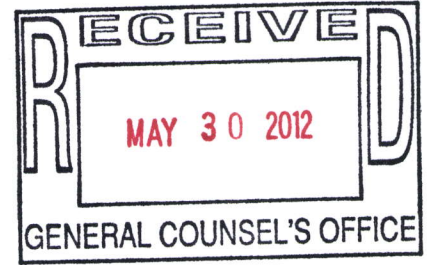


Timothy J. Karlin
TradingEdge Capital Management
1320 SW 27th Street APT J68
Topeka, Kansas 66611



May 29, 2012

From: Tim Karlin

To: National Futures Association

Re: Response to NFA Case No. 12-BCC-013

I have reviewed the complaints against my firm. As was the case during the field audit of my firm, my objective remains to provide the National Futures Association (NFA) an accurate accounting of the circumstances of the start-up of TradingEdge Capital Management (TCM). Additionally, I desire to further my understanding of my responsibilities as a Commodity Trading Advisor (CTA). So it is in this spirit that I respectfully submit my reply.

My reply begins by addressing items (1) through (9), providing additional relevant information and asking questions as needed to further my understanding. Following this is my reply to each of the three counts cited in the NFA Complaint Letter.

Item (1)

While it is true that I had met the requirements needed to qualify TCM as a CTA, it is also true that this was part of an ongoing process whereby I was continuing to educate myself about the many requirements I needed to meet before I could begin to solicit and trade client accounts. I have not previously worked in the financial services field; therefore the education process has been time-intensive for me. I have had many conversations and email correspondence with NFA staff and auditors during this process. Based on these conversations, it's been my understanding all along that I needed to be in full compliance "before" I opened my doors for business. Is this not correct?

I have many requirements still to meet before I open my doors for business. I have not and will not solicit and trade client accounts until my company is in full compliance and qualified traders are on board. Yet even after I qualify to open my doors for business, I expect that my learning curve in this industry will continue. Is this not a reasonable expectation? Aren't NFA staff members afforded the opportunity to learn their roles and make mistakes?

Item (2)

As with my CTA designation in Item (1), I knew that gaining my AP designation did not mean that I was automatically fully qualified to perform all my responsibilities as an AP. I still had more to learn about the role of an AP. Furthermore, additional requirements still had to be met. As such, TCM was at no time open for business.

Item (3)

I was in the process of getting an approved disclosure document. My first draft was returned to me on November 3, 2011. While I have since made the required changes, I do not plan to submit the revised disclosure document until the conclusion of the case at hand.

Item (4)

Initially it was determined by NFA staff in September of 2011 that Jerome DeFries did not need to be registered as a Principal. In December of 2011, I consulted NFA staff again with regard to Jerome DeFries and it was determined that he in fact did need to be registered as a Principal. In January of 2012 I started the Principal application for Jerome DeFries. The NFA registration system flagged his application. Following this, NFA staff requested from me specific information regarding Jerome DeFries alleged involvement in a Ponzi-style fraud. Jerome DeFries declined to provide me with the information NFA staff requested and asked that I withdraw his application. NFA staff said I could withdraw his application without penalty. I subsequently withdrew Jerome DeFries's Principal application. I have an email record of each of the forgoing statements, which can be supplied to you upon request.

Item (5)

At no time was Jerome DeFries involved with TCM, other than his participation in the Principal application process.

Item (6)

NFA Compliance Rule 2-36(b)(2) provides that no Forex Dealer Member (FDM) or Associate of an FDM engaging in any forex transaction shall willfully make or cause to be made a false report, or willfully enter or cause to be entered a false record in or in connection with any forex transaction. Forex Dealer Members are defined in NFA Bylaw 306 as those entities which act as the counterparty, or offer to be the counterparty, to forex transactions (as defined in Bylaw 1507(b)). Excluded from the definition of FDM are those entities which are registered in another capacity with the Commodity Futures Trading Commission (CFTC). Members who do not act as counterparties are not Forex Dealer Members, even if they introduce or manage forex accounts.

According to the preceding definition, TCM is not a Forex Dealer Member. For Rule 2-36(b)(2) to apply, TCM would have to be defined as an "Associate" of a Forex Dealer Member. It is not clear to me whether or not TCM qualifies as an "Associate" of a FDM.

Item (7)

Rule 2-39(a) refers to Members and Associates, who solicit customers, introduce customers to a counterparty, or manage accounts on behalf of customers in connection with forex transactions.

At no time did TCM solicit customers, introduce customers to a counterparty, or manage accounts on behalf of customers in connection with forex transactions.

Item (8)

No comment

Item (9)

As with Item (6), TCM would have to be classified as either a FDM or an "Associate" of a FDM for Rule 2-36(e) to apply.

COUNT 1

Item (10)

See forgoing comments I supplied in Items (1) through (7).

Item (11)

The four loan partners currently receive monthly payments totaling \$1,888.36. Jack McGivern and John McGivern each receive \$523.38 per month; both parties waived interest and late fees moving forward. Mark McGivern and Dan Cain each receive \$420.80 per month; both parties lowered the monthly payment in exchange for a higher interest rate; there is no penalty for early payoff.

Item (12)

Mike Karlin used his personal account to trade the \$20,000 borrowed funds. If successful, Mike's track record would have served two purposes. First, it would have earned Mike a position in my company as a trader. Second, the track record would have been entered into the disclosure document as Mike's proprietary trading results. Mike withdrew his services in early 2011. Jack McGivern and John McGivern pulled out of the project after Mike withdrew; repayment of their loan began shortly thereafter. Mark McGivern and Dan Cain continued to support the project up through the Audit in early 2012.

