



December 23, 2010

From: Faye B. Feinstein
Re: **Transcript of December 1 deposition of James E. Putman in connection with his chapter 7 bankruptcy case**

On November 29, 2010, the bankruptcy court supervising the chapter 7 bankruptcy case filed by James and Christine Putman granted my motion to conduct a deposition (called a "Rule 2004 examination") of Mr. Putman. On December 1, 2010, the Rule 2004 examination of Mr. Putman began in Appleton, Wisconsin. Present were my counsel, as well as the chapter 7 trustee appointed in the Putmans' bankruptcy case and David Melnick, who has filed a complaint in the Putmans' bankruptcy case, on behalf of certain investors who retained him to do so, seeking to exempt from Mr. Putman's bankruptcy discharge certain debts allegedly owed by Mr. Putman to those investors. Mr. Putman was represented at the examination by his lawyer, Joseph Engl.

Attached to this memo is the transcript of that first session of December 1, 2010. We intend to schedule a second session as soon as we are informed of the dates on which Mr. Putman will be available.

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UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF WISCONSIN

In re: Case No. 10-32980-mdm
James E. Putman and Christine A. Putman,
Debtors.

DEPOSITION OF JAMES PUTMAN

Deposition of JAMES PUTMAN, taken before
me at Block, Seymour, Chudacoff, Samson &
Liebzeit, S.C., Appleton, Outagamie County,
Wisconsin, on the 1st day of December, 2010,
A.D., otherwise than as a witness on the trial,
in a certain action now pending in the United
States Bankruptcy Court for the Eastern District
of Wisconsin, wherein the parties thereto are as
set forth above.

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Jessica Koepsel
Certified Realtime Reporter

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APPEARANCES

KREKELER STROTHER, S. C. , of Madison, Wisconsin; MR. JOSEPH M. ENGL of that firm appeared on behalf of Debtors James E. Putman and Christine A. Putman.

BLOCK, SEYMOUR, CHUDACOFF, SAMSON & LIEBZEIT, S. C. , of Appleton, Wisconsin; MR. LARRY LIEBZEIT of that firm appeared as the Trustee.

QUARLES & BRADY, LLP, of Milwaukee, Wisconsin; MS. JANE E. APPLEBY of that firm appeared on behalf of Receiver Faye Feinstein.

MELNICK & MELNICK, S. C. , of Mequon, Wisconsin; MR. DAVID A. MELNICK of that firm appeared on behalf of the Plaintiffs.

CHRISTINE PUTMAN, JENNIFER SHESKI, JIM VERHOEVEN, SANDY VERHOEVEN, LYNN SPERL, BOB COGLIANESE, C. H. BERGMANN, JR. , and PETE BROCKMAN were also present in person.

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5 (Original exhibits placed with original
6 transcript.)

7 - - - - -

8 LIST OF REQUESTS

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			years 2006, 2008, or 2009
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			years 2006, 2008, or 2009
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			native format
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13		130	Notes Mr. Putman took at Mr. Riek's
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		141	E-mails referencing Baetis and Brown's
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20			June of 2008
		168	Transaction list by date for 2006,
21			2008, or 2009
		168	Description of credit card 2766
22		174	Follow the 26022 account and identify
			which account that was in and see where
23			the money went out the other end
		178	Answer as to why Exhibit 4 is titled
24			to contain information through November
			but does not

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2	Pg.	184	Description of the accounts on the
			general ledger
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5 months of the filing of the bankruptcy
229 Notification of any outstanding school
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6 231 Find out where the 4/26 payment of
\$18,235 went
7 234 Value of the regular non-IRA account
with Charles Schwab
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1 Said JAMES PUTMAN, having been first
2 duly sworn by me to testify the truth, the
3 whole truth, and nothing but the truth
4 relative to said cause, in answer to oral
5 interrogatories, deposed and made answer as
6 follows:

7 - - - - -
8 (The examination began at 9:11 a.m.
9 on December 1, 2010.)

10 - - - - -
11 EXAMINATION

12 BY MR. MELNICK:

13 Q Mr. Putman, I am Dave Melnick. And I
14 believe we met once in June of '09 at the
15 first hearing on the receiver?

16 A Yes.

17 Q But otherwise I have not met you before or
18 subsequent to that; is that correct? We
19 have not talked?

20 A As far as I know, yes.

21 Q What are you doing for employment right now?

22 A Working part-time at a business in
23 Fond du Lac.

24 Q Doing what?

25 A Sales, motorcycle sales.

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1 Q Now, between 1990 and 1995, you had
2 commenced operating Wealth Management in
3 Appleton?

4 A No.

5 Q What did you do between 1990 and '95?

6 A I was employed by Wealth Management.

7 Q And who was -- who are the owners of Wealth
8 Management?

James Putman.txt

- 9 A At what time?
- 10 Q 1990 to '95.
- 11 A There was a group of approximately
- 12 25 people.
- 13 Q In that period of time, there was a
- 14 gentleman also employed there named
- 15 Tom Riek, R-I-E-K; is that correct?
- 16 A Correct.
- 17 Q What was his position between 1990 and '95?
- 18 A As chief investment officer.
- 19 Q Now, between 1995 and 2001, did you continue
- 20 on with Wealth Management?
- 21 A Yes.
- 22 Q And at what position?
- 23 A During that time?
- 24 Q Yes.
- 25 A Again, 1995?

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- 1 Q 1995 to 2001.
- 2 A '95 to 2000 -- '95 to '97 I was the
- 3 president of the company and head of the
- 4 financial planning. That was Wealth
- 5 Management, Incorporated. In 1997 there was
- 6 a buyout of the existing members -- excuse
- 7 me, existing shareholders by an LLC. And at
- 8 that point I became president and chairman
- 9 of the board of Wealth Management, LLC.
- 10 Q And Wealth Management, LLC, continues to be
- Page 6

11 the company that is effectively in
12 receivership today?
13 A Correct.
14 Q Now, during that same period, Tom Riek left
15 Wealth Management to manage some money for a
16 man named Geerts, did he not?
17 A Yes.
18 Q Now, between 2001 and 2002, did your duties
19 at Wealth Management change at all?
20 A To my best recollection, no.
21 Q Did Tom Riek come back to Wealth Management
22 starting in 2001 and 2002?
23 A No.
24 Q Did he do any work or consulting with
25 Wealth Management?

7

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1 A Not that I can remember.
2 Q In 1991 -- and I'm sorry, strike that. In
3 2001, 2002, did you ever hear of funds by
4 the name of Brown and Baetis? Now, by the
5 way, and when I say these time periods,
6 obviously, life is never this exact, so if
7 they spill over, don't -- you know, just let
8 me know what your feeling is. But what I'm
9 really trying to find out is when the first
10 time you heard of Brown and Baetis.
11 A If that's the question, then it's my best
12 recollection it was in 2000 -- somewhere

13 between 2002 and 2003.
14 Q And do you know how you heard of them?
15 A Tom Riek would have presented it to us.
16 Q Did Tom Riek mention an individual named
17 Joe Aaron?
18 A Yes.
19 Q And in what capacity was -- did he mention
20 Joe Aaron's name?
21 A As manager of a group of hedge funds.
22 Q Now, until then, you had -- or at least
23 until the 2002, 2003 period, you had not
24 invested in anything to do with Brown and
25 Baetis; is that correct?

8

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1 A To my best recollection, yes.
2 Q Do you know whether Tom Riek said he was
3 investing in Brown or Baetis or both?
4 A I do remember him telling me that, yes.
5 Q And that would have been somewhere in the
6 area of, well, 2002 to 2003?
7 A To my recollection, yes.
8 Q Now, so we've got our terms right -- and I
9 know you're comfortable with this because
10 you attended Tom Riek's depo by the FCC, did
11 you not?
12 A I did.
13 Q And, in fact, you even asked him questions,
14 correct?

15 A Uh-huh. I did.
16 Q So I want to make sure I get the
17 nomenclature correct on what you all have
18 called sometimes insurance arbitrage,
19 insurance financing, life insurance
20 financing. You know, I sort of group it.
21 But what names would you want me to use for
22 purposes of deposition to talk about the
23 insurance -- life insurance financing
24 business?
25 A We came to know it as life insurance premium

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1 finance.
2 Q So I'll make sure -- and there's enough
3 people in the room to pound me on the head
4 if I get off. But is that -- would that be
5 in your parlance similar to the insurance
6 arbitrage concept?
7 A I think that's a fair assumption.
8 Q Okay. Now, when did you first hear and from
9 whom did you hear about life insurance
10 financing? Was it Tom Riek or Joe Aaron?
11 A It would have been Tom Riek.
12 Q And do you know when and in what context he
13 talked to you about it?
14 A Not exactly.
15 Q Did you know that Riek worked for Joe Aaron
16 at Wood, Hat & Silver? I mean he lived in

- 17 Wi sconsi n. Don' t get me wrong.
- 18 A Yes.
- 19 Q But he worked for Wood, Hat & Si lver. Were
- 20 you aware of that ever?
- 21 A Yes.
- 22 Q Do you know approxi matel y what peri od he
- 23 worked for Wood, Hat & Si lver?
- 24 A I don' t recall .
- 25 Q Di d he ever tell you that' s how he first

10

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- 1 became interested or aware of the insurance
- 2 premi um fi nanci ng busi ness?
- 3 A I recall that duri ng hi s time worki ng wi th
- 4 Joe Aaron, that he met a person by the name
- 5 of Beau Gayner, who was i n thi s busi ness and
- 6 i ntroduced him to the strategy.
- 7 Q Let' s talk about Beau Gayner. Di d you ever
- 8 meet Beau Gayner?
- 9 A Yes, I di d.
- 10 Q Now, you say that Beau Gayner was already i n
- 11 thi s busi ness, to your knowl edge?
- 12 A Yeah. As far as I know, he was.
- 13 Q Do you know what he di d i n thi s busi ness?
- 14 And I' ll walk you through the business, so
- 15 don' t worry i f you make an error along the
- 16 way. I' m going to walk you from the
- 17 beginni ng to the end. But do you know what
- 18 Beau Gayner di d?

19 A My first impression that I can remember,
20 Beau Gayner was raising money for a -- an
21 associate of his for a fund named RangeTree.
22 Q That was Dan Miller?
23 A Dan Miller, yes.
24 Q And do you know approximately the time
25 period you're talking about? Is it still

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1 '03 we're in, or is it a little bit earlier,
2 a little bit later?
3 A It would be somewhere between '02 and '03,
4 maybe even '04.
5 Q Now, do you know if Riek was also raising
6 capital while he was at Wood, Hat & Silver
7 for this insurance premium financing
8 business?
9 A That was my understanding.
10 Q And as I understand it, it was Riek that
11 introduced you and thus Wealth Management to
12 Wood, Hat & Silver and the premium financing
13 business?
14 A Yes.
15 Q Now, Riek contends that in '04 he was forced
16 out of Wood, Hat & Silver because he hadn't
17 -- couldn't reregister or something to do
18 with the FCC or it would be too expensive
19 and thus he couldn't continue operating out
20 of Wood, Hat & Silver. Do you recall that

- 21 story?
- 22 A Yes.
- 23 Q Do you know if there's any validity to it?
- 24 A No.
- 25 Q You never checked it out?

12

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- 1 A No, it's just his -- something he told me.
- 2 Q He also claims -- this is in the 2003 to
- 3 2004 area -- that he had a book of clients
- 4 with him, eight to nine Wisconsin clients.
- 5 Did he ever discuss that with you?
- 6 A Yes.
- 7 Q And do you remember any of those clients'
- 8 names?
- 9 A Two I met. Excuse me, David Janssen was
- 10 one.
- 11 Q A doctor, right. Dr. Leshke?
- 12 A Yes, John Leshke was the other.
- 13 Q In June of '02 were you aware that Riek had
- 14 invested \$400,000 of his own money in
- 15 Baetis?
- 16 A I was not aware of that.
- 17 Q Do you know what Baetis was actually doing,
- 18 what function it was performing in '02 and
- 19 even into '03, if it helps you?
- 20 A I recall that initially Baetis was a fund of
- 21 a number of different strategies, one being
- 22 convertible arbitrage.

23 Q Which is what?
24 A That's an investment strategy whereby you'll
25 buy a portfolio of convertible bonds, and

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1 you will use a shorting technique against
2 the stocks if the stocks are going to drop.
3 Q And convertible bonds, for the record, are
4 bonds that can be converted into stock at a
5 specific price within a specific time
6 period?
7 A Yes.
8 Q And the arbitrage is that you're then
9 looking at the stock of the company to
10 either go plus or minus on the bonds?
11 A Right. And then the company that was
12 managing that strategy, as I remember, is a
13 company called Argent.
14 Q Now, there's Argent and Argency. What's the
15 difference?
16 A Well, Argent ran the convertible bond
17 strategy with three parts, A, B, and C. And
18 the A units, if I remember correctly, was
19 using a leverage of three times the money.
20 The Bs, I think, were using six times the
21 leverage, and C were a lending unit.
22 Q Lending to whom, A and B?
23 A Yeah.
24 Q So C would get money from investors

25 presumably?

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- 1 A Correct.
- 2 Q Because it -- and then would lend that money
- 3 at some kind of a fixed rate or variable
- 4 rate, or don't you know?
- 5 A I remember it was a fixed rate along with a
- 6 percentage of the upside of the profits
- 7 generated by the Bs and Cs.
- 8 Q So it would lend the money to the Bs and --
- 9 no, to the As and Bs?
- 10 A Right.
- 11 Q To the As and Bs. And it would get back its
- 12 money plus interest plus a little bit of the
- 13 upside depending on the deal?
- 14 A Right.
- 15 Q Now, did you ever see any of this in writing
- 16 anywhere?
- 17 A I saw the documents. I relied on
- 18 Simone Fevola to do all the due diligence on
- 19 the analysis and the workings.
- 20 Q And were there financial statements ever
- 21 issued out of C?
- 22 A I remember that there were.
- 23 Q Do you know who was the firm that issued
- 24 those accounting statements?
- 25 A I can't remember.

15

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- 1 Q Do you know who caused them to be prepared?
2 Was that Joe Aaron or Tom Riek or someone
3 else?
4 A I recall that, as with most funds, the
5 managers will execute annual audits of their
6 activities, so any financial statements that
7 came from Argent -- again, this is an
8 assumption -- I have to assume that they
9 directed that to be done.
10 Q How many years was Argent in business?
11 A I don't recall.
12 Q But it's not in business now?
13 A I don't know.
14 Q When is the last time you had anything to do
15 with Argency?
16 A I'm going to give a range of 2003, 2004.
17 Q Okay. And that's fine. Now, in 2003,
18 Tom Riek met Simone Fevola, F-E-V-O-L-A.
19 Was that at your introduction, or did they
20 meet separately of any business dealings
21 that you had?
22 A I would have to believe it was because that
23 Tom wanted Wealth Management to utilize the
24 services of Wood, Hat & Silver. And the
25 specific purpose Fevola was hired was to do

16

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1 just that, to analyze investments, create
2 the Wealth Management funds, and provide the
3 due diligence, the management, the
4 monitoring.

5 Q I'm sorry. Did I interrupt you?

6 A No.

7 Q Did you finish?

8 A No, I'm fine. Thank you.

9 Q So in order for -- I mean, as you said, Tom
10 wanted Wealth Management to do business with
11 Wood, Hat & Silver. In order for that to
12 take place, your feeling was Fevola would
13 have to do the work that you had hired him
14 to do in terms of doing due diligence on
15 whatever they wanted him to do, whatever
16 business dealings there would be with
17 Wood, Hat & Silver?

18 A Correct.

19 Q In '03 were there business dealings with
20 Wood, Hat & Silver?

21 A I believe there was.

22 Q And it was in the insurance premium
23 financing business?

24 A I am not sure when that started.

25 Q Let's -- so that the record is clear, let's

17

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1 just talk about the insurance premium
2 financing business. You actually laid it
3 out very well in a Gryphon document. But do
4 you know it off the top of your head well
5 enough to discuss it, or do you need some
6 help walking through it?

7 A I remember some.

8 Q Maybe I can help you. First of all -- and
9 I'll have these marked at a later time, but
10 I want to show your attorney what I'm
11 reading from. These are Gryphon -- I don't
12 know what you call them -- newsletters.

13 A Newsletters, monthly newsletters, yeah.
14 That's what we called them.

15 MR. MELNICK: Just so you know, these
16 are -- let me go off the record for a
17 second.

18 (Discussion off the record.)

19 (Exhibit marked for identification as
20 Exhibit 1.)

21 BY MR. MELNICK:

22 Q I show you what has been marked -- just
23 because we didn't know what name to put on
24 it, it's Melnick Exhibit No. 1, and ask you,
25 first of all, if you recognize the document.

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1 A Yes.

2 Q This document was sent out to investors in

3 the Gryphon fund in the ordinary course of
4 business, was it not?
5 A Correct.
6 Q And you would have seen this document before
7 it went out?
8 A Yes.
9 Q Now, this particular document is dated
10 March 31, 2004, is it not?
11 A Yes.
12 Q Now, do you see where I have it checked off
13 where it says RangeTree strategies?
14 A Uh-huh.
15 Q You have to say yes.
16 A Yes.
17 Q Thank you. So it says, RainTree strategies
18 is the most important addition to Gryphon.
19 It has been added through the Baetis fund to
20 provide liquidity to this investment. Now,
21 let me stop there. RangeTree was Miller,
22 wasn't he?
23 A Yes.
24 Q And you think it was also Beau Gayner at
25 that time? This would have been March.

19

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1 A It's my recollection that either he worked
2 for Dan Miller at the time, yes.
3 Q That he worked for him or owned part of it?
4 A I don't remember.

5 Q Do you remember any other name who worked in
6 there? Isn't there a third person? You
7 don't remember?

8 A I can't remember.

9 Q Anyway, what did RangeTree, in March of '04,
10 what did they do? You said they provided
11 liquidity to -- you added them through the
12 Baetis fund to provide liquidity. What did
13 they provide?

14 A I don't recall. This was written by
15 Mr. Fevola.

16 Q Well, but I just ask you what you know
17 because this --

18 A Yeah, I don't know what he was referring to
19 here.

20 Q And then it says, RangeTree is a privately
21 owned firm which provides collateralized
22 insurance premium financing for outsized
23 insurance policies. That's exactly what
24 we've been talking about, right?

25 A Right.

20

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1 Q The typical candidate is 74 to 85-year-old
2 person in good health and, therefore,
3 insurable with a minimum net worth of
4 10 million. Is that your understanding of
5 the parameters?

6 A In 2004 that could have been Dan Miller's

James Putman.txt

7 mi ni mums, yes.

8 Q Di d they change after that?

9 A They di d, yes.

10 Q To what?

11 A I've seen them as low as 3 million.

12 Q Oh, the policy, the face value of the

13 policy?

14 A Yes.

15 Q And -- well, let's just take it apart. The

16 age, 74 to 85, did that change, or is that

17 pretty close to standard?

18 A I think that remained the same for --

19 Q And the net worth of 10 million you're

20 saying sometimes would go down to 3 million?

21 A Yes.

22 Q Ever go below 3 million?

23 A It could have.

24 Q The insurance policies are typically in

25 excess of 3 million and are generally

21

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1 desi red by the insured for estate planni ng

2 purposes. Now, I've read separately from

3 this, Mr. Putman, you met wi th a lot of my

4 clients on a quarterly basis to go over

5 everything about that, their whole financi al

6 affairs; is that correct?

7 A Ri ght.

8 Q And you were i nvol ved wi th maki ng

9 recommendations on everything from sometimes
10 I see what cars to buy to vacation homes as
11 well as investments in the market, were you
12 not?

13 A Yes.

14 Q Now, in this case, it says that these
15 policies are desired for estate planning
16 purposes. Now, maybe my expertise isn't
17 anywhere near what yours is, but how would
18 these policies for a 70 -- let's just take a
19 74-year-old, take the bottom end of the
20 range, why would a 74-year-old want this
21 policy for estate planning purposes?

22 A In some instances, it's to provide liquidity
23 for a business, maybe a family-owned
24 business that had substantial value but not
25 a lot of liquidity. If the senior owner or

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1 the father, the key person was getting up in
2 years and they didn't want the company
3 split, they would buy a life insurance
4 policy to provide that liquidity.

5 Q And that would be either a buyout-type
6 policy or key man insurance or other things
7 of that nature; is that correct?

8 A Right.

9 Q But now -- and, again, I'm going to walk you
10 through this very generally. This wasn't

11 that kind of policy, was it? I mean wasn't
12 this a policy that the person taking it out
13 wasn't really going to get much advantage of
14 until he got some stipend after two years?

15 A I think that's accurate.

16 Q Go on -- or not you but the document goes on
17 to say, since the premiums that are
18 associated with such policies are
19 substantial, approximately \$300,000 a year
20 -- and I will represent to you that I've
21 seen premiums close to \$600,000 a year.
22 You've seen those, too, in these cases?

23 A There as been some, yes.

24 Q Yes. RangeTree provides financing for the
25 insured to make such payments. The

23

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1 financing takes the form of a two-year
2 contract at a minimum 13 percent fixed rate
3 per year. The policy is held in a newly
4 created LLC that RangeTree will hold a
5 51 percent interest in by the end of the
6 two-year financing contract. At least
7 that's what it says. Now, do you know
8 whether RangeTree ever came up with its own
9 money to buy any of these insurance
10 contracts?

11 A I don't know.

12 Q And then you have no physical -- and I know

James Putman.txt

13 there's been some documents exchanged here.
14 Do you recall any physical -- any documents
15 that would indicate that RangeTree ever came
16 up with their own money to buy any of these
17 policies?
18 A If there are any, it would be in the due
19 diligence file that was maintained. Now
20 it's in the --
21 Q Receiver?
22 A -- receiver's control. There would be a due
23 diligence file on each one of the
24 submanagers in all the Wealth Management
25 funds.

24

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1 Q Thank you. Now let's just go on because
2 this is the key to everything. There are
3 three possible outcomes of this transaction
4 says the document. I'm quoting from the
5 document now. The insured may at the end of
6 the two-year contract elect to take over the
7 policy and return principal and the final
8 interest payment to RangeTree. So let's
9 talk about that. At the end of two years,
10 RangeTree or the company has put out -- has
11 put out premiums. There's also an interest
12 payment. In this case what do they say?
13 Thirteen percent fixed interest above --
14 look at the paragraph above -- right? Do

15 you see that?
16 A Yes.
17 Q I just didn't want to mislead you on this.
18 And then what happens is that according to
19 this is that the insured then can
20 effectively buy back the policy that they
21 would have sold upon the policy getting
22 approved by the company; is that right?
23 A Correct.
24 Q Because that's what happened, isn't it, that
25 as soon as the policy was taken out, even

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1 though in most cases you know the
2 applications have a specific area where it
3 says that the insured says this is not for
4 sale, you're aware of that, right?
5 A On some policies there were that -- was that
6 question.
7 Q But they checked them anyway, didn't they?
8 A I don't know.
9 Q And are you also aware that many of the
10 policyholders had nowhere near the net worth
11 required of the insurance they were taking
12 out?
13 A I was not aware of that.
14 Q Okay. Anyway, so they -- according to the
15 first option here, the person at the end of
16 the two years buys the policy back, pays you

17 back the premiums, plus they pay you back
18 the interest on the note, and then they own
19 the policy?

20 A As far as I know, yes.

21 Q And, again, putting this as gently as I can,
22 don't the investors get hurt even in that
23 innocent transaction? Because haven't you
24 paid out commissions at the inception of the
25 contract, you, a generic you now?

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1 A Uh-huh.

2 Q You know, I am not talking about you
3 personally.

4 A Yes. Yes.

5 Q A generic you, haven't you already paid out
6 commissions?

7 A That would have been the process of an
8 insurance policy, yes.

9 Q And isn't the commission -- aren't the
10 commissions anywhere from -- I mean
11 Michael Schaalman at Quarles said they ran
12 from 80 to 120 percent. I'm going to give
13 you a longer range. Weren't they run from
14 at least 50 to 100 percent of the first
15 year's premiums?

16 A It's my understanding, yes.

17 Q If we use the example of \$500,000, let's
18 say, on a 10 million dollar policy, so if I

James Putman.txt
19 write a check back to the company, the
20 company is still going to be short monies
21 that it already paid out even though it's
22 getting that back from me, isn't it?
23 Because you've paid that money out to
24 someone else, an insurance agent, RangeTree.
25 I mean everybody's in line with their hands

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1 out getting money in that transaction,
2 aren't they?
3 A Are you talking about the life insurance
4 policy issuing?
5 Q I'm talking about number -- Option 1 here
6 where it says that at the end of the
7 two-year I can elect to take over the policy
8 and return the principal and the final
9 interest payment to RangeTree.
10 A The -- if I understand your question
11 properly, it's how does the investors lose
12 on Option 1?
13 Q Well, I was putting it more affirmatively.
14 They do lose on option one, but go ahead and
15 answer.
16 A Well, the concept of option one is the
17 investors put up on your example \$500,000,
18 and then after two years, the insured wants
19 the policy back. So they pay \$500,000,
20 which is the original premium payment, plus

21 interest at 13 percent for two years.
22 Q Okay.
23 A So what the investors get back is their
24 principal plus interest at 13 percent minus
25 whatever fees there are to generate that.

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1 Q Okay. But --
2 A So the -- and your question relating to the
3 commissions and the fees and everything
4 else, that's an expense borne by the
5 insurance company.
6 Q The commissions are, but aren't there fees
7 on your end? Isn't RangeTree getting fees
8 out of this?
9 A They would be.
10 Q Aren't Baetis and Brown getting
11 administrative fees out of this?
12 A Yes. Yes. Yes.
13 Q So all those come off the top before the
14 investors ever see a penny, right?
15 A Correct.
16 Q Now let's go to -- by the way, in your
17 experience, how many people ever bought back
18 their policies?
19 A Well, I don't know the exact number. I've
20 heard there was two or three.
21 Q I've heard that there was possibly one
22 except no one's ever came up with a name.

23 Do you have the names of anybody who
24 allegedly bought back the policy?

25 A No.

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1 Q Do you have a record of anyone who ever
2 bought back a policy?

3 A If there was a repurchase, it would be in
4 the files of the -- of RangeTree or the
5 subsequent people, and that information
6 should be in the due diligence files also.

7 Q With the receiver?

8 A Right.

9 Q Okay. Now, in the second possibility is
10 that the insured passes away sometime during
11 the two years and the death benefit is paid.
12 So let's say -- go back to our 10 million
13 dollar policy again. All right? So the
14 insured passes away within the two years,
15 and the death of the insured accelerates the
16 collateralized loan. And principal and
17 interest is repaid meaning that the
18 insured's estate would get the 10 million
19 dollars, and then they would repay you your
20 principal and interest -- your premiums and
21 your interest, right?

