting of Cash Received from FXLQ and of Cash Activities with Pro Fi prepared by the Receiver based on the activities of the two general ledger accounts prepared and provided by Malory to the Receiver. This summary shows that Malory:

- received \$22,502,517.40 net from FXLQ
- received \$10,000 from "Pillsbury" on behalf of FXLQ
- paid \$16,398,156 net to Pro Fi
- paid \$4,785,000 to "Slott" on behalf of FXLQ
- paid \$1,015,428.22 to itself in the name of expense reimbursements
- paid \$100,000 on June 5, 2007 with the payee and purpose to be identified
- paid \$100,000 to TMA III on behalf of FXLQ
- paid \$80,000 in total to FXLQ on December 3 (\$30,000) and December 4 (\$50,000), 2007, which left a balance of \$33,933.18

Total expenses of \$1,015,428.22 charged to FXLQ by Malory were not shown on the statements of either the Prime Brokerage Account or the Investment Account of FXLQ at Malory, which makes the relationship between FXLQ and Malory suspicious and perplexing. It is not a common practice for a broker/dealer to issue customer account statements with no transaction fees itemized.

FXLQ's books recorded a \$375,000 receipt from TMA III, LLC on November 10, 2006 as payable to customer, and \$55,000 and \$30,000 payments to TMA III, LLC as business development expense and administrative consulting expense, respectively. The Receiver will conduct further investigation on TMA III, LLC.

Malory's bank records show that the \$100,000 payment on June 5, 2007 was made to FXLQ. Since the statements of the Prime Brokerage Account did not show this \$100,000 payment of Malory, FXLQ recorded the receipt as a rebate income instead of as a reduction of the asset account, Funds at Counterparty, Malory Investments, which erroneously overstated the capital of FXLQ by \$100,000 effective June 5, 2007.

The Receiver has reviewed certain bank account statements of Malory and determined that the name "Slott" under the \$4,785,000 payments made by Malory on behalf of FXLQ stands for the law firm of Jeffrey A. Slott to which FXLQ made payments totaling approximately \$2,100,000 between October 11, 2006 and November 13, 2007, of which \$935,000 was still carried on FXLQ's books at December 14, 2007 as prepaid legal expenses, a current asset account. According to Mr. Slott, he holds no funds for the benefit of FXLQ.

The Receiver learned the existence of a \$950,000 settlement agreement resulting from a legal dispute with FXLQ. Monthly payments of approximately \$66,000 were being made to the claimant through Mr. Slott's client trust account. Mr. Slott has confirmed payments of \$483,335.35 were made under the settlement agreement and that \$466,666.65 remains unpaid.

As to the \$4,785,000 in payments made by Malory on behalf of FXLQ, Mr. Slott represented to the Receiver that he was assuming that he did in fact receive those funds from Malory as indicated by the Receiver and that the funds were applied to the account of FXLQ with his firm. In addition, Mr. Slott provided to the Receiver a Mutual Release and Settlement Agreement effective April 25, 2007, pursuant to which FXLQ was to pay a software developer/distributor the sum of \$4 million in four installments between April 26, 2007 and July 25, 2007 to settle disputes among the parties in connection with a Software License Agreement. Mr. Slott also stated that the installments combined with an additional \$170,000 in connection with the settlement on an informal basis, were paid through his client trust account.

Mr. Slott also represented to the Receiver that he is not currently involved in processing any payments in connection with any other settlements on behalf of FXLQ and does not presently hold any funds relating to any settlements on behalf of FXLQ.

Under generally accepted accounting principles, the entering of a legal settlement agreement results in incurring a liability with the concurrence of a loss. When the \$950,000 settlement agreement and the \$4 million settlement agreement were entered, the incurred liabilities and the concurring losses should have been recorded by FXLQ.

FXLQ did not record a liability and a loss on its books when the \$950,000 settlement agreement was first entered; instead, it recorded the payments to the client trust account set up at Mr. Slott's firm as either legal fee expenses or prepaid legal expenses, which resulted in a timing difference on reporting the incurred loss and understatements of liabilities over the settlement-payment period.

When a payment was made to Malory, the money received by Malory was shown on the Prime Brokerage Account and FXLQ recorded it as an asset as "Funds at Counterparty, Malory Investments." When Malory made a legal settlement payment on behalf of FXLQ to Mr. Slott's firm from the funds it received from FXLQ, the payment was not shown on the Prime Brokerage Account and therefore, not recorded by FXLQ. In addition, FXLQ did not record a liability and a loss on its books when the \$4 million settlement agreement was first entered. Consequently, during the period from April 25, 2007 to December 14, 2007, FXLQ's books, Form 1-FR-FCM and the Weekly NFA Worksheets presented to the NFA overstated the balances of both the asset account "Funds at Counterparty, Malory Investments" and the capital account "Members Equity" by at least \$4,170,000, and understated the liabilities over the settlement-payment period.

In summary, Malory's books show a net deposit for FXLQ of \$33,933.18 while FXLQ's books show an account balance of \$4,774,497.06 at Malory.

FXLQ's Weekly NFA Worksheet as of December 14, 2007 shows an asset of a \$7,127,469.12 deposit at "Malory Investments Prime Brokerage" which is discussed below.

