

**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 THOMAS R. RIEK 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 27th day of January, 2011,
commencing at 10:17 o'clock in the forenoon, before
Judy Wingo, Court Reporter and Notary Public in and for
the State of Wisconsin.**

DEPOSITION OF THOMAS R. RIEK 1/27/2011

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Appeared on behalf of the Plaintiffs.

5 DAVIS & KUELTHAU
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Appeared on behalf of Thomas R. Riek.

8 ALSO PRESENT: Dr. John and Julie Leschke
9

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1 (Riek Deposition Exhibit Nos. 1 through 35 were marked)
2 THOMAS R. RIEK
3 being first duly sworn on oath to tell the truth, the
4 whole truth, and nothing but the truth, was examined
5 and testified as follows:

6 EXAMINATION

7 BY MR. MELNICK:

8 Q Can you state your name, sir, for the record.

9 A Thomas Riek.

10 Q And you reside where, sir?

11 A I reside in Green Lake, Wisconsin.

12 Q And your occupation today?

13 A I'm a financial advisor for Wells Fargo.

14 Q And is there a Wells Fargo office where you live,
15 or do you come down to Milwaukee?

16 A I commute to Fond du Lac.

17 Q Now, you have given testimony previously in the
18 Securities & Exchange Commission matter with
19 Wealth Management and others defendants; have you
20 not?

21 A That's correct.

22 Q And in those depositions it discussed your
23 relationship with Joe Aaron and Wood, Hat &
24 Silver. You do know Joe Aaron?

25 A I do.

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- 1 Q As I said before we started this, I want to talk
 2 about some terms that are throughout those
 3 depositions that I don't understand. So one of
 4 the terms Joe Aaron and I think you might have
 5 used, but I am not sure, referred to yourself as
 6 a "finder"?
- 7 A Correct.
- 8 Q All right. What is a "finder"?
- 9 A I simply introduced the parties and acted as an
 10 intermediary between them. That's it.
- 11 Q Okay. And so it equates to something that I
 12 know, is that like a real estate broker who
 13 introduces the buyer to the seller and then gets
 14 a commission if the deal closes?
- 15 A I introduce the parties, whether it be the
 16 insurance general agents, Wood, Hat & Silver,
 17 Wealth Management, and from there they take care
 18 of their own negotiations. They take care of
 19 their own due diligence. It is their
 20 responsibility to negotiate everything from
 21 there.
- 22 So it was not like a real estate
 23 broker. All I did was introduce them.
- 24 Q And I just want to make sure I can pin down the
 25 terms today. You said, besides introducing them,
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- 1 I thought you said you mediate or something like
 2 that.
- 3 A I said I act as an intermediary. They would
 4 sometimes say something to me, and I might pass
 5 that on.
- 6 Q But, other than that, you weren't involved in
 7 what happened with the transaction between the
 8 parties once the introduction was made?
- 9 A That's correct. No involvement.
- 10 Q Now, for that you received a commission; is that
 11 the right term?
- 12 A No. I received a finder's fee.
- 13 Q And, just so I know, what is the difference
 14 between a finder's fee and a commission?
- 15 A It's up to the agent to send me whatever the
 16 market's going rate was for the fee. And that
 17 came out of his corporate account.
- 18 Q Okay. Now if -- Strike that. There was no
 19 agreement with the agent as to how much you would
 20 get as a percentage or a specific amount of
 21 money?
- 22 A I had no written agreement, no.
- 23 Q Did you have an oral agreement or at least an
 24 understanding of what it would be?
- 25 A My understanding is, whatever the market would
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- 1 bear, they would send.
- 2 Q Okay. Now, in terms of a finder, let me take you
 3 back. At the time you worked for Wood, Hat &
 4 Silver, and as I understand it, it was through
 5 the summer of '04?
- 6 A Pretty close.
- 7 Q At least mid-year '04?
- 8 A Correct.
- 9 Q You were in the process of raising money for
 10 Wood, Hat & Silver?
- 11 A That's correct.
- 12 Q Would you call that a finder?
- 13 A No.
- 14 Q Okay. And then you left Wood, Hat & Silver and
 15 formed your own business, Riek & Associates?
- 16 A That's correct.
- 17 Q So anything you did under Riek & Associates would
 18 that be as a finder?
- 19 A That's correct.
- 20 Q And, therefore, you would get a finder's fee?
- 21 A That's correct.
- 22 Q All right. Now, you found, if I'm using the term
 23 correctly, more than just insurance agents that
 24 you introduced to Wood, Hat & Silver; didn't you?
 25 Didn't you bring in business also to Wood, Hat &
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- 1 Silver in terms of investors?
- 2 A Prior to forming Riek & Associates, I did. After
 3 forming Riek & Associates, I did not.
- 4 Q Okay. Is there a lapse in time between the time
 5 that you left Wood, Hat & Silver and the time
 6 that you formed Riek & Associates?
- 7 A Not really.
- 8 Q Okay. So when you are talking about bringing in
 9 investors, that was only when you were an
 10 employee of Wood, Hat & Silver?
- 11 A That's correct.
- 12 Q You never brought in any investors, after you
 13 left, to Wood, Hat & Silver or any of the other
 14 funds?
- 15 A Only the ones that I brought in prior to forming
 16 Riek & Associates.
- 17 Q And, when you brought those clients in to Wood,
 18 Hat & Silver, would you get paid a commission on
 19 those folks?
- 20 A No.
- 21 Q You were just paid a salary?
- 22 A My arrangement with Mr. Aaron was that I received
 23 a draw against a salary that was tied to 50
 24 percent of management fees of the clients that I
 25 brought in.
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1 Q Okay. So you received 50 percent of the
 2 management fees that Wood, Hat & Silver was paid
 3 by those clients?
 4 A That's correct.
 5 Q After you left, and it gets confusing for me
 6 again, were you paid fees on anything those
 7 clients did with Wood, Hat & Silver and any of
 8 their funds?
 9 A No.
 10 Q So any fees any of those clients would have paid
 11 Wealth Management or individual clients all went
 12 to Wood, Hat & Silver?
 13 A That's correct.
 14 Q And, for the record, Wood, Hat & Silver is really
 15 just one individual by the name of Joe Aaron?
 16 A That's my understanding.
 17 Q Now then, as a finder -- Strike that. So, when
 18 you left and formed Riek & Associates, your
 19 income was based on your finder's fees?
 20 A That's correct.
 21 Q Okay. Now, you were able to find insurance
 22 agents that wanted policies financed; is that
 23 correct?
 24 A Yes.
 25 Q Okay. How did you do it?
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1 that they already had them before they started
 2 doing business?
 3 A I don't know when they got their licenses, no.
 4 Q Were you ever an aggregator?
 5 A No.
 6 Q Now, the agents that they obtained the policies
 7 from, did you get to know any of those agents?
 8 A I did not.
 9 Q Do you know how they obtained the names of the
 10 agents that they secured the policies from?
 11 A Not directly, no.
 12 Q And was it only Dan Miller and Beau Gayner that
 13 you know, or were there any others?
 14 A There were others. PRG is Byron Frisch, Jeff
 15 Keller. Let's see. The name of his company
 16 escapes me. And then UTC, which was Beau Gayner,
 17 and a couple other miscellaneous agents here and
 18 there.
 19 Q Now, again, talking about terms, what does the
 20 term "hedge fund" mean to you? Or what is a
 21 hedge fund?
 22 A It could be a registered or unregistered fund
 23 that uses various strategies to manage money,
 24 sometimes going long in the position or going
 25 short in the position.
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1 A It was fairly connected to Mr. Dan Miller of
 2 Rangetree that led to getting to know Beau
 3 Gayner, who was one of his employees. And, as
 4 Mr. Miller would run out of appropriate policies,
 5 he would expand out, and that led to all the
 6 others that we ended up doing business with.
 7 Q Well, okay. The people that you referred to, Mr.
 8 Miller, Mr. Gayner, the people that you are
 9 referring to aren't insurance agents; are they?
 10 A They may be what we called aggregators.
 11 Q Let's define that. What is an "aggregator"?
 12 A I guess the closest analogy would be similar to
 13 the general agent who would have access to
 14 individual insurance agents underneath them that
 15 they could solicit for policies.
 16 Q So, in your opinion, Dan Miller or Beau Gayner
 17 were general agents?
 18 A That may be. They may have. I don't know.
 19 Q Do you know if they even had insurance licenses?
 20 A I recall that they did, yes.
 21 Q Do you know when they obtained those licenses?
 22 A No, I do not.
 23 Q The real import of the question is, do you know
 24 if they obtained the license after they started
 25 doing business in the insurance arena or before,
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1 Q Is there any difference between a hedge fund and
 2 any other fund? That is, does a hedge fund do
 3 something different from any other fund?
 4 MS. SCHELLINGER: Objection. Lack of
 5 foundation. You can answer to your
 6 understanding.
 7 THE WITNESS: Hedge funds would have
 8 more leeway in terms of investments they may have
 9 access to, is my understanding.
 10 MR. MELNICK:
 11 Q We have learned that you know Joe Aaron. Did he
 12 advertise any of the funds as hedge funds?
 13 A I don't remember seeing any.
 14 Q Did you ever tell anyone that these were hedge
 15 funds versus not hedge funds?
 16 A I am not going to guess. I can't recall the
 17 specific time, so I would say I don't recall.
 18 Q Okay. Did you ever hear Joe Aaron tell anyone,
 19 in your presence, of course, that he was using a
 20 hedge fund strategy?
 21 A Joe Aaron would normally talk about his fund as
 22 fund to fund.
 23 Q What is fund to fund?
 24 A It's a fund to fund two or more managers as
 25 components of portfolios.
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- 1 Q And what would these managers do?
 2 A Their job would be to manage a pool of money that
 3 Joe would give them from his fund in the style
 4 that they were hired for.
 5 Q Now, you're familiar with Baetis and Brown; is
 6 that correct?
 7 A Yes.
 8 Q And, for the most part, Baetis and Brown were
 9 investors, were they not, in the time frame of
 10 '05 to 2010?
 11 A Yes. In 2005, I believe, Wealth Management and
 12 Wood, Hat & Silver sent a letter out to their
 13 clients that said they were going to be dedicated
 14 to the insurance financing business.
 15 Q And part of the funds you were aware that
 16 invested in Baetis and Brown were Gryphon,
 17 Watchstone, Palisade, Pantera; were you not?
 18 A That's correct.
 19 Q And they were funds managed by whom?
 20 A You are talking about Gryphon and Watchstone and
 21 Palisade and Pantera?
 22 Q Yes.
 23 A Those were Wealth Management funds.
 24 Q I understand. Who were they managed by?
 25 A I think the principals of Wealth Management
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- 1 or Joe Aaron?
 2 A No, I did not.
 3 Q Did you have any other employment
 4 responsibilities to Wealth Management or any of
 5 their funds?
 6 A No, I did not.
 7 Q Did you have any other agreements, either written
 8 or oral, between Wealth Management and any other
 9 of their funds?
 10 A No, I did not.
 11 Q A couple of other terms. I asked you about
 12 insurance premium financing. You know what I
 13 mean by that?
 14 A I believe so.
 15 Q What is your understanding of what that is?
 16 A Insurance premium financing?
 17 Q Yes.
 18 A It's a process where an agent would contact Wood,
 19 Hat & Silver and Wealth Management for the
 20 underwriting criteria and then locate clients
 21 that fit that underwriting criteria, submit that
 22 application to the fund and, if it was accepted
 23 by the fund, the fund would then finance the
 24 first and/or second-year premiums of that case
 25 with the intent then to sell the case at the end
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- 1 managed them. Jim Putman and Simone Fevola.
 2 Q Joe Aaron had nothing to do with the management
 3 of those funds?
 4 A Not that I am aware of.
 5 Q Did he have anything to do with the management of
 6 Baetis and Brown?
 7 A Yes.
 8 Q What was his position there?
 9 A The managing member.
 10 Q Were any of those, that is I have now Baetis and
 11 Brown and the four that I mentioned, any of those
 12 fund to fund?
 13 A In what time frame?
 14 Q 2005 to 2010.
 15 A I recall that Baetis and Brown sent a letter out
 16 that they were dedicated to the insurance
 17 financing concept. As far as the Wealth
 18 Management funds, I believe those were fund to
 19 fund.
 20 Q So Baetis and Brown was not, but the four Wealth
 21 Management funds were, to your understanding?
 22 A That's my understanding.
 23 Q Okay. When you left Wealth Management and formed
 24 Riek & Associates, did you have any other
 25 employment responsibilities to Wood, Hat & Silver
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- 1 of the two-year period. That's my understanding.
 2 Q Now, throughout these depositions there is
 3 another term people refer to called "life
 4 settlement." Have you heard that term before?
 5 A I have.
 6 Q What is "life settlement"?
 7 A The insurance premium finances a form of life
 8 settlement. But, prior to the two-year premium
 9 financing we just discussed, they would purchase
 10 policies that were beyond two years and hold them
 11 in their portfolios. That's the most common use
 12 of the term "life settlement," I believe.
 13 Q To your knowledge, Baetis and Brown weren't in
 14 the life settlement business; were they?
 15 A I would have to say they were in the life
 16 settlement business. If my definition is right
 17 that the two-year policies that they were trying
 18 to sell as part of the broader life settlement
 19 definition, I would have to say they were.
 20 Q Okay. Just so the record remains clear on this,
 21 at the end of two years -- Strike that. These
 22 policies, from the time they were taken out, were
 23 put into an insurance trust; were they not?
 24 MS. SCHELLINGER: Object to the form.
 25 THE WITNESS: Question. What
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1 policies, specifically?
 2 MR. MELNICK:
 3 Q The insurance policies financed by Baetis and
 4 Brown.
 5 A I'm sorry, your question again was?
 6 Q When they were financed, they were put into an
 7 insurance trust; were they not?
 8 A I believe so.
 9 Q Okay. You never saw any of that paperwork?
 10 A I never saw any of that paperwork.
 11 Q At any rate, after two years -- Strike that. Why
 12 was the two years important? Why two years and
 13 not three or not one?
 14 A The two-year period was the initial
 15 contestability period.
 16 Q And what does that mean?
 17 A I believe the insurance companies could contest
 18 those policies, but I'm not entirely sure of
 19 that. That's the basic understanding that I
 20 have.
 21 Q What you are sure of is that the two years was
 22 the cutoff point, and at that point they could
 23 sell the policy?
 24 A That's correct.
 25 Q Could they sell the policy before two years?
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1 case of Quadrimus, I would see the actual
 2 transaction that way. And from time to time I
 3 would talk to Justin Moechlenberg (phonetic), who
 4 was actively selling policies, to get an idea how
 5 the market was. In general, I knew.
 6 Q Who was Justin Moechlenberg?
 7 A Justin Moechlenberg was an employee of Rangetree
 8 back in 2003 or so. And I believe he stayed with
 9 Rangetree and Dan Miller through -- I don't know
 10 when he left. I'm not sure, I guess. I know he
 11 was there in 2003.
 12 Q Now, were you aware that Jim Putman and Simone
 13 Fevola were putting Wealth Management investor
 14 money into Baetis and Brown in the insurance
 15 premium financing area?
 16 A Yes.
 17 Q Did you tell Jim Putman that insurance premium
 18 financing was a risky investment?
 19 A Yes.
 20 Q In fact, it was a risky and speculative
 21 investment; wasn't it?
 22 A That's correct.
 23 Q And the reason you said was because there was no
 24 record of the sale transactions?
 25 A That's correct. There was no -- Initially, there
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1 MS. SCHELLINGER: Objection. Lack of
 2 foundation. Answer if you can.
 3 MR. MELNICK: By the way -- Let's go
 4 off the record.
 5 (Discussion off the record)
 6 (Question read)
 7 THE WITNESS: I am not sure.
 8 MR. MELNICK:
 9 Q Do you have any knowledge that they did sell
 10 policies before two years? Do you have any
 11 personal knowledge of that?
 12 A Not that I can recall.
 13 Q Now, at the other end of the transaction, that is
 14 after two years, presumably there was an
 15 opportunity for somebody to buy those policies;
 16 is that correct?
 17 A That's correct.
 18 Q Were you aware, from 2004 to when you left Wood,
 19 Hat & Silver, that there was a market for people
 20 who would buy those policies?
 21 A In general I was aware, yes.
 22 Q How did you become aware of that?
 23 A I became aware of the actual sales when we would
 24 see -- they called them PVA, policy valuation
 25 analysis, after they were sold. And, if it was a
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1 was no track record at the end of the two-year
 2 anniversary of the policy sales.
 3 Q Do you remember when you told Jim this?
 4 A It would have been late 2003 and possibly early
 5 2004 again.
 6 Q And isn't it accurate to say you told the same
 7 thing to Simone Fevola?
 8 A I don't recall a direct conversation with him,
 9 but we did meet together in April of '04, and I
 10 believe I brought that up again.
 11 Q Do you remember, starting with Jim Putman, what
 12 Jim Putman's reaction was when you told him that
 13 was a risky and speculative investment?
 14 A We were talking about it initially in terms of
 15 some ideas that he had for different in-house
 16 funds. At the time, he had a vision for a
 17 private venture fund, a more-conservative
 18 absolute return fund. There were a number of
 19 different fund concepts that he was interested
 20 in. And I simply introduced him to this idea as
 21 fitting one or more of his funds as a investment.
 22 Q And that's fine. I am just trying to understand.
 23 So you brought the idea to him and said, Here's
 24 another idea for your funds, and it's speculative
 25 and risky?
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1 A Yes.
 2 Q What was his reaction to that?
 3 A Again, there was no reaction that I can tell you
 4 about. It was in reference to the general
 5 concept of if it fit in one of his boxes.
 6 Q After a while, you found out that there was
 7 serious money being put into insurance premium
 8 financing, didn't you, by Putman and Fevola of
 9 Wealth Management investors' funds?
 10 A Yes.
 11 Q Do you remember when that came to your attention?
 12 When I say "serious money," I am talking about \$5
 13 million or more. To me that's serious money.
 14 A When that came to my attention, that was the
 15 question?
 16 Q Yes. When did you find out that that kind of
 17 money was going into insurance premium financing?
 18 A My recollection is that, because of other
 19 conversations and because of their due diligence
 20 that they did with Rangetree and with Wood, Hat &
 21 Silver, that they were going to tiptoe into this
 22 arena. And I don't believe that they did more
 23 than 15 policies in 2004 and maybe up to 30
 24 policies in 2005. It wasn't until roughly 2006
 25 when we were turning those policies over that a
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1 Q You didn't collect any in 2008?
 2 A No, not that I'm aware of.
 3 MR. MELNICK: Let's go off the record
 4 a second.
 5 (Discussion off the record)
 6 MR. MELNICK:
 7 Q Mr. Riek, did any money come from Quadrimus to
 8 you, Mr. Fevola, and Mr. Putman in 2008, to your
 9 knowledge?
 10 A If I can lay a little foundation on Quadrimus, if
 11 you don't mind.
 12 Q Sure.
 13 A Quadrimus was an LLC and, therefore, each of the
 14 three partners received K1's. My recollection is
 15 that the finder's fees we collected in 2006 and
 16 2007 ended with some final checks being cut in
 17 December of 2007. Now, Quadrimus remained open
 18 until approximately the summer of 2008. By the
 19 summer, both Mr. Fevola and Mr. Putman's
 20 attorneys had advised them to turn over their
 21 ownership interest to me, which they did. And
 22 then I closed it that year -- Quadrimus in 2008.
 23 I do not recall cutting any checks in
 24 2008. However, they would have had a K1 from
 25 2008. And so it's either -- I want to call it
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1 very strong track record was being made on the
 2 sale of those initial policies, I think they went
 3 into it heavy, as you would describe "heavy."
 4 Q And my definition was \$5 million or more. So
 5 you're saying that in the 2004 area that there
 6 were about 15 policies, to the best of your
 7 recollection?
 8 A That's correct.
 9 Q And do you know what the investment would have
 10 been for those 15 policies?
 11 A I do not.
 12 Q Now, as a finder, you would have been paid a fee
 13 for those 15 policies; would you not?
 14 A I believe I was paid on most of them. Maybe not
 15 all of them.
 16 Q And was there a percentage equal to 15 percent on
 17 each one of those?
 18 A It's what they would send me. But generally it
 19 would vary between 1 and 5 percent.
 20 Q That was in '05 or throughout?
 21 A I would say, throughout the time frame, that was
 22 a common range.
 23 Q So from 2004 through 2009?
 24 A That was the range. The last finder's fee that
 25 we collected at Quadrimus was in 2007.
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1 accounting issues that may have caused them to
 2 report income, but I don't remember sending any
 3 checks out or receiving any checks in 2008.
 4 Q All right. Were there any policies of Baetis and
 5 Brown in which you would have been entitled to a
 6 finder's fee in 2008?
 7 A I don't recall any.
 8 Q Okay. So the financial part, to your knowledge,
 9 pretty much ended at the end of '07?
 10 A That's correct.
 11 Q Now, you testified that, in your opinion, this
 12 was a risky, speculative investment. Didn't you
 13 tell them when you started splitting up the
 14 finder's fees that they should report this to
 15 Wealth Management?
 16 A That's correct.
 17 Q And what do you remember when you first -- My
 18 understanding is that you told them multiple
 19 times?
 20 A Mm-hmm.
 21 Q You have to answer yes or no.
 22 A Yes.
 23 Q Do you remember the first time that you told
 24 either one that they had to report the fees they
 25 were getting?
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1 A The first time would have been in August of 2005
 2 when I was having lunch With Mr. Putman.
 3 Q And you told him at that time that, if you were
 4 going to split fees with them, that they had to
 5 report this to Wealth Management?
 6 A That's correct.
 7 Q Okay. But you did it more than that singular
 8 time; is that correct?
 9 A That's correct.
 10 Q In fact, you told Mr. Fevola the same thing?
 11 A Yeah. In April of 2006 the three of us were
 12 meeting at their offices, and we reviewed
 13 starting up Quadrimus, which wasn't named that at
 14 the time, and that they needed to disclose that
 15 not only to Wealth Management but they needed to
 16 disclose that to Lori Coonen, their compliance
 17 officer, and their clients. And their clients
 18 should have had an opportunity to opt out then.
 19 I don't think that they had, based upon the track
 20 record that was developing, but they should have
 21 had an opportunity to opt out.
 22 Q To your knowledge, did they report the activities
 23 that you are referring to in the summer of '08?
 24 MS. SCHELLINGER: You mean before?
 25 MR. MELNICK: Okay. Thanks. Let me
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1 knowledge?
 2 A That's my recollection.
 3 Q Okay. And that would have been the summer of
 4 '08?
 5 A Yeah. May or June of '08.
 6 Q Okay. After April of 2006 when you told Putman
 7 and Fevola about it, weren't you told by Mr.
 8 Putman that he had told Mr. Fevola to prepare a
 9 letter -- a notification letter or opt-out
 10 letter?
 11 A I had a couple telephone conversations with Mr.
 12 Putman just before we launched Quadrimus in late
 13 August of 2006. I can't tell you the dates, but
 14 the first time that I called him I asked him if
 15 he had properly disclosed this to Lori Coonen and
 16 their clients, and he told me that he had
 17 delegated that responsibility to Mr. Fevola, and
 18 Mr. Fevola was also going to contact their law
 19 firm, I think it was Drinker Biddle out of
 20 Chicago, for a sample opt-out letter.
 21 Q Didn't you also refer him to Joe Aaron for a
 22 sample opt-out letter?
 23 A If I can back up from that date.
 24 Q Go ahead.
 25 A After our April '06 meeting between Putman,
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1 start again with that question. Not artfully
 2 asked.
 3 Q Between the first time that you told Mr. Putman,
 4 and let's go back to April of 2006 and go
 5 forward, from April of '06 when you told Putman
 6 and Fevola, to your knowledge between April of
 7 '06 and when this thing blew up in the summer of
 8 '08, do you know whether they did, in fact, tell
 9 Lori Coonen or anybody at Wealth Management about
 10 this fee arrangement that you had?
 11 A Mr. Putman called me in May or June of '08 and
 12 told me that he had been to a seminar out West
 13 somewhere, a compliance seminar, and he didn't
 14 think that they had disclosed it properly to
 15 their clients. That was the first time.
 16 And I was shocked when I heard that.
 17 That was the first time that I found out that
 18 they did not disclose. And when I asked him,
 19 What are you going to do about it, he told me
 20 that he was going to notify his Board of
 21 Directors.
 22 Q And, just so the record is clear, that was Mr.
 23 Putman or Mr. Fevola?
 24 A It was Mr. Putman.
 25 Q Who went to the compliance seminar, to your
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1 Fevola, and myself, Mr. Aaron knew in May
 2 sometime, and I can't testify to this 100
 3 percent, but I recall that Mr. Aaron offered, as
 4 I understand, sample documents of disclosure
 5 letters, opt-out letters, and those types of
 6 things.
 7 Q Did he send those?
 8 A I don't know.
 9 Q Didn't you also refer them to Attorney Dick
 10 Stiles to draft -- he was the attorney who
 11 drafted the Quadrimus documents?
 12 A Yes.
 13 Q Didn't you also refer them to Dick Stiles to
 14 draft appropriate opt-out letter also?
 15 A Not that I recall.
 16 Q Okay. At any rate, as I understand it, you were
 17 under the belief from Jim Putman that he had
 18 delegated it to Simone Fevola, and at no time
 19 between the time that you were under that
 20 understanding and when you found out that no
 21 opt-out letter was sent did Putman ever tell you
 22 that he had not delegated that responsibility to
 23 Fevola; is that correct?
 24 A Let me add one other thing, and then I will
 25 answer that.
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- 1 Q Sure.
 2 A A week after that initial call that Jim had
 3 indicated that he had delegated that to Mr.
 4 Fevola, I called Mr. Putman again, and I asked
 5 him if they had taken care of the disclosures,
 6 and his response was, yes, that Simone had taken
 7 care of those, and it was ready to go. And from
 8 that point on I believed him, and it wasn't my
 9 responsibility to follow up on it.
 10 Q Sure.
 11 A I assumed that was the case until he told me in
 12 May or June of '08 that he had not.
 13 Q And is it also accurate that after the first
 14 court appearance when the receiver was appointed
 15 for Wealth Management that you all went out for
 16 lunch after that court appearance?
 17 A "You all"? I am not sure --
 18 Q You and Jim and some others.
 19 A Yes.
 20 Q And the wives were involved?
 21 A Yes.
 22 Q Is it accurate to say that at the luncheon you
 23 were told by Putman that, in fact, he had never
 24 delegated it to Fevola?
 25 A Yes. The answer is -- I stand by my truthful
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- 1 A I am not quite sure how to answer your question
 2 here, other than most of our clients at that time
 3 were retirees, and speculative investments would
 4 not have been appropriate.
 5 Q Did you consider insurance premium financing, as
 6 we talked about it earlier, a speculative, risky
 7 investment?
 8 A The documents from Wood, Hat & Silver would have
 9 indicated the use of the word "speculative," yes.
 10 Q But you considered it speculative; didn't you?
 11 A I considered them high risk until there was a
 12 proven track record of two years of sales of
 13 policies. Only then could you validate all the
 14 assumptions that went into pricing them at the
 15 initial outset and the other variables that would
 16 make them a good investment.
 17 Q You indicated in '04 15 policies were sold. Do
 18 you know how much would have been invested in
 19 those 15 policies?
 20 A I do not.
 21 Q Wouldn't you have been informed, because weren't
 22 your finder fees based on the amounts invested?
 23 A Indirectly, yes. But I would have received a
 24 finder's fee, not necessarily all the details. I
 25 don't have any of those files.
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- 1 testimony on that and the other depositions, but
 2 the wording was more along the lines of he
 3 whispered in my ear that he had not asked Simone
 4 to disclose.
 5 Q Okay. And there is nothing that has changed in
 6 terms of that testimony?
 7 A No.
 8 Q Okay. And the reason I am bringing that up is
 9 you understand that I asked Mr. Putman that, and
 10 he said what you are saying is not true, but you
 11 don't want to change your testimony?
 12 A I stand 100 percent by my truthful testimony that
 13 I have given.
 14 Q You had worked at Wealth Management in the
 15 mid-'90s; is that correct?
 16 A Not quite. I was employed there between 1990 and
 17 1995.
 18 Q Okay. Now, did you have an understanding of the
 19 nature, character, and investment strategy of
 20 Wealth Management clients when you were there?
 21 A That's correct.
 22 Q Were they the kind of people that, when you were
 23 there, who wanted to invest in penny stocks or
 24 invest in conservative, low-volatility stocks
 25 with some kind of return?
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- 1 Q Okay. So, if you were -- Were you given a check
 2 or was it a wire transfer of money?
 3 A The majority of it was through wire transfers.
 4 Some were checks.
 5 Q And that was the account at Markesan?
 6 A Markesan, correct.
 7 Q So you're saying that, even though you might have
 8 gotten wire transfers, they didn't document what
 9 that was for in '04?
 10 A The wire transfers have information on them, but
 11 I don't remember what's on there.
 12 Q And you don't have any of those records?
 13 A I don't have those, no.
 14 Q Did that change in '05, '06, or '07?
 15 A No.
 16 Q And what I am asking is, did it refer to any
 17 specific policies?
 18 A I don't recall. I know there was information on
 19 there. I don't remember what's on the wire
 20 sheet.
 21 Q Okay. Getting back to the questions I was trying
 22 to get to. The 15 policies in '04, do you know
 23 what would have been invested in those policies?
 24 A I do not recall.
 25 Q What about the 30 in '05?
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- 1 A I do not recall.
 2 Q And would your answer be the same for '06 and
 3 '07?
 4 A Yes.
 5 Q Okay. Do you know why there were no investments
 6 in the insurance premium financing business in
 7 '08?
 8 A There probably wasn't any cash in the Baetis and
 9 Brown accounts. Probably were fully invested.
 10 Q Okay. Now, going back to the back end of the
 11 transactions -- It may be quicker if I walk you
 12 through the transaction. An agent finds an
 13 elderly person to subscribe or fill out an
 14 application; is that correct?
 15 A Correct.
 16 Q Generally, 76 years old and older?
 17 A Correct.
 18 Q And the agent would then promise that applicant
 19 some money if they went ahead and did this?
 20 A I don't know what the agents said or what the
 21 agreement was with any of them, so I can't answer
 22 that.
 23 Q Did you ever talk to any of the elderly
 24 applicants, by the way?
 25 A No, I did not.