22 A That's my understanding, yes.

23 Q Now, in your experience, again, how many
24 people died where you were paid?

25 A I've heard one. I remember one.

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1 Q And as I understand it, isn't the insurance
2 company disputing payment on that?

3 A I don't know.

4 Q So we have Item No. 1, Item No. 2. The mass
5 amount of the policies -- and as I
6 understand it, there were a total of 300
7 policies over the life of Baetis and Brown;
8 is that your understanding?

9 A I don't know.

10 Q You never heard that there were about a
11 total of 300 policies issued in other
12 testimony in this case?

13 A Could have been. I don't recall.

14 Q At any rate, the third part is that -- well,
15 you say here also -- let me just finish what
16 you have on this document talking about
17 No. 2. It says, the death of the insured
18 accelerates a collateralized loan, and
19 principal and interest is repaid.
20 Additionally, RangeTree is entitled to
21 10 percent of the remaining death benefit,
22 which is then divided 30 percent to
23 RangeTree and 70 percent to the investor,
24 which would be Gryphon via Baetis. Because
25 of the substantial amount of insurance

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- 1 involved, the returns associated with a
2 death benefit can reach up to 30 percent.
3 Now that -- on the kind of money we're
4 talking about would be a substantial amount
5 of money, you have no independent
6 recollection of the company of receiving
7 that kind of money, Gryphon?
- 8 A If it is, it's in the due diligence file.
- 9 Q It says, based on the market's historical
10 record, these two outcomes occur
11 approximately 10 percent of the time. The
12 final and most likely scenario is the sale
13 of the insurance policy into the secondary
14 market. In 2002 over 4 billion of insurance
15 policies were sold in the secondary market,
16 and an independent study done by the Wharton
17 Business School predicts a 15 billion annual
18 market within five years. Now, first of
19 all, where did you get the number of 4
20 billion of insurance policies sold in the
21 secondary market?
- 22 A I didn't.
- 23 Q You didn't. So somebody came up with that?
- 24 A Mr. Fevola draft this.
- 25 Q Had you ever seen the research on whether

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1 that number was accurate or not?

2 A No.

3 Q So you don't know whether it's made up or
4 accurate?

5 A Correct.

6 Q And as far as the Wharton Business School,
7 you've never seen a report from them saying
8 that they're predicting a 15 billion dollar
9 annual market in five years?

10 A Not that I can recall.

11 Q At any rate, it says -- and that using the
12 name of Warren Buffet and Berkshire
13 Hathaway, that Gen Re, the big reinsurance
14 company, is involved in this business also.
15 Do you know that to be a fact?

16 A Yes.

17 Q That they are involved in the insurance
18 premium financing business?

19 A I don't know exactly what the details of
20 their operation are, but they're involved in
21 life settlements.

22 Q What do you mean by that?

23 A Well, they purchase life insurance policies,
24 so policies that are intended to be financed
25 by a third party, kept until the insured

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1 dies, and then the third party keeps the
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2 profits.

3 Q Did they ever purchase any of your policies?

4 A I don't know.

5 Q Who would have been responsible for selling

6 your policies to them?

7 A In this case it would have been Dan Miller.

8 Q From RangeTree?

9 A Yes.

10 Q What about after 2004?

11 A To my understanding, it could be Joe Aaron

12 or Beau Gayner or anyone involved with

13 Beau's company.

14 Q Now, under Option 3, somebody would -- the

15 two-year period would be up, and effectively

16 what did you have to do to keep these

17 policies in force? You either had to pay

18 the premiums or sell the policy to someone

19 else; is that correct?

20 A Correct. Correct.

21 Q And if you didn't pay the premiums,

22 fundamentally the policies are worthless?

23 A Correct.

24 Q And when was the first -- that you can

25 remember the first time that the company

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1 purchased your first life insurance

2 contract? Do you remember when that was?

3 A You mean for a key man life insurance?

4 Q No, no, no. Under Baetis and Brown under
5 the auspices of Gryphon, just anything you
6 can remember where you purchased your first
7 life insurance contract.

8 A Well, Wealth Management did not purchase the
9 life insurance contracts, and Gryphon did
10 not purchase them. It would have been
11 someone related to Baetis and Brown that
12 would have been doing the financial
13 transactions.

14 Q All you guys did was supply the money?

15 A Right.

16 Q Do you remember when that first -- you would
17 have had to have supplied the money for that
18 first contract, wouldn't you?

19 A It would have been sometime -- you know, the
20 investment in Baetis and Brown, to my best
21 recollection, was made somewhere in 2003.
22 And, again, that information is on file with
23 the receiver. And the timing that Baetis
24 went from a multi-strategy fund to a fund
25 focused on life insurance premium finance

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1 could have been 2004.

2 Q Of the 300, assuming that figure is
3 accurate, policies purchased, do you know
4 how many were actually sold?

5 A No.

6 Q So if I said to you 50, that you wouldn't
7 know one way or another?

8 A No.

9 Q And of the 50, how many were sold at a
10 profit -- policies were sold not always at a
11 profit; isn't that correct?

12 A That's my understanding, yes.

13 Q Sometimes you had to take whatever you could
14 get?

15 A Right.

16 Q Yeah. And that could be as low as 20,
17 10 cents on the dollar, wasn't it?

18 A I don't know.

19 Q Now, according to this document, the
20 Exhibit 1, upon a sale into the secondary
21 market, the investor receives a return of
22 principal. That's what the investor
23 receives, the stated interest rate
24 13 percent, and a proshare -- pro rata share
25 of the gain on the sale. Historically these

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1 gains have increased the return from 13 to
2 over 20 percent. Is that really true? Is
3 that your understanding?

4 A Yes.

5 Q But then you would have had to have
6 knowledge to have that understanding that
7 these things were actually sold at a profit?

8 A Yes.
9 Q And where did you get that knowledge from?
10 A It would have been from Mr. Fevola.
11 Q And where, if you know, did he get that
12 from?
13 A From the people at RangeTree would be my
14 understanding.
15 Q Did you check out whether or not any of that
16 was accurate?
17 A No.
18 Q Why?
19 A That was Mr. Fevola's job. He was a chief
20 investment officer, head of due diligence,
21 investment management.
22 Q Now, let me just talk about your general
23 philosophy. According to all of my clients,
24 when you talked to them about investment
25 strategy, the one thing that they were

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1 concerned about was they didn't like a lot
2 of volatility and they wanted conservative
3 investments; is that correct?
4 A Right.
5 Q Now, you've seen the list of all the people
6 I'm representing. Is there anybody in that
7 whole list that was what I would call a high
8 flyer, that is, a huge risktaker, to your
9 knowledge?

- 10 A I would say no.
- 11 Q And as I understand it, part of your
12 philosophy of putting these people in what
13 we call or you called alternative
14 investments was to get out from the
15 volatility of the traditional stock and bond
16 market; is that correct?
- 17 A Correct.
- 18 Q And so is there any other definition that
19 you would put on to the word alternative
20 investment? For example, I've put together
21 a syndicate of antique economic book
22 collectors. I would consider that an
23 alternative investment.
- 24 A Correct.
- 25 Q Am I --

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- 1 A We define them as investments that are
2 alternative to the stock and bond markets,
3 the traditional stock and bond markets.
- 4 Q Now, the investments that you set out for
5 these people were designed to both protect
6 their money, give them a stated rate of
7 return; is that correct?
- 8 A It was a targeted rate of return.
- 9 Q Targeted. So it wasn't a guaranteed rate of
10 return?
- 11 A Correct.

12 Q And -- but in terms of protection of their
13 money, was there any -- was there any doubt
14 in your mind that in the investments you
15 were putting these folks in that their money
16 was absolutely protected?

17 A There's no absolute protection. You know,
18 they all have risk. All investments have
19 risk.

20 Q Well, I'm certainly not here to argue with
21 you. But if I'm dealing with a 65-year-old
22 who is looking to get a 5 or 6 percent
23 return and make sure that the principal is
24 protected, you know, I might look at
25 T-bills. I might look at insurance

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1 annuities like through New York Life. I am
2 not advertising a company. I mean I could
3 think of a whole lot of things I could put
4 every single one of these folks into that I
5 think pretty good -- high probability --
6 nothing is guaranteed in life -- of
7 protecting their money; is that not true?

8 A Yes. Correct.

9 Q These didn't rise to that probability, did
10 they?

11 A No.

12 Q Weren't you warned that the insurance
13 premium financing was high risk?

14 A I don't understand.
15 Q You had a lunch with Tom Riek?
16 A Yes.
17 Q He testified you were there?
18 A Yes.
19 Q He said that he told you this insurance
20 premium financing was high risk. He
21 testified under oath to that.
22 A Right.
23 Q You sat in that deposition.
24 A Right.
25 Q Was he telling the truth?

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1 A No.
2 Q He lied?
3 A Lied.
4 Q You never knew this was high risk?
5 A I knew this had different risks.
6 Q Like what?
7 A The different risk, we have a risk of
8 illiquidity, which is something we ended up
9 suffering, risk of the insureds dying sooner
10 than expected, you know, if we had a insured
11 that purchased a policy back. I mean there
12 were risks involved with this. There were
13 numerous publications that had researched
14 this and called this a very low risk
15 investment, a diversification away from

16 traditional, and put the rankings closer to
17 treasuries.

18 Q I would assume you have documentation to
19 that effect?

20 A Not with me.

21 Q No. But do you have it?

22 A Yes.

23 Q You do have that?

24 A Yes.

25 Q So did you know going back to 2002 that the

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1 National Association of Securities Managers
2 declared this as one of the biggest scams of
3 that time?

4 A No.

5 Q That goes back to '02?

6 A No.

7 Q In fact, I can show you from '02 through '07
8 most reputable organizations were calling
9 this a scam?

10 A I was unaware of that.

11 Q And I believe -- I am not saying you
12 weren't. I'm just telling you that this was
13 out there. But you're saying it's
14 Mr. Fevola that was supposed to search that
15 out?

16 A Yes.

17 Q Let me just ask you to speculate a touch.

18 You're saying Mr. Riek never advised you in
19 '03 or '04 this was a high risk investment,
20 correct?

21 A No.

22 Q Had he advised you, would you have taken a
23 different view of it?

24 A If he would have advised that this was a
25 very high risk investment, we would have

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1 taken a different tact.

2 Q Certainly you would have taken a different
3 tact?

4 A Right.

5 Q Is that right?

6 A Yes.

7 Q Because you do trust his judgment?

8 A Well, I trusted his judgment.

9 Q A couple other things about Mr. Riek. You
10 mentioned the concept of liquidity, and I've
11 had a chance -- and I'll get into it. I
12 don't know how patient everybody will be
13 with me, but I'll get into it. In terms of
14 the financials and liquidity, I looked at
15 every one of these investments. And then
16 what I did is I looked at your -- the
17 quarterly or semi annual sheets when you sat
18 down with these folks, you know, and
19 decided. In almost every case, is it not

20 true that your investors trusted you and
21 also told you what they thought their cash
22 needs would be from their investments to
23 support their lifestyle during the year?

24 A Yes.

25 Q And so you knew that whatever Mr. X or Madam

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1 Y or whatever, that in the course of the
2 year, like any other investment, if I have
3 stocks or bonds, you know, I may need
4 \$10,000 a quarter. I may need \$50,000 a
5 year. They made you aware of that, correct?

6 A Correct.

7 Q In spite of that, you put those folks into
8 these investments, did you not?

9 A Yes.

10 Q How were you going to get the liquidity out
11 of these investments needed to pay monies
12 which you apparently knew from these
13 documents? How were you going to do that?

14 A Through the liquidation of the submanagers.

15 Q Explain that to me.

16 A MKA Capital, for example, it was my
17 understanding that Mr. Fevola worked out an
18 agreement with them that on a 30-day notice
19 we could get virtually the whole investment
20 we made with them back to fund
21 distributions.

22 Q Let me stop you there. Just so the record
23 is clear -- we have to make sure we don't
24 muddy things up -- what is MKA Capital?

25 A MKA Capital was a lending entity that loaned

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1 money to single family home real estate
2 developers primarily in the Southwest.

3 Q Now, they're a lender, and when they lend,
4 they lend on some type of longer term basis,
5 right?

6 A It was usually 18 to 24 months.

7 Q So if you needed your money, where was MKA
8 going to get their money from?

9 A There was capital being deposited into the
10 accounts on a regular basis, so they were
11 raising capital all along the way.

12 Q They were raising capital?

13 A Correct.

14 Q Not because they were making any money?

15 A Well, they were making money. They were
16 profitable. And they were turning over the
17 notes on a, again, 18- to 24-month basis.

18 Q And who told you MKA was profitable?

19 A Mr. Fevola did.

20 Q Did you ever find out subsequent in later
21 years that MKA might not be so profitable?

22 A They became very unprofitable after the
23 credit crisis and economic collapse in 2008.

24 Q Even before that, weren't they --

25 A Prior to that, I was -- I was aware of the

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1 -- they were making money. They were
2 profitable, and they were doing what they
3 had proposed to do.

4 Q So you relied on MKA for the liquidations or
5 for the monies that your customers would
6 need in the ordinary course of business
7 during the year?

8 A Among other investments, yes.

9 Q Tell me the others.

10 A The Argent. We also had an agreement with
11 Argent to liquidate on a 30- to 60-day time
12 period.

13 Q Let me help you here a second. Here, on the
14 back of Exhibit 1 -- no, the other side, the
15 other back.

16 A Okay.

17 Q There you go -- isn't that your asset
18 allocation as of '04?

19 A Yes.

20 Q Does this help your recollection?

21 A Yes. Argent was one. MKA --

22 Q Let me stop. I'm a plodder, so --

23 A Okay.

24 Q -- plodding meaning P-L-O-D. It says,
25 convertible arbitrage funding, Argent was

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1 35.2 percent. You're saying you could get
2 your money out of there on 30 days' notice?
3 A I don't think we're looking at the same
4 report. I think you've got April, and I've
5 got March.

6 MR. LIEBZEIT: It's 45 percent -- 45
7 and change.

8 THE WITNESS: Yeah, 45.2.

9 MR. MELNICK: All right. I'm on the
10 same page now, aren't I? Now I'm with you.

11 BY MR. MELNICK:

12 Q Go ahead. Argent is 45. You're saying you
13 could do it in 30 days?

14 A Yes.

15 Q And was there ever a time that you weren't
16 able to get your money out of there on
17 30 days' notice?

18 A Not that I can remember.

19 Q MKA, you had 27.91 percent?

20 A Correct.

21 Q And, again, was there ever a time you
22 couldn't get it out of there?

23 A Yes.

24 Q And that was in '07, '08?

25 A '07, '08, yes.

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- 1 Q And RangeTree, 8.24 percent, how long did
2 RangeTree last before it expired?
- 3 A It was my recollection that Dan Miller
4 stopped taking on investor money in -- could
5 have been in 2004.
- 6 Q Okay. And then who took over financing
7 those insurance policies?
- 8 A It's my recollection that Beau Gayner
9 created a new company called UTC -- maybe
10 there was another name prior to that -- to
11 do the same --
- 12 Q Do you know where UTC got its money from to
13 finance it?
- 14 A Not in detail, no.
- 15 Q Didn't it get it from you?
- 16 A We got -- yes, investment money from us, but
17 there was other investors, too.
- 18 Q Well, there were -- okay. There were a
19 couple other investors that Tom Riek had
20 brought to the deal, weren't they?
- 21 A I am not sure. I don't remember.
- 22 Q Now, so you were able to meet the liquidity
23 needs of your customers through -- what year
24 did it become difficult, '06, '07?
- 25 A It's my understanding it was in '07.

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- 1 Q '07. And what happened that in '07 you had
2 liquidity difficulties?
- 3 A That was beginning of the credit crisis, the
4 global credit crisis, which caused problems
5 for real estate, mortgages, lending, banks,
6 and continued on through 2008.
- 7 Q Didn't you have a large redemption of one of
8 your investors in '06 for --
- 9 A Yes.
- 10 Q -- 6 million?
- 11 A Yes.
- 12 Q Do you remember who that was?
- 13 A If I recall properly, it was Dennis Long.
- 14 Q And do you know why he redeemed his entire
15 investments?
- 16 A Yes.
- 17 Q Why was that?
- 18 A I don't know why. What he told me was in
19 the prior four years that we had his money
20 in Gryphon, we made positive returns except
21 for one month, and he expected positive
22 returns every month.
- 23 Q And that's why he took it out?
- 24 A That's what he told me.
- 25 Q Was he friends with Tom Riek?

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- 1 A I don't know.

2 Q Now, Riek had an investment in Baetis, did
3 he not?

4 A It's my recollection he did, yes.

5 Q And then do you recall him taking his money
6 out of Baetis?

7 A No.

8 Q Do you recall him after he took his money
9 out of Baetis loaning that very same money
10 back to Baetis?

11 A No.

12 Q Do you know why someone would redeem their
13 investment in one of these funds and then
14 turn around and lend money to the fund?

15 A No.

16 Q In '07 Riek had withdrawn \$125,000 from the
17 Brown investment, \$800,000 from the Brown
18 investment, and then in June of '07 withdrew
19 770 -- \$737,000. Do you know why he was
20 withdrawing all this money in '07 and
21 closing his accounts?

22 A I don't.

23 Q He didn't communicate to you as to why?

24 A No.

25 Q How were you able to meet the liquidity

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1 needs of Riek when you were having trouble
2 with others in '07, meeting their liquidity
3 needs?

4 A Well, I think the issue here, you said he
5 was withdrawing from Baetis.
6 Q And Brown.
7 A Baetis and Brown, and that was managed by
8 Joe Aaron. We didn't -- we, Wealth
9 Management, didn't control the cash flows
10 out of the funds. We were not the manager
11 of the fund, so I was unaware of this.
12 Q But he had to get the money from somewhere?
13 A Yeah.
14 Q Joe Aaron?
15 A Yes.
16 Q Do you know where he got the money from?
17 A No.
18 Q You launched Gryphon in May of '03, did you
19 not?
20 A That sounds accurate.
21 Q May 1st of '03. And you were fully
22 invested, according to the documents we
23 have, in Baetis and Argent, and you had
24 seven investors; is that right?
25 A I don't recall. I don't have the documents

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1 in front of me.
2 Q Do you remember the Chandlers?
3 A Yes.
4 Q And you had told them that you had created a
5 pooled fund and alternative income

- 6 generating strategies. Do you remember
7 saying that to them?
- 8 A I don't. It's possible, but I don't
9 remember those exact words.
- 10 Q Do you remember the Andersons?
- 11 A Yes.
- 12 Q Do you remember them telling you that they
13 were looking for a 6 percent rate of return
14 in their portfolio? Does that ring a bell
15 with you at all?
- 16 A I don't.
- 17 Q And that you advising them to sell their
18 traditional stocks and bonds and put
19 everything into Gryphon and some in Pxyis,
20 P-X-Y-I-S. Do you remember that?
- 21 A I don't.
- 22 Q What is Pxyis?
- 23 A Pxyis was a mutual fund management strategy
24 that was created to minimize volatility.
- 25 Q I understand the words. Now tell me what it

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- 1 means.
- 2 A We were just trying to minimize the
3 volatility of the stock market by using
4 diversified mutual funds.
- 5 Q So if I buy, for example -- let's say within
6 the American Funds. If I buy a bond fund
7 and I buy a worldwide emerging market fund

8 and I buy this and that so I have a blended
9 portfolio, is that what you're talking
10 about?

11 A Uh-huh.

12 Q Yes?

13 A Yes.

14 Q How long did Pxyis last as part of your
15 investment strategies?

16 A I would guess a year-and-a-half.

17 Q And why did you let it go by the wayside?

18 A It was a decision that Mr. Fevola made. He
19 was -- John Wypisinski was managing that
20 portfolio, and Mr. Fevola terminated him.

21 Q And that would have been in October of '06,
22 if I recall?

23 A Approximately, yes.

24 Q So it lasted until October of '06. I mean
25 that sounds to me like a decent strategy --

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1 A Uh-huh.

2 Q -- a mutual fund strategy?

3 A Yes.

4 Q Did you say anything about why you were, you
5 know, getting rid of that in consideration
6 of these other alternative investments?

7 A No. I deferred that to Mr. Fevola.

8 Q Now, Gryphon in that period of time, August
9 -- from August of '03 through September of

10 '03, Gryphon was investing in what, if you
11 remember?
12 A I don't recall.
13 Q Would it have been the insurance contracts?
14 Did they have most of their money in Baetis
15 and Brown?
16 A You know, we've got -- the newsletters would
17 be able to tell that exactly.
18 Q So we're talking about --
19 MR. LIEBZEIT: Some are on the
20 backside.
21 BY MR. MELNICK:
22 Q Here's '03. Maybe that will help you. Does
23 that help?
24 A This is December of '03. You asked me May
25 through August.

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1 Q Yeah. Did it change?
2 A I have to defer to the report.
3 Q I don't have the sheet from earlier in '03.
4 A Okay.
5 Q So that's what we have to work with. Does
6 that ring -- does that affect your
7 recollection?
8 A You know, that's seven years ago. I -- I am
9 not going to guess at what was in the
10 portfolio. I was not managing it. Simone
11 was. If we don't have a report, I'm not

12 going to guess what was in there.
13 Q In December 31st of '03 you say in the
14 Gryphon fund that -- talking about Gryphon
15 posted at .89 percent gain for the month and
16 has earned 5.0 since inception. And then
17 you talk about the Baetis fund. You said,
18 Baetis named for a mayfly used in fly
19 fishing currently represents the largest
20 allocation within the Gryphon fund and has
21 been since inception. Does that refresh
22 your recollection now?
23 A I have to defer to the report. I won't
24 guess.
25 Q There are several reasons for the large

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1 commitment to Baetis. As we have previously
2 discussed, it is our intention to structure
3 Gryphon such that about 75 percent of their
4 portfolios invested in core strategies that
5 provide consistent monthly absolute returns.
6 Baetis is structured around this very
7 objective and currently holds three
8 investments that have long, stable, absolute
9 return history. Now, in my parlance, an
10 absolute return is a very specific meaning.
11 What is it in your parlance? When you say
12 an absolute return, what does that mean
13 within the securities business?

14 A In the investment world it's my
15 understanding that an absolute return is a
16 strategy that targets generating a specific
17 rate of return. It doesn't float with the
18 market. It doesn't try to outperform an
19 index. It's targeting a specific return.

20 Q So if I'm looking for an absolute return of
21 6 percent, that strategy is built around
22 that return?

23 A Correct.

24 Q It says, so Baetis is structured around this
25 very objective, and currently holds three

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1 investments that have long, stable return
2 history. We've chosen to use Baetis as
3 opposed to direct investment in the
4 underlying managers because Baetis has
5 access to capacity in Argent despite the
6 fact that Argent is closed to additional
7 investment times. Secondly, Baetis has
8 given Gryphon a 30-day liquidity option
9 regardless of a one-year lockup required by
10 underlying investment strategy. Now, in
11 December of '03, do you know where Baetis
12 had been putting its money?

13 A Not offhand.

14 Q You don't know if it had been putting it
15 into these insurance contracts?

- 16 A I don't.
- 17 Q In October of '03, October 23rd, you met
18 with the Laritsons. Do you know who they
19 are?
- 20 A Yes.
- 21 Q And you introduced them to Gryphon, Pxyis,
22 and L3 funds. Do you remember doing that?
- 23 A I might have.
- 24 Q Tell me about L3 funds.
- 25 A L3 was created to own real estate.

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- 1 Q Commercial real estate, private, residential
2 real estate, or what kind of real estate?
- 3 A It was just a real estate investment fund
4 that could be -- anything that's real estate
5 related could be in the portfolio.
- 6 Q Like an REIT?
- 7 A Could be REIT, yeah. Could be a REIT.
8 Could be a direct investment. Could be an
9 LLC.
- 10 Q Who created this L3 fund?
- 11 A It's a Wealth Management fund.
- 12 Q Was that under your -- I mean who had the
13 expertise in real estate to have gone out
14 and created and managed this fund?
- 15 A Well, this was the job of Mr. Fevola.
- 16 Q Also?
- 17 A Yes.

- 18 Q What was his expertise in real estate?
- 19 A It encompasses his ability to analyze
- 20 investments. He's a CFA, chartered
- 21 financial analyst. He was also a certified
- 22 alternative investment analyst.
- 23 Q A certified alternative investment analyst?
- 24 A Yes.
- 25 Q And that is what?

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- 1 A It's a designation that the industry gives
- 2 to those who have gone through a course of
- 3 study on alternative investments.
- 4 Q How many properties did L3 buy since its
- 5 inception in '03?
- 6 A It's my recollection that there were between
- 7 three and five.
- 8 Q And what's the status of those properties
- 9 today?
- 10 A I don't know.
- 11 Q Well, when is the last time you had any
- 12 contact with those properties?
- 13 A 2009.
- 14 Q At the time the receiver took over the fund?
- 15 A Correct.
- 16 Q Now, during this period of time, you were
- 17 advising almost all of your people to sell
- 18 their traditional stocks and bonds and put
- 19 their money into Gryphon, were you not?

20 A Yes.
21 Q Why would you do that? Why would you want
22 people to put all -- however you felt about
23 Gryphon, why would you want people to put
24 all their eggs in that basket?
25 A Gryphon started in 2003 after a three-year

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1 drop in the stock market where these same
2 investors had seen losses between 30 to
3 70 percent of their portfolio from
4 traditional stock investments. And after
5 the extreme volatility, I kept hearing we've
6 got to do something. You have got to figure
7 out a way to make me 8 percent. I don't
8 want to be in the stock market, so figure
9 out a way to do it. I've heard -- I heard
10 clients say four things that -- and I'm
11 taking liberties with the terminology, but
12 basically I want to be in stocks but not
13 those that go down. I want to own real
14 estate, but I don't want to be a landlord.
15 I want to make 8 percent, and I don't care
16 how you do it. And I want to make a little
17 bit more than eight. So the L3 was an
18 investment that responded to that. In fact,
19 Mr. Long wanted to invest in a real estate
20 property with a great deal of money. And I
21 said, well, I think it's better that you

James Putman.txt
22 diversify. Maybe we could create a fund
23 because there's other investors. Many have
24 said, you know, we have never lost money in
25 real estate. We want to invest in real

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1 estate. We created L3 to do that.
2 Q How successful was L3? Did it make a
3 profit?
4 A No. At first it did. We created L3, if I
5 am not mistaken, in 2005 or '6, and in
6 retrospect it was at the top of the real
7 estate bubble.
8 Q So it would be fair to say that L3 was not
9 very successful?
10 A Correct.
11 Q On 5/13/04 you advised Mr. Laritson that you
12 would no longer manage individual stock
13 portfolios and suggested that he sell all
14 his stock and, again, put it into Gryphon.
15 Why weren't you managing stock portfolios,
16 and why would you have told him, again, to
17 put -- sell his stock and put it in the
18 Gryphon?
19 A Specifically, prior to Mr. Fevola, we had an
20 investment manager who purported to be an
21 excellent stock -- individual stock picker
22 or stock manager and produced much less than
23 stellar results.

