



Client: Jack Doe, ESQ.
Litigation: AB&C V. XYZ CORPORATION
Deposition Date: 12/ 19/ 2006

DEPOSITION ABSTRACT OF STEVEN STANEK

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- **Click on a 'Page/Line Description' to navigate to the referenced transcript page.**
- **Click on 'Alt – Left Arrow' to return to the 'Page/Line Description' index**

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<u>PAGE</u>	<u>LINES</u>	<u>DESCRIPTION</u>
2	1	Appearances by both the parties
3	2-5	It is stipulated and agreed by and between counsel for the respective parties that: Reading and subscription of the deposition by the witness are not waived.
4	6	Direct Examination by Attorney Adam Sharp.
4	8-13	Name of the Deponent – Steven Stanek. Here today pursuant to a notice of taking deposition.
4	19-22	The deposition notice is for corporate representative of XYZ Insurance Company of Puerto Rico.
4	23-25	The XYZ of Puerto Rico has already been deposed and the Deponent, the corporate representative has been produced.
5	17-23	The Deponent appeared unprepared in the prior deposition to discuss the topical areas in the documents that he was asked to bring with him to the deposition.
9	1-3	The Deponent and XYZ of Puerto Rico are not going to testify about things they have already done.
9	19-25	The Deponent is appearing as the corporate representative for XYZ Insurance Company of Puerto Rico and has reviewed the topical areas that are identified in the corporate deposition notice.
10	5-12	The XYZ of Puerto Rico was formed in 2000 and it was/may have been in anticipation of a private

- offering to conduct business in Puerto Rico.
- 12 17-24 XYZ Insurance Holdings owns and has always owned a hundred percent of XYZ, Puerto Rico.
- 14 1-2 Larry Machismo is the largest shareholder in XYZ Insurance Holdings.
- 14 11-20 There may be 20 or 30 shareholders in XYZ Insurance Holdings and the Deponent is one of the shareholders.
- 15 6-14 Manuel Machismo probably owns close to 75 percent or so of the company and the Deponent owns less than 10 percentage.
- 15 17-25 XYZ by Machismo is 100 percent owned by XYZ Insurance Holdings and the only individual investors as relating to these three entities, are the individual investors that are related to XYZ Insurance Holdings.
- 16 1-17 The amount of capital that was raised as a result of the private offering from individual investors was probably \$255,000 and the money came directly from the holding company to Puerto Rico.
- 17 8-15 Apart from either XYZ Insurance Holdings or XYZ by Machismo, there were no other contributors of seed capital for XYZ of Puerto Rico.
- 17 20-24 The amounts of investment raised as a result of that offering were raised in January 2001 and July 2001.
- 18 1-4 The amount of investment in January 2001 came from different investors.
- 20 17-24 Larry Machismo and Renee Machismo are on board of directors for all three entities.
- 21 12-20 The money first goes to XYZ Insurance Holdings and subsequently it is allocated and some portions of those monies end up in XYZ Puerto Rico.
- 22 18-22 The money came down intermittently and sometimes there might have been funds flowing back from Puerto Rico to Boca Raton.

31,32	24-25, 1-4	It was testified previously by the Deponent that there was approximately a million dollars that was raised as investment monies and that some amount of that million dollars went to XYZ of Puerto Rico's operations.
33	14-18	The amount of \$20, 000 was returned back to investors because AB&C shut them down the next month, following month after the first 20, 000 was sent.
34,35	17-25, 1-7	It was testified by the Deponent that the \$1 million or approximate amount of seed capital sent to Puerto Rico was utilized in Puerto Rico venture such that there wasn't anything left and the \$20, 000 was returned to the investors prior to being shut down. XYZ of Puerto Rico was generating positive cash flow at this moment in the time and was expected to repay the investors their amount of money that they had advanced.
36,37	23-25, 1-4	The funds that were used to advance the operations in Puerto Rico were paid by Machismo to people that may have been working out of the Boca Raton office.
38	14-16	When the Deponent said Boca Raton, he was talking about XYZ by Machismo.
38,39	24-25, 1-23	The money came into XYZ Insurance Holdings, that money went to Machismo and Puerto Rico. Most of it went via Machismo to Puerto Rico. In addition to the money that was raised from the individual investors, XYZ by Machismo also contributed money to Puerto Rico. And even as of today and as of the termination, XYZ of Puerto Rico still owed XYZ by Machismo significant amounts of money, somewhere around \$300,000. So, the company accounted for the flows between XYZ by Machismo and XYZ Puerto Rico through inter-company accounts, and sometimes they went up, sometimes they went down in order to meet cash flows for either Boca Raton or Puerto Rico.
41	1-6	XYZ by Machismo has a traditional insurance operation in Boca Raton.
44	13-20	There is some amount that might have been used by XYZ by Machismo and the holding company

IN THE CIRCUIT COURT OF THE 15TH JUDICIAL CIRCUIT
IN AND FOR PA RIDA
CASE NO.: [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

Plaintiffs/Counter-Defendants,

vs.

[REDACTED]
[REDACTED] INSURANCE
[REDACTED],

Defendants/Counter-Plaintiffs.

_____ /

[REDACTED]
Suite 200
Boca Raton, Florida
December 19, 2006
9:00 a.m.

VOLUME I

THE DEPOSITION OF

[REDACTED]
The Corporate Representative of [REDACTED] Insurance
Company, PR, Inc.

Taken on Behalf of the Plaintiffs
Pursuant to Notice of Taking Deposition
Commencing at 9:25 a.m.