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- 1 Q Okay. Tell me what you think then.
 2 A I believe that the initial inquiry would have
 3 gone through underwriting at the fund level.
 4 Wood, Hat & Silver. And, if it was an acceptable
 5 case at the fund level, based upon their
 6 underwriting criteria, then I believe it went on
 7 to the insurance company.
 8 Q So there was a double approval process; the first
 9 being Wood, Hat & Silver and the second the
 10 issuing insurance company; is that your
 11 understanding?
 12 A That's my understanding.
 13 Q Okay. Now, do you know what the underwriting
 14 criteria was at Wood, Hat & Silver?
 15 A Mr. Aaron had written underwriting criteria that
 16 I believe he developed with Wealth Management,
 17 but I do not know what it was, and I don't -- I
 18 haven't seen it.
 19 Q So, at any rate, a lot of policies, and we'll get
 20 to that in a little bit, were \$5 million, \$10
 21 million, generally in that area; is that right?
 22 A It's close. I think you could go down to -- I
 23 have heard of \$1 million policies that were
 24 financed. But generally I would say from \$3
 25 million up to \$10 million.

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- 1 Q And, as I understand it, one of the conditions is
 2 they all had to be high-income people?
 3 A I don't know if it was necessarily high income.
 4 I think there may have been net-worth
 5 requirements.
 6 Q Thank you. You corrected me, and you are right.
 7 Thank you. I said that wrong. "Net worth" is
 8 right. They were all high-net-worth people.
 9 A Again, the definition of "high," I'm not sure,
 10 but I would say a net worth of a million dollars
 11 or more is a correct definition.
 12 Q But the applicants, in order to take out a \$5
 13 million insurance policy, they would have had to
 14 have a net worth equal to \$5 million as a
 15 requirement by the insurance companies; wouldn't
 16 they?
 17 A That's my understanding.
 18 Q And did you investigate to see whether those
 19 applicants actually had that kind of net worth
 20 every time?
 21 A No. That wasn't my responsibility.
 22 Q So the applicant filled out the form, and then it
 23 goes to the insurance company first to see if
 24 they will actually issue a policy; right?
 25 A I don't think that's right.

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- 1 Q Okay. And we are talking about the face value of
 2 the policy?
 3 A That's correct.
 4 Q Okay. So at that point -- Assume for the moment
 5 that there is double approval, Wood, Hat & Silver
 6 has approved it and the insurance company has
 7 approved it. Now the policy is issued; is that
 8 correct?
 9 A The policy is issued, correct.
 10 Q And the first-year's premium has to be paid?
 11 A Correct.
 12 Q And that money would go from Baetis and Brown to
 13 the insurance company?
 14 A That's my understanding.
 15 Q And then from that the insurance company would
 16 pay the agent a commission?
 17 A That's my understanding.
 18 Q Do you know what the commission was between the
 19 insurance agent and the company?
 20 A The aggregators told me it was according to their
 21 level of business, about 80 percent of the first
 22 year's premium to 120 percent of the first year's
 23 premium.
 24 Q And, if I'm understanding, the first year on the
 25 \$5 million policy would have been a half million