24 Q Who was that?

25 A John Moffet. And he had provided investment

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1 recommendations to Mr. Laritson, which
2 worked out terribly. And when Mr. Fevola
3 came in, he did not want to invest in
4 individual stock portfolios. He wanted to
5 use mutual funds and create the
6 alternatives. Therefore, there's a great
7 deal of commitment of time and focus to
8 managing individual stock portfolios, which
9 he chose not to do.

10 Q In about that same period, you created
11 Watchstone, did you not?

12 A Yes.

13 Q What was Watchstone for?

14 A Watchstone was to emulate the Gryphon-type
15 of investments for IRAs.

16 Q So, in fact, the same investment strategy
17 mostly in insurance financing was what
18 Watchstone did?

19 A I would have to go back to the early reports
20 to know.

21 Q Well, do you remember what Watchstone
22 invested its money in?

23 A Not in detail.

24 Q Because you're saying all of this was
25 Mr. Fevola's responsibility?

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1 A Yes.

2 Q And you never looked over his shoulder to
3 see what he was doing or how he was doing?

4 A Well, how he was doing showed up on the
5 monthly newsletters, and we would have
6 weekly or biweekly staff meetings where he
7 would give a report on how things were
8 progressing.

9 Q And this is just one of the documents, but
10 like the Gryphon, you put out Watchstone
11 Partner newsletters, did you not?

12 A Yes.

13 MR. MELNICK: And at least this one
14 is dated August 6th. Let's mark it.

15 (Exhibit marked for identification as
16 Exhibit 2.)

17 BY MR. MELNICK:

18 Q I am going to show you what has been marked
19 as Exhibit No. 2 and ask you if you
20 recognize that document.

21 A Yes.

22 Q What is it?

23 A It's the Watchstone August of 2006 monthly
24 newsletter.

25 Q Just look at the top underneath the banner,

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1 it says -- and yours would say -- what month
2 is yours again, August?
3 A August 2006.
4 Q What's the return for August?
5 A 1.07 percent.
6 Q And year-to-date?
7 A 10.05.
8 Q And since inception?
9 A 27.84.
10 Q And assets under management?
11 A \$52,923,777.
12 Q So you have got 52 million in August of '06.
13 I'm trying to understand how -- do you know
14 how the numbers you just read were derived?
15 A I know where they were derived at but not
16 the formula.
17 Q Well, for example, let's talk about -- by
18 '06 the insurance contracts -- and I can
19 tell you I have the physical evidence on
20 those. Those were in full swing, weren't
21 they? The insurance premium financing
22 contracts by '06, they were --
23 A The investment strategies?
24 Q The actual buying and investing in those
25 insurance contracts.

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1 A By Baetis and Brown?
2 Q Yes.
3 A Yes.
4 Q And you were supplying the money to Baetis
5 and Brown?
6 A I was not. The fund was.
7 Q You're right. How much of Baetis and Brown
8 did Gryphon have an investment in? Wasn't
9 it about 90 percent?
10 A The -- I don't know what time period or
11 exactly the fund you're questioning, but
12 Brown was not in Gryphon. Baetis was.
13 Brown was a fund that was created for IRAs,
14 so it was in Watchstone.
15 Q But the effect was the same? They were
16 involved in the insurance premium financing?
17 A They meaning Baetis and Brown?
18 Q Yes.
19 A Yes.
20 Q And Watchstone and Gryphon were supplying
21 the money?
22 A Correct.
23 Q Now, putting aside liquidity issues, how
24 were these -- the asset value of what you
25 had acquired, how was that valued for

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1 purposes of your newsletter?
2 A It's my recollection that each of the
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3 investment funds provided a monthly summary
4 of the values. Those values would then be
5 given to Woodfield fund administrators.

6 Q And what years are we talking about with
7 Woodfield?

8 A If I remember properly, the Woodfield came
9 into our funds in 2004 -- 2004, 2005.

10 Q And how long did they last?

11 A Until the receiver took over the control of
12 the funds.

13 Q Did you ever question the values that were
14 being given to you by Aaron or by Woodfield?

15 A No.

16 Q Did anybody bring to your attention, Fevola
17 or anybody else, that the values may, in
18 fact, be at best fraudulent in terms of what
19 you were telling your investors?

20 A No.

21 MR. MELNICK: These are documents I
22 received from the receiver.

23 (Exhibit marked for identification as
24 Exhibit 3.)

25 BY MR. MELNICK:

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1 Q I show you what has been marked as Exhibit
2 No. 3 and ask you if you have ever seen this
3 document before.

4 A I don't recognize it.

5 Q In the course of your activities at Wealth
6 Management, were financial documents like
7 this created in the ordinary course of
8 business?

9 A I don't recognize this, so I don't know that
10 Wealth Management created this.

11 Q Well, who would have had the capacity to
12 create this? Joe Aaron?

13 A Possibly.

14 Q But you've never seen it?

15 A I don't recognize it.

16 Q Now, apparently the run date on this is
17 May 31st of 2008, and so it's my belief that
18 it was at the request of the receiver. But
19 that's -- I'm speculating. But let's go
20 through it. It says partnership, and you
21 see in the left-hand corner it says Baetis?

22 A Uh-huh.

23 Q Yes?

24 A Yes.

25 Q And the next one says carrier, and you see

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1 the name of various insurance companies?

2 A Yes.

3 Q Those insurance companies, do they match up
4 with what your recollection were of the
5 insurance companies who insured the life of
6 these folks?

7 A I recognize the names, yes.
8 Q Now, let's just look at the first three. It
9 says, Beverly Stein -- in fact, Beverly has
10 three of them -- of California?
11 A Yes.
12 Q And you see it says LE. Do you know what
13 that means?
14 A No.
15 Q Life expectancy. It's 172 months.
16 A Okay.
17 Q I'll tell you that.
18 A Okay.
19 Q Okay? And then the premiums that were paid
20 for Ms. Stein looks like about a \$1,253,000,
21 right?
22 A Right.
23 Q And she has 25 million dollars in life
24 insurance; do you see that?
25 A Uh-huh.

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1 Q Yes?
2 A Yes.
3 Q And then it says, origination fee,
4 structuring closing fee, and that's
5 \$250,000. Who did that money go to?
6 A I don't know.
7 Q PSV, what does that mean?
8 A I don't know.

9 Q Date of first premium paid, that I think you
10 know what that means?
11 A Yes.
12 Q Maturity date, I think you know what that
13 means?
14 A Yes.
15 Q Then it says, interest rate on note, and
16 that was the interest rate that the insured
17 agreed to pay for the money that was being
18 advanced, right?
19 A I assume that's it.
20 Q Well, do you know?
21 A I don't.
22 Q You don't know?
23 A No.
24 Q Then don't guess. So you don't know. And
25 then the other thing is, do you know what

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1 the difference is between a nonrecourse and
2 recourse note?
3 A Yes.
4 Q These were all nonrecourse notes, weren't
5 they?
6 A That's my understanding, yes.
7 Q So even though someone said we'll pay you
8 9.95, they weren't standing behind it,
9 right? The only way you're going to get it
10 is from their estate or if they wanted to

11 buy it out? You had no recourse against the
12 signatore (sic) on the note, did you?

13 A That is my understanding, correct.

14 Q And then it says, profits to fund on sale.
15 Now, when we're talking about fund, we're
16 talking about Baetis or we're talking about
17 Baetis to Gryphon?

18 A I don't know.

19 Q What are we talking about here?

20 A I don't know.

21 Q Then it says, date of payoff or sale, and
22 this is between '08 and '09; do you see
23 that?

24 A Yes.

25 Q And then it says, cash flow to fund. Except

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1 that almost everything is a negative number.
2 Do you see that?

3 A In the column of cash flow to fund --

4 Q No, in the profits.

5 A You were commenting about the cash flow to
6 fund numbers, those are all positive.

7 Q Okay.

8 A And the profit to fund on sale, is that your
9 question now?

10 Q Yes.

11 A Yes.

12 Q I guess I'm trying to figure out here, with
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13 all these numbers being negative, how does
14 the cash flow turn out to be positive?
15 Where does that come from?
16 A I don't know.
17 Q Now, at least the totals on just these
18 policies -- I think there's, what, about
19 30 of them -- is 7.27 million in premiums,
20 \$863,000. And the Premium 2 means the
21 second-year premium?
22 A I don't know.
23 Q Did you follow any of these life insurance
24 transactions at all to see if they were on
25 the up and up?

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1 A I didn't, no. That was Mr. Fevola's job.
2 MS. APPLEBY: Before you move on from
3 this exhibit, if you're about to, I just
4 want to make the record clear. It looks to
5 me as though the date on this document is
6 3/31/09. I believe it was earlier misstated
7 that it was '08. Now that could be my bad
8 eyesight, but . . .
9 MR. ENGL: I think it says 5/31/09.
10 MR. MELNICK: 5/31/09.
11 MS. APPLEBY: '09. Okay.
12 MR. MELNICK: Yes. Right. Did I say
13 '08?
14 MS. APPLEBY: I think you may have,

15 and maybe you didn't.

16 MR. MELNICK: I thought it was
17 created -- my understanding is when the
18 receiver got appointed, they might have
19 asked the computer for information that was
20 in the computer. That's where I thought
21 this was -- this came from.

22 MS. APPLEBY: Yes, and I think that's
23 correct. I just want to make sure that it
24 reflects it's an '09 year.

25 MR. MELNICK: Okay. Thank you. I

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1 appreciate it.

2 BY MR. MELNICK:

3 Q In every one of these, some of these
4 documents that at least I have -- and I'll
5 show you everything that I've been given. I
6 just want to know if you've seen any of
7 these documents prior to today.

8 A I don't remember seeing any of these.

9 Q Now, when you laid out or was laid out in
10 the Gryphon about these life insurance
11 financing cases, they use the ages in there
12 of, I think, 74 or 75 to, you know, 80, 84,
13 85, somewhere in that area. And when you
14 look at what you had on the books at least
15 as of 5/31/09, just to give you an example,
16 an individual who had a 10 million dollar

17 policy with Phoenix, an Erasmus Ambrosino,
18 he's 79 years old. And he has a life
19 expectancy of 134 months, which given my
20 math is about 11 years. And the first
21 payment was \$579,000, and apparently they
22 didn't make any after that. Did you ever
23 look at these kind of details to determine,
24 wait a second, this doesn't look right to
25 me? A man is 79 taking out a 10 million

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1 dollar policy who they're going to claim
2 that his life expectancy is up into in this
3 case about, I think, 91, did that ever look
4 like it would be a problem for you?
5 A Again, this I deferred to Mr. Fevola.
6 Q You never had any discussions about the
7 efficacy of these since it was a major part
8 of your portfolio, wasn't it?
9 A It was.
10 Q So why wouldn't you have taken more of an
11 interest in exactly what was going on here?
12 A All of this work was deferred to someone who
13 is credentialed and experienced and has a
14 sole job of doing this. That was not my
15 job. I was never -- since 1990 was not
16 involved in the investment process.
17 Q Here's the problem. You were the majority
18 stakeholder in the company, weren't you?

19 A No.
20 Q You di dn' t have 61 percent?
21 A No.
22 Q Who had -- who had the maj ori ty?
23 A It was a trust, and my wi fe owned hal f.
24 Q The fami ly owned the maj ori ty part of the
25 company --

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1 A Yes.
2 Q -- in one way or another, di d it not?
3 A Yes.
4 Q So you had -- and most of these peopl e who
5 were i nvestors were your fri ends, weren' t
6 they?
7 A Yes.
8 Q They rel ied on you?
9 A Yes.
10 Q You knew that, di dn' t you?
11 A Yes.
12 Q So when you look at thi s and you see here' s
13 Charl otte Dax (phoneti c spell i ng) who' s 70
14 -- who' s of New York. She' s 78 years ol d.
15 I' m sure she' s a l ovel y ol der l ady,
16 78 years ol d. They gi ve her 172 month l i fe
17 expectancy, whi ch 12 and 172, someone want
18 to hel p me? Twel ve and 172 has got to be
19 about 14 or 15?

20 MR. BROCKMAN: Fourteen, fourteen or
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21 fi fteen maybe.

22 MR. MELNICK: Fi fteen.

23 BY MR. MELNICK:

24 Q So they're thinking she's going to live to
25 be 93 years old, and she took out these two

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1 policies totalling 20 million dollars. So
2 it never occurred to you that this might be
3 off base in some way, that this might be all
4 fraudulent and that these people don't have
5 a proverbial pot to do anything in and in
6 fact they have got some deal with some
7 crooked insurance agent selling them this
8 stuff?

9 A No.

10 Q Did you ever talk to any of the insurance
11 agents who were selling this?

12 A No.

13 Q Did you ever know what they were telling
14 these people to get them to sign onto these
15 policies?

16 A No.

17 Q Did you care?

18 A I cared.

19 Q What if they were being misled? Didn't you
20 care if these older people were being told a
21 story? That didn't matter to you?

22 A It would matter to me, yes.

23 Q Plus, your friends were putting their life
24 savings in this?

25 A Right.

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1 Q So didn't -- wouldn't it require some of
2 your time to look? This is not very hard
3 stuff to look at the detail to say, you
4 know, it just doesn't look right even on the
5 surface let alone when you get underneath.

6 A Right.

7 Q When did you -- we'll take a break after
8 this question. When did you find out -- the
9 first time you found out that people were
10 not buying these insurance policies, when
11 was that?

12 A I don't remember.

13 Q Do you have a year like '05, '06, somewhere
14 in that area?

15 A '07 --

16 Q '07.

17 A -- '08.

18 Q And do you know who brought it to your
19 attention?

20 A It was at a -- it was at a weekly staff
21 meeting where Mr. Fevola would bring these
22 type of things to us.

23 Q And do you know what you -- was that an
24 alarm to you that all of a sudden people

25 weren't buying, that it -- was that a

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1 problem?

2 A It was a concern, yes.

3 Q And at that time because it was a major
4 portion of your investment both in Gryphon
5 and Watchstone, right?

6 A Right.

7 Q And others? And so what did you do about it
8 when you found out? Nothing?

9 A Nothing.

10 Q One more, and then I'll let you go. I know
11 you have to go to the bathroom. After you
12 found out, did you put any of your other
13 folks, either increase their investment or
14 put more people into Gryphon and Watchstone
15 after you found out that the policies
16 weren't selling?

17 A I don't remember.

18 MR. MELNICK: Okay. Take a break.

19 (Recess was taken.)

20 MR. MELNICK: We're going to go back
21 on the record.

22 BY MR. MELNICK:

23 Q What is the Tippit fund, T-I-P-P-I-T?

24 A It's a fund that Joe Aaron manages. It's a
25 Wood, Hat & Silver managed fund.

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- 1 Q And do you invest in that fund? Did Wealth
2 Management have any --
- 3 A I can't remember.
- 4 Q Do you remember a fund named N-, as in Nora,
5 D-, dog, M, Michael, NDM fund?
- 6 A Yeah. That was another Aaron fund.
- 7 Q Do you know what that invested in?
- 8 A I don't remember.
- 9 Q Did you invest any of the Wealth Management
10 money in that, or was there any money
11 invested in that?
- 12 A Not that I can recall.
- 13 Q What about Stone Fly, two words, S-T-O-N-E
14 F-L-Y?
- 15 A I can't recall that the Wealth Management
16 funds made an investment in that.
- 17 Q Do you know why Joe Aaron would have sent
18 statements for the Wealth Management funds
19 to Tom Riek?
- 20 A No.
- 21 Q Did you authorize Joe Aaron to send
22 statements of Wealth Management funds to
23 Tom Riek?
- 24 A I didn't.
- 25 Q Do you know if Simone Fevola did?

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1 A I don't know.

2 Q So it never has come to your attention over
3 the years that Riek was getting copies of
4 your investments?

5 A I don't remember that he was.

6 Q Now, so we understand, Baetis and Brown
7 funds were both managed by Joe Aaron,
8 correct?

9 A Yes.

10 Q Other than the insurance settlement
11 business, did Baetis and Brown invest in
12 anything else that you're aware of?

13 A Yes.

14 Q And what did they invest in?

15 A If you go back to the early report, I think
16 Simone commented on the fact there was
17 Argent and others similar to that. I don't
18 know. I can't recall right now.

19 Q And when did that stop?

20 A I don't know.

21 Q At some point in time, at least as in '05,
22 Baetis and Brown -- strike that. Most of
23 the money invested in Baetis and Brown came
24 from Wealth Management funds, mainly Gryphon
25 and Watchstone, right?

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- 1 A That's my understanding, yes.
- 2 Q Were you kept informed by anyone within
- 3 Wealth Management as to how much was being
- 4 invested in these two funds?
- 5 A Yes.
- 6 Q Do you know what the highest amount invested
- 7 in Watchstone and Gryphon was, that is, the
- 8 total amount of money at its highest point
- 9 that was put into those two companies?
- 10 A I don't remember.
- 11 Q But it was in the 50 million dollar area, at
- 12 least?
- 13 A I got the information from the reports, so
- 14 whatever the reports would indicate.
- 15 Q Do you recall Mr. Riek discussing with you
- 16 the opportunity to get finders' fees?
- 17 A Yes.
- 18 Q Do you know when that first took place?
- 19 A I don't recall the exact date.
- 20 Q Do you know how it came about that you had
- 21 that conversation with Mr. Riek?
- 22 A I recall it was a meeting at our office.
- 23 Q At Wealth Management's office?
- 24 A Wealth Management's office, yes.
- 25 Q Here in Appleton?

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- 1 A Yes.
- 2 Q And do you remember the essence of the

- 3 meeting?
- 4 A Not in detail.
- 5 Q At some point in time, you had been a fund
- 6 that would get your fees off the success of
- 7 what the customers did, and you would get a
- 8 management fee; is that correct?
- 9 A The funds had a management fee attached in
- 10 the documentation that was waived for
- 11 advisory clients, and the clients would pay
- 12 a percentage fee on monies that are
- 13 management, whether in mutual funds or the
- 14 Wealth Management funds.
- 15 Q And that was the total amount of money
- 16 Wealth Management brought in was from those
- 17 fees?
- 18 A That and financial planning fees. There
- 19 were financial planning fees also.
- 20 Q And that's how your salary was paid?
- 21 A That was a source of the revenue for the
- 22 company, yes.
- 23 Q But your salary came from the company?
- 24 A Right.
- 25 Q Did you have any outside source of income in

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- 1 2004 or 2003 other than Wealth Management?
- 2 A Not that I can recall.
- 3 Q And at some point in time, you agreed to
- 4 accept Tom Riek's offer to share with you

5 the finders' fees?
6 A Correct.
7 Q Now, you were at Mr. Riek's deposition.
8 We've already established that, right?
9 A Right.
10 Q And you heard him discuss this issue?
11 A Yes.
12 Q Did you recall anything he said at the
13 deposition which you today say is not true?
14 Do you have any recollection --
15 A No.
16 Q -- of anything specific that came up, which
17 is not true?
18 A Except the conversation of these are high
19 risk investments, that I don't remember.
20 Q Okay. And that was at -- for the record,
21 that was at Page 42, question, in the first
22 time you first talked to Mr. Putman about
23 life settlements, did you advise that it was
24 high risk? Answer, yes, there was no track
25 record on the sale of policies at the end of

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1 the two years making it a high risk venture.
2 You're saying that you have no -- you're
3 saying he didn't say it or you have no
4 recollection of him saying it?
5 A I'm saying I have no recollection that he
6 ever said that to me.

- 7 Q Now, in August 9th of 2005, Mr. Riek
8 describes -- and you'll remember that the
9 luncheon where he suggested that you share
10 in some of the life -- some of the life
11 settlement finders' fees, that was your name
12 for splitting the commissions you were
13 getting back on the insurance policies,
14 right?
- 15 A I think that's accurate.
- 16 Q And how that transaction would work is that
17 -- let's go back to our nice ladies in
18 New York here -- or this man, Erasmus
19 Ambrosino in Phoenix, he would get the
20 policy. The policy would get issued.
21 \$579,111 would have been paid by investor
22 money, and then the agent who would be
23 getting part of that money, if not most of
24 it, would then kick back money to Mr. Riek?
- 25 A That is my understanding.

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- 1 Q And then he would then split that money with
2 you and Mr. Fevola?
- 3 A That's what he offered, yes.
- 4 Q But actually he didn't want to split it with
5 Mr. Fevola, did he? He only wanted to split
6 it with you?
- 7 A Right.
- 8 Q Why?

9 A I don't know.
10 Q Now, at some point you recall that there was
11 a discussion that if this money was -- the
12 investor money was being used to finance
13 this but that the money was going back to
14 you and Simone, not to the investors, right?
15 A Right.
16 Q And there was a discussion regarding
17 disclosing that to the investors?
18 A There was.
19 Q Now, since this goes back to '05, between
20 '05 and the time that it came out in the
21 summer of '08, was there a disclosure ever
22 made to investors?
23 A Not that I was aware of.
24 Q Now, there was a discussion that you were --
25 you told Mr. Fevola to prepare the documents

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1 to make that disclosure; is that right?
2 A I don't recall that.
3 Q Did anybody tell Mr. Fevola to have the
4 documents drawn up to make a disclosure to
5 the share -- to the investors?
6 A I don't know.
7 Q Wealth Management, LLC, as a fee only -- and
8 that's what you called yourselves, a fee
9 only financial planning service --
10 A Right.

- 11 Q -- right? It had not been actually very
12 profitable between '03 and '08, had it? In
13 fact, most years it just broke even if it
14 made any money?
- 15 A That was the -- yeah, on our tax returns,
16 right.
- 17 Q So all of a sudden you received a check from
18 Tom Riek for \$110,000; is that right?
- 19 A All of a sudden, please define.
- 20 Q Well, you agreed to -- you agreed to accept
21 these fees from Mr. Riek, did you not?
- 22 A Yes.
- 23 Q And, in fact, you had a meeting with
24 Mr. Fevola who you brought -- you brought
25 him in on this, didn't you?

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- 1 A Right.
- 2 Q So Riek was, I guess, kind enough to share
3 these kickbacks with you, and you were kind
4 enough to share them with Simone, right?
- 5 A Yes.
- 6 Q Why did you share them with Simone? Why
7 even bring him into this? You didn't have
8 to, did you?
- 9 A No.
- 10 Q You didn't have a contract with him to do
11 it, did you?
- 12 A No.

13 Q This was totally outside the business,
14 wasn't it?
15 A Correct.
16 Q So why did you do it?
17 A Two years prior Mr. Fevola had voiced an
18 interest in eventually buying the company
19 and retiring me. I had faith and trust that
20 this is what he wanted to do, and something
21 like this in passing the ownership of the
22 company on to Mr. Fevola, I saw him as a
23 partner. I saw him as a trusted associate
24 in the firm, and, you know, this was
25 something that was available. There's no

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1 reason not to share it with him.
2 Q When you brought him in on this, was there
3 any discussion either between you and Simone
4 or the three of you as you, Riek, and Simone
5 about making a disclosure to your clients
6 that you were doing this?
7 A I remember there was discussion about
8 disclosures, required disclosures.
9 Q But you, again, never did it?
10 A I did not.
11 Q And those disclosures would have allowed
12 every one of these folks and others to opt
13 out of whatever agreements they had with
14 Wealth Management once you sent them that

James Putman.txt

15 disclosure, wouldn't it?

16 A Correct.

17 Q Now, you even went so far as to draft an

18 agreement, did you not?

19 A Correct.

20 Q And you brought in Dick Stiles?

21 A Yes.

22 Q Was Dick Stiles Wealth Management's

23 attorney?

24 A For certain things, certain business issues.

25 Q Did Mr. Stiles tell you that this was

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1 illegal?

2 A No.

3 Q Did Mr. Stiles tell you that this would be a

4 conflict with your other investors who were

5 relying on you?

6 A No.

7 Q Mr. Stiles, to your knowledge, also

8 represented other investors in your group,

9 did he not?

10 A Yes.

11 Q In fact, he did estate planning for them in

12 your presence, did he not?

13 A Right.

14 Q But Mr. Stiles, in fact, drafted the

15 documents for Quadramus. Did he know that

16 Quadramus was getting the money in the

17 fashion we've just described, that is, it
18 was coming out of the insurance proceeds?
19 A I am not sure.
20 Q Well, do you recall having discussions in
21 front of him about how you were getting this
22 kind of money?
23 A I don't. Mr. Riek was the one that's in
24 main contact with Mr. Stiles in drafting the
25 documents.

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1 Q Mr. Riek's brother was Mr. Stiles' law
2 partner at the time, was he not?
3 A No. The only brother I know that Tom Riek
4 had is dead.
5 Q I thought Mr. Riek had a brother who was in
6 business with Mr. Stiles at one time?
7 A No, not that I know of.
8 Q Now, do you know a man named Joe Caulkstein,
9 C-A-U-L-K-S-T-E-I-N?
10 A Only by name.
11 Q In what capacity do you know him?
12 A He was identified as an aggregator.
13 Q Meaning what?
14 A He would be the one that would bring
15 together the life insurance policies for the
16 premium finance.
17 Q Did you do a lot of business with him?
18 A I don't know.

19 Q Who would have been the lead person with
20 him?

21 A Either Mr. Aaron or Mr. Riek.

22 Q And what about Meridian, were they an
23 aggregator, too?

24 A From my recollection, they were.

25 Q Now, according to Mr. Riek's testimony,

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1 October 30, 2006, you had a board meeting,
2 and at that point checks for in the amount
3 of \$110,000 were issued to you for
4 commissions, finders' fees in the part of
5 '06; is that right?

6 A Yes.

7 Q And you put that money into an account
8 where?

9 A I recall it went into an account at US Bank,
10 a checking account at US Bank.

11 Q Now, do you recall how much money you
12 received during '06 from these finders'
13 fees?

14 A Closest estimate I have got is \$182,300.

15 Q Quadramus received \$819,000 in commissions
16 from life settlements in '06, did it not?

17 A I don't know. Mr. Riek kept those records.

18 Q In 2006 you're saying Quadramus didn't
19 distribute to you, Mr. Riek, and Mr. Fevola
20 \$795,000? You're saying that's not true?

