

DEPOSITION OF JAMES E. PUTMAN 2-25-2011

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WISCONSIN**

**IN RE: James E. Putman and Christine A. Putman,
Debtors. Case No. 10-32980-mdm**

**David M. and Barbara G. Angell, et al,
Plaintiffs,**

vs Adversary No. 10-02626-mdm

**James E. Putman,
Defendants.**

The deposition of JAMES E. PUTMAN was taken at the instance of the Plaintiffs pursuant to the Federal Rules of Civil Procedure, at Melnick & Melnick, S.C., 10555 North Port Washington Road, Suite 202, Mequon, Wisconsin, Wisconsin, on the 25th day of February, 2011, commencing at 1:43 o'clock in the afternoon, before Judy Wingo, Court Reporter and Notary Public in and for the State of Wisconsin.

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1 APPEARANCES:

2 MELNICK & MELNICK, S.C.
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4 Appeared on behalf of the Plaintiffs.

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1 (Putman Deposition Exhibit Nos. 1 through 69 were
2 marked)
3 JAMES E. PUTMAN
4 being first duly sworn on oath to tell the truth, the
5 whole truth, and nothing but the truth, was examined
6 and testified as follows:

7 EXAMINATION

8 BY MR. MELNICK:

9 Q Just for the record, would you state your name,
10 please.

11 A James E. Putman, P-u-t-m-a-n.

12 Q Mr. Putman, this is a continuation of a
13 deposition we started in December up in Appleton.
14 What's the difference between a
15 registered security and an unregistered security?

16 A I don't know the legal definition of it.

17 Q Just from your experience.

18 A From my experience, a registered investment would
19 be similar to a mutual fund, a registered mutual
20 fund that is publicly traded. An unregistered
21 security would be one that would not be publicly
22 traded but a private investment.

23 Q And the reason I'm asking, as I understand it,
24 all the Wealth Management funds were unregistered
25 securities?

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- 1 A I can't confirm that without having everything in
 2 front of me. Most of them were, but I don't know
 3 that they all were.
 4 Q But, off the top of your head, can you think of
 5 any one that you think was? I understand that
 6 you are not sure. Can you think of one that
 7 might have been registered?
 8 A There were money market funds, money market
 9 mutual funds that were utilized.
 10 Q Let me make it easier for you. From 2003 to the
 11 present, any that you started in 2003 to the
 12 present that were registered?
 13 A Can you clarify, please.
 14 Q Any funds that, under the Wealth Management
 15 umbrella, that you started from 2003 on that were
 16 registered securities?
 17 A Are you talking about the Wealth Management
 18 investment funds; the Gryphon, WatchStone? No.
 19 Q Had you considered whether it would be beneficial
 20 to have them registered or not registered?
 21 A Yes.
 22 Q And you decided it would be better to be
 23 unregistered?
 24 A It was a decision that -- The answer is yes, in
 25 that the expense to register the fund and
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- 1 maintain it was fairly high.
 2 Q Okay. Now, I just want to ask about law firms
 3 for a moment. And, again, so you know the time
 4 period today is 2003 to the present.
 5 A Okay.
 6 Q So, starting in 2003, can you tell me all the law
 7 firms that represented Wealth Management or
 8 Wealth Management funds, if there were different
 9 ones for parts rather than the whole.
 10 A Yes. On some business issues, Richard Stiles of
 11 Appleton was one attorney. From my best
 12 recollection, the Gryphon, G-r-y-p-h-o-n Fund,
 13 the document was drafted by Godfrey & Kahn.
 14 Q And when you say "the document was drafted," you
 15 mean the offering document?
 16 A Yes. Anything related to the fund.
 17 Q But, subsequent to the offering document, did
 18 they continue representing Gryphon?
 19 A It's my recollection, yes.
 20 Q Okay. Keep going.
 21 A At some time, I can't remember the exact year,
 22 but Charles Hall became the representative of the
 23 fund. It was an attorney that Simone Fevola had
 24 found for the company.
 25 Q Out in Pennsylvania?
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- 1 A Yes. He has offices in Los Angeles and
 2 Pennsylvania. Then he left Los Angeles to open
 3 his own shop in Pennsylvania.
 4 Q He's a securities lawyer?
 5 A That's what I understood.
 6 Q Did you have personal contact with him, or you
 7 just know about him?
 8 A I did not have personal contact with him. I've
 9 got to retract that. I did call him once, and I
 10 want to say it was in 2009, relative to a
 11 question I had on one of the funds, and I can't
 12 remember which one it was.
 13 He couldn't remember. There was no
 14 response. He said -- I can't remember what I
 15 asked him, but I remember there was no followup
 16 to that. After Hall, it was Drinker Biddle and
 17 Reath.
 18 Q And my recollection of reading everything was
 19 that they came in in '08 when this thing
 20 regarding fee splitting came up; is that correct?
 21 Or were they there before that?
 22 A I can't remember when they came in.
 23 Q But, as I understand it, they were specialized
 24 attorneys in securities matters.
 25 A It was my understanding that Jeff Blumberg was a
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- 1 securities specialist within the firm. I don't
 2 know that the firm is a securities specialty
 3 firm. I know that -- I was told that Jeff
 4 Blumberg was a securities compliance specialist.
 5 Q Was there a general counsel for Wealth Management
 6 through the years 2003 to the present?
 7 A There were -- I guess the closest that we come to
 8 general counsel would be Dick Stiles on business
 9 issues. We did retain an attorney from Milwaukee
 10 for employment issues. His name escapes me right
 11 now.
 12 Q Okay. And, again, as I had said off the record,
 13 don't guess. And that's great. If you don't
 14 know, you don't know.
 15 One of the issues that keeps coming up
 16 on these insurance policies, and when I talk
 17 about the insurance policies, first of all, do
 18 you know what I'm talking about when I say
 19 "insurance policies"?
 20 A I think I do, but I would appreciate it if you
 21 would clarify it.
 22 Q Do you know the difference between insurance
 23 premium financing and life settlements?
 24 A I think I have a pretty good understanding.
 25 Q Do you want to start with life settlements?
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1 A Life settlements is a process where an individual
 2 will sell their insurance policy. The buyer will
 3 then be the owner and beneficiary of the policy
 4 and will maintain the premiums until either the
 5 policy lapses or until the insured passes and
 6 deceases, and they -- the owner would then
 7 receive the death benefit.
 8 Q Insurance premium financing, what is that?
 9 A That's a process in which the individual, the
 10 insured, will become -- Let me back up. It's an
 11 agreement whereby an investor will pay the
 12 premiums on the policy of an insured with the
 13 expectation that the investor will receive either
 14 the death benefit when the insured dies or a
 15 profit from selling the policy to another
 16 investor or back to the insured.
 17 Q And, as I understand it, Baetis and Brown
 18 invested in insurance premium financing?
 19 A Baetis and Brown invested in insurance premium
 20 financing strategies, yes.
 21 Q Okay. And that the manager of that was Joe
 22 Aaron?
 23 A Correct.
 24 Q Now, with that understanding in mind, what I am
 25 trying to find out is, at some point, in the
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1 understand that. I was lumping them together.
 2 At any rate, that money, to the best
 3 of your knowledge, was used to fund the policies
 4 that were brought to the table by what I've been
 5 told are called aggregators.
 6 A It's my understanding, yes.
 7 Q Do you know the names of any of the aggregators?
 8 A I was told there were a number of them. Some of
 9 the names that I heard were Kevin Yurkus. I'm
 10 thinking, UTC, Beau Gayner is a participant in
 11 the process. I don't know that he was
 12 specifically considered an aggregator.
 13 Q PRG?
 14 A That name doesn't ring a bell. Could have been,
 15 but I don't remember that.
 16 Q That's fine.
 17 A And I know there is a number of others that I
 18 can't remember at this point.
 19 Q What about Tom Riek?
 20 A As far as I know, he was not an aggregator.
 21 Q And, so the record is clear that you and I are
 22 speaking the same terminology, what would you
 23 define as an "aggregator"?
 24 A An "aggregator" is one who brings together the
 25 insureds for the premium finance process.
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1 literature and from talking with other people, is
 2 that the policies that were financed by Baetis
 3 and Brown, some of those policies were sold on
 4 what I guess you guys call the secondary market?
 5 A Yes. As I understand, yes.
 6 Q And, again, if there is a term that you don't
 7 understand, please tell me, and we'll work it
 8 through. But I am doing the best I can with what
 9 I was told.
 10 So there were apparently companies
 11 that would purchase these policies; is that
 12 correct?
 13 A Correct.
 14 Q Can you name me any company that purchased any of
 15 the policies that were funded by Baetis or Brown
 16 or both?
 17 A I can't, off the top of my head.
 18 Q Okay. And, working backwards, the funds of
 19 Gryphon, WatchStone, Palisade, and Pantera
 20 invested in Baetis and Brown; did they not?
 21 A They invested -- Well, not collectively. Gryphon
 22 invested in Baetis, WatchStone invested in Brown,
 23 Palisade invested in Brown, and Pantera invested
 24 in Baetis.
 25 Q I should have asked a better question. But I did
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1 Q Do you see the aggregator as the one who actually
 2 solicited and sold the policy to the insureds or
 3 simply is the middleman between the agent and the
 4 insureds and the financing source?
 5 A It's my understanding that the aggregators were
 6 the ones who processed the insurance policy sales
 7 to the insureds.
 8 Q So the aggregators, in your mind, to the best of
 9 your understanding, went out, solicited the
 10 applicant, got the policies issued, and then
 11 brought it to the table to be financed by Baetis
 12 or Brown?
 13 A That's my understanding.
 14 Q Did you participate in any segment of that
 15 process at all?
 16 A Yes.
 17 Q What was that?
 18 A There were two of our Wealth Management financial
 19 planning clients who purchased policies, I think
 20 through UTC, to be financed.
 21 Q Do you remember who they were?
 22 A Yes.
 23 Q Who are they?
 24 A Mary Beth Steward and Don Smith.
 25 Q And, when you say you "participated," I assume
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1 you don't have an insurance license?
 2 A I do.
 3 Q So you actually sold the policies?
 4 A I did not. UTC processed the policies.
 5 Q Okay. Somebody there is an insurance agent?
 6 A Yes.
 7 Q But you said you participated. What did you do?
 8 A When we experienced the success of the policies
 9 being financed and sold, I made the
 10 recommendation to Don and to Mary Beth that this
 11 might be something that they want to participate
 12 in, to apply for the policy and eventually sell
 13 it and benefit from the profits from the sale of
 14 the policy.
 15 Q Do you remember when Don Smith took out the
 16 policy?
 17 A I don't remember the exact date.
 18 Q I mean, not the exact date, but the year? Was it
 19 '06?
 20 A It could be either '06 or '07. One of the two.
 21 Q Do you know if Mr. Smith's policy was sold?
 22 A It's my understanding that -- I don't know that
 23 it was sold.
 24 Q What do you know about it?
 25 A I do know that he was paid. Again, this was -- I
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1 participated, you said you participated and I'm
 2 trying to figure out your participation.
 3 A I made the recommendations that they do this.
 4 Q You made the recommendations?
 5 A Right.
 6 Q But, after that, you had nothing more to do with
 7 the transaction?
 8 A No.
 9 Q When these policies were sold, how did you know
 10 they were sold? Was there a document or orally
 11 that you were told that they were sold?
 12 A I personally was told that, orally, that they
 13 were sold. The firm received a confirmation of
 14 certain sales. I remember seeing reports from
 15 the investment team that certain policies were
 16 sold. The information was delivered from Baetis
 17 and Brown through Mr. Aaron.
 18 Q To his investment team or your investment team?
 19 A It was the Fevola investment team.
 20 Q Okay.
 21 A The information for all the funds within -- the
 22 submanagers of the Wealth Management funds,
 23 flowed through Mr. Fevola's office.
 24 Q Fevola and your investment team had nothing to do
 25 with selling these policy; did they?
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1 didn't see the documents, but I was told he was
 2 paid \$15,000 for the policy.
 3 Q By whom?
 4 A Mr. Aaron.
 5 Q And I assume you mean Mr. Aaron on behalf of one
 6 of either Baetis or Brown or by Mr. Aaron,
 7 personally?
 8 A It's my understanding it's on behalf of one of
 9 the funds who bought the policy or paid the
 10 dollars to Mr. Smith.
 11 Q That Mr. Aaron manages?
 12 A Right.
 13 Q And the company that bought the policy, do you
 14 know the name of that?
 15 A I don't.
 16 Q Was the same true for Steward?
 17 A Yes.
 18 Q And she also got \$15,000?
 19 A It's my best recollection that she did get
 20 \$15,000 for her policy, too.
 21 Q Do you remember when -- I understand that I asked
 22 you when they were taken out. To your knowledge,
 23 when did the \$15,000 exchange hands?
 24 A My best recollection is late '08 or early '09.
 25 Q Okay. And you -- Again, going back to how you
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1 A No.
 2 Q That was Joe Aaron?
 3 A Right.
 4 Q The information on the sale of these policies,
 5 that information was communicated by Joe Aaron
 6 and his company called Wood, Hat & Silver?
 7 A Correct.
 8 Q Communicated to your investment team?
 9 A Yes.
 10 Q In writing or orally?
 11 A Both.
 12 Q Okay.
 13 A When there were sales, Mr. Aaron would happily
 14 call and say, We are making sales of policies,
 15 and that would be followed up by a communication.
 16 I remember it being a spreadsheet that he
 17 maintained for our investment team.
 18 Q To your knowledge, you don't have any
 19 recollection of him disclosing to you who was the
 20 outside party or parties who were buying these
 21 policies that were being sold?
 22 A I remember sometimes hearing that.
 23 Q You don't remember the name?
 24 A I don't remember the names.
 25 Q Okay. In the case of Mr. Smith's policy, would
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1 it surprise you to find out that the ultimate
 2 buyer of that policy was Baetis, who funded that
 3 policy?
 4 A No.
 5 Q Why?
 6 A If that policy was funded and, you know, Mr.
 7 Aaron as the manager felt it would be an asset of
 8 the fund, he had the ability to do that, as
 9 manager of the fund, to decide which policies to
 10 purchase and which policies to sell.
 11 Q I'm trying to figure out, Baetis financed the
 12 insurance premiums, and then there is a two-year
 13 period that it matures; is that correct?
 14 A That's a terminology -- The two-year time period
 15 is really the incontestability time when, during
 16 that first two years, if the insured commits
 17 suicide or fraudulently takes out the policy and
 18 dies, the insurance company has the right not to
 19 pay the death benefit.
 20 After the two years, the death benefit
 21 is assured. And so the value of that policy on
 22 the secondary market would be much higher than it
 23 would be prior to the two-year time period.
 24 Q Were policies sold before the two-year time
 25 period?
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1 right?
 2 A Right. As far as I know.
 3 Q I can tell you as of last week it wasn't the
 4 case.
 5 A Good.
 6 Q I understand that you certainly would have a
 7 windfall there. Do you know how many policies
 8 Baetis or Brown bought back that they had funded?
 9 A I don't know.
 10 Q Was Stewart's policy bought by Baetis or Brown?
 11 A I think it was the same process that Smith was
 12 utilized with.
 13 Q The insurance agents who sold those policies, and
 14 I want to make sure, I know I asked you about the
 15 word "aggregators," now if I may be specific to
 16 insurance agents, whether they were aggregators
 17 or agents. Do you remember the names of any of
 18 the insurance agents that sold any of these
 19 policies?
 20 A At UTC there was an agent, his first name was
 21 Dennis, and I can't remember his last name.
 22 Q Anyone else?
 23 A No.
 24 Q Okay. Now, the aggregators, as I understand it,
 25 would bring the policies to the table, and then
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1 A I heard that there were some.
 2 Q Do you remember specifically which?
 3 A No.
 4 Q And do you know who bought them before the two
 5 years?
 6 A No.
 7 Q Did you question Mr. Aaron about, if there would
 8 be any blow backs because you're selling the
 9 policy, and the incontestability hadn't run yet,
 10 whether there would be any legal problems?
 11 A No.
 12 Q Now, the end result, meaning the two years has
 13 now run and the policy is ready to be sold, I am
 14 trying to understand why it's in Baetis' best
 15 interest to buy a policy that they financed
 16 initially, waited out the two years, and now is
 17 effectively buying it back. What would be the
 18 benefit to Baetis or Brown, in this case it was
 19 Baetis -- I will represent to you it was Baetis.
 20 A Okay. If that were the case --
 21 Q It was the case. I will show you a document, but
 22 it was the case.
 23 A Okay. If either party were close to death, it
 24 could be a windfall for the fund.
 25 Q Right. But, thank God, that's not the case;
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1 was it Mr. Aaron or was it you and Mr. Fevola who
 2 would decide which policies were funded or not
 3 funded?
 4 A It would be Mr. Aaron.
 5 Q Okay. And do you know what the standard was that
 6 he used on what to fund and what not to fund?
 7 A No.
 8 Q Now, when a policy was funded, it's my
 9 understanding it was only funded out of Baetis or
 10 Brown; that is, the money came from either Baetis
 11 or Brown in terms of funding those policies. Is
 12 that your understanding?
 13 A As far as I know, yes.
 14 Q Do you know if Mr. Aaron or Wood, Hat & Silver
 15 did their own premium financing?
 16 A I heard they were doing some premium financing
 17 through one of the Wood, Hat & Silver funds. I
 18 don't remember which ones, but I remember Mr.
 19 Fevola telling me they were doing some policies
 20 through another fund.
 21 Q Do you remember when that was? Was it in 2003 or
 22 was it 2009, closer to the end?
 23 A I don't remember the year.
 24 Q Okay. Do you know a company called Rangetree?
 25 A Yes.
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- 1 Q Do you know who ran that company?
 2 A Dan Miller.
 3 Q Did you have any dealings with Dan Miller?
 4 A I met with Dan Miller once. He came to our
 5 offices in Appleton with Mr. Gayner and was
 6 presenting the idea of Rangetree to us.
 7 Q Was that in 2004?
 8 A My best recollection, it would be either late
 9 2003 or early 2004.
 10 Q And did Mr. Gayner, to your knowledge, work for
 11 Mr. Miller?
 12 A Yes.
 13 Q Do you know Mr. Gayner's real name, by the way?
 14 A No.
 15 Q It's Michael Gayner. That's his real name.
 16 A Hmm.
 17 Q At any rate, did you do a background check on Mr.
 18 Gayner?
 19 A I did not.
 20 Q Did you do a background check on Mr. Miller?
 21 A No.
 22 Q I don't know if you know, but I took Mr. Riek's
 23 depo. Are you aware of that?
 24 A Well --
 25 Q Okay.

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- 1 Q Although I didn't ask the question this way,
 2 would your answer be the same if I asked you
 3 about written communication among any of these
 4 people? That is, did you have, separate from
 5 what you just told me was oral communication, did
 6 you have any written communications with these
 7 folks, other than the time that you just spoke
 8 about?
 9 A For Mr. Aaron, I think it would be about the same
 10 time period, because there were some E-mails.
 11 Q Okay.
 12 A No. Mr. Fevola -- There were some E-mail
 13 communications and written communications that
 14 came to me from Wealth Management during the
 15 latter part of 2008. None came from him, but
 16 they came to me with him as a copy.
 17 Q Okay.
 18 A Mr. Riek, there was no written communication,
 19 other than late summer of last year.
 20 Q Before you started doing business with Joe Aaron
 21 and his company called Wood, Hat & Silver, were
 22 you made aware that they had had some problems
 23 with the SEC?
 24 A Yes.
 25 Q Okay. And who told you about that?