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1 dollars?
 2 A That might be a little high. But, yeah, it would
 3 be in the neighborhood.
 4 Q And, by the way, I could be confusing it on the
 5 \$5 million policy, but it's a substantial amount
 6 of money that was paid on that first-year's
 7 premium; correct?
 8 A Absolutely.
 9 Q The person taking out the policy, the
 10 high-net-worth person, do you have any idea,
 11 being an older man myself, why a high-net-worth
 12 person would need a life insurance policy
 13 starting at the age of 76? Did you ever ask
 14 yourself that?
 15 A Well, there were a couple theories on that. Most
 16 high net worth individuals never used their
 17 maximum insurance ability amount. So let's say
 18 they had a \$20 million net worth. And, in order
 19 to do their estate planning, they only needed \$5
 20 million of capacity. This would be a way for
 21 them to use the rest of their capacity to sell
 22 the policy and hopefully make a profit.
 23 Q And the profit was not from the policy but was
 24 from the back end of the policy, after
 25 commission, that the applicant would get at the
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1 Q Would you get a percentage as the finder?
 2 A "You" as?
 3 Q You.
 4 A Me, Tom Riek?
 5 Q Tom Riek.
 6 A Tom Riek did not get any percentage of back ends.
 7 Q It was only on the front end?
 8 A Right. All I got was a finder's fee on the front
 9 end, yes.
 10 Q So I am still trying to understand the concept
 11 here. The insured has a hope that the policy is
 12 sold on the back end for his or her efforts;
 13 right?
 14 A The policy has to be sold on the back end for
 15 more than the loan plus -- and then the
 16 difference would be profit. That's correct.
 17 Q So the real only advantage to the insured is
 18 that, if during that two years the insured dies,
 19 then the estate gets the face amount of the
 20 policy?
 21 A You are wandering into areas that I don't have a
 22 lot of expertise on. But it's my understanding
 23 that, if they died, the money would go into the
 24 trust, from there the trust would pay off the
 25 loan plus interest. And, again, there was some,
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1 end of two years?
 2 A That depended on how the contract with the
 3 aggregator was set up. Initially, the
 4 aggregators shared the back-end profits with the
 5 agent and the insured. And I recall that maybe
 6 in 2006 or so the insurance regulators were
 7 concerned that the seniors were not getting
 8 enough of the back-end profit, so I believe the
 9 agents started upping the amount of the back-end
 10 profit that they were giving the seniors.
 11 But, essentially, they would get two
 12 years of "free insurance," in quotations. And,
 13 if the policy was sold for a substantial profit
 14 at the end of two years, they participated in
 15 that according to whatever contract they had with
 16 the aggregator.
 17 Q Now, let me make sure that I understand. You are
 18 saying the aggregators actually contracted with
 19 the insurance applicants?
 20 A My understanding is that in the trust or wherever
 21 they had this written down, it was written down
 22 that at the sale, for instance, Rangetree would
 23 get a certain percentage, and the insured would
 24 get a certain percentage, and maybe the agent got
 25 a percentage.
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1 I believe, split between the aggregator and the
 2 insured for the difference after that amount.
 3 Q But that would have all been in writing in the
 4 contract?
 5 A I believe so.
 6 Q And you never saw any of those writings?
 7 A No.
 8 Q Now, to your knowledge, did the agents give any
 9 money up front to the applicant -- the insurance
 10 applicant for their efforts of filling out the
 11 application and going through whatever health
 12 process they had to go through?
 13 A I am not aware of any of that.
 14 Q Would it have been legal for an insurance agent
 15 to give them money, to your knowledge?
 16 MS. SCHELLINGER: Objection. Calls
 17 for a legal conclusion.
 18 MR. MELNICK: Let's go off the record
 19 a second.
 20 (Discussion off the record)
 21 MR. MELNICK:
 22 Q You have an insurance license; do you not?
 23 A Yes, I do.
 24 Q And, as part of the licensing, there are certain
 25 rules of the industry that apply within the
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1 context of your license; is that correct?
 2 A That's correct.
 3 Q Do you know if an insurance agent is able to
 4 induce an applicant by giving that applicant
 5 money to fill out an application?
 6 MS. SCHELLINGER: I will object. It
 7 calls for a legal conclusion. But if you have an
 8 understanding from a layman's perspective, you
 9 can answer.
 10 THE WITNESS: I don't know.
 11 MR. MELNICK:
 12 Q Okay. Now, getting to the back end of the
 13 transaction. It's now two years, and at that
 14 point is it your testimony that the policies then
 15 are ready to be sold because the period of
 16 contact has run?
 17 A That's correct.
 18 Q Do you have any knowledge that Baetis and Brown
 19 sold policies before that two-year period?
 20 A No, I don't have any knowledge -- I'm thinking.
 21 What I do know is that they would put the
 22 policies up for sale at least 30 days before the
 23 two-year mark. That's what I do know.
 24 Q Okay. But you don't know of any concerted effort
 25 to sell these policies, for example, within the
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1 me under oath that they didn't fund the second
 2 year.
 3 A Wealth Management?
 4 Q Baetis and Brown, they were supplying the money.
 5 But that the second year, if you look at it, and
 6 I have documents that I can show you a little bit
 7 later on, there was no funding for the second
 8 year. I was trying to figure out, if it's a
 9 two-year process and there is no funding for the
 10 second year, what was the plan?
 11 A One response that I can give you is that not all
 12 policies had second-year premiums due.
 13 Q Okay.
 14 A They had flexibility with these Universal Life
 15 policies to, what do I want to say here, front
 16 load them, put it in the first year with no
 17 premium due in the second year. And then, of
 18 course, they went into their sales process. I
 19 know it's not all policies, but some did not have
 20 second-year funding requirements.
 21 Q And do you know if it was specific companies that
 22 had that, or was it that each contract was
 23 individual no matter what the company?
 24 A I don't recall that part.
 25 Q Now, on the back end, somebody was out there to
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1 first year?
 2 A I don't recall any.
 3 Q Okay. Now, did you know how Baetis and Brown
 4 funded those policies? That is, they paid the
 5 first year's premium. Did they keep a reserve
 6 for the second year's premium?
 7 A Joe Aaron tried to do some planning in that
 8 regard, but I don't know for a fact that he had a
 9 cash reserve for that specific purpose. I do
 10 recall him saying that he had done some planning
 11 for that, though.
 12 Q Do you know if Jim Putman and Simone Fevola had
 13 anything to do with reserving money for that
 14 second year?
 15 A Not that I'm aware of.
 16 Q If you knew that there was no money reserved for
 17 the second year, would that have affected whether
 18 or not you would have continued finding people
 19 for those policies?
 20 MS. SCHELLINGER: Objection. Calls
 21 for speculation. Incomplete hypothetical. You
 22 can answer it, if you can.
 23 THE WITNESS: The question again?
 24 MR. MELNICK:
 25 Q Let me put it in context. Mr. Fevola just told
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1 buy these policies; is that correct?
 2 A Correct.
 3 Q Do you know who?
 4 A In general, I can throw out a few names.
 5 Q Was General Re one of the? Gen Re, it's called.
 6 A I am not familiar that they were, but I know
 7 Deutsche Bank was a name that would come into
 8 play. And they were working with a Canadian
 9 hedge, a European hedge fund that I heard. I
 10 can't think of the names. And there were other
 11 life settlement companies. They're not coming to
 12 my brain right at the moment here. But there
 13 were four or five of those out there that bought
 14 policies.
 15 Q Were you aware that Wealth Management would put
 16 out a monthly flyer to its clients?
 17 A Yes. A monthly newsletter.
 18 Q Newsletter, that's a good term.
 19 A Yes, I was aware of that.
 20 Q Did you get a copy of that newsletter?
 21 A No, I did not.
 22 Q Were you aware that, in any of the newsletters
 23 from '04 through '07, that they advertised that,
 24 in fact, there was this huge after-market to buy
 25 these policies, and one of the companies was Gen
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1 Re? Which is General Refinance, the Warren
 2 Buffett, Berkshire Hathaway company.
 3 A I'm going to answer that two ways. I was not
 4 aware of that, but I read it on the Receiver's
 5 website. I was not aware of it. But I am now,
 6 because I read about it in there.
 7 Q Okay. But, to your knowledge, that was not true?
 8 You had no knowledge that Gen Re was buying any
 9 of those policies from Baetis and Brown?
 10 A I had no knowledge if they were a buyer or not.
 11 Q Do you have any specific knowledge of a purchase
 12 transaction after the two-year period, of a name
 13 of who bought policies after the two-year period
 14 that you know of, not that you heard about, that
 15 you know?
 16 A No, I don't have any specific details.
 17 Q Do you know or were you participating in any of
 18 the meetings or did you read anything showing
 19 what the companies that were allegedly buying in
 20 the aftermarket wanted? Just like you did
 21 underwriting on the front end, what did they want
 22 on the back end?
 23 A No, I did not participate in any meetings, and I
 24 don't have anything from the companies as to
 25 their underwriting.
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1 paid.
 2 Q And did Quadrimus have an agreement with agents
 3 or aggregators as to how much they would get paid
 4 for each policy they issued?
 5 A No, it did not.
 6 MR. MELNICK: Do you want to take a
 7 quick break?
 8 (Recess taken)
 9 MR. MELNICK:
 10 Q We talked about finder's fees, Mr. Riek. Were
 11 you paying, as Tom Riek or Riek & Associates or
 12 Quadrimus, any of those individuals or entities,
 13 any money for premiums to either Wood, Hat &
 14 Silver or Baetis and Brown?
 15 A If I understand your question correctly, did we
 16 use any of the finder's fees that Quadrimus
 17 received to make first or second-year premium
 18 payments; is that --
 19 Q No. Let me stop you. I'm going to establish a
 20 bit of a foundation. I would like to ask you to
 21 define some terms. What does the term
 22 "arbitration" mean?
 23 A To me?
 24 Q That is all I want is your opinion. That's it.
 25 A That the individual cases were priced out using
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1 Q Now, do you know whether or not -- Strike that.
 2 Do you know how many policies in total were
 3 issued in '06 and '07?
 4 A No, not offhand.
 5 Q Would you have records of that?
 6 A No.
 7 Q Okay. The only reason I am asking that, you knew
 8 that about 15 were issued in '04 and about 30 in
 9 '05; correct?
 10 A Correct.
 11 Q But you don't know how many were issued in '06?
 12 A No. But, if you went to Wood, Hat & Silver, they
 13 would have those records.
 14 Q And I can tell you, they won't give them up to
 15 their Receiver. There is a motion to compel. So
 16 the answer is, no, I don't have those records.
 17 But you don't have them, either?
 18 A No, I do not.
 19 Q Now, the amount of policies that were issued
 20 would affect the amount of money that you
 21 received in Quadrimus; wouldn't it?
 22 A That's correct.
 23 Q Okay. So, the more policies issued, the more
 24 money would come into Quadrimus?
 25 A That would be the only way Quadrimus would get
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1 the Milliman model using a high discount rate of
 2 perhaps 16 or 18 percent and turning around and
 3 selling the policies at a discount down the road
 4 thereby capturing the arbitration between how
 5 they were priced and how they were sold. That's
 6 what it means to me.
 7 Q Okay. And you're using then "arbitration" as a
 8 specific technique in order to gain some profit?
 9 A That is my opinion, yes.
 10 Q Not every transaction, in your opinion, is in
 11 fact, an arbitration. It's a very specific kind
 12 of transaction; is that right?
 13 A I would say every transaction would be priced out
 14 with the hope of taking advantage of arbitration,
 15 and once that disappears there is no profit.
 16 Q Profits and origination fee. What does that
 17 term, "origination fee" mean?
 18 A I will take a stab at it. I am not claiming to
 19 have expertise. The origination fee was a
 20 separate cost built into the initial purchase
 21 that would be received upon the sale at the end
 22 of two years back to the fund and then added to
 23 the return from the sales profits.
 24 Q Could it also be a fee that Wood, Hat & Silver
 25 got to finance the policies initially?
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- 1 A That's not my recollection.
 2 Q Okay. Did you know that Mr. Aaron had problems
 3 with the SEC prior to your joining his employ?
 4 A Yes, I did.
 5 Q Did he disclose that to you?
 6 A Yes, he did.
 7 Q Did he disclose to you the punishment that he
 8 received?
 9 A Yes, he did. And then he sent me an article that
 10 was in the paper.
 11 Q And that didn't stop you from joining his
 12 company?
 13 A No. I spent a lot of time with Mr. Aaron in his
 14 due diligence meetings with many managers, and I
 15 got to know him pretty well. So I was over that
 16 issue.
 17 Q In 2004, before you left his employ, did you know
 18 he was under investigation by the SEC again?
 19 A Under investigation? Could you define that.
 20 Q They were looking into his activities for illegal
 21 conduct.
 22 A That's not my understanding. My understanding is
 23 it was a normal SEC -- what do they call it?
 24 Normal --
 25 Q Audit maybe?
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- 1 A Audit.
 2 Q Were you aware that in August of 2005 the SEC
 3 issued the results of that audit, as you put it?
 4 A No.
 5 Q Did you see a report either on or after August of
 6 2005 regarding Joe Aaron and Wood, Hat & Silver's
 7 activities?
 8 A No, I did not.
 9 Q Were you ever told of any remediation that Joe
 10 Aaron had to do as a result of the SEC audit?
 11 A Okay. When you say "remediation," do you mean
 12 that he had to pay money back to somebody?
 13 Q A disclosure.
 14 A He had to disclose to his clients that he
 15 received money and had to pay it back to
 16 somebody?
 17 Q Right.
 18 A I am aware of that. He sent a letter out to all
 19 his clients that he had taken in a small amount
 20 of money from I believe it was MKA Capital and
 21 that he had to return it to the fund, and I think
 22 he actually paid some out of his pocket to the
 23 fund.
 24 Q Are you aware that he, in a sense, received fees
 25 from MKA for investing with them that he did not
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- 1 disclose to his clients?
 2 A That's not my understanding.
 3 Q Okay. MKA was not in the insurance premium
 4 financing business; right?
 5 A That's correct.
 6 Q Now, you received a finder's fee from MKA; did
 7 you not?
 8 A I did.
 9 Q And what did you do to warrant that finder's fee?
 10 Q Again, introduced the parties.
 11 Q You have to be specific. Which parties?
 12 A I introduced Wealth Management to MKA as well as
 13 Wood, Hat & Silver. So I was the finder.
 14 Q So you were the one that found MKA?
 15 A I did not find them originally. And let me share
 16 the story with you.
 17 Q Sure.
 18 A Joe Aaron had a relationship with MKA prior to my
 19 being employed at Wood, Hat & Silver, and I went
 20 down to Newport Beach, I think that's where they
 21 were located, on one of his due diligence visits
 22 and got to know the principals there and sat in
 23 and listened.
 24 Wealth Management was introduced to
 25 them after that by Joe and myself while I was
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- 1 employed at Wood, Hat & Silver, and they
 2 initially chose to make an investment into one of
 3 Joe's funds which then invested in MKA.
 4 A little later, I think it was 2005,
 5 Mr. Fevola told me that he was going to make a
 6 direct investment from Wealth Management to MKA,
 7 not through the Wood, Hat & Silver funds.
 8 So I asked both Mr. Putman and Mr.
 9 Fevola if they minded if I collected the finder's
 10 fee, because I knew that they paid one for the
 11 past two years while I had been introducing
 12 several other potential managers to them, which I
 13 knew had finder's fees, if they would allow me to
 14 collect it, because they could not collect them
 15 themselves.
 16 And, when they told me I could collect
 17 the MKA finder's fee I went to the president of
 18 MKA, Mr. Sugarman, and said, I am the finder for
 19 this group for both Wood, Hat & Silver and Wealth
 20 Management, and they agreed that I can collect
 21 this fee. Would you agree to pay me that fee,
 22 and he said yes, and that's how I collected my
 23 finder's fee.
 24 Q How long did you collect that?
 25 A I collected it probably a year and a half through
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1 maybe the end of -- I recall part of 2007, but I
 2 am not entirely sure of that. It ended when
 3 Wealth Management made a withdrawal of all their
 4 monies at MKA, and I don't remember when that
 5 was.
 6 Q And it was in '07, if I can represent that to
 7 you. But that withdrawal that went from MKA, do
 8 you know where that money went, the money that
 9 MKA sent to them?
 10 A They sent it to Baetis.
 11 Q Who then sent it to Gryphon?
 12 A Not that I am aware of.
 13 Q What are you aware of?
 14 A I am not aware of any withdrawal transaction and
 15 where it was sent. I am not aware of any of
 16 that.
 17 Q You are not saying I'm wrong, you don't know
 18 about it?
 19 A I don't know about it.
 20 Q Okay. You said that as a finder you introduced
 21 the parties and then you step out of the
 22 transaction and you don't have any other
 23 involvement; is that correct?
 24 A Essentially.
 25 Q But you did have involvement in the Brown fund,
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1 agents directly?
 2 A No.
 3 Q As I understand your testimony previously, in
 4 order to collect the finder fees that you did
 5 get, you needed an insurance license?
 6 A Is that -- Again, without being a lawyer, I don't
 7 know.
 8 Q How did you come to that conclusion, if you did?
 9 A I don't think that I needed a license, but I had
 10 one.
 11 Q Okay. I understand that you did. That's where I
 12 am confused, because I thought that there was
 13 testimony that you needed a license in order to
 14 get those commissions. Is that something that
 15 you may want to reconsider?
 16 MS. SCHELLINGER: I think you're
 17 misstating his testimony.
 18 MR. MELNICK: Maybe I am recalling it
 19 incorrectly. Let's do it again.
 20 Q To your knowledge, as we sit here today, do you
 21 need an insurance license to collect commissions,
 22 finder fee commissions, whatever you want to call
 23 them, from insurance agents?
 24 MS. SCHELLINGER: Object to the extent
 25 that that calls for a legal conclusion. Answer
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1 didn't you, in terms of what it invested in?
 2 A No, I did not, after I left Wood, Hat & Silver.
 3 Q So you did not participate in any decisions
 4 regarding investing in insurance premium
 5 financing by Brown?
 6 A Absolutely not.
 7 Q Were you aware that Joe Aaron was sending you
 8 statements on a monthly basis of Wealth
 9 Management funds that Wood, Hat & Silver was
 10 managing?
 11 A Yes, I was aware of that.
 12 Q Why were you sent those statements?
 13 A Well, I introduced the parties back when I was an
 14 employee of Wood, Hat & Silver and they would
 15 authorize that.
 16 Q Other than authorization, was there any financial
 17 reason why you would be getting the statements?
 18 A No.
 19 Q Did you keep those statements?
 20 A I might have kept a few, which we would have
 21 submitted to the SEC as part of the production.
 22 Q As I understand it, you said that you were paid
 23 finder fees from aggregators; correct?
 24 A Yes.
 25 Q You weren't paid finder fees from insurance
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1 to the extent that you can.
 2 THE WITNESS: If we are talking about
 3 finder fees, I don't believe that I need a
 4 license.
 5 MR. MELNICK:
 6 Q Okay. Have you ever heard of Caddis Fund?
 7 A Caddis Fund? Yes.
 8 Q What is that?
 9 A That was a fund that Joe Aaron managed at Wood,
 10 Hat & Silver.
 11 Q Did it have anything to do with you?
 12 A I was an investor in Caddis.
 13 Q Other than an investor, did you have any other
 14 dealings with Caddis?
 15 A No.
 16 Q Was there any other fund that you were an
 17 investor in?
 18 A Yes.
 19 Q Which one was that or which of those funds were
 20 those?
 21 A I was an investor in another fund by the name of
 22 NDM. I was an investor in Brown and a note
 23 holder in Brown. I was an investor in Baetis and
 24 a note holder in Baetis. I was an investor in
 25 Stone Fly. I think there might have been one
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1 more. That's the best of my recollection.
 2 Q I think you're probably aware, possibly not, that
 3 Mr. Aaron has testified that his contact with
 4 Wealth Management was mostly with you and that
 5 you would relay information to Mr. Putman and
 6 then they would relay information back to you and
 7 you would relay it back to Joe. Is that a
 8 correct assessment of the situation?

9 MS. SCHELLINGER: Objection. Lack of
 10 foundation.

11 THE WITNESS: That's too generic of an
 12 assessment.

13 MR. MELNICK:

14 Q Before Mr. Aaron made a recommendation to Wealth
 15 Management, did he run that by you all the time?

16 MS. SCHELLINGER: Objection. Lack of
 17 foundation. Calls for speculation. You can
 18 answer.

19 THE WITNESS: Mr. Aaron made all his
 20 decisions with Wealth Management, and
 21 occasionally he would let me know. I, in no way,
 22 shape, or form made any decisions for them, with
 23 them, or about them. It's totally in their
 24 control.

25 MR. MELNICK:

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1 of policies?

2 A It could happen in both manners.

3 Q Do you know if it did?

4 A Yes, I believe it did.

5 Q Both individually and as a group?

6 A Yes.

7 Q How do you know that?

8 A I recall a conversation with Mr. Aaron one time
 9 that a Mr. Gayner -- Beau Gayner was packaging or
 10 attempting to package some of the Baetis and
 11 Brown policies together to sell them as a group
 12 sale.

13 Q But that never came about; did it?

14 A I am not sure.

15 Q At some point you had information that there were
 16 cash-flow problems in Baetis or Brown or both; is
 17 that correct?

18 A Yes.

19 Q And that was in '07?

20 A No.

21 Q When was it?

22 A The first time that I knew that they had cash-
 23 flow problems was in the fourth quarter of '08.

24 Q Okay. And that's to both Baetis and Brown?

25 A That's correct.

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1 Q If you weren't in the decision-making process, do
 2 you know why he was passing information to you?

3 A I was the finder.

4 Q Okay.

5 A And I introduced the parties, and so I had that
 6 relationship.

7 Q You had that relationship but, other than that
 8 relationship, you had nothing to do with any of
 9 the decision-making processes either for Wealth
 10 Management or Wood, Hat & Silver?

11 A I had absolutely no authority to make any
 12 decisions for either of those parties.

13 Q I understand you didn't have any authority. Did
 14 you participate in the decision-making process?

15 A No. I would occasionally pass information to
 16 them, but that's it. I was an intermediary in
 17 that way.

18 Q Were you aware of any portfolio files?

19 A I don't know what you mean by that.

20 Q If they would accumulate a number of policies,
 21 they would call that a portfolio of policies.
 22 Does that mean anything to you?

23 A No.

24 Q Do you know if they would sell those policies on
 25 the secondary market individually or as a group

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1 Q That applies, just so the record is clear, to
 2 both Baetis and Brown?

3 A That's correct.

4 Q Did you tell Joe Aaron that you were getting
 5 finder's fees from insurance agents?

6 A Yes, I did.

7 Q Why did you disclose that to Mr. Aaron?

8 A It was the same industry like Wealth Management.
 9 So I don't know that I had to disclose to him
 10 that I was receiving that. But my practice is to
 11 disclose everything that I can to the parties
 12 involved. And, yes, I did disclose that to him.