James Putman.txt

21 A I'm looking at my -- I went back on my tax
22 returns to look at what was reported, and it
23 was \$182,300 was reported in 2006.
24 Q That was reported between you and the IRS.
25 I'm asking if Mr. Riek's statement under

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1 oath is true, that \$795,000 was distributed
2 in '06 and \$2,965,968 was distributed to you
3 three in '07; is that true?

4 A I can't confirm that right now.

5 Q Let me try it another way.

6 A Okay.

7 Q Are you saying that in 2007 you did not get
8 -- you personally or you and your wife or
9 however you set it up did not get \$975,000
10 from Quadramus?

11 MS. APPLEBY: If we could have the
12 record reflect that Mrs. Putman is now
13 looking over Mr. Putman's shoulder and
14 pointing out figures to him on a sheet of
15 paper that has not, to my knowledge, been
16 shared with the counsel sitting at the
17 table.

18 MR. MELNICK: Boy, you are much
19 tougher than I am.

20 MS. APPLEBY: Sorry.

21 MR. MELNICK: I'm all for it.

22 THE WITNESS: Well, the numbers I

23 have don't equal those numbers.

24 BY MR. MELNICK:

25 Q So you're saying that the sworn testimony of

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1 Mr. Riek is incorrect?

2 A No. I'm just saying I don't have the
3 documentation to confirm that.

4 Q Do you know the total amount -- maybe I'll
5 make it easier for you -- the total amount
6 of finders' fees that you received from
7 Mr. Riek to Quadramus to you and Mr. Fevola?

8 A The best estimate that I have for myself is
9 \$1,126,965.

10 Q You are aware of Mr. Riek's testimony that
11 the three of you got \$795,000 in '06 and
12 \$2,955,968 in '07. If you add those two
13 together and divide by three, and that's the
14 amount of money that you should have
15 received. And, no, I have not done the
16 math, but it's pretty easy. I can do it on
17 my phone.

18 A I think we're probably within \$75,000 of the
19 numbers being the same.

20 Q Now, Mr. Riek had been getting these
21 finders' fees before he ever brought the
22 idea to you; is that your understanding?

23 A I wasn't aware of that.

24 Q So your understanding is Mr. Riek just came

James Putman.txt
25 upon this finder fee idea at the very time

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1 he brought it to you?

2 A I don't know.

3 Q Well, you didn't ask -- the guy is bringing
4 you a million dollars. You don't ask him,
5 you know, how you came upon it, and he's
6 just giving it to you?

7 A Well, he explained the process and how he
8 was coming about it.

9 Q Okay. Explain the process to me as he
10 explained it to you.

11 A Well, he was -- had meetings with some of
12 the aggregators, and they were willing to
13 pay him a finder's fee for the business that
14 they are doing with Baetis and Brown.

15 Q Now, let's understand, so we know who the
16 players are. The aggregators, as you call
17 them, are people who have made deals with
18 the insurance agents to -- who have signed
19 up the people to these life insurance
20 policies. And now they're looking for the
21 financing to fund these policies; is that
22 correct?

23 A As I understand, yes.

24 Q And so without the money, the policies go
25 nowhere?

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- 1 A Right.
- 2 Q So you're the fuel for that engine? Not
- 3 you, but the investors are the fuel?
- 4 A Right.
- 5 Q So he -- you're saying that he never told
- 6 you -- prior to the time of your meeting
- 7 where he discussed these finders' fees, that
- 8 he never told you he had been doing this
- 9 before, that he had been getting this money
- 10 all along and now he's decided to share it
- 11 with you?
- 12 A That never came up.
- 13 Q Well, did you ask him -- strike that. Did
- 14 he need to share those finders' fees with
- 15 you to continue doing business?
- 16 A Not that I know of.
- 17 Q So you never said, hey, I understand you're
- 18 getting finders' fees, unless you give me
- 19 part of the action, you're not getting any
- 20 more money from us?
- 21 A No.
- 22 Q And the reason -- part of the reason is that
- 23 you didn't know he was doing it, correct?
- 24 A If he was, I was unaware.
- 25 Q Did he tell you why these people were

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1 willing to pay so much money in finders'
2 fees, as you guys call them, why they were
3 willing to do that?
4 A No.
5 Q Did you check with anybody to see whether or
6 not that it was common in the industry that
7 insurance agent would kick back their
8 commissions to noninsurance people?
9 A No.
10 Q Was there anything about it that seemed a
11 little unorthodox or illegal to you?
12 A No.
13 Q Do you know a Lori Coonen, K-U-H-N-A-N
14 (sic)?
15 A There's a Lori Coonen that worked for Wealth
16 Management, and her name was C-O-O-N-E-N.
17 Q Okay. The court reporter got it wrong.
18 Okay. She was a compliance officer, wasn't
19 she?
20 A Yes.
21 Q Did you ever talk with her about the
22 efficacy of taking these finders' fees
23 outside of the company?
24 A No.
25 Q All of the money that you received in the

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1 finders' fees were directly related to the
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2 funding of the policies by Gryphon and
3 Watchstone, were they not?
4 A It's my understanding, yes.
5 Q Do you recall when this matter came to
6 light, to the attention of people at
7 Wealth Management?
8 A The matter of the --
9 Q Finders' fees.
10 A -- finders' fees?
11 Q Yes.
12 A It was initially the end of May of 2008.
13 Q Now, I know that you, at least according to
14 Riek's testimony, were paid through '07.
15 Did you get any money on finders' fees in
16 '08?
17 A I think there was two payments in '08.
18 Q How much were they for?
19 A My records show \$88,000.
20 Q Each?
21 A That's what I received.
22 Q Each or total? You said you got two
23 payments, two payments of --
24 A No, I'm sorry. Total. In total.
25 Q So each payment was \$44,000?

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1 A Or some variant thereof.
2 Q So you received \$88,000 in '08 on finders'
3 fees. Was that because you were doing a lot

4 less business in '08?
5 A I don't know.
6 Q Well, do you know what the finders' fees
7 were based upon?
8 A Based upon the implementation of new
9 insurance policies.
10 Q So if you had a lot of policies, you would
11 get a lot of money, and if you had very few
12 policies, you would get very few money,
13 right?
14 A Right.
15 Q Did you recall after it was disclosed -- no,
16 strike that. Do you recall the first court
17 appearance where you and I met for the first
18 time in, I believe, June of '09, that after
19 you left court you all went out to lunch?
20 A Yes.
21 Q Not with me? You went out to lunch, right?
22 A Yes.
23 Q Mr. Riek was there for a while?
24 A He was.
25 Q Do you recall making any statement to

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1 Mr. Riek about that you never told
2 Mr. Fevola about doing the opt-out letter?
3 A No.
4 Q You recall Mr. Riek said that, do you not?
5 A He -- I do, yes, under testimony.

6 Q So, again, your feeling is that was not
7 accurate?
8 A True.
9 Q Have you talked to Mr. Riek since that day?
10 A Yes.
11 Q Did you ask him why he's made that
12 statement?
13 A No.
14 Q Did you ask him why he made the statement
15 about telling you that it was a risky --
16 high-risk investment in '04?
17 A No. If I might add to that, I saw him in
18 Fond du Lac briefly when I was at work. He
19 happened to show up unexpected, offered his
20 hand in -- as a greeting. I refused it.
21 With what I've seen here in his testimony, I
22 did not want to discuss anything with him
23 again, period. I didn't want to talk to
24 him.
25 Q Other than the insurance policy financing

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1 segment, starting with MKA and running
2 through your whole series of investments,
3 did any other kickbacks come to you, Aaron
4 -- when I speak of you, you personally,
5 Wealth Management, Aaron, or anybody else?
6 That is, was there any other kickbacks going
7 on than the premium financing area?

8 A The splitting of fees with the premium
9 finance is the only thing I was aware of.
10 Q So you don't know about a 1 percent fee
11 coming back from MKA?
12 A No, I am not aware of that. And where did
13 it come back to?
14 Q Aaron.
15 A No, I was not aware of that.
16 Q Wasn't there an issue with Aaron getting in
17 trouble with the FCC for accepting some of
18 these kinds of compensation?
19 A It's not my understanding.
20 Q Well, what did he get in trouble for?
21 A It's my understanding he had a partner in a
22 prior deal who embezzled money out of their
23 funds, and he was censured for not properly
24 supervising the fund and, therefore, was
25 fined and barred from the business for a

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1 year.
2 Q When did you find out about Mr. Aaron's
3 difficulties with the FCC?
4 A At one of our first meetings.
5 Q Other than Riek, there was a discussion at
6 Mr. Riek's deposition about RangeTree
7 providing finders' fees or commissions. Do
8 you recall that?
9 A No.

- 10 Q Do you know if RangeTree ever provided
11 finders' fees or commissions to Riek or
12 anyone else?
- 13 A I am not aware of that.
- 14 Q When you disclosed the finders' fees, you
15 received a 1099 from Quadramus. Is that
16 how --
- 17 A Received a K-1. It was an LLC.
- 18 Q Okay. I'm just confused because apparently
19 at the deposition there was a discussion
20 about other people paying money to
21 Quadramus, so let me -- maybe I'll start
22 with a fresh question. Who paid money into
23 Quadramus during the time you were getting
24 these finders' fees?
- 25 A I don't know exactly who was doing the

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- 1 paying in. Mr. Riek was taking care of all
2 of the receipts, the contributions, the
3 deposits into the bank accounts.
- 4 Q Where was it coming from?
- 5 A Well, it was obviously coming from insurance
6 agents and aggregators somewhere. I don't
7 know who they were.
- 8 Q So Mr. Kellner (sic) was one -- Mr. Keller,
9 K-E-L-L-E-R?
- 10 A That's a name I recognize.
- 11 Q How about a Byron Frisch, F-R-I-S-C-H?

- 12 A I do recognize that name.
- 13 Q The company was PIG. I believe that there
- 14 was an Eon Frisch, E-O-N?
- 15 A Okay. I am not familiar.
- 16 Q Does that ring a bell?
- 17 A No.
- 18 Q You don't know if -- you don't have any
- 19 recollection of those people paying money in
- 20 to Quadramus?
- 21 A No. I don't have any knowledge of that.
- 22 Q Do you know a Justin Mecklinborg?
- 23 A I do recognize that name, yes.
- 24 Q Who is that?
- 25 A He was a -- from my -- if I recall properly,

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- 1 he was an actuary or an accountant that
- 2 worked for both RangeTree and Beau Gayner's
- 3 firm. And I think he started his own firm
- 4 doing the insurance premium finance.
- 5 Q It appears, at least from the deposition, is
- 6 that there was a negotiation with him over
- 7 how much of a percent you were going to get
- 8 on each transaction?
- 9 A Okay.
- 10 Q Is that right?
- 11 A I don't know.
- 12 Q You didn't participate in that?
- 13 A No.

- 14 Q Riek handled all that?
- 15 A Yes.
- 16 Q So in all, the money that came in the
- 17 Quadramus came in through Riek and then was
- 18 distributed to the three of you?
- 19 A Correct.
- 20 Q And although there's a great deal of
- 21 discussion at the depo, Quadramus never
- 22 involved itself with Wealth Management, and
- 23 likewise, Wealth Management never involved
- 24 itself with Quadramus?
- 25 A Correct.

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- 1 Q Now, when you were getting all this money
- 2 from Quadramus, did you ever tell any of
- 3 your investor friends about these
- 4 transactions that you were doing?
- 5 A No.
- 6 Q Why not? I mean it was their money funding
- 7 this. Why didn't you tell them?
- 8 A I don't know.
- 9 Q There was also a discussion at Mr. Riek's
- 10 deposition. He was asked, what about the
- 11 valuation of assets that were in the Baetis
- 12 and Brown funds? How was the valuation,
- 13 let's say the Argent Limited Partnership
- 14 Class C units, how would they be valued?
- 15 Riek says, I don't know. Riek doesn't know

16 how they were valued. You don't know how
17 they were valued either, do you?
18 A I understand the process, but I wasn't part
19 of that analytical work. That was
20 Mr. Fevola's work.
21 Q Do you recall any discussion that you had
22 with Mr. Aaron, Mr. Riek, or anyone else
23 regarding concerns over how these assets
24 were being valued for distribution to your
25 investors?

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1 A No.
2 Q There was no thought in your mind that they
3 might have been overvalued and you were
4 overstating what these things were really
5 worth?
6 A No. I was relying on Mr. Fevola's ability
7 to analyze the documentation that he was
8 receiving and processing through our third
9 party advisors.
10 Q When the FCC -- prior to the receiver coming
11 over, when the FCC contacted you, did that
12 raise any alarms in your mind that there
13 might be a problem? This would have been
14 the summer of '08.
15 A The FCC contacting us?
16 Q Yes. Well, did they -- they never went into
17 Wealth Management?

- 18 A No.
- 19 Q So the first time you had contact with the
20 FCC was when?
- 21 A My first contact was -- you mean ever or
22 during this process?
- 23 Q During this process.
- 24 A It was the fall of 2008.
- 25 Q And what was the nature of your contact?

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- 1 A It was a deposition that they scheduled at
2 their offices in Chicago.
- 3 Q For what purpose?
- 4 A To research the disclosure that was made of
5 the nondisclosed revenue.
- 6 Q So they were interested in these finders'
7 fees?
- 8 A They were interested in the nondisclosure
9 and why it wasn't properly done.
- 10 Q Of the finders' fees?
- 11 A Yes.
- 12 Q Just a couple more things on the financial
13 matters, I'm going to go from item to item.
14 MK Opportunity Fund, you're familiar with
15 that?
- 16 A Yes.
- 17 Q Now, there were additions made in 2006,
18 2007. But apparently in 2008 after
19 ten months of reported losses, there's an

20 addition made in 2008. Do you know why you
21 would even put more money in there when the
22 MKA was deflating faster than a balloon?
23 A And what was the month in 2008?
24 Q 2008, this would have been the end of 2008.
25 You were putting money in there when MKA was

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1 deflating. Quickly it was deflating.
2 A I wasn't aware of any money going into MKA
3 at the end of 2008.
4 Q Touchstone Opportunity Fund III, what was
5 that?
6 A It's an investment fund. As to the details
7 of what it did, I don't -- I don't remember.
8 Q Do you know how its assets were valued?
9 A I don't.
10 Q What assets did it have?
11 A I don't know.
12 Q Once again, in December of '08, money was
13 put into this account after losses month
14 after month after month. Do you know why?
15 A No.
16 Q Who had control over putting money into
17 these accounts in '08?
18 A In December of '08?
19 Q Yes.
20 A That would have been Amy Fuss.
21 Q Touchstone Opportunity Fund IV, what was

22 that?

23 A I don't know.

24 Q Alma, Inc., what was that, A-L-M-A?

25 A Alma, Inc., Alma was a company that drilled

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1 oil wells in western Kansas.

2 Q So how was the net asset value, the NAV,
3 determined for Alma?

4 A If I recall properly, we were carrying them
5 at cost until the revenues -- and this is --
6 I'm reaching here. But I think it was after
7 a year of revenues, they were using a --
8 they, Simone and the fund administrators,
9 were using a formula of income to derive a
10 value, a net value.

11 Q How was it, again, that no reported losses
12 on Alma until December of '08? All of a
13 sudden it's doing this and this and this,
14 and then, bang, December of '08 it hits.
15 Why?

16 A I am not familiar with what happened in
17 December of '08.

18 Q Well, I don't know if anything happened in
19 December of '08. That's when apparently it
20 was reported, the financials. I am not
21 saying something happened. I'm saying
22 that's when it appeared.

23 A Yeah, I don't have the financials --

24 Q Do you know why?
25 A -- in front of me. What was --

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1 Q Do you have the financials for Alma, by the
2 way?
3 A I don't.
4 Q Do you have the financials for any of these
5 corporations --
6 A No.
7 Q -- I just enumerated?
8 A No. That's in the hands of the receiver.
9 Q All of that is in the hands of the receiver.
10 I see.
11 A It was in the control of Mr. Fevola.
12 Q WML Pantera Partners, LP, what was that?
13 A That was a fund that Wealth Management
14 created to invest similarly to the Gryphon
15 fund after the Gryphon fund got close to
16 having a maximum number of investors in the
17 fund.
18 Q Now, this fund in '08 reported an inception
19 to date percent return, which you did on all
20 your funds. This one did at a minus 30.06
21 percent. Do you know how it came about that
22 Pantera was in the negative?
23 A It's my recollection that the investment in
24 the MKA Capital fund was affected
25 financially.

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1 Q Because they had overstated their assets,
2 right, and didn't they -- weren't they
3 forced to restate their asset value?

4 A I am not aware of that.

5 Q What happened with MKA? Wasn't there some
6 disturbance that forced them to restate the
7 values that you then had to pass on to your
8 other investors?

9 A From what I remember at this point, it was
10 the same disturbance that affected us all,
11 the global credit crisis.

12 Q But, however -- I understand that. What I'm
13 getting at is, MKA all of a sudden wasn't
14 worth what it was previously, right? They
15 had to restate their values?

16 A And they restated their values almost
17 annually. They restated them in 2006. MKA,
18 as the others, would send out monthly
19 reports with estimates of what the values
20 were worth on the underlying investments.
21 And after the year-end audit was done, they
22 would restate the values either up or down
23 and make those adjustments. Usually they
24 came out in May -- or in March, somewhere
25 between March and April.

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- 1 Q Who determined what the values were?
- 2 A It is my understanding their auditors would
3 review their values at the end of the year.
4 They would have to present their case. The
5 auditors would then do their calculations.
- 6 Q What was the name of the auditors?
- 7 A I don't remember.
- 8 Q Matlin-Peterson -- Patterson Distressed
9 Opportunities, what were they?
- 10 A It's my understanding they would invest in
11 distressed bonds, loans, and work them out
12 and eventually sell off the bonds at a
13 premium.
- 14 Q Do you recall investing in this?
- 15 A I know that was part of the investment in
16 one of the Wealth Management funds.
- 17 Q But you don't know much about it?
- 18 A No.
- 19 Q That would have been Mr. Fevola?
- 20 A Right.
- 21 Q So you don't know why in December of '08,
22 3.8 million was taken out of that fund?
- 23 A I tend to remember that that fund was in
24 liquidation as most funds were at that point
25 in time because of the illiquidity issues.

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1 Q I mean that was six months before the
2 receiver was appointed? A liquidation could
3 -- you were liquidating it, right?

4 A Right. Yes.

5 Q WMS Washington Fund, what was that?

6 A If I recall properly, the Washington Fund
7 invested in structured settlement buyouts
8 and buy them at a discount, live through
9 them, pay out the pro rata share of profits,
10 and then distribute the principal and the
11 profits.

12 Q And that wasn't very successful either, was
13 it?

14 A Not at all.

15 Q And then finally SageCrest II, what was
16 that?

17 A My recollection of SageCrest was that they
18 -- well, let me think if I can recall. At
19 this point it would be just a guess, so I
20 won't guess.

21 Q But you -- I will tell you that the fund
22 1.2 million withdrawal was made September of
23 '07. I can't find where it went. That is,
24 I don't know where that 1.2 million went.
25 And one thing, the fund had reported a net

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1 asset value of \$646,000 one month after

2 reporting a net asset value of zero. Can
3 you explain that?

4 A No.

5 Q Do you know why there was no activity for
6 SageCrest in '08? Was it out of business by
7 '08?

8 A I know -- I do remember it was in
9 receivership at that time.

10 Q Now, just some general questions, you had
11 accountants doing year-end statements on
12 Watchstone, Gryphon? Quetzal, is that
13 another one?

14 A Quetzal.

15 Q Quetzal. What did they do?

16 A Quetzal was a fund of equity related
17 strategies, hedge funds.

18 Q Who managed that?

19 A Mr. Fevola.

20 Q And how successful was Quetzal?

21 A Initially he was good. Eventually he was
22 not.

23 Q What happened?

24 A The markets, the credit crisis, the
25 strategies all suffered.

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1 Q The Palisades, they did again? What did the
2 Palisades do?

3 A Palisades was structured to do IRA investing

4 similar to Watchstone.
5 Q Now, the other thing I noticed going back to
6 '03, which I don't have in front of me,
7 every year there's a different accounting
8 firm doing these reports. Do you know why?
9 And same for Joe Aaron, by the way. Every
10 year there was a different firm until he
11 went in-house to Nol ti (phonetic spelling)
12 or something like that.
13 A Okay.
14 Q Do you know why?
15 A This was a choice that Mr. Fevola was
16 making.
17 Q One other thing, in '05, the last I have --
18 I have Watchstone, WML L3, Baetis, Quetzal.
19 And what's interesting is that the -- so
20 these are December 31st of '05. Okay?
21 A Okay.
22 Q And then I have December 31st of '06 for
23 these others, Watchstone, Palisades, and so
24 on. All right? But the December 31st of
25 '06 weren't done until January 7th of '09.

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1 Do you know why? I mean does this mean --
2 A I don't know.
3 Q -- that your investors wouldn't have had
4 financial statements for '06 until January
5 of '09?

6 A The audits -- evidently from the audits
7 you've got, no.

8 Q So tell me then, between December of '05 and
9 January of '09, how could you determine the
10 financial status of any of these funds that
11 you were giving information to these funds?

12 A The financial status was developed through
13 the interim reports that we had provided to
14 the administrators. We had all the audited
15 reports from the submanagers, and that
16 information was utilized when it was
17 received. Many of the K-1s from the
18 submanagers were anywhere from -- delivered
19 anywhere from April through sometimes August
20 of the following year. So when those
21 audited reports came in, that information
22 was utilized by the Woodfield fund
23 administrators to update the values on a
24 monthly basis.

25 Q But you understand that in these reports

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1 which didn't come out -- even if they were
2 from '06 did not come out until '09, they do
3 talk about -- because even though it wasn't
4 within that financial, they talk about the
5 kickbacks, as they say. The principals of
6 the general partner received approximately
7 1.25 million dollars each in undisclosed

8 compensati on from insurance agents involved
9 in life insurance premi um financi ng. You
10 did read that --
11 A Yes.
12 Q -- in there, didn't you? And it says, these
13 payments came as a result of investments
14 made on behalf of the Palisades Partner, LLP
15 -- and of course it would go on to each one
16 of the funds -- and other funds managed by
17 general partner. Among other investments,
18 the funds invest directly and indirectly in
19 the Baetis fund and the Brown fund, which
20 are unregistere d private equity funds. So
21 you're saying that even though you didn't
22 get audited statements until '09 -- or you
23 didn't get a statement period until '09 from
24 '06, you still knew the financi al well-bei ng
25 of your various funds in order to convey it

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1 to these investors who were putting their
2 money in? Here, the last financi al
3 statement you had was '05.
4 A Right.
5 Q The next one is '09, right?
6 A Yeah.
7 Q That's what these say?
8 A Right.
9 Q All right. My questi on is, between '05 and

10 '09 you continue to take money from
11 investors, right?
12 A Yes.
13 Q So how did you know the financial well-being
14 of your company when you aren't even having
15 end-of-the-year statements done for either
16 your own review or for your investors'
17 review?
18 A I don't -- I mean what you're showing me
19 here is information you have. I don't have
20 the -- and I don't know that there was not
21 an '06, '07 or '08 financial statement done,
22 so I can't respond to this.
23 Q Let me put it this way: These do say
24 December 31st of '06; is that correct?
25 A Correct.

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1 Q They do follow December 31st of '05, do they
2 not?
3 A Yes.
4 Q And there is a letter here saying they
5 weren't done until January 7th of '09,
6 right?
7 A Right.
8 Q And you're saying that even in light of that
9 your testimony under oath today is that
10 there may be statements like these for '07
11 and '08 that you have that I don't have?

- 12 A What I'm saying is there may have been
13 interim statements stating values.
- 14 Q One other thing, Beau Gayner from UTC
15 borrowed some money, about 6 million, did he
16 not?
- 17 A I don't know.
- 18 Q You didn't hear about that? There was no
19 discussion with you and Simone about
20 Beau Gayner walking away with a 6 million
21 dollar loan --
- 22 A No.
- 23 Q -- of investor money?
- 24 A No.
- 25 Q You don't know anything about that?

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- 1 A No.
- 2 Q And you don't recall any discussion with
3 Simone or Joe Aaron about that?
- 4 A No.
- 5 Q How about an accountant's report about that?
6 Do you recall reading an accountant saying
7 that he does not understand how you could
8 have made the loan and why there was no
9 effort to collect it?
- 10 A Absolutely not.
- 11 MR. MELNICK: All right. What I'm
12 going to do is, I don't have any of the
13 documents -- we have never made a document

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14 request. So what I'll do is -- if it's
15 okay, Counsel, is without exploring every
16 single one of these details is my part I
17 would like to adjourn until I've had a
18 chance to look at the documents and see if
19 there's anything else I need follow-up
20 questions about.

21 MR. ENGL: And that's fine. With
22 respect to this particular, your adversary,
23 we are going to be actually withdrawing. So
24 you'll be working directly with the Putmans
25 in case they -- unless they retain us again

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1 or get another attorney.

2 MR. MELNICK: Fine. Okay.

3 MS. APPLEBY: Shall we start in now,
4 or is this a good for a lunch break? I'm
5 happy either way. Keep going? Mr. Putman,
6 are you doing okay?

7 THE WITNESS: I just need a bathroom
8 break.

9 MS. APPLEBY: Okay.

10 MR. ENGL: Do you think we'll get
11 through everything today yet?

12 MS. APPLEBY: Counsel for the Putmans
13 has asked whether we think we'll get through
14 everything today. This gives me a nice
15 opportunity to indicate that just last week

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16 right before the holiday weekend we received
17 a production of documents in response to our
18 document request that our tech department
19 estimates contained 4,000 pages. I did
20 review those documents over the holiday
21 weekend. I have conferred with the trustee
22 who indicates that the document production
23 that he received has approximately 2,000 --
24 between 2,000 and 3,000 pages. We're not
25 sure whether we received the same document

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1 production. Even if we did and there's some
2 way to reconcile the number of pages, by
3 virtue of the sheer volume of those pages, I
4 don't believe that we will finish today.
5 Additionally, I will note for the record
6 that the production that I received included
7 folders for ACE general ledger for 2006,
8 2008, and 2009, and each of those folders
9 were empty. So, in other words, the only
10 general ledger production I have for ACE is
11 from 2007. Additionally, there were folders
12 for transactions for 2006, 2008, and 2009,
13 and all of those were also empty. Giving
14 the debtors benefit of the doubt, perhaps
15 that's just a technical issue with the disks
16 that were produced to me, but it's not clear
17 to me whether documents do exist for the

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18 time frames mentioned. It seems that the
19 existence of those folders would suggest
20 that such documents do exist. And I have
21 not received them and will definitely want
22 to raise questions about that at another
23 time. So that said, long answer to a short
24 question, no, I don't think we're going to
25 finish today.