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- 1 A I don't know how I was aware of that.
 2 Q I took Mr. Riek's depo. How good a friend are
 3 you with Tom Riek?
 4 A Not anymore.
 5 Q Okay. And when is the last time that you had any
 6 conversation with him?
 7 A It was, I want to say, late in the summer of
 8 2010.
 9 Q And just a casual conversation or --
 10 A Very brief.
 11 Q Involving any business?
 12 A None.
 13 Q Okay. How about Joe Aaron, when did you last
 14 speak with him?
 15 A It was in the summer of 2009.
 16 Q And what was the occasion?
 17 A I was calling him on a regular basis to find out
 18 any progress with the sale of any policies within
 19 Baetis and Brown.
 20 Q Okay. How about Fevola, when is the last time
 21 that you spoke with him?
 22 A June of 2008.
 23 Q Okay. And was that oral communication or
 24 written?
 25 A Oral.

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- 1 A Joe did.
 2 Q Did Tom Riek tell you anything about that?
 3 A Tom was at the meeting where Joe had discussed
 4 this with us.
 5 Q Do you remember, was that in 2003? Because
 6 that's when you started doing business --
 7 A It would have to be sometime before we started
 8 doing business with Mr. Aaron. And it has to be
 9 in 2003.
 10 Q Do you remember what he disclosed to you?
 11 A Mm-hmm.
 12 Q What was that?
 13 A That he was involved with a lending investment.
 14 He had a partner that embezzled \$10 million from
 15 investors. He was censured for not supervising
 16 this individual. And I believe he was barred
 17 from associating in the business for a year.
 18 Q Okay. Very good. Now, in 2005 or even the year
 19 earlier, were you aware that Mr. Aaron was under
 20 investigation again by the SEC?
 21 A Yes.
 22 Q And who told you that?
 23 A Both he and Mr. Riek and Mr. Fevola.
 24 Q Do you remember what they told you? Let me take
 25 it in two parts. Did you know before the report