1 APPEARANCES:

2

On behalf of Plaintiffs/Counter-Defendants:

3

4 [redacted] LLP

5

Suite [redacted]

6

Boca Raton, Florida [redacted]

7

BY: [redacted] A. [redacted] ESQ.

8

On behalf of Defendants/Counter-Plaintiffs:

9

[redacted] & [redacted] LLP

10

[redacted] Street

Metairie, Louisiana 70002

11

504. [redacted]

BY: [redacted] M. [redacted] ESQ.

12

LAW OFFICES OF [redacted] . [redacted] P.L.

13

[redacted] Highway

Suite [redacted]

14

Boca Raton, Florida [redacted]

561. [redacted]

15

BY: [redacted] . [redacted] ESQ.

16

Also present:

17

18

REPORTED BY:

19

[redacted] & ASSOCIATES, INC.

20

[redacted] Drive, Suite [redacted]

West Palm Beach, FL [redacted]

21

561. [redacted]

22

* * * * *

23

24

25

1 THEREUPON:

2 [REDACTED]
3 a witness named in the notice heretofore filed,
4 being of lawful age and having been first duly
5 sworn, testified on his oath as follows:

6 DIRECT EXAMINATION

7 BY MR. [REDACTED]:

8 Q Sir, could you please state your name for
9 the record?

10 A [REDACTED].

11 Q And, Mr. [REDACTED], are you here pursuant to a
12 notice of taking deposition?

13 A Yes.

14 MR. [REDACTED]: Which one are we doing
15 first?

16 MR. [REDACTED]: Let's do Puerto Rico.

17 MR. [REDACTED]: Okay.

18 BY MR. [REDACTED]:

19 Q And, sir, were you aware that that
20 deposition notice is for corporate representative of
21 [REDACTED] Insurance Company of Puerto Rico?

22 THE WITNESS: Yes.

23 MR. [REDACTED]: I want to put on the record
24 that [REDACTED] Puerto Rico has been deposed
25 already, the corporate representative has been

1 produced, it was actually Mr. [REDACTED]. And there
2 were some discussion at the conclusion of the
3 deposition that it would be held open.

4 It is my appreciation that in reading the
5 transcript for that deposition that it was held
6 open for a relatively limited area; however,
7 Mr. [REDACTED] has propounded a notice which is
8 arguably outside of what I interpreted as
9 having been held open for; however, in the
10 spirit of cooperation we produced Mr. [REDACTED]
11 again to go over these additional areas.

12 And, however, Mr. [REDACTED] and I talked and
13 it is not his intention to go back over any of
14 the stuff that was covered in that first
15 deposition. I just want to make that clear and
16 let's go forward.

17 MR. [REDACTED]: Well, just my statement for
18 the record, you know, that prior deposition
19 lasted about an hour-and-a-half and that was
20 merely because Mr. [REDACTED] appeared at the
21 deposition unprepared to discuss the topical
22 areas in the documents that he was asked to
23 bring with him to the deposition.

24 We have spoken, myself and opposing
25 counsel, outside of the room earlier this

1 morning, I did not indicate that we weren't
2 going to go over any prior issues; however, I
3 did indicate that I was going to do my best to
4 try not to retread over ground that we've
5 already covered; however, to the extent that
6 it's necessary in order to lay the foundation
7 and in order to get responses to questions that
8 were not answered previously, we may have to do
9 that.

10 MR. [REDACTED]: Wait, did you say you're
11 not -- you do intend to go back over stuff you
12 already asked him in the prior deposition?

13 MR. [REDACTED]: No, no, no. I said was,
14 anything that we didn't get a response to in
15 the prior deposition, we may have to ask him
16 again. I just need an answer to the question.
17 And if I do retread over anything, it's merely
18 just foundational to lay the record today.

19 I do not intend to have a redeposition of
20 that one-hour-and-a-half deposition that we had
21 previously.

22 MR. [REDACTED]: Okay. But to the extent --
23 we'll just get going underway here, not to
24 belabor the point, but --

25 MR. [REDACTED]: Well, you have the depo

1 notice.

2 MR. [REDACTED]: I have the depo notice. I
3 also know that you're not -- well, I'll put it
4 like this, I'm not going to let Mr. [REDACTED] be
5 examined about things that he's already been
6 examined about, period.

7 MR. [REDACTED]: Okay.

8 MR. [REDACTED]: And, you know, we'll see
9 where the questioning goes, however you want to
10 handle this, but this isn't, let's ask him the
11 same question again to see if he answers
12 different. I mean, to the extent you want to
13 get additional information that you've laid out
14 in your topical areas, that's fine. A lot of
15 the topical areas are exactly the same.

16 The fact that Mr. [REDACTED] gave answers that
17 you say were not answers, you know, he may have
18 given answers that you didn't like, but they
19 were his answers. And you're entitled to
20 depose him, but, you know, we're not going over
21 the same things again.

22 MR. [REDACTED]: Okay. Well, here's the
23 problem I have, [REDACTED]. You received our notice
24 of taking deposition, which clearly identifies
25 all of the topics that were to be addressed

1 today. If you had an issue with the coverage
2 of those topics today during today's
3 deposition, then you should have brought that
4 to our attention before, via way of motion for
5 protective order, or some other court imposed
6 relief.

7 You can't show up at the deposition and
8 say, after having the depo notice now for
9 months, that you're not going to talk about
10 certain items that are identified in the
11 notice. It's just not right. I don't think
12 the Court would agree with that either.