### ***Payments to FXLQ by Pro Fi***

As described above, Malory's books show that Malory paid \$16,398,156 net out of the funds it received from FXLQ to Pro Fi. The Receiver has reviewed certain bank account statements of Malory and verified all of these transactions. The Combined Summary of Activities of the Investment Account and the Prime Brokerage Account Maintained at Malory under Tab 2 shows that FXLQ received \$6,600,000 from Pro Fi between December 6, 2007 and December 11, 2007 and applied those receipts against the balance of the Prime Brokerage Account at Malory.

FXLQ received \$1,500,000 from Pro Fi on October 10, 2007 and recorded the receipt as a rebate income instead of as an offset against the Prime Brokerage Account as it did in December 2007. This has caused an overstatement of \$1,500,000 on the balances of both the asset account, Funds at Malory, and the capital account as shown on FXLQ's Form 1-FR-FCM dated October 31, 2007 and the Weekly NFA Worksheet dated November 30, 2007 presented to the NFA.

After the \$1,500,000 payment to FXLQ in October 2007 and the \$6,600,000 payments in December 2007, Pro Fi should still be holding \$8,298,156 of the FXLQ's funds that it received from FXLQ through Malory. Under Tab 6 is a December 7, 2007 letter issued by Pro Fi to FXLQ, which stated that "PRO.FI. was able to halt 7,127,469.12 of the total balance of \$11,127,469.12 held in a Prime Brokerage account entitled Malory Investments LLC from being transferred." The Receiver was unable to determine how the \$7,127,469.12 balance was generated; however, FXLQ's Weekly NFA Worksheet as of December 14, 2007 shows the funds at a counterparty, Malory Investments Prime Brokerage, an asset account, in the amount of \$7,127,469.12.

***Remaining Cash to be Accounted for***

Under Tab 7 is a Schedule of Cash to be Accounted for. In summary, total cash to be accounted for amounted to \$8,332,089.18, of which \$33,933.18 is being held by Malory and \$8,298,156 is being held by Pro Fi. The Receiver has requested Pro Fi's bank records and the location of the funds held by Pro Fi from Mr. Gray's attorney.

**Additional Liabilities to be Reported**

The Receiver located certain unrecorded invoices at FXLQ's office and has received additional invoices or claims, which were related to events that occurred on or before December 14, 2007.

FXLQ's Weekly NFA Worksheet as of December 14, 2007 did not show any accounts payable or accrued expenses. Based upon the detail above, the Receiver believes that the following additional actual and contingent liabilities should have been included in FXLQ's Weekly NFA Worksheet as of December 14, 2007:

Accrued rebate expense, Interbank FX	\$1,584,704.59
Unpaid profit distribution to Forex Asia International	1,516,950.30
Accrued rebate expense, Forex Asia International	554,826.24
Unpaid legal settlement	466,666.65
Unpaid invoices	354,404.80
Accrued rebate expense, Hamilton	257,854.80
Accrued commission expense, others	<u>243,672.63</u>
Total	<u>\$4,979,080.01</u>

## **Regulatory Capital Requirements**

The NFA's capital and other Financial Requirements, as approved by the CFTC, required that NFA Forex Dealer Members maintain a minimum net capital requirement of \$1 million effective July 31, 2006. Beginning on December 21, 2007, the \$1 million minimum net capital requirement was increased to \$5 million.

Under Tab 8 is a Statement of Comparison of Computations of the Minimum Capital Requirement as of December 14, 2007 and January 31, 2008. The statement shows that FXLQ reported it had an excess of approximately \$6.5 million over the \$1 million minimum net capital requirement as of December 14, 2007, while the Receiver, based on all available information, believes that FXLQ was undercapitalized by approximately \$5.3 million as of December 14, 2007.

Also, as shown under Tab 8, the Receiver believes that under the current minimum net capital requirement of \$5 million effective December 21, 2007, FXLQ was undercapitalized by approximately \$6.9 million at January 31, 2008.

## **Conclusion**

As set forth in this report, FXLQ had a practice of not recording its true liabilities and overstating its assets. For example, under Tab 9 is a Comparative Statement of the Computation of the Minimum Capital Requirements at April 30, 2007. This statement illustrates the impact of deceptive accounting in connection with the transactions with Malory, the recording of the Alleged Bond, and the failure to record and disclose liabilities on the regulatory capital adequacy computation. FXLQ's report to the CFTC showed an excess net capital of \$35,104,791 at April 30, 2007 when it really was undercapitalized by at least \$7,769,474.

In addition to FXLQ's capital deficit position, the CFTC alleged in its complaint that under CFTC regulations FXLQ was required to maintain records that reflect its assets, liabilities, and capital and that it failed to do so. The summary of FXLQ's accounting practices detailed below support the CFTC's allegation:

### **The Alleged Bond:**

- Recorded the \$50 million Alleged Bond which presented an addition to capital of \$35 million not in conformity with GAAP
- Carried the following non-existing assets on the books that originated from the recording of the Alleged Bond:

Investment Account at Malory	\$12,440,173
Account at Commonwealth Financial	<u>47,800,000</u>
Total	<u>\$60,240,173</u>

**Pro Fi and Malory:**

- Made net payments of \$16,398,156 to a foreign company owned by Robert Gray, Pro Fi, without recording them on the books by using Malory as a conduit
- Recorded a \$1,500,000 receipt from Pro Fi as income instead of as an asset reduction which presented an overstatement of capital of \$1,500,000
- Carried on the books a non-existing asset, the \$4,774,497 balance of the Prime Brokerage Account at Malory
- Recorded a \$100,000 receipt from Malory as income instead of as an asset reduction which presented an overstatement of capital of \$100,000

**Legal Settlement Agreements:**

- Did not record a liability and a loss on the books when the \$950,000 and the \$4,000,000 legal settlement agreements were first entered, which presented overstatements of capital totaling \$4,785,000, the amount paid to the Client Trust Fund of Jeffrey A. Slott's firm through Malory, and understatements of liabilities over the settlement-payment periods
- Carried on the books a non-existing asset, prepaid legal expenses to Jeffrey A. Slott's firm totaling \$935,000

**Retail Customers:**

- Did not record a contingent liability of \$1,516,950.30 for the profit distribution due to Forex Asia International
- Carried on the books a non-existing loan receivable of \$600,000 due from Forex Asia International

***Institutional Customer:***

- Did not record a \$2,282,816 swap credit due to Interbank FX, a contingent liability, while the amount was reflected on the Omnibus and Multi Contributor Balance Statement issued to Interbank FX

Based on all of the information currently available to the Receiver, it appears the pressure of meeting the minimum regulatory capital requirement and of portraying abundant capital for marketing purposes in China that confronted FXLQ, caused its management to falsify FXLQ's financial statements to deceive the CFTC, NFA, and customers.

Respectfully submitted,

/S/

Robb Evans & Associates LLC  
Receiver

**TAB 1**

# ForexLiquidity<sup>LLC</sup>

PROFESSIONAL FOREIGN EXCHANGE GROUP

6 Hutton Centre Dr, Suite 1400 | Santa Ana, CA 92707 USA  
Phone: (949) - 955 - 1096 | Fax: (949) - 808 - 1543 | help@fxlq.com | http://www.fxlq.com

## Omnibus and Multi Contributor Balance Statement - Interbank FX

December 4, 2007

### Account: OMBIBFX

Balance 12/01/2007:	\$ 11,185,265.39
Month to Date Profit and Loss:	<u>(\$ 2,033,815.30)</u>
Swap Credit (Debit)	\$ 16,049.71
Ending Balance 12/04/2007:	<u>\$ 9,167,499.80</u>

### Multi Contributor Account

Balance 12/04/2007:	<u>\$ 0.00</u>
---------------------	----------------

This statement also confirms that as of 5:00 p.m. Eastern time, all positions and trading risk revert back to Interbank FX.

Please contact us if you have any questions at [acct@fxlq.com](mailto:acct@fxlq.com).

Regards,

FXLQ

TAB 2

**FOREX LIQUIDITY, LLC  
(Under Receivership of Robb Evans & Associates LLC  
Commencing December 17, 2007)**

**COMBINED SUMMARY OF ACTIVITIES OF THE INVESTMENT ACCOUNT AND THE  
PRIME BROKERAGE ACCOUNT MAINTAINED AT MALORY  
PERIOD FROM MARCH 14, 2007 TO NOVEMBER 30, 2007 AND  
PERIOD FROM DECEMBER 1, 2007 TO DECEMBER 14, 2007**

	Investment Account	Prime Brokerage Account	Total
<b>CASH RECEIPTS:</b>			
Proceeds from sale of ABN AMRO Bank's Bond:			
Face amount of \$6.2 million, sold on 03/14/07	\$ 6,192,250.00		
Face amount of \$43.8 million, sold on 11/29/07	<u>39,603,298.55</u>		
Proceeds from sale of the \$50 million Bond	45,795,548.55		\$ 45,795,548.55
Net receipts from accounts at USbank	-	\$ 22,502,517.40	22,502,517.40
Commission/rebate income	-	3,242,700.14	3,242,700.14
Interest income	<u>258,280.79</u>	<u>232,631.42</u>	<u>490,912.21</u>
<b>TOTAL CASH RECEIPTS</b>	<u>46,053,829.34</u>	<u>25,977,848.96</u>	<u>72,031,678.30</u>
<b>INTER-ACCOUNT TRANSFERS</b>	<u>14,186,343.55</u>	<u>(14,186,343.55)</u>	<u>-</u>
<b>CASH DISBURSEMENTS:</b>			
Transfer to Commonwealth Financial	(47,800,000.00)	-	(47,800,000.00)
Loss on spot foreign exchange contracts, net	<u>-</u>	<u>(337,008.35)</u>	<u>(337,008.35)</u>
<b>TOTAL CASH DISBURSEMENTS</b>	<u>(47,800,000.00)</u>	<u>(337,008.35)</u>	<u>(48,137,008.35)</u>
<b>CASH AT END OF PERIOD, per Malory Investments, LLC's account statements for the period ending November 30, 2007</b>	<u>\$ 12,440,172.89</u>	<u>11,454,497.06</u>	<u>\$ 23,894,669.95</u>
<b>CASH RECEIPTS SUBSEQUENT TO NOVEMBER 30, 2007 AND APPLIED AGAINST THE PRIME BROKERAGE ACCOUNT BY THE DEFENDANT:</b>			
<b>Dates</b>	<b>Payors</b>		
12/03/07	Malory Investments, LLC	(30,000.00)	
12/04/07	Malory Investments, LLC	<u>(50,000.00)</u>	
	Subtotal, Malory Investments, LLC	<u>(80,000.00)</u>	