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1 came out in 2005 that he was under investigation
 2 or did you even know it after the report was
 3 issued by the SEC?
 4 A I can't remember.
 5 Q Okay. Do you remember what you were told?
 6 A What I remember I was told was that there were an
 7 issue with Wood, Hat & Silver managing a fund
 8 that had primarily a single investor in it, which
 9 was Wealth Management. I shouldn't say Wealth
 10 Management. They were not the investor. It was
 11 the Wealth Management funds. I can't remember
 12 what the concern was. I remember that was the
 13 focal point of the issue.
 14 Q One of the investments made was in a company
 15 called MKA; is that correct?
 16 A Correct.
 17 Q And did you do the due diligence on MKA before an
 18 investment was made in that company?
 19 A When you refer to "you," is that me, personally?
 20 Q Yes. You, personally.
 21 A No.
 22 Q Did someone from Wealth Management do a due
 23 diligence analysis of the MKA investment before
 24 you made an investment in it?
 25 A That was Mr. Fevola's job.
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1 from Mr. Fevola who just talked to Mr. Aaron.
 2 Q Right. So initially it had nothing to do with
 3 Mr. Riek, to your knowledge?
 4 A To my knowledge, no.
 5 Q Now, I know that in your last deposition -- You
 6 see I am trying very hard not to duplicate what
 7 has been asked. That's why I am moving all over
 8 the place here.
 9 I know you testified that when Mr.
 10 Riek approached you about this fee-splitting, as
 11 you all call it, you turned it down in October of
 12 '05 or somewhere in that area and then accepted
 13 it in April of '06. Am I correct about that?
 14 A Correct.
 15 Q From April of '06 on, when is the first time that
 16 you got a penny?
 17 A My best recollection it was in October of '06.
 18 Q Okay. So, even though you may have said you and
 19 Mr. Fevola are in, no money was exchanged until
 20 later that year?
 21 A That's my recollection, yes.
 22 Q Now I am going to go back to the process of the
 23 insurance premium financing. When the policies
 24 were financed, were you told beforehand that, We
 25 are going to finance X number of policies?
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1 Q Do you know if he did it? Did you supervise him?
 2 A I did not supervise him, no.
 3 Q Do you know if he did it?
 4 A Well, I think the best way to answer that is that
 5 I believe he did it. There was a due diligence
 6 file. There were due diligence records. He was,
 7 you know, reviewing the historical information
 8 with us. So I guess that's my best answer. I
 9 believe he did the due diligence on it.
 10 Q Were you aware of Mr. Aaron getting a kickback
 11 from MKA for your investment in that company?
 12 A I am not.
 13 Q Were you aware of Mr. Riek getting a kickback
 14 from MKA for you making an investment in that
 15 company?
 16 A I can't remember that.
 17 Q I mean, I assume that, if you were told Mr. Riek
 18 was benefiting by your investment, you would
 19 remember it?
 20 A That was how he was being paid, as a finder of
 21 investments. But do I know exactly he was paid?
 22 I don't know that.
 23 Q Did he find the MKA investment for you?
 24 A Actually, I believe the first information that I
 25 received, personally when I heard about MKA, was
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1 A I heard Mr. Aaron identify a dollar amount. We
 2 want to fund so many dollars worth of policies.
 3 So we knew he had an interest in doing so.
 4 Q Okay. Now, as I understand it, 2003 was when you
 5 first talked about investing in insurance premium
 6 financing; right?
 7 A It's possible it was late 2003. Could be 2004.
 8 Q That's what I was going to ask. Do you remember
 9 when the first policy was financed through either
 10 Baetis or Brown?
 11 A No.
 12 Q Okay. But the idea was that, at that time, it
 13 was Gryphon, initially, later followed by
 14 WatchStone?
 15 A Correct.
 16 Q That put the money into Baetis or Brown for
 17 insurance premium financing; right?
 18 A No. Baetis originally was invested in a variety
 19 of different target return, absolute return
 20 investment strategies.
 21 Q But in 2004 and onward?
 22 A There was a transition I think in 2004 from a
 23 variety of strategies into life insurance premium
 24 financing.
 25 Q I'm just concentrating on that. And, likewise,
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1 WatchStone investing in Brown, Brown was
 2 investing in insurance premium financing?
 3 A Yes.
 4 Q Going back to the first policy, you think it
 5 might have been sometime in 2004. And I will
 6 represent this to you. Mr. Riek testified that
 7 15 policies were sold in 2004 and 30 were sold in
 8 2005 -- financed. I shouldn't say sold. They
 9 were financed. Does that ring any bells with
 10 you, or would you be guessing?
 11 A I would be guessing.
 12 Q You don't know how many might have been financed
 13 in 2004?
 14 A I don't.
 15 Q All right. But, at least to your knowledge, it
 16 was your clients, that is, Wealth Management
 17 people, that invested their money in these funds
 18 that was put to work investing in the insurance
 19 premium financing?
 20 A Yes.
 21 Q Now, as I understand it, and there are charts to
 22 show it which I will show you in a little while,
 23 most of these policies were funded for one year
 24 worth of premium. Was that your understanding?
 25 A You need to clarify. You said the policies were
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1 funded for one year of premium?
 2 Q Right. Let's take a \$5 million policy. That
 3 might have been a half million dollars in
 4 premium?
 5 A Okay.
 6 Q That's the first year's premium; right?
 7 A Yeah.
 8 Q In that area?
 9 A Yeah.
 10 Q And then there would be a second-year premium due
 11 on the policy; wouldn't there?
 12 A Correct.
 13 Q Because you have a two-year holding period?
 14 A Correct.
 15 Q On the charts, and Mr. Fevola already testified,
 16 there isn't a second year there for funding. Do
 17 you know anything about that?
 18 A I don't -- No, I don't.
 19 Q Do you know why, and I am speaking of Wealth
 20 Management, and you're the head of it, whatever
 21 may have been under you, you are the head of it,
 22 why, knowing that you had a two-year holding
 23 period on these policies, why you would only fund
 24 one year?
 25 A No.
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1 Q Did you know that was going on?
 2 A I was unaware of that.
 3 Q Okay. In the process of the premium financing,
 4 the agent would receive a commission; were you
 5 aware of that?
 6 A Yes.
 7 Q Do you know how much of a commission the agent
 8 would receive, as a percentage?
 9 A I heard a range from 30 to 80 percent.
 10 Q Of the first year's premium?
 11 A Yes.
 12 Q And, by the way, who told you that? Or do you
 13 know that firsthand?
 14 A I have seen that firsthand in my experience prior
 15 to Wealth Management. I was told this at Wealth
 16 Management by both Mr. Riek and Mr. Aaron.
 17 Q Okay. That the percentage you gave me, the 30 to
 18 what was that?
 19 A To 80 percent.
 20 Q Of the first year's premium was what they were
 21 paid?
 22 A Right.
 23 Q Now, were you aware that the insurance agents
 24 were paying money to Mr. Aaron for financing
 25 their policies?
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1 A Mr. Aaron, personally?
 2 Q Were you aware that money went from the insurance
 3 agents to either Mr. Aaron or funds he was
 4 managing?
 5 A I was aware that a part of the commissions were
 6 going to the funds that he was managing.
 7 Q From the agents?
 8 A From the agents.
 9 Q And do you know why the agents were paying Mr.
 10 Aaron money for the funds' money?
 11 A I don't know why.
 12 Q Okay. Now, subsequently, I understand that you
 13 found out that Mr. Riek was also getting some
 14 money?
 15 A Yes.
 16 Q Did you find out Mr. Aaron was getting money
 17 before Mr. Riek, or did you find out Mr. Aaron
 18 was getting money after you found out Mr. Riek
 19 was getting money?
 20 A My best recollection is about the same time.
 21 Q Okay. And did Mr. Riek tell you how much money
 22 as a percentage of the first-year premium he was
 23 getting?
 24 A No.
 25 Q Did Mr. Aaron tell you how much money of the
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1 first year's premium he was getting?
 2 A No.
 3 Q Did you see any documents that would indicate to
 4 you how much money was being paid out by the
 5 agents to Mr. Riek or Mr. Aaron?
 6 A Yes.
 7 Q And what were those documents?
 8 A Those were spreadsheets of the policies that were
 9 sold.
 10 Q Okay.
 11 A That had a lot of information on them.
 12 Q Those were prepared by Mr. Aaron?
 13 A I'm not sure. I don't know who they were
 14 prepared by.
 15 Q Let's say under Mr. Aaron's authority, whoever
 16 prepared them, they weren't prepared in-house at
 17 Wealth Management?
 18 A No.
 19 Q They were prepared outside, presumably under Mr.
 20 Aaron's direction or authority?
 21 A They weren't prepared at Wealth Management. I
 22 don't know where they were prepared.
 23 Q Who would have possessed the information, to your
 24 knowledge, to prepare those reports?
 25 A Mr. Aaron and Mr. Riek.
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1 A Correct. I wrote it.
 2 Q And the reason I am using the Amended Complaint,
 3 even though a lot of it is the same as the
 4 original, is that it's the most recent.
 5 A Right.
 6 Q And this one is dated February 7th. That's what
 7 I have. So I have some questions. I marked it
 8 up here.
 9 First of all, and I don't want to take
 10 it out of context, and you are welcome to read
 11 any paragraphs so that I don't take it out of
 12 context, but I am at Paragraph 3, and I am going
 13 to show you, it's Page 4 of your Answer, but
 14 actually I am going to be going to Page 5. But I
 15 want to give you the context. If you want, take
 16 a look at it.
 17 A Okay.
 18 Q I just want to start at the beginning of the
 19 sentence so you know what I'm talking about. You
 20 do write long sentences.
 21 "No transfers of WML fund's money
 22 could be made without their consent and written
 23 authority. Disclosure of the details of the WML
 24 funds were made by each of their respective
 25 private placement memorandum, which each investor
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1 Q Does the name Jeff Keller mean anything to you?
 2 A Yes.
 3 Q That was another one of the agents?
 4 A Agents or aggregators.
 5 Q Okay. Did you ever hear of a fund called Caddis,
 6 C-a-d-d-i-s?
 7 A Yes.
 8 Q What do you know about that?
 9 A It was one of Joe Aaron's funds that he created.
 10 Q Okay. Had nothing to do with Wealth Management
 11 or its investors; did it?
 12 A Not that I know of.
 13 Q To your knowledge, did you put any Wealth
 14 Management investors in the Caddis fund?
 15 A I did not.
 16 Q Okay. I want to ask you about -- This is your
 17 Answer to the Amended Complaint.
 18 A Okay.
 19 Q Do you have your copy with you?
 20 A I don't.
 21 Q Okay. We'll go through it. I would just like to
 22 read you some parts. It's my understanding that
 23 you wrote this.
 24 A Yes.
 25 Q Correct?
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1 received and confirmed in writing that they did
 2 receive it. Further details were provided
 3 monthly by WML fund newsletters, which included
 4 the monthly NAV," which by the way,
 5 parenthetically, means net asset value?
 6 A Right.
 7 Q "Portfolio asset allocation, performance, and
 8 other relevant information for each of the WML
 9 funds. It was WML's intent to keep investors
 10 informed."
 11 So you would issue those monthly
 12 starting, as I understand it, with Gryphon in
 13 late 2003?
 14 A Correct.
 15 Q And then WatchStone?
 16 A Correct.
 17 Q Okay. Now, they were designed to keep investors
 18 informed, and they would also go to people that
 19 are Wealth Management clients but hadn't yet
 20 invested but were looking to see how the fund
 21 performed?
 22 A Correct.
 23 Q Okay. At Page 8, and I am going to start at the
 24 beginning of the paragraph here.
 25 A Okay.
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- 1 Q "WML, Gryphon, WatchStone, Quetzal, and Palisade
 2 have produced stable, positive returns since each
 3 fund's inception until 2007." Let me stop there.
 4 What happened in 2007? You said until 2007. You
 5 mean through 2007, or does that mean 2008, or do
 6 you mean something happened in 2007?
 7 A Toward the end of 2007, that's when the global
 8 economy and credit -- global credit and other
 9 financial markets started decaying.
 10 Q Okay. But you have here that Pantera produced
 11 positive returns for 2006 and minus .593, almost
 12 6 percent, in 2007.
 13 A Yes.
 14 Q Are you saying that happened all in one month?
 15 A I will have to look at the newsletter to tell you
 16 exactly, but it was a short time period that that
 17 occurred.
 18 Q Do you know, did something specifically happen in
 19 let's give it the last -- October, November,
 20 December of '07 to your funds?
 21 A It's my recollection that the investment returns
 22 in the funds went negative on a monthly basis.
 23 Q And that's including the insurance premium
 24 financing funds?
 25 A I don't know. I would have to look at the
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- 1 documents to --
 2 Q Okay. And you say, "All of the funds produced
 3 negative returns in 2008."
 4 A Correct.
 5 Q You say, "The newsletters were compiled from data
 6 supplied to WML by Woodfield Fund Administrators
 7 on a monthly basis."
 8 A Right.
 9 Q Did you deal with Woodfield Fund?
 10 A No.
 11 Q Where would Woodfield Fund get its information
 12 from?
 13 A From the submanagers, which would come through
 14 Mr. Fevola.
 15 Q Who were the submanagers in 2006, 2007 and 2008?
 16 A Those would be listed on the newsletters. I
 17 don't remember them all.
 18 Q Let's talk about Gryphon. Who is the manager of
 19 Gryphon?
 20 A The manager of Gryphon?
 21 Q Yes. The submanager.
 22 A There are a number of submanagers in Gryphon.
 23 Q That worked with WML?
 24 A No. That WML invested in.
 25 Q So, when you talk about "submanagers," every
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- 1 separate investment that it made would be managed
 2 by someone outside of Gryphon, and that's what
 3 you call a submanager?
 4 A Correct.
 5 Q So the submanager, when Gryphon invested in
 6 Baetis, the submanager there was Joe Aaron?
 7 A That would be the manager -- He would be the
 8 manager of the fund. So you are right, yes.
 9 Q And the same would apply when WatchStone invested
 10 in Brown?
 11 A Yes.
 12 Q That would be Joe Aaron?
 13 A Correct.
 14 Q And so, when we talk about information coming in
 15 to Woodfield, some of that information, at least
 16 on the insurance premium financing, would come in
 17 from Joe Aaron?
 18 A Correct.
 19 Q You go on to say, "WML fund's submanagers
 20 provided monthly value estimates in annually-
 21 audited values, which the WML fund's auditors
 22 used to produced their financial statements."
 23 A Correct.
 24 Q Now, did you check out whether or not at any time
 25 from 2003 through 2008 whether the values you
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- 1 were getting from your submanagers, especially
 2 Joe Aaron, were in any way inaccurate?
 3 A No. That was delegated to Mr. Fevola.
 4 Q So do you know if Mr. Fevola was checking to see
 5 whether the values given were accurate or
 6 supported by reality in any way?
 7 A I don't.
 8 Q Woodfield didn't do its own auditing; they were a
 9 collector of information from others?
 10 A Correct.
 11 Q Okay. Now, at the end of the year the auditors
 12 would do a reconciliation; is that correct?
 13 A I don't know if that's the terminology, but they
 14 would provide us with an audit of the funds.
 15 Q And, somehow, somebody would come up with a net
 16 asset value for those funds?
 17 A Yes.
 18 Q So, during the year you have estimates, but by
 19 the end of the year you had a hard number?
 20 A Correct.
 21 Q Okay. You go on to say, "Liquidity limitations
 22 of the WML funds were identified from their
 23 inception in the private placement memorandum and
 24 the discussion at meetings."
 25 A Yes.
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1 Q Now, I will represent to you that I have gone
 2 over a lot of the monthly or quarterly or yearly
 3 meetings that you had with Wealth Management
 4 investors. And in a lot of cases, I will
 5 represent to you and you probably know on your
 6 own, they had needs, whether quarterly or
 7 monthly, to supplement their income.
 8 A Yes.
 9 Q Were you aware of that?
 10 A Yes.
 11 Q And, in fact, as I read these, these people told
 12 you everything about them, their pension plans,
 13 their homes, their cabins in the woods; isn't
 14 that right?
 15 A Yes.
 16 Q You knew everything about them?
 17 A I did.
 18 Q And you knew there was, for almost everybody that
 19 I can find, they had cash needs that they wanted
 20 some of the investment money to throw off some
 21 cash to supplement their income; correct?
 22 A Yes.
 23 Q So, when you planned on making -- and when I say
 24 "you," Wealth Management, you're the head, buck
 25 stops with you. Wealth Management, you had to
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1 A They paid on a 30-day notice. They would pay us
 2 monthly on a 30-day notice.
 3 Q So --
 4 A And --
 5 Q I didn't mean to interrupt you.
 6 A Go ahead.
 7 Q You would give them a notice, let's say you knew
 8 money was coming up, and you had investors in
 9 MKA, and you needed \$100,000 to meet the
 10 liquidity needs of your investors, so you would
 11 give them a 30-day notice, and after that 30 days
 12 they would give you \$100,000 to pay the liquidity
 13 needs of your investors?
 14 A Correct.
 15 Q What business was MKA in -- Again, I'm dealing
 16 with 2003 to the present. So, starting in 2003,
 17 what business was MKA in?
 18 A In the business of lending money to real estate
 19 developers of single-family homes primarily in
 20 the Southwest.
 21 Q And they would lend this money, and somewhat like
 22 insurance policies, when the homes were sold,
 23 they would get paid back?
 24 A Yes.
 25 Q Who was -- I think I asked this already. You
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1 take into consideration the liquidity needs of
 2 your Wealth Management investors; didn't you?
 3 A Correct.
 4 Q So, in any investment you would have put them
 5 into or recommended to them, there would have to
 6 be a way that either it throws off cash or they
 7 can access cash when they need it; correct?
 8 A Correct.
 9 Q And, in most cases, as I read through the
 10 documents that you sent to the investors, they
 11 told you pretty much when they would need and how
 12 much they would need on a year-to-year basis?
 13 A Correct.
 14 Q So their cash needs were no surprise to you?
 15 A Correct.
 16 Q Now, you go on to say, "Liquidity limitations of
 17 WML funds were identified in their inception in
 18 the private placement memorandum and discussed at
 19 meetings." We talked about that already.
 20 "Some submanagers provided monthly
 21 liquidity. Others offered 90-day liquidity."
 22 Can you remember what submanagers provided
 23 monthly liquidity?
 24 A MKA Capital.
 25 Q They paid you on a monthly basis?
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1 didn't do the due diligence on MKA; it was Mr.
 2 Fevola?
 3 A Correct.
 4 Q But, looking at the nature of that investment,
 5 how did MKA get their liquidity when they were
 6 putting it in investments that might be sort of
 7 stuck in mud for quite a while?
 8 A It was my understanding that they made 18 to
 9 24-month loans. So their money was turning over,
 10 as I was told, at least quarterly. There was a
 11 portion that was being turned over and either
 12 distributed out as cash needs, as we would need
 13 it, or reinvested in more short-term loans.
 14 Q Did you look into the leaders of MKA at all, do a
 15 background check on them?
 16 A No.
 17 Q Did you know that they had any other business
 18 difficulties prior to you investing with them?
 19 A No.
 20 Q Would that have made a difference to you, if you
 21 knew that?
 22 A Depending on the situation, it could have, yes.
 23 Q What was the backup plan if MKA didn't have the
 24 liquidity ability to meet your clients' needs?
 25 What was your backup plan?
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1 A My trust was in Mr. Fevola. When we would meet,
 2 the financial planning committee would meet, we
 3 knew how much money the clients needed out of the
 4 funds every quarter and every year.
 5 There was a series of investments made
 6 in all the funds that had the liquidity potential
 7 and, frankly, I trusted Mr. Fevola to provide us
 8 with the liquidity as we needed, based on the
 9 demands of the clients.
 10 Q The insurance premium financing wasn't a
 11 liquidity vehicle; was it?
 12 A It was not. It was -- We understood that had a
 13 two-year hold, after which the portfolios would
 14 liquidate, and we would reinvest or take
 15 distributions after that time. So that was a
 16 two-year-liquidity issue, not a monthly item.
 17 Q So I am going to ask again. I know you would
 18 have these meetings to discuss liquidity issues.
 19 What was the backup plan to meet the liquidity --
 20 Since your two main investments, MKA and
 21 insurance premium financing, were sort of not
 22 very liquid, what was the backup plan to meet
 23 these liquidity needs?
 24 A The other investments we had in the portfolio,
 25 and I can't remember their names right now, I
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1 would have to look at a newsletter to see, but
 2 there were others that would be able to be
 3 liquidated on a quarterly basis, some
 4 semi-annually, some annually.
 5 Q On Page 10 of your Answer to the Amended
 6 Complaint, you write, The Wealth Management
 7 fund's, I'm saying Wealth Management, but you
 8 write, "WM fund's investors chose to make each
 9 investment with knowledge of the WM fund's
 10 investment team, their strategies, liquidity
 11 restrictions, asset allocation, security
 12 selection, investment performance, and other
 13 disclosures that were made by the private
 14 placement memorandum and other information made
 15 available to them. None of the WM fund's
 16 investors loaned money to Putman nor are they
 17 creditors of him or his bankruptcy estate."
 18 That is the entire paragraph. My
 19 question is this. Are you certain, as you sit
 20 here today, that your Wealth Management investors
 21 understood the insurance premium financing
 22 business?
 23 A I don't think that they understand it in detail.
 24 Q And did they understand the intricacies of the
 25 MKA investment?
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1 A I think that they understood the generalities. I
 2 don't know if they understand the intricacies.
 3 Q In fact, weren't they relying on you? Weren't
 4 you the person that they looked to for guidance
 5 on their investments?
 6 A Yes.
 7 Q So the truth is that, if Jim Putman gave his seal
 8 of approval, for most of these people, it seemed
 9 it was good enough for them?
 10 A I think you're right.
 11 Q Now, you go on to say -- Once again, you say,
 12 "All WML funds produced negative returns in 2008.
 13 This information was made available to investors
 14 monthly via the newsletters. The newsletters
 15 were compiled from data supplied to WML by
 16 Woodfield Fund Administration on a monthly
 17 basis."
 18 Again, Woodfield was a submanager?
 19 A Correct.
 20 Q When you say "the information was provided" --
 21 Strike that. "The information was made available
 22 to investors monthly via the newsletters," and I
 23 will go over some of the newsletters, I don't
 24 recall reading any newsletters in 2008, 2009 is
 25 different, that you were having this kind of
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1 difficulty.
 2 Do you have a recollection that you
 3 were disclosing in 2008 that all WML funds were
 4 producing negative returns?
 5 A We produced the returns on a monthly basis, so my
 6 sense is yes.
 7 Q Now, I know you didn't have responsibility for
 8 those newsletters; correct?
 9 A Right.
 10 Q But you understand that the buck ends with you?
 11 A Right.
 12 Q Now, Page 11, Paragraph 14, and I'm just taking a
 13 sentence, but I don't want to take it out of
 14 context, but I am starting in the middle, but I
 15 think you will understand.
 16 It says, "Mr. Fevola coordinated
 17 presentations by representatives of two of the
 18 largest submanagers, MKA Capital, Mike Abraham,
 19 and Jason Sugarman, and RangeTree/UTC, Beau
 20 Gayner, at private investor meetings." Is that
 21 correct?
 22 A Correct.
 23 Q Were you at those meetings?
 24 A Yes.
 25 Q Did you ask Mr. Fevola if he had done a
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- 1 background check on Abraham and Sugarman?
 2 A No.
 3 Q Did you assume he had done that?
 4 A I assumed that he did his due diligence.
 5 Q Let's be specific. My thinking of due diligence,
 6 one of the things that you do is run a background
 7 check on who's running these funds. You don't
 8 know if he did one?
 9 A I don't know if he did one.
 10 Q What about, since it doesn't have his name on it,
 11 Beau Gayner -- Michael Gayner; do you know?
 12 A I don't know.
 13 Q Was there more than one meeting at Wealth
 14 Management where these folks appeared?
 15 A I don't remember if there were. I think it was a
 16 singular meeting for both.
 17 Q I understand that Abraham and Sugarman decided to
 18 invest some money with Wealth Management.
 19 A Correct.
 20 Q Was that after you made the investment in MKA?
 21 A Yes.
 22 Q What happened to the investment they made in
 23 Wealth Management? They eventually liquidated
 24 it; didn't they?
 25 A I think they did. It's my recollection that the
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- 1 requirements that were put upon them."
 2 I think the question is pretty
 3 obvious. On this one you say that most were able
 4 to meet the requirements through 2006. What
 5 happened in 2007?
 6 A Late 2007 is when the economic crisis started
 7 creeping into real estate. Values started
 8 dropping, and the ability for liquidity from the
 9 submanagers started drying up.
 10 Q So, in a sense, you are indicating that the
 11 difficulties didn't occur until later on in 2007?
 12 A That's my recollection, yes.
 13 Q By the way, when was it first brought to your
 14 attention that your folks were expecting their
 15 cash needs to be met and you weren't going to be
 16 able to meet them?
 17 A It was late 2007 or early 2008.
 18 Q And was it Mr. Fevola who told you that or
 19 someone else?
 20 A Mr. Fevola was telling us this.
 21 Q Was this at a meeting?
 22 A We would have weekly investment committee
 23 meetings. I should -- We would have weekly staff
 24 meetings where the investment team would report
 25 to everyone.
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- 1 attorneys for the firm felt that that was an
 2 inappropriate client to have and we should sever
 3 ties.
 4 Q Do you know if employees of Wealth Management or
 5 any of its funds received any remuneration from
 6 MKA?
 7 A We did.
 8 Q What was that?
 9 A We were able to utilize Jason Sugarman's home in
 10 Palm Springs for a Board meeting.
 11 Q Other than that?
 12 A No, not that I know of.
 13 Q Again, I don't want to take it out of context,
 14 you say, "Each year, since the inception, the
 15 Wealth Management -- WML Fund had liquidation
 16 request priorities with many of their
 17 submanagers."
 18 And that's consistent with the fact
 19 that you knew your people needed a certain amount
 20 of money, whether it be monthly, quarterly, or
 21 yearly, to supplement their income?
 22 A Yes.
 23 Q You go on to say, "Most met many of the requests
 24 through 2006, but after the global economic
 25 crisis began, most were unable to meet the cash
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- 1 Q When this came to your attention, were you
 2 shocked?
 3 A I was concerned.
 4 Q What action -- Knowing that most people are there
 5 because of you --
 6 A Right.
 7 Q -- what did you do about it?
 8 A I referred back to Mr. Fevola and was looking for
 9 satisfaction from his ability to liquidate the
 10 funds.
 11 Q Think of Mr. Fevola as a coach. Say he was the
 12 Green Bay Packer coach, and he wasn't getting the
 13 job done. You were 3 and 10 or 3 and 13. Didn't
 14 you think that maybe, since your people were
 15 looking to you and the job wasn't getting done,
 16 that it was time to change coaches?
 17 A That never entered my mind.
 18 Q Okay.
 19 A Up until the time -- If I can add --
 20 Q Go ahead.
 21 A Many of my clients had met with Simone, and they
 22 liked him, they liked the story, they liked the
 23 funds, they liked what was going on. When things
 24 were running well, everyone was happy, and
 25 everyone thought he was an excellent investment
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1 manager.
 2 As you know, we had a Board of
 3 managers, and one of the Board members was the
 4 largest investor that we had, and he had very
 5 close ties with Mr. Fevola and communicated with
 6 him regularly. There was no reason to doubt him.
 7 As my clients trusted me, I trusted
 8 Mr. Fevola and my Board.
 9 Q And that person was Skip Bergmann?
 10 A Right.
 11 Q You write at Page 14, Paragraph 18, "Beginning in
 12 2003, WM provided monthly WM fund newsletters to
 13 inform and provide a means to evaluate WM funds
 14 as an investment."
 15 So you knew that, even though they
 16 weren't yet invested in those funds, the
 17 newsletters might attract them to invest in those
 18 funds?
 19 A My intent was to show them what was happening on
 20 a real-time basis, because this was a very new
 21 investment strategy. They came out of the
 22 stocks-and-bonds world from 2000 to 2003, it was
 23 pretty horrible. Things happened to their
 24 portfolios. They weren't going to move quickly.
 25 Q So they would, presumably, look at these every
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1 because you have them fill out all sorts of
 2 forms, including what you call their "bliss
 3 list"?
 4 A Yes.
 5 Q And the bliss list is like, I want --
 6 A The things they would really like to have.
 7 Q Cabin in the woods or a Ferrari?
 8 A Yes.
 9 Q So you would know everything about not only what
 10 they had, all their assets, whether they were
 11 invested with you or not; correct?
 12 A Right.
 13 Q And what they might wish, whether giving money to
 14 their grandchildren or a charity down the road;
 15 correct?
 16 A Correct.
 17 Q Now, you write in here at Page 15, "WML shared
 18 the monthly newsletters with the WML creditor
 19 investors who qualified as investors either by
 20 assets or income, and they followed Gryphon's
 21 performance for months and some for years."
 22 Meaning before they invested?
 23 A Correct.
 24 Q And a "qualified investor," these only went to
 25 qualified investors?
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1 month, and eventually they would make an
 2 investment when they felt the time was right for
 3 them?
 4 A Correct.
 5 Q You go on and say, that, basically. "Investors
 6 continued to watch the monthly returns reported
 7 in the newsletters. And, when they were
 8 comfortable, they would complete WM fund
 9 subscription documents;" right?
 10 A Right.
 11 Q And they would invest in those funds?
 12 A Right.
 13 Q Now, the nature of your investors, as I can see
 14 from every document that they provided me, was
 15 that they were looking for preservation of
 16 capital, conservative investments, low