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1 MR. ENGL: Okay. Trustee Liebzzeit,
2 do you think you'll finish today? I mean
3 we're going to have to adjourn all three of
4 these do you think or --

5 MS. APPLEBY: I at the trustee's
6 discretion would be happy to let the trustee
7 go before me if we can finish that portion
8 of it today, you know. But, again, having
9 noted that the production of documents that
10 the two of us received appear to be
11 different, I don't know that you can say
12 you'll finish today.

13 MR. LIEBZEIT: I can't.

14 MR. ENGL: Okay. That's fine.

15 MR. LIEBZEIT: I can't.

16 MS. APPLEBY: So a short break off
17 the record. Thank you.

18 (Recess was taken.)

19 THE WITNESS: I think the issue with

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20 the 4,000 documents versus 2,000, actually,
21 there's probably 2,000 documents
22 thereabouts. I had sent a copy of what I
23 was producing to Mr. Engl to ask him if --
24 could he open up the documents in the format
25 that I was copying them. And I think it was

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1 in a JPEG document. And he suggested I copy
2 them in a -- maybe it was the other way
3 around. I had them in a PDF.

4 MR. ENGL: No. You were right the
5 first time JPEG, and I suggested PDF.

6 THE WITNESS: PDF. And so what I did
7 was did a copy of all files so you have the
8 same file in two different copies, two
9 different formats. So if your people opened
10 up 2,000, you probably saw that it was a
11 different format.

12 MR. ENGL: And then with respect to
13 ACE?

14 THE WITNESS: The ACE, I was trying
15 to keep all my files organized so it can be
16 easily accessible. And I think in the case
17 of the transactions -- and I'll check when I
18 get home. But I think we only had
19 transaction records for one year even though
20 I made files for the other years. But I
21 will -- I'll confirm that when I get home.

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22 MS. APPLEBY: Okay. I would
23 appreciate if you would do that.

24 EXAMINATION

25 BY MS. APPLEBY:

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1 Q And, you know, in follow-up to that, I would
2 just ask, why would you have created files
3 for 2006, 2007, 2008, and 2009 and then only
4 populated 2007?

5 A It was all the documents I had. I mean
6 granted I was trying to keep things
7 organized from item to item, so we covered
8 all the years in question.

9 Q Well, let me ask --

10 A So I guess in retrospect I should have not
11 given you empty files or empty file folders.

12 MR. ENGL: So you're saying that you
13 created file folders and put nothing in
14 them?

15 THE WITNESS: Yes.

16 BY MS. APPLEBY:

17 Q And when did you do that?

18 A Well, during the last three weeks.

19 Q So these files were not actually kept
20 contemporaneous?

21 A Well, these were -- what I did was took all
22 the files that I had in my possession and
23 scanned them. So whatever I had in my

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24 possession I scanned and saved them in a
25 file on my home computer, and from that file

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1 is what I made the copies of these disks
2 from.

3 Q And you reorganized them into different file
4 folders that you had created within the last
5 three weeks; is that correct?

6 A Yes.

7 Q Do I have --

8 (Discussion off the record.)

9 BY MS. APPLEBY:

10 Q Are the copies that were on the disks that
11 were provided to me and the trustee copies
12 of every paper in your file folder?

13 A Yes.

14 Q What did you do to prepare for today's
15 deposition?

16 A I created all these files that you
17 requested.

18 Q Did you do anything else?

19 A Such as?

20 Q Anything? Anything at all?

21 A I don't know. I don't know what you're
22 driving at.

23 Q Did you meet with counsel in preparation for
24 today's deposition?

25 A No. We exchanged the disks. Mr. Engl got

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1 two sets of what you received, and that's
2 pretty much it.
3 Q Did you have discussions with your wife in
4 anticipation of today's deposition?
5 A Oh, yes. She's helping me find documents.
6 Q And why was she helping you find documents?
7 A Well, she knows our files pretty well.
8 Q So your wife has involvement with
9 maintaining the documents for Wealth
10 Management; is that correct?
11 A No.
12 Q What does she have involvement with then?
13 A Our personal documents.
14 Q And that would include what?
15 A Checking accounts and brokerage accounts.
16 Q Do you know for a fact that the documents
17 that were produced on the disks to me and to
18 the trustee include everything that was in
19 your wife's possession in response to our
20 request?
21 A Everything I can imagine.
22 Q I guess I'll just question her directly
23 about that. Is it safe for me to conclude
24 from your testimony here today that there is
25 no general ledger for ACE, A-C-E, for 2006,

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- 1 2008, or 2009?
- 2 A At this point, I'm going to answer that yes,
3 but I will go and see if we can locate it if
4 it's not there.
- 5 Q And you'll do the same for the transaction
6 ledgers?
- 7 A Right.
- 8 Q Do you know whether the transaction ledger
9 for 2007 that I did receive was created
10 contemporaneous? In other words, was that
11 created at the end of 2007?
- 12 A I think that was in 2008. Isn't that when
13 you worked with Jane?
- 14 Q Let the record reflect that the witness is
15 now asking Mrs. Putman for the answer to the
16 question, and I would ask Mrs. Putman not to
17 answer that question. I would like
18 Mr. Putman to answer to the best of his
19 recollection.
- 20 A Oh, okay. I don't know.
- 21 Q And I would appreciate it if you wouldn't
22 ask your wife questions during this
23 deposition --
- 24 A Okay.
- 25 Q -- because it will muddy the record.

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1 A All right.

2 Q I would also appreciate it if for the
3 transactions ledger for 2007, if you would
4 produce that in native format so that I may
5 look at the metadata?

6 A Would you define that, please?

7 Q Sure. I would like it copied onto the disk
8 without being PDF'd. You don't know
9 anything about that, do you? Well, I'll
10 make the request on the record, and then we
11 can discuss off the record the technology
12 involved.

13 A Okay.

14 Q I want to be able to -- independent of your
15 testimony or your wife's testimony be able
16 to determine when this record was created.
17 I want to do the same thing for any records
18 that you have, transaction records for 2006,
19 2008, and 2009.

20 A Okay.

21 Q I also want to be able to do that with the
22 ACE general ledgers for 2006, 2007, 2008,
23 and 2009, again, so that I can independently
24 verify when those documents were created.
25 I've noticed that sitting here today during

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1 Mr. Melnick's questioning you've been taking
2 notes. Is that accurate?

- 3 A Yes.
- 4 Q Did you take notes during your FCC
5 deposition?
- 6 A No.
- 7 Q Did you take notes during Mr. Riek's
8 deposition that you sat in for?
- 9 A Yes.
- 10 Q Were those notes taken at the instruction of
11 counsel? Did your attorney --
- 12 A Is that a fair question to ask, if I had
13 counsel at the time?
- 14 Q I am not asking you to tell me what the
15 attorney said, but I'm asking you whether
16 you took notes at Mr. Riek's deposition
17 under the instruction of counsel or whether
18 you did it of your own volition.
- 19 A I think it was at my own volition.
- 20 Q Have you provided me a copy of those notes?
- 21 A No.
- 22 Q Those are related to this action. They're
23 not privileged, and I would like a copy of
24 them.
- 25 A Okay.

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- 1 Q Are you taking notes today at the
2 instruction of counsel?
- 3 MR. ENGL: Just so I can interrupt,
4 what notes? From the FCC did you say?

5 MS. APPLEBY: Notes that he took
6 during Mr. Riek's deposition.
7 MR. ENGL: Okay.
8 BY MS. APPLEBY:
9 Q Are the notes you're taking today being
10 taken at the instruction of counsel?
11 A No.
12 Q Why are you taking notes today while you are
13 being questioned?
14 A Because it's good for me to think through
15 the questions.
16 Q Fair enough. Do you review the notes that
17 you take before coming in for these
18 depositions?
19 A I didn't today.
20 Q Did you review the notes that you took
21 during Mr. Riek's deposition before coming
22 in here today?
23 A No.
24 Q Do you know whether your wife did?
25 A I don't.

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1 Q Did you and your wife discuss Mr. Riek's
2 testimony before coming to today's
3 deposition?
4 A No.
5 Q In preparation for today's deposition, you
6 did have discussions with your wife,

7 correct?
8 A Yes.
9 Q Were those discussions in the presence of
10 counsel?
11 A No.
12 Q What did you talk about?
13 A I mean we live together. We're husband and
14 wife. We talk about lots of things. What
15 do you want to know?
16 Q I want to know what you talked about in
17 preparation for today's deposition.
18 A Starting when?
19 Q Any time.
20 A We've been talking about this since we found
21 out about it three weeks ago. I can't
22 remember the details of what we talked about
23 for three weeks.
24 Q Fair enough. What can you remember?
25 A My focus was putting information together so

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1 that you had it at your request and just
2 showing up.
3 Q That doesn't tell me what you and your wife
4 discussed, and you have already admitted
5 that you had discussions in preparation for
6 today's deposition. What do you recall
7 about those discussions?
8 A I just don't know how to answer you.

9 Q What's unclear to you about my question?

10 A What do you want -- what specifically did
11 you want me to answer?

12 Q I want to know what you discussed with your
13 wife. I want to know what you recall about
14 what you discussed with your wife.

15 MR. ENGL: Can I clarify? Maybe that
16 will help. Like feelings, emotions, issues
17 with respect to document production, general
18 concepts like that, did you have any
19 conversations like that?

20 THE WITNESS: We were trying to be
21 factual. I worked on summarizing some of
22 the information that was sent to you, so it
23 would be easier to -- hopefully to
24 understand, reviewing numbers, double
25 checking, you know, values, do we have all

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1 the documents. I mean I can't remember
2 details.

3 BY MS. APPLEBY:

4 Q Well, let's talk about what you have listed
5 so far. You've listed four things. The
6 first was work that you work on summarizing?

7 A Uh-huh.

8 Q Have you provided me a copy of the summary
9 that you created?

10 A No.

11 Q On a break may I have a copy of that so that
12 we can talk about it?

13 A Yep.

14 Q What's your summary based on?

15 A The summary is based on inflows, cash
16 inflows. One of the issues that came up at
17 the meeting in Oshkosh was where did the
18 million dollars go, so I did a summary of
19 Quadramus income and expenses. I itemized
20 the investments that were made with those
21 monies, also itemized the disposition of the
22 assets, when those occurred, the dollar
23 amounts received because I was going through
24 the 4,000 documents myself. It was stuff
25 that I saw that I didn't recall and don't

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1 recall checkbooks from four years ago.
2 Empathized with you and the trustee trying
3 to get through 4,000 documents and making
4 sense out of it. I had a pretty good handle
5 of what transpired, and I tried to
6 anticipate what you would want to know and
7 developed, you know, summaries to that
8 effect.

9 Q And why didn't you produce those summaries?

10 A I just finished them last night.

11 Q And let's be clear on the record. A few
12 minutes ago you indicated that the reason

13 that I got 4,000 documents and the trustee
14 got somewhere around 2,000 is that there are
15 duplicates. So did you go through 4,000
16 documents?

17 A Yes.

18 Q And only 2,000 have been produced?

19 A Oh, I'm sorry. Let me correct that. I
20 think if I go through and count the
21 documents themselves, there are probably
22 going to be around the 2,000 number. But
23 because I duplicated them in PDF format and
24 I kept them all on the same disks, they look
25 like -- it looks like there could be 4,000.

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1 I think that was the count on the computer
2 when I was making the copies. But each file
3 is copied in a different format.

4 Q You noticed the count on the computer when
5 you were making the copies?

6 A Uh-huh. It kind of pops up on the bottom
7 when you're doing your disk copying, getting
8 ready to copy 4,037 files or whatever it
9 was.

10 Q All right. So your summary is based on the
11 document reviews, and you're going to
12 provide a copy to us at a break. Another
13 thing that you and your wife talked about
14 was reviewing the numbers. That's what you

15 testified a few minutes ago?
16 A Uh-huh.
17 Q What did that involve?
18 A Looking at check registers. One of the
19 issues for the trustee was where the cash
20 came from to make IRA contributions and
21 annuity payment. I think at our last
22 meeting I was relatively vague because I
23 didn't have the documents in front of me.
24 So we reviewed her check register and the
25 timing of payments and reviewed inflows,

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1 outflows.
2 Q And by her, are you meaning your wife?
3 A My wife, yes.
4 Q And have you provided a copy of the check
5 register?
6 A No.
7 Q That would be responsive to our document
8 request, and so I would ask you to provide
9 copies of that.
10 A I brought those along because we finished
11 those up last night, too.
12 Q Okay. So your production is not complete?
13 You haven't provided everything that's in
14 your files?
15 A Well, everything that you had -- you have a
16 copy of the check registers in your

17 possessi on.
18 Q Oh, I do?
19 A You do.
20 Q Okay.
21 A But it's electronic. You know, I wanted to
22 print them off today, so we can get through
23 them a little bit easier than putting them
24 into a computer. I have got them printed
25 out for you.

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1 MR. ENGL: Just to clarify, you
2 photocopied the actual register; is that
3 what you're referring to?
4 THE WITNESS: Yes. So what I did is
5 I actually scanned the register into the
6 computer, and then I printed out from the
7 computer scan the registers.
8 BY MS. APPLEBY:
9 Q Is that what you're talking about?
10 A No. That's a check -- a duplicate check.
11 MR. ENGL: Can you show her?
12 THE WITNESS: Sure. I might have
13 given them to you.
14 MR. ENGL: I think you're probably
15 right.
16 THE WITNESS: There's the cash flows.
17 I'm calling them cash flows. This file is
18 titled cash flows 2006 to 2010.

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19 MS. APPLEBY: Okay. And this is what
20 I do not have a copy of yet, and we'll get a
21 copy of that at the break.

22 THE WITNESS: Okay.

23 MS. APPLEBY: Thank you very much.

24 THE WITNESS: You're welcome.

25 BY MS. APPLEBY:

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1 Q I want to ascertain for the record whether
2 the check registers that you and your wife
3 discussed and that you relied on for the
4 summaries, whether all of those have already
5 been produced to me?

6 A Yes.

7 Q Okay.

8 A They have. They're -- again, they're cash
9 flow.

10 MR. ENGL: There's three sets. This
11 is the same thing. This is mine.

12 THE WITNESS: This is what you have
13 in your possession, just not printed out.

14 MS. APPLEBY: Okay. Okay. That's
15 great.

16 THE WITNESS: Do you want this now,
17 or do you want this later?

18 MS. APPLEBY: No, that's fine.
19 That's fine. I just wanted to make sure
20 that whatever you have relied upon in

21 putting together your summary has been
22 produced.

23 THE WITNESS: Okay.

24 BY MS. APPLEBY:

25 Q And then one other thing that you said that

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1 you discussed with Mrs. Putman was that you
2 were double checking values. What did you
3 mean by that?

4 A For example, when I went through this
5 summary, this cash flow summary, when I did
6 a summary of the totals from top to bottom,
7 they weren't equaling the summaries from
8 left to right. So I made a transposition
9 error in one of the numbers and had to go
10 back and try to figure out where it was. I
11 found it, and I made the change. And then I
12 printed out new reports this morning.

13 Q Okay. So you're not talking about double
14 checking the values of things that you may
15 have purchased with the kickbacks that you
16 received? You're just talking about the
17 numbers that are on your summary; is that
18 right?

19 A Yes.

20 Q And then you also said that you and your
21 wife discussed whether you had all the
22 documents.

23 A Well, your request was broad -- excuse me,
24 trustee's request was pretty broad. It was
25 all documents related. And I think your

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1 request was from 2007 forward, Mr. Trustee,
2 and I thought that was relevant information
3 actually from 2006 that needed to be
4 included. So I just wanted to make sure
5 that when I get a broad request like
6 everything that we've included everything.

7 Q I noticed in the production that there are
8 some -- there is correspondence included.
9 But I noticed that that correspondence does
10 not include any e-mails. Is that right?
11 Your production didn't include any e-mails?

12 A No. There was no e-mails.

13 Q You've just testified that you discussed
14 whether you produced everything that would
15 be responsive.

16 A Uh-huh.

17 Q Is it your testimony today that there are no
18 e-mails that would be responsive to the
19 trustee or the receiver's document requests?

20 A I guess my answer is I don't know.

21 Q I would ask you to go and search for those,
22 and I certainly would instruct you, if you
23 have not already been instructed, that you
24 need to preserve e-mails, any kind of

25 electronically stored information relating

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1 to this matter. My recollection is that
2 there was testimony to the FCC that you had
3 received e-mails from Mr. Riek?

4 A Yes.

5 Q And I would think that those e-mails would
6 certainly be responsive to the receiver and
7 the trustee's request, so I would ask you to
8 search for anything sent to or from Mr. Riek
9 and produce those.

10 A Okay.

11 Q I also would ask you to search for anything
12 relating to ACE. Also anything relating to
13 Quadramus.

14 A Okay.

15 Q Anything referencing the -- and I use this
16 term in quotations -- the -- what have you
17 called it -- the fee sharing arrangement,
18 Baetis or Brown. Also anything referencing
19 Baetis and Brown's cash flow troubles
20 referenced in e-mails.

21 A I can respond to those. The -- any
22 communication relating to Baetis and Brown
23 would reside in the Wealth Management
24 system, so -- and I think you've got access
25 to all of that.

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1 Q Is your home computer separate from the
2 computer that you used at Wealth Management?

3 A Yes.

4 Q I don't want to make a request that's unduly
5 burdensome, so I will withhold a request for
6 anything relating to Baetis and Brown on
7 your word that it would be on the Wealth
8 Management server. But I'm going to have to
9 reserve the right to come back on that
10 request --

11 A Okay.

12 Q -- if I look at the documents that we
13 already have and have any concerns. Because
14 I know that there are people that sometimes
15 use a computer at work and then still do
16 work after hours from their home computer,
17 and it wouldn't necessarily make it onto
18 their work server. But I would appreciate
19 any documents that are responsive to the
20 other categories.

21 A Okay.

22 Q And then I want to spend just a few minutes
23 following up on a few questions that
24 Mr. Melnick asked. And then really the
25 focus of the receiver's interest in this

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1 Rule 2004 deposition has mostly to do with
2 something that you picked up on at the
3 Oshkosh session, which is really the
4 question of where did the money go, and that
5 will be the focus of the deposition. But I
6 do want to follow up on a couple of
7 questions that Mr. Melnick asked that left
8 me with additional questions in my mind. At
9 one point in the deposition, I think you
10 agreed that Mr. Riek had lied during his
11 deposition that he had advised you that this
12 was high risk?

13 A Yes.

14 Q Later on in the deposition -- in your
15 deposition you couched it a little bit
16 differently. You said you didn't recall
17 that he had told you that. I want you to
18 clarify for the record, did Mr. Riek lie
19 when he said that, or you just don't recall
20 whether he gave you the advice?

21 A I think the preference would be I didn't
22 recall. I didn't recall him saying that to
23 me. So really I have to recant my comment
24 about his lying. I don't know if he lied or
25 not. I just don't recall that he said that

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1 to me. And can I make an addition to --
2 Q Yes. Absolutely.
3 A Mr. Melnick asked me about the comment that
4 I also did not agree with on that Mr. Riek
5 had said in the last deposition, which is I
6 whispered to him that I did not tell Simone
7 to do this. I don't remember saying that.
8 I didn't -- excuse me, I remember I did not
9 say that. Also, I don't whisper to people
10 who have hearing aids. My father wears
11 hearing aids. People with hearing aids
12 can't hear whispers. I don't whisper to
13 Tom. And when we were -- he asked me to
14 walk with him out to his car, and we had
15 conversations which did not include that.
16 And we were in an open parking lot. There's
17 no cars in the parking lot. No reason in
18 the world I would whisper to him about
19 anything. I didn't whisper when we were in
20 the restaurant. I didn't whisper
21 afterwards. So I just wanted to make that
22 point.
23 Q Okay. So that is a lie?
24 A Yes.
25 Q In your -- I mean your testimony here --

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1 A Yes.
2 Q -- is that that is a lie?

3 A Yes.
4 Q You testified that sometime in 2007 or 2008
5 you learned that people were not buying the
6 policies. And I took your testimony to be
7 that there was no longer a viable market for
8 repurchasing the policies in which Baetis
9 and Brown had invested. Is that accurate?
10 A No. That wasn't my intention. Again, this
11 is a recall. At the end of 2007 going into
12 2008, Mr. Fevola was reporting that, you
13 know, the fund managers were having a
14 difficult time selling the policies.
15 Q Okay.
16 A The credit markets were starting to become
17 impaired.
18 Q And, yet, after that time, you continued
19 accepting investments from the limited
20 partners and putting them into these premium
21 financings?
22 A And I am not sure that that was the case. I
23 don't -- I don't have the documents in front
24 of me to confirm that or deny that.
25 Q But did you testify earlier that in 2008 you

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1 accepted finders' fees of \$88,000?
2 A Yes.
3 Q So that was after you knew that this
4 investment vehicle had run its course?

- 5 A No. Having difficulty in selling any
6 investment is part of the business. There's
7 difficulties selling General Motors stock.
8 There's difficulty in the other
9 partnerships. No investment runs without
10 problems, and each one of the submanagers
11 would have situations where there was a
12 problem within the portfolio. It didn't
13 spell disaster for the whole portfolio at
14 the time. But, again, I deferred the
15 judgment on making decisions on the
16 investments through Mr. Fevola.
- 17 Q And I'm going to want to come back to that
18 later. But you do admit that after you knew
19 that this particular vehicle was having
20 troubles, you still took fees, \$88,000 in
21 fees, finders' fees --
- 22 A Uh-huh.
- 23 Q -- as you call them, correct?
- 24 A The Quadramus income for that -- for 2008
25 was \$88,000, yes.

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- 1 Q And that's after you knew that, as you put
2 it earlier, people were not buying the
3 policies?
- 4 A The timing is right, correct.
- 5 Q Mr. Melnick asked you whether you recalled
6 the meeting at which Mr. Riek told you about

7 the finders' fees --
8 A Uh-huh.
9 Q -- that were available to you. Do you
10 recall that?
11 A Yes.
12 Q You testified -- when asked to describe what
13 happened at that meeting, you testified --
14 Mr. Melnick asked whether -- what was the
15 essence of the meeting, and your response
16 was you didn't remember in detail. I want
17 to know what you do remember.
18 A Well, we had two meetings regarding this,
19 the one in the fall of '05 or the meeting in
20 2006, which --
21 Q Let's start with the one in 2005.
22 A In 2005 Mr. Riek approached and said we've
23 got this opportunity to share fees. Do you
24 have an interest? At that point in time, I
25 said no.

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1 Q Why?
2 A Just wasn't part of our way of doing
3 business, and I didn't feel it was
4 necessary.
5 Q What about it wasn't part of your way of
6 doing business?
7 A It was third-party income.
8 Q And what's the problem with third-party

9 income, or what was the problem in your
10 mind?
11 A It just wasn't what we had disclosed to our
12 clients.
13 Q Do you remember anything else about that
14 meeting in the fall of '05?
15 A That's pretty much it.
16 Q And you testified I think a minute ago that
17 it just wasn't necessary for you to take
18 those fees; is that what you said?
19 A I don't remember that.
20 Q Then you had another meeting in '06 where
21 you discussed the finder fees?
22 A Yeah, it was in -- as I recall, it was late
23 April.
24 Q What happened at that meeting?
25 A Mr. Riek brought up the opportunity again.

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1 We were further along in the plans for
2 Mr. Fevola to buy out the company. And I
3 felt opportunity if properly handled could
4 be done.
5 Q What was properly handling?
6 A Well, the proper disclosures.
7 Q Anything else?
8 A I can't recall anything right now.
9 Q In April of '06 was it your understanding
10 that the finders' fees would not be coming

11 from a third party?
12 A No, that they would be.
13 Q So you objected in the fall of '05, and a
14 few months later you decide -- on the basis
15 that it would be third-party income. And,
16 yet, a few months later you thought it was
17 okay?
18 A Uh-huh.
19 Q Why?
20 A Mr. Riek confirmed that the third-party
21 income could not be paid to other parties
22 such as the Wealth Management funds, the
23 company, or other parties.
24 Q Other parties than who?
25 A Other parties that he would dictate. He was

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1 in control of where these monies were going
2 to be delegated.
3 Q So in '05 -- he wasn't in control in the
4 fall of '05 when you first discussed it?
5 A I wasn't interested. I had no interest in
6 it and didn't follow up on it.
7 Q Sure. Because it was third-party income,
8 and that just wasn't what Wealth Management
9 did?
10 A Right.
11 Q Because Wealth Management hadn't disclosed
12 that to its investors?

13 A Right.
14 Q What changed between the fall of '05 and
15 April of '06?
16 A I don't know.
17 Q Then why did you accept it?
18 A As I was looking toward the -- my retirement
19 from the company, I looked for another
20 opportunity to generate income. And this
21 seemed to be a good one to do that with,
22 something we could continue on after that.
23 And initially it played out that that was
24 pretty much the truth. It could be a very
25 good income source.

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1 Q So you decided in April '06 that
2 notwithstanding the concerns you had in fall
3 of '05 about whether it was right to take
4 that money or not, you decided in April of
5 '06 since it benefited you you would take
6 the money?
7 A Right.
8 Q You indicated that based on the spreadsheet
9 that you're going to provide us after a
10 break that your best estimate of what you
11 received in kickbacks was \$1,126,965; is
12 that correct?
13 A Yes.
14 Q Does that amount include the \$88,000 that

15 were received -- that was received in '08?

16 A Yes.

17 Q Again, I'm just following up on
18 Mr. Melnick's -- some of Mr. Melnick's
19 questions. He had asked whether you or any
20 of the other Wealth Management principals --
21 and I think he framed it in terms of you and
22 Mr. Fevola -- had received any other
23 kickbacks. And your testimony -- your
24 response to that question wasn't quite an
25 answer to the question. Your response was

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1 that the fee splitting arrangement only
2 related to the insurance premium financing.
3 I'm concerned about your answer to that
4 question because I think you're calling
5 certain things fee splitting and Mr. Melnick
6 is calling the very same things kickbacks.
7 So I want to phrase Mr. Melnick's question a
8 little bit differently. Did you ever
9 receive any money from any source aside from
10 the fee -- the finders' fees that you
11 received that came to light through the
12 FCC's invest -- well, through your
13 disclosure? Did you receive any money from
14 Mr. Riek or any other source that wasn't
15 reported besides what was finally disclosed
16 by you?