13 MR. [REDACTED] Well, I'm here --

14 MR. [REDACTED] How about we take it as we
15 go --

16 MR. [REDACTED] Well, all right. You want
17 to say -- we can go all day, I mean, literally
18 I like Boca Raton a lot. And I'm going to tell
19 you like this, you know, with the telling me
20 what I can't do, I'm here. I'm sitting in this
21 courtroom (sic) looking you in the face and
22 telling you, you're not going to go over the
23 same thing again. You want to see where the
24 questioning takes us, fine. But to tell me
25 what I can and can't do, is just not

1 acceptable. [REDACTED] and [REDACTED] of Puerto
2 Rico is not going to testify about things
3 they've already done. We'll never move the
4 case to conclusion if that's the case, period.

5 Any topical areas of inquiry or not, I've
6 told you from the time we got into this case
7 when we talked about deposing people that have
8 been deposed already, it is common practice,
9 common knowledge and the state of the law that
10 we're not going to go over the same things over
11 and over again.

12 MR. [REDACTED] Okay. I can assure you that
13 not much was covered in the 90 minutes of the
14 prior deposition.

15 MR. [REDACTED] Then we shouldn't have a
16 problem.

17 MR. [REDACTED] We should not have a problem.

18 BY MR. [REDACTED]

19 Q Okay. Let's get started, sir.

20 Are you appearing today as the corporate
21 representative for [REDACTED] Insurance Company of
22 Puerto Rico?

23 A Yes.

24 Q Have you reviewed the topical areas that
25 are identified in the corporate deposition notice?

1 A Yes.

2 Q And are you prepared to speak on the items
3 that are identified as topical areas of inquiry?

4 A To the best of my knowledge.

5 Q Sir, when was [REDACTED] of Puerto Rico
6 formed?

7 A I believe it was [REDACTED]

8 Q And was that a result of a private
9 offering?

10 A It was in anticipation of a -- may have
11 been in anticipation of a private offering. It was
12 to conduct business in Puerto Rico.

13 Q And the question that I'm asking is,
14 whether the private offering that was discussed
15 previously, did that result in the formation of
16 [REDACTED] of Puerto Rico, or did that result in the
17 formation of one of the other entities?

18 A I believe all of the entities were formed
19 in conjunction with that offering. [REDACTED]
20 Insurance [REDACTED] was the one specifically
21 conducting the offering.

22 Q And who are the investors that
23 participated in that offering?

24 MR. [REDACTED] Hold on a second. [REDACTED]
25 what area is that?

1 MR. [REDACTED] This is seed capital.

2 MR. [REDACTED] Which is what?

3 MR. [REDACTED] Formation of seed capital,
4 No. 19.

5 MR. [REDACTED] What was your question?

6 MR. [REDACTED] The question was the
7 formation of the corporation. We heard about a
8 private offering previously. Now I'm asking
9 about investors. We're going to get to who
10 contributed monies, how much money, things of
11 that sort.

12 MR. [REDACTED] All right. I don't see
13 seed capital as an area.

14 MR. [REDACTED] It will be on Page 5 --

15 MR. [REDACTED] Of?

16 MR. [REDACTED] -- of the notice and it's
17 paragraph [REDACTED] of the notice.

18 MR. [REDACTED] Paragraph No. [REDACTED] that I
19 have of [REDACTED] of Puerto Rico says, please be
20 prepared to discuss in detail the amount and
21 source of capital you received to fund
22 operations in Puerto Rico.

23 MR. [REDACTED] That's right.

24 MR. [REDACTED] Okay.

25 MR. [REDACTED] You see the heading for it,

1 it says seed capital.

2 MR. [REDACTED] I got it. Now -- okay.
3 I'll let you go, but let's get -- you know,
4 part of the reason these things go on awhile
5 it's because you keep going around. If this is
6 about -- let's get to the source of the
7 capital.

8 MR. [REDACTED] Absolutely.

9 THE WITNESS: Okay. The only investor in
10 [REDACTED] of Puerto Rico is [REDACTED] Insurance

11 [REDACTED]

12 BY MR. [REDACTED]

13 Q Is that the only investor that resulted
14 from the private offering?

15 A The private offering was for [REDACTED]
16 Insurance [REDACTED]

17 Q There are no other investors as a result
18 of private offering other than [REDACTED] Insurance

19 [REDACTED]

20 A [REDACTED] Insurance [REDACTED] owns a hundred
21 percent of [REDACTED] of Puerto Rico.

22 Q Has [REDACTED] Insurance [REDACTED] always
23 owned a hundred percent of [REDACTED] Puerto Rico?

24 A Yes.

25 Q So, just so I have an answer to that

1 question, there were no other investors --

2 MR. [REDACTED] Objection, asked and
3 answered.

4 BY MR. [REDACTED]

5 Q -- that resulted from the private offering
6 other than Firststate Insurance Holdings?

7 MR. [REDACTED] Objection, asked and
8 answered. He's already said five different
9 ways there are no investors, [REDACTED] was the
10 only owner and there never have been.

11 MR. [REDACTED] I don't know that that's what
12 he said, but, okay. I don't think you got the
13 answer. The objection is made for the record,
14 if that's your answer, that's your answer. You
15 can adopt his answer, although I'll ask in the
16 future that the attorney does not coach the
17 witness and provide answers.