 17 volatility, and they didn't want the fear of this
 18 precipitous market decline; is that correct?
 19 A Correct.
 20 Q I would call these, but I am not going to put
 21 words in your mouth, you call them anything you
 22 want, conservative investors, most of them at or
 23 nearing retirement age.
 24 A I would say that's a fair assessment of them.
 25 Q And, if I am reading what they were telling you,
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1 A These went to accredited investors.
 2 Q And what is an "accredited investor"?
 3 A An "accredited investor" is one that has a
 4 million dollars net worth, exclusive of homes,
 5 furnishings, and cars or earnings of \$200,000 per
 6 year.
 7 A "qualified investor," and I'm
 8 stretching here, I might not have it accurate,
 9 has a net worth of two and a half million
 10 dollars, inclusive of furnishings, homes, cars,
 11 things like that.
 12 Q You go on to say at Page 16, finishing out the
 13 last sentence of that, "Investors continued to
 14 watch the monthly returns reported on the
 15 newsletters and, when they were comfortable, they
 16 systematically moved from their traditional
 17 stock-and-bond funds to the other WML funds."
 18 So these were people liquidating what
 19 I would call more-traditional investments to put
 20 it into these funds?
 21 A Correct.
 22 Q Now, you go on to say at the next paragraph,
 23 there is one sentence referring to Paragraph 20
 24 at Page 16, "The WML funds were not presented as
 25 a liquid vehicle and definitely not a vehicle for
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1 cash reserves." What does that mean?
 2 A "Cash reserves" were to be kept in money market
 3 mutual funds, things with immediate liquidity.
 4 Q And I understand that part. The next part, "The
 5 funds were not presented as a liquid vehicle."
 6 What is a liquid vehicle?
 7 A That's something that could be turned to cash
 8 immediately.
 9 Q And you're absolutely certain that your people
 10 who relied on you understood that this was not a
 11 liquid vehicle, these investments? You're sure
 12 of that?
 13 A I can't speak for them. You are asking me to
 14 speak to their way of thinking, and I can't.
 15 Q Many of these people met with you, personally?
 16 A They did.
 17 Q And are you saying, under oath, that you
 18 explained to them that these were not liquid
 19 vehicles?
 20 A Yes.
 21 Q Okay. And by that you meant what?
 22 A They couldn't liquidate the whole position
 23 immediately, at any given time.
 24 Q Did you ever tell them that they might not be
 25 able to get their money out for a long period of
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1 and that all the money that they put in here
 2 might be tied up for a year, two years, maybe
 3 more?
 4 A I can't remember using that language.
 5 Q Subsequent to the difficulties with Wealth
 6 Management and the receiver being appointed, did
 7 you hear from any of your investors who relied on
 8 you?
 9 A Meaning?
 10 Q Did anybody talk to you?
 11 A Yes.
 12 Q Did anybody disclose to you that they were not
 13 aware that their money could be -- that they
 14 could not get their money out?
 15 A No.
 16 Q Weren't there people that had put in for
 17 redemption at various times, especially starting
 18 in 2007, that wanted to get their money out of
 19 these funds?
 20 A Yes.
 21 Q Weren't these people surprised that they couldn't
 22 get their money out?
 23 A I believe they were.
 24 Q And is it your opinion that, at the time that
 25 they made that investment in any of the
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1 time?
 2 A I can't remember saying that.
 3 Q These people, these investors of yours, had
 4 really only been involved in what I would call
 5 traditional investments before investing in these
 6 alternative funds; is that right?
 7 A For the most part, yes.
 8 Q Traditional investments, which I will refer to as
 9 stocks and bonds --
 10 A Mm-hmm.
 11 Q Yes?
 12 A Yes.
 13 Q You generally can get your money out within a
 14 reasonable period of time, in some cases five
 15 days or more and in some cases it depends on --
 16 A Right. Those are marketable securities.
 17 Q Generally, if I needed cash within a
 18 two-or-three-week period of time, I know the cash
 19 will be at my door if I liquidated any of those
 20 securities?
 21 A Correct.
 22 Q Including, let's say, a ten-year bond?
 23 A Correct.
 24 Q Now, are you certain that you disclosed to your
 25 people that this was not that kind of investment,
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1 alternative funds, that they knew that there
 2 might come a time when they could not get their
 3 money out of those funds?
 4 A I don't believe that they would know that.
 5 Q At Page 18 of your Answer, Paragraph 26, you
 6 write, "Baetis and Brown funds' performance from
 7 2004 to 2006 reflected positive above-average
 8 investment returns."
 9 That information could only have been
 10 provided to you by Joe Aaron.
 11 A Correct.
 12 Q So you had to rely on his word in terms of the
 13 above-average investment returns; isn't that
 14 correct?
 15 A It was my intent to stipulate that what I was
 16 relying on is information provided from Joe Aaron
 17 via the fund reports to Mr. Fevola who, in turn,
 18 utilized companies like Woodfield Fund
 19 Administration to calculate the rates of return.
 20 I was relying on Mr. Fevola to see the cash come
 21 in from the sale of policies into the Baetis Fund
 22 as proof that the returns were real.
 23 Q Okay. I'm glad that you brought that up. I
 24 cannot find those documents showing the money
 25 coming into the Baetis Fund from the sale of
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1 those policies. Do you know who has those
 2 documents?
 3 A I don't.
 4 Q Did you ever see those documents?
 5 A No.
 6 Q You only heard about them from other people;
 7 right?
 8 A Correct.
 9 Q Okay. And the only one, to your knowledge, that
 10 would be in possession of those documents, as
 11 best you can tell today, would be Joe Aaron?
 12 A Joe Aaron and, if they were in the possession of
 13 Wealth Management, they would be in the
 14 possession of the receiver.
 15 Q Now, you go on to say, "In his reports to staff
 16 and clients, Mr. Fevola related that Dan Miller
 17 had been profitably involved with life
 18 settlements for ten years before starting
 19 Rangetree."
 20 A Correct.
 21 Q Where did you get that information from?
 22 A From Mr. Fevola. It's my understanding that he
 23 got it from Mr. Miller.
 24 Q Now, I know that you've attended other
 25 depositions.
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1 and that's why I'm going to start at Page 34.
 2 "Q When WatchStone first invested in
 3 the Brown fund in 2004, what was the Brown fund
 4 invested in?"
 5 Mr. Aaron's response, "It is my
 6 recollection that in 2004 Brown sold investments
 7 as premium financing of life insurance policies."
 8 Just to give you the context.
 9 A Yes.
 10 Q Then the question.
 11 "Q Mr. Aaron, when was the first time
 12 that any Wood, Hat & Silver funds invested in
 13 life insurance premium financing?"
 14 And he responds, "Either late 2003 or
 15 2004."
 16 "Q Which fund?"
 17 He responds, "The Caddis Fund."
 18 A Okay.
 19 Q Which we talked about Caddis a little bit. And
 20 then he was asked,
 21 "How was Wood, Hat & Silver introduced
 22 to life insurance premium financing?"
 23 "A By Beau Gayner.
 24 "Q Who is Mr. Gayner?"
 25 "A Mr. Gayner is a former employee of
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1 A Mm-hmm.
 2 Q You have attended Joe Aaron's deposition, you've
 3 attended Tom Riek's deposition; right?
 4 A Yes.
 5 Q As we sit here today, did anything that Mr. Aaron
 6 said at those depositions conflict with the
 7 statement that you just made in this answer, that
 8 you recall?
 9 A I can't recall.
 10 Q How about the fact that this was a new investment
 11 that Rangetree had just started in 2003?
 12 A Yes. Rangetree, as a company, started in 2003.
 13 Q And you're sure that Miller had been in life
 14 settlements with Oppenheimer before that?
 15 A I don't know if it was Oppenheimer. I was told
 16 it was a bank in New York he worked at for at
 17 least ten years of positive experience with this.
 18 Q This is from Joe Aaron's deposition, July 28,
 19 2010, and we have talked about you being in
 20 attendance at that deposition.
 21 A Correct.
 22 Q Page 36. What came before that, by the way, was
 23 Gayner is an employee of Wood, Hat & Silver at
 24 this time, according to this. Let me start at
 25 Page 35. I just need to give you the context,
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1 Wood, Hat & Silver."
 2 Then he says, "When did he introduce
 3 Wood, Hat & Silver to life insurance premium
 4 financing?"
 5 "A 2003.
 6 "Q What was his involvement in life
 7 insurance premium financing when he first
 8 introduced it to you?
 9 "A Mr. Gayner was employed by
 10 Rangetree Strategies. Rangetree is one word.
 11 And he was in charge of capital raising for
 12 Rangetree and contacted me in that capacity.
 13 "Q What was Rangetree's role in life
 14 insurance premium financing?
 15 "A I would call them an aggregator.
 16 "Q What is an 'aggregator'?"
 17 "A An aggregator finds life insurance
 18 policies that are in need of financing.
 19 "Q Did you gain an understanding of
 20 how long Rangetree had been involved in the life
 21 insurance premium financing business?
 22 "A I think I did.
 23 "Q What did you learn?
 24 "A Over a year they had been in the
 25 business and had financed other policies through
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1 other sources of capital."
 2 He goes on to say at Page 37 he
 3 modifies that to two years, and then the question
 4 is:
 5 "Q So you understood that Rangetree
 6 had been in the business for one to two years?
 7 "A Yes.
 8 "Q Did you gain an understanding
 9 about how long life insurance premium financing
 10 had been in existence as an investment?
 11 "A From the information that was
 12 available to me at the time, I concluded I was
 13 the first institutional investor to enter the
 14 space.
 15 "Q What do you mean by 'institutional
 16 investor'?
 17 "A An investor other than an
 18 individual. And it usually implies millions of
 19 dollars that are available to invest."
 20 He goes on to say, by the way,
 21 regarding Dan Miller:
 22 "Q Did you gain an understanding as
 23 to how long, regardless of whether the investor
 24 was an institutional investor or an individual
 25 investor, how long life insurance premium
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1 for ten years. That's what I was told. I didn't
 2 do the research, I didn't do the due diligence.
 3 That's what I was told.
 4 Q Were you aware at the time you were putting your
 5 investors' money into insurance premium financing
 6 that it was a risky or speculative investment?
 7 A I was not aware that it was a risky investment.
 8 Q As you look back on it today, do you believe that
 9 it was risky investment?
 10 A Yes.
 11 Q And, had you known it was a risky investment, you
 12 never would have put their money in there?
 13 A No.
 14 Q You say -- This is Paragraph 27, Page 19, you
 15 say, "The source of the nondisclosed income was
 16 from insurance agents who had processed life
 17 insurance policies that were financed by Baetis
 18 and Brown."
 19 And I just want to make sure that, to
 20 your knowledge, the agents were the aggregators,
 21 or were agents separate from the aggregators that
 22 we have talked about?
 23 A I was told, in fact, when Mr. Riek told me the
 24 source of the revenue, I actually heard both. I
 25 heard aggregators, and I heard agents.
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1 financing has been in existence?
 2 "A Rangetree or the Internet led me
 3 to conclude premium financing had never been done
 4 before. It was a new arbitrage that the
 5 president of Rangetree, Dan Miller, had
 6 discovered when he was an insurance analyst for
 7 Oppenheimer & Company."
 8 That comports with your understanding
 9 that he had been involved for ten years?
 10 A No. The information that I received was that he
 11 was doing life insurance premium financing for
 12 ten years prior to him starting Rangetree.
 13 Q And, again, I know this wasn't your testimony,
 14 but this would be at odds with what you just
 15 said?
 16 A Yes, it would be.
 17 Q And the reason I'm going there is because it's my
 18 understanding that this was a new type of
 19 investment in '03. Is that your understanding?
 20 A The Rangetree investment, I was aware, was a new
 21 fund, yes.
 22 Q But a new type of investing? Insurance premium
 23 financing was new?
 24 A As an institutional investment, yes. It was my
 25 understanding that Mr. Miller had been doing this
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1 Q Okay. These insurance policies where the
 2 premiums were financed, there was a note signed
 3 by the applicant who was taking out the policy
 4 for interest on the premiums that were being lent
 5 that ranged from, I think, 9.9 something percent
 6 up to 15 percent; is that correct?
 7 A I need clarification. Are you saying that the
 8 insured signed notes?
 9 Q Yes.
 10 A Okay. Those I didn't see.
 11 Q Okay. Were you aware of them?
 12 A I was aware that the strategy was paying between
 13 9 to 15 percent back to the investors initially
 14 with some upside on the sale of the policy. I
 15 did not go through the process of filling out the
 16 forms, so I don't know which forms that the
 17 investors signed.
 18 Q Okay. And I understand what you're saying. But
 19 are you aware that, when you financed the
 20 premiums, that at least the applicant or the
 21 applicant's trust signed a note to pay that money
 22 back with interest?
 23 A I was aware that there was a note involved that
 24 was nonrecourse. It was a nonrecourse note.
 25 Q You are absolutely right. And what does it mean
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- 1 to be a nonrecourse note?
- 2 A They are not responsible to pay the note back.
- 3 Q So were you aware that the interest on those
- 4 notes, that the applicant wasn't responsible to
- 5 pay back with one exception or actually two, was
- 6 being booked as income on your monthly
- 7 statements?
- 8 A I remember that that was the methodology used to
- 9 value the investment was the note itself.
- 10 Q Now, you know that the only way, and we have
- 11 talked about this before so I won't spend any
- 12 time with this, if a person died, then the note
- 13 and the interest would get paid off?
- 14 A Correct.
- 15 Q Or if for some reason the insured, during that
- 16 two years, wanted to buy out the policy, they
- 17 would pay back the money that was lent with
- 18 interest, and they own the policy?
- 19 A Correct.
- 20 Q I know I have asked you before, but we don't have
- 21 any record of that ever occurring, of somebody
- 22 buying back their own policy; right?
- 23 A It was only verbalized that there was one case
- 24 that that occurred, and it was the one case of
- 25 death. But I don't have that documentation.
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- 1 Q When do you think he showed you his character?
- 2 A In 1995. When he left Wealth Management -- He
- 3 was the chief investment officer for Wealth
- 4 Management from 1990 to 1995.
- 5 Q Okay.
- 6 A We had taken on a large client, sold his
- 7 business, and Tom had done -- Mr. Riek had done
- 8 quite a business of research into the company
- 9 buying this guy's company. And, instead of
- 10 becoming a Wealth Management client, the
- 11 individual hired Mr. Riek.
- 12 Q Okay.
- 13 A So at that point in time, and this was 1995, my
- 14 attitude was, Mr. Riek is going to take care of
- 15 Mr. Riek.
- 16 Q Okay.
- 17 A Come 2002 -- Between 1995 and 2002 we didn't have
- 18 a great deal of communication. If I remember
- 19 right, 2001 or 2002 Mr. Riek came to me with an
- 20 investment idea that Mr. Fevola took a look at
- 21 and ended up being a very good investment for us.
- 22 That was Argent Capital.
- 23 Mr. Fevola did his homework, met with
- 24 the investment manager in New York. Mr. Fevola
- 25 is formerly a bond manager, bond trader, bond
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- 1 Q Okay. Now, you do at Page 22 what I call a mea
- 2 culpa, you say, middle of the paragraph, "Putman
- 3 co-founded Wealth Management and wanted to help
- 4 clients achieve financial peace of mind." And
- 5 then you go on to say apparently the things that
- 6 you didn't do, "Not scrutinizing the actions of
- 7 this management team further, getting involved
- 8 with Mr. Riek and the Quadrimus entity, not
- 9 verifying that the proper disclosures had been
- 10 made to regulators and clients at all times, and
- 11 not putting investment limits on how Mr. Fevola
- 12 would invest WML fund assets."
- 13 A You are accurate. I wrote that.
- 14 Q And so the one thing that stands out, and I
- 15 appreciate the candor, the one thing that stands
- 16 out is you say "getting involved with Mr. Riek."
- 17 I didn't quite see that in the context of
- 18 everything else. How did that affect anything?
- 19 A In difficult times, the true character of someone
- 20 comes out.
- 21 Q Okay.
- 22 A You don't see that in good times.
- 23 Q I agree.
- 24 A In the case of Mr. Riek, he had shown me his
- 25 character, and I chose to ignore it.
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- 1 research analyst. This was a convertible bond
- 2 arbitrage strategy that we had talked about
- 3 before in the last deposition. Mr. Fevola is
- 4 very familiar with this.
- 5 This was an idea that Mr. Riek brought
- 6 to the firm. Mr. Riek was very aware of the fact
- 7 that I am not an investment guy, I'm a financial
- 8 planning guy. I deferred all due diligence to
- 9 Mr. Fevola. The investment worked out so well
- 10 that I thought I could put the past behind.
- 11 Q When did you find out, after that, that you
- 12 couldn't? When was the first time that it came
- 13 to your attention that maybe your first instincts
- 14 were the right ones?
- 15 A During the deposition -- his deposition.
- 16 Q Okay. And, as I understand it, two things in his
- 17 depo that would stand out would be that he
- 18 represented -- he told you this was a risky or
- 19 speculative investment back in 2003 or 2004; and
- 20 that in 2009, after court, that you whispered in
- 21 his ear that you never told Mr. Fevola to make
- 22 the proper disclosures.
- 23 A Correct.
- 24 Q Okay.
- 25 A Minor issues, but it spoke volumes.
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1 Q And you are saying he was incorrect?
 2 A My perspective, he was correct.
 3 Q He was incorrect?
 4 A Incorrect. I don't agree with what Mr. Riek said
 5 in his deposition.
 6 Q In regard to, at least, those two things?
 7 A Those two.
 8 Q There may be more, but at least those two things?
 9 A Right.
 10 MR. MELNICK: Let's take a quick
 11 break.
 12 (Recess taken)
 13 MR. MELNICK: Back on the record.
 14 Q I want to ask you about some of these financial
 15 statements. Now, I know you didn't prepare them;
 16 right?
 17 A Right.
 18 Q But I just found them interesting, and so we go
 19 back to back here. I'm showing you four
 20 financial statements, one from Gryphon for
 21 December 31st, 2005; one from WatchStone,
 22 December 31st, 2005, prepared by the Altschuler
 23 firm. And then the same fund, Gryphon for
 24 December 31st, 2006, and WatchStone from December
 25 31st, 2006, McGladry.
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1 individuals.
 2 Q As best you can then, do the best you can, look
 3 at the -- this is December 31st, 2005. Now, I
 4 have this yellow Post-it down there. See what it
 5 says here? Promissory notes, one at 13 percent,
 6 secured; one at 10 percent, unsecured. Do you
 7 know what those promissory notes are in Gryphon?
 8 A No.
 9 Q Okay. Did you sign any promissory notes for that
 10 amount of money that's listed in this statement?
 11 A No.
 12 Q Now, this is also December 31st, 2005. This is
 13 for WatchStone; correct?
 14 A Yes.
 15 Q And then you go down here again. This says,
 16 Notes Maturing, 2006; Notes Maturing. They're
 17 both at 13 percent?
 18 A Yes.
 19 Q And do you see where it says, Secured Promissory
 20 Notes?
 21 A Yes.
 22 Q Do you know what secured promissory notes that
 23 they are talking about?
 24 A No.
 25 Q Do you think it's the insurance company notes?
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1 Okay. Now, first of all, at least
 2 according to other testimony in depositions, the
 3 reason there was a change between the accountants
 4 in '05 and accountants in '06 was at your,
 5 meaning Wealth Management, request. Do you know
 6 anything about that, why you changed accountants?
 7 A I don't remember.
 8 Q Who was in charge of getting the accountants for
 9 Wealth Management?
 10 A Mr. Fevola.
 11 Q Did he disclose to you why he changed
 12 accountants?
 13 A I think we were all aware that he changed
 14 accountants.
 15 Q But you don't know why, as you sit here today?
 16 A I can't remember why. I have to believe he told
 17 us, but it wasn't a key issue for me.
 18 Q Sure. I want to show you -- And you're not an
 19 accountant?
 20 A Correct. I am not.
 21 Q But, as you said, you do financial planning?
 22 A Correct.
 23 Q So you're used to reading financial statements;
 24 aren't you?
 25 A Occasionally. The financial planning I did was
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1 A I mean, if you are asking me to speculate -- I
 2 would be guessing.
 3 Q I appreciate you telling me that. And then if
 4 you look at the -- According to this, this is the
 5 WatchStone statement of cash flow; is that
 6 correct?
 7 A Correct.
 8 Q It shows here an increase in net assets; do you
 9 see that?
 10 A Yes.
 11 Q And it shows income as being a negative?
 12 A Yes.
 13 Q And then it shows down here at the column that
 14 says Net Cash Used in Operating, do you see where
 15 it says that?
 16 A Yes.
 17 Q What is that figure?
 18 A Negative \$35,361,542.
 19 Q Did you know WatchStone was running a negative
 20 number in '05?
 21 A No.
 22 Q Now, look at '06. This is a new accounting firm.
 23 This is now Gryphon.
 24 A Okay.
 25 Q Take a look. It says here Promissory Notes, this
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- 1 is maturing in 2008, and this is maturing in
 2 2008, interest 9.95; is that correct?
 3 A Correct.
 4 Q That's unsecured?
 5 A Yes.
 6 Q And interest, 10 percent, unsecured?
 7 A Correct.
 8 Q And these notes total about \$27 million?
 9 A Correct.
 10 Q \$27,804,000?
 11 A Correct.
 12 Q Those unsecured promissory notes, again, to your
 13 understanding, do you know if they are the
 14 insurance notes tied in with these policies?
 15 A I don't know.
 16 Q Do you know of any other notes for Gryphon Fund
 17 payable in 2008 for \$27 million?
 18 A No.
 19 Q Would a \$27 million note come to your attention,
 20 if somebody owed you \$27 million?
 21 A Yes.
 22 Q Even though Mr. Fevola might have been
 23 responsible, that kind of money would have come
 24 to your attention?
 25 A I don't understand the question.
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- 1 investment strategy, it wouldn't come to my
 2 attention. If it was something owed to me,
 3 personally, it would come to my attention. The
 4 management of this fund was the responsibility of
 5 Mr. Fevola, positive or negative. I delegated
 6 him, and I trusted him.
 7 Q The way I see this setting up, and given these
 8 percentages, I see these on the insurance
 9 policies, and what I'm getting at is, these look
 10 like the cumulative notes on the insurance
 11 policies to me. That's what I am trying to ask
 12 you about, really.
 13 A And I can see why you say that. If I saw a
 14 document that connected the two, I would give you
 15 a positive response.
 16 Q What I'm asking you is, if it's not the insurance
 17 policies, if somebody owed you in the other case
 18 \$27 million and in this case \$13 million,
 19 wouldn't you have known about that?
 20 A I think I would.
 21 Q Here again, it's the same thing with the numbers
 22 here. It says that the net cash used in
 23 operations is 2006. It's a negative \$10 million;
 24 do you see that?
 25 A I do.
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- 1 Q Meaning that I know you weren't responsible for
 2 the creation of these documents. But, if
 3 somebody had a note to you for \$27,804,000, you
 4 would know about it; wouldn't you?
 5 A Correct.
 6 Q Okay. Now, on the notes for '06, it talks about
 7 the whole thing with compensation, and you are
 8 aware of that, because I went over this with you
 9 last time, and that's why I'm not doing it again.
 10 A The disclosure of the Quadrimus money, yeah, we
 11 were aware of that.
 12 Q And it has that in the notes. And then look at
 13 this one. This is now the other -- This is
 14 WatchStone, and on WatchStone it says that notes
 15 maturing during 2007, one at 13 percent, and
 16 notes maturing during 2008, this is at 9.9, and
 17 this totals \$13 million; correct?
 18 A Correct.
 19 Q But it says secured promissory notes; correct?
 20 A Correct.
 21 Q If it's a secured promissory note for
 22 \$13,231,000, wouldn't that have come to your
 23 attention?
 24 A I need to respond in context. This, being an
 25 investment entity, if it was part of the
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- 1 Q I mean, if WatchStone had a negative 10 million,
 2 wouldn't somebody have brought that to your
 3 attention in '06?
 4 A They would have. But, as I see from this report,
 5 in 2007 it appears there are redemptions of
 6 \$14,775,000, which is distributed out of the
 7 fund. If that fund left the fund, I could see
 8 why there would be on \$10 million negative. And,
 9 further on that point, I think I made the point
 10 in my Answer to your --
 11 Q Complaint.
 12 A -- Complaint that from 2004 up through 2007 there
 13 are many millions of dollars that were
 14 distributed to investors from the funds. That
 15 could be part of it. But, again, that's my
 16 supposition.
 17 Q I understand. It also talks about, in December
 18 31st, 2006, it says, "Subsequent to year-end
 19 credit and liquidity crisis in the United States
 20 and throughout the globe," this is now the
 21 accountant's note, it says -- Note No. 1, the
 22 last paragraph is where I'm on. "As a result,
 23 the partnerships' investments have incurred a
 24 decline in fair values since December 31st,
 25 2006." Do you see that?
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- 1 A I do.
 2 Q Did your Wealth Management investors know that,
 3 as of the end of -- December 31st, 2006, that the
 4 partnerships' investments had declined in fair
 5 value?
 6 A They would have known the valuations on a monthly
 7 basis, as evidenced by the newsletters. I will
 8 have to defer back to them. If we can look at
 9 them --
 10 Q And we can. I just want your recollection.
 11 A Can I look --
 12 Q Take whatever you want. If I told you that, in
 13 fact, the monthly newsletters in no way
 14 reconciled with what the accountant wrote in
 15 there, what would be your reaction?
 16 A I would like to see the newsletters. You are
 17 inferring that at the end of '06 that the
 18 investors were not informed of the decline of the
 19 account values?
 20 Q Right.
 21 A But this says through the end of the year, so
 22 they are really referring to 2007, not 2006.
 23 Q I'll give you that.
 24 A It's a fact, and you have to give it to me. Now
 25 the fact, these audits were usually not completed
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- 1 A Oh, yes.
 2 Q And it made valuing the life insurance policies
 3 very difficult; didn't it?
 4 A Yes. And there was another investment that we
 5 had in the Washington Fund that structured
 6 settlement buyouts. Their fund was dramatically
 7 impacted because of the accounting procedures.
 8 So just about everything we invested in was
 9 affected by this.
 10 Q And would it be fair to say negatively affected?
 11 A Definitely.
 12 Q I didn't want to put words in your mouth. Again,
 13 and the accountants go through the same thing
 14 with regard to the monies that were distributed
 15 through Quadrimus. Here's my question. I agree
 16 with you that these things are done afterwards,
 17 the 2005 done by the other accounting firm was
 18 completed or at least published in June of 2006.
 19 A Okay.
 20 Q The 2006 didn't come out until January of 2009.
 21 A Okay.
 22 Q How would your investors -- Strike that. By the
 23 time that these financial statements for 2006
 24 came out, the Titanic was already going down;
 25 wasn't it?
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- 1 for four to six months into the year. It would
 2 take the accounting firm a long time to do that.
 3 In some instances, we had audits that were
 4 reworked because of a submanager's audit either
 5 not being completed on time or not being
 6 completed at all.
 7 Q Okay.
 8 A So I would still defer, you know, if we look at
 9 the monthly statements, and that's what I am
 10 going from, if we go through the monthly
 11 newsletters, if there were negative returns
 12 generated by the funds, they were reported in the
 13 newsletters. At least that's what I was led to
 14 believe.
 15 Q This says, "As a result, the partnership's
 16 investments have incurred a decline in fair value
 17 since December 31st, 2006," which I think you are
 18 accurately saying would have then shown up in
 19 2007; correct?
 20 A That's my assumption.
 21 Q Now, they also talk about significant accounting
 22 policies with regard to evaluation. Take a look
 23 at Note 1.
 24 A Okay.
 25 Q Were you aware of that?
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- 1 A Correct.
 2 Q So they couldn't -- If your investors looked at
 3 these, it was already too late to act?
 4 A Correct.
 5 Q Okay.
 6 A That is why we did the monthly newsletters.
 7 Q We'll go through this quickly. In each case what
 8 I will do, Mr. Putman, and you have been through
 9 this, I will give you the original, and then I
 10 will ask you questions about it; okay?
 11 A Okay.
 12 Q Showing you Exhibit No. 1. Do you recognize this
 13 document?
 14 A I do.
 15 Q Okay. And that's Joe Aaron's signature on the
 16 bottom?
 17 A I can't attest to that. I don't know his
 18 signature.
 19 Q But it purports to be the Gryphon Fund
 20 investments in Baetis; is that correct?
 21 A Correct.
 22 Q Now, you see where it says Net Gains and Losses?
 23 A Yes.
 24 Q And, other than 2008, it shows gains for every
 25 year; does it not?
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- 1 A Correct.
- 2 Q What are those gains based upon, if you know?
- 3 A It's my understanding it was a combination of
4 increased values of the notes, the sales of
5 policies. I should leave it at that. The sales
6 of policies and increased value of the notes.
- 7 Q And, based on Exhibit No. 1, this is the kind of
8 information that you would have dispensed to your
9 investors?
- 10 A This is the information that would have been
11 provided to Woodfield, who would then create the
12 information that we would pass on to our
13 investors via the monthly newsletter.
- 14 Q Is it fair to say the account balance is also a
15 net asset value? Do you see that last column
16 where it says Account Balance?
- 17 A That would be my assumption, that it would be the
18 net assets value of the fund in total.
- 19 Q Even though in '07 \$12,700,000 was taken out; do
20 you see that?
- 21 A Correct.
- 22 Q Given the increase in the fund, the value only
23 went from \$39 million to \$31 million?
- 24 A Correct.
- 25 Q Show you what has been marked as Exhibit No. 2.