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**COMBINED SUMMARY OF ACTIVITIES OF THE INVESTMENT ACCOUNT AND THE  
PRIME BROKERAGE ACCOUNT MAINTAINED AT MALORY  
PERIOD FROM MARCH 14, 2007 TO NOVEMBER 30, 2007 AND  
PERIOD FROM DECEMBER 1, 2007 TO DECEMBER 14, 2007**

	<b>Investment Account</b>	<b>Prime Brokerage Account</b>	<b>Total</b>
12/06/07 Pro Fi		(1,000,000.00)	
12/06/07 Pro Fi		(1,600,000.00)	
12/10/07 Pro Fi		(1,000,000.00)	
12/10/07 Pro Fi		(2,000,000.00)	
12/11/07 Pro Fi		<u>(1,000,000.00)</u>	
Subtotal, Pro Fi		<u>(6,600,000.00)</u>	
<b>BALANCES OF ACCOUNTS AT MALORY INVESTMENTS, LLC, per defendant's books at December 14, 2007</b>	<u>\$ 12,440,172.89</u>	<u>\$ 4,774,497.06</u>	\$ 17,214,669.95
<b>BALANCE OF ACCOUNT AT COMMON- WEALTH FINANCIAL, per defendant's books at December 14, 2007</b>			<u>47,800,000.00</u>
<b>TOTAL</b>			<u>\$ 65,014,669.95</u>

TAB 3

I, hereby Robert Gray , in quality of shareholder for 95% of social capital of Pro.Fi s.a. with legal seat in Dogana, Via Consiglio dei Sessanta n.99, Republic of San Marino

*give*

Power of attorney to Miss Sara Felici, born in Borgo Maggiore (RSM), on 30th december 1982, resident in Via Guglielmina d'Olanda n. 36, citizen of Republic of San Marino, cod. ISS 31394, so that she will represent me in the shareholders' assembly of Pro.Fi.on 5th september 2007, at 10 o' clock in first convocation and at 11 o' clock in second convocation, with the following agenda:

- a) Replacement of social organs.
- b) Variuos and eventuals.

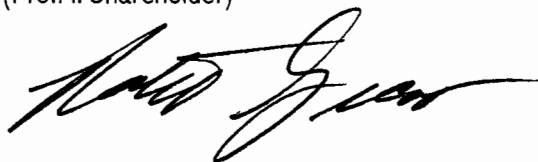
To such scope Miss Sara Felici is authorized to take out shares certificates of the underwritten which are under safe custody of Public Notary Luca Della Balda, and giving them back to the notary immediately after the end of the assembly.

I confer instruction

To the above said Miss Sara Felici so that in such assembly she will express the following voting:

- 1) Approving the resignation of Mr Mushegh Tovmasyan from the position of President of Pro.Fi. and of the Director Anthony Fisher;
- 2) Approving the appointment as new President of Board of Directors for Miss Antonella Cecere and approving the appointment as new Directors for Mr Stephen Sharnick (resident in 11 Willow Brook Lane Newtown, CT 06470 USA) and for Mr Francesco Mami (resident in Via Castellaccio 20, Rimini 47900 Italy).
- 3) Giving Dr Antonella Cecere POA for accomplishment of ordinary and extraordinary administration operations and in particular, stipulation of contracts and fiduciary mandates with customers, management of relationships with local banks and including: opening of new bank accounts, issuing new checks, withdrawals and deposits without any limit of amount.

Robert Gray  
(Pro.Fi. Shareholder)



**TAB 4**

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC Commencing December 17, 2007)**

**COMPARISON OF MONTH-END ACCOUNT BALANCES BETWEEN FXLQ'S PRIME BROKERAGE ACCOUNT AT MALORY AND MALORY'S TRADING ACCOUNT AT PRO FI PERIOD FROM MARCH 14, 2007 TO NOVEMBER 30, 2007**