13 Q Did he tell you he was also receiving fees from
 14 these insurance agents?

15 A I am not sure that he was.

16 Q Do you know if the funds were getting fees from
 17 the insurance agents?

18 A It's my understanding that the funds did receive
 19 some fees from the agents, yes.

20 Q And do you know why the funds were getting fees
 21 from agents?

22 A No, I don't know why.

23 Q They weren't finders, you were the finder; right?

24 A For Wealth Management and other clients I was the
 25 finder.

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- 1 Q I am talking about Baetis and Brown investments.
 2 You were the finder of those aggregators for
 3 those policies; weren't you?
 4 A I was, yeah. That doesn't necessarily mean that
 5 I am going to get paid.
 6 Q I understand that. We'll separate that out. You
 7 were the finder?
 8 A I was one of the finders. There would be other
 9 people that were doing business that, you know,
 10 would have gotten paid before I would have.
 11 Q Give me the name of any other finder that you
 12 know of.
 13 A Any other finder that I know of?
 14 Q Like you?
 15 A I don't walk in those circles. I only know
 16 myself.
 17 Q You didn't hear the name of any other finders,
 18 other than you?
 19 A No. But I am sure there were others.
 20 Q And how do you know there were others?
 21 A I am guessing so. I am not going to guess.
 22 Q Don't guess.
 23 A Thank you.
 24 Q Your attorney will tell you not to guess. Okay.
 25 Have you ever heard the term "lender's fees"?
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- 1 regular basis?
 2 A I think that there was something similar to this
 3 while I worked there. But I have not seen one
 4 since I left there.
 5 Q Okay. But, as I understand it -- You started
 6 there when?
 7 A Approximately late 2002.
 8 Q Now, look in the upper left-hand corner where it
 9 says Inception Date. Do you see where it says
 10 May of 1995?
 11 A Yes.
 12 Q And it says Minimum Account, \$1 million. Does
 13 that mean anything to you? Would the minimum
 14 buy-in for Wood, Hat & Silver be \$1 million?
 15 A Effectively. His documents all had minimums such
 16 as this but also had the clause that the general
 17 partner can waive minimums.
 18 Q And Management Fee of 1 percent. Was that the
 19 standard that, to your knowledge, Wood, Hat &
 20 Silver charged at that time?
 21 A To my knowledge.
 22 Q And that was consistent through the time that you
 23 were there?
 24 A Joe may have had a range of 1 to 3 percent while
 25 I was there.
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- 1 A No.
 2 Q I probably should have broadened the question.
 3 As regarding insurance premium financing, have
 4 you heard of the term "lender's fees"?
 5 A No.
 6 Q Let's go through these quickly. I have three so
 7 I have one for everyone, so we can pass these
 8 out. And I have had these premarked.
 9 I am going to show you Exhibit No. 1
 10 and ask you if you ever seen this document
 11 before.
 12 A No, I have not.
 13 Q Have you seen this format before?
 14 A Not this exact format, no.
 15 Q Presumably it was put out by Wood, Hat & Silver;
 16 is that correct?
 17 MS. SCHELLINGER: Objection. Lack of
 18 foundation.
 19 MR. MELNICK:
 20 Q It says Wood, Hat & Silver, L.L.C., on the
 21 document; doesn't it?
 22 A Yes.
 23 Q Okay. Have you ever seen, in the time that you
 24 worked at Wood, Hat & Silver or after you left,
 25 that Wood, Hat & Silver published those on a
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- 1 Q And then Incentive Fee. What does that mean?
 2 A The fund would participate in profit.
 3 Q Would the fund participate in a loss?
 4 A To the best of my recollection, there might have
 5 been a high water mark that had to be overcome
 6 before they could again participate in the
 7 profits and incentive.
 8 Q I'm going to show you what has been marked as
 9 Exhibit No. 2. I will tell you this has a
 10 Inception Date of January '02.
 11 A Yes.
 12 Q Have you seen this document prior to today?
 13 A No.
 14 Q Have you seen one like this prior to today?
 15 A Can you give me just a moment to look at it to
 16 see. I don't recall seeing one like this.
 17 Q Okay. We will go over the data on this document
 18 and see if it comports with your experience while
 19 you were there. Minimum Account of \$1 million we
 20 have already discussed and Management Fee of
 21 one-and-a-half percent. You testified that that
 22 would be consistent with your knowledge?
 23 A Yes.
 24 Q Incentive Fee of 20 percent. On the last
 25 document we talked about 10 percent. Over the
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1 time that you were there, did it go up to 20
 2 percent?
 3 A The funds to funds that Joe ran prior to my being
 4 with Wood, Hat & Silver, and even during the time
 5 that I was there, were of the traditional long/
 6 short hedge fund variety. Very aggressive funds.
 7 So I would say that it's reflective of his
 8 management style prior to my coming to Wood, Hat
 9 & Silver.
 10 Q And did you change that management style when you
 11 started working there?
 12 A I made suggestions to Mr. Aaron to locate more or
 13 establish more of a fixed income consistent with
 14 an absolute return type fund versus the
 15 aggressive long/short funds, yes.
 16 Q By the way, what does "absolute return" mean?
 17 A To me?
 18 Q That's all I can do is ask you what it means to
 19 you.
 20 A My opinion is that absolute return funds attempt
 21 to make a potential positive return in any market
 22 climate, whether the market is up or down.
 23 Q Isn't it true that no investor invests to lose
 24 money?
 25 A Well, a mutual fund, unless you take it upon
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1 Q Was that done when you were there?
 2 A I don't recall if it was done while I was working
 3 at Wood, Hat & Silver. But I do recall that with
 4 Wealth Management, for example, I think he had a
 5 separate agreement with them.
 6 Q Anyone else?
 7 A I am not aware of any of the other ones.
 8 Q Okay. Showing you what has been marked Exhibit
 9 No. 3. Ask you if you have seen this document
 10 before.
 11 A I don't know if I have seen this particular one,
 12 but I have seen several like it.
 13 Q And, just so you are not confused, and I am happy
 14 to work with your attorney on it, it was
 15 introduced at your deposition on 7-22-10 as
 16 Exhibit No. 1.
 17 A Part of my production.
 18 Q I don't know how it got there, but it was in your
 19 testimony. So I want to go back and ask you if
 20 you have seen this prior to today.
 21 A I don't recall if I have seen this one, but I
 22 have seen several like it. I may have seen it.
 23 I don't recall.
 24 Q And you would receive this from Joe Aaron in the
 25 ordinary course of business; wouldn't you?
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1 yourself to exit a fund in a poor market
 2 environment, you will ride that all the way down
 3 to the full extent. And an absolute return fund
 4 may return to short stocks in a negative market
 5 and profit from the downturn.
 6 Q See where it says Entry Dates? Look at the
 7 middle column. Do you see that?
 8 A I'm looking.
 9 Q Right in the middle, top of the page.
 10 A Okay.
 11 Q Is that consistent with what you knew when you
 12 were there?
 13 A Again, the documents that I recall may have
 14 listed a quarterly entry date but gave the
 15 general partner a lot of latitude in making
 16 adjustments at any time.
 17 Q Same with exit dates?
 18 A Yes.
 19 Q And Lock Up, it's my understanding that that
 20 means your money is tied up for the first year.
 21 A Again, Mr. Aaron did arrange some side deals or
 22 whatever they call it with clients that they
 23 could have arranged terms other than one year.
 24 Q And that would be on a client-by-client basis?
 25 A Yes.
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1 A Yes, I would receive this kind of statement.
 2 Q Now, all I am looking at is Column No. 4 where it
 3 says Net Gains/Losses.
 4 A Mm-hmm.
 5 Q You have to answer yes or no.
 6 A Yes.
 7 Q Look at '04 and '05. Do you see where it says
 8 Net Gains/Losses?
 9 A Yes.
 10 Q And it looks like there is approximately a \$2.7
 11 million gain in '04 and a \$3.5 million gain in
 12 '05, rounded off; correct?
 13 A Yes.
 14 Q Do you know how those gains were arrived at?
 15 A In a general way, I do.
 16 Q Go ahead.
 17 A Can I answer it this way?
 18 Q Sure. Best of your knowledge.
 19 A There were regulations released by the SEC in
 20 2004 and implemented I think in late 2004. One
 21 of the requirements is that a fund have a written
 22 evaluation process. And I believe that Wood, Hat
 23 & Silver has written evaluation processes that
 24 they use to value these. And then the secondary
 25 check on it, my understanding is that the
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1 auditors who did the annual audit had their own
 2 procedures before they could give their blessing
 3 to the audit. So I think those were the two ways
 4 that they were checked.
 5 Q But the last column where it says Account
 6 Balance, isn't that what the value is? In the
 7 fourth column, that just talked about net gains
 8 and losses.
 9 A Each annual audit calculates and verifies the
 10 returns. They use --
 11 Q Let me cut to the chase on Column 4. On each one
 12 of those policies there was a signed note with
 13 that policy because the premium was loaned money
 14 and the note was for that loan?
 15 A Yes, I believe so.
 16 Q And it ranged from like 9.9 percent up to 14 or
 17 15 percent, somewhere in those areas?
 18 A That's correct. That's my understanding.
 19 Q And the interest was accrued, was it not, on
 20 those policies that were issued?
 21 A That's my understanding.
 22 Q Isn't Column 4 simply because in '04 they were
 23 really just getting started with these policies?
 24 A Correct.
 25 Q In '04 the only way to get \$2.7 million is they
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1 Q And that was just Baetis or Baetis and Brown?
 2 A I believe it was both Baetis and Brown and Brown.
 3 Q I am going to show you what has been marked as
 4 Exhibit No. 4.
 5 MR. MELNICK: Off the record a second.
 6 (Discussion off the record)
 7 MR. MELNICK:
 8 Q Why don't you take a look at Exhibit No. 4. Have
 9 you ever seen this document before?
 10 A Yes, I have seen this.
 11 Q And that was at the time that you were working
 12 with Wood, Hat & Silver; right?
 13 A That's correct.
 14 Q And you were advising the Janssens, who were
 15 clients that you brought in to Wood, Hat &
 16 Silver?
 17 A That's correct.
 18 Q Okay. But that stopped when you left Wood, Hat &
 19 Silver in April of '04?
 20 A That's correct.
 21 Q Here's Exhibit No. 5. Take a look at it. And I
 22 will ask the same question. Have you seen this
 23 document before?
 24 A Again, I believe I have. I have received several
 25 like this.
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1 were accruing the interest on those notes;
 2 correct?
 3 MS. SCHELLINGER: Objection. Lack of
 4 foundation.
 5 MR. MELNICK:
 6 Q Do you know?
 7 A I believe you are incorrect.
 8 Q Go ahead. Tell me -- Correct me.
 9 A Prior to '05 there is likely a high degree of
 10 probability there were two to three to four
 11 different managers in the funds. And each
 12 manager would have a different vehicle to
 13 calculate profits and losses. So it would have
 14 been accrued interest and likely included capital
 15 gains or losses from the other managers.
 16 Q Okay. Wasn't Baetis just in insurance premium
 17 financing?
 18 A My recollection, they -- Wood, Hat & Silver and
 19 Wealth Management sent letters to their investors
 20 sometime in the middle of 2005 that said it was
 21 now a dedicated life insurance financing fund and
 22 that Wealth Management was essentially kicking
 23 everyone out of the fund at that time, and they
 24 were just going to retain it for themselves and
 25 their clients.
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1 Q Okay. And, again, is it something that you would
 2 have seen in the ordinary course of business?
 3 A Yes. I did receive it.
 4 Q From Joe Aaron?
 5 A That's correct.
 6 Q Now, that has Watchstone Partners; do you see
 7 that?
 8 A Yes.
 9 Q And, for the record, what was the difference
 10 between what Watchstone did and what Gryphon did?
 11 A Watchstone was for their qualified money, and
 12 Gryphon was for clients' personal money.
 13 Q Now, once again, the columns are all the same in
 14 terms of the previous Exhibit No. 3, so it's
 15 actually my same question. If you could go to
 16 '05 and '06; do you see that?
 17 A Yes.
 18 Q In '05 do you have any knowledge that Brown was
 19 investing in anything other than insurance
 20 premium financing?
 21 A I am not sure. In '05 --
 22 Q Okay. Let me make it easier for you. This
 23 document starts with '04 and goes through '09;
 24 correct?
 25 A Goes from 12-04 to 3-09, correct.
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- 1 Q And do you know, in that time period, did Brown
2 invest in anything else other than insurance
3 premium financing?
4 A I recall that there is a high probability that
5 there was another type of investment in there
6 prior to 12-31-05.
7 Q Prior to 12-31-05, you are saying Brown was
8 investing in something other than insurance
9 premium financing?
10 A Yes, I am saying that. And I don't know if that
11 would have carried forward. It's possible it
12 did. I don't know.
13 Q And, again, I'm sure your attorney agrees with
14 me, don't guess. If you know, great. If you
15 don't, that's fine.
16 What I am trying to do is get your
17 knowledge as to whether in that time period they
18 were involved in anything other than insurance
19 premium financing.
20 A I don't know.
21 Q I am going to show you what has been marked as
22 Exhibit No. 6. I will represent to you that this
23 is a document from the SEC to Joseph Aaron at
24 Wood, Hat & Silver. I will represent that to
25 you. And it's 20 pages long.
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- 1 recall the time frame of that, if it could have
2 coincided with this. Maybe a letter to the
3 investors on information that the SEC wanted
4 publicly known to each one of them. I remember
5 seeing a letter. I don't recall a time frame of
6 it, though.
7 Q Did he tell you that he had an obligation to
8 report the results of Exhibit 6 to his investors?
9 A No, I don't have any recollection of that
10 conversation.
11 Q Other than those letters that you have a
12 recollection or a vague recollection of, do you
13 recall anything that was required of Joe Aaron or
14 Wood, Hat & Silver to follow up with?
15 A Not other than the letters, which I can't put in
16 a time frame.
17 Q Show you what has been marked as Exhibit No. 7.
18 As you can see from the exhibit sticker on there
19 already, this was used in Mr. Aaron's deposition.
20 A Okay.
21 Q That was 7-28-2001. By the way, have you ever
22 had a chance to read Mr. Aaron's deposition?
23 A No.
24 Q This is an E-mail dated December 9, 2005. Why
25 don't you take a minute to read it.
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- 1 A Okay.
2 Q You don't have to read all 20 pages. Have you
3 seen this document prior to today?
4 A I don't recall seeing it.
5 Q Now, since you haven't seen it, therefore you
6 haven't read it, other than paging through it
7 today; is that correct?
8 A That's correct.
9 Q So you don't know the contents then of this
10 document; do you?
11 A I do not.
12 Q Okay. But I think I recall that you knew that he
13 had received such a document from the SEC, or you
14 don't even recall that?
15 MS. SCHELLINGER: Object to the form
16 of the question. "Such a document" is unclear.
17 MR. MELNICK:
18 Q Exhibit No. 6 --
19 A What I recall was that the SEC did an examination
20 in 2003 or 2004, and that's what I recall. I
21 don't recall seeing this document.
22 Q What did Joe Aaron disclose to you about the
23 results of the SEC's audit, either on or after
24 August 17, '05, if anything?
25 A I recall seeing a couple letters, but I don't
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- 1 A Sure. Okay.
2 Q Now, as all E-mails, it actually works from the
3 bottom up; you understand that?
4 A Yes.
5 Q So one is written at 11:40 on the bottom and then
6 later there's one at 11:48; correct?
7 A Yeah, I see that.
8 Q Okay. Now, the first one purports to be written
9 by you to Jim Putman dated December 9 of 2005.
10 Do you have any recollection of those E-mails or
11 this sequence?
12 A No. Not until I just read it.
13 Q Okay. Does having read it refresh your
14 recollection?
15 A It does.
16 Q Okay. So let's start with the bottom one.
17 A Okay.
18 Q You're writing to Jim regarding phone calls with
19 Beau Gayner; correct?
20 A Correct.
21 Q And it says, "Soon we will have reinvestment
22 money in Baetis and Brown and will be purchasing
23 more cases from Beau's new company." Why are you
24 writing to Jim?
25 A Again, this is right in line with that
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- 1 intermediary role that I had. I didn't do any of
 2 the due diligence. I simply got them together,
 3 passed some information on, and they went out and
 4 did their homework. I was writing to alert them
 5 that --
- 6 Q And you mean Jim Putman and Simone Fevola?
 7 A Yes.
- 8 Q So you assumed that Simone Fevola and Jim Putman
 9 would have done the due diligence, not you or Joe
 10 Aaron?
- 11 A Simone and Jim would have done the due diligence
 12 for Wealth Management, and Joe would do his own
 13 due diligence for Wood, Hat & Silver.
- 14 Q You don't know whether or not Fevola and Putman
 15 expected Joe Aaron to do the due diligence for
 16 them and that they don't do any?
- 17 A Mr. Fevola was a smart guy and very independent.
 18 He made it a point to do his own due diligence.
 19 He wasn't all that interested in my opinion. And
 20 I don't know how much he listened to others that
 21 advised him. But clearly he was in charge of
 22 doing his own research and recommendations. We
 23 had no role or influence with him.
- 24 Q So you would be surprised if I told you Mr.
 25 Fevola said, I didn't do any due diligence. I
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- 1 A That's absolutely correct.
- 2 Q Showing you Exhibit No. 8, which again I will
 3 represent to you was Exhibit 3 at Mr. Aaron's
 4 depo. And again it purports to be from you to, I
 5 assume, Beau Gayner, but I will let you read it.
- 6 A Yes, it is
- 7 Q Do you remember this? It's dated December 19,
 8 '05.
- 9 A I don't recall it until just seeing it here.
- 10 Q Does this refresh your recollection or not?
- 11 A Yes.
- 12 Q Okay. Again, is this regarding your capacity as
 13 facilitator?
- 14 A Intermediary. Exactly. I delivered the big
 15 thick binder of materials that Beau Gayner sent
 16 to Wealth Management. I had nothing to do with
 17 putting it together, and it wasn't my role to do
 18 that due diligence.
- 19 Q Showing you what has been marked as Exhibit 9.
 20 It purports to be an E-mail from Joe Aaron to
 21 you, Putman, and Fevola. Do you need time to
 22 read it, or have you seen it before?
- 23 A Yes, let me see what we have here.
- 24 Q Go ahead.
- 25 A Okay. I have read it.
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- 1 left it to Joe Aaron?
- 2 A Yes, I would be very surprised at that.
- 3 Q And the top E-mail is from Jim to you. And at
 4 least my interpretation of it is that he is
 5 saying, in the middle sentence, "I know you did a
 6 thorough job on Rangetree, and I would expect
 7 that you would do the same on SFS."
- 8 A I'm having a hard time recalling the full name.
 9 Beau did have a couple different companies, but
 10 in my mind it's UTC not as much. But that's my
 11 answer.
- 12 Q But, at any rate, it appears from the E-mail that
 13 you are expected to do due diligence.
- 14 A We met Rangetree when I was an employee of Wood,
 15 Hat & Silver, and I did sit in on the due
 16 diligence meeting that Joe Aaron had with them.
 17 All the due diligence materials would have come
 18 from Rangetree and Joe. So I don't know what he
 19 is referencing here. But I did no due diligence
 20 after I left Wood, Hat & Silver.
- 21 Q Just so the record is clear, from December 9,
 22 2005, and thereafter, you did not do nor do you
 23 believe that you were expected to do due
 24 diligence regarding Beau Gayner's companies and
 25 SFS, specifically; is that correct?
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- 1 Q Is this again consistent with what you say is
 2 your position as an intermediary, or are you more
 3 active than that?
- 4 A No. In fact, I don't see where this has all that
 5 much to do with me.
- 6 Q It is directed to you; is it not?
- 7 A Along with Putman and Fevola. I am copied on it,
 8 yes.
- 9 Q No. No. Take a look at it carefully. I don't
 10 want to you misstate --
- 11 A It's to Jim Putman, to Simone Fevola, and --
- 12 Q Correct. But there is no CC or BCC, correct?
- 13 A Correct.
- 14 Q It says, "Direction from" Wealth Management.
 15 That's what WM stands for?
- 16 A Yes.
- 17 Q So your position is this is consistent with your
 18 acting as an intermediary?
- 19 A True. I don't see anything on here that I
 20 specifically did.
- 21 Q I am going to show you what has been marked as
 22 Exhibit 10. Purports to be from you to Simone
 23 Fevola.
- 24 A And then also to Jim Putman.
- 25 Q So it was the same message that went to both men;
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1 is that what you're saying?
 2 A Yes.
 3 Q Is there something missing in the middle?
 4 A Yes. There must be. It's redacted.
 5 Q I know it's redacted. But in the subject line it
 6 says "Quadrimus Executive Committee Meeting;" do
 7 you see that?
 8 A Yes.
 9 Q And then there is a space?
 10 A Yes.
 11 Q And it says "Original Message;" do you see that?
 12 A Yes.
 13 Q Is there anything missing there?
 14 A There are only Points 3 and 4.
 15 Q That's below that.
 16 A I know.
 17 Q I'm above that. Is there something missing
 18 between where it says "Original Message" and
 19 then, if you go up further, where it --
 20 MS. SCHELLINGER: Object. Calls for
 21 speculation.
 22 THE WITNESS: If it's missing, it
 23 wouldn't be there. If I answered, it would be a
 24 guess.
 25 MR. MELNICK:
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1 would be noted on this document; right?
 2 A I believe so.
 3 Q Okay. So you have no idea how Mr. Aaron got
 4 this?
 5 MS. SCHELLINGER: Objection. Assumes
 6 facts not in evidence.
 7 MR. MELNICK:
 8 Q Do you know whether Mr. Aaron received this?
 9 A I do not know.
 10 Q Okay. Do you know -- Since it was your E-mail,
 11 do you have any recollection of the redacted
 12 material?
 13 MS. SCHELLINGER: Object to the extent
 14 that he is asking -- I am assuming it was
 15 redacted because it's privileged.
 16 THE WITNESS: I didn't redact it.
 17 MS. SCHELLINGER: I am going to direct
 18 the witness not to tell you what was redacted, if
 19 it's privileged, if that makes sense, Tom.
 20 THE WITNESS: It's my recollection
 21 that this came from me.
 22 MR. MELNICK: If it's privileged, I
 23 could care less about it. But I am trying to
 24 find out if it's material, because I am in an
 25 adversary proceeding with this. I have to know
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1 Q So you don't know. All I am trying to get it as
 2 this purports to be your E-mail. Do you have a
 3 specific recollection of this E-mail?
 4 A From what I see, yes.
 5 Q All I was trying to figure out is, because we
 6 know other parts were redacted, I was just
 7 wondering if there was anything that should be
 8 there that's not there. And you don't have a
 9 recollection of that?
 10 A No.
 11 Q So, again, the bottom part now, December 5, 2006.
 12 And it describes a meeting with you and Simone
 13 Fevola; is that right?
 14 A That's correct.
 15 Q There is only the two of you at that meeting, to
 16 your knowledge?
 17 A Yes.
 18 Q Was it your practice to always write minutes up
 19 of your meetings?
 20 A It was.
 21 Q And you would send them around to everybody?
 22 A I did.
 23 Q Did you send them to Joe Aaron, too?
 24 A I don't believe so.
 25 Q Okay. So, if you had sent this to Joe Aaron, it
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1 if there is something here that might be
 2 material.
 3 Q Do you have a recollection of what's missing? If
 4 you don't, we don't need to spend time talking
 5 about it.
 6 A I think it's pretty clear that I don't.
 7 Q Then we won't talk about it. If you don't have a
 8 recollection, that's fine. What is here is 3 and
 9 4; correct?
 10 A Correct.
 11 Q And it says, "An extensive discussion and review
 12 of UTC's loan securitization deal for Quadrimus
 13 was held via phone conference call with Joe
 14 Aaron." What was going to be utilized to secure
 15 the loan for Quadrimus?
 16 A Quadrimus was set up with a very general business
 17 operating agreement, and we were thinking about
 18 making an investment for Quadrimus in their UTC
 19 loan securitization deal.
 20 Q What was that supposed to be?
 21 A It's a package of many life settlement financing
 22 deals to put a Quadrimus investment in a portion
 23 of it.
 24 Q Okay. And that never came to be; did it?
 25 A No.
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1 Q And do you know why?
 2 A Do I know why? No. I don't recall why. I just
 3 know the deal broke down, and I don't recall the
 4 specifics of why at all.
 5 Q Do you recall any money being lent to Beau Gayner
 6 from any of the funds and him not repaying that
 7 money?
 8 A Yes. I have some recollection that Mr. Aaron
 9 lent Mr. Gayner some money from the Tippet fund.
 10 Q Do you know how much it was?
 11 A My recollection is it was somewhere around \$4
 12 million.
 13 Q And, to your knowledge, he still has never paid
 14 that money back; right?
 15 A To my knowledge, I don't know any details of
 16 whether that even came to be. I heard it did,
 17 but I don't know that for a fact, if Tippet ever
 18 invested.
 19 Q There was a loan. I am not talking about an
 20 investment. Did Beau Gayner received a loan? You
 21 don't know anything about that, or you do?
 22 A What I said was I was aware of Tippet funds
 23 perhaps lending Beau Gayner -- his company \$4
 24 million to invest in this deal -- this UTC loan
 25 securitization or something similar to that. I
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1 appeared in person or by phone?
 2 A I don't know if I had phone conversations on the
 3 top part. If I had included it, it would have
 4 been in No. 4. Maybe I wasn't consistent in
 5 doing it.
 6 Q And you are certain that -- Strike that. Do you
 7 have specific knowledge that that was just you
 8 two at the meeting, or were there more people at
 9 the meeting than this exhibit indicates?
 10 A My practice was to list all the people at the
 11 meeting.
 12 Q Showing you Exhibit 11. Appears to be from you
 13 to Jim Putman dated December 13, 2006. So if you
 14 want to take a minute to refresh your memory.
 15 A Okay.
 16 Q Do you recall this E-mail?
 17 A Yes.
 18 Q Now, this is a little more -- The other one was
 19 December 6. This is December 13 when the meeting
 20 actually took place, and it does list you,
 21 Putman, and Fevola, and it does show Joe Aaron
 22 appearing by conference call; correct?
 23 A Yes.
 24 Q Your testimony last time is you might have been
 25 inconsistent on who appeared in person or who
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1 would say that Beau was more of a private venture
 2 than an aggregator.