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- 1 and Pyxis are strategies that target minimizing
2 portfolio losses.
- 3 Q And, as I understand it from the next page, the
4 Andersons decided to go along with it?
- 5 A Yes.
- 6 Q Show you what has been marked as Exhibit No. 3.
7 This is dated October 23rd, 2003. By the way,
8 these are all in chronological order. I will
9 represent that to you. This involves Laritson
10 and Melendy, October 23, 2003; is that right?
- 11 A Yes.
- 12 Q And here it says, at the end of the fourth
13 paragraph, "If John's concern was focused more on
14 stability of principal and minimizing losses, we
15 may want to consider utilizing a different
16 investment strategy."
- 17 Was his concern focused on stability
18 of principal and minimizing losses?
- 19 A Yes.
- 20 Q In fact, most of your investors were focused on
21 stability of principal and minimizing losses;
22 weren't they?
- 23 A Yes. Especially after the prior three years.
- 24 Q And you explained the pros and cons of the
25 Gryphon Fund?

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- 1 I am going to ask you if -- First of all, the
2 format of the document, is this a document
3 created in the ordinary course of business by
4 Wealth Management?
- 5 A Correct. Yes.
- 6 Q And in this case it shows you and Mr. Fevola and
7 Don Smith met with Bob and Mae Anderson; does it
8 not?
- 9 A Yes.
- 10 Q This is August 11, 2003?
- 11 A Correct.
- 12 Q And they are telling you what they are looking
13 for in terms of return of their investment; is
14 that right?
- 15 A Right.
- 16 Q And you said, "To generate a 6 percent yield on
17 the portfolio, we would have to allocate a
18 majority of the portfolio to our Gryphon Fund and
19 change the equity investments to our Pyxis
20 portfolio, both of which provide strategy
21 targeted at minimizing portfolio losses."
- 22 Are you saying that Gryphon Fund and
23 the Pyxis Fund were better at preventing losses
24 than the Pimco Low-Saturation Bond Fund?
- 25 A No. What we're saying here is the Gryphon Fund

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- 1 A Yes.
- 2 Q "Jim recommended we sell market underperformers,
3 consider selling the market performers, and John
4 may wish to hold onto the market outperformers
5 and shift them to an unmanaged account."
- 6 A Correct.
- 7 Q Is that correct?
- 8 A Correct.
- 9 Q That's the kind of advice you were giving at the
10 time?
- 11 A Correct.
- 12 Q I am going to skip some of these, because we've
13 covered a lot of this. I'm going to show you
14 Exhibit No. 5. Again, for the record, I have
15 skipped some and will be doing that. Although
16 these were marked in order, they are not going to
17 be in order. That's my fault.
- 18 According to this, you informed Mr.
19 John M. Laritson that Wealth Management does not
20 manage individual stock portfolios any longer?
- 21 A Correct.
- 22 Q Why?
- 23 A It was a disaster. Going into the end of the
24 '90s, we maintained a portfolio strategy using
25 diversified, no-load mutual funds, which

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1 investors, as with John, were not very happy
 2 because they weren't hitting the 20 and 30
 3 percent rates of return seen from '97 to '99.
 4 As a result, I hired an investment
 5 manager from Wisconsin Rapids, Mr. John Moffett,
 6 who purported to be a stock manager. He was the
 7 manager for the investments at Wood County Trust
 8 Company in Wisconsin Rapids.
 9 Listing the clients, I brought in the
 10 stock manager, John Laritson and John Moffett
 11 would talk, and I can't remember if John Laritson
 12 invested in the individual stocks recommended by
 13 Mr. Moffett. But we found that, as a result,
 14 going into 2000 and 2003, clients were
 15 increasingly unhappy with individual stock
 16 portfolios, they were more unhappy with stocks in
 17 general, and they demanded that we practice
 18 wealth management and do something to maintain
 19 their wealth and not lose it in the stock market.
 20 John had managed a number of stocks on
 21 his own for many years, and he liked doing that.
 22 We told him that we're not going to manage
 23 individual stock portfolios, we are going to
 24 mutual funds and stocks and bonds or mutual --
 25 stock-and-bond mutual funds, excuse me, with
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1 A That was my understanding, yes.
 2 Q Okay. That Brown's investment in insurance
 3 premium financing, that the \$15 million grew to
 4 \$24 million as of '07 -- at the end of '07;
 5 right?
 6 A That's what the report says, yes.
 7 Q Now, if we assume that the first policies were
 8 put in in '04; is that right?
 9 A Right.
 10 Q Two years is the noncontestability policy, so
 11 that's '06?
 12 A Right.
 13 Q How did the approximately 1.65 million rise for
 14 '04 and '05 when in those two years the money was
 15 sort of lying fallow in those policies?
 16 A It was my understanding that it was the
 17 accumulation of interest due on the notes that
 18 were made from the policies.
 19 Q They booked the interest; right?
 20 A That's my understanding.
 21 Q Now, in fact, going back to those financial
 22 statements, some statements show these being
 23 secured and some were unsecured; do you remember
 24 that?
 25 A Yes.
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1 their Pixus portfolios, and we created the fund
 2 Gryphon Fund for an alternative strategy.
 3 Mr. Laritson wanted to hold on to
 4 stock, so we created an unmanaged account that
 5 moved the stocks that he wanted in that account,
 6 maintained it at Schwaab so we could monitor it,
 7 and we did not manage nor provide advice on that,
 8 even though we helped him to sell stocks when he
 9 wanted to sell them.
 10 Q Showing you what has been marked as Exhibit 9.
 11 Do you recognize that document?
 12 A Yes.
 13 Q Now, this is akin to the earlier one, except this
 14 one involves WatchStone's investment in Brown;
 15 does it not?
 16 A Yes.
 17 Q Once again, every year, if you look under Net
 18 Gains/Losses, every year it shows gains?
 19 A Yes.
 20 Q It says that the total investment in Brown was
 21 \$15 million?
 22 A Yes.
 23 Q And then the \$15 million, as a result of Brown's
 24 investments -- As I understand, Brown only
 25 invested in insurance premium financing?
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1 Q On a nonrecourse note, I didn't see anything that
 2 showed me that any of those notes were secured.
 3 Do you know any that were secured?
 4 A I don't know of any that were secured or not
 5 secured.
 6 Q If it's nonrecourse, in your mind, is that
 7 secured or unsecured? Nonrecourse note.
 8 A The nonrecourse aspect, as I understand, was that
 9 the client, the individual investor's trust, was
 10 not responsible for the note.
 11 Q Right.
 12 A But, if the note was backed by an insurance
 13 policy that had value, then it could easily be a
 14 secured note.
 15 Q But the insurance policy would only have value if
 16 the premiums were being paid on it?
 17 A Yes.
 18 Q You asked about, and we'll go through these now,
 19 starting in '03. Show you what has been marked
 20 Exhibit No. 10. First of all, identify the
 21 generic aspect of the document. What is it?
 22 A This is our monthly newsletter.
 23 Q What you were referring to in your earlier
 24 testimony?
 25 A Yes.
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- 1 Q This is dated March 5th?
- 2 A Correct.
- 3 Q For the Gryphon Fund?
- 4 A Correct.
- 5 Q Now, on the top of this, and every one is laid
- 6 out the same; isn't it?
- 7 A Substantially the same, yes.
- 8 Q And it says the date of it, and the return, 1.14,
- 9 that's for the month?
- 10 A That's correct.
- 11 Q YTD is year to date?
- 12 A Correct.
- 13 Q 2.55 percent?
- 14 A Correct.
- 15 Q And then "since inception," meaning since the
- 16 fund started, which you have listed down here as
- 17 2003 -- May of 2003; do you see that?
- 18 A Correct.
- 19 Q It's made 19.12 percent?
- 20 A Correct.
- 21 Q And, in the narrative, it shows -- Well, number
- 22 of investors, 90. Closed to new investors?
- 23 A Yes.
- 24 Q However, did you open it up to new investors
- 25 after March of 2005?

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- 1 Q And then there is Strategic?
- 2 A Mm-hmm.
- 3 Q What is that?
- 4 A My best recollection, Strategic was a stock
- 5 trading strategy.
- 6 Q And then there is another big piece of the pie.
- 7 What's that?
- 8 A Stewardship.
- 9 Q What is that?
- 10 A I don't remember.
- 11 Q Okay. I am going to show you what has been
- 12 marked Exhibit No. 11, which I will purport to
- 13 you you have seen before, because it was used in
- 14 Mr. Aaron's depo.
- 15 A Okay.
- 16 Q And it appears to be an E-mail from Joe Aaron to
- 17 Beau Gayner on Page 1.
- 18 A Correct.
- 19 Q And then on Page 2 which, if you read E-mails,
- 20 you know they go from back to front; right?
- 21 You're reading up the page.
- 22 A Yes.
- 23 Q So this one actually came first. This went to
- 24 Beau Gayner and others regarding this meeting
- 25 that was to take place?

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- 1 A I believe there were some, yes.
- 2 Q And then you say, "Gryphon posted a fifth
- 3 consecutive quarter in excess of its absolute 2
- 4 percent return target and continues to far
- 5 outperform bond market returns."
- 6 A Correct.
- 7 Q And that was your constant comparison, it was to
- 8 the Merrill Lynch Master Bond Index?
- 9 A Yes.
- 10 Q Why did you pick that one as the comparison?
- 11 A Mr. Fevola picked it, because it was the blend of
- 12 bonds that investors could just about duplicate
- 13 with a mutual fund. So, if they didn't do this,
- 14 they would do that.
- 15 Q Now, on the back of it, which for some reason
- 16 yours doesn't have it, so I'm going to help you
- 17 out, it does have an allocation; doesn't it?
- 18 A Correct.
- 19 Q That's what you were talking about?
- 20 A Correct.
- 21 Q In this case, when you talk about Rangetree, you
- 22 are talking about insurance premium financing?
- 23 A Correct.
- 24 Q And MKA was the real estate fund?
- 25 A Correct.

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- 1 A Correct.
- 2 Q Were you at this meeting?
- 3 A What is the date on it?
- 4 Q It has your name on the bottom, if you look.
- 5 That's why I wanted you to -- Look at the next
- 6 page.
- 7 A July 8, 2005.
- 8 Q Do you see where it says, "Good morning"?
- 9 A Yes.
- 10 Q Go down to the bottom where it says "Jim."
- 11 A Correct.
- 12 Q I assume that's you?
- 13 A That looks like it could be. I don't use a
- 14 diamond underneath my name.
- 15 Q It also says, "James E. Putman CFP."
- 16 A Correct.
- 17 Q That's Certified Financial Planner; right?
- 18 A Correct.
- 19 Q Is "Visionary" a degree?
- 20 A No. That was a moniker.
- 21 Q Moniker?
- 22 A A moniker.
- 23 Q Did you always use that?
- 24 A Nope. Our marketing committee thought that would
- 25 be a good thing for me to use, which I terminated