	Per Statements of FXLQ's Prime Brokerage Account at Malory										Per Statements of Malory's Trading Account at Pro Fi				
	Net Cash Transfers from/(to) FXLQ's USbank Accts.	Cash Net Transfers from/(to) the Investment Account	Commission and Rebate Income	Interest Income	Foreign Exchange Gain/(Loss)	Subtotal/Net Balance	Month-End Balances	Cash Deposits/Transfers (Note 1)	Cash Withdrawals/Transfers (Note 1)	Subtotal/Net Balance	Income and Distribution	Month-End Balances	Variance		
Mar. 07	\$ -	\$ 6,150,000.00	\$ -	\$ 842.47	\$ -	\$ 842.47	\$ 6,150,842.47	\$ 6,150,000.00	\$ -	\$ 6,150,000.00	\$ 842.47	\$ 6,150,842.47	\$ -		
Apr. 07	2,550,000.00	(3,589,675.00)	463,458.94	12,638.72	-	476,097.66	5,587,265.13	2,650,000.00	(3,689,675.00)	(1,039,675.00)	476,097.66	5,587,265.13	-		
May 07	1,450,000.00	(1,350,000.00)	1,634,095.49	12,285.19	-	1,646,380.68	8,683,645.81	1,450,000.00	-	1,450,000.00	1,646,380.68	8,683,645.81	-		
Jun. 07	2,600,000.00	(1,350,000.00)	175,295.59	21,714.79	756,897.35	953,907.73	10,887,553.54	3,100,000.00	(1,850,000.00)	1,250,000.00	953,907.73	10,887,553.54	-		
Jul. 07	4,070,000.00	(3,900,000.00)	193,254.67	29,579.22	99,876.70	322,710.59	11,380,264.13	4,570,000.00	(4,400,000.00)	170,000.00	322,710.59	11,380,264.13	-		
Aug. 07	6,970,639.40	(5,696,668.55)	197,157.10	31,619.75	(1,414,087.27)	(1,185,310.42)	11,468,924.56	13,140,000.00	(11,866,029.15)	1,273,970.85	(1,185,310.42)	11,468,924.56	-		
Sep. 07	2,580,000.00	2,000,000.00	174,987.61	28,843.52	429,061.10	632,892.23	16,681,816.79	6,580,000.00	(2,000,000.00)	4,580,000.00	632,892.23	16,681,816.79	-		
Oct. 07	(543,122.00)	6,200,000.00	203,565.71	48,800.18	560,925.64	813,291.53	23,151,986.32	10,650,000.00	(4,993,122.00)	5,656,878.00	813,299.95	23,151,994.74	(8.42)		
Subtotal	19,677,517.40	(186,343.55)	3,041,815.11	186,323.84	432,673.52	3,660,812.47	11,454,497.06	\$ 48,290,000.00	\$(28,798,826.15)	\$ 19,491,173.85	\$ 3,660,820.89	NA	NA		
Nov. 07	2,825,000.00	(14,000,000.00)	200,885.03	46,307.58	(769,681.87)	(522,489.26)	11,454,497.06	NA	NA	NA	NA	NA	NA		
Total	\$ 22,502,517.40	\$ (14,186,343.55)	\$ 3,242,700.14	\$ 232,631.42	\$ (337,008.35)	\$ 3,138,323.21	11,454,497.06	NA	NA	NA	NA	NA	NA		

**Note 1:**

The Temporary Receiver has reviewed the ledger account of Malory's books recording the transactions between Malory and Pro Fi. The ledger account shows that between March 14, 2007 and October 31, 2007, total payments from Malory to Pro Fi amounted to \$17,423,156 and total receipts by Malory from Pro Fi amounted to \$53,550,000, which are different from the \$48,290,000 and the \$28,798,826.15 amounts shown above.

**TAB 5**

## COMBINED SUMMARY OF MALORY'S ACCOUNTING OF CASH RECEIVED FROM FXLQ AND OF CASH ACTIVITIES WITH PRO FI

**PERIOD FROM APRIL 2, 2007 TO DECEMBER 31, 2007**

	Malory's Accounting of Cash Received from FXLQ (Exhibit 1)	Malory's Accounting of Cash Activities with Pro Fi (Exhibit 2)	Combined
Net cash received by Malory from FXLQ before 12/01/07	\$ 22,502,517.40	\$ -	\$ 22,502,517.40
Receipt from "Pillsbury" with purpose to be identified	<u>10,000.00</u>	<u>-</u>	<u>10,000.00</u>
Subtotal	<u>22,512,517.40</u>	<u>-</u>	<u>22,512,517.40</u>
Net payments to Pro Fi	(3,000,000.00)	(13,398,156.00)	(16,398,156.00)
Transfer to "Slott"	(4,785,000.00)	-	(4,785,000.00)
Reimbursements of Malory's expenses ( <b>Note 1</b> )	(1,015,428.22)	-	(1,015,428.22)
Payment with payee to be identified ( <b>Note 2</b> )	(100,000.00)	-	(100,000.00)
Payments to TMA III, purpose to be identified	(100,000.00)	-	(100,000.00)
Payments to FXLQ on 12/03/07 and 12/04/07	<u>(80,000.00)</u>	<u>-</u>	<u>(80,000.00)</u>
Subtotal	<u>(9,080,428.22)</u>	<u>(13,398,156.00)</u>	<u>(22,478,584.22)</u>
Ending balance, before noncash adjustments	13,432,089.18	(13,398,156.00)	33,933.18
Noncash adjustments	<u>(6,600,000.00)</u>	<u>6,600,000.00</u>	<u>-</u>
Ledger account balance at end of period	<u>\$ 6,832,089.18</u>	<u>\$ (6,798,156.00)</u>	<u>\$ 33,933.18</u>

**Note 1:**

Malory's expenses of \$1,015,428.22 were not shown on the statements of both FXLQ's Prime Brokerage Account and Investment Account at Malory.