17 A No.
18 Q No gifts from Mr. Riek?
19 A Oh, there were gifts.
20 Q Were there cash gifts?
21 A No.
22 Q Did you receive cash gifts from any other
23 source?
24 A No.
25 Q Did you receive anything that was not

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1 disclosed -- that has not been disclosed as
2 of today?
3 A No.
4 Q What did you receive from Mr. Riek in the
5 way of gifts?
6 A I can't remember. I think it was bottles of
7 scotch at Christmastime. That's about all I
8 can think of.
9 Q Anything of substantial value, say \$100 or
10 more? I guess scotch could be \$100 or more.
11 A They're worth over \$100, yeah.
12 Q \$150 or more?
13 A No. The only other issue that even comes
14 close was two cases of wine that Mr. Aaron
15 had sent me from a vineyard that his friend
16 runs. However, the two cases of wine were
17 \$800, and I sent him a check for \$800. I
18 think you'll find that in my register

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- 19 someplace.
- 20 Q You testified you became aware at one of
- 21 your first meetings with Mr. Aaron that he
- 22 had been censored for his failure to
- 23 supervise?
- 24 A Yes.
- 25 Q When would that first meeting have taken

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- 1 place?
- 2 A Somewhere between 2002 and 2003.
- 3 Q So as of 2002 or 2003, if not before, you
- 4 were aware that people in positions such as
- 5 the one that Mr. Aaron held had a duty to
- 6 supervise their employees?
- 7 A Yes.
- 8 Q Did you have any similar duty at Wealth
- 9 Management?
- 10 A In retrospect, absolutely.
- 11 Q And so you failed with respect to that duty
- 12 in relation to Mr. Fevola; is that true?
- 13 A Yes. Yes, I did.
- 14 MS. APPLEBY: All right. I'm to the
- 15 point where I can move on to the
- 16 documentation that's been provided. I think
- 17 this is a good time for a break if that
- 18 seems right to you all.
- 19 THE WITNESS: Okay.
- 20 MS. APPLEBY: And if we could arrange

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21 to have copies of the additional documents
22 made.

23 MR. MELNICK: Sure.

24 (Discussion off the record.)

25 (Recess was taken.)

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1 BY MS. APPLEBY:

2 Q Mr. Putman, you had testified earlier that
3 Amy Fuss directed investments in December of
4 2008. Is that accurate?

5 A No. She was the acting president and chief
6 compliance officer, which put her in control
7 of the investment team that was still there
8 who was doing administration of the funds at
9 that time. She also directed the funds be
10 liquidated as of December of 2008.

11 Q What were her qualifications for that -- for
12 those jobs?

13 A None.

14 Q Why was she in that position then?

15 A After the disclosure of the nondisclosure of
16 income as of June and after a board meeting
17 in Chicago, the Wealth Management board
18 barred me from the office from June until
19 October and with the understanding that that
20 -- but I did not stay away. And they would
21 disclose this nondisclosure to the FCC. And
22 I wanted to have an opportunity to visit

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23 with all my clients. Their request was that
24 I stay away and go away. Don't come back to
25 the firm. Don't speak with the clients ever

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1 again. Just disappear. And I couldn't do
2 that. I wanted to be able to speak with my
3 clients -- former clients now at least once
4 before this was all over. And when I
5 returned to the office in October, I did so
6 just as in an advisory role, no longer as
7 president, no longer as CEO, no longer as
8 chairman of the board. And as a result of
9 my return, Mr. Fevola and Ms. Coonen
10 resigned the day of that I returned, and
11 Ms. Coonen changed her mind and stayed until
12 the end of the year. And frankly there was
13 -- she was the office manager and in a role
14 of leadership of the staff. And the board
15 had decided that she was going to be
16 president and chief compliance officer.

17 Q She meaning Amy?

18 A Amy Fuss, yes.

19 Q You indicated a minute ago that you came
20 back in an advisory role; is that correct?

21 A Yes.

22 Q Since Amy had no experience with respect to
23 investments or making financial decisions,
24 is it fair to say that you returned to

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25 provide her the advice that she then carried

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1 out?

2 A No.

3 Q So is it your testimony today that Amy Fuss,
4 independent without any guidance from you,
5 made all of the investment decisions that
6 took place at the end of 2008?

7 A There was no guidance from me.

8 Q None whatsoever?

9 A No.

10 Q How did she figure out what to do?

11 A Well, she had a staff, two guys, Don Swain
12 and Chad Morley, who had been working with
13 the funds for the last three, four years, so
14 they were very familiar with the
15 administration. And once the decision was
16 made to liquidate the funds, there were no
17 more investment decisions to make. It was a
18 matter of liquidating and administering.

19 Q So your testimony is that Amy consulted with
20 them but not with you?

21 A Yes.

22 Q What were you providing advice with respect
23 to then?

24 A It's primarily a client communication. I
25 wasn't giving -- I wasn't providing advice

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1 at the company. I was providing an outlet
2 for clients.

3 Q Isn't it true that you demanded payment from
4 the receiver for the services you were
5 providing Wealth Management?

6 A Yes.

7 Q But your testimony today is that you weren't
8 providing services to Wealth Management?

9 A Well, it was the position from my employment
10 contract that dictated the pay.

11 Q So you honestly think you were entitled to
12 be paid for that time period and yet you
13 were not supervising Amy Fuss making
14 investments, this person who had absolutely
15 by your own admission no training --

16 A Uh-huh.

17 Q -- to do so? And you think you're entitled
18 pay for that --

19 A Yes.

20 Q -- as you sit here today?

21 A Yes.

22 Q Why?

23 A That was a legal agreement that was drafted
24 between myself and the company.

25 Q Do you think it would be right for you to

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- 1 get paid for that?
- 2 A No.
- 3 Q My understanding is that there was a year
- 4 when you accepted a bonus, a year-end bonus
- 5 when Mr. Fevola did not; is that true?
- 6 A Yes.
- 7 Q Why did you accept it?
- 8 A That was the pattern. At the end of the
- 9 year, we would do an anticipation of the
- 10 profits for the company and identify
- 11 year-end bonuses and basically zero out the
- 12 profitability of the company and pay out
- 13 bonuses to the staff.
- 14 Q What year did you accept a bonus and
- 15 Mr. Fevola didn't?
- 16 A I believe it was the year end 2007.
- 17 Q Why didn't Mr. Fevola take a bonus that
- 18 year?
- 19 A I don't know.
- 20 Q Did you ask him?
- 21 A I asked him. What he told me was he just
- 22 didn't feel comfortable taking it.
- 23 Q Why?
- 24 A He didn't expound.
- 25 Q You didn't ask?

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1 A I did.

2 Q And what did he say?
3 A He said, I didn't feel comfortable taking
4 it.
5 Q And you said, why don't you feel
6 comfortable, right?
7 A I did.
8 Q And what did he say?
9 A I just don't want to take it.
10 Q And what did you think? Why would he not
11 take it? What was your conclusion from
12 that?
13 A At the time I don't quite know. Looking
14 back now, pretty clear why.
15 Q What did you think at the time?
16 A That he was being very judgmental of
17 himself, feeling he didn't do the job he was
18 supposed to be doing, and decided not to
19 take a bonus.
20 Q Did it occur to you that maybe he felt
21 guilty about taking kickbacks that weren't
22 being disclosed to the investors?
23 A Not at the time.
24 Q Did you take his bonus that year?
25 A No.

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1 Q What happened to it?
2 A Stayed in the company, I guess.
3 Q Well, what about zeroing out?

4 A Well, I would have to check the tax return.
5 That part evidently was not paid out.
6 Q Is it possible that you took his bonus in
7 addition to your own?
8 A No.
9 Q My understanding is that you read a prepared
10 statement at a meeting in June of 2008?
11 A Uh-huh.
12 Q Have you provided a copy of that statement
13 to the receiver?
14 A No.
15 Q Do you still have a copy of that statement?
16 A I don't know.
17 Q Well --
18 A I haven't seen it in two years.
19 Q Please look for it, and if you have a copy
20 of it, provide it because that would be
21 responsive to our discovery requests.
22 A Okay.
23 Q Did Wealth Management pay for purchases for
24 family members of yours?
25 A Yes.

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1 Q What purchases?
2 A There's times when my wife would travel with
3 me, and we would put the airline tickets on
4 the company credit card for ease of
5 transactions.

6 Q Did you personally reimburse the company for
7 those expenditures?

8 A Not directly. It was done indirectly.
9 Amy Fuss, as the office manager, would keep
10 track of these things and debit my -- either
11 my pay or my bonus or -- if I had
12 out-of-pocket expenses, she would debit it
13 against that.

14 Q Were records of those transactions kept
15 anywhere?

16 A It's my belief that they're in the
17 possession of the receiver, the Wealth
18 Management records.

19 Q When was the last time an airline ticket was
20 purchased in that manner?

21 A I don't know. It could have been 2007, but
22 that's a guess. It's not -- I don't know
23 what the actual date was.

24 Q What other purchases did Wealth Management
25 pay for that benefited you or anyone in your

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1 family?

2 A I can't think of anything.

3 Q Did Wealth Management pay for computers for
4 you or any member of your family?

5 A We had laptop computers that we took home,
6 but it was business computers.

7 Q Are those -- have those laptops been given
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8 back to Wealth Management?

9 A Yes.

10 Q Were those parts of the liquidation?

11 A Yes.

12 Q Were there any other purchases that Wealth
13 Management paid for for you or any other
14 family member that you can recall?

15 A Well, I had a company car that I used
16 personally.

17 Q Anything else?

18 A Not that I can recall.

19 (Exhibit marked for identification as
20 Exhibit 4.)

21 BY MS. APPLEBY:

22 Q Mr. Putman, I'm handing you what has been
23 marked as Exhibit 4. Do you recognize this
24 document?

25 A Yes.

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1 Q What is it?

2 A Transaction list by date for ACE,
3 Incorporated, January 1st through
4 November 6, 2007.

5 Q And when was this document created, do you
6 know?

7 A I believe it was in early 2008.

8 Q Who created the document?

9 A My wife did.

- 10 Q And what's ACE?
- 11 A ACE is an acronym for Amalgamated
12 Consolidated Enterprises, Incorporated, a
13 family entity that I created.
- 14 Q And by family entity, you mean the Putman
15 family?
- 16 A Correct.
- 17 Q And the Putman family members, would you
18 list them for me?
- 19 A Yes, Christine, Andrew, and Kathryn.
- 20 Q And Kathryn, does she sometimes go by Kate?
- 21 A Yes.
- 22 Q And for ACE, Inc., what were the percentages
23 of interest in that incorporation? Who had
24 what percentage of interest in it?
- 25 A Chris had 85 percent. James, Kathryn, and

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- 1 Andrew had 5 percent each.
- 2 Q Why was the -- why was ACE -- and I'll call
3 it ACE, and we'll all understand what I'm
4 talking about. Why was ACE structured with
5 -- in that way?
- 6 A It's -- as a family entity -- maybe others
7 in the industry can relate an FLP, a family
8 limited partnership, for estate planning
9 purposes. This wasn't a limited
10 partnership. It was a C corp with the idea
11 that -- I'm sorry, this was an

12 S corporation, not a C corp, an S
13 corporation with the idea that, as this
14 entity grew, we could gift units to our
15 children for estate planning purposes at a
16 discounted manner.

17 Q Was there some reason that your wife had a
18 greater interest in it than you?

19 A Trying to balance out the estates.

20 Q You had testified earlier that your wife had
21 a greater interest in Wealth Management than
22 you did; is that correct?

23 A Uh-huh.

24 Q And why was that?

25 A For estate planning purposes. The buy/sell

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1 agreement stipulated that upon my death the
2 company would buy back the units of the
3 company from me. I changed that so that the
4 buyback provision would provide half of that
5 value to Chris directly, and half would go
6 into a family trust, which then could be
7 managed for her benefit and then pass on to
8 the kids estate tax free.

9 Q What were -- tell me again -- and I know you
10 testified, and I just don't remember -- when
11 was ACE created?

12 A I can't give you an exact date, but I think
13 it was August of 2006.

14 Q In the documents that were produced, I
15 noticed documents that indicated that ACE
16 was dissolved in December of 2008. Am I
17 right in remembering that?

18 A Yes. I think that's correct.

19 Q So how is it that there's still income for
20 ACE into 2009?

21 A There was some accounts that I did not
22 either retitle or didn't close. I think
23 there was a bank account that I didn't
24 close, and there were some investments that
25 were generating the income, the Murvin &

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1 Meier and the Alma investments that were not
2 retitled. Therefore, I was issued a taxable
3 report for ACE when it really should have
4 been me personally.

5 Q What did you do to rectify that, if
6 anything?

7 A I changed -- had the titling change. I had
8 -- sent letters of direction and titling
9 change for those and eventually closed the
10 checking account.

11 Q What's the current status of ACE?

12 A It's nonexistent.

13 Q I want to turn your attention to Exhibit --
14 what's been marked as Exhibit 4, the
15 transaction list by date. And we put on the

16 record earlier that I don't have similar --
17 a similar document for the years 2006, 2008,
18 or 2009. And your testimony today is you're
19 not sure whether there is such a list?

20 A Correct. I will confirm that and respond
21 back to you as soon as possible.

22 Q Thank you. I would like to walk through
23 this one by one. I know it's a torturous
24 process, but it's got to be done. The first
25 entry indicates cash purchase. Do you see

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1 that?

2 A Yes.

3 Q It says, cash distribution to Jim. That
4 would be you; is that right?

5 A Correct.

6 Q For the payment of credit card balance on
7 2766?

8 A Correct.

9 Q What's credit card 2766?

10 A I don't remember which account that relates
11 directly to.

12 Q Is there any way to find out?

13 A Yes.

14 Q Would you find out, please?

15 A Yes.

16 Q Do you know whether that credit card would
17 be a business-related credit card or a

18 personal credit card?
19 A My belief is all these payments would be for
20 personal use, not business. Business you're
21 relating to Wealth Management, LLC?
22 Q Yes.
23 A Okay. Yes. I think these are all personal
24 or personal related to us, but I can confirm
25 that.

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1 Q Would you have the credit card statements
2 from this time period?
3 A I do have some, yes. And I'm -- again, 27
4 does not ring a bell with me right now. You
5 do have some on the disks that I gave you,
6 but I don't know if it's for this account or
7 not.
8 Q And those statements would show what that
9 \$1,919 was spent on; is that right?
10 A I would believe so.
11 Q And when you created the summary that you
12 testified about earlier -- you have since
13 given me a copy, and I thank you for that --
14 did you reconcile that summary against this
15 transaction list by date?
16 A No.
17 Q Why not?
18 A If we can refer back to it, again, I was
19 trying to move from a 30,000-foot view down

20 to the level where maybe we can start
21 getting to where I think you want to go. I
22 used just tax return information and also
23 the issues that would be sailing, which
24 would be, you know, after the money came in,
25 what did you do with it? And then, you

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1 know, what was your prior history of
2 contributing to retirement plans? So
3 somewhere between the \$810,000 over the five
4 years and where we are today would come into
5 play with what you're driving at now with
6 the ACE distributions. I did not break that
7 down.

8 Q And we'll mark that as an exhibit a little
9 bit later, but let's go back to Exhibit 4.
10 The next entry is a cash distribution,
11 again, to Jim for a different credit line.
12 Do you see that?

13 A Yes.

14 Q Do you recall what credit card that was for?

15 A I don't. That could relate to our -- either
16 our home equity line of credit, or it could
17 be a premier line of credit.

18 Q And then the third entry down is a different
19 credit card, 0068; do you see that?

20 A Yes.

21 Q And a 10,000 plus dollar payment was made to
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22 that credit card?
23 A Yes.
24 Q And then the fourth one down is yet another
25 credit card --

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1 A Yes.
2 Q -- 0315?
3 A Yes.
4 Q To the best of your recollection, are each
5 of these four credit accounts -- credit card
6 accounts, were you making payments here for
7 things -- personal use, items that were
8 charged as a matter of personal use?
9 A I would believe so.
10 Q Do you recall, as we sit here today, what
11 this 15 plus thousand -- I am not good at
12 math. That's why I went to law school --
13 more than \$15,000 in credit card expenses
14 went to pay for?
15 A No.
16 Q But the credit card receipts would show
17 that?
18 A Right.
19 Q Skip down to an entry for 1/16/07, if you
20 wouldn't mind, and that says, draws, Jim,
21 \$35,000. Do you know what you did with that
22 money?
23 A I am not following you.

24 Q It's an entry --
25 A Oh, date is 1/16/07. Got you.

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1 Q Yeah. Yeah.
2 A My belief on that would be -- if my memory
3 serves, that was a payment that went to my
4 personal checking account to pay for the
5 1977 Ferrari either directly or through the
6 line of credit.
7 (Exhibit marked for identification as
8 Exhibit 5.)

9 BY MS. APPLEBY:

10 Q I'm handing you what's been marked as
11 Exhibit 5 now, and do you recognize this
12 document?
13 A Yes.
14 Q This is titled the general ledger as of
15 December 31, 2007?
16 A Yes.
17 Q And I compared Exhibits 4 and 5. I compared
18 the documents that had been marked as
19 Exhibits 4 and 5 and was able to line up
20 many of the numbers that are listed.
21 A Okay.
22 Q Do you -- well, first off, let me ask, did
23 you create the general ledger for ACE?
24 A No.
25 Q Who did that?

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- 1 A My wife, Christine.
- 2 Q And, again, I don't have general ledgers for
3 any -- for 2006, 2008, or 2009, and you guys
4 are going to check to see whether they
5 exist. This document looks as though it may
6 have been created in February of 2008. Do
7 you see that on the top left-hand --
- 8 A Yes.
- 9 Q -- side?
- 10 A Yes.
- 11 Q Do you know whether it was created then?
- 12 A I believe it was.
- 13 Q But you didn't create it?
- 14 A No.
- 15 Q And that 10,000 -- I'm sorry, the \$35,000
16 entry for 1/16 of '07 --
- 17 A Uh-huh.
- 18 Q -- that's on the transaction list by date is
19 listed on the general ledger as a account
20 0026022, and, again, it just says \$35,000.
21 It doesn't say where that went. Is there
22 any record that would say where it went, I
23 mean what that was used to pay for?
- 24 A There has to be a record. I just -- I can't
25 think of where it would be or what the

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1 process would be to follow it back. I could
2 follow the 26022 account and identify which
3 account that was in and see where the money
4 went out the other end.

5 Q Okay. I guess I'm going to have to ask you
6 to do that. Because with the credit card
7 things, we could trace them from the credit
8 card invoices, but when you do a transfer or
9 what you've described on the transaction
10 list by date as a draw --

11 A Yes.

12 Q -- you know, unless you can go to that
13 account, I don't see another way of tracing
14 where the money went. And, in fact, I am
15 not -- and, again, we'll go back to this
16 later. I am not sure how you will have come
17 up with your spreadsheet with the numbers
18 that you put on that unless you went back to
19 the general ledger and the transaction list
20 by date and reconciled all that. It sounds
21 to me as though you haven't done that to
22 date.

23 A No.

24 Q The first entry that I see on the
25 transaction list by date that references

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1 Quad, is that short for Quadramus?
2 A Yes.
3 Q Okay. And the first entry I see on here for
4 that is 1/26 of '07?
5 A Yes.
6 Q And that entry is for \$65,000?
7 A \$60,000.
8 Q It looks like it's 65, income from Quad on
9 the transaction list by date.
10 A Yeah, if you go up four items to north of
11 there.
12 Q Oh, thank you. Sorry. I didn't see it.
13 Okay. And then a few entries later \$65,000.
14 That \$60,000 entry on 1/23/07 does not
15 represent the first payment that you
16 received from Quadramus, does it?
17 A No.
18 Q Isn't it true that the first payment you
19 received from Quadramus was somewhere back
20 in 2006?
21 A Yes.
22 Q Was Quadramus the only source of income for
23 ACE?
24 A Yes.
25 Q So when you created ACE in approximately

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1 August of 2006, it was with a check from

2 Quadramus?
3 A Or thereabouts, yeah. It went into a
4 checking account, yes.
5 Q Did you deposit any of the money that you
6 received from Quadramus into any other
7 accounts besides the ACE accounts?
8 A I don't believe so.
9 Q Would there be any way of confirming that?
10 A Yes. You can reconcile the US -- my US Bank
11 -- or excuse me, the ACE US Bank account,
12 US Bank checking account with the Quadramus
13 records.
14 Q Was there any time when money was deposited
15 from -- say you were issued a check from
16 Quadramus. Was there any time when you
17 deposited only part of it and took a chunk
18 out in cash?
19 A I can't remember that happening.
20 Q Who signed the checks before they were
21 deposited?
22 A Who signed the Quadramus checks before we
23 deposited?
24 Q Yes.
25 A Tom Riek.

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1 Q Did you obtain from Tom Riek any type of an
2 accounting for Quadramus?
3 A No.

- 4 Q Did you ever question how the kickbacks were
5 being divided --
- 6 A No.
- 7 Q -- between you all? Let's go back to the
8 transaction list by date. There's a \$60,000
9 deposit from Quadramus on 1/23 and then a
10 \$65,000 deposit on 1/26, a deposit on 1/30
11 of \$12,500, and a deposit on 2/27/07 for
12 \$100,000. Do you see all of those?
- 13 A Yes.
- 14 Q It interested me in reviewing this document
15 that there were so many deposits in such a
16 short time and yet they were broken down
17 into different checks. Is there any reason
18 for that?
- 19 A I am not aware of any.
- 20 Q Did it strike you as odd that there was this
21 sudden influx of payments from Quadramus?
- 22 A No.
- 23 Q Did you question it at all?
- 24 A No.
- 25 Q And then there's a break between February

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- 1 and April, but in April you received another
2 \$100,000?
- 3 A Correct.
- 4 Q And then in May you received another check.
5 In May it was for \$75,000?

6 A Yes.
7 Q The transaction list by date ends in May.
8 Do you see that?
9 A Yes.
10 Q And yet the title of the document is
11 January 1st to November 6, 2007. Is there
12 -- were there no other transactions from
13 June 1st through November 6th?
14 A I don't know. I'm assuming you would like
15 to know that.
16 Q Yes. I'm sorry. I would.
17 A I'll check that and get back to you.
18 Q Let's look at Exhibit 5. The general ledger
19 shows a number of transactions that occurred
20 after May 30th. Do you see that on Page 2?
21 A Yes.
22 Q I'm thinking that there may be a transaction
23 list by date from which this general ledger
24 was formed that accounts for transactions
25 that occurred after May 30, 2007. Looking

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1 at the general ledger, would you conclude
2 the same thing?
3 A Yes.
4 Q I'm afraid that I can't meaningfully
5 question you about this stuff without having
6 that documentation, but I will continue to
7 try.

- 8 A Okay.
- 9 Q Going to Exhibit 5, the general ledger,
10 there are numerous references on the general
11 ledger to a Charles Schwab account?
- 12 A Yes.
- 13 Q What was that?
- 14 A That was a brokerage account set up under
15 the name of ACE, the intention of investing
16 that money.
- 17 Q And what's the current status of that
18 account?
- 19 A It's closed.
- 20 Q When was it closed?
- 21 A I don't know. I can find out, but I just
22 don't know what it is.
- 23 Q Who closed it?
- 24 A I did.
- 25 Q Was it closed in conjunction with the

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- 1 dissolution of ACE?
- 2 A It was -- yeah, it would be. Yes, the
3 answer is yes.
- 4 Q There are also references on the general
5 ledger and for that matter on the
6 transaction list to payments that were made
7 to the IRS?
- 8 A Yes.
- 9 MR. MELNICK: I'm just going to be

10 talking to my folks for a second. Go ahead.

11 MS. APPLEBY: No. That's fine.

12 BY MS. APPLEBY:

13 Q What were those tax payments for?

14 A Usually they're for estimates, state and
15 federal estimates, as a result of the
16 taxable income generated by ACE.

17 Q So it was all -- the tax payments that were
18 paid out of the ACE accounts all related to
19 ACE -- income that was received by ACE?

20 A Correct.

21 Q They were not tax payments that were made on
22 other income that you received from Wealth
23 Management?

24 A No. The Wealth Management payments were
25 handled with a paycheck withholding.

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1 Q And then the franchise tax board payments,
2 they're nominal, but do those relate to ACE?

3 A Yes.

4 Q What's Stiles & Kreuzscher? Is that an
5 attorney?

6 A Yes.

7 Q The bankruptcy papers indicate that you
8 received \$175,000 loan from Stiles. Is that
9 the same Stiles?

10 A It was not a loan. It's a mortgage that he
11 put against our house for legal fees that he

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12 charged. I think it was \$20,000 to
13 \$175,000.
14 Q And is this the same Stiles that recommended
15 -- that provided representation when
16 Quadramus was set up?
17 A Yes.
18 Q And this is the same Stiles who individually
19 represented some of the Wealth Management
20 investors?
21 A Yes.
22 Q Was there ever any discussion of a possible
23 conflict of interest there?
24 A If there were conflicts, he would identify
25 them, but he -- he did not refuse doing work

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1 for me due to a conflict.
2 Q Do you know whether he obtained waivers from
3 any of the Wealth Management investors?
4 A I don't know.
5 Q Was that ever discussed?
6 A No.
7 Q The legal fees that were paid back on
8 Exhibit 5, the general ledger, to Stiles &
9 Kreuzcher -- am I saying that right?
10 A Kreuzcher.
11 Q Kreuzcher, sorry about that -- it looks like
12 \$875 was all. What was that paid for?
13 A For updates on the ACE documents. He

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14 drafted the documents for us.
15 Q Did he do any review of the, you know,
16 things like this, the general ledger or the
17 transaction list by date?
18 A No.
19 Q And your testimony is that he had no idea
20 where the money that was funding ACE was
21 coming from; is that right?
22 A Yeah, I am not familiar if he was aware or
23 not.
24 Q Page 3, there's a Mark Daniel ski ?
25 A Yes.

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1 Q Who's that?
2 A CPA.
3 Q And what was he paid to do?
4 A Paid to do the tax returns for ACE and our
5 personal tax returns, and also one of his
6 staff assisted my wife to draft -- to put
7 the ACE transactions and information on
8 QuickBooks.
9 Q Did your wife know where the money that was
10 funding ACE came from?
11 A Yes.
12 Q Did you discuss with your wife when Mr. Riek
13 first approached you in the fall of 2005
14 about the opportunity to share the finders'
15 fees?