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1 soon after that.
 2 Q Now, do you remember what that meeting was about?
 3 A Yes.
 4 Q Okay. So it talks about MKA getting involved in
 5 captive insurance companies and how they can be
 6 integrated with a private placement life
 7 insurance company.
 8 A Correct.
 9 Q Do you remember that discussion?
 10 A Yes, I do.
 11 Q What was that about?
 12 A The people that were on this E-mail, Beau Gayner;
 13 Dave Meier, who was a Wealth Management client;
 14 Jason Sugarman; Keith Johanneson; Skip Bergmann,
 15 all have either lots of assets or high income.
 16 In our discussion and our financial planning
 17 meetings, invariably we would love to be able to
 18 grow our assets in a tax-protected manner.
 19 Q And you considered this to be that manner?
 20 A It could be either tax protected or it could be
 21 substantially profitable and they would have to
 22 pay taxes on it. However, there was a layer on
 23 this that could eliminate 90 percent of the
 24 income tax.
 25 Captive insurance companies,
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1 basically, are created by a party, it could be a
 2 company, an individual, and it allows the
 3 utilization of the insurance laws to create a
 4 company by which they can invest in a variety of
 5 different things, in essence creating something
 6 similar to a private mutual fund.
 7 And these go on -- I don't know if --
 8 I haven't followed up on this since, but it was
 9 something that I was looking into for these high-
 10 income and high-net-worth clients.
 11 Q He talks about the US Virgin Islands. Did you go
 12 and talk to their economic development people?
 13 A I did. I talked to the head of the economic
 14 development entity. I can't remember her name
 15 right now, but I have it in my contact files.
 16 Beau was looking to create a captive
 17 insurance company. As he explained to me the
 18 benefits of it, I thought it applied to the
 19 others.
 20 Q He wanted an off-shore captive insurance company?
 21 A No. They're on-shore.
 22 Q Did he talk about an off-shore company?
 23 A I can't remember.
 24 Q Did you do any investing in any Virgin Island
 25 companies?
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1 A No. The US Virgin Islands have -- their economic
 2 development corporation has a corporate benefit.
 3 If you create a company and provide jobs on
 4 island that produce goods and/or services for off
 5 island, then you qualify for their ADC discount,
 6 which is 90 percent from US income taxes. And
 7 the US Virgin Island income tax program was a
 8 mirror of the US.
 9 Q But, as good as it is, you didn't do anything
 10 over there?
 11 A It took a lot of money. It would take a lot of
 12 money and, for these gentlemen here, redirecting
 13 of their corporate assets to do something else.
 14 They were looking for an option. I found one.
 15 By the time we did our analysis, it
 16 was too much work. And, for these gentlemen, Mr.
 17 Johanneson especially, along with Mr. Meier and
 18 and Mr. Sugarman and Mr. Bergmann, all of them,
 19 they would have to spend substantial time in the
 20 Virgin Islands, either St. Thomas, St. Croix, or
 21 St. John's, and they weren't willing to do that.
 22 Q Show you a document that has been marked Exhibit
 23 No. 12. This is a document prepared by the
 24 Securities and Exchange Commission and sent to
 25 Joseph Aaron on behalf of Wood, Hat & Silver.
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1 First of all, take a look at the document and
 2 tell me if you have ever seen this before. It's
 3 20 pages.
 4 A I don't remember seeing this before.
 5 Q Just to categorize, Failure to Disclose Expense
 6 Reimbursements from a Third Party, that's MKA.
 7 Failure to Disclose Sales Interest of Related
 8 Person, Failure to Disclose a Major Investor's
 9 Influence Over Certain Funds' Investment
 10 Decisions and Side Letter Agreements that
 11 Accorded Preferential Treatment to that Investor,
 12 Failure to Comply with Offering Memorandum
 13 Representations and Terms of Partnership
 14 Agreement, Performance Advertising, Hedge Clause
 15 under Section 206, Solicitor Oversight, Internal
 16 Controls, Policies and Procedures Manual.
 17 Page 12, Valuation, look under B. Can
 18 I ask you a question? I know you haven't read it
 19 previous to today; right?
 20 A Correct.
 21 Q Mr. Aaron would have received this around August
 22 17, 2005. Did he disclose the contents of this
 23 to you -- of Exhibit 12?
 24 A Not that I can remember.
 25 Q Do you know if he disclosed it to Mr. Fevola?
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1 A I don't know that, either.
 2 Q Did you ask him about -- Strike that. Did he
 3 disclose anything to you about, I know you talked
 4 to me about the earlier problems with the SEC,
 5 about the results of the 2005 investigation?
 6 A To my best recollection, it was not Mr. Aaron, it
 7 was Mr. Riek.
 8 Q Mr. Riek told you about this?
 9 A He told me that he was no longer going to be an
 10 employee of Mr. Aaron. He was going to set up
 11 his own investment advisory firm. That's my best
 12 recollection.
 13 Q Because of what? Because of stuff that Mr. Aaron
 14 was doing?
 15 A No. He said that the -- Again, I am recalling.
 16 And I probably shouldn't guess.
 17 Q Because of SEC regs that required him to register
 18 and, therefore, he had to get out from being an
 19 employee of Aaron? Is that what you were going
 20 to say?
 21 A General context, that's what I heard.
 22 Q That was 2004. This is 2005.
 23 A Okay.
 24 Q You have already -- Let me make sure. You folks
 25 had already invested a fair amount of money with
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1 Mr. Aaron in 2005; hadn't you?
 2 A Correct.
 3 Q And by August of 2005 you don't have your toe in
 4 the pond, you have both feet there?
 5 A Correct.
 6 Q So are you saying -- Did anybody tell you about
 7 the results of the SEC investigation after August
 8 of 2005?
 9 A To my best recollection, no.
 10 Q I know you are speculating on your own intent.
 11 But, had you seen this report and the contents
 12 thereof, would you have continued to do business
 13 with Joe Aaron?
 14 A No.
 15 Q You wouldn't have put your Wealth Management
 16 investors' money at risk, based upon Exhibit 12;
 17 would you?
 18 A Nor mine.
 19 Q Show you Exhibit 13. This is, again, your --
 20 what do I call it, minutes of when you met --
 21 A Meeting notes.
 22 Q And this is Daniel and Helen Cloud, October 10,
 23 2005. They have, on October 15, 2005, their
 24 entire portfolio invested in Gryphon.
 25 A Correct.
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1 Q Except for the money market?
 2 A Yes.
 3 Q And you recommended that they utilize WatchStone,
 4 third paragraph down?
 5 A Yes.
 6 Q Now, just generally, assuming everything was
 7 swimming, you were basically putting most of
 8 their assets in the same kind of investment;
 9 weren't you?
 10 A Yes.
 11 Q Do you think that's a good idea, generally?
 12 A Generally, no.
 13 Q You made an exception in this case, because you
 14 thought it would be a better return?
 15 A I had full confidence in Simone and the funds,
 16 that this was the best thing to do with our
 17 collective monies.
 18 Q Look under Insurance on the second page. It says
 19 that you proposed to Dan the opportunity for a
 20 financed life insurance policy on him.
 21 A Yes.
 22 Q Like you did on Mr. Smith and --
 23 A Mrs. Stewart.
 24 Q You said that, "Rangetree will arrange for
 25 financing of the policy, and Dan will be required
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1 to take a physical." I am not aware of Rangetree
 2 ever financing any policy. Are you saying they
 3 did, or did they use your money -- your clients'
 4 money to finance the policy?
 5 A I am just reading from my notes, that Rangetree
 6 arranged for the financing for the two years.
 7 Q And I understand that's what it says. I am not
 8 disagreeing with you. What I'm saying is, are
 9 you -- do you have any evidence that Rangetree
 10 ever used their own money or any other investor
 11 money, other than Wealth Management clients'
 12 money, to invest in premium financing?
 13 A No.
 14 Q So, when you say Rangetree will make
 15 arrangements, it was really Wealth Management
 16 investors' money that was going to be applied to
 17 the premiums -- to pay for the premiums; wasn't
 18 it?
 19 A That's very likely true, yes. Rangetree was the
 20 investment vehicle that would be providing this.
 21 Q As an aggregator?
 22 A That's probably an accurate statement, yes.
 23 Q Because I thought in '05, at this point in
 24 October of '05, I thought that Joe Aaron was
 25 doing all of this through Baetis and Brown.
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1 A And Rangetree was an investment in Baetis and
 2 Brown or at least Baetis.
 3 Q Rangetree was an investment in Baetis? Rangetree
 4 was putting money into Baetis?
 5 A No. Rangetree was a submanager investment of --
 6 Well, I shouldn't say that. It was my
 7 understanding that Rangetree was an investment
 8 within Baetis, and the Wealth Management funds
 9 invested in Baetis with Rangetree as a
 10 submanager.
 11 Q Okay. Show you what has been marked as Exhibit
 12 14. Again, would you just describe what we are
 13 looking at.
 14 A This is the monthly newsletter for WatchStone.
 15 Q And this is October 2005?
 16 A Correct.
 17 Q And, again, the year-to-date on this is 8.49
 18 percent?
 19 A Correct.
 20 Q And, since the inception, which according to this
 21 WatchStone just started in October of '04?
 22 A Correct.
 23 Q So we're talking about a one-year performance?
 24 A Correct.
 25 Q 11.77 percent return. And it says Assets Under
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1 these 16 policies?
 2 A I would be speculating. I don't know.
 3 Q And in October of '05 is when Riek approached you
 4 about splitting fees; isn't it?
 5 A That's my best recollection.
 6 Q Then it goes on to say, "At inception, the
 7 contracts were structured to pay an annual
 8 interest rate of 13 percent to the financier,"
 9 which is WSP. WSP, I assume, is WatchStone
 10 Partners?
 11 A Correct.
 12 Q Okay. "And transfer ownership to the structuring
 13 entity, Rangetree." Are you kidding? Is that
 14 the way it worked, that they transferred
 15 ownership to Rangetree?
 16 A I can't answer that.
 17 Q Do you know of any policy where ownership was
 18 transferred to Rangetree?
 19 A I don't.
 20 Q At then it says, "At the end of two years, the
 21 insured must repay the loan and any outstanding
 22 interest." That's not true; is it? I know you
 23 didn't write this. I am just asking, is that
 24 true?
 25 A If this is true, it has to be designated in the
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1 Management, \$39 million; do you see that?
 2 A Yes.
 3 Q And all of WatchStone's money was in insurance
 4 premium financing?
 5 A No. At the time, 42 percent was in MKA.
 6 Rangetree is 27 percent. Strategic Bonds, 5.6,
 7 SageCrest, 13.5. MAP, if I'm not mistaken, was a
 8 gas -- Natural Gas Royalty Interests, there you
 9 go, .4 percent. Kayne, K-a-y-n-e, Anderson
 10 Capital Income Partners was a fund-to-funds with
 11 different strategies. And the WML piece was --
 12 I'm speculating here, but I think at the time it
 13 was cash in an M&I checking account or capital --
 14 some kind of bank account that was held for the
 15 benefit of the Wealth Management, WatchStone Fund
 16 via fiduciary partners.
 17 Q Have you completed your answer?
 18 A Yes.
 19 Q Well, we're not done with this. You've completed
 20 your answer but not my question. Go down under
 21 the narrative where it says, "As you may recall."
 22 A Yes.
 23 Q "WatchStone holds 16 life insurance premium
 24 finance contracts structured by Rangetree
 25 Strategies." What did Rangetree do to structure
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1 agreement. I can't answer this as true or false,
 2 because I don't know what the loan agreement
 3 said.
 4 Q Do you know of any loan agreement where after two
 5 years the person taking out the policy was
 6 required to pay the premiums plus interest back?
 7 A I don't know of any of them.
 8 Q Nor do I. And why would someone, at 76 years
 9 old, take out a policy that they have to pay back
 10 after two years?
 11 A I don't know.
 12 Q Next. "The explosion of the secondary market for
 13 these contracts has presented Rangetree and
 14 WatchStone the opportunity to consider an early-
 15 exit strategy for these contracts."
 16 What are you talking about here?
 17 What's an "early-exit strategy"? Selling it in
 18 less than two years?
 19 A That would be my assumption of what he's alluding
 20 to here.
 21 Q But you don't know?
 22 A I don't know.
 23 Q "Several large financial institutions have
 24 expressed interest in purchasing these contracts
 25 prior to the two-year maturity." Name me the
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1 institutions.
 2 A I can't.
 3 Q Did it come up at your meetings?
 4 A It did.
 5 Q What are the names of them?
 6 A I don't remember.
 7 Q Are there notes of those meetings?
 8 A There are notes of the investment committee
 9 meetings where this would be.
 10 Q Where are those?
 11 A The receiver would have that. That's in our
 12 files.
 13 Q "As Rangetree continuously monitors the secondary
 14 market for sentiment and valuation, the
 15 opportunity to take profits on all or a portion
 16 of these holdings may prove compelling in the
 17 near term."
 18 Do you know what that is talking
 19 about? I know you didn't write it.
 20 A I am trying to think of the proper way to answer
 21 this, to be accurate. The discussion at the time
 22 was there were buyers -- large institutional
 23 buyers who were interested in buying life
 24 settlement policies, whether they were two years
 25 old or not.
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1 A I would only be speculating on his thought
 2 process.
 3 Q You don't know? Weren't you lining his pockets
 4 with lots of money?
 5 A That would be the logical answer. But whether he
 6 was saying -- You are asking me to respond to
 7 what he was thinking and why he said that. I
 8 don't know.
 9 Q He's obviously -- The wine, I don't care how good
 10 it is. My question is --
 11 A I paid for that wine, by the way.
 12 Q If somebody calls you a "dream-come-true client,"
 13 there has to be a reason for it. Either you are
 14 having some intimate relationship, or you're
 15 lining their pockets with money, from my
 16 experience. And I'm assuming the money was the
 17 issue here; right? Do you have any other view
 18 than that you were lining his pockets with money?
 19 A I can't think of anything.
 20 Q Show you what has been marked as Exhibit 16.
 21 This is from you to Tom Riek. This is dated
 22 December 9th, 2005. Now, I am going to --
 23 Before I ask you questions about this,
 24 Jim, I have a question for you. Did Tom Riek,
 25 from the time that he left Wood, Hat & Silver in
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1 Now, they would -- Memory serves me
 2 well, if it does, I should say, these people
 3 would be willing to pay a price reduced from what
 4 the price normally would be after two years but
 5 still return a substantial positive return back
 6 to the investment.
 7 Q And you can't remember the name of any one of
 8 these people?
 9 A I can't.
 10 Q And you can't name any of the people who actually
 11 bought these policies?
 12 A No.
 13 Q Show you what has been marked Exhibit 15. Now,
 14 the only question that I have for this is, the
 15 second part of it, if you look down, it says it's
 16 from Joe Aaron to you.
 17 A Mm-hmm.
 18 Q Yes?
 19 A Yes.
 20 Q Forget about the wine. I am not interested in
 21 that. My question is the last sentence. "I want
 22 to make sure you know that we appreciate your
 23 business. You have been the dream-come-true
 24 client." What made you the "dream-come-true
 25 client" as of November 10, 2005?
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1 '04, was he ever an employee of Wood, Hat &
 2 Silver, to your knowledge, after that?
 3 A Not that I can recall, no.
 4 Q Was he ever an employee of Wealth Management or
 5 any of its funds from the time he left Wood, Hat
 6 & Silver? Did you employ Tom Riek?
 7 A No.
 8 Q Was Tom Riek ever an agent of Wealth Management
 9 or any of its funds from 2004 on?
 10 A No.
 11 Q Did you have any formal relationship with him?
 12 Putting aside Quadrimus. Forgetting about that.
 13 Did you have any relationship with him
 14 whatsoever?
 15 A No.
 16 Q Now, look at the exhibit in front of you, and
 17 it's from you to him with a copy to Simone
 18 Fevola. Do you see that?
 19 A Yes.
 20 Q And it's regarding Beau's call. And you are
 21 saying to Tom, As with other managers, Simone and
 22 I want to approve anything that is invested in
 23 Baetis. Is that true? Anything invested in
 24 Baetis had to go through you and Simone?
 25 A Well, it went through Simone.
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1 Q But it says you here?
 2 A Correct.
 3 Q You're writing this?
 4 A I am.
 5 Q Were you just a figurehead. You really meant --
 6 You didn't really mean, Hey, it's not going to go
 7 by me. It's really only going to go by Simone?
 8 A That's what the reality was. Simone and I were
 9 talking about Baetis and the investments made.
 10 Simone wanted to approve everything that went
 11 through Baetis. I put myself in there.
 12 Q It says, "Could you or Joe send me the due
 13 diligence that you have done on SFS." That was
 14 Gayner's new company; right?
 15 A That doesn't ring a bell.
 16 Q Okay.
 17 A I know he had a name before UTC. It could have
 18 been SFS.
 19 Q Go down below that because, as E-mails go, that's
 20 11:48 and that was 11:40 on December 9th; do you
 21 see that?
 22 A Yes.
 23 Q This is from Tom Riek to you. "Soon we will have
 24 reinvestment money in Baetis and Brown and will
 25 be purchasing more cases from Beau's new company,
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1 partners." So he is talking about SFS. And the
 2 last sentence is, "There is some urgency to
 3 getting this done, and I don't need to be
 4 involved, as I have the material. Let me know
 5 when you plan to talk with him."
 6 Again, what does he have to do with
 7 this? "There's some urgency in getting this
 8 done? I already have the material" What's he
 9 got to do with this?
 10 A As a facilitator. But that's a guess.
 11 Q Show you what has been marked as Exhibit 17.
 12 This is from Tom Riek to Beau Gayner dated
 13 December 19. And Riek is talking about a meeting
 14 with you.
 15 A Correct.
 16 Q Again, this was involving Beau Gayner. Why is
 17 Riek talking to you about Beau Gayner? What does
 18 he have to do with Beau Gayner?
 19 A He was the facilitator from the start, and he
 20 stayed in the communication link.
 21 Q The facilitator with Joe Aaron, but this is Beau
 22 Gayner.
 23 A Yes.
 24 Q He's a facilitator for Beau Gayner?
 25 A He communicated with Beau and Joe. In fact, he
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1 Senior Financial Services." What the heck does
 2 Tom Riek have to do with anything? Why is he
 3 saying, "Soon we will have reinvestment money in
 4 Baetis and Brown?"
 5 A He was directly connected with Joe Aaron.
 6 Q But he's writing to you.
 7 A Yes.
 8 Q "We," as I understand the word "we," it would
 9 mean you and me. "Soon we will have reinvestment
 10 money in Baetis and Brown." As of December 9th,
 11 2005, you're not splitting fees at that time; are
 12 you?
 13 A No.
 14 Q So what's your relationship with him?
 15 A Tom brought Baetis and Brown or brought Joe Aaron
 16 to us, and he was our link to Joe Aaron.
 17 Q Why did you need him as a link to Joe Aaron? You
 18 know how to use a phone; don't you?
 19 A Yeah.
 20 Q You don't strike me as a shy guy.
 21 A No.
 22 Q Why would you need Tom Riek for anything?
 23 A Evidently, we didn't need him for anything.
 24 Q He says, "I have asked Beau to call you and
 25 Simone to thoroughly brief you on his company and
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1 communicated with a number of the submanagers
 2 that Joe Aaron had been reviewing.
 3 Q Is Tom Riek a fixer? Is that what he really is?
 4 A I don't know what that means.
 5 Q You don't know? Okay. Show you what has been
 6 marked as Exhibit 18. It's from Joe Aaron to
 7 you, along with Simone and Tom Riek; do you see
 8 that?
 9 A Yes.
 10 Q Dated December 30th, 2005; do you see that?
 11 A Yes.
 12 Q And then it says, "Subject: Direction from WM,"
 13 which means Wealth Management?
 14 A Correct.
 15 Q Now, the second paragraph says, "Jim's direction
 16 to Tom was to focus our time, keeping the due
 17 diligence up to date on our three largest
 18 positions, i.e., Rangetree, MKA, and Strategic;"
 19 do you see that?
 20 A Yes.
 21 Q "Jim's direction to Tom"?
 22 A Yes.
 23 Q You are saying he is just acting as a
 24 facilitator?
 25 A Correct.
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1 Q And so you're directing him on what you want him
 2 to do?
 3 A Yes.
 4 Q But you are not paying him to do that?
 5 A No.
 6 Q Where is he getting his money from, if you're not
 7 paying him? Why would he take any orders from
 8 you? You don't know?
 9 A I don't know.
 10 Q Okay. He says, "I have made an effort," again,
 11 this is from Joe Aaron to you and Simone, "I have
 12 made an effort to get as close as possible to Dan
 13 Miller, Jason Sugarman, and the Chins," I know
 14 who they are, "given the differences in our
 15 ages." Then it goes on, "Too much is at stake
 16 from a business perspective to look at them in
 17 any other manner."
 18 Do you know what he's talking about
 19 here?
 20 A No.
 21 Q Showing you what's been marked Exhibit No. 19.
 22 This is a newsletter from WatchStone; correct?
 23 A Correct.
 24 Q This is dated December of '05?
 25 A Correct.

