Lawyers' cut in 38 Studios bond sale was $545,650

By KATHERINE GREGG
JOURNAL STATE HOUSE BUREAU

PROVIDENCE — A gaggle of lawyers from Cranston to Los Angeles — including a former Rhode Island lieutenant governor — shared close to $545,650 in payments from the state-backed sale of $75 million in taxable revenue bonds for former Red Sox pitcher Curt Schilling's collapsed video-game venture, 38 Studios.

The local payments from the 2010 bond sale included $124,790 to Adler Pollock & Sheehan, as legal counsel to the Rhode Island Economic Development Corporation; $36,990 to Taft & McSally as the state's disclosure counsel; $120,620 to First Southwest Company as financial adviser to the EDC; $190,000 to Moses & Afonso as bond counsel to the EDC; and a $12,250 "partial payment" to Pannone Lopes Devereaux & West as local counsel to the "placement agent."

The lawyers involved in the bond sale approved by the EDC when Republican Gov. Donald Carcieri chaired the board included: former Republican Lt. Gov. Bernard Jackvony at Pannone Lopes Devereaux & West, according to recently released EDC documents.

At Taft & McSally, they included Robert Murray, a chief of staff to another former Republican governor, Edward D. DiPrete.

At Adler Pollock, they include the EDC's longtime legal adviser, Robert Stolzman, and at Moses & Afonso, lawyers Antonio Afonso Jr. and Paul M. Harley.

Another $58,324 went to Sheppard Mullin Richter & Hampton in Los Angeles as "special intellectual property counsel" to the EDC, and $2,500 to Bernstein Shur in Portland, Maine, as counsel to the trustee, according to information provided in recent days by the EDC.

Newly released documents name other law firms involved in the sale of the $75-million bond, but it is not yet clear how much they were paid, by whom, and from which pool of money. They include lawyer Ellen Corneau at Edwards Angell Palmer & Dodge as "special counsel" to the "obligors and guarantors" who, in this case, include 38 Studