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February 27, 2007

VIA TELECOPY [(212) 343-9562

David Cooper, Esq.
401 Broadway Avenue
Suite 2508
New York, NY 10013

Re: US v. Martin Armstrong – Failure to Produce Critical Information and Receiver's Work Paper Conflicts

Dear Mr. Cooper:

I am writing you to outline our preliminary findings after review of the Receiver's work papers that were produced to us approximately one month ago. I also want to express my disgust at the fact that, after six years of working on this case, we have yet to receive the discovery for which we have made repeated requests, and for which there has been virtually no substantive response.

First, with regard to the Receiver's work papers, although we have yet to perform a full examination, and although we still have not received a full set of work papers, our preliminary conclusion is that (1) the Receiver's work papers contradict the Government's allegations of losses in the indictment, and (2) the Receiver's work papers are not theoretically sound in their calculation of losses. Of even more concern is the wide disparity in allegations and calculations of "trading losses" in various versions of the Indictment and the Receiver's analysis. More specifically,

- By simply adding the trading losses for all of the various accounts and comparing the totals to the allegations in the Indictment, we find that the Receiver's current calculation of losses for the period from November of 1997 through August of 1999 is approximately $171 million. This compares with $267 million in "trading losses" for the same period as alleged in paragraphs 26 and 33 of the Superseding Indictment.

- Notably, in the original Indictment in this case, in paragraph 6, the Government claimed that the "trading losses" for the same period was approximately $368 million.

- Not surprisingly, in attachments A and B to this memorandum, we see that the Receiver was having some difficulty in calculating the losses in even one individual account. Attachment A, which was earlier produced to FCL, shows that the receiver calculated the trading losses for the Fixed Yen account 32011 for the period from

November of 1997 through August of 1999 at $295 million (print date Sept. 8, 1999). Now, as shown in Exhibit B, the Receiver apparently has recalculated and found that (print date January 3, 2007) the account had net trading **gains** of approximately $1.8 million.

- Since the obligations on the Princeton Notes were Yen denominated, the ultimate determination of whether the investor accounts were winning or loosing is dependent upon the dollar to yen conversion rate – a rate that had been moving favorably for Princeton during most of the period in question. The Receiver apparently does not consider the conversion rate. Thus, with a favorable conversion rate of dollars to yen, the total liability to investors may be significantly smaller than as would appear from the Government's allegations.

- In attempting to tie the Receiver's work papers back to the Republic Bank of NY trading account statements, although we have yet to perform a thorough review, we have noted that the Receiver has not consistently incorporated trading information into their analyses.

- Separately, from a "big picture" perspective, even though we have not been presented the Receiver's work papers for calculations relating to the pre-1997 periods (periods for which the Superseding Indictment claims Mr. Armstrong lost $283 million [$550 million in paragraph 33, less the above noted $267 million], we do have an e-mail of March 3, 1998 attached as Exhibits C (last sentence of page 3) showing that Republic Bank of NY calculated Princeton's net gain as of February 20, 1998 at $14 million. In a separate Republic Bank of NY e-mail of March 4, 1998, Republic Bank of NY again confirms that the cumulative liquidating value for all Princeton positions was approximately $14 million. Thus, in contrast to the Government's allegations of loss, the e-mails from Republic Bank of NY show that Mr. Armstrong's trading record reflected gains as late as February of 1998.

- Our limited review of the accounts in question has always caused us heartburn as the number of trades, cancelled trades and other information about Republic Bank of NY's internal controls – or lack thereof – as well as findings in other ancillary proceedings suggest that Republic or its agents were defrauding the Princeton accounts.

I now think I understand why – after six years of working on this case – **none of our production requests have been answered.** The Government clearly cannot establish the financial allegations in their Indictments.

FCL's requests for documents necessary for an appropriate analysis of the data in this case go back to April through June of 2001. Attached as Exhibit E are pages 2 and 3 of a

June 2, 2001 memorandum to Martin Siegel, Esq., then the lead counsel for Mr. Armstrong's defense, indicating the documents that FCL determined to be required for Mr. Armstrong's defense. It is my understanding that subpoenas have been served for substantially everything that was demanded nearly six year ago. It is also my understanding that supplemental subpoenas and requests have also been served and/or made for information obtained in other ancillary proceedings in the intervening six years. Aside from the partial piece of the Receiver's work papers obtained last month, virtually none of the subpoenas or requests have been answered or enforced by the Court. FCL has consequently been in a "holding pattern" of six years on this case, waiting for the forthcoming documents and information, while Mr. Armstrong has been incarcerated without trial.

As for our plans going forward, I will keep you apprised of further findings with respect to the documents produced by the Receiver. It would be helpful and save the government fees if we could have the **full** set of work papers. And it would also be helpful if we could obtain them in electronic format. After all, it was ultimately the corpus of the Receivership that was billed for the compilation work and the assistance in crafting the indictment. One would think that we would have obtained access to the work papers years ago.

Conclusion

There are at least three major implications from these findings. First, we need to receive documents that we have been requesting for the last six years because not only the Government's allegations of fraud, but also its computations, appear to be flawed. Second, whereas the Government has been alleging significant trading losses attributable to Mr. Armstrong, other documents suggest that at least as of February of 1998, the relevant Princeton accounts reflected gains. Third, based on the documents provided to us by the Government, it is questionable why Mr. Armstrong would have pled to a crime that may not have occurred.

Please call if you have any questions or comments regarding this letter. It is best to reach me on my cell phone at (703) 217-4091.

Sincerely yours,

Michael M. Mulligan

Princeton Global Management Ltd Fixed Yen
Account Number : R PHL 80 32011
11/3/97 to 8/31/99

Opening balance				US$
				0.00
Trading Activity				
Yen Trading losses	(233,961,208.02)			
Yen Trading gains	98,658,390.96	(135,302,817.06)		
Options Trading				
Premiums paid	(3,603,957,814.50)			
Premiums received	3,438,120,917.98			
Option trading losses		(165,836,896.52)		
Other trading losses	(724,846.00)			
Other trading gains	2,208,315.20	1,483,469.20		
Unrealized gains/(losses) at 8/31/99		4,638,547.06		
		(295,017,697.32)		
Net Trading Losses				(295,017,697.32)
Fees and Commissions				(7,515,540.48)
Interest				(4,144,909.15)
				(306,678,146.95)
Wire Transfers In				
Yen Dollar Equivalent				
Wire Transfers Out				
Yen Dollar Equivalent			(534,025,586.15)	
Net Wires Out (net Yen dollar equivalent out)				(534,025,586.15)
Sub Account Activity				
Transfers In				
Cash			778,552,781.92	
Securities at face		67,032,000.00		
Adjustment to market		(658,544.16)	66,373,455.84	
Transfers Out				
Cash				
Securities			(4,384,406.93)	
			-	
Net Transfers from/(to) Sub Accounts				840,541,830.83
Current Holdings of Securities at 8/31/99				-
Account Balance at 8/31/99				(161,902.27)

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09/08/1999

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JUDGE McKENNA

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Princeton Economics International Limited
Analysis of PGM Trading Accounts at RNYSC
For the Period From November 1, 1997 To August 26, 1999

	Account No. 32011
	Fixed Yen
Gross Futures Trading Profits	$557,468,304 (1)
Gross Futures Trading Losses	(555,642,497) (2)
Net Futures Trading Profits/(Losses)	1,825,807
Gross Option Premiums Received	6,316,030
Gross Option Premiums Paid	(5,131,405)
Net Option Premiums Received/(Paid)	1,184,625
Net Proceeds from the Sale/Redemption of U.S. Government Securities Received From Other Accounts at RNYSC	66,422,612
Fees and Commissions Paid to RNYSC	(7,504,030)
Net Interest Paid on Debit Balances	(4,144,909)
Unrealized Gains on Open Securities Positions at 8/31/99	4,638,547 (4)
Foreign Currency Sold	5,883,936,079
Foreign Currency Purchased	(6,049,101,450)
Net Foreign Exchange Profits/(Losses)	(165,165,371)
Internal Cash Receipts from Other Trading Accounts	12,977,976
Internal Cash Receipts from Other SPV Accounts	593,560,807
Internal Cash Receipts from PEIL Account No. 45062	172,001,499
Internal Cash Transferred to Other Trading Accounts	-
External Wire Transfers	(671,575,058) (3)
Internal Cash Transferred to Other SPV Accounts	(2,584,407)
Internal Cash Transferred to PEIL Account No. 45062	(2,000,000)
Net Transfers	102,380,817
Account Balance at August 31, 1999	(161,907)

Notes:

(1) Gross Futures Trading Profits contains:

Total S&P Index Trading Profits		$524,685
CHF Trading Profits		452,000
DM Trading Profits		1,256,338
Total JPY Trading Profits		555,235,281
	Total	$557,468,304

(2) Gross Futures Trading Losses contains:

Total S&P Index Trading Losses		32,828
DM Trading Losses		725,275
Total JPY Trading Losses		554,884,394
	Total	$555,642,497

(3) External Transfers per KPMG total $671,575,057.58 and not $668,897,090. The difference occurs as a result of exchange rate differences.

Exchange Rate Differences:

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Jim Sweeney
03/03/98 05:43 PM

To: Anna Vitale/Legal Department/Republic/US@Republic

Mark Hershey/Corporate Planning/Republic/US@Republic
Subject: Marty Armstrong

We have had numerous discussions on KYC concerning Marty Armstrong and Princiton Economics. In order to resolve some of the open points, Martin Hovance, the RNYSC Compliance Officer, and myself placed a telephone call to Marty Armstrong on February 17th. I introduced Hovance to Armstrong and explained that we were undergoing our annual audit by KPMG and that RNYSC needed to address KYC adherence.. I indicated that KPMG had requested KYC information on the various Princeton accounts

Armstrong was pleasant and cooperative. The key points he covered were:
- each account set up reflects one lender and there is one account for each traunch of debt provided.
- all of the lenders are major institutions, they are all foreign and there are no retail or high net worth individuals
- there are no debt/notes under 6 months; most are issued for 5 years, a couple for 10 years and all are for a fixed rate
- the average interest paid was a 15 point premium
- there is no equity participation or equity "kickers" to the lenders (i.e., fixed interest only)
- all trading is proprietary and controlled by Princeton
- all bond/note holders are true lenders
- bond holders have a guaranteed yen return. Princeton fully invests the proceeds in FNMAs (or other US government securities) and hedges the currency risk per Princeton's view of the Yen/Dollar outlook
- Princeton guarantees the principal and interest to the lender
- the Yen deposit rate in Japan is around 1% today
- this is basically the same approach as the $500 million Letter of Credit deal Princeton has been discussing with RNB except that here the Princeton guaranty replaces the Letter of Credit
- if there were a Letter of Credit guarantying the note the rate would be cut 50 to 100 basis points

After consideration of these responses we realized that there were two areas which needed to be clarified. One was the interest rate. A 15 basis point premium seemed small. The other was to understand exactly which entity was the debt issuer and which entity issues the guaranty. If the guarantor was Princeton Economics International Ltd (PEI), does Armstrong provide any financial data to give comfort to the lenders.

On February 23rd, Martin Hovance and I placed another call to Armstrong with some follow up questions.

- We discussed the interest rates. Armstrong said the interest rate was a small premium over the LIBOR rate
- Armstrong confirmed that there is a special purpose vehicle for each note and that the guarantor is Princeton Economics

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International Ltd. (PEI)
- we discussed that there were questions raised as to whether financials on PEI were provided to potential lenders or
what made them comfortable. Armstrong said no financials were provided. We probed whether Armstrong had
financials and whether he would provide them to us. Armstrong was very emphatic and insisted that he did not and
would not disclose financials.

We still were unclear as to how the interest worked and still had concerns about why investors would buy these bonds
withour receiving financial information.

On February 25th I had a further conversation with Armstrong. I explained that I needed to clarify my understanding of the interest rates paid on the Yen denominated notes. I also explained our difficulty in understanding why institutions would deal with him without some financials to back up the guaranty.

Armstrong confirmed that interest on the debt is based on the Japanese Yen interbank rate. The interbank rate is a premium of 50 to 100 points over what rates are locally available on Japanese Treasury paper and other forms of Yen deposits. Armstrong pays a premium of say 15-25 basis points over the yen interbank rate (which is 75-125 basis points over alternate
yen rates) and then converts the yen to US dollars and invests in US instruments (say FNMAs).
His spread is on average 550 basis points. He then decides the currency hedge and he receives any currency gain or loss. He pointed out that the money he will be returning to lenders at the end of March came to him when the Yen conversion
rate was 117 or 118 and the current rate is 127 or 128. (hence, a gain of 10 yen per dollar).

Armstrong also noted that all of his bonds are approved by the Japanese Ministry of Finance (MOF). (This is a requirement
on all bonds sold in Japan)

On the topic of disclosing Princeton's net worth he was most reluctant. He said everyone he deals with in Japan knows
Princeton. Princeton has been in Japan over 12 years. Armstrong said during this time most US broker dealers have started up and closed down and left a bad impression on Japanese institutions, but he remained.
He again said he does not provide lenders any financials. When I tried to pull a favor and get something from him he still said no.

He said we know he owns Cresvale, a broker dealer, and he said it was "public knowledge" that there was $40 million in capital in the Japanese Cresvale entity and that there was $10 million in the US Cresvale entity. (We subsequently received an audited statement as of 4/28/97 on Cresvale US confirming this). He said he had bought the Japanese Cresvale entity and invested capital at the request of the Japanese MOF. Since both the Japanese and US Cresvale entities are wholly owned by the guarantor, PEI, Armstrong suggested that this information supports the perceived credit worthiness of PEI as a guarantor.

. Armstrong further stated that one of the reasons he deals with Republic is that he does not view Republic as a potential competitor. In the past he has dealt through people like Paine Webber & Prudential and they studied what he
was doing and found out who his clients were and they then approached his clients directly with similar proposals.

On February 26th I contacted Cresvale International (US) LLC, the US entity Armstrong referred to and

spoke with Joe
Randazzo (a former employee of RNYSC) and asked about the structure of ownership. Later in the day he faxed me
an organizational chart reflecting the structure of ownership reflecting PEI's 100% ownership. Marty Hovance is attempting
to get Dun & Bradstreet reports on all of these entities and I have requested credit information from our local Republic offices
in Hong Kong and Japan.

We also did an analysis of Princeton's securities positions and outstanding margin requirements at quarter ends in
1997 and on February 20, 1998. Outstanding securities positions averaged $547 million ($570 million as of 2/20/98).
The average margin requiremnt (typically 4% of net outstanding futures positions) was $18.7 million ($13.3 million as
of 2/20/98). Also, the average liquedting value of the futures positions shows a net gain of $13.4 million for these points in time, with a high point of $38.1 million gain, a low point of (-$2.7) million loss, and a net gain of $14.0 million as of 2/20/98.

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