**Note 2:**

Malory's bank records showed the \$100,000 was paid to FXLQ on June 5, 2007. The amount was not shown on the statements of the two FXLQ's accounts at Malory and FXLQ recorded the receipt as rebate income.

**Note 3:**

The \$6,192,250 proceeds from sale of the Bond with face amount of \$6,200,000 allegedly was deposited on March 14, 2007 to one of the two FXLQ's accounts at Malory. The activities of the two Malory's ledger accounts shown above did not reflect such a receipt.

**MALORY'S ACCOUNTING OF CASH RECEIVED FROM FXLQ  
(Source: Malory's Ledger Account Titled Forex Liquidity, LLC)****PERIOD FROM APRIL 2, 2007 TO DECEMBER 31, 2007**

---

Net cash received by Malory from FXLQ between 04/02/07 and 11/30/07		\$ 22,502,517.40
Receipt from Pillsbury- 06/30/07 "Pillsbury, etc. retail"		10,000.00
Transfer to Slott- 11/30/07 "Transfer- Slott"		(4,785,000.00)
Payment to Pro Fi- 11/20/07		(3,000,000.00)
Reimbursements of Malory's expenses:		
04/30/07	\$ (26,782.00)	
06/30/07	(129,199.00)	
07/31/07	(85,413.41)	
08/31/07	(321,455.07)	
08/31/07	19,051.96	
09/30/07	(146,893.84)	
09/30/07	2,775.00	
10/01/07	(108,369.72)	
11/30/07	(151,395.20)	
12/31/07	<u>(67,746.94)</u>	(1,015,428.22)
Payment with payee to be identified- 06/05/07 "Wires"		(100,000.00)
Payments with purpose to be identified:		
10/01/07 TMA III	(20,000.00)	
10/10/07 TMA III	(20,000.00)	
10/12/07 TMA III	(10,000.00)	
10/19/07 TMA III	(10,000.00)	
10/19/07 TMA III	(20,000.00)	
10/30/07 TMA III	<u>(20,000.00)</u>	<u>(100,000.00)</u>
Payments to FXLQ:		
12/03/07	(30,000.00)	
12/04/07	<u>(50,000.00)</u>	<u>(80,000.00)</u>
Remaining balance before noncash adjustments		13,432,089.18
Noncash adjustments:		
12/04/07	(2,600,000.00)	
12/05/07	<u>(4,000,000.00)</u>	<u>(6,600,000.00)</u>
Ledger account ending balance		<u>\$ 6,832,089.18</u>

**MALORY'S ACCOUNTING OF CASH ACTIVITIES WITH PRO FI  
(Source: Malory's Ledger Account Titled Pro. Fi. S.A.- Custody)****PERIOD FROM APRIL 5, 2007 TO DECEMBER 5, 2007**

<b>Description</b>	<b>Payments to Pro Fi</b>	<b>Receipts from Pro Fi</b>	<b>Ledger Account Balance</b>
04/05/07 Bankca Commerciale	\$ (143,156)		
04/05/07 Bankca Commerciale	(255,000)		
04/17/07 ICCREA Bankca	(150,000)		
04/19/07 ICCREA Bankca	(225,000)		
05/15/07 wire	(1,250,000)		
06/13/07 wire	(2,000,000)		
07/03/07 wire	(500,000)		
07/30/07 wire	(1,000,000)		
08/17/07 Pro Fi	(2,200,000)		
08/20/07 Pro Fi		\$ 500,000	
08/23/07 Pro Fi	(5,000,000)		
08/30/07 Pro Fi		450,000	
09/26/07 Pro Fi	(2,600,000)		
10/10/07 Pro Fi		2,600,000	
10/23/07	(2,100,000)		
11/01/07 Pro Fi	<u>-</u>	<u>475,000</u>	
Balance before noncash adjustments	<u>\$ (17,423,156)</u>	<u>\$ 4,025,000</u>	\$ (13,398,156)
Noncash adjustments:			
12/04/07		\$ 2,600,000	
12/05/07		<u>4,000,000</u>	<u>6,600,000</u>
12/05/07 Ledger account ending balance			<u>\$ (6,798,156)</u>

TAB 6

  
**PRO FI**  
SOCIETA' FINANZIARIA E FIDUCIARIA

---

7 December, 2007

Robert Gray  
Managing Member  
Forex Liquidity LLC

*Re: Malory Investments LLC  
PB Account #100546*

Dear Mr. Gray,

We are in receipt of a follow up letter dated 6 December, 2007 from Mr. Ronald Stein of Malory Investments LLC withdrawing their permission to transmit the remaining balance of the account referenced above directly to Forex Liquidity LLC. Malory has indicated that their regulatory agency FINRA requires the funds to be returned to Malory and then further distributed to Forex Liquidity. Malory stated that this will satisfy their regulator's requirement to provide evidence that all required transfer procedures were followed. PRO.FI. was able to halt 7,127.469.12 of the total balance of \$11,127.469.12 held in a Prime Brokerage account entitled Malory Investments LLC from being transferred. Please advice on the best way to return the \$4.0 Mio that was already wired to Forex Liquidity.

Regards,

Antonella Cecere  
President  
PRO.FI. S.A.