18 BY MR. [REDACTED]

19 Q Do you understand my question, though, the
20 way that I'm asking it?

21 A I believe I answered it. [REDACTED]
22 [REDACTED] Holdings is the sole owner of [REDACTED] of
23 Puerto Rico.

24 Q Who are the investors in [REDACTED]
25 Insurance [REDACTED]

1 A There were numerous shareholders, [REDACTED]
2 [REDACTED] is the largest shareholder.

3 MR. [REDACTED] Are we going to recover
4 this in holdings, too, or are you going to kind
5 of bleed these together?

6 MR. [REDACTED] I'm trying to do it all
7 together, if we can.

8 MR. [REDACTED] All right. That's fine.

9 THE WITNESS: Okay.

10 BY MR. [REDACTED]

11 Q Who else besides [REDACTED] [REDACTED]

12 A I'm a shareholder. Want me to try to
13 guess the names of the people off the top of my
14 head, or what? It may be 20 or 30 people.

15 Q Whatever your knowledge is.

16 A [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] I
17 can't remember. I mean, not shareholders, I don't
18 have -- I never personally met. I don't know
19 their -- recognize their names. If I saw them, but
20 I don't know them off the top of my head.

21 Q I thought you indicated that you were a
22 shareholder?

23 A I said that.

24 Q And you don't recall any other names other
25 than [REDACTED] [REDACTED] and [REDACTED] [REDACTED]

1 A I don't remember them off the top of my
2 head.

3 Q Mr. [REDACTED] is the largest shareholder.
4 Who is the next largest shareholder?

5 A Maybe [REDACTED] [REDACTED]

6 Q Do you know generally what amount or
7 proportion of share they own?

8 A [REDACTED] [REDACTED] probably owns close to 75
9 percent or so of the company.

10 Q What about Mr. [REDACTED]

11 A Probably less than 10 percent.

12 Q What about yourself?

13 A Less than 10 percent, very small
14 percentage.

15 Q What about Mr. [REDACTED]

16 A Small percentage.

17 Q What about shareholders in [REDACTED] by

18 [REDACTED]

19 A [REDACTED] by [REDACTED] is 100 percent owned
20 by [REDACTED] Insurance [REDACTED]

21 Q Okay. So, the only individual investors
22 as relating to these three entities, are the
23 individual investors that are related to [REDACTED]
24 Insurance [REDACTED] is that correct?

25 A Yes.

1 Q What was the amount of capital that was
2 raised as a result of the private offering from the
3 individual investors?

4 A Probably \$255,000 was raised in that
5 offering.

6 Q And did any of that money make it to
7 [REDACTED] of Puerto Rico as seed capital for the
8 operations of [REDACTED] of Puerto Rico?

9 A Yes.

10 Q And what amount of that \$255,000 was seed
11 capital?

12 A I don't know that -- it was -- came
13 directly from the [REDACTED] company to Puerto Rico.
14 It may have gone into the [REDACTED] by [REDACTED] and
15 [REDACTED] then in turn funded Puerto Rico, also
16 [REDACTED] funded Puerto Rico independently of the
17 offering.

18 Q So, to your understanding that [REDACTED]
19 Insurance [REDACTED] receives the \$255,000 investment
20 from the investors and then some of that money makes
21 its way to [REDACTED] of Puerto Rico, either from a
22 direct investment by [REDACTED] Insurance [REDACTED] or
23 perhaps circuitously through Firststate by [REDACTED] or
24 maybe direct investment by Mr. [REDACTED] would that
25 be correct?

1 A Yes.

2 Q Is the direct investment by Mr. [REDACTED]
3 included in the \$255,000 number that you referred
4 to?

5 A When I say [REDACTED] I'm talking about the
6 entity [REDACTED] by [REDACTED] not Mr. [REDACTED]
7 personally.

8 Q Oh, okay. So, the seed capital for
9 [REDACTED] of Puerto Rico came from either of two
10 entities: [REDACTED] Insurance [REDACTED] or [REDACTED]
11 by [REDACTED]

12 A Yes.

13 Q And there were no other contributors of
14 seed capital for [REDACTED] of Puerto Rico?

15 A Correct.

16 Q Was there any subsequent offering that
17 resulted in further investment after that initial
18 private offering?

19 A Yes.

20 Q And what was the amount of investment
21 raised as a result of that offering?

22 A There were 550,000 raised in January 2001.

23 Q Any others?

24 A 250,000 raised in July of 2001.

25 Q And what is the source of those funds; in

1 other words, did that come from the same investor
2 group or were there other investors now and let's
3 talk first about the January 2001 offer?

4 A Different investors.

5 Q And do you recall any of the names for the
6 investors that were part of that offering?

7 A [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] --
8 some name like [REDACTED] And there was another doctor,
9 I can't remember his name.

10 Q And in the July 2001 offering, were those
11 yet another group of investors?

12 A Yes.

13 Q And whose names from that group do you
14 recall?

15 A [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

16 Q Any relation to [REDACTED]

17 A [REDACTED] no, [REDACTED]

18 Q Just [REDACTED] no O?

19 A Right.

20 I think [REDACTED] [REDACTED] I can't remember
21 all of the names.

22 Q Those are the only names you can recall?

23 A At that time, yes.

24 Q Of the individuals that you've identified
25 as investors today, do any of those investors sit on

1 a board of directors for any of the [REDACTED]
2 companies?

3 A No.

4 Q Who is on the board of directors for the
5 [REDACTED] entities?

6 A [REDACTED] [REDACTED] --

7 MR. [REDACTED] Hold on, objection.

8 What's -- how does this cover --

9 MR. [REDACTED] Just going to, you know, the
10 seed capital.

11 MR. [REDACTED] We've already talked about
12 seed capital.

13 MR. [REDACTED] Well, we haven't finished. I
14 mean, if you'd like me to finish it, then I'll
15 talk about it, but I'd like to know who made
16 the decision as to how the money was sent,
17 where it was sent, and things of that sort.