- 16 A I don't think so.
- 17 Q Did you discuss it in April of 2006 when you
18 decided that you would accept them?
- 19 A Yes.
- 20 Q There's reference on the general ledger to
21 -- at Page 3 to Kate's account?
- 22 A Yes.
- 23 Q And that would be your daughter?
- 24 A Correct.
- 25 Q There's also reference to Zero to 60 Garage?

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- 1 A Correct.
- 2 Q And that was for the storage of a vehicle?
- 3 A Right.
- 4 Q And then there's reference to a host of
5 other accounts on the general ledger just as
6 there is on the transaction list. And you
7 would be able to find out what those
8 accounts are?
- 9 A Yes.
- 10 Q And if you would do that, I would appreciate
11 it.
- 12 A I will do that.
- 13 Q On Page 4 of the general ledger, there's a
14 listing for accumulated depreciation
15 totalling \$5,888.27. Do you see that?
- 16 A Yes.
- 17 Q Do you know how that was -- that number was

18 derived?
19 A I don't.
20 Q Would your wife know how that was derived?
21 A I don't think so. I think we would need to
22 contact the accounting firm to find out
23 where the number came from.
24 Q So did the accounting firm create this
25 document?

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1 A No. The accounting firm instructed my wife
2 how to do the input. They, in turn, used
3 the program to develop the documents to --
4 so they could make sense out of it all. It
5 is my belief my wife printed out the
6 documents. I am not sure that she created
7 the documents, but I'm sure she printed them
8 out from the program.
9 Q And then the organizational costs, \$1,960,
10 how was that number derived, do you know?
11 A I'm going to guess that that was the cost to
12 draft the corporate document, the legal
13 costs.
14 Q And maybe also the accounting firm charges?
15 A No. They didn't have a lot to do at first.
16 They were doing after-the-fact work.
17 Q And then you see the entry for Murvin &
18 Meier Oil?
19 A Yes.

- 20 Q So you had some credit coming from those
21 investments?
22 A Uh-huh.
23 Q Is that correct?
24 A Yes.
25 Q Am I reading that right?

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- 1 A Yes. Yes.
2 Q And that accounts for \$2,259.51?
3 A Correct.
4 Q And then you show credit from Quadramus in
5 the amount of \$285,005?
6 A Correct.
7 Q This is as of December 31, 2007. My
8 understanding was that your take from
9 Quadramus in 2007 -- at least testimony has
10 said that it was more in the vicinity of
11 \$800,000 for that year; is that right?
12 A Yes.
13 Q So I don't understand the \$285,000 here.
14 What am I missing?
15 A Well, it could be this is for a quarter.
16 Because if you look at the deposits 9, 10,
17 and 12, it's for three months. Maybe the
18 other nine months may not be on here.
19 Q And yet the first three pages of this record
20 deal -- I mean the US Bank numbers begin at
21 1 of 2007 and end at 12 of 2007.

22 A Yeah.
23 Q All right. So you're thinking that that may
24 just be the quarter for that?
25 A Yeah. If you look at Page 8 under credits

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1 -- I don't admit to being an accountant
2 either, far from it -- but there there's
3 credits of \$702,500.
4 Q Okay. For the whole year.
5 A That goes through August, so maybe we take
6 the two and add them together, seven oh two
7 and two eighty-five nine, eighty-seven and
8 change.
9 Q No, 90.
10 MR. LIEBZEIT: 987.
11 MS. APPLEBY: 987.
12 BY MS. APPLEBY:
13 Q So close to a million dollars?
14 A Yes.
15 Q Okay. So for '07 it may be that you were
16 paid out by Quadramus more like a million
17 dollars than \$800,000?
18 A It could have been the timing, too,
19 depending on when checks were in and when
20 they were accounted for, so yes.
21 Q On Page 5 there's a category that shows
22 draws -- well, let's go back up to the top.
23 Note payable, Jim Putman. What is that for?

24 A I don't know.

25 Q Then there's draws Christine totalling

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1 \$37,206. Do you see that?

2 A I do.

3 Q What was that money spent on?

4 A I don't know.

5 Q Is there any way to know?

6 A I don't know if this was an actual procedure
7 or an accounting technique. I wasn't
8 involved with this part.

9 Q Who would I ask who would know?

10 A Most likely Jane Vander Loop at -- well,
11 it's now Brian Batley's office. Mark
12 Danielski is retired, so I think Jane is
13 still employed there. She helped Chris
14 develop this.

15 Q Then there's draws Andrew, and those total
16 \$7,331. Andrew is your son?

17 A Well, that's the balance. The amount was
18 \$3,200.

19 Q I see. I'm sorry about that.

20 A That's our son, yes.

21 Q And that's your son. Do you know what that
22 money was spent on?

23 A Living expenses. He most likely used them
24 for school loans.

25 Q The next category is draws ABC Kat trust

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- 1 No. 1?
- 2 A We set up -- our daughter at the time was
3 not interested in things of financial
4 nature, so we set up a trust for her
5 benefit. And we were going to make deposits
6 into that account for her.
- 7 Q Were any deposits -- looking at this ledger,
8 can you see that any deposits were made?
- 9 A I don't think so. It doesn't show from the
10 ledger, even on Page 7. It's just capital
11 stock values.
- 12 Q Right. Okay.
- 13 A So . . .
- 14 Q And then we get draws Jim, and following
15 that column -- those columns down to Page 6,
16 it shows that you drew \$766,472.09 from ACE
17 during -- from January of 2007 to 11 of
18 2007; is that right?
- 19 A Yes.
- 20 Q Does the summary that you provided me today
21 explain where that \$766,472.09 was spent?
22 We may as well mark this as an exhibit now.
- 23 A To my best accounting ability, yes. Because
24 I have taxes paid of \$486,000 and
25 investments made of three seventy-one, which

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1 is \$850,000 or -- about \$850,000. So that
2 would be -- that would encompass that seven
3 eighty-eight.

4 (Exhibit marked for identification as
5 Exhibit 6.)

6 BY MS. APPLEBY:

7 Q We've spoken earlier on the record about a
8 summary that you drafted, and we've now
9 marked that summary as Exhibit 6. And you
10 provided this to me at the lunch break.
11 Could you please walk me through what this
12 shows?

13 A Yes. Again, this is not a perfect
14 accounting of --

15 MS. PUTMAN: You can keep that in
16 there? Excuse me, can I talk?

17 MS. APPLEBY: Off the record.

18 (Discussion off the record.)

19 THE WITNESS: The -- my attempt here
20 was to take 2,000 pages and try to boil it
21 down to something that could be discussed.
22 So what I took was tax returns from 2006,
23 '7, '8, '9 and basically took the earned
24 income as the top line; interest, dividends,
25 and other earnings, Line 2; Schedule E,

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1 which would be the Quadramus income for
2 2006, '7, and '8. There was none in 2009.
3 Let me go back to the first page.

4 MR. LIEBZEIT: Can I ask you, does
5 the earned income, would that be W-2 income?

6 THE WITNESS: Yes. It would be, yes.
7 So salary and bonus 2006, '7 would be salary
8 only and 2008 for a partial year. Again,
9 partial year for 2009 through May. And in
10 2010 the combined earnings of my wife and I
11 through August I think was the time period
12 in question, so interest, dividends,
13 et cetera, the other earnings. 2010 there
14 has been done. It's varied from 2006 to
15 2009. Schedule E the Quadramus payments
16 ended in 2008 and no more after that. Asset
17 sales, these are sources of revenue from
18 selling of assets because our income
19 dropped. We sold off assets to supplement
20 our income. And then tax refunds from prior
21 years, in some cases it's taxable.
22 Sometimes it's not. However, I wanted to
23 list that because that was a source of
24 revenue. So from 2005 we had a refund that
25 was paid in 2006 of \$14,656. The 2006 IRS

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1 overpayment that was refunded in 2007 was
2 \$85,925. There was nothing in 2008. We

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3 actually paid in \$16,000 of a shortfall. In
4 2009 the \$114,493 is a combination of IRS
5 refunds from 2008 due to tax losses
6 generated by Wealth Management, LLC. Also,
7 there's a payment of slightly over \$60,000
8 for tax years prior to 2008 with tax -- or
9 the business losses carried rearward and
10 also a state income tax refund was shown on
11 the line below. But this is \$114,000 of
12 federal tax refunds that we received as the
13 form of two checks. And those were
14 deposited in my wife's AnchorBank account.
15 Next line, Wisconsin Department of Revenue,
16 we got a refund in 2006 from 2005 of \$2,903,
17 \$18,379 in 2007, \$37,556 from -- in 2008
18 from 2007, and then the \$14,000 2009
19 Wisconsin refund was as a result of losses
20 in 2008. And in 2010 we received --
21 actually, it was automatically deposited in
22 my wife's checking account of \$5,432, which
23 was the refund from 2009. There's also a
24 \$14,849 IRS refund from 2009 that we did not
25 receive.

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1 BY MS. APPLEBY:

2 Q Why didn't you receive it?

3 A We just assumed the receivership took

4 precedence over this and someone rerouted it

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5 from the IRS. I don't know. So far through
6 August for the five years, 2.4 million --
7 \$2,453,330 in income. Then we had two
8 sources of taxes. We had the estimates and
9 the withholding. In 2006 we had \$210,000 of
10 estimated payments to the IRS, \$42,000 to
11 Wisconsin. In 2007 we had estimates of
12 \$253,560 and Wisconsin of \$83,000. And then
13 from overpayment in 2006, we applied \$58,560
14 to the IRS for 2007, \$10,050 in 2007 for
15 Wisconsin. And then actually in 2008 we
16 paid in \$16,775 on the shortfall from taxes
17 due in 2007. And in 2009 we had -- there
18 was no estimates paid. As far as
19 withholding, these pretty much relate to
20 salary and any bonuses. The IRS \$59,344 in
21 2006, Wisconsin \$15,944, in 2007 \$62,909 for
22 Fed, \$18,819 for the state, in 2008 \$54,556,
23 for Feds, \$14,713 for state, in 2009 \$14,849
24 was paid in, \$5,432 -- \$14,849 was paid in
25 to the Feds, \$5,432 paid into the state,

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1 which relates to the purple off to the
2 right. That was the refunds we either
3 received directly or are receiving
4 indirectly. So add up the taxes paid,
5 \$920,511 so far. There's been minimal
6 taxes. In 2010 I didn't add those in yet.

7 The investments made relate to the
8 attachment that I put in the binder.
9 \$85,500 is what was paid out in 2006 for the
10 1986 Mercedes Benz 560SL, the
11 Harley-Davidson 2000 motorcycle, the
12 investment in the Alma Boomhower A No. 1 oil
13 well for \$17,500, and initial price for the
14 1977 Ferrari of \$35,000. In 2007 there were
15 investments of \$371,961.48. There was work
16 done on the Harley-Davidson motorcycle in
17 2007 as well with the Ferrari was being
18 restored, Murvin & Meier, made the
19 investment in the -- their gas well
20 investments. \$50,000 in the Wealth
21 Management Quetzal Partners investment. The
22 127 motorcycle was a custom-made motorcycle
23 that needed a lot of work. ACE Garage,
24 Limited, wheels for hire, the \$10,000, ACE
25 Garage Limited was created to own these

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1 vehicles and provide usage to Wealth
2 Management clients when they visited from
3 out of town or clients in town who wanted to
4 either use a motorcycle or a sports car.
5 Investment in the Alma Calvin Dumler No. 2
6 well of \$40,000. \$33,348.70 was a down
7 payment on a house in Alabama for my father.
8 \$150,000 was in the WML Pantera fund.

James Putman.txt

9 \$16,000 for a 1982 911 Porsche, so that
10 totals to \$371,961. In 2008 72,255.17 was
11 invested. There's additional monies paid
12 into the Ferrari restoration, more work done
13 the
14 127 motorcycle. We were paying for the
15 mortgage payment and the taxes and the
16 insurance on the Alabama house. And then
17 \$50,000 was put into an account for 205
18 Milwaukee, LLC. That was for the purchase
19 of an empty grocery store building in
20 Menasha that was going to house the
21 automobile collection and be used for rental
22 purposes for other people who have similar
23 needs. So that was the \$72,255.17. In 2009
24 we maintained the payments on the Alabama
25 house. My income was terminated as of May

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1 of that year. We maintain \$14,480 into the
2 205 Milwaukee to maintain the building, and
3 then at the end of the year, we put \$12,000
4 into the AnchorBank IRAs, \$6,000 for me and
5 \$6,000 for my wife. That was a total of
6 \$31,759.42. In 2010 we had \$30,000 of
7 investments. \$18,000 was invested in a
8 annuity, and \$12,000 was invested in IRAs
9 for 2000 -- tax year 2010, \$6,000 for myself
10 and \$6,000 for my wife. Legal and

11 accounting fees, 2008, legal fees of
12 \$35,742.50, in 2009 \$66,568.56, and so far
13 in 2010 \$7,527 for a total of \$109,838.89.
14 We donated some money to charity in 2007 of
15 9,005 dollars -- or 50 dollars. So if you
16 add up all the outflows, we've got \$412,000
17 in 2006, \$867,000 in 2007, a hundred and
18 ninety-four forty-one -- \$194,041.67 in
19 2008, \$130,608.98 in 2009, and then
20 \$37,527.83 in 2010. So when you add up the
21 net one to the other, there should be
22 \$810,000 of assets -- or income, I should
23 say, over the five years due to the lack of
24 ability to support mortgage payments and the
25 need to sell assets. And this is where the

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1 \$528,673 comes up on the asset disposition
2 list. Over this time we sold the two
3 Mercedes, the Harley-Davidson Softail, the
4 2000 Harley-Davidson motorcycle, Alma
5 Boomhower A No. 1, 1977 Ferrari, the Murvin
6 & Meier investments. The Quetzal investment
7 was -- it was identified or indicated by the
8 receiver that I would not receive
9 distributions or participation in any
10 distributions from Quetzal. The 127
11 motorcycle, ended up selling it for a
12 thousand dollars. It had a cracked frame.

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13 It was leaking oil. It was not the best
14 built thing I've ever owned. ACE Garage
15 Wheels, that money was dissipated in
16 maintaining the automobiles and the
17 insurances. The Calvin Duml er well is doing
18 quite well, but I was -- the most I could
19 sell that for was \$6,000. The Alabama house
20 was foreclosed upon. The Pantera fund, also
21 per receiver I will not be receiving
22 distributions. The Porsche was sold for
23 \$7,500. 205 Milwaukee, all the money in the
24 account was dissipated, and the building was
25 foreclosed upon. And then the \$12,000, my

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1 wife IRAs, and there was \$18,000 in cash in
2 the AnchorBank checking account were both
3 taken over by Winnebago County's -- I am not
4 sure exactly.

5 MR. ENGL: If I can add, it was
6 intercepted pursuant to a garnishment
7 proceeding, and it's presently being held by
8 the clerk of courts as we resolve these
9 exemption issues.

10 THE WITNESS: Thank you. And
11 additionally, per the receiver's direction,
12 I will not receive any benefit from my
13 investment in WML Watchstone fund and my IRA
14 rollover. And of course the latest value on

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15 the Wealth Management units at the end of
16 2008 was -- my portion was a million eight,
17 so -- and one other thing. At the bottom I
18 think Mr. Liebszeit had a question about my
19 history of contributions to retirement
20 plans, 2006 contributed \$22,144. In 2007 it
21 was \$20,869. In 2008 for a partial year it
22 was \$3,850.

23 (Exhibits marked for identification
24 as Exhibits 7 and 8.)

25 BY MS. APPLEBY:

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1 Q Mr. Putman, thank you for the explanation of
2 the summary chart you provided showing cash
3 inflows and cash outflows, which we have
4 marked as Exhibit 6. During that
5 explanation, you've referred to two other
6 documents that I have now had marked as
7 Exhibit 7 and Exhibit 8. Exhibit 7 is
8 titled Asset Dispositions, and this shows
9 what happened to things like the Softail and
10 the motorcycle, the Murvin & Meier
11 investment. This is your accounting of what
12 happened to those assets. And then
13 Exhibit 8 is titled Investments. And it
14 shows 1997, 2005, 2006, 2007, 2008, 2009,
15 and 2010. And your explanation of the
16 spreadsheet relating to cash inflows and

17 cash outflows relies upon the numbers that
18 are in these other two documents; is that
19 correct?

20 A Yes.

21 Q I would like to draw your attention back to
22 Exhibit 6. I have a couple more questions
23 about what you've done here. There's a
24 column -- not a column, a row four from the
25 bottom that shows net. Do you see that?

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1 A Yes.

2 Q So in 2006, according to this document, you
3 netted \$85,199?

4 A From these numbers, yes.

5 Q In 2007 you netted \$423,681; is that
6 correct?

7 A Yes.

8 Q And then in 2008 you netted \$141,970?

9 A Yes.

10 Q And isn't it true that in each of those
11 three years part of that net came from
12 kickbacks?

13 A Kickbacks from the Quadramus distributions,
14 yes.

15 Q And those were kickbacks. I mean way back
16 when Mr. Melnick was deposing you this
17 morning, he described the insurance brokers
18 as having received kickbacks that were then

19 parceled out a portion of them to Mr. Riek
20 and then parceled out to you. And you
21 didn't dispute that description?

22 A I didn't dispute the transaction. The
23 description I'll dispute.

24 Q Now you'll dispute it?

25 A Yes.

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1 Q But you didn't all morning?

2 A Well, no. You didn't ask me to. Now you're
3 giving me the opportunity. A kickback is
4 something you take payment in for an action
5 to be taken in the future. The investments
6 made in Baetis and Brown were made two years
7 before the cash flow started.

8 Q So that's the basis for your objecting to
9 the use of that term in the receivership?

10 A Yes.

11 Q Good to know. So these three years, there's
12 a substantial amount of money that, as far
13 as I can tell, isn't accounted for --

14 A Uh-huh.

15 Q -- in the documentation that you've produced
16 to me?

17 A Right.

18 Q What happened to that money, and where is
19 the documentation?

20 A Well, didn't -- it's not here. I mean this

21 is a high level summary. There's living
22 expenses. There's mortgage payments.
23 There's college expenses. There's a lot of
24 costs that aren't showing up here.
25 Q So let's just take 2007. That \$423,681,

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1 it's all gone, and it only went to living
2 expenses and college expenses?
3 A I don't have the files and the details in
4 front of me.
5 Q I have asked you to produce those files.
6 That was the purpose of today's deposition.
7 You knew that was the purpose of today's
8 deposition. But it's not here?
9 A It is. You have it. You have all the
10 documents for all the checkbooks, all the
11 distributions, all the bank records. What I
12 was trying to do was simplify things. And
13 this -- I mean I got to this point. But
14 from the \$810,000 down, I haven't got that
15 far.
16 Q Okay. And, you know, it looks to me kind of
17 like this spreadsheet was produced in such a
18 way to highlight the fact that you are a
19 \$528,000 -- allegedly \$528,000 in the hole.
20 But you're still not accounting for three
21 years where you got the kickbacks or the
22 finders' fees, as you'll describe them, and

23 what happened to that money. And that's
24 really what we're interested in.

25 A Well, and when you look at the number,

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1 there's no net. It's just here's the
2 investment losses. You know, we're not in
3 the hole. If you do your math, it doesn't
4 work out.

5 Q Well, sure, if you do your math on the way
6 right-hand corner. But I'll tell you in
7 2007 you folks were not hurting, were you?

8 A Not at all.

9 Q So where is that \$423,000? If I go through
10 the US Bank records, am I going to be able
11 to tell what you spent it on?

12 A Well, and this is why I summarized this top
13 copy -- report here. I mean I don't know
14 that there's a question regarding my salary,
15 my living expenses from my salary and bonus.
16 You're concerned about the Quadramus and
17 what happened to the million dollars.

18 Q I'm concerned in 2006, 2007, 2008 when you
19 received kickbacks with knowing what
20 happened to that money. I want you to know
21 I am not taking at face value this summary
22 at all. I'll go back and dig through the
23 records and make sure it's accurate. But if
24 I were to take it at face value, I see in

25 2006, 2007, and 2008 well over half a

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1 million dollars, and I want to know what
2 happened to it. How will I figure that out?
3 You've given me --

4 A You can go through the records, the 2,000
5 ones I gave you and figure it out.

6 Q And, yeah, you were so helpful in putting
7 together this summary knowing that we were
8 going to be sitting here today and I was
9 going to be asking you where the money went.
10 And we're sitting here, and you still can't
11 tell me.

12 A Well, I think I told you quite a bit.

13 Q Yeah, you told me where the taxes went, and
14 you framed it all in such a way that, you
15 know, in red letters down at the bottom
16 you're at a deficit. And, yet, you don't
17 account for these years. You account for a
18 fraction of the money on this asset
19 dispositions, but not even that adds up.

20 A Well, and if you look at it from a total --
21 and, again, if you look at it from red out
22 and black in, it says black in is two four
23 five three, and red out is sixteen
24 forty-two.

25 Q And where are you pointing?

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- 1 A To the right-hand column. \$810,454.04,
2 that's a positive number. The investment
3 losses on the bottom, the \$528,000, that's
4 just a factual number. So in any other
5 context, you know, add it up and subtract,
6 if you take the eight ten and divide it by
7 five years, you know, that's -- what would
8 that be -- \$180,000 a year.
- 9 Q I don't know. But your point is?
- 10 A My point is, there's a lot of people that
11 spend that every year.
- 12 Q Right. But not everybody gets the money in
13 a way that causes them to come under
14 investigation by the FCC.
- 15 A True.
- 16 Q And you're now under investigation, and you
17 now have to account for how you spent that
18 money. That's why we're here today.
- 19 A Well, I did this to be helpful.
- 20 Q I appreciate that.
- 21 A The other things you asked for I gave you.
22 You didn't ask for this. I'm trying to get
23 us forward, so we can answer your questions.
24 And the answer to your question is I haven't
25 done that. I haven't gone through every

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1 year to see where did the 85 go and where
2 the 423 go and where did the 141 go. I
3 haven't done it.

4 Q Okay. And how will I do that? Through the
5 US Bank records, is that where I'll find it?

6 A Yes. I mean that's where all the cash
7 flows, inflows, and outflow, all the US Bank
8 accounts, the Schwabs.

9 Q Except there are all these credit cards
10 listed, I don't think I have those accounts.
11 Are they all in there? Okay. So we'll --

12 A Any information we've got for --

13 Q So we'll save that for the next deposition
14 day, and we'll go through each of those.

15 A Okay. If that's what you would like, yes.

16 MR. ENGL: Just to be fair, I mean
17 we're talking about a three-week period
18 where we've been trying to assemble all this
19 throwing in a holiday, a long weekend, so
20 we've done our best.

21 MS. APPLEBY: Sure. And to be fair,
22 we scheduled this deposition essentially at
23 the witness's convenience. I didn't ask for
24 it to be on December 1st, not ever.

25 MR. ENGL: I understand that. But

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1 we're dealing with short time periods with
2 the bankruptcy code. I didn't draft the
3 bankruptcy code.

4 MS. APPLEBY: Sure. Sure.

5 BY MS. APPLEBY:

6 Q So as we sit here today, the best that
7 you're able to do with these net amounts is
8 to tell me that if I dig through the US Bank
9 records I'll be able to figure out where
10 those -- that money went? And I will take
11 the time to do that.

12 A That's all it was is a head nod. I don't
13 know how to react to that. I don't think I
14 need to react to your plan to go through the
15 records.

16 Q And you're going to figure out whether
17 there's general ledgers for 2006, 2008, and
18 2009 and provide those in native format?

19 A Now, you've got to explain native format.

20 Q I'll be happy to explain that to your lawyer
21 after the deposition. There's no point in
22 paying for the record of that. And you're
23 going to do the same thing for the
24 transaction list?

25 A Right.

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1 MR. ENGL: I guess I want to add, too
2 -- we can talk about it -- to the extent

3 that we're able to provide that, we
4 certainly will. I am not a computer expert
5 either. I don't know if that can be
6 produced easily or not.

7 MS. APPLEBY: Sure. Fair enough.

8 THE WITNESS: If you could send me --
9 if you could have someone send me a
10 directive via e-mail, I can figure it out
11 from there, and I'll test it with someone in
12 your office, if you would like.

13 MS. APPLEBY: Okay. That sounds
14 good. I think I am at the limit of my
15 questions without turning out more time.

16 MR. ENGL: Can we take a short --
17 unless somebody has something quickly, can
18 we can take another short bathroom break?

19 MS. APPLEBY: Sure.

20 (Recess was taken.)

21 MR. ENGL: In your document request
22 you didn't ask for it in such a way as how
23 you phrased it today, correct, in terms of
24 preserving the metadata in a format that --
25 I just want to be clear. Because I got the

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1 impression that there was -- you thought
2 that we were somehow not providing it in a
3 manner that had been requested.

4 MS. APPLEBY: No. And I did not mean

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5 to indicate that. It's just that what I
6 have received now is strange enough that I
7 would like to see the metadata. Because it
8 seems odd to me there would be file folders
9 for '06, '08, and '09 that are empty.
10 Whereas, the '07 is occupied. It may be --
11 you know, it may be the case. But I just --
12 I would like to be able to verify when the
13 documents were made.

14 MR. ENGL: Sure. We can do that.

15 MS. APPLEBY: But I did not in any
16 way mean to indicate that the form of the
17 production was improper. Just a couple of
18 follow-up questions.

19 BY MS. APPLEBY:

20 Q I noticed in some testimony that -- I think
21 it was in testimony that Jeff Keller was
22 given a 3 million dollar line of credit from
23 Quadramus. Jeff Keller is an insurance
24 agent; is that right?

25 A As I understand, yes.

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1 Q Why was he given a 3 million dollar line of
2 credit?

3 A I don't know.

4 Q Were you aware of it?

5 A No.

6 Q When did you become aware of it?

- 7 A Just now.
- 8 Q And isn't it true that in '07 you estimated
- 9 that Quadramus might generate as much as
- 10 3 to 6 million dollars per year?
- 11 A I don't remember that.
- 12 Q Did you think that back then?
- 13 A I don't remember.
- 14 Q Did the members of Quadramus all get fancy
- 15 watches?
- 16 A Yes.
- 17 Q Did their spouses?
- 18 A Yes.
- 19 Q What happened to those watches?
- 20 A I don't know what they did with them.
- 21 Q Do you have them?
- 22 A I do.
- 23 Q You have yours?
- 24 A Uh-huh.
- 25 Q And your wife has hers?

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- 1 A Yes.
- 2 Q And were there any other gifts of that
- 3 nature or any other expensive gifts from
- 4 Quadramus?
- 5 A I can't remember any.
- 6 Q So no cars? No -- I don't know what other
- 7 fancy sort of things there might be. You
- 8 don't remember any other gifts in addition

9 to the money that you've received from
10 Quadramus?