**TAB 7**

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**SCHEDULE OF CASH TO BE ACCOUNTED FOR**  
**DECEMBER 14, 2007**

**CASH BEING HELD BY MALORY INVESTMENTS, LLC:**

Net payments from FXLQ's USbank accounts to Malory between April 2, 2007 and November 20, 2007 with the amounts shown on the statements of the Prime Brokerage Account prepared by Malory	\$ 22,502,517.40	
Receipt by Malory on behalf of FXLQ on June 30, 2007 with payor to be identified	<u>10,000.00</u>	\$ 22,512,517.40

Net payments from Malory to Pro Fi between April 5, 2007 and November 21, 2007	(16,398,156.00)	
Payments by Malory to the law firm of Jeffrey A. Slott on behalf of FXLQ between April 24, 2007 and August 22, 2007	(4,785,000.00)	
Reimbursements of Malory's expenses commencing April 30, 2007	(1,015,428.22)	
Payment by Malory to FXLQ on June 5, 2007 with the amount not shown on the statements of the Prime Brokerage Account	(100,000.00)	
Payments to TMA III by Malory on behalf of FXLQ during the month of October 2007	(100,000.00)	
Malory's payments to FXLQ on December 3 and 4, 2007	<u>(80,000.00)</u>	<u>(22,478,584.22)</u>

BALANCE OF CASH AT MALORY AT DECEMBER 14, 2007		<u>33,933.18</u>
--	--	------------------

**CASH BEING HELD BY PRO FI:**

Net receipts by Pro Fi from Malory between April 5, 2007 and November 21, 2007		16,398,156.00
Payments from Pro Fi to FXLQ on the following dates:		
October 10, 2007	(1,500,000.00)	
December 6, 2007	(2,600,000.00)	
December 10, 2007	(3,000,000.00)	
December 11, 2007	<u>(1,000,000.00)</u>	<u>(8,100,000.00)</u>

BALANCE OF CASH AT PRO FI AT DECEMBER 14, 2007		<u>8,298,156.00</u>
--	--	---------------------

<b>TOTAL CASH TO BE ACCOUNTED FOR</b>		<u>\$ 8,332,089.18</u>
---------------------------------------	--	------------------------

TAB 8

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**STATEMENT OF COMPARISON OF COMPUTATIONS OF THE MINIMUM CAPITAL REQUIREMENTS**  
**AS OF DECEMBER 14, 2007 AND JANUARY 11, 2008**

	As of December 14, 2007		As of January 31, 2008	
	Per FXLQ	Per Receiver	Per Receiver	Per Receiver
<b>ASSETS:</b>				
Cash in banks	\$ 25,816,782.39	\$ 25,840,056.29	\$ 26,340,056.29	
Funds at counterparties:				
Malory	7,127,469.12	-	-	
Solid Gold	2,051,074.33	2,051,074.33	1,551,074.33	
HotSpot	125,389.18	125,389.18	125,389.18	
OANDA	111,988.22	112,051.90	112,051.90	
ADM	98,509.52	98,509.52	98,509.52	
FIMAT	2,611.84	2,611.84	2,611.84	1,889,636.77
<b>TOTAL ASSETS</b>	<u>35,333,824.60</u>	<u>28,229,693.06</u>	<u>28,229,693.06</u>	
<b>LIABILITIES:</b>				
Payable to retail customers:				
Customers without open positions	(14,632,633.39)	(14,632,633.39)	(13,466,652.34)	
Customers with open positions	<u>738,477.00</u>	<u>738,477.00</u>	-	(13,466,652.34)
Payable to institutional customers:				
Interbank FX	(9,167,499.80)	(9,167,499.80)	(9,167,499.80)	
Hamilton Williams LLC	(2,209,752.44)	(1,974,255.68)	(1,974,255.68)	
Solid Gold	<u>(500,000.00)</u>	<u>(500,000.00)</u>	<u>(500,000.00)</u>	(11,641,755.48)
Accrued expenses	-	(4,979,080.01)	(4,979,080.01)	
<b>TOTAL LIABILITIES</b>	<u>(25,771,408.63)</u>	<u>(30,514,991.88)</u>	<u>(30,087,487.83)</u>	
<b>NET ASSETS (DEFICIT)</b>				
<b>BEFORE CHARGES</b>	9,562,415.97	(2,285,298.82)	(1,857,794.77)	
<b>CAPITAL CHARGES FOR FOREX PROPRIETARY POSITIONS:</b>				
Uncovered forex positions subject to 6% charge	(774,554.42)	(774,554.42)	-	
Uncovered forex positions subject to 20% charge	<u>(106,393.92)</u>	<u>(106,393.92)</u>	-	-
<b>CONCENTRATION CHARGES FOR SINGLE CLIENTS OVER 10% OF TOTAL NET POSITIONS</b>	<u>(1,157,393.16)</u>	<u>(1,157,393.16)</u>	-	
<b>NET ASSETS (DEFICIT) AFTER CHARGES</b>	7,524,074.47	(4,323,640.32)	(1,857,794.77)	
<b>MINIMUM REGULATORY REQUIREMENTS (\$1 million and \$5 million effective July 31, 2006 and December 21, 2007, respectively)</b>				
	<u>(1,000,000.00)</u>	<u>(1,000,000.00)</u>	<u>(5,000,000.00)</u>	
<b>EXCESS CAPITAL (UNDERCAPITALIZATION)</b>	<u>\$ 6,524,074.47</u>	<u>\$ (5,323,640.32)</u>	<u>\$ (6,857,794.77)</u>	