18 MR. [REDACTED] We're on --

19 MR. [REDACTED] It's two questions and I
20 guarantee you it hasn't been covered before.

21 MR. [REDACTED] I understand. I'm just
22 trying to figure out where it is in the notice
23 as well.

24 MR. [REDACTED] Okay. It's foundational and
25 part of this question.

1 MR. [REDACTED] For what? Who the board of
2 directors is?

3 MR. [REDACTED] Sure.

4 MR. [REDACTED] If you want to know about
5 the capital, I think he's given you a list of
6 everybody who's contributed.

7 MR. [REDACTED] No, I understand that. I
8 want to know the contributions and I want to
9 know who made the decisions to contribute and
10 what amounts. I think it's part of the
11 question.

12 MR. [REDACTED] All right. I object. I
13 don't think it is. I'm inclined not to let him
14 answer, but just to move it along and to not
15 get contentious right now, I'll let him answer.

16 BY MR. [REDACTED]

17 Q Who is on the board of directors?

18 A [REDACTED] [REDACTED] and I believe [REDACTED]

19 [REDACTED] is also a director.

20 Q And for which companies are they on the
21 board of directors?

22 A I think they are the directors for all
23 three entities.

24 Q Those are the only two directors?

25 A I think they're the only ones for any of

1 the companies.

2 Q Are they the ones who would make the
3 decision as to how to allocate the investments
4 towards the seed capital for [REDACTED] Puerto Rico?

5 A Yes.

6 Q Of the 550 and the 250 subsequent amounts
7 that were invested, what amounts were then put into
8 seed capital for [REDACTED] Puerto Rico?

9 A Well, again, the money probably came
10 through [REDACTED] and was allocated according to need
11 down in Puerto Rico.

12 Q Okay. So, let me see if I understand this
13 correctly. The 550 and 250 just like with the 255,
14 that money first goes to [REDACTED] Insurance [REDACTED]
15 and then from [REDACTED] Insurance [REDACTED] it's
16 allocated; is that correct?

17 A Correct.

18 Q And some portion of those monies end up in
19 [REDACTED] Puerto Rico; is that correct?

20 A Correct.

21 Q Do you know if all of the investment
22 monies, that would be the total of the 255, the 550,
23 and the 250 all ended up as seed capital to fund the
24 operations of Firststate of Puerto Rico?

25 A I don't know that all of it ended up

1 there.

2 Q Do you know generally what amount or what
3 proportion of the whole made it to [REDACTED] Puerto
4 Rico as seed capital?

5 A Probably the majority of it made it down
6 there, but I can't say specifically exactly how much
7 went down there.

8 Q We're looking at roughly just more than
9 \$1 million in initial investment and subsequent
10 offerings. Is it your understanding that there was
11 \$1 million or roughly that amount that was
12 contributed to [REDACTED] Puerto Rico as seed capital?

13 A I say less than a million dollars, I don't
14 know exactly -- the money flowed back and forth from
15 Boca Raton to Puerto Rico. So, at any one moment in
16 time there would be a different amount of money that
17 was sent to Puerto Rico.

18 Q So, the money wasn't always sent down at
19 once, it came down intermittently?

20 A It came down intermittently and sometimes
21 there might have been funds flowing back from Puerto
22 Rico to Boca Raton.

23 Q Why did the money go down there
24 intermittently? Why didn't it just all go down at
25 once to fund that operation?

1 A Not all the money was needed all at once.

2 Q So, as the money was needed, [REDACTED]
3 Insurance [REDACTED] would send that money to Puerto
4 Rico; is that correct?

5 A More likely [REDACTED] by [REDACTED] would
6 send the money and the shortfall that Puerto Rico
7 required to conduct its operations.

8 Q And how did [REDACTED] Puerto Rico request
9 additional seed capital or additional money to fund
10 the operations?

11 A I don't know if there was a formal
12 request. It would be a recognition that they need
13 \$20,000 this week to fund operations or for this
14 month and the money would be sent down there.

15 Q Is there a debt instrument, or are there
16 shares that are held by the investors that relate to
17 their investment and somehow track the amount of
18 their investment?

19 MR. [REDACTED] Objection. What's the
20 relevance of that?

21 MR. [REDACTED] Well, I'm trying to calculate
22 the amount of seed capital. And what I want to
23 get to is whether or not the seed capital was
24 ever, you know, returned back to the investors,
25 kickback.

1 I mean, we've got all these investors
2 sending this money in for seed capital. A,
3 what I'd like to know is the total amount of
4 that investment. I don't know if I've got an
5 answer, but I know it's something less than a
6 million bucks.

7 What I'd like to know is of that seed
8 capital --

9 MR. [REDACTED] Hold on, let me make sure I
10 understand. You're one, trying to determine
11 the amount. We've talked about three separate
12 offerings.

13 MR. [REDACTED] Yes.

14 MR. [REDACTED] So, you're trying to do
15 what now?

16 MR. [REDACTED] Well, what I'm ultimately
17 trying to discover is the amount that was given
18 to [REDACTED] Puerto Rico to fund its operation
19 as seed capital to start the venture and have
20 the venture operate because --

21 MR. [REDACTED] I don't understand how that
22 relates to any stock certificate, data
23 instrument, whatever.

24 MR. [REDACTED] What I'm trying to learn is
25 these monies that were now sent out of [REDACTED]

1 Puerto Rico, were they to pay back those
2 investors.

3 MR. [REDACTED] I think that's a different
4 question. I don't see how what they held,
5 document, whatever is relevant to that.