 3 Q Didn't Baetis and Brown buy some of Beau Gayner's
 4 policies or finance them?
 5 A Quadrimus received some finder's fees on policies
 6 that were financed with Brown, I believe.
 7 Q And didn't Beau Gayner stiff you by not paying
 8 you fees that you thought were due?
 9 A That would have been sometime in the fall of --
 10 You are testing my memory. Fall of 2007. I
 11 believe he failed to pay us some finder's fees
 12 that he had promised to pay, but I cannot
 13 remember any amounts of those anymore.
 14 Q Now, No. 4 intrigues me where it says, "Joe Aaron
 15 updated partners on the Life Settlement
 16 conference." It doesn't show Joe Aaron was
 17 there.
 18 A Say that again.
 19 Q It says, "Joe Aaron updated partners on the Life
 20 Settlement conference." It doesn't show Joe
 21 Aaron being there.
 22 A We would conduct business and did the other items
 23 and then picked up the phone and we would call
 24 him.
 25 Q And it wasn't your practice to say if someone
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1 appeared by phone?
 2 A Yeah. I think I might have been inconsistent
 3 with the phone appearances.
 4 Q Now, it says, "Joe Aaron updated us on Jeff
 5 Keller, Kevin Yurkus, and UTC cases that affect
 6 Quadrimus." First of all, who are Jeff Keller
 7 and Kevin Yurkus?
 8 A Jeff Keller was an aggregator. He provided cases
 9 to Wood, Hat & Silver for purchase.
 10 Q And where is he located?
 11 A I think he's down in the San Diego area.
 12 Q Does he have a company name?
 13 A Yes.
 14 Q What's the name of the company?
 15 A It's a funny name. I can't recall it right at
 16 the moment.
 17 Q Do you have any material with the name on it? I
 18 am trying to located him, obviously.
 19 A Yes. On my incoming wires, and all that has been
 20 submitted to the SEC, you might find the name of
 21 the company and some other information on there.
 22 Q Okay. You don't have anything separately where
 23 you can write it out and just give it to your
 24 lawyer?
 25 A I don't think that I have that phone number
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1 anymore, no.
 2 Q How about Kevin Yurkus, where is he from?
 3 A Kevin was an acquaintance, I believe, of Mr.
 4 Aaron's who was attempting to sell some policies
 5 for him, either package them together as a group
 6 sale or as an individual sale.
 7 Q Selling for who? Was Yurkus selling for Aaron or
 8 was Aaron selling for Yurkus?
 9 A I think Kevin Yurkus was attempting to work with
 10 Joe to sell policies in Baetis and Brown.
 11 Q He wasn't an aggregator?
 12 A He might have been. I don't recall ever doing
 13 any business with him, though.
 14 Q So apparently there is a review for 2006 that
 15 affected Quadrimus. What didn't affect Quadrimus
 16 in terms of the insurance cases in 2006; do you
 17 know?
 18 A What didn't affect Quadrimus? I am not sure I
 19 understand your question.
 20 Q Anything that was funded by Baetis and Brown you
 21 received a percentage of; right? Any insurance
 22 policies?
 23 A Yes.
 24 Q And all of that went into Quadrimus; didn't it?
 25 A The finder's fees.
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1 A I think so.
 2 Q Did anyone else do financing, that you know of,
 3 for any Joe Aaron insurance premium financing
 4 products other than Baetis and Brown in '06?
 5 A Okay. It clicked, finally.
 6 Q It was a bad question.
 7 A PRG was a company that did a lot of -- provided a
 8 lot of policies to Baetis and Brown. You said
 9 his name earlier. The names are getting --
 10 Q Keller? Yurkus?
 11 A No. Senior moment. Sorry. I can't recall it
 12 right now. But PRG and this company we talked
 13 about, UTC -- Beau Gayner -- Let me just try it
 14 one more time. The money to fund those policies
 15 didn't come from PRG.
 16 Q Okay. All the policies financed by Baetis and
 17 Brown, part of that money went to Quadrimus as a
 18 finder's fee?
 19 A All the policies that were financed -- not all of
 20 policies. There may have been some policies in
 21 there that we didn't get paid on.
 22 Q Do you have any specific knowledge of that as you
 23 sit here today?
 24 A No, I do not. I am confused by your question.
 25 Q Let me cut to the chase on this. It's my
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1 Q There were other fees that didn't go into
 2 Quadrimus?
 3 A No. That's all we received.
 4 Q That's what I'm trying to get at. All the fees
 5 that came from Baetis and Brown went into
 6 Quadrimus?
 7 A Correct.
 8 Q Now, to your knowledge, were any other policies
 9 financed by anyone else, other than Baetis and
 10 Brown, in 2006?
 11 MS. SCHELLINGER: Object to the form
 12 of the question.
 13 MR. MELNICK: Let me try this.
 14 Q Joe Aaron was the overall manager here; right?
 15 A He is the manager of Wood, Hat & Silver and each
 16 fund.
 17 Q There might have been other insurance premium
 18 financers out there in the United States that
 19 didn't affect Joe Aaron, Wood, Hat & Silver or
 20 Baetis and Brown; correct?
 21 A Right.
 22 Q I am only talking about the one that affected
 23 Wood, Hat & Silver, Joe Aaron, or anything under
 24 his control. Do you understand the basics of the
 25 question?
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1 understanding that certainly in '06 that the only
 2 premium financing being done was by Baetis and
 3 Brown under Joe Aaron's control, but there might
 4 have been others in the United States. Do you
 5 have any information to the contrary? Did Joe
 6 Aaron have other sources of financing in '06
 7 other than Baetis and Brown?
 8 A I think in his other funds he did.
 9 Q Do you know who?
 10 A No, but I think he did have other sources of
 11 financing.
 12 Q What's your opinion based on?
 13 A I don't know Joe's entire marketing practice, but
 14 I had -- But he had Tippet fund that had outside
 15 investors, and they invested in those type of
 16 cases. He had a fund by the name of NDM which
 17 invested in those cases that might have had
 18 outside investors. And those are the two that I
 19 recall just off the top of my head.
 20 Q Okay. No. 3 on that exhibit, "Joe Aaron updated
 21 Jim and Simone on the selling of policies in
 22 Baetis. He is waiting for final bids to present
 23 to WML." And WML is Wealth Management, Inc.?
 24 A Right
 25 Q And was there difficulty at that time selling
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1 policies in Baetis?
 2 A Not at all. What I think that is referring to is
 3 Kevin Yurkus was attempting to sell them in a
 4 group fashion. And I think that's what we are
 5 referring to here is waiting for final bids on
 6 the group for Baetis and Brown.
 7 Q Is a "group" also called a portfolio?
 8 A I don't know that.
 9 Q Okay. Show you what has been marked Exhibit No.
 10 12. My first question is, have you seen this
 11 agreement before, Management Service Compensation
 12 and Non-Disclosure/Non-Circumvention Agreement.
 13 And I will represent to you that I think this is
 14 the name that you were trying to remember in your
 15 senior moment.
 16 A That was the name, Byron Frisch. That's correct.
 17 I have not seen this document before.
 18 Q Okay. Are you aware that there was such an
 19 agreement between Joe Aaron or between I should
 20 say in this case Brown and anyone?
 21 A I was not aware that he had these agreements, no.
 22 Q And I want to make sure that I ask it correctly.
 23 You have not seen this agreement or an agreement
 24 like this before today?
 25 A I don't recall seeing this agreement or anything
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1 A I do.
 2 Q And you drafted it; correct?
 3 A I did.
 4 Q All right. Now, directing your attention to No.
 5 6. It says, "Cash-flow issues in Baetis and
 6 Brown for April 27, 2007, were reviewed," and you
 7 go on to describe, "Baetis only has 1 million
 8 plus for case purchase while Brown will have
 9 approximately six to eight million for case
 10 purchases." Was the cash-flow issue only having
 11 to do with the purchase of new cases, or was the
 12 cash flow because there was a combination of
 13 redemptions from Wealth Management obligations
 14 from its clientele who were expecting checks once
 15 a month or quarterly or both?
 16 A My recollection at that time, which would have
 17 been April 2007, is that they had one large
 18 withdrawal from one of their clients in the
 19 millions of dollars. That's what that was
 20 referring to.
 21 Q "They" meaning Wealth Management?
 22 A Wealth Management.
 23 Q And, because of that withdrawal, they didn't have
 24 the funds to cover their obligations?
 25 A No. I believe that the client was in Baetis, and
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1 like that.
 2 Q Joe Aaron never told you he had a written
 3 agreement with Kevin Yurkus or anyone at PRG
 4 Financial?
 5 A I am not aware of having that conversation with
 6 Joe.
 7 (Riek Exhibit No. 36 was marked)
 8 MR. MELNICK:
 9 Q I will show you Exhibit 36. Purports to be from
 10 Tom Riek to Jim Putman dated February 27, 2007
 11 and again, I will ask you if this is from you and
 12 if you recall it.
 13 A Okay.
 14 Q Do you recall this?
 15 A I do.
 16 Q Okay. You drafted this; is that correct?
 17 A That's correct.
 18 Q It's my understanding that if you look at 3, 4,
 19 5, none of those came to be?
 20 A That's correct.
 21 Q Okay. Showing you what has been marked Exhibit
 22 13. Again, it purports to be an E-mail from you
 23 to Jim Putman dated April 4th, 2007.
 24 A Okay.
 25 Q Do you remember this E-mail?
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1 the client wanted more than the million dollars
 2 that may have been available for distribution at
 3 that time.
 4 Q So you couldn't pay the client?
 5 A Wealth Management -- I don't know what they did
 6 with that client.
 7 Q Now, No. 7, again, never came about?
 8 A Never came about. That's correct.
 9 Q And who is Elizabeth Notti?
 10 A Elizabeth Notti was an accounting professional
 11 that did work for the Wood, Hat & Silver funds, I
 12 believe.
 13 Q Was she employed by Aaron as an in-house
 14 employee, or did she have other outside work she
 15 did with an independent office?
 16 A It's my understanding she was an independent
 17 contractor and had one or more clients.
 18 Q And were you aware of the auditors that Joe Aaron
 19 was using during the time that you were there at
 20 Wood, Hat & Silver?
 21 A No, I don't have any knowledge on them.
 22 Q Were you aware that they changed from year to
 23 year until Elizabeth Notti came on board?
 24 A What I recall during those years, and I can't
 25 pinpoint the year, is a conversation between
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1 Wealth Management and Wood, Hat & Silver to
 2 perhaps consider the same auditor. I remember a
 3 conversation.
 4 Q Okay. And No. 8 was setting up or at least a
 5 discussion of Wealth Management setting up a fund
 6 of cases to replace Baetis and Brown?
 7 A No. 8?
 8 Q No. 8, yes. Do you see that?
 9 A Yes.
 10 Q That never occurred, either; did it?
 11 A It did not.
 12 Q Why not?
 13 A I don't know. Simone Fevola was quite intent on
 14 doing that but never followed through.
 15 Q Showing you what has been marked as Exhibit No.
 16 14. Purports to be an E-mail from Jim Putman to
 17 Simone, but you have to go down to the very
 18 bottom of the page and read up.
 19 A Okay.
 20 Q You have to start -- It goes in reverse order.
 21 A Okay.
 22 Q Okay. It's hard to read, but I think at the very
 23 bottom it talks about a man named Brendan Ozanne.
 24 Do you know him?
 25 A No.
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1 refresh your collection of the events, since it's
 2 that significant?
 3 A Just a vague recollection that it was a packaged
 4 deal of cases in one of the funds. That's all I
 5 recall from it.
 6 Q Is it your opinion that, as of April 19, 2006,
 7 that Brown and Baetis or both would have had \$300
 8 million of equity in those insurance policies
 9 that you were carrying on your books?
 10 MS. SCHELLINGER: Object to the form
 11 of the question. What constitutes "your books"?
 12 MR. MELNICK: The books of Baetis and
 13 Brown. Thank you.
 14 THE WITNESS: My answer is that I am
 15 not sure that's correctly stated, because if that
 16 is indeed \$300 million, that may be the face
 17 value of a policy, not the equity in Baetis and
 18 Brown.
 19 MR. MELNICK:
 20 Q Okay. And that may be very fair. So, it has a
 21 \$300 million hundred face value in April of '07,
 22 because I think you said you did follow the
 23 market, what would have been the actual value
 24 based on face value?
 25 A It's a percentage of face value. I don't know
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1 Q He was an attorney that was doing some work here
 2 from an independent law firm.
 3 A I don't know him.
 4 Q Anyway, it basically says he spoke with this guy,
 5 and the subject is \$300M, which I assume is \$300
 6 million; is that right?
 7 A I am not sure.
 8 Q Anyway, he says he thinks that you actually have
 9 a deal, and he said, "I will keep you posted,"
 10 and then the next one is from Joe Aaron to you
 11 and Simone and Jim Putman, and it's dated April
 12 19, 2007. And he says, "I have a little update
 13 for you," and he includes the attorney's note;
 14 right?
 15 A Yes.
 16 Q Okay. Then if you read up from there, and it is
 17 from Simone to Jim, and it says, "Hoo-hah." Do
 18 you see that?
 19 A Yes.
 20 Q Which I assume means happiness. And Jim says to
 21 Simone, "What a birthday present." Are you
 22 familiar with that sequence?
 23 A I don't recall it, but I have read it here with
 24 you.
 25 Q \$300 million is a lot of money. It doesn't
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1 what it --
 2 MS. SCHELLINGER: Objection. Calls
 3 for speculation.
 4 THE WITNESS: I think I can answer
 5 this in a way that might make some sense. The
 6 first time that I knew policies were selling
 7 below principal and interest was in the fourth
 8 quarter of 2008. And I knew that from reading
 9 the Brown audit. Prior to that, there may have
 10 been individual cases, but most policies were
 11 selling for a minimum of that amount.
 12 MR. MELNICK:
 13 Q "That amount," what does that mean?
 14 A Principal plus interest.
 15 Q So you would get back the money that you put in?
 16 A Plus interest.
 17 Q Okay. Got it.
 18 A I don't believe that the market totally fell
 19 apart for the sale of these cases until the first
 20 quarter of 2009, and then the great recession
 21 just took it down completely.
 22 Q And I appreciate the explanation. What I'm
 23 trying to find out, what is that percentage? So
 24 if we wanted to sell you a \$300 million dollar
 25 policy, face value, on April 19, '07, what would
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- 1 the market price on that \$300 million be, to the
2 best of your knowledge?
- 3 A The only way I can answer this is to tell you the
4 best of my knowledge, and it would have been
5 principal plus interest, and whatever that would
6 equate to in a percentage would be the
7 percentage.
- 8 Q Okay. Show you what has been marked as Exhibit
9 15. This is dated July 5, 2007. And again I
10 will ask you if you have seen this before.
- 11 A Let me look through this. Okay. I'm through.
- 12 Q Now, again, you are the author of this; correct?
- 13 A Yes.
- 14 Q Do you know what material was redacted out of
15 this?
- 16 A I don't recall.
- 17 Q But you didn't do the redacting, to your
18 knowledge? "You," Tom Riek?
- 19 A No. It says R225, so my attorney would have put
20 that on there.
- 21 Q Okay. Now, No. 2, does that refresh your
22 recollection regarding both Gayner and UTC and
23 his dealings?
- 24 A Yes.
- 25 Q And is there anything, based upon your now
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- 1 A This is referring to those packaged deals, and I
2 am not aware of what happened after about June of
3 '08. I know nothing about the funds after that.
- 4 Q This would have been July of '07, and I am asking
5 you, as of July '07, do you have any knowledge
6 between that period and the '08 period that you
7 described that they were ever sold?
- 8 A No, they were not sold prior to June of '08.
- 9 Q Showing you what has been marked Exhibit 16.
10 Again, this is a series of E-mails, and the only
11 thing I am going to ask you about this one after
12 you refresh your recollection is your involvement
13 in the note with Elizabeth Notti. When you are
14 ready, let me know.
- 15 A Okay, I'm ready.
- 16 Q It purports to be from Joe Aaron to you; is that
17 correct?
- 18 A That's correct.
- 19 Q But it has in bold letters your name at the top
20 of it. Do you know how that came to be? Looks
21 like originally it would have come from you. But
22 it looks like it's from Joe Aaron. I am just
23 trying to understand that. You don't know?
- 24 A No, I really don't.
- 25 Q And it says "Promissory note." But it's not your
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- 1 refreshing your recollection, that you want to
2 modify because it helped you remember better?
- 3 A Not that I can think of.
- 4 Q You never did fund him after that period; did
5 you?
- 6 A No.
- 7 Q No. 4 says this is the final paydown of the
8 Caddis note in Baetis. There was a note from
9 Caddis to Baetis?
- 10 A I think so.
- 11 Q And then it says, "Tom," which I assume means
12 you?
- 13 A Yes.
- 14 Q "Tom informed Elizabeth on July 3, 2007, and she
15 will be in touch with Simone." What about?
- 16 A Probably the final paydown of the note.
- 17 Q From Caddis to Baetis?
- 18 A Correct.
- 19 Q Again, is that consistent with your job as an
20 intermediary?
- 21 A That's correct.
- 22 Q Now, No. 6 says, "The next scheduled meeting will
23 be in the fall or upon successful sale of the
24 Baetis and Brown portfolio of cases." Those
25 cases were never sold; were they?
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- 1 promissory note; is it?
- 2 A Which fund is this?
- 3 Q Let me just help you. Look at 1 and 2 on the
4 next page, and it's the Brown Investment Fund and
5 JoAnne Miller Trust; do you see that?
- 6 A I'm there.
- 7 MR. MELNICK: Okay. I will wait for
8 counsel to get up to speed. Do you want me to go
9 ahead?
- 10 MS. SCHELLINGER: Go ahead.
- 11 MR. MELNICK:
- 12 Q I know you were friends. You don't have to
13 explain any of that to me. Is that the only
14 reason you were involved is because of your
15 friendship with her? Any other reason that you
16 were involved in this?
- 17 A No.
- 18 MS. SCHELLINGER: Objection --
- 19 THE WITNESS: I was going to say
20 JoAnne Miller and I each had a note in Brown.
- 21 MR. MELNICK:
- 22 Q But this note involves JoAnne Miller, not you.
- 23 A I thought it was generic, because we have the
24 same contract, JoAnne and I.
- 25 Q I understand that. I am trying to understand
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- 1 your part. Why is JoAnne consulting you about
2 this promissory note? You previously had
3 promissory notes with various funds before '07;
4 didn't you?
5 A Yes.
6 Q You had seen other promissory notes; right?
7 A Yes.
8 Q Okay. All I am asking you is, in this one, why
9 were you consulted or why was your advice called
10 for, the one referred to in this exhibit? That's
11 all.
12 MS. SCHELLINGER: Object. Calls for
13 speculation as to what JoAnne was thinking.
14 Answer if you know.
15 THE WITNESS: I was voluntarily
16 helping JoAnne after her husband died. And so
17 that would be my involvement.
18 MR. MELNICK:
19 Q There was no lawyer involved representing her?
20 A Well, as far as what issues?
21 Q Reviewing this note.
22 A No.
23 Q Showing you what has been marked Exhibit 17.
24 Purports to be from you to Elizabeth Notti.
25 A That's correct.
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- 1 reasons.
2 Q Show you what has been marked Exhibit 19. I will
3 let you know this was produced for your
4 examination on the 22nd.
5 A Yes.
6 Q Do you recall having produced this?
7 A I did not produce this. This is part of the tax
8 return prepared by Clifton Gunderson.
9 Q On behalf of Quadrimus?
10 A That's correct.
11 Q Now, my question so, this exhibit says that the
12 number of partners is four. Do you see that on
13 the top? Very top of the page.
14 A Yes.
15 Q It's my understanding that there were only three
16 of you that were partners in Quadrimus.
17 A Yes. That's my understanding.
18 Q How did it get to four on that return?
19 A I have no idea.
20 Q If that's wrong, can you tell me if there is any
21 other part of that 2007 return that's incorrect.
22 A I am very comfortable saying that every component
23 of income is reported on here, and every expense
24 is reported on here. After looking at these
25 numbers, I am comfortable saying it's correct.
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- 1 Q And all I am trying to do is establish that this
2 was a visit, I assume, with some of your family?
3 A Susie is my wife.
4 Q Okay.
5 A And "JoAnne" is JoAnne Miller.
6 Q I guess I am trying to understand, is there any
7 reason why you were sending this to Elizabeth
8 Notti?
9 A Just alerting her that they are on the way.
10 Q Was this some business trip or friendship thing?
11 Was it a friendship visit, was there a business
12 purpose?
13 A Two reasons. The first reason was it was
14 important for JoAnne to meet Elizabeth. JoAnne
15 is very capable of making her own decisions. She
16 had a contact at Wood, Hat & Silver for follow-up
17 for things like this. That type of thing.
18 But I will tell you, even more
19 important, the reason why my wife joined is her
20 husband had just died of cancer, and she needed
21 to get away. And I was so happy she said yes,
22 that she would take a few days to go to Sonoma
23 and spend some time with Susie and do some things
24 other than worry about that. That was a very
25 difficult time for her. Those were the two main
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- 1 Q So the only thing that's incorrect is the number
2 of partners?
3 A I don't know why that's there.
4 Q Showing you what has been marked as Exhibit No.
5 20. Purports to be from Joe Aaron to Simone
6 Fevola with a copy to you.
7 A Okay.
8 Q Do you recall receiving this?
9 A No, I don't.
10 Q Do you know who "Jameson" is?
11 A I do not.
12 Q Do you know if it's tied in with the previous
13 exhibit -- I will get the number for you. I need
14 that exhibit regarding the \$300 million. Does
15 this Exhibit 20, to your knowledge, relate at all
16 to Exhibit 14? Is it a continuation, or is this
17 a separate transaction, to your knowledge?
18 A I have no knowledge of this Jameson or the
19 subject matter.
20 Q Let me ask you this. Do you know, separate from
21 this exhibit, whether or not Joe Aaron was
22 seeking loans to help the business?
23 MS. SCHELLINGER: Objection. Overly
24 broad.
25 MR. MELNICK:
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1 Q Was he seeking a loan, for whatever purpose?
 2 A My recollection is that Wealth Management and Joe
 3 Aaron were investigating sources of loans, yes.
 4 Q So he said he just spoke to Jim at Jameson,
 5 that's the name of the company, and has a
 6 preliminary agreement on 13 percent, 2 percentage
 7 origination fee, and guaranteed seven months
 8 interest. Do you know if that was discussed with
 9 you?
 10 A No, I have no knowledge what they are talking
 11 about.
 12 Q Do you know why you were included in on this
 13 E-mail?
 14 A No.
 15 MS. SCHELLINGER: Calls for
 16 speculation.
 17 THE WITNESS: No, I do not.
 18 MR. MELNICK:
 19 Q Well, after you received this E-mail -- Strike
 20 that. Do you recall having received this E-mail,
 21 Exhibit 20?
 22 A No.
 23 Q On 2-28-08, do you have any specific knowledge of
 24 discussions regarding various loans that either
 25 were being offered or solicited to Wealth
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1 Speculation.
 2 MR. MELNICK:
 3 Q Is that insurance arbitration, as you previously
 4 described?
 5 A That's correct.
 6 Q Do you know why Tippet's returns were that good
 7 in May of 2008? Do you have any knowledge?
 8 A I did not follow Tippet. No, I have no
 9 knowledge.
 10 Q Do you know what Tippet was invested in in '07?
 11 A No, I really don't.
 12 Q Do you know what Tippet was invested in in 2008?
 13 A No, I don't.
 14 Q Do you have any knowledge of what Tippet was
 15 invested in between '03 and '09?
 16 A Yes.
 17 Q What was that?
 18 A I recall, as I testified earlier, that there was
 19 approximately a \$4 million note or money borrowed
 20 by Beau Gayner, his company. That's the limit of
 21 what I know about Tippet.
 22 Q Now, the very last sentence on the next page
 23 says, "Tom and I will be talking about what we
 24 are going to do next soon. You guys are the best
 25 clients ever, and if we have something we would
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1 Management or Wood, Hat & Silver?
 2 A I do not.
 3 Q Showing you what has been marked Exhibit 21. I
 4 will represent to you your name is not listed on
 5 this.
 6 A Yes.
 7 Q All I am asking you is, the content is quite
 8 short, but do you remember the transaction?
 9 A Yes. I was aware that Mr. Janssen -- Dr.
 10 Janssen, my mistake, I was aware that Dr. Janssen
 11 had invested in a Brown note.
 12 Q Now, if you look at the date, the middle of the
 13 first page says May 15, 2008; do you see that?
 14 A I do.
 15 Q And Aaron is saying, "I can actually use the
 16 money in Brown David." Do you know why, in May
 17 of '08?
 18 MS. SCHELLINGER: Objection. Calls
 19 for speculation.
 20 THE WITNESS: I do not know why.
 21 MR. MELNICK:
 22 Q Now, "Tippet's return has been off the charts
 23 this year because of the insurance arb." Do you
 24 know what that means?
 25 MS. SCHELLINGER: Objection.
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1 know no one with whom we had rather be investing
 2 with."
 3 Again, this is from Joe Aaron to David
 4 Janssen, and are you "Tom"?
 5 MS. SCHELLINGER: Objection. Calls
 6 for speculation.
 7 MR. MELNICK:
 8 Q Is that who he is referring to here?
 9 A It's possible.
 10 Q Well, were there any other "Tom's" that you know
 11 of that worked with Joe Aaron in May of '08?
 12 MS. SCHELLINGER: Calls for
 13 speculation.
 14 THE WITNESS: I don't know.
 15 MR. MELNICK:
 16 Q Did you, in fact, have a conversation after
 17 Janssen put in his money with Joe Aaron about
 18 what to do with the money?
 19 A No.
 20 Q How about after May of '08?
 21 A No. Not with Dr. Janssen, nothing to do with
 22 recommendations or any of those decisions.
 23 Q So not only Dr. Janssen, but that would apply to
 24 anyone who was investing money, you weren't
 25 advising Joe Aaron what to do with that money?
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- 1 A That's correct.
 2 Q This is Exhibit 22. This is dated May 21st,
 3 2008. This appears to be from Joe Aaron to you.
 4 Do you recall this?
 5 A Yes, I do recall seeing this.
 6 Q And the second sentence, "His question is in Item
 7 3 on Page 1 about bankruptcy." Then it says in
 8 the next paragraph, "I told David you had a note
 9 in Brown, which I assumed you had no problem
 10 with." He is referring to you; isn't he?
 11 A He is.
 12 Q No other Tom?
 13 A He is.
 14 Q And you did have a note in Brown; isn't that
 15 right?
 16 A I did.
 17 Q And did you have a communication with Dr. Janssen
 18 with regard to the fact that you had a similar
 19 note in Brown?
 20 A Not at all.
 21 Q Did you E-mail or call him?
 22 A Not that I recall.
 23 Q And it says, "I told David," and I assume that
 24 means David Janssen?
 25 A That's correct.