11 A No.

12 MS. APPLEBY: All right. That's all
13 I have for today. And as far as going
14 forward, what I would like to request is a
15 week to ten days to get through this
16 documentation and try and reconcile it from
17 the date when the Putmans are able to
18 confirm whether or not there's general
19 ledgers for the other years and
20 transactional reports for the other years
21 and produce those in addition to the other
22 documentation that I've requested today.

23 MR. ENGL: I think I've got a list.
24 Could you follow up with a short e-mail or
25 something --

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1 MS. APPLEBY: Absolutely.

2 MR. ENGL: -- just to confirm I have
3 got everything.

4 MS. APPLEBY: Yes. I would be happy
5 to do so.

6 MR. ENGL: Thanks.

7 MS. APPLEBY: And, of course, you
8 know, if there's an objection to any of
9 those requests, you know, I understand that
10 that objection has not been waived by the

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11 cooperative attitude that's being exhibited
12 today.

13 MS. PUTMAN: May I say something off
14 record?

15 MS. APPLEBY: Sure.
16 (Discussion off the record.)

17 EXAMINATION

18 BY MR. LIEBZEIT:

19 Q What kind of watches are we talking about?

20 A Movado.

21 Q Value?

22 A \$400.

23 Q Would that be new, or would that be now?

24 A That would be now.

25 Q How about new?

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1 A New they are I think about a thousand.

2 Q Are they engraved in any way?

3 A I don't think so.

4 Q I want to go back to a couple of things that
5 were touched on earlier. Attorney Stiles,
6 was there a conflict letter with Wealth
7 Management that was signed by Wealth
8 Management?

9 A I don't remember that.

10 Q At any time do you recall a conflict letter
11 that was -- for any of Wealth Management's
12 issues with Attorney Stiles?

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13 A You know, there may have been, but I wasn't
14 aware of any.

15 Q Were the people that invest in Wealth
16 Management and then ended up having
17 Mr. Stiles do some estate planning, were
18 they typically clients of Mr. Stiles to
19 start with?

20 A No. They were clients of Wealth Management.

21 Q And then they would be referred to him?

22 A Yes.

23 Q Were there other referrals that were given
24 other than -- strike that. When such a
25 client would come up, would there be a list

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1 of attorneys that Wealth Management would
2 give to that client to say go to, or was it
3 just to Mr. Stiles?

4 A It's usually two to three attorneys. We
5 would typically ask the clients to describe
6 what kind of attorney they wanted, he or
7 she, old or young.

8 Q Did Wealth Management pay any of the fees of
9 those estate planners?

10 A No.

11 Q Did it get anything back from those?

12 A No.

13 Q It appears from your earlier testimony that
14 you were somewhat ambivalent with regard to

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15 this company as far as the management of it
16 and what the values and things going on in
17 the company, that that was the
18 responsibility of Simone or someone else?

19 A I was. Again, going back to my comment
20 earlier, about 2005 Simone approached me and
21 made an inference that he wanted to buy the
22 company and see me retire.

23 Q My --

24 A Can I finish?

25 Q Sure. You may finish.

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1 A Because there's more to it. There's some
2 logic to this. And I said I would consider
3 retirement and him buying the company as
4 long as Amy Fuss and Lori Coonen were part
5 of the buyout deal. And if that was the
6 case, then I want to make sure that they can
7 show me that they can run the company while
8 I'm still employed. And so at that point in
9 time, Simone was to be the president in
10 addition to chief compliance officer and --
11 excuse me, chief investment officer and
12 president. And his responsibility was to
13 manage the funds and run the day-to-day
14 operations of the business.

15 Q Correct me if I'm wrong, but my
16 understanding was at least at one point your

17 family owned roughly 61 percent of the
18 company?
19 A Yes.
20 Q What percentage of your assets would you say
21 were tied up -- the family assets tied up in
22 Wealth Management?
23 A Well, at least 60 percent if not
24 90 percent.
25 Q And even with all of that on the line, you

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1 just were letting someone else make all of
2 those decisions and weren't checking any of
3 that stuff out?
4 A We got monthly financial statements on the
5 operation of the firm. There were executive
6 committee meetings that Ms. Fuss and Coonen
7 and Simone would hold. We would get monthly
8 financial reports, which, you know, I was
9 able to read and access. In addition, we
10 had a fairly active board of managers, and
11 we would have our board meetings, give a
12 consolidated report to them. And during the
13 process, I was informed of the actions and
14 the values and what was occurring. So
15 ambivalent is maybe not an accurate term,
16 but, you know, delegating the duties with
17 reporting is what I got.
18 Q How much do you expect to earn in wages this

19 year?
20 A It's pretty close to the end of the year.
21 I'm saying \$5,000 to \$6,000.
22 Q How about your wife?
23 A \$3,000 to \$4,000.
24 Q Now, looking at what has been marked as
25 Exhibit 6, which is the long sheet, way down

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1 at the bottom there are annual retirement
2 contributions pretax in 2006 it appears of a
3 tad over \$22,000?
4 A Yes.
5 Q And that would be what?
6 A That was in a Simple IRA that the company
7 had.
8 Q And then in 2007 just a tad under \$21,000?
9 A That was -- if I remember right, it's a
10 combination of a simple that was terminated.
11 We started a 401(k), and that's what carried
12 over into 2008.
13 Q And in 2008 approximately \$3,800 was put in?
14 A Yes.
15 Q Nothing was put in in 2009 until the \$12,000
16 toward the end of the year?
17 A Correct.
18 Q And that would have been in December of '09?
19 A Correct.
20 Q And nothing was put in in 2010 except for

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21 the \$12,000, which was put in, if I recall,
22 in January?
23 A Right. Right.
24 Q And there was an annuity that was started?
25 A Correct.

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1 Q Did you have any annuities, or did your wife
2 have any annuities prior to the one that was
3 started in 2010?
4 A No.
5 Q The amount that was made to the retirement
6 contributions in 2007 when you netted before
7 taxes almost 1.3 million dollars and you put
8 in less than \$21,000, was that the cap that
9 you could put in that year?
10 A That was the cap based on the employee
11 records and the limit on the deferrals on
12 earned income.
13 Q And 2008 when you netted before taxes about
14 \$336,000 and you put in \$3,800, was that the
15 cap you could put in?
16 A No. No. My -- as I mentioned earlier, I
17 was barred from the company as of June, so I
18 have half year's of earnings. It was
19 reduced from June to October, reestablished
20 toward the end of the year, and if I
21 remember right, around June I had terminated
22 my participation in the plan.

23 Q The house in Alabama is totally foreclosed
24 on at this time?
25 A Yes.

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1 Q And the 205 Milwaukee LLC is totally
2 foreclosed on?
3 A Yes.
4 Q So it would be fair to say that on the
5 Alabama matter, you received nothing back?
6 A Correct.
7 Q Did Mr. Stiles receive anything out of that
8 process?
9 A Not out of the process. He was paid for --
10 he wasn't paid. One of his partners was
11 paid to draft an LLC document that the house
12 was going to be titled in -- it was going to
13 be transferred into, but we never did it.
14 There was some issues with the lender and
15 the -- it was just way too complicated, so
16 we just basically did nothing with the LLC
17 document and kept the Alabama house in my
18 name.
19 Q So you owe him about how much at this time?
20 A About \$20,000.
21 Q Does he have a lien on your residence?
22 A Yes.
23 Q And is that mortgage for an antecedent debt
24 or debt that was already there or was it for

25 a new debt?

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- 1 A It was for legal fees. There was many
2 things he was helping me with once the FCC
3 filed their claim and -- or filed their
4 complaint, I should say. And there were
5 certain things he was helping me research.
6 There's a lot of time he was spending to the
7 extent that he could on the issues with the
8 FCC and eventually with the receiver.
- 9 Q ACE, Inc., was dissolved in December of
10 2008?
- 11 A Correct.
- 12 Q And you closed some of the -- you closed the
13 final accounts up in 2009?
- 14 A Yes.
- 15 Q My recollection, without digging through the
16 documents, is that there was in excess of
17 \$20,000 in an account at Schwab at that
18 time?
- 19 A There might have been. I can't confirm
20 that.
- 21 Q Do you know where the money from that -- the
22 closing of that account would have gone?
- 23 A Not at this time. I could find out, but I
24 don't know at this point.
- 25 Q It would appear from the documents that you

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1 provided that there was a money market of
2 about \$27,000 that was still there in the
3 first quarter of 2009. Can you provide that
4 information for your attorney, please, as to
5 where that money would have gone?

6 A I will, yes. Yes.

7 Q Thank you.

8 A You don't mean right now?

9 Q Oh, not right now. I assume that you don't
10 know right now. If I'm wrong with that,
11 just let me know. You provided a document
12 that's fairly lengthy, and I didn't make a
13 copy of it. And I don't think you have a
14 copy of it with you right now. But it looks
15 like it was a document that was made at the
16 request of the FCC --

17 A Yes.

18 Q -- for a statement of financial condition.
19 And it looks like it's a set of assets and
20 liabilities as of the 31st of May of 2009.
21 Do you know who prepared that document?

22 A If you could just hold it up just so I can
23 see the writing, I could tell you. Oh, that
24 was me. I did that.

25 Q And on that document you listed real estate

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1 of \$275,000, and as I understand it, that's
2 both your residence and the property in
3 Alabama. You didn't have any other real
4 estate other than those two parcels in 2009,
5 did you?

6 A Well, the 205 Milwaukee property.

7 Q That was in the LLC, though?

8 A That was in the LLC, right. So those are
9 the only two real estate properties,
10 correct.

11 Q And then you listed furniture and household
12 goods at \$60,000?

13 A Yes.

14 Q My question on that is when you filed
15 bankruptcy roughly a year later, your
16 household goods come in at about say roughly
17 \$3,000, \$4,000?

18 A Yes.

19 Q How does one deal with the change from
20 \$3,000 or \$4,000 down from \$60,000?

21 A The \$60,000 was as close as we could come to
22 in replacement costs, so if I would go out
23 and buy everything new.

24 Q So it's not market value? It's replacement
25 cost?

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1 A Right. The \$3,000 to \$4,000, we were
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2 advised that if you had a garage sale, what
3 would you get for everything, so . . .

4 Q There's also a liability to McDermott Will &
5 Emery for \$122,000. What is that?

6 A McDermott was the firm that I retained to
7 defend me on the securities issues with the
8 FCC. And that was started in June of 2008,
9 and that continued on through 2008 with the
10 negotiation. There was a lot of work that
11 was done in 2008. In 2009 the FCC advised
12 our attorney that they were not going to
13 settle with me. They were going to
14 litigate. At that point McDermott resigned
15 from representing me.

16 Q How much do you owe at this point,
17 approximately?

18 A I want to say it's probably -- it's a guess,
19 but I think it's about \$90,000. Because at
20 the time that the potential settlement
21 occurred, McDermott had said I had to come
22 up with \$50,000 in cash to do that. And we
23 gathered the cash we had and used credit
24 cards and the line of credit to raise the
25 capital to do that.

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1 Q Did you make any payments to them within
2 three months of the filing of the
3 bankruptcy? That would take you back to

4 May.
5 A I could have. We were making monthly
6 payments on a note, approximately \$1,500 a
7 month. That could be -- I could confirm
8 that for you, too, if you would like.
9 Q I would appreciate that. Then there's a
10 note WML, which I assume is Wealth
11 Management --
12 A Yes.
13 Q -- for \$722,000?
14 A Right.
15 Q And that is what?
16 A In 2008 once the -- we made the disclosure
17 to the board, my attempt was to keep the
18 company intact and move forward through this
19 issue of nondisclosure and hopefully work
20 something out with the FCC and do damage
21 control. So they estimated what the
22 Quadramus income was minus the taxes --
23 estimated taxes that I paid and came up with
24 the number of \$722,000. We offered that to
25 the FCC three times for comment, and they

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1 refused to comment. And so, again, the
2 relationship with the board was very
3 antagonistic. However, I made the offer to
4 the board and the management team to do
5 that, to offer it to Wealth Management if we

6 can keep the company together and restore my
7 position and try to keep peace. And I
8 offered that up, and it was rejected by the
9 board and the management team. And there it
10 sat.

11 Q Where did the money come from to fund the
12 \$12,000 in IRAs in December of last year?

13 A It came from a tax return, tax refund from
14 tax year 2008.

15 Q Did it go into an account?

16 A Yes. I gave you that documentation.

17 Q Into the US Bank account?

18 A No. That's the AnchorBank account.

19 Q AnchorBank account.

20 A It's this here. Did this get copied for
21 you?

22 Q It did. Was that the primary account that
23 was used, the AnchorBank account, by the
24 household?

25 A At that time, yes.

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1 Q And it looks like that was opened in June of
2 last year?

3 A No. That would be the bank mutual account.
4 The AnchorBank account was opened in -- oh,
5 I'm sorry, June of 2000 -- yeah, you're
6 right, 2009.

7 Q 2009?

8 A Yes, I'm sorry.
9 Q It looks like it was opened with a deposit
10 of about \$26,000?
11 A Yes.
12 Q Do you have a copy of it, by the way, of the
13 register?
14 A Yes.
15 Q I mean going beyond that one page?
16 A Oh, yeah. There's --
17 Q Okay.
18 A Do you need to see this?
19 Q No. I have a copy of it. We'll mark it
20 when we're done. In June -- on June 29th
21 there appears to be a deposit of \$10,000.
22 Do you know what that is for?
23 A I don't.
24 Q And on October 15th there appears to be a
25 deposit of \$14,713. Do you know what that

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1 is?
2 A I'm sorry. What was the date?
3 Q October 15th.
4 A October 15th. No, I don't know.
5 Q And then if you skip to the next page, it
6 looks like on September 28th in the middle
7 of the page there's a deposit of \$56,368.
8 Do you know what that was for?
9 A That was the tax returns.

- 10 Q Tax refunds from the Fed?
11 A Federal tax refunds.
12 Q And then if you skip a couple of more pages
13 to November 30th in the middle, there's a
14 deposit of \$85,625. Where does that come
15 from?
16 A That was the tax refunds for years prior to
17 2008, federal and state.
18 Q And then right underneath that it looks like
19 there was a transfer to the Anchor CD?
20 A Yes.
21 Q And if you skip a few more pages until you
22 get to Check No. 1076 --
23 A Yes.
24 Q -- that is the Monumental life insurance?
25 A Went to the annuity, yes.

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- 1 Q That is your annuity fee?
2 A Yes.
3 Q Who are the beneficiaries on the annuity?
4 A Our children.
5 Q Who is the owner of the annuity?
6 A Christine is.
7 Q And then if you go to Check No. 1083 in
8 January of this year --
9 A Yes.
10 Q -- there's a payment to US Bank equity line
11 payoff of about \$21,691. What is that?

12 A That was our equity line of credit, US Bank.
13 Q On your business?
14 A On our home, yes.
15 Q Did that pay it off?
16 A Yes.
17 Q Up above that a little bit is -- we have got
18 Check 1082, a check to Dick Stiles for
19 \$5,000. And that is?
20 A For legal fees.
21 Q Did that pay it off at that time?
22 A No.
23 Q And right above that is a Check No. 1081 for
24 \$10,000 that goes to AES.
25 A That's a school loan that I was responsible

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1 for.
2 Q Did that pay that off?
3 A It did.
4 Q Was it for you or one of your children?
5 A It's for my children, for our son.
6 Q Are there any other school loans
7 outstanding?
8 A I don't know. I will confirm that for you.
9 Q And if you skip down a little bit further to
10 Check No. 1111, it's the Bank of America for
11 \$15,919 back in March of this year. What is
12 that for?
13 A That's for mortgage payments.

- 14 Q You were delinquent at that point?
15 A No. That was in advance.
16 Q You're going to have to explain that a
17 little bit.
18 A We contacted Bank of America and asked them
19 if we could prepay our mortgage payment, and
20 they said we could. And I said, okay, we
21 want to do it until the end of the year. So
22 we calculated what the payment was and --
23 Q So for the rest of 2010 did you make any
24 mortgage payments?
25 A No. No. They start again in January.

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- 1 Q Why would you have prepaid it until the end
2 of year, approximately 11 months' worth or
3 8 months' worth?
4 A Just so we wouldn't have to worry about it.
5 Q Why wouldn't you leave the money under your
6 control?
7 A I felt it was a good financial thing to do.
8 Q Why?
9 A Because I wouldn't have to worry about it.
10 I mean I didn't know if I was going to have
11 a paycheck.
12 Q Were you working on -- in March of this
13 year?
14 A I wasn't.
15 Q So you already didn't have a paycheck?

16 A Right.
17 Q When did you first talk to an attorney about
18 bankruptcy?
19 A I believe it was September or October of
20 2009.
21 Q If you go a little bit further then to -- a
22 couple more pages to 4/26, there's a
23 payment, it looks like, to Tom First WBM --
24 I'm assuming that's Community First -- of
25 \$18,235?

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1 A I think I'm missing pages. What was the
2 date, April?
3 Q April 26th. It's not a check.
4 A Oh, Community First --
5 MS. PUTMAN: Can I talk?
6 MR. LIEBZEIT: If you don't know,
7 that's fine.
8 THE WITNESS: I don't know.
9 MR. LIEBZEIT: You'll find out then?
10 THE WITNESS: I will.
11 BY MR. LIEBZEIT:
12 Q Do your pages go any further than that?
13 A No. It goes into January, January 27th of
14 this year.
15 Q So by the time you get to the end of this
16 list in July, July 6th, you're left with
17 about \$125 in this account that at one time

18 was substantially more than that?
19 A Yes. You know, I'm thinking on the
20 April 26th date in question, the \$15,000 and
21 change or \$18,000 and change, I think that
22 was when Community First -- we got the
23 judgment from Winnebago County and took the
24 cash from the account.

25 MR. ENGL: What was the exact amount

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1 again, if you don't mind, because that
2 number is sounding very familiar now?

3 MR. LIEBZEIT: I just lost it.

4 THE WITNESS: It was April 26th, the
5 bottom of the page.

6 MR. LIEBZEIT: It was \$18,235.82.

7 MR. ENGL: Okay. Because we have
8 \$18,043.30 scheduled as being intercepted.

9 MR. LIEBZEIT: So is that money
10 actually is sitting in the clerk's office?

11 MR. ENGL: Clerk's office.

12 MR. LIEBZEIT: And that's different
13 from IRA monies or anything like that?

14 That's a separate amount of money?

15 MR. ENGL: Did that include the IRA?

16 THE WITNESS: No. The IR -- they
17 took Chris's IRA, the \$12,000 also.

18 MR. ENGL: Right. And I think those
19 are separately disclosed. Yeah, so if you

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20 Look, there are two IRAs --

21 MR. LIEBZEIT: Correct.

22 MR. ENGL: -- being held in addition
23 to the \$18,000.

24 BY MR. LIEBZEIT:

25 Q Were you taking money out of the Schwab

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1 accounts in 2010, personal accounts? I am
2 not talking -- let me strike that. Did you
3 have any personal Schwab accounts in 2010?

4 A I think the answer is yes.

5 Q Do you know if you took money out of there?

6 A I don't. I know the account number, 4660.

7 MR. ENGL: You have scheduled an IRA
8 through Charles Schwab of just under \$1,100.

9 BY MR. LIEBZEIT:

10 Q Did you have a regular non-IRA account at
11 Schwab?

12 A I did. This 4660 was a non-IRA account.

13 Q And from the documents that you provided, at
14 least it appears at the start of last --
15 start of last year it was somewhere in the
16 mid sixties as far as value, \$65,000,
17 \$66,000?

18 A I'll confirm that, too.

19 Q And actually it looks like from the
20 documents that that's actually an IRA
21 rollover?

22 A So that's not my personal account. And that
23 was, yes. In addition to the Watchstone
24 fund, there was an investment in the real
25 estate investment in Neenah, and that was an

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1 original investment of \$50,000. And as we
2 filled out the forms, we were struggling to
3 figure out how to value that anymore.

4 Q And I think you indicated earlier that -- or
5 counsel indicated that there were some tax
6 refunds that were received in 2010?

7 A Yes.

8 Q And --

9 A There was one from the -- it was
10 automatically deposited into our checking
11 account.

12 Q Do you know when you received that,
13 approximately? Was it after the bankruptcy
14 was filed?

15 A Oh, yes, yes. This was a month ago.

16 Q So you're going to turn that over?

17 MR. ENGL: We're prepared to turn it
18 over today.

19 BY MR. LIEBZEIT:

20 Q And the federal -- there was a federal
21 income tax refund, but you haven't received
22 that?

23 A No. \$14,849.

24 Q Do you have any idea why you haven't
25 received that money?

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1 A No.

2 Q Would it normally be direct deposited?

3 A Either direct deposit or a check. I think
4 this last year we changed checking accounts,
5 and our accountant either didn't get the
6 number to the IRS for that one because he
7 did it for the Wisconsin state deposit.

8 Q Are you aware of any tax obligations you
9 have to the federal government?

10 A No.

11 Q So you don't know why it would be offset --

12 A I made the assumption that somehow between
13 your office and the receiver's office you
14 might have made a claim to halt it, or maybe
15 Community First did. I don't know.

16 Q Now, the monies from the sale of these
17 various assets, where would those monies
18 have gone?

19 A Some went into checking accounts. Some went
20 into cash. We kept cash at home.

21 Q So some of the payments would have been
22 strictly in cash to you?

23 A Some of them were, yes.

24 Q When you sold the Ferrari, did you get check
25 or cash?

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- 1 A Got a check.
- 2 Q And when you sold, for instance, Alma, I
3 assume you would have received a check?
- 4 A The -- well, we got copies of them, most of
5 them. The Ferrari was a check. The Porsche
6 was a check. The 2000 Harley-Davidson was a
7 check. The 1999 Harley-Davidson was a cash.
8 Checks on the Alma and Murvin & Meier
9 investments.
- 10 Q The checks would have gone into your
11 accounts?
- 12 A One of our accounts, yes.
- 13 Q I think you testified at the 341 hearing
14 that the values that you sold these various
15 assets, you know, the Harley and all of
16 those other things, were roughly fair market
17 values for the items at that time?
- 18 A Yes. Yes.
- 19 Q It looks like from the exhibit that you
20 prepared that you lost money on virtually
21 all of them?
- 22 A Everything.
- 23 Q And some of them fairly substantial?
- 24 A Yes.
- 25 Q Why would the value have gone down that much

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- 1 on those items?
- 2 A Yes.
- 3 Q No. The question was why?
- 4 A Economy, layoffs, people unemployed. When
- 5 things are great, these things are very
- 6 valuable. When people don't have extra
- 7 cash, they're not worth a lot.
- 8 Q So why did you sell them?
- 9 A We needed cash to live on.
- 10 Q Well, at the end of December of 2009, you
- 11 were sitting with better than \$115,000 in
- 12 checking account?
- 13 A Yeah.
- 14 Q You needed more cash than that to live on?
- 15 A Yes. I wasn't working at the time, and I
- 16 didn't know when I was going to be able to
- 17 work. I was hoping to settle with the FCC
- 18 and figure out if I could be in the
- 19 investment business again. That's not going
- 20 to happen. I was being unemployed, filing
- 21 for bankruptcy. I didn't need to own a
- 22 sports car.
- 23 Q Even if you went through that at \$10,000 a
- 24 month, there would be no taxes coming out of
- 25 that. That would be almost a year's worth.

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1 It would be a year's worth.
2 A Uh-huh.
3 Q Your living expenses weren't \$10,000 a
4 month?
5 A No.
6 Q In fact, from your bankruptcy schedules your
7 living expenses are \$3,656 a month.
8 A That's what we've got now.
9 Q If I divide \$3,600 per month into \$115,000,
10 I have a lot of months. So why did you have
11 to sell the assets?
12 A We had debts. We had home mortgage debt.
13 We had school debt. We had legal fees.
14 Q You knew that if you didn't sell them you
15 were going to lose them if you filed
16 bankruptcy?
17 A Yes.
18 Q So if you sold them and converted the money
19 to something, you wouldn't lose them?
20 A Well, I wasn't sure what I was going to
21 lose. I wanted to be -- I was more
22 confident having cash in my hand than a
23 bunch of cars that we couldn't afford to
24 keep.
25 Q So then why would you have put -- if you

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1 were concerned about that, why would you

2 have put what amounts to \$42,000 into IRAs
3 and an annuity?

4 A I have a habit of saving for retirement,
5 saving for a rainy day. We had the cash.
6 And I wanted to do something to give us some
7 -- some retirement assets.

8 Q You put virtually nothing in in 2008 when
9 you had a net before taxes of \$336,000. But
10 yet in 2009 when you lost your job and in
11 2010 when you were working part-time, you
12 were putting \$42,000. With all due respect,
13 that doesn't make any sense.

14 A Well, in 2008 I wasn't sure if I was going
15 to be employed. I was employed for half a
16 year. I was barred from my own company. I
17 didn't know if I was coming back or not. In
18 2009 I had no idea what was going on, and in
19 2009 when the receiver took over, the
20 retirement plan was terminated.

21 Q Well, but the money that was in there was
22 vested, I assume? The money in your 401(k)
23 was vested?

24 A Oh, yes, yes. But the majority of it was
25 invested with the Wealth Management

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1 Watchstone fund, which the receiver now has
2 said precluded me from getting
3 distributions.

4 MR. LIEBZEIT: I don't think I have
5 anything else. Actually, I do have one more
6 question.

7 BY MR. LIEBZEIT:

8 Q Looking at -- do you know of any money that
9 your wife took out of her IRA in 2009?

10 A No, not that I know of.

11 MR. LIEBZEIT: Okay. That's it.
12 (Matter concluded at 3:55 p.m.)

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1 STATE OF WISCONSIN)
2 COUNTY OF OUTAGAMIE) ss.

3

4 I, Jessica Koepsell, Certified Realtime
5 Reporter and Notary Public in and for the

6 James Putman.txt
7 State of Wisconsin, do hereby certify that
8 the attached and foregoing deposition was
9 taken before me at Block, Seymour,
10 Chudacoff, Samson & Liebzelt, S.C.,
11 Appleton, Outagamie County, Wisconsin, on
12 the 1st day of December, 2010 A.D., at
13 9:11 a.m.; that it was taken at the request
14 of the adverse parties, upon oral
15 interrogatories; that said JAMES PUTMAN was
16 sworn by me to tell the truth, the whole
17 truth, and nothing but the truth relative to
18 said cause.

19 Dated this 15th day of December, 2010.

20 HENES & ASSOCIATES
21 COURT REPORTING SERVICE

22
23 Jessica Koepsel
24 Certified Real Time Reporter

25 My commission expires April 1, 2012.

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