6 MR. [REDACTED] I've got to know if there is
7 a return to shareholders or was it a repayment
8 of a debt. I mean, however you want to ask
9 that.

10 MR. [REDACTED] Maybe we ask that question.
11 I think that's a relevant question.

12 BY MR. [REDACTED]

13 Q Of the seed capital that's initially
14 invested in [REDACTED] Puerto Rico, is there a return
15 or some sort of distribution back to the investors?

16 MR. [REDACTED] Hold on, you mean in theory
17 or what happened? I'm confused by the
18 question.

19 MR. [REDACTED] Okay. The coaching needs to
20 stop.

21 MR. [REDACTED] That's not coaching. I
22 don't understand your question.

23 MR. [REDACTED] It is coaching.

24 MR. [REDACTED] Scott, it's not coaching,
25 okay.

1 MR. [REDACTED] No, it is.

2 MR. [REDACTED] I don't understand the
3 question.

4 MR. [REDACTED] It's a stimulus to the
5 witness to provide a certain response.

6 MR. [REDACTED] Okay. I know how you-all
7 wheel and deal down here, I'll tell you if I'm
8 coaching. I'm not coaching. I don't
9 understand the question.

10 I don't know what you're saying, I don't
11 know about the stimulus. I don't know if
12 you're asking him theoretically or actually.
13 It's two different questions. I don't want him
14 answering something and it comes out different
15 on the record. You're saying, is there a
16 return to stockholders. Do you mean was there
17 in fact or in theory these instruments that you
18 just asked?

19 MR. [REDACTED] Okay. I'm trying to ask
20 questions but you're interrupting the
21 deposition.

22 MR. [REDACTED] Well, ask a clear,
23 straightforward question.

24 MR. [REDACTED] I've been asking
25 questions --

1 MR. [REDACTED] I object, don't answer that
2 question. I need clarification. Maybe that's
3 the way to deal with it.

4 MR. [REDACTED] All right. So, the record is
5 clear, are you instructing the witness not to
6 answer a question?

7 MR. [REDACTED] I'm instructing Mr. [REDACTED]
8 not to answer the question until you clarify
9 whether you're asking it theoretically or
10 actually because it's not clear from your
11 question.

12 So, if you can clarify that, I'd be more
13 than happy to have Mr. [REDACTED] answer it. But I
14 don't want Mr. [REDACTED] to answer a question one
15 way when you've asked a different way and the
16 cold transcript doesn't reflect the confusion.

17 MR. [REDACTED] Well, I'm asking his
18 testimony. I'm not asking for your testimony.
19 If the witness does not understand the
20 question, he's more than entitled to tell me I
21 don't understand. And I'll do my best to
22 rephrase the question; however, he can't be
23 instructed, at least in Florida, not to answer
24 a question. That's only on grounds of
25 privilege. The only objection that's proper --

1 MR. [REDACTED] In America this is the
2 fifth time --

3 MR. [REDACTED] -- hold on, I'd like to
4 finish my statement.

5 MR. [REDACTED] -- now in this litigation
6 that you've told me about in Florida. I am
7 admitted pro hoc vice to practice in Florida.
8 As I told you before, it's not my first
9 litigation in Florida. This is not my first
10 case in Florida right now. I'm very familiar
11 with Florida law, okay. I went to a national
12 law school where I learned Florida law, I
13 actually went to litigation school here in
14 Florida, I'm very familiar with Florida. So,
15 the Florida comments need to stop.

16 I am not going to allow Mr. [REDACTED] to
17 answer a confusing question, period.

18 MR. [REDACTED] Okay.

19 MR. [REDACTED] I'm not coaching him, I'm
20 not doing anything. I've asked you to simply
21 clarify whether your question was in theory or
22 were you asking in fact what happened. That's
23 a very simple request. And I'm not coaching
24 him. I'm not trying to coach him. You've made
25 this much bigger than it needs to be.

1 MR. [REDACTED] The only objection, and I
2 don't speak over your discussion when you're
3 making statements for the record, so I'd
4 appreciate that you don't do it over mine.

5 The only objection that you can make for
6 the record is one as to form, okay, that's it.
7 If you want to ask your witness not to answer
8 or to respond to a question, the only ground
9 you can do that for is to protect a privilege,
10 okay.

11 I don't understand what privilege is
12 sought to be protected. So, I don't have a
13 problem so much with your identifying that you
14 don't understand my question, okay. But I do
15 have a problem with your directing the witness
16 not to answer a question because of that. I
17 think it's improper, and I think it's
18 objectionable and I think it's something that
19 the Court would have to rule upon. So, it
20 should not continue.

21 Now, if Mr. [REDACTED] doesn't understand the
22 question, I'm more than willing to accept that
23 statement and reask it.

24 BY MR. [REDACTED]

25 Q You know, you bring up an interesting

1 point that if it's going to help the witness
2 understand the question, I'll ask you first in
3 theory, how were these investors to be repaid for
4 this investment of seed capital?

5 A Okay. In theory they were to be paid back
6 over time. They invested in a debt instrument and
7 they were going to be paid back their debt.