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- 1 A I do not.
 2 Q Do you recall any discussion where you were told
 3 or others were told in your presence that they
 4 were not to tell these folks who were buying
 5 those policies that they were financed?
 6 A No, I never had any conversations about that.
 7 Q Do you recall any concern over the fact that
 8 financing life insurance policies, why that might
 9 be a problem?
 10 A Do I recall any --
 11 Q Discussions regarding it.
 12 A No, I do not.
 13 Q Are you aware of why financing on policies may be
 14 a problem?
 15 MS. SCHELLINGER: Object to the form
 16 of the question. You can answer, if you can.
 17 THE WITNESS: The question was again?
 18 Q Were you aware that, if the policies were
 19 financed, that that might be a problem with the
 20 insurance companies?
 21 A I was aware later on.
 22 Q It would have been in 2008 that companies were
 23 tightening up their underwriting to identify
 24 financing, and they might put, for example, that
 25 question right on the application?

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- 1 Q When you got this E-mail, did you chastise Mr.
 2 Aaron for using your name without your permission
 3 in trying to get Dr. Janssen to sign up?
 4 A I didn't even bother calling him back. I never
 5 had a conversation with him about it.
 6 Q Joe or Dr. Janssen?
 7 A Neither one.
 8 Q Show you what has been marked Exhibit 23.
 9 Purports to be an E-mail from Joe Aaron to you,
 10 Jim Putman, and Simone Fevola dated May 27, 2008.
 11 A Okay.
 12 Q Do you recall seeing this?
 13 A I don't recall this one.
 14 Q He is saying, "For the last year," so that would
 15 be, if we take May of '07 to May of '08, "For the
 16 last year it has been Life Equity with the
 17 Rangetree cases and Credit Suisse for the UTC
 18 cases." So that is talking about who purchased
 19 them; is that right?
 20 A That's what it says.
 21 Q Do you have specific knowledge that Life Equity
 22 was buying the cases that had been arranged with
 23 Rangetree?
 24 A I do not.
 25 Q How about Credit Suisse?

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- 1 A I was aware of that.
 2 Q In fact, that same question was on the
 3 application from '05; wasn't it?
 4 A On the early applications, it was not on there.
 5 I do not know when they first included that on
 6 the questionnaire.
 7 Q I just want you to be clear on your answer. Are
 8 you speaking about all the insurance companies or
 9 just the ones that you saw?
 10 A I was speaking in generic terms. You are
 11 correct. I don't know what each individual
 12 insurance company did.
 13 Q "We are now trying to finance the smaller cases,
 14 under \$2 million of face." Do you recall a
 15 discussion regarding financing smaller cases of
 16 under \$2 million face value?
 17 A I do recall Joe taking about financing smaller
 18 cases than that amount. His thought was that it
 19 was a very uncertain market, and the premiums
 20 aren't quite as high, and you could have a fund
 21 with less money in it and build an actuarial pool
 22 of million-dollar cases. I recall him talking
 23 about that as a strategy for a new fund.
 24 Q Showing you what has been marked Exhibit No. 24.
 25 I will tell you that you are not mentioned on