Item (13)

Mike Karlin did falsify trading statements, hiding the fact that he was losing money. Yet it is not accurate to state that Mike Karlin was acting on behalf of TCM, as he was not a member of my LLC and had no decision-making ability in my LLC. What is accurate is that Mike Karlin was auditioning for a trading position with my company. As stated in Item (12), Mike's Karlin's personal trading track record would have been cited in TCM's disclosure document, as would be the case with any other trader I hire. Mike Karlin is named on the loan notes to the four loan

partners, not because he had a controlling influence with TCM, but because I insisted he be responsible for money he borrowed. It was Mark McGivern's decision to make Mike Karlin, Victoria Karlin, and myself "joint and severally responsible" for repayment. Yet I never gave Mike Karlin a controlling influence in the company. His area of responsibility was his personal trading only.

Item (14)

On Friday March 2, 2012, I emailed a letter to each of the four loan partners that summarized the audit findings regarding Mike Karlin's trading losses and falsified statements. The NFA should have this letter on file. A few days after sending this letter to the four loan partners, Mike Karlin personally met with each of the partners to explain why he falsified statements.

Item (15)

For Rule 2-36(b)(2) to apply, TCM would have to be defined as either a "Forex Dealer Member" or an "Associate" of a Forex Dealer Member. TCM is clearly not a FDM. As I stated in Item (6), it is not clear to me whether or not TCM qualifies as an "Associate" of a FDM; I see no definition for "Associate" of a FDM in the NFA manual.

Additionally, as I discussed in Item (12), Item (13) and Item (14), it is clear that Mike Karlin acted as an individual rather than as an agent of TCM.

Finally, as I stated in Item (7), Rule 2-39(a) refers to Members and Associates, who solicit customers, introduce customers to a counterparty, or manage accounts on behalf of customers in connection with forex transactions. At no time did TCM solicit customers, introduce customers to a counterparty, or manage accounts on behalf of customers in connection with forex transactions.

If my current understanding of the rules is correct, then I cannot "admit" that COUNT I applies to TCM. However, I am not sure whether or not I understand the application of the rules correctly. Therefore I will state, or "aver," at this time that I lack sufficient knowledge to 'admit' or 'deny' COUNT I.

COUNT II

Item (16)

See my comments given in Items (1) through (5).

Item (17)

See my comments given in Items (12), (13), (14) and paragraph 2 of Item (15).

Item (18)

The whole of my comments cited in Items (16) and (17) demonstrate that Mike Karlin did not have a controlling influence in the affairs of TCM. Mike Karlin traded his personal account to establish his personal track record. Only if Mike Karlin was successful would his trading services have been utilized by my firm. The firm had no trading account and did not manage an account for investors. It is true that Mike Karlin was responsible for money he borrowed and used to buy a computer and pay for living expenses...a fitting condition. It was the lenders who required that Tim Karlin, Mike Karlin and Victoria Karlin be jointly responsible for repayment of the loan; this lender requirement did not give either Mike Karlin or Victoria Karlin any controlling influence in company decisions. Only decisions Mike Karlin made were in regard to his personal trading and the design of his trading computer.

Item (19)

If my current understanding of the rules is correct, I cannot "admit" that COUNT II applies to TCM. However, I am not sure whether or not I understand the application of the rules correctly. Therefore I will state, or "aver," at this time that I lack sufficient knowledge to 'admit' or 'deny' COUNT II.

COUNT III

Item (20)

See my comments given in Items (1) through (5), (7) and (9).

Item (21)

My understanding of rules cited in COUNTS I and II, as I have stated in the 'Items' listed for each COUNT, do not indicate to me that I was responsible for monitoring Mike Karlin's trading activities. TCM never managed an account for investors. Mike Karlin traded his personal account in order to establish a track record that would have been entered into the TCM disclosure document as his proprietary track record had he been successful. Even so, both the lenders and I required Mike Karlin provide trading statements so we could track his results each week.

Item (22)

My understanding of the rules relative to Mike Karlin's personal trading activities and loan repayment responsibilities do not suggest to me that he should have been registered as a Principal of TCM. I did initiate his Principal application in the Online Registration System because I wanted to give him the option to become a Principal. Yet only after my experience with Jerome DeFries (See Item (4)) did it become clear to me that Mike Karlin would have needed to be a Principal had he ultimately traded client accounts for TCM.

Item (23)

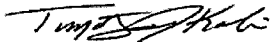
If my current understanding of the rules is correct, I cannot "admit" that COUNT III applies to TCM. However, I am not sure whether or not I understand the application of the rules correctly. Therefore I will state, or "aver," at this time that I lack sufficient knowledge to 'admit' or 'deny' COUNT III.

Concluding Statement

My intent with this letter is that the NFA have an accurate account of the details of my company's start-up. Thus I will gladly provide any additional information you need beyond what I provided in this letter. I also desire to further my understanding of applicable NFA rules and my responsibilities. While I have not particularly enjoyed the audit, it has been a valuable learning experience for me, as it has helped further my understanding of the pitfalls and the responsibilities of a CTA more than the Series 3, the Series 34 or any other part of the start-up process that I've engaged so far.

In closing, I would ask you to consider the following mitigating circumstances. Since I am new to the financial services field, I am in the steepest part of my learning curve. As such, mistakes are more likely now than later; for this reason I have been in no rush to open my doors for business. If it is ultimately found that I violated NFA rules during this time, it was certainly never my intent to do so. Despite the audit findings, I still maintain a good relationship with the four loan partners. Regarding Mike Karlin, he did not receive any financial gain from his actions. Nor were any of the lenders hurt. The majority, if not all, of the borrowed money that Mike Karlin lost has since been paid back by him. And loan payments continue on schedule today.

Respectfully,



Timothy J. Karlin