8 Q So, there was a debt instrument that they
9 were investing in as opposed to shares in the
10 corporation, equity?

11 A Depends on the -- which offering you're
12 talking about.

13 Q So, certain of the offerings were equity
14 offerings, other offerings were debt offerings; is
15 that correct?

16 A Yes.

17 Q Now, in reality or in actuality were the
18 investors repaid any of this investment that was
19 used as seed capital?

20 MR. [REDACTED] Hold on. Actually, we need
21 to take a break. [REDACTED] let me talk to you
22 outside.

23 (A short break was taken.)

24 MR. [REDACTED] I'm sorry, you can go
25 ahead, [REDACTED]

1 MR. [REDACTED] Okay.

2 (The requested portion of testimony was
3 read back by the court reporter.)

4 THE WITNESS: Approximately \$20,000 was
5 repaid to investors and that was the extent of
6 the repayment.

7 BY MR. [REDACTED]

8 Q Is it your testimony that \$20,000 was
9 returned from [REDACTED] of Puerto Rico to the
10 investors, or did that \$20,000 originate or source
11 fund another one of the entities?

12 A It would have been directly paid from
13 [REDACTED] Insurance [REDACTED]

14 Q I guess what I'm trying to get to, you
15 have this amount that is unknown, but we know it's
16 less than a million dollars that was used as seed
17 capital to start and fund the venture in Puerto
18 Rico.

19 MR. [REDACTED] Let me object to the form
20 of the question. You say we know it's less
21 than a million dollars. I don't know if that's
22 a correct characterization of testimony.

23 BY MR. [REDACTED]

24 Q Okay. Did you testify previously that
25 there was approximately a million dollars that was

1 raised as investment monies and that some amount of
2 that million dollars went to [REDACTED] Puerto Rico's
3 operations?

4 A Correct.

5 Q Okay. Can you put a number on what amount
6 of that initial seed capital was then returned to
7 investors?

8 A Of the million dollars only 20,000 was
9 returned.

10 Q Now, you indicated that it was returned by
11 [REDACTED] Insurance [REDACTED] What -- was the
12 \$20,000 then also sent from [REDACTED] Puerto Rico to
13 [REDACTED] Insurance [REDACTED] to make that payment?

14 A I don't know if it came directly from
15 Puerto Rico or it could have come from [REDACTED]
16 The funds were -- would go back and forth from Boca
17 to Puerto Rico. So, characterizing as only coming
18 from Puerto Rico or only Boca would be a guess or --

19 MR. [REDACTED] Hold on. And I think the
20 record needs to be clear.

21 Mr. [REDACTED] when you just said from
22 [REDACTED] did you mean [REDACTED]
23 individually?

24 THE WITNESS: From the company.

25 MR. [REDACTED] Company [REDACTED] by

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[REDACTED]

THE WITNESS: Yes.

MR. [REDACTED] Let's be clear when we say [REDACTED] because that could be [REDACTED] [REDACTED] that could be [REDACTED] [REDACTED] personally. If you're -- when we -- don't say -- let's be clear when we talk so we're all talking about the same. Because we have that confusion earlier when he said [REDACTED] and you thought it was [REDACTED] [REDACTED] personally. So, let's be clear.

THE WITNESS: Okay.

BY MR. [REDACTED]

Q Why was only \$20,000 returned back to investors?

A Because [REDACTED] shut us down the month -- the next month, following month after the first 20,000 was sent to the investors.

Q So, is the testimony then of the corporation that [REDACTED] Puerto Rico did not throw off enough funds in order to send that money back to investors for the seed capital?

MR. [REDACTED] Objection, asked and answered. I think he just answered the question.

1 THE WITNESS: Our operation was shut down
2 in Puerto Rico when [REDACTED] unilaterally
3 terminated our agreement.

4 BY MR. [REDACTED]

5 Q I understand that the operation was shut
6 down, but what I'm trying to get to is beyond that,
7 that's the result that it shut down, but is that
8 also the cause for why there wasn't more than
9 \$20,000 to return to investors? Are you saying that
10 the operations in Puerto Rico used up all that one
11 million dollars --

12 MR. [REDACTED] Objection, that's compound.

13 I think you asked two questions. You said, was
14 that also the result and then you asked
15 something else. So, let's break that down.

16 BY MR. [REDACTED]

17 Q Well, very good. Let me break that down,
18 let me actually ask that second question first.

19 Are you testifying that the \$1 million or
20 approximate amount of seed capital sent to Puerto
21 Rico was utilized in the Puerto Rico venture such
22 that there wasn't anything left other than the
23 \$20,000 that was returned to the investors at the
24 time of the termination?

25 A Okay. The \$20,000 was returned to the

1 investors prior to being shut down. [REDACTED] of
2 Puerto Rico was generating positive cash flow at
3 this moment in time and was expected to repay the
4 investors their amount of money they had advanced.

5 We could not do that because [REDACTED] shut us
6 down. So, there was no cash flow anymore to pay
7 back the investors.

8 Q What happened to the entire other amount,
9 and let's use an approximation. If \$1 million is
10 sent down and \$20,000 is sent back, what happened
11 to the other \$980,000 approximate amount of
12 investment?

13 A The majority of that money was used to
14 establish the operation in Puerto Rico.

15 Q You said the majority of that was used for
16 operations. Would there be some other use for that
17 investment money other than operations in Puerto
18 Rico?