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1 here. Do you know who Chad Morley is?
 2 A I do.
 3 Q Who is he?
 4 A Chad was an employee at Wealth Management.
 5 Q Did you have any interaction with him?
 6 A Over the years, I may have talked to him on the
 7 phone twice.
 8 Q When Simone Fevola resigned, were you made aware
 9 of that? By anyone?
 10 A I'm thinking. Yes, I was made aware of that, but
 11 I don't recall the source.
 12 Q You see, at least according to this E-mail, that
 13 they don't want to copy Simone in any further
 14 communications as of October 31st, 2008; do you
 15 see that?
 16 A Yes.
 17 Q But yet you were involved in communications;
 18 weren't you?
 19 A On this one? Not on this one.
 20 Q I said you weren't involved in this one, but you
 21 were involved in communications before and after
 22 this; right?
 23 MS. SCHELLINGER: With regard to what?
 24 MR. MELNICK: Communications from Joe
 25 Aaron and/or Wealth Management where you are
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1 program, and they have an opportunity to comment.
 2 And so they call it Lexy-casts. I don't know if
 3 they patented the process or whatever it is.
 4 MS. SCHELLINGER: That's probably
 5 enough.
 6 MR. MELNICK: Okay. Your attorney is
 7 right. Just answer the questions I ask you.
 8 Q Showing you what has been marked as Exhibit No.
 9 26. Have you seen this document before? It
 10 purports to be from Joe Aaron to you.
 11 A Yes.
 12 Q Do you know who Stephanie Hall Johnson is?
 13 A I do not know who Stephanie Hall Johnson is.
 14 Q And, at least according to this, it's R141,
 15 meaning it came from you?
 16 A Okay. Yeah.
 17 Q Is that right?
 18 A I see it.
 19 Q And this was redacted?
 20 A Mm-hmm.
 21 Q Yes?
 22 A Yes.
 23 Q Do you know who John Wypiszinski is?
 24 A I do.
 25 Q Who is he?
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1 included in the loop.
 2 MS. SCHELLINGER: Object to the form
 3 of the question. It's overbroad and speculative.
 4 Go ahead.
 5 THE WITNESS: I did not get all the
 6 communications from Joe Aaron. I did get some.
 7 MR. MELNICK:
 8 Q After October 31st, 2008, did you get any
 9 communications from Joe Aaron?
 10 A October 2008. I may have. I am quite certain
 11 there was absolutely nothing after March of '09.
 12 Except we are investors in a private venture
 13 called Lexy, Incorporated. I do have
 14 communications related to the Lexy private
 15 venture investment. But --
 16 Q You are currently involved in it?
 17 A Yes.
 18 Q What do they do?
 19 A They're in California, and they are working with
 20 the cell phone market. They have a technology,
 21 it's kinds of like if you're having a Board
 22 meeting that you can have over the Internet, that
 23 kind of stuff. It allows, for instance, a radio
 24 personality to get on Lexy and do his program,
 25 and then people could call in and hear that
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1 A John Wypiszinski was a former employee of Wealth
 2 Management, and then he was hired by Winch
 3 Financial, I guess, and he was rehired by Wealth
 4 Management.
 5 Q Have you had any dealings with John Wypiszinski
 6 in the last two years?
 7 A Two years? I had lunch with John, but I don't
 8 remember the time frame. It may have been over
 9 two years ago.
 10 Q Now, he said he's writing you to tell you that
 11 Simone is now President at Winch.
 12 A Joe Aaron is writing me?
 13 Q The original message went to Joe Aaron?
 14 A Yes.
 15 Q And Aaron is passing it along to you?
 16 A Correct.
 17 Q Do you know why it was important that you knew
 18 Simone was President of Winch, as part of your
 19 business dealings?
 20 MS. SCHELLINGER: Object. Calls for
 21 speculation. You can answer.
 22 THE WITNESS: Can I have a moment with
 23 my attorney?
 24 MR. MELNICK: Of course. We are
 25 informal here.
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- 1 (Recess taken)
 2 (Discussion off the record)
 3 MR. MELNICK:
 4 Q I want to ask a question. When you received a
 5 finder's fee from what was called the agent's
 6 corporate account, what account was the fee from?
 7 Was it like, I mean, the UTC corporate account,
 8 Rangetree corporate account, somebody else's
 9 corporate account, was it from the insurance
 10 company directly?
 11 A It was from the UTC corporate account, the
 12 Rangetree corporate account, PRG corporate
 13 account.
 14 Q For all the aggregators?
 15 A Yes. But never like from Phoenix or anything
 16 like that.
 17 Q I am showing you what has been marked as Exhibit
 18 27. And, again, this purports to be from Joe
 19 Aaron to you.
 20 A Okay.
 21 Q Did you finally get your money from him?
 22 A From Brown, the note; right?
 23 Q Well, let me put it this way. Did you get
 24 \$75,000 after 4-25-2009?
 25 A No, I did not.
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- 1 Q So is 1 to 3 percent of face the lowest you had
 2 ever seen it, or had it been lower than that at
 3 some point in time?
 4 A I would say that's the lowest I had ever seen it.
 5 Q Were the policies sold on 1 to 3 percent of face?
 6 A I have no evidence of that. Just this.
 7 Q Okay. Were you aware that Joe Aaron testified
 8 that of 300 policies issued, 50 were sold, and of
 9 the 50 that were sold, they were sold at 90
 10 percent -- basically a 90-percent loss; are you
 11 aware of that testimony?
 12 A No, I am not aware of that testimony, but that
 13 doesn't sound right.
 14 Q Is does sound right?
 15 A No, it doesn't.
 16 Q Okay. Maybe I should ask it more clearly. This
 17 is Mr. Aaron's testimony on July 28. By the way,
 18 you said -- Your testimony was that you were
 19 never an aggregator; correct?
 20 A That's correct.
 21 Q And you are not wanting to change that?
 22 A No. I am not an aggregator.
 23 Q So if I told you that Mr. Aaron was asked what
 24 aggregators he used in 2009 and he said Tom Riek,
 25 PRG, Jeff Keller, and Kevin Yurkus, Mr. Aaron is
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- 1 Q Okay. I am going to show you what has been
 2 marked as Exhibit No. 28. Purports to be from
 3 Eric Smith to you dated August 27, 2009. Do you
 4 see that?
 5 A Yes.
 6 Q Do you know Eric Smith?
 7 A I have had one or two conversations with him, so
 8 I would say, yes, I know him peripherally.
 9 Q And how do you know him?
 10 A Elizabeth Notti gave me his E-mail address so
 11 that I could get an update on how the sales
 12 market was for cases.
 13 Q Now, this says that the sales market falls in
 14 that 1-to-3-percent range; do you see that?
 15 First paragraph.
 16 A Yes, I see that.
 17 Q And then you respond on the bottom -- Actually,
 18 you say, "For example, is the current market
 19 price 1 percent of face on the low and 3 percent
 20 of face on the high end?" I believe the top part
 21 is pretty much confirming what you felt, and it's
 22 your understanding as of August of '09 that's
 23 pretty much what the market was?
 24 A I didn't know until I got this back. That's what
 25 I was trying to find out.
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- 1 wrong? Is that your testimony?
 2 A I am not sure what his definition of an
 3 "aggregator" is, but I never once supplied
 4 policies to Baetis and Brown.
 5 Q Let me just finish these up quickly. I show you
 6 what has been marked as Exhibit 29 and ask if you
 7 have ever seen this document before.
 8 A This is not a familiar document to me.
 9 Q Did you have anything to do with any of these
 10 other companies in terms of introducing them
 11 where you would have been the finder or in some
 12 other way involved with them?
 13 A No, I did not.
 14 Q Okay. Now, showing you what has been marked
 15 Exhibit 30, and it is almost a blank page. It
 16 just says, "Exhibit A, Pledged Assets, Assets of
 17 the Brown Investment Fund, L.P." You have seen
 18 this; haven't you?
 19 A Yes, I have seen Exhibit A. But mine looks
 20 different from this.
 21 Q What does yours look like?
 22 A Mine would have had some specific cases
 23 underneath there.
 24 Q That's right. I will tell you it was for a
 25 different note, it wasn't your note. I am only
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1 asking you, at any time did Joe Aaron tell you
 2 when he was getting money in from those notes
 3 that he was blending all the assets of Brown
 4 investment firm?
 5 A Yes.
 6 Q Did he tell you that?
 7 A Yes.
 8 Q You didn't have a problem with that?
 9 A I didn't have a problem with it. It made my
 10 investment secure.
 11 Q What about all the investors in Wealth
 12 Management?
 13 A I can't answer that.
 14 Q This document is Exhibit 31, a two-page document,
 15 and I'm going to ask you if you have ever seen
 16 this document before.
 17 A I don't know whether I have seen this particular
 18 one, but I have seen a document like this.
 19 Q Would you, in the ordinary course of business, be
 20 copied in on these computer printouts?
 21 A I don't know if I would call it ordinary course
 22 of business, but I have seen a document like
 23 this.
 24 Q And the company's names on the left, you
 25 recognize Nationwide, Phoenix, Jefferson Pilot;
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1 page, there is a line with Additional Premiums;
 2 do you see that?
 3 A Yes.
 4 Q It stands out. It's sort of hard to miss. Do
 5 you have any knowledge as to why, for example,
 6 and I am looking at Crawford Hubbell with Sun
 7 Life, the first year's premium was \$369,400, and
 8 it looks like it was set up with no second year
 9 premium. And then they put the policy on the
 10 market for sale, and it looks like they made
 11 monthly payments for seven months here?
 12 MS. SCHELLINGER: Seven months or
 13 seven years?
 14 THE WITNESS: Seven months. And did
 15 they sell it? Let's look. I can't tell if they
 16 sold it, from this document.
 17 MR. MELNICK: I can't either.
 18 Q My question is, if you look on the right side
 19 where it says Origination Fee?
 20 A Yes.
 21 Q Do you see those amounts that are running down
 22 the column?
 23 A Yes.
 24 Q What is the "origination fee"?
 25 A I believe that's collected at the end and goes
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1 do you recognize those names?
 2 A Yes.
 3 Q Did you ever deal with any of those companies?
 4 A I believe Baetis and Brown and all the
 5 aggregators dealt with these companies.
 6 Q But you don't -- I am just asking whether you
 7 did.
 8 A I did not.
 9 Q What about the insureds, did you ever have any
 10 dealings with any of the insureds who bought
 11 those policies?
 12 A No.
 13 Q Okay. Now, do you notice that in some cases
 14 where it says Premium, then it says Additional
 15 Premium?
 16 A Yes.
 17 Q I understand where it says Premium, I assume
 18 that's the Premium No. 1, the first year's
 19 premium; do you see that?
 20 A That's correct.
 21 Q Premium No. 2, to your knowledge, and I am asking
 22 what you learned from seeing these, Premium No. 2
 23 is the second year?
 24 A That is my understanding.
 25 Q Okay. And then, if you look in the middle of the
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1 into the fund as part of the total return.
 2 That's my understanding.
 3 Q Okay. Now, again, was this an up-front fee, or
 4 do you know? Is the origination fee paid at this
 5 end or --
 6 A I don't know that for sure.
 7 Q Okay.
 8 A We were in an informal conversation, and I
 9 thought you wanted me to tell you whatever I
 10 know.
 11 Q I don't want you to guess. I am just asking if
 12 you know, because there is information indicating
 13 that it was at the end. I don't want you put
 14 yourself where you shouldn't be.
 15 Let's look at the next page, the
 16 second page. Same document, second page. It
 17 looks like it has more columns than the first
 18 page; do you see that?
 19 A Barely.
 20 Q It has First Premium, Date Paid, and Maturity
 21 Date. Do you see the 9.95? Do you see where
 22 that is on the right? Interest Rate On Note.
 23 A Yes.
 24 Q Then it says Profit to the Fund on Sale; do you
 25 see that?
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1 A Yes.
 2 Q Do you recall -- Where it shows the profits or
 3 losses to the fund, do you recall seeing that?
 4 A I don't remember this exact one, but I've seen
 5 one like this where there would be a column for
 6 profit or losses. I recall getting a document
 7 like this, but nothing else that would show a
 8 profit or loss on the fund like that.
 9 Q Okay. Now, there are only two ways you could
 10 establish loss. One is if a policy expired;
 11 right? Lapsed?
 12 A Yes.
 13 Q And you would lose everything; right? Principal
 14 and -- It wouldn't be worth anything, so you
 15 would lose 100 percent; right?
 16 A Of the principal on the loan and the accrued
 17 interest, yes.
 18 Q Okay. And the other way is if you sold it for
 19 less than you had into it?
 20 A Mm-hmm.
 21 Q Yes?
 22 A I'm sorry, yes.
 23 Q So --
 24 A I'm getting tired.
 25 Q The profit here is based upon, and only if you
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1 attempted to sell, approximately, in the last 18
 2 months?
 3 "A. Under 300.
 4 "Q. How many has it sold?
 5 "A. Under 50.
 6 "Q. For the 50 or so, under 50
 7 policies that it sold, have the proceeds been
 8 sufficient to repay Baetis for the loans it made?
 9 "A. No.
 10 "Q. What's the approximate range of
 11 losses that Baetis has suffered on those under 50
 12 policies that it sold?
 13 "A. Over 90 percent."
 14 Q So that would have put it at the end of
 15 '08?
 16 A Exactly what I have testified to, that everything
 17 that I have seen in the audits points to the
 18 fourth quarter of '08 as when policies first were
 19 being written down. So it wouldn't surprise me,
 20 what it says there. Any policies sold up to that
 21 point, there is a high probability that they
 22 would have been sold at principal plus interest
 23 or potentially more.
 24 Q But here's the problem. I couldn't get anyone to
 25 identify who bought the policies. Do you know
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1 have this knowledge, don't guess, the profit is
 2 based upon one of those two factors having
 3 occurred?
 4 A I am not going to guess.
 5 Q So you don't know?
 6 A I don't know.
 7 Q And I guess I want to make sure, as your attorney
 8 might have expressed previously, see where it
 9 says Additional Premiums?
 10 A Yes.
 11 Q Is it your testimony that every one of those
 12 entries is a monthly premium or a yearly
 13 additional premium?
 14 A I don't know for 100-percent certainty. My best
 15 recall is it would be monthly to keep them in
 16 force until it was sold.
 17 Q Let's look at Exhibit 32. Before I get to
 18 Exhibit 32, I had asked you previously, and
 19 Stephanie was able to find it for me, about
 20 Aaron's testimony, and I want to ask you, because
 21 I think you might have thought I wasn't direct
 22 about that. He was asked about how many policies
 23 Baetis and Brown attempted to sell in the last 18
 24 months.
 25 "Q. And how many policies has it
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1 who bought the policies?
 2 A I don't know.
 3 Q Where do I go to find out who bought those
 4 policies, because at this point it looks to me
 5 like there is no evidence that that money
 6 actually came in. What was used was investor
 7 money that was put in there to make it look like
 8 those things were sold. I am not saying that you
 9 had anything to do with it, but there has to be
 10 somebody that can say, Yeah, I bought those
 11 policies, and here's what I paid for them, and I
 12 can't find it. Where do I go to find them?
 13 A I have a thought.
 14 Q Go ahead.
 15 A The bank custodial statements would be a spot
 16 that I would look at.
 17 Q The bank in California?
 18 A Yes.
 19 Q Okay. This next exhibit, this is similar again
 20 to Exhibit 31. There is the Origination Fee on
 21 the fourth column from the right. And you said
 22 that that was paid at the end; that's your best
 23 understanding?
 24 A I don't know for sure. But I recall it was paid
 25 into the fund at the end.
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1 Q PSV. The first one is Brown, and this was the
 2 amount of what you thought it would be worth --
 3 the investment would be worth?
 4 MS. SCHELLINGER: Object to the form
 5 of the question, to the terminology you used.
 6 MR. MELNICK:
 7 Q Okay. Do you know what PSV means?
 8 A Not with clarity, no.
 9 Q So you have not seen that term before?
 10 A I have seen the term PSA. No. PVA. I'm sorry.
 11 Policy Evaluation Analysis. I have seen that.
 12 Q So you don't know what this means?
 13 A I would only be guessing.
 14 Q And, in terms of that, if you look at the next
 15 page, once again it shows profit to the fund. Do
 16 you see that? It's the third from the right.
 17 A Yes.
 18 Q Okay. Now, there is one policy that shows an
 19 \$11,000 profit on June 8, '08, but two that show
 20 losses on September of '08.
 21 A Mm-hmm.
 22 Q Yes?
 23 A Yes, I see that.
 24 Q So you are saying that it didn't come to your
 25 attention until this month, or are you talking
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1 Q Who would have access to the information on the
 2 second page of Exhibit 32?
 3 A Joe Aaron would have access to it.
 4 MS. SCHELLINGER: Object. Calls for
 5 speculation; but, if you know the answer, you can
 6 answer.
 7 THE WITNESS: I am not sure.
 8 MR. MELNICK:
 9 Q What depth of information would he have?
 10 A Again, I am not sure.
 11 Q Okay. So at least as of the policies issued in
 12 '06, we know that 50 weren't sold, and the other
 13 50 were sold at 90 percent loss, then
 14 approximately 300 policies pretty much went down
 15 the drain?
 16 A I am not aware of that. I don't know. I heard
 17 your testimony, but I am not aware of it.
 18 Q Now, you know a company called PRG?
 19 A Yes.
 20 Q Did you have any dealings with them?
 21 A Yes.
 22 Q What were those dealings?
 23 A They were one of the aggregators that provided
 24 cases to Baetis and Brown that Quadrimus got paid
 25 on.
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1 about because Joe Aaron sent these documents
 2 showing this that losses were known much earlier
 3 than that? When did you know that those things
 4 were going to be -- some were going to show
 5 losses?
 6 A It was clearly toward the fourth quarter of 2008,
 7 and I picked that up from the Brown audited
 8 statement.
 9 Q Okay. So the fourth quarter wouldn't include
 10 September.
 11 A That's correct.
 12 Q So I am asking you, did you have any -- you got
 13 it from an audit that was done after the fact;
 14 right?
 15 A That's correct.
 16 Q Exhibit 32, these documents were published in the
 17 ordinary course of business; weren't they?
 18 MS. SCHELLINGER: Objection.
 19 Foundation.
 20 MR. MELNICK:
 21 Q Did you get these on a fairly-routine basis?
 22 A Not that I recall.
 23 Q How often did you receive those? Quarterly?
 24 A No. I have no idea how often I received them.
 25 But they were random and infrequent.
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1 Q So Quadrimus received fees from PRG for when
 2 their policies got funded?
 3 A That's correct.
 4 Q Okay. Showing you what has been marked Exhibit
 5 33. I am going represent to you and your
 6 attorney that this was created by PRG for the
 7 SEC. This was not done in the ordinary course of
 8 business. This is a document prepared based upon
 9 a subpoena by the SEC and was used in Mr. Aaron's
 10 most-recent deposition. So we know you have not
 11 seen this before; is that correct?
 12 A That's correct.
 13 Q Okay. Now, the point in this is, if you look in
 14 the middle column, that says Fund Date; correct?
 15 A Correct.
 16 Q Presumably, and I will ask you to speculate a
 17 bit, do you know when the money came in to
 18 finance the policies, or don't you know?
 19 A I don't know exactly.
 20 Q Okay. Then the next column says First Premium;
 21 does it not?
 22 A Yes.
 23 Q Then Second Premium, and is the second premium,
 24 in your lexicon, the second year, or is that the
 25 second month?
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- 1 A Second year.
- 2 Q Okay. And then Policy Face Value; correct?
- 3 A Correct.
- 4 Q And then you see the last column, Lender Fee?
- 5 A Mm-hmm.
- 6 Q Yes?
- 7 A I do.
- 8 Q Do you know what the "lender fee" means?
- 9 A I am not familiar with that term. I have never
- 10 seen that term in this context.
- 11 Q But presumably someone is getting \$192,242?
- 12 MS. SCHELLINGER: On the third line.
- 13 MR. MELNICK:
- 14 Q Under Lender Fee, the third line.
- 15 A Yes, I see that.
- 16 Q Now, do you know where that lender fee went, how
- 17 it was divided up?
- 18 A I do not.
- 19 Q Do you know if Quadrimus got any part of that
- 20 lender fee?
- 21 A Quadrimus received finder's fees. There was
- 22 never any lender-fee designation, that I am aware
- 23 of.
- 24 Q I will represent to you, if you do the math on
- 25 the third line -- By the way, I will also
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- 1 see that?
- 2 A Yes.
- 3 Q Okay.
- 4 A Who is the lender?
- 5 Q The lender is Brown.
- 6 A Okay.
- 7 Q You said you don't know about Exhibit 12, you
- 8 have never seen it before?
- 9 A No, I have not seen it.
- 10 Q And you don't know whether Quadrimus -- By the
- 11 way, the lender fee of \$96,000, I will represent
- 12 that was 20 percent of the premium.
- 13 A Okay.
- 14 Q You don't know how much of that you received, if
- 15 any, for Quadrimus?
- 16 A I do not.
- 17 Q Okay. And do you know where the money was split
- 18 up or how it was split up?
- 19 A I do not know that.
- 20 Q You don't know how much Joe Aaron got?
- 21 A I do not.
- 22 Q Do you know how much Brown got?
- 23 A I do not know.
- 24 Q Okay. You did a declaration after your last
- 25 testimony where you filed an affidavit; is that
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- 1 represent to you that this ties in with 14, so
- 2 you don't have to do all the work for it. It was
- 3 the agreement with regard to commissions. Let me
- 4 show you how it ties in. It was the agreement --
- 5 MS. SCHELLINGER: That's Exhibit 12.
- 6 MR. MELNICK: Thank you.
- 7 Q I am going to represent to you, if you look at
- 8 Exhibit No. 12, do you have that in front of you?
- 9 A I do.
- 10 Q Exhibit 12 is an agreement between PRG and Brown
- 11 Fund. Do you see that in the first paragraph?
- 12 Lender and producer and parties; do you see
- 13 those?
- 14 A Yes.
- 15 Q And I will represent to you that Brown Fund is
- 16 the lender and PRG is the producer.
- 17 A That's what it says here.
- 18 Q You don't have to guess. That's what it says.
- 19 A Okay.
- 20 Q And then it talks about how much is going to be
- 21 paid out, and if you look at Paragraph 4 of the
- 22 next page --
- 23 A Okay.
- 24 Q "Each party agrees that for the closed producer
- 25 transaction lender shall receive \$96,121;" do you
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- 1 correct?
- 2 A Yes, that is.
- 3 Q Is that because you just didn't remember or there
- 4 was confusion or what?
- 5 A That was a reference to the Baetis note and the
- 6 Brown note, and I did get that confused. And as
- 7 soon as we saw it I corrected it, and my attorney
- 8 sent that in to make sure that that was right.
- 9 Q Now, it says here that the note that you gave was
- 10 used to pay premiums, that's what Joe Aaron had
- 11 indicated to us. Do you know if it went for
- 12 that?
- 13 A I don't know for certain.
- 14 Q And, in fact, even though the premiums may have
- 15 been paid, you don't know what happened to the
- 16 specific policies?
- 17 A No, I do not.
- 18 Q But there was a specific policy that, as you
- 19 said, backed your note; wasn't there?
- 20 A Again, the testimony in the reference to that is
- 21 the fund was buying the note and for further
- 22 safety they identified policies to them.
- 23 Q Let me put it this way. I am not interested in
- 24 the note. I am just asking, there was a specific
- 25 policy that was tied in with your note; right?
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- 1 A One or more. There may have been one or more.
 2 Q Do you know whatever happened to those policies?
 3 A No, I do not.
 4 Q I just have a few more questions for you. We are
 5 almost done.
 6 We talked a little bit about the
 7 Wealth Management investor part of it, and you
 8 knew, because you were there and you had a good
 9 idea, that they were conservative people.
 10 Given what you knew in 2004 and
 11 afterwards about it being a speculative
 12 investment and a risky investment, would you have
 13 put Wealth Management investors in any of those
 14 investments?
 15 MS. SCHELLINGER: Speculation.
 16 Incomplete hypothetical. But you can go ahead
 17 and answer.
 18 THE WITNESS: I think that there is
 19 always concerns when you over-concentrate a
 20 client in an investment. So I think that this
 21 could be part of a well-planned asset allocation
 22 strategy.
 23 MR. MELNICK:
 24 Q Even though, as you correctly said, you didn't
 25 know what those policies would bring on the
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- 1 Q Is anyone from Wood, Hat & Silver invested in
 2 Lexy?
 3 A Not that I'm aware of.
 4 Q What about John Wypiszynski?
 5 A When John was at Winch Financial, I believe they
 6 made an investment. But not him, personally, as
 7 an investor.
 8 Q I believe you said that after you left Wood, Hat
 9 & Silver that you didn't advise any clients that
 10 you brought in there.
 11 A That's true. Informally. Occasionally I would
 12 get a phone call from, for instance, the
 13 Leschkes, and they would ask for an opinion on
 14 something.
 15 Q Anyone else besides them?
 16 A This is advising as to Wealth-Management-related
 17 things?
 18 Q Yeah. Any investment.
 19 A Any investments or Wealth-Management related?
 20 The reason I'm asking is they tied together
 21 sometimes, and so I don't want to leave myself
 22 open.
 23 Q Any investment.
 24 A I worked with JoAnne Miller and helped her
 25 organize her affairs after her husband died.
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- 1 secondary market?
 2 A What time frame?
 3 Q Starting in '04.
 4 A In '04 I clearly said there was a high risk to
 5 the product because you didn't have a track
 6 record on sales at the two-year anniversary.
 7 Q Was there high risk in '05?
 8 A Yes.
 9 Q And in '06?
 10 A Sales started occurring in '06, very profitable
 11 sales. And so the risk starts to diminish when
 12 you have a track record.
 13 Q But here's where I'm stuck. I can't find a
 14 record of those sales. You tell me there were
 15 profits. How do you know that there were
 16 profits? You didn't witness any of them; did
 17 you?
 18 A Occasionally Wood, Hat & Silver would send the
 19 completed policy comparisons of the ones that
 20 were sold. And so that was what I would use to
 21 base my comment on.
 22 Q Is Jim Putman invested in Lexy?
 23 A No.
 24 Q How about Simone Fevola?
 25 A No.
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- 1 Q Okay. And, as long as you were talking about the
 2 Leschkes, you were the one who introduced them to
 3 Joe Aaron; didn't you?
 4 A Yes.
 5 Q Same with Dr. Janssen?
 6 A That's correct.
 7 Q Anyone else that you can recall?
 8 A Sure. When I worked there -- I don't know if I
 9 can remember all of them. Dr. Prehn and Dr.
 10 Angill. I had a list that I submitted to the
 11 SEC. Some relatives of the Leschkes. The Otts.
 12 Q Did you know if any of those folks were invested
 13 in Baetis and Brown or either, the people that
 14 you just --
 15 A Yes, I knew that.
 16 Q Did you ever tell any or all of them to liquidate
 17 their investment in Baetis and Brown or both?
 18 A I never called them to do that.
 19 Q Did you ever tell them in person to do that?
 20 A I had a conversation with the Leschkes. They had
 21 called me I think in December of 2007, and they
 22 were interested in getting some money out of
 23 Tippet. I believe it was for college education
 24 expenses and for some other things that they had
 25 going on. And it was a fairly large amount.
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1 And I believe, if I recall the
 2 conversation, Julie and John -- I think Mr. Aaron
 3 had told them that they could not give them a
 4 withdrawal at that time. They were calling to
 5 get my thoughts on that.
 6 And I think I shared with you at that
 7 time that I had heard that there might be a note
 8 in there from Beau Gayner and that we had an
 9 experience where he didn't pay us some fees. And
 10 that bothered me. And then, if I recall
 11 properly, they made a request for a full
 12 withdrawal. So that would be the extent of any
 13 conversation that I would have had.
 14 Q Here's where I was going. In June or so of '07,
 15 you don't recall telling the Leschkes or any of
 16 your clients that they should get out of Brown?
 17 A No, I don't recall that at all.
 18 Q Did you have any knowledge that there were any
 19 problems in the life insurance financing business
 20 in the summer of '07?
 21 A Summer of '07? Absolutely not. In the summer of
 22 '07 they were flush with cash in Brown. Probably
 23 \$5 million just from the sale of policies
 24 purchased in '04 and '05.
 25 And, if I would have had any concern
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1 there? You would give them your advice, I
 2 assume, before you left there?
 3 A Right. But I did not talk to anyone other than
 4 the Leschkes.
 5 Q Okay. Did you tell the Leschkes that insurance
 6 premium financing was high risk and speculative?
 7 A The Leschkes -- When I got involved in Baetis and
 8 Brown in 2002, 2003, or 2004, they weren't in
 9 there. It was a fund to fund. They really
 10 didn't come into the picture until after 2004.
 11 Well after 2004.
 12 Q I know you had already left. What I am getting
 13 at is you knew they were invested in insurance
 14 premium financing funds; right? You knew they
 15 were invested in it?
 16 A Yeah. But they were moved around by Mr. Aaron.
 17 Q Why?
 18 MS. SCHELLINGER: Objection. Calls
 19 for speculation.
 20 MR. MELNICK:
 21 Q Do you know why Mr. Aaron moved them in 2005?
 22 A As I testified earlier, Mr. Aaron and Wealth
 23 Management sent a letter out that they were going
 24 to become dedicated to the life insurance
 25 financing concept and basically kicked people out
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1 whatsoever about the market at that time, there
 2 is no way I would have borrowed money to Brown in
 3 September of '07 and no way I would have borrowed
 4 money in December of '07. Absolutely not. I had
 5 no concerns about the market at that time.
 6 Q But you didn't get into the finder business until
 7 you left Wood, Hat & Silver?
 8 A Correct.
 9 Q You didn't know of that while you were there?
 10 A That's correct.
 11 Q When you notified your clients when you left, did
 12 you maybe, like we do as lawyers, recommend
 13 anybody else to go to? You didn't tell them to
 14 go to Wealth Management; did you?
 15 A In my letter to clients, I didn't reference that.
 16 I don't remember for sure, but I believe I did
 17 not reference that.
 18 Q Of all of those folks after you left Wood, Hat &
 19 Silver, do you know how many went to Wealth
 20 Management?
 21 A I think one.
 22 Q Dr. Angill?
 23 A Yes.
 24 Q Did you continue to advise any of them, other
 25 than occasionally talking to them, after you left
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1 of the fund.
 2 Q So they moved them to a fund that could
 3 accommodate them?
 4 A Mr. Aaron moved the Leschkes into Tippet and NDM.
 5 Q And from Tippet back to Brown?
 6 A Not that I'm aware of.
 7 Q Did you ever know the Leschkes were involved in
 8 the Brown fund?
 9 A Yes.
 10 Q When did you find that out?
 11 A I think I perhaps placed them in there in 2003.
 12 Q But after 2006?
 13 A Did I know they were in there?
 14 Q Yes.
 15 A I believe I did know that.
 16 Q Okay. And you knew that the Brown fund was
 17 invested in insurance premium financing; didn't
 18 you?
 19 A Yes, I did.
 20 Q So now it gets back to my question. Did you tell
 21 them that was speculative and risky in 2006?
 22 A No, I wouldn't have had that conversation with
 23 them. No reason to bring it up.
 24 Q Were you routinely, with your former clients that
 25 you had with Wood, Hat & Silver, copied in on
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1 E-mails that they were sending to Joe Aaron?
 2 A That the client was sending?
 3 Q Yes.
 4 A Occasionally. The Leschkes usually copied me in.
 5 Most of the others, I don't recall.
 6 Q Did you ever comment on them?
 7 A I am sure I did.
 8 Q Did you say, I was copied in, and here's my
 9 feeling?
 10 MS. SCHELLINGER: Object to the form
 11 of the question.
 12 MR. MELNICK:
 13 Q I'm asking if you ever responded to the copies.
 14 A I don't recall if -- If there was a particular
 15 incident, maybe I would address it, but I don't
 16 recall.
 17 Q Do you recall ever a time that you advised any of
 18 your clients, and this would be after '06, so
 19 between '06 and now, to get out of Brown or
 20 Tippet?
 21 MS. SCHELLINGER: You are referring to
 22 "your clients," and they weren't his clients.
 23 MR. MELNICK: Former clients. Thank
 24 you.
 25 THE WITNESS: Not that I can recall.
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1 Q Go ahead.
 2 A My assumption was that they were diversifying
 3 their clients through their other funds.
 4 Q Wealth Management?
 5 A Or mutual funds or individual stocks and bonds.
 6 That that was a piece of a broader picture.
 7 Q Mr. Riek, this is your deposition of February
 8 1st, 2010. Let me give you some context here.
 9 It starts -- Actually, I am going to read to you
 10 where it starts at Page 48.
 11 MR. MELNICK: And you are welcome to
 12 read over my shoulder, if you want. If you want
 13 to come around, you are welcome to.
 14 Q "And the way they told me the story was that the
 15 experiments had worked superbly. At the time I
 16 think they were using the Milliman model, which
 17 is an institutional model to price those things
 18 out. Buyers and sellers used it, and it would
 19 input many things like life expectancies, age,
 20 other health conditions.
 21 "In the early stages, the discount
 22 rate was way up there, 12, 14, 16 percent, so
 23 that making the product work, in essence, causing
 24 that arbitrage between what it was really worth
 25 and what they were, you know, starting out with
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1 MR. MELNICK:
 2 Q By the way, do you know why Baetis and Brown
 3 ended up concentrated in the insurance premium
 4 financing business instead of diversification?
 5 A I would only be speculating.
 6 Q That was never discussed with you?
 7 A I don't recall a specific conversation on it.
 8 Q Did you ever have a conversation with Putman and
 9 Fevola saying that, You guys ought to diversify?
 10 That would have been after you left Wood, Hat &
 11 Silver.
 12 A I don't recall any specific conversation.
 13 Q Did you feel that they should have diversified?
 14 Do you have an opinion?
 15 MS. SCHELLINGER: Objection. That's
 16 overly broad. Incomplete hypothetical.
 17 MR. MELNICK:
 18 Q Do you have an opinion that the concentration
 19 that Baetis and Brown had in the insurance
 20 premium financing business was not the best
 21 investment strategy?
 22 MS. SCHELLINGER: Objection. You are
 23 making that overly broad as to all investors,
 24 apparently?
 25 MR. MELNICK:
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1 was magnificent. They knew that the
 2 institutional market was probably discounting
 3 them at 8 or 10 percent, and so their hope was
 4 after two years they would take advantage of that
 5 arbitrage difference, sell the policy at a
 6 much-higher level, and then put that back -- some
 7 of it back to seniors, most of it back to the
 8 guys who put the deal together."
 9 You were talking about the profit;
 10 weren't you?
 11 A That's correct.
 12 Q So at this point you are saying most went to the
 13 guys that put the deal together; is that what you
 14 were referring to?
 15 A I was referring to Rangetree.
 16 Q Aggregators, that kind of thing?
 17 A Yes.
 18 Q All of that went back to the aggregators?
 19 A No. I think that the arrangement was the
 20 aggregators got a large chunk of the profit, but
 21 some of it also went back to the senior. Some of
 22 it could have gone back to the fund as part of
 23 the investment return. And some of it could have
 24 gone back to the agent who actually brought the
 25 client in. That was what I was referring to.
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1 Q And you?
 2 A No. I didn't get any of that.
 3 Q So you are just at the frond end and not at the
 4 back end?
 5 A That's correct.
 6 Q Okay. Now, did you attend the insurance
 7 conference in New York that was in January of
 8 each year?
 9 A No, I did not.
 10 Q Did you ever get any of the materials from that
 11 conference?
 12 A I think I read about some of it in the Wall
 13 Street Journal. I didn't get any materials, that
 14 I recall.
 15 Q Okay. So you never participated in the seminar
 16 where Joe Aaron would report to you on what was
 17 discussed?
 18 A No.
 19 Q Were you present when Joe Aaron presented this
 20 insurance premium financing thing to the
 21 employees of Wealth Management?
 22 A Yes. Joe may have done that a couple times. I
 23 remember one in particular at a restaurant in
 24 Appleton, yes.
 25 Q And do you remember what year that was?
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1 investments to protect their principal?
 2 A I don't recall any conversation like that.
 3 Q Do you recall any conversation with Wealth
 4 Management investors to that effect?
 5 A No, I don't.
 6 Q Did you ever see any of the material of any of
 7 the funds, Gryphon, Watchstone, that described
 8 their investments being low volatility
 9 preservation of capital investments?
 10 A I saw it later on. I couldn't tell you what
 11 year, but it would have been after 2007.
 12 Q In your opinion as an investment advisor, were
 13 they low volatility investments that protected
 14 principal?
 15 MS. SCHELLINGER: Objection. Lack of
 16 foundation. Answer if you can.
 17 THE WITNESS: I think I testified to
 18 this earlier, that they started out without a
 19 track record as high-risk vehicles and, until
 20 that track record was built, they couldn't work
 21 down the scale to a lower-risk vehicle.
 22 MR. MELNICK:
 23 Q When is the last time that you talked to Jim
 24 Putman? Was it at the restaurant after that day
 25 in court?
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1 A Not off the top of my head. It's in the calendar
 2 schedule that I submitted to the SEC.
 3 Q I mean, let me put it this way. Was it before
 4 Wealth Management started investing in the
 5 insurance premium financing business?
 6 A Could have been. I could give you an exact date
 7 if I had that calendar.
 8 Q My question is, you heard Joe Aaron's
 9 presentation; did you not?
 10 A I did.
 11 Q Did he ever present it as being a high-risk,
 12 speculative investment?
 13 A Mr. Melnick, that is so long ago. I don't
 14 recall.
 15 Q Because you testified today that you told Jim
 16 Putman, in I think as early as '03, that it was a
 17 speculative, risky investment.
 18 A Yes.
 19 Q So when Joe Aaron presented this to Wealth
 20 Management people, was it presented to them as a
 21 high-risk, speculative investment?
 22 A I don't remember his discussion at the meeting.
 23 Q Do you recall Joe Aaron being told at any of
 24 those meetings with Wealth Management that Wealth
 25 Management investors wanted low-volatility
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1 A Actually, I had a random encounter with him at
 2 the Harley-Davidson shop in Fond du Lac.
 3 Q That would have been when?
 4 A Last fall.
 5 Q Fall of 2010?
 6 A Yes. I don't know when he started working there,
 7 but I was in there scheduling an oil change, and
 8 there he was. And I offered my hand in greeting,
 9 and I could tell there wasn't going to be any
 10 conversation. So, no, we didn't talk about
 11 anything. And I left quite quickly after that.
 12 Q Have you talked to him after that by phone or
 13 E-mail or any form of communication subsequent to
 14 meeting him at Harley-Davidson?
 15 A "Subsequent," that's after?
 16 Q Yes.
 17 A No.
 18 Q What about Fevola?
 19 A No. My last conversation with Mr. Fevola would
 20 have been in the first quarter of 2008.
 21 Q Were you aware that all of the investments Wealth
 22 Management made that they had a success rate of
 23 almost zero? Were you aware of that?
 24 A I am aware of that from postings that I had read
 25 on the website.
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1 Q Now, from your experience as an investment
 2 advisor, if you would have put the New York Stock
 3 Exchange listing of stocks up and thrown darts at
 4 it, do you know from an investment standpoint
 5 what your odds of having those investments be
 6 worth nothing is?
 7 MS. SCHELLINGER: Objection. Calls
 8 for speculation. Lack of foundation.
 9 THE WITNESS: No, I don't know what
 10 the odds would be.
 11 MR. MELNICK:
 12 Q As an investment advisor, have you come across a
 13 situation where almost every investment of a
 14 professional investment advisor, that is not a
 15 Ponzi scheme, goes to zero or almost zero? Have
 16 you seen that before?
 17 A Not every one. No, I have not seen that.
 18 Q Were you consulted -- other than the insurance
 19 premium financing, put that aside -- by either
 20 Joe Aaron or Jim Putman or Simone Fevola about
 21 any other investments, other than insurance
 22 premium financing investments?
 23 A Was I consulted about anything other than
 24 insurance premium financing investments?
 25 Q Did they ask your opinion on anything else, other
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1 your own investment vehicle?
 2 A The only occasion that Quadrimus discussed an
 3 outside investment was that UTC securitization
 4 deal. That was it.
 5 Q You never discussed taking your money and putting
 6 it into other investments?
 7 A No.
 8 Q A vehicle to diversify the funds?
 9 A That's what Quadrimus was.
 10 Q Pagoda, that rang a bell with you. That was
 11 another Wealth Management fund that Mr. Putman
 12 and Mr. Fevola wanted to invest in?
 13 A But that had nothing to do with Quadrimus.
 14 Q You weren't going to invest in Pagoda?
 15 A No.
 16 Q There was no discussion about you investing in
 17 that?
 18 A No.
 19 Q Okay. And, in Quadrimus, was there any
 20 discussion about -- You said it was just a
 21 vehicle to distribute money. You are saying
 22 there was never a discussion to use Quadrimus as
 23 any other investment vehicle, not only insurance
 24 premium financing but anything else?
 25 A We considered one investment.
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1 than insurance premium financing investments?
 2 A Yeah. For two, three years, I would introduce
 3 them to potential funds they should think about
 4 for their clients.
 5 Q Do you remember who you introduce them to?
 6 A I recall a couple, but most of the appointments
 7 that we had are on the calendar that I submitted
 8 to the SEC.
 9 There was a leasing manager out of
 10 Chicago. There was a company by the name of Pro
 11 Sports. There was Argent. There were others.
 12 Q Do you have any idea why they didn't take your
 13 advice?
 14 MS. SCHELLINGER: Object. Calls for
 15 speculation.
 16 MR. MELNICK: Thank you.
 17 Q Did they tell you why they didn't take your
 18 advice?
 19 A My role was to introduce them to managers, and
 20 they took it from there and did their own due
 21 diligence. But, no, they never told me why they
 22 rejected them.
 23 Q Did you -- When you had your Quadrimus meetings,
 24 you were talking about investing in other things
 25 in the insurance area, weren't you, other than
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1 Q The UTC?
 2 A That's right. We didn't talk about any other --
 3 Q That's what I was --
 4 A -- investment whatsoever. That was the only one.
 5 MR. MELNICK: Okay. I don't have
 6 anything else. We are done.
 7 (Proceedings concluded at 3:01 p.m.)
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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 11th day of February, 2011