TAB 9

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**COMPARATIVE STATEMENT OF THE COMPUTATION OF THE MINIMUM CAPITAL REQUIREMENTS**  
**APRIL 30, 2007**

	Per CFTC Form 1-FR-FCM Filed by FXLQ	Per Receiver (Exhibit 1)
CURRENT ASSETS:		
Cash	\$ 528,123	\$ 528,123
ABN AMRO Bank bond, at market	35,000,000	-
Rebates receivable from Malory	462,000	-
Funds at counterparties	<u>13,676,727</u>	<u>8,089,462</u>
Subtotal, current assets	\$ 49,666,850	\$ 8,617,585
TOTAL LIABILITIES	<u>(13,082,589)</u>	<u>(15,082,589)</u>
NET CAPITAL (DEFICIT)	36,584,261	(6,465,004)
CHARGES AGAINST NET CAPITAL:		
20% of market value of uncovered inventories	(304,470)	(304,470)
Charges against security owned by the firm	<u>(175,000)</u>	<u>-</u>
Subtotal, charges against net capital	<u>(479,470)</u>	<u>(304,470)</u>
ADJUSTED NET CAPITAL (DEFICIT)	36,104,791	(6,769,474)
MINIMUM NET CAPITAL REQUIREMENT	<u>(1,000,000)</u>	<u>(1,000,000)</u>
EXCESS NET CAPITAL (UNDERCAPITALI- ZATION)	<u>\$ 35,104,791</u>	<u>\$ (7,769,474)</u>

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**COMPARATIVE STATEMENT OF FINANCIAL CONDITION**  
**APRIL 30, 2007**

	Per CFTC Form 1-FR-FCM Filed by FXLQ	Per Receiver		
		Adjustments		Adjusted Balance
		Notes	Amounts	
<b>ASSETS:</b>				
Cash	\$ 528,123			\$ 528,123
ABN AMRO Bank bond, at market	35,000,000	1	\$ (35,000,000)	-
Rebates receivable from Malory	462,000	2	(462,000)	-
Property, plant and equipment, net	807,994			807,994
Prepaid expenses	593,767			593,767
Funds at counterparties:				
Malory	5,587,265	2	(5,587,265)	-
Others	<u>8,089,462</u>		<u>-</u>	<u>8,089,462</u>
<b>TOTAL</b>	<u>\$ 51,068,611</u>		<u>\$ (41,049,265)</u>	<u>\$ 10,019,346</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>				
Accounts payable and accrued expenses	\$ 13,570			\$ 13,570
Payable to customers	13,052,019			13,052,019
Due to member	17,000			17,000
Liability under litigation settlement agreement	<u>-</u>	3	\$ 2,000,000	<u>2,000,000</u>
<b>TOTAL LIABILITIES</b>	13,082,589			15,082,589
<b>MEMBERS' EQUITY (DEFICIT)</b>	<u>37,986,022</u>		<u>(43,049,265)</u>	<u>(5,063,243)</u>
<b>TOTAL</b>	<u>\$ 51,068,611</u>		<u>\$ (41,049,265)</u>	<u>\$ 10,019,346</u>

**Notes:**

1. For the alleged \$50 million Bond, \$15 million was considered by FXLQ as a loan from Robert Gray, evidenced by a recording of a liability of \$15 million on August 31, 2007, and \$35 million was considered as Robert Gray's capital contribution. The reporting of the alleged Bond by FXLQ was improper.
2. During April 2007, FXLQ net paid \$2,550,000 to Malory. According to the accounting and bank records of Malory, the uses of the \$2,550,000 funds were as follows:

**FOREX LIQUIDITY, LLC**  
**(Under Receivership of Robb Evans & Associates LLC**  
**Commencing December 17, 2007)**

**COMPARATIVE STATEMENT OF FINANCIAL CONDITION**  
**APRIL 30, 2007**

---

Payment to the law firm of Jeffrey A. Slott on April 24, 2007	\$ 1,750,000
Four payments to Pro Fi	773,156
Malory's expense reimbursement	26,782
Bank charges	<u>62</u>
Total	<u>\$ 2,550,000</u>

Therefore, the balance of the account at Malory at April 30, 2007 should have been reported as none.

The reported non-existing \$5,587,265 balance of Funds at Malory matched the Prime Brokerage Account's at April 30, 2007 and comprised of the following:

Net transfers from the Investment Account	\$ 2,560,325
Net receipts from FXLQ	2,550,000
Rebate income	463,459
Interest income	<u>13,481</u>
Total	<u>\$ 5,587,265</u>

The \$462,000 rebates receivable due from Malory was a double reporting of a non-existing asset.

3. The April 25, 2007 Mutual Release and Settlement Agreement required FXLQ to pay \$4 million with the first installment of \$2 million being paid no later than April 26, 2007. Consequently, a litigation settlement liability of \$2 million should have been reported by FXLQ at April 30, 2007.