19 A Some of it may have been used in Boca
20 Raton. I can't say specifically where the money was
21 used.

22 Q I'm talking about the monies sent to
23 [REDACTED] Puerto Rico for seed capital and funding of
24 operations. Is it your testimony that some of that
25 money that was then used by -- used for the Boca

1 Raton entity for some sort of operations?

2 A As I said before, the money in Puerto Rico
3 and -- money flowed from Puerto Rico to Boca Raton
4 and Boca Raton to Puerto Rico. So, at any one point
5 in time there would be -- money would be used for
6 either Puerto Rico or Boca Raton. It wasn't just a
7 one time the money flowed to Puerto Rico and it was
8 used. The money would flow back and forth.

9 Q What were the Boca Raton operations and
10 how are they related to the [REDACTED] Puerto Rico
11 operations?

12 MR. [REDACTED] Compound or --

13 MR. [REDACTED] Well, it is compound, and I
14 think we need to be clear what we're talking
15 about. Because we're using [REDACTED] and that's
16 not you, that's the witness. We're using Boca
17 Raton, we're using -- you know, we need to be
18 very clear which companies we're talking about.

19 BY MR. [REDACTED]

20 Q When you say Boca Raton, are you referring
21 to a specific entity?

22 A [REDACTED] by [REDACTED]

23 Q Of the monies that were sent from Puerto
24 Rico to [REDACTED] by [REDACTED] what were those monies
25 sent for?

1 A Some of the funds that were used to
2 advance the operations in Puerto Rico were paid by
3 [REDACTED] to people that may have been working out of
4 the Boca Raton office.

5 Q So, these monies sent to [REDACTED] by
6 [REDACTED] were to fund operations that related to the
7 Puerto Rico business; is that correct?

8 A Yes.

9 Q So, these would be office salaries, admin
10 types of expenses, things that facilitated the
11 service contract business of [REDACTED] Puerto Rico?

12 A Yes.

13 Q And all of the investment but for the
14 \$20,000 that were returned to investors was consumed
15 in relation to the service contract business in
16 Puerto Rico?

17 A I don't know that all of it was consumed
18 by Puerto Rico. Some of it may have been consumed
19 by Boca Raton as well.

20 MR. [REDACTED] Hold on --

21 MR. [REDACTED] Well --

22 MR. [REDACTED] -- [REDACTED] and let's go off the
23 record.

24 (Discussion off the record.)

25

1 BY MR. [REDACTED]

2 Q I believe the question was, the
3 approximate \$980,000 then -- strike that.

4 So, is it your testimony then that of the
5 entire investment the amount that was not returned
6 to investors, that being the \$20,000 that you spoke
7 of, the remainder was utilized and consumed by the
8 operations that related to the Puerto Rico service
9 contract business?

10 A It may have been Puerto Rico service
11 contract business as well as Boca Raton. I don't
12 have the breakdown as to how much was consumed by
13 one party versus the other.

14 Q But when you say Boca Raton, you're still
15 talking about [REDACTED] by [REDACTED] is that correct?

16 A Correct.

17 Q And also when you say Boca Raton, and you
18 discussed [REDACTED] by [REDACTED] you're talking about
19 the efforts of [REDACTED] by [REDACTED] to facilitate
20 the Puerto Rico service contract business; is that
21 right?

22 A Yes. Would you like me to try to clarify?

23 Q Yes, please.

24 A I'll give you a general overview.

25 The money came into [REDACTED] Insurance

1 [REDACTED] that money went to [REDACTED] and Puerto
2 Rico. Most of it went via [REDACTED] to Puerto Rico.
3 In addition to the money that was raised from the
4 individual investors, [REDACTED] by [REDACTED] also
5 contributed money to Puerto Rico.

6 And even as of today and as of the
7 termination, [REDACTED] of Puerto Rico still owed
8 [REDACTED] by [REDACTED] significant amounts of money,
9 somewhere around \$300,000. So, the company
10 accounted for the flows between [REDACTED] by [REDACTED]
11 and [REDACTED] Puerto Rico through intercompany
12 accounts, and sometimes they went up, sometimes they
13 went down in order to meet cash flows for either
14 Boca Raton or Puerto Rico.

15 So, you can't just say it wasn't a clean
16 line the money just came, it went to Puerto Rico and
17 was spent in Puerto Rico. I mean, additional
18 complications is that some of the activities in Boca
19 Raton was conducted on behalf of Puerto Rico. And
20 that was accounted for in this intercompany account.
21 If the money was spent by Boca Raton, then it would
22 be charged to Puerto Rico for operations conducted
23 on behalf of Puerto Rico.

24 Q Did you indicate that in addition to the
25 investment monies that were raised that was a result

1 of the private offering, there were additional
2 monies that were invested by [REDACTED] by [REDACTED]

3 A Yes.

4 Q Do you know what those amounts were?

5 A Well, all I know is the net amount is
6 around 300,000 from [REDACTED] -- [REDACTED] by [REDACTED]
7 into [REDACTED] Puerto Rico.

8 Q And that's in addition to the roughly \$1
9 million raised from the private offerings?

10 A I don't know exactly where the \$300,000
11 came from. If some of it may have come from the
12 investors, or if it was in addition, but I know
13 [REDACTED] and [REDACTED] [REDACTED] personally also contributed
14 money at different points in time and it may have
15 come in in form of loans to [REDACTED] or -- I don't
16 know the exact mechanism, but that money was also
17 used to go to Puerto Rico as well.

18 Q So, then is it your testimony that the
19 total amount of seed capital and investment to fund
20 the operations of Puerto Rico totaled roughly \$1.3
21 million?

22 A It's hard to quantify exactly what that
23 number would be, as I said because the money flowed
24 back and forth, but a million dollars, somewhere in
25 that range would probably be accurate.