20

21

Judith E. Wingo

22

Notary Public in and for the
State of Wisconsin

23

24 My commission expires January 18, 2015.

25

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ERRATA SHEET

| Page Number | Line Number | Should Read | Reason |
|-------------|-------------|--|---|
| 13 | 22 & 23 | Fund of Funds (not "Fund to Fund") | Transcription error |
| 15 | 12 | Fund of Funds (not "Fund to Fund") | Transcription error |
| 66 | 3 | Fund of Funds (not "Fund to Fund") | Transcription error |
| 148 | 9 | Fund of Funds (not "Fund to Fund") | Transcription error |
| 29 | 9-15 | Yes, Dick Stiles was the attorney who drafted the Quadrimus documents. No, I did not refer Putman or Fevola to Dick Stiles. Both Putman and Fevola asked me to contact Dick Stiles for Quadrimus documents. | My answer to the compound question was incomplete. |
| 40 | 15 | ...loan plus interest – and then the difference would be profit. | The "--" in the transcript reflects the reporter either missed my words, or I did not clearly say "interest." |
| 48 | 22 | Arbitrage (not "arbitration") | Transcription error |
| 49 | 4,7,11 & 14 | Arbitrage (not "arbitration") | Transcription error |
| 69 | 22 & 23 | Valuation (not "evaluation") | Transcription error |
| 126 | 3 | "pledging" all of the assets (not "blending") | Transcription error |
| 134 | 11 | Valuation (not "evaluation") | Transcription error |

| Page Number | Line Number | Should Read | Reason |
|-------------|-------------|--|--|
| 144 | 3 | Joe Aaron is a personal investor in Lexy as I previously testified. I am not aware of anyone else. | Since I had already testified that Joe Aaron invested in Lexy, I understood the question to be whether anyone else at Wood, Hat & Silver was also an investor. |
| 147 | 3 & 4 | ...and no way I would have borrowed Baetis money in December 2007 | Clarification that the money in December of 2007 was loaned to Baetis. |
| 147 | 15 & 17 | I did reference that. I don't remember for sure, but I believe I did reference that. | Transcription error – I testified that I did reference that. |