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1 '06.
 2 A Okay. Yes.
 3 Q And if you look at the narration, the second
 4 paragraph, "After a recent on-site interview of
 5 the principals of the firm, we have made our
 6 first allocation to UTC Financial, LLC, a
 7 successor company to Rangetree. UTC was recently
 8 launched by one of the co-founders of Rangetree,
 9 Beau Gayner, to continue the origination of these
 10 finance contracts under the same guidelines as
 11 Rangetree."
 12 It goes on to say, "UTC will provide
 13 collateralized insurance premium financing for
 14 large insurance policies."
 15 Do you have any evidence that UTC ever
 16 provided collateralized insurance premium
 17 financing for large insurance policies?
 18 A At what time frame? Prior to this or after this?
 19 It says, "UTC will provide."
 20 Q The only thing UTC ever did was use your clients'
 21 money. Do you have any evidence that UTC ever
 22 used independent money?
 23 A I don't.
 24 Q Okay. The money that was being used by UTC was
 25 Wealth Management investors' money; wasn't it?
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1 Q And it shows that for the year you have had a
 2 return of 11.19 percent.
 3 A That's correct.
 4 Q That's beyond your targeted rate of 8 percent?
 5 A Right.
 6 Q If you look at the paragraph -- second paragraph
 7 it says, "The above-average return in December
 8 was attributable to the sale of existing life
 9 insurance premium finance contracts in the
 10 Rangetree portfolio. As you may recall,
 11 WatchStone holds 16 life insurance premium
 12 finance contracts structured by Rangetree
 13 Strategies."
 14 That's consistent with what we talked
 15 about earlier; right?
 16 A Correct.
 17 Q "At the end of two years," again, it says, "the
 18 insured must repay the loan and any outstanding
 19 interest."
 20 Again, it reiterates that, but that's
 21 not really true; is it?
 22 A Without seeing the note, I can't confirm or deny
 23 that.
 24 Q Okay. Next, this is Exhibit 20, I show you.
 25 This is a WatchStone newsletter dated February of
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1 A I can't confirm that. I have not seen the
 2 financial data to confirm or deny that.
 3 Q Do you have any information that UTC had any
 4 independent money, outside of Wealth Management?
 5 A No.
 6 Q Now, if you would look at the middle of that
 7 second paragraph it says, "The financing takes
 8 the form of a two-year contract at 9.95 percent
 9 fixed rate per year plus an origination fee of
 10 about 1 percent of the face amount of the
 11 insurance." Do you see that?
 12 A Mm-hmm.
 13 Q Yes?
 14 A Yes.
 15 Q Where did that 1 percent go?
 16 A I don't know.
 17 Q "Financing of the origination fee causes the
 18 total return on a two-year contract to be
 19 approximately 15 percent on an annualized basis."
 20 Is that correct?
 21 A I don't know.
 22 Q And then, again, the last sentence, "This would
 23 be the projected return in the case of the
 24 insured taking over the policy at the end of year
 25 two or in the event of the insured's death."
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1 And you believe that is correct? You
 2 personally believe that?
 3 A Yes.
 4 Q Show you Exhibit 21, the May of 2006 newsletter
 5 of WatchStone; do you see that?
 6 A Yes.
 7 Q Now, this says, "In coordination with the Fund's
 8 accountant, Woodfield Fund Administration, the
 9 the auditor, RSM McGladrey, we have restated
 10 monthly returns to investors for the past six
 11 months to reflect the extremely-favorable payout
 12 of incentive income by MKA Capital."
 13 What incentive income did you get from
 14 MKA?
 15 A MKA had a policy of paying out 1 percent to
 16 investors at the end of the year. There were
 17 profits of the sales that weren't allocated back
 18 into the fund, which isn't included in there, but
 19 that money would usually come in in March. And,
 20 as I remember, the accountant Woodfield and Black
 21 felt that that benefit should have been spread
 22 throughout the six months, and so they felt they
 23 needed to do a six-month spreadsheet.
 24 Q The problem is, in May of 2006, by that time the
 25 new rules with regard to the valuation had taken
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1 staff and organization.
 2 Q How did SageCrest turn out for you?
 3 A Terrible.
 4 Q Show you what has been marked as Exhibit 22.
 5 This is June of 2006, and this is Gryphon;
 6 correct?
 7 A Correct.
 8 Q Now, again, we have the return, and for June of
 9 2006 the return was 2.88 percent. Year to date,
 10 7.62 percent. Since inception, 37.52 percent;
 11 correct?
 12 A Correct.
 13 Q And it now has \$52,610,000 in fund assets?
 14 A Correct.
 15 Q Now, it says, "The fund's significantly above-
 16 average 2.88 percent return for the month of June
 17 was driven by three extraordinary factors.
 18 Gryphon benefited from the sale of four life
 19 insurance premium finance contracts during the
 20 month. The sales were done at above-projected
 21 exit values, and analyzed rates of return
 22 exceeded 20 percent for each contract."
 23 Do you recall reading this when it
 24 came out?
 25 A No.
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1 hold that I talked about. I am not sure, but I
 2 think that started in 2006.
 3 A I don't remember the date.
 4 Q That is what it says.
 5 A Yeah.
 6 Q So my question is, it was at this time that MKA
 7 had problems with its own valuations; didn't it?
 8 A My remembrance at this time was that MKA had an
 9 additional profit that was reallocated to
 10 investors of the MKA Mutual Fund, which then
 11 reflected positively back on WatchStone. I don't
 12 recall any difficulties with the valuation until
 13 2006.
 14 Q Now, according to the back of Exhibit 21, do you
 15 have that?
 16 A Yes.
 17 Q MKA is 45.6 percent, and Rangetree is 20.7
 18 percent, and UTC is 15.8 percent. And that's
 19 insurance premium financing; correct?
 20 A Correct.
 21 Q And then the next biggest one is SageCrest at
 22 11.8 percent. What did SageCrest do?
 23 A To my best recollection, SageCrest made
 24 collateralized loans to medium-sized businesses.
 25 They're an investment fund that has their own
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1 Q These are pretty extraordinary numbers; aren't
 2 they?
 3 A Yes.
 4 Q Did you check them out to see if any of this was
 5 accurate?
 6 A No.
 7 Q But you believed it was accurate?
 8 A Right.
 9 Q Those four policies that were sold, do you know
 10 who they were sold to?
 11 A No.
 12 Q Did you ask Fevola to check out whether any of
 13 this information you were giving your investors
 14 was accurate?
 15 A No.
 16 Q Did you ever check to see if it was accurate?
 17 A I didn't.
 18 Q Now, at the same time -- This is Exhibit 23.
 19 This is the same month, but it's for WatchStone;
 20 okay?
 21 A Okay.
 22 Q You can put them side by side. One is Gryphon
 23 and one is WatchStone. WatchStone has a 1.69
 24 return for the month of June and 7.26 percent
 25 year to date; do you see that?
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1 A Correct.
 2 Q Okay. Now, again, it says, "The above-average
 3 return for the month of June was directly related
 4 to the sale at maturity of two life insurance
 5 premium finance contracts. Both of these life
 6 policies sold at prices well above originally-
 7 projected values and produced annualized returns
 8 in excess of 25 percent."
 9 How many investments do you have that
 10 return in excess of 25 percent? How many
 11 investments in your whole life?
 12 A Very few.
 13 Q A few times?
 14 A I had some.
 15 Q A few times you hit them out of the park?
 16 A Yes.
 17 Q But there are times when you only got to first or
 18 second base?
 19 A Yes.
 20 Q When you looked at this document, did you say,
 21 Wait a second. We have Gryphon over here which
 22 has rates of return of 20 percent, and we have
 23 WatchStone over here that has rates of return of
 24 25 percent. Did you ever get the idea that maybe
 25 this was too good to be true?
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1 netted annual returns ranging from 18 percent to
 2 50 percent. The fund now holds 17 policies with
 3 maturities from late 2007 through mid-2008. Our
 4 45 percent allocation includes cash targeted for
 5 new policy funding but not yet closed. Both UTC
 6 and Rangetree have agreed to pay us 1 percent per
 7 month while we wait to close new transactions."
 8 Now, where did that cash come from?
 9 A It came from the sales of policies.
 10 Q Did it come from investor income?
 11 A I don't know.
 12 Q Now, it says, "Both UTC and Rangetree have agreed
 13 to pay us 1 percent per month while we wait to
 14 close new transactions."
 15 You don't find that extraordinary,
 16 that they would pay you 1 percent a month?
 17 A No. MKA had been doing that for us, also.
 18 Q Okay. Show you what has been marked as Exhibit
 19 27. It's an E-mail from Tom Riek to Simone
 20 Fevola, that's the first part, the second is from
 21 Tom Riek to you dated December 6th of 06; do you
 22 see that?
 23 A I see a headline of December 6.
 24 Q The first one must have been redacted out, which
 25 we didn't do. I had nothing to do with that. It
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1 A No.
 2 Q You actually believed this?
 3 A Yes.
 4 Q But you didn't check it out?
 5 A No. I trusted Mr. Fevola's financial acumen.
 6 Q Show you what has been marked Exhibit No 24.
 7 This is a newsletter for Gryphon dated July 2006;
 8 do you see that?
 9 A I do.
 10 Q Now, this says, and you may want to keep it in
 11 front of you, this now has a return in July of
 12 2006 of 1.81 percent, year to date of 9.57
 13 percent, and since inception it's 40.52 percent;
 14 do you see that?
 15 A Correct.
 16 Q All right. And now you have \$53,815,250 in fund
 17 assets?
 18 A Correct.
 19 Q It says under the commentary, "As you can see
 20 from the investment allocation on the reverse
 21 side, the fund currently has approximately 45
 22 percent allocated to the life insurance premium
 23 finance sector through two companies, Rangetree
 24 and UTC. Thus far in 2006 we have sold 12
 25 policies into the secondary market and have
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1 talks about a meeting that you were -- that you
 2 and Simone were at; do you see that?
 3 A Yes.
 4 Q No. 3 says, "An extensive discussion and review
 5 of UTC's loan securitization deal for Quadrimus
 6 was held via phone conference call with Joe
 7 Aaron." What is a "UTC loan securitization deal
 8 with Quadrimus" about?
 9 A I can't remember.
 10 Q Okay. And it says, "Final term sheets will be
 11 available from UTC soon." Did you get final term
 12 sheets from UTC, to your knowledge?
 13 A I don't remember seeing final term sheets from
 14 UTC.
 15 Q What is a "final term sheet"?
 16 A A "term sheet" is a summary of a private offering
 17 that is given to investors to review. If they
 18 like the numbers, then they go the next step into
 19 a full disclosure with the private placement
 20 memorandum and supporting documents.
 21 Q No. 4 says, "Joe Aaron updated partners on the
 22 life settlement conference in New York City last
 23 week." By the way, did you ever attend any of
 24 those conferences?
 25 A I did not.
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- 1 Q "And its implications for Quadrimus in 2007."
 2 What implications were there for Quadrimus in the
 3 life settlement conference?
 4 A I don't know.
 5 Q Showing you what has been marked as Exhibit 28.
 6 Again, this E-mail purports to be from Tom Riek
 7 to you. Talks about the meeting. This is
 8 December 13th of 2006; do you see that?
 9 A Yes.
 10 Q It says, "A review of the 2006 year-end
 11 receivables was analyzed." What year-end
 12 receivables?
 13 A I don't remember.
 14 Q I thought you said that -- If you were dealing
 15 with Quadrimus, I thought that you said that it
 16 just started in October of '06.
 17 A Yes.
 18 Q Do you know how year-end receivables accrued that
 19 fast?
 20 A No.
 21 Q And then they talked about, "Joe Aaron updated us
 22 on Jeff Keller, Kevin Yurkus, and UTC cases that
 23 affect Quadrimus." I don't understand. What
 24 does Jeff Keller, Kevin Yurkus, and UTC, how do
 25 they affect Quadrimus?

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- 1 Q Showing you what has been marked Exhibit No. 30.
 2 This is a Management Compensation Agreement.
 3 Now, I don't know if you have seen this before,
 4 but it's an agreement between PRG Financial
 5 Resources. Have you ever heard of them?
 6 A I can't remember.
 7 Q Between PRG and Brown fund. Do you see that?
 8 A Yes.
 9 Q Okay. And it talks about -- Basically, it talks
 10 about money that's going to be paid out when a
 11 particular policy -- it says a specific policy
 12 that it's talking about here. And if you look at
 13 No. 4 on Page 2, I will direct you to that, it
 14 says, "Each party agrees lender," and, by the
 15 way, "lender" here is the Brown Fund.
 16 A Okay.
 17 Q You will see it on the front.
 18 A Yes.
 19 Q They're going to get a \$96,121 commission when
 20 the deal is closed. Now, I have a couple
 21 questions here.
 22 Number one, Brown is going to get
 23 \$96,000, but isn't Brown the ones who are doing
 24 the funding on this policy?
 25 A It would appear so, yes.

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- 1 A I don't remember.
 2 Q No. 2 says, "Further review of the UTC loan
 3 securitization deal for Quadrimus by Joe Aaron."
 4 Further review of the UTC loan securitization
 5 deal by Joe Aaron, again? So it's Joe Aaron -- I
 6 still don't understand what this loan
 7 securitization deal is.
 8 A I can't remember myself.
 9 Q Okay. And then it says, "He's negotiating the
 10 final item of participation by Quadrimus in the
 11 equity piece of the deal." What's that about?
 12 A I can't remember.
 13 Q No. 3 says, "Joe Aaron updated Jim and Simone on
 14 the selling of policies in Baetis. He is waiting
 15 for final bids to present to WMI," which I assume
 16 is Wealth Management Investments?
 17 A Yes. It should be WML, but it's WMI.
 18 Q But it's your folks?
 19 A Right.
 20 Q And the selling of policies in Baetis, so Baetis
 21 owns policies that it's trying to sell; right?
 22 A Yes.
 23 Q And he is waiting for final bids. Did those
 24 final bids ever come?
 25 A I can't remember.

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- 1 Q So it's funding the policy, but it's getting
 2 money back to the tune of \$96,000?
 3 A That's what it sounds like, yes.
 4 Q Are you familiar with those kinds of
 5 transactions?
 6 A I am not.
 7 Q Have you ever seen a document like this before?
 8 A No.
 9 Q Okay. Did Mr. Fevola tell you that, when you
 10 guys were financing, that there was money coming
 11 back from the agents to the funds?
 12 A It was my understanding, and I can't remember who
 13 told me this, but I understood there was some
 14 money coming from the agents back to the fund. I
 15 didn't know how much or when.
 16 Q Showing you Exhibit No. 31. It purports to be an
 17 E-mail dated February 27, 2007, from Tom Riek to
 18 you. Do you see that?
 19 A Yes.
 20 Q And, again, it deals with a Quadrimus Board
 21 meeting. No. 3 again -- By the way, it's been
 22 redacted. I have no idea what that information
 23 is.
 24 But No. 3 again says, "The new target
 25 funding date on the UTC loan securitization deal

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- 1 is now March 15, 2007. Simone registered his
 2 concern for cash flow from the sale of the
 3 Baetis/Brown portfolio to fund this deal. Tom
 4 will continue to send updates on these issues as
 5 received from UTC."
 6 First of all, why is Tom Riek involved
 7 in this section?
 8 A Tom was acting as a communicator between Joe
 9 Aaron and the Baetis and Brown Fund and us.
 10 Q Because you couldn't communicate on your own?
 11 A I can communicate very well.
 12 Q What about Simone, was he a good communicator?
 13 A He was a very good communicator.
 14 Q So "Simone registered his concern for cash flow
 15 from the sale." What was the concern over cash
 16 flow?
 17 A I don't remember.
 18 Q This is early. This is February of 2007.
 19 A Yes.
 20 Q You said there were problems in late 2007.
 21 A That's what I remember.
 22 Q Does this change your memory at all?
 23 A No.
 24 Q It says, "The Laguna Beach consortium bid sheet
 25 on the Baetis/Brown case portfolio is expected
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- 1 Quadrimus got some money out of that; right?
 2 A It's my understanding that that's the case, yes.
 3 Q But it didn't get any money when the policies
 4 were sold; did it?
 5 A No.
 6 Q So why are five case sales being discussed?
 7 A My only assumption would be because Tom Riek's in
 8 our office, and it was a part of the Brown and
 9 Baetis relationship, and he passed that
 10 information along. That's all I can think of.
 11 Q Okay. No. 5, "The potential sale of Baetis and
 12 Brown cases through Kevin Yurkus contacts." Do
 13 you remember any of those sales coming through
 14 Kevin Yurkus contacts?
 15 A No.
 16 Q "And a competing offer with Beau Gayner's
 17 contacts were discussed." Who were Beau Gayner's
 18 contacts?
 19 A I don't remember.
 20 Q Did any of those deals come through?
 21 A I don't remember.
 22 Q It sounds like, at least from this E-mail, that
 23 you're in the loop on all this. Were you?
 24 A I was at the meeting.
 25 Q But, until now, I'm getting the impression that
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- 1 this week." Do you see that?
 2 A Yes.
 3 Q And you never got that; did you?
 4 A I don't know.
 5 Q In fact, none of that financing ever went
 6 through; did it?
 7 A I don't know.
 8 Q No. 5, "The Elder Life Care Foundation LOI,"
 9 which is letter of intent.
 10 A Okay.
 11 Q "May arrive this week." Elder Care didn't fund
 12 anything, either; did it?
 13 A I can't remember.
 14 Q Show you what has been marked Exhibit No. 32.
 15 Purports to be an E-mail from Tom Riek to you.
 16 A Okay.
 17 Q Dated April 3rd of 2007. And it's about a
 18 Quadrimus Board meeting. And then it says, "A
 19 review of Brown's March return and five case
 20 sales were discussed."
 21 Why is Quadrimus concerning itself
 22 with Brown Fund's March return?
 23 A Shouldn't be. That should be a separate item.
 24 Q And the "five case sales were discussed." I
 25 understand that when the policy was issued
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- 1 this was handled by Simone, it was handled by
 2 Riek, it was handled -- But, according to these
 3 E-mails, you're as much in the loop as everybody
 4 else is.
 5 A I should be.
 6 Q So what are you doing to protect Wealth
 7 Management investors, since you're in the loop?
 8 A I was deferring this to Simone.
 9 Q Anyway, it says, "Cash-flow issues in Baetis and
 10 Brown for April 2007 were reviewed." Once again,
 11 cash-flow issues were coming up. What was that
 12 about?
 13 A To my best recollection, Simone was requesting
 14 more and more cash out of Baetis and Brown for
 15 allocation to other investments and for
 16 distribution to clients.
 17 Q You were getting a lot of pressure in meeting the
 18 needs of your Wealth Management people under
 19 normal economic needs that you knew about;
 20 weren't you?
 21 A Correct. And we knew what those were on a
 22 quarterly basis from the time that we started
 23 this.
 24 Q And the cash wasn't there at this point to meet
 25 those needs; was it?
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- 1 A I can't answer for this time. Later in the year
 2 I think there were problems, and earlier in the
 3 year there weren't.
 4 Q Now, look at No. 8. It says, the second
 5 sentence, you're meeting with Elizabeth Notti,
 6 and she was the accountant for Joe Aaron; wasn't
 7 she?
 8 A Correct.
 9 Q It says, "The agenda will include a discussion of
 10 WMI setting up its own fund for cases to replace
 11 Baetis and Brown by year-end 2007."
 12 A Yes.
 13 Q Was that seriously considered?
 14 A It was. Simone wanted to control all of the
 15 activity in the life settlement business and
 16 wanted to have a fund internally to do that.
 17 Q And you wanted to replace Joe Aaron there?
 18 A Yes. Well, replace Baetis and Brown.
 19 Q That was Joe Aaron; wasn't it?
 20 A Correct. Correct.
 21 Q Show you what has been marked as Exhibit No. 33.
 22 This is, again, a series of E-mails that run the
 23 gamut from -- I think they're all 4-19-2007. You
 24 have to read it from the bottom up.
 25 A Okay.

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- 1 Q Then it goes up, and it's from Simone to you.
 2 A Yes.
 3 Q And he says, again, the same heading, "I have a
 4 little update."
 5 A Yes.
 6 Q "Hoo-hah." I assume that means, I'm happy?
 7 A Yeah. Definitely.
 8 Q This was a big deal?
 9 A Huge deal.
 10 Q And then from Jim Putman to Simone, "What a
 11 birthday present."
 12 A Right.
 13 Q What was that about?
 14 A Joe had been in communications with Beau Gayner,
 15 who had a contact that wanted to buy over a
 16 billion dollars of face insurance policies, and
 17 the policies in Baetis and Brown were all going
 18 to be sold to this investor. So, if that could
 19 have happened, that would have been a huge
 20 success for us. It did not.
 21 Q Show you what has been marked as Exhibit No. 34.
 22 This is meeting notes dated June 1st of '07;
 23 correct?
 24 A Correct.
 25 Q And this is Peter and Teresa Radford?
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- 1 Q So, if you start, it's from Brendan Ozanne. Who
 2 is Brendan Ozanne?
 3 A My best recollection, he is an attorney that
 4 represents Beau Gayner and his UTC Financial
 5 company.
 6 Q And, according to this, "Spoke with attorney last
 7 night, and he informed me that the CFO has signed
 8 the contract and that we should have it today."
 9 That's basically what it says; right?
 10 A Right.
 11 Q \$300 million?
 12 A Correct.
 13 Q Did you know that that was going on, that they
 14 were trying to negotiate --
 15 A Absolutely.
 16 Q All right. Then it goes from Joe Aaron to Tom
 17 Riek; do you see that? The one right above.
 18 A Yes. Yes.
 19 Q Dated April 19.
 20 A Correct.
 21 Q And this is now about two hours later, 11:54.
 22 A Correct.
 23 Q And he writes, "I have a little update for you;"
 24 right?
 25 A Yes.

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- 1 A Correct.
 2 Q Now, if you look at the next page, third
 3 paragraph down begins, "For the current
 4 retirement accounts;" do you see that there?
 5 A Yes.
 6 Q Second sentence says, "Jim recommended that the
 7 account be liquidated with the proceeds invested
 8 in the Palisade Fund."
 9 A You said the third paragraph?
 10 Q Third full paragraph, second sentence.
 11 A Okay.
 12 Q "Jim recommended" --
 13 A I see that now.
 14 Q -- "that the accounts be liquidated with the
 15 proceeds invested in the Palisade Fund." Now,
 16 the Palisade Fund was one of the funds also
 17 invested in life insurance premium financing;
 18 right?
 19 A I think it was eventually, yes.
 20 Q Well, June 1st of '07.
 21 A I can't remember.
 22 Q Let me help you out. Look under -- The next page
 23 you talk about each one of your funds.
 24 A Yes.
 25 Q You talk about Palisade?
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1 A Yes.
 2 Q It's a multi-manager fund?
 3 A Yes.
 4 Q Who's managing Palisade?
 5 A Simone was managing it as a multi-manager fund --
 6 multi-manager, multi-strategy. Simone was
 7 managing the fund. The submanagers all had
 8 different strategies.
 9 Q How many submanagers were there for Palisade as
 10 of June of '07?
 11 A I can't remember. But I'm reading here in my
 12 notes -- insurance premium finance, so he did
 13 have premium finance in it, real estate funding,
 14 private and public company finance, securitized
 15 SBA loans, and distressed credit card debt
 16 arbitrage.
 17 Q Did Palisade eventually invest almost all of its
 18 funds in insurance premium financing?
 19 A It's my recollection that there was an allocation
 20 made initially, and systematically the other
 21 investments were liquidated or were devalued to
 22 the point where the life insurance premium
 23 finance was a substantial portion of the fund.
 24 Q Show you what's been marked Exhibit No. 35.
 25 Again, it's an E-mail that purports to be from
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1 third person that you aren't going to fund this
 2 policy?
 3 A Again, Tom was our liaison between Baetis and
 4 Brown and Wealth Management.
 5 Q Then it says, No. 4, "Simone asked Tom to contact
 6 Elizabeth and have 1 million distributed from
 7 Baetis on August 1, 2007. This is money from the
 8 final paydown of the Caddis note in Baetis." Do
 9 you remember that?
 10 A I don't.
 11 Q And can you figure out why Simone is asking Tom
 12 to contact Elizabeth? Why doesn't Simone pick up
 13 the phone and call Elizabeth? You've got another
 14 E-mail where he's meeting with her.
 15 A Yeah. I don't know.
 16 Q But you were there.
 17 A I can't remember.
 18 Q Then it says, "Brown has approximately 7.5
 19 million in cash for funding cases with an
 20 estimated completion date around September 2007."
 21 Were those cases funded with that money?
 22 A I don't know.
 23 Q But, if they were, Quadrimus would have received
 24 fees from that; wouldn't they -- from that
 25 funding of those cases?
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1 Tom Riek to you, this one dated July 5th of 2007.
 2 A Yes.
 3 Q Regarding Quadrimus. And this one has guests in
 4 there of Susie and Mike Riek. Who are Susie and
 5 Mike Riek?
 6 A Tom's wife and son.
 7 Q Why are they at a Quadrimus meeting?
 8 A I don't remember.
 9 Q No. 1 has been redacted. No. 2 says, "A
 10 discussion of the changed receivable deal with
 11 UTC as received by Beau Gayner and the recent
 12 proposal for Brown to fund 5 million in new case
 13 premium was discussed. The consensus was to have
 14 Tom contact Joe Aaron and instruct Beau Gayner
 15 that Brown will not be funding any of UTC's
 16 cases."
 17 It talks about the fact that you guys
 18 got stiffed by him.
 19 A That's what it says.
 20 Q Do you remember that?
 21 A I don't.
 22 Q Again, I want to ask you, the consensus was,
 23 meaning you all agreed to have Tom contact Joe to
 24 instruct Beau Gayner. Why didn't any of you --
 25 Why do you need Tom to contact Joe to instruct a
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1 A It's possible.
 2 Q Were you aware that the Brown Fund was borrowing
 3 money from Mr. Riek and other people?
 4 A I was.
 5 Q And why -- This is now September 1st of 2007.
 6 Was it because Brown was having liquidity
 7 problems?
 8 A Cash -- Yes.
 9 Q Were you aware that Mr. Aaron was putting up all
 10 the assets of the Brown Fund as collateral?
 11 A No.
 12 Q Did you authorize him to do it?
 13 A No.
 14 Q I'm going to show you Exhibit No. 43. You're now
 15 in 2008.
 16 A Okay.
 17 Q This is January 28. These are meeting notes
 18 with, again, Peter and Teresa Radford; do you see
 19 that?
 20 A Yes.
 21 Q If you go to the next page where it says,
 22 Portfolio/Target Return.
 23 A Yes.
 24 Q He asked, according to these notes, what Wealth
 25 Management is doing to protect their assets. Do
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1 you see that?
 2 A Yes.
 3 Q And it says that you pointed out that investments
 4 within Palisade and Pantera do not have a direct
 5 correlation to the stock market and, therefore,
 6 the investments do have some protection from a
 7 recession.
 8 I guess I don't understand. The very
 9 thing you talked about in your Answer, the very
 10 thing we've talked about in the documents in 2006
 11 and 2007, we're now in 2008, and you're saying
 12 that Palisade and Pantera are not subject to --
 13 don't have a correlation to the stock market and,
 14 therefore, they have protection from a recession?
 15 What protection do they have?
 16 A The asset-based investment strategies in Pantera,
 17 even at this point, I felt confident was going to
 18 survive the stock market decline as a result of
 19 the horrible economy.
 20 Q I understand that. What are the assets backing
 21 it? Insurance policies?
 22 A Insurance policies, the corporate assets of --
 23 the assets in the submanaged funds, the oil
 24 wells, the --
 25 Q But, in '08, Palisade and Pantera, weren't they
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1 Q All right. Okay. Show you what has been marked
 2 as Exhibit No. 44. This is an E-mail from Joe
 3 Aaron to Simone with a copy to Tom Riek, if you
 4 look at the top one. Go to the next page,
 5 because you have to start working your way up
 6 again. I'm sorry, not the next page. You only
 7 have one page; right?
 8 A Yeah.
 9 Q Look at the bottom.
 10 A Okay.
 11 Q Apparently, he's sending this to somebody --
 12 Simone is.
 13 A Yeah.
 14 Q The next one on top says, "Just spoke to Jim at
 15 Jameson and have a preliminary agreement on 13
 16 percent rate. 2-percent origination fee and
 17 guaranteed 7 months interest with a 12-month
 18 term."
 19 You're trying to borrow money here; is
 20 that right?
 21 A Correct.
 22 Q From a fellow or company named Jameson?
 23 A Correct.
 24 Q And that wasn't successful?
 25 A No.
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1 mostly in the insurance premium financing
 2 business?
 3 A Yes.
 4 Q So we're back to the -- You're saying that these
 5 insurance -- the securitized, in a sense,
 6 insurance policies were better assets than
 7 anything else?
 8 A Right.
 9 Q Even though you knew that as of '08 that if you
 10 left these policies lapse they were worthless?
 11 A Correct.
 12 Q Are you saying that as of January of '08 you were
 13 not aware that policies were lapsing and assets
 14 were becoming worthless?
 15 A Yes, I was aware.
 16 Q You were aware?
 17 A Yes.
 18 Q And even, in spite of that, you still recommended
 19 Palisade and Pantera over, for example, T-bills
 20 or some other investment?
 21 A Not at all. They were in Pantera at the time or
 22 Palisade at the time -- Palisade and Pantera at
 23 the time and --
 24 Q And you couldn't get them out?
 25 A And we couldn't get them out.
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1 Q But Tom Riek says, "I would have bet against you
 2 getting that deal. Congratulations." So he
 3 thought you did get that deal?
 4 A Yes.
 5 Q But you didn't get it?
 6 A Didn't get it.
 7 Q Because of what?
 8 A I don't know.
 9 Q Now, this is 2-28 of '08. You're still having
 10 the same cash problems, liquidity problems you
 11 had in April of '07; aren't you?
 12 A They intensified at the end of '07 into '08.
 13 MR. MELNICK: Let's mark this.
 14 (Putman Exhibit No. 70 was marked)
 15 MR. MELNICK:
 16 Q Show you what has been marked as Exhibit No. 70.
 17 Purports to be an E-mail from Joe Aaron to you,
 18 Simone, and Tom Riek.
 19 A Mm-hmm.
 20 Q It talks about "Who buys our policies?" No
 21 mention of Quadrimus is on here; is there?
 22 A No.
 23 Q So my question again is, why is Tom Riek on here?
 24 And you're saying, again, he's just a
 25 facilitator?
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1 A Facilitator between Joe Aaron and Wealth
 2 Management.
 3 Q So he says, "Who buys our policies?" That's the
 4 question. "For the last year it's been Life
 5 Equity with Rangetree cases and Credit Suisse for
 6 the UTC cases."
 7 Do you have knowledge that Life Equity
 8 and Credit Suisse bought your policies?
 9 A No.
 10 Q He says, "The key is to not tell them you are
 11 financing the cases." In fact, every one of your
 12 cases had been financed; right?
 13 A As far as I know, yes.
 14 Q So he's telling you to lie?
 15 A He's telling them the key is to not tell that
 16 you're financing the cases. He's not asking you
 17 to lie.
 18 Q Do you know if anybody lied to these or any other
 19 companies about whether these cases were
 20 financed?
 21 A I don't know if anyone's lied.
 22 Q In fact, all the cases were financed; weren't
 23 they?
 24 A As far as I know, they were.
 25 Q Then he says, "We are trying to finance smaller
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1 A Correct.
 2 Q And, since inception, 62.67 percent.
 3 A Correct.
 4 Q Fund assets is \$60,708,000; correct?
 5 A Yes.
 6 Q Now, by June of '08 you're knowing that policies
 7 are lapsing; don't you?
 8 A Correct.
 9 Q Doesn't that reduce the value of the fund?
 10 A Yes.
 11 Q I don't see that reduction on here. I see it
 12 going up every month.
 13 A I don't see the reduction happening, either.
 14 Q And, in fact, if you look at the return, there is
 15 a modest dropoff in '07, but in '08 you're right
 16 back in the chips.
 17 A Correct.
 18 Q Exhibit No. 46 I show you. This is WatchStone.
 19 This is November of '08.
 20 A Correct.
 21 Q What's interesting here is that there's one month
 22 that I see this negative number of 10.45, which
 23 is circled; do you see that?
 24 A Correct.
 25 Q And then in '08 it shows a bunch of negative
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1 cases, under 2 million of face." Is that true,
 2 were you trying to do that?
 3 A I -- I -- I do remember that, yes.
 4 Q But then he says, in the second sentence, "The
 5 applications for the small policies do not have
 6 any questions about financing or settling.
 7 Another benefit for doing business in this area
 8 is the number of buyers increases dramatically."
 9 A Yes.
 10 Q So, again, because there's no questions about
 11 whether you're financing them or whether you're
 12 going to sell them; correct?
 13 A Right.
 14 Q And, by not disclosing that, it was --
 15 A Financing or settling, not selling.
 16 Q But settling is selling?
 17 A Yeah.
 18 Q Okay. I'm going to show you Exhibit No. 45.
 19 This is a monthly newsletter from Gryphon; is
 20 that correct?
 21 A Correct.
 22 Q June of '08?
 23 A Correct.
 24 Q And it says here that you have 6 percent already,
 25 year to date; do you see that?
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1 months.
 2 A Correct.
 3 Q Once again, you knew WatchStone policies were
 4 lapsing by November of 2008 right and left;
 5 weren't they?
 6 A I was aware, yes.
 7 Q And, in fact, you heard Mr. Aaron's testimony
 8 that, of the 300 policies, only 50 were sold, and
 9 of those, at 90 percent less than face value.
 10 You heard that testimony; didn't you?
 11 A I did, yes.
 12 Q So how could WatchStone be worth \$55 million as
 13 of November 2008?
 14 A I don't know.
 15 Q Show you what has been marked Exhibit 49. I'm
 16 going to represent to you I do not know who
 17 prepared this. Do you know who prepared this
 18 document?
 19 A I don't know.
 20 Q I mean, according to this, MKA Opportunity Fund,
 21 I mean, it's worthless.
 22 A Correct.
 23 Q When did you find out MKA was worthless?
 24 A It was in -- If I remember properly, it was
 25 somewhere toward the middle of -- it couldn't be
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1 in the middle of 2008. It was something that we
 2 were notified that the values of the real estate
 3 in MKA had dropped below the debt that's owed on
 4 the property. I don't remember the time that was
 5 reported.
 6 Q Did Gryphon have money in MKA?
 7 A Yes.
 8 Q Did WatchStone have money in MKA?
 9 A WatchStone -- Gryphon had money in MKA
 10 Opportunity Fund. WatchStone -- Excuse me.
 11 Gryphon had money in MKA Opportunity Fund.
 12 WatchStone had money in the MKA Qualified Fund.
 13 Q Both went down the drain; didn't they?
 14 A MKA Opportunity Fund is still in existence, as
 15 far as I know. The value is less than the debt.
 16 The Qualified Fund has had a substantial
 17 reduction in its value. But the management team
 18 has funded the development of a number of
 19 properties they took over and are hopeful to
 20 return money to the investors. They both lost
 21 substantially after 2008.
 22 Q Show you what has been marked Exhibit No. 50.
 23 This is the Sharon Ramos Combined Report.
 24 A Yes.
 25 Q Do you see that?
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1 involved in this process.
 2 Q Whether the number is accurate, you knew the
 3 condition of the company as of December 31st of
 4 '08, she has most of her money in WatchStone,
 5 aren't you concerned that, in fact, you knew that
 6 that wasn't worth anywhere near what it showed on
 7 this page?
 8 A At this point, I am.
 9 Q I'm not saying you had anything to do with it.
 10 I'm just asking if you knew about the report.
 11 Again, the buck ends with you.
 12 Show you what has been marked Exhibit
 13 51. This is a monthly report, again, December of
 14 '08. This is Gryphon.
 15 A Okay.
 16 Q And, according to this, almost 70 percent of it
 17 is in Baetis?
 18 A Correct.
 19 Q So there's really not a lot of -- Let me put it
 20 this way. The money is more concentrated here;
 21 isn't it?
 22 A Correct.
 23 Q Again, it shows fund assets, now it's almost \$47
 24 million.
 25 A Correct.
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1 A Yes.
 2 Q According to this, if you look at the next page,
 3 it says that she has in WatchStone \$1.39 million.
 4 A Correct.
 5 Q Are you saying that WatchStone had a market value
 6 of \$1.39 million at the end of December 2008?
 7 A We -- This is what the -- the analysts had given
 8 us of the value.
 9 Q The analysts got the numbers from --
 10 A The submanagers.
 11 Q Which, in this case, WatchStone was invested in
 12 insurance premium financing; wasn't it?
 13 A It was, yes.
 14 Q And by this time you not only knew that the
 15 policies were lapsing, but that whatever you were
 16 selling, you were selling for pennies on the
 17 dollar?
 18 A Correct.
 19 Q So how can it be valued at \$1.39 million. It
 20 says the total cost was \$1.188 million. How can
 21 it be anywhere near her cost then?
 22 I'm concerned that Sharon Ramos was
 23 misled by this exhibit.
 24 A The question would be is that number accurate or
 25 not, and I can't comment on it. I was not
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1 Q Are you saying that if I added up Alma,
 2 TouchStone, and all these other things, including
 3 Pantera and MKA receivables, that it would be \$47
 4 million? Because Baetis --
 5 A I can't answer that.
 6 Q But you knew this went out to your investors;
 7 didn't you?
 8 A I did.
 9 Q Who's Justin Mecklenborg?
 10 A If I remember right, he was an employee of UTC.
 11 He was -- He had some type of analytical job with
 12 them relating to the life settlement business.
 13 Q Did you have any dealings with him?
 14 A Not directly.
 15 Q Do you know how he spells his name?
 16 A I've seen it as M-e-c-k-l-i-n-b-o-r-g or it could
 17 be l-e-n. I think it's l-e-n.
 18 Q I show you what has been marked as Exhibit No.
 19 63. It's a series of spreadsheets, which I will
 20 present to you are about the policies, some
 21 Baetis, some Brown.
 22 A Yes.
 23 Q Have you seen this document or a document like
 24 this before?
 25 A I've seen documents like this before, yes.
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1 Q And I just want to ask you a few things about the
 2 columns. Look at the first page. See where it
 3 says Origination Fee?
 4 A Yes.
 5 Q Who -- Where did that fee go?
 6 A My understanding, it went to the insurance agent
 7 and/or the aggregator.
 8 Q What does PSV mean?
 9 A I don't know.
 10 Q And the interest rate on the note, that's what I
 11 assume is for financing?
 12 A That would be my assumption, also.
 13 Q And, if you go to the next one, again, we're
 14 still on Baetis on this page.
 15 A Okay.
 16 Q And, again, Face Value, Structuring Fee, and PSV.
 17 A Okay.
 18 Q And then it has Maturity Date, Interest Rate. If
 19 you look at the next column it says Profit to the
 20 Fund.
 21 A Yes.
 22 Q These are all negative numbers?
 23 A Right.
 24 Q But these are for policies -- This is what I'm
 25 trying to get at here. Policy issued in '06; do
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1 that we should be closing three to five cases;
 2 and, yes, they do fall in the 1 to 3-percent
 3 range."
 4 A Yes.
 5 Q Meaning, if you were able to get anything, you
 6 were getting 1 to 3 percent of face value; right?
 7 A Yes. That's what it sounds like.
 8 Q How long had that been going on for; do you know?
 9 A I don't know.
 10 Q Showing you what's been marked as Exhibit 67.
 11 And I think you've seen it before, but I will
 12 represent to you that it was prepared by PRG, one
 13 of the aggregators.
 14 A Okay.
 15 Q For the SEC. And it was used in the Aaron depo.
 16 The SEC used it. And they represented it was
 17 prepared for them.
 18 A Okay.
 19 Q So you need to know it was a prepared document.
 20 A Okay.
 21 Q What it has on it is, when a policy was funded,
 22 the first premium, in this case if there was a
 23 second premium, the policy face value, and
 24 something called a lender's fee. What's a
 25 "lender's fee"?
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1 you see that? There's three in '07.
 2 A Yes.
 3 Q Do you see that?
 4 A Yes.
 5 Q So, two years, they would have matured in '08;
 6 correct?
 7 A Yes.
 8 Q And it says that?
 9 A Correct.
 10 Q So what I'm getting at is these are all negative
 11 numbers that were known at least by the middle of
 12 '08, if not earlier.
 13 A Correct.
 14 Q And, when the values didn't change on the
 15 monthlies, didn't that alert you that something
 16 was wrong?
 17 A Honestly, I didn't see these from June until
 18 November.
 19 Q Okay. All right.
 20 A I didn't see these reports from June until
 21 November.
 22 Q Now I'm going to show you what has been marked
 23 Exhibit No. 64. This appears to be an E-mail
 24 from Eric Smith to Tom Riek dated August 27th,
 25 2008. In this case he's saying, "I can tell you
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1 A Don't know.
 2 Q Now, I'm going to represent to you, I showed you
 3 a document, and this is not to trick you, I
 4 showed you a document earlier regarding -- the
 5 third name is George Dixon. That's on the first
 6 page.
 7 A Yes.
 8 Q That is the same as the contract I showed you
 9 between the fund and PRG.
 10 A Okay.
 11 Q I showed you that earlier. Except, in this case,
 12 it represents that the amount of money, instead
 13 of being the \$96,000, it's \$192,242. Third line
 14 down. Do you see that?
 15 A I see it, yes.
 16 Q That's 40 percent, not 20 percent.
 17 A Okay.
 18 Q What's that about?
 19 A I don't know.
 20 Q Where did the money go?
 21 A Don't know.
 22 Q So you don't know what the 40 percent is about?
 23 A No.
 24 Q I mean, would it shock you to find out that 40-
 25 percent of the money went somewhere? 10 percent
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1 was going to Quadrimus; right?
 2 A I can't remember the percentages. But the 40
 3 percent -- If this is -- Well, it's a lender's
 4 fee. I don't know -- I didn't know what the
 5 lender's fees were.
 6 Q And I briefly asked you about this, but this is
 7 Exhibit No. 68. I'm going to represent to you
 8 that this was an insurance policy that you talked
 9 about at the very front of this showing -- I have
 10 taken the person's name off, showing Baetis
 11 buying a policy back that it already funded.
 12 A Okay.
 13 Q We already talked about that. This is that
 14 agreement of a sale and lease between the insured
 15 and Baetis.
 16 A Okay.
 17 Q Does anything we've covered today change your
 18 mind as to why Baetis is buying back a policy it
 19 financed? And, here, I'll give you a hint. Is
 20 Mr. Aaron trying to cook the books? Because this
 21 will look like a policy was sold when, in fact,
 22 it wasn't sold.
 23 A I guess I never thought of that.
 24 Q Why else would you buy it back? You can't get
 25 anybody else -- By this time, this is February of
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1 STATE OF WISCONSIN)
 2 COUNTY OF MILWAUKEE)
 3
 4 I, JUDITH E. WINGO, a Court Reporter and Notary
 5 Public in and for the State of Wisconsin, certify that
 6 the foregoing is a true and correct copy of the
 7 original deposition in the above-entitled matter.
 8 That before said witness testified, the
 9 witness was first duly sworn by me to testify the
 10 truth, the whole truth, and nothing but the truth to
 11 said cause.
 12 That I am not a relative or employee or
 13 attorney or counsel of any of the parties or a relative
 14 or employee of such attorney or counsel or financially
 15 interested directly or indirectly in this action.
 16 That the foregoing pages are a true and
 17 correct transcription of my original machine shorthand
 18 notes taken at said time and place.
 19 Dated this 29th day of February, 2011
 20
 21 _____
 22 Judith E. Wingo
 23 Notary Public in and for the
 24 State of Wisconsin
 25 My commission expires January 18, 2015.
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1 '09, you can't get anybody to buy this stuff by
 2 that time. You guys aren't even doing enough to
 3 be the Titanic. So, in 2009, why are you buying
 4 back these policies?
 5 A I don't know.
 6 MR. MELNICK: Sir, I'm done. Thank
 7 you for your patience.
 8 (Proceedings concluded at 5:58 p.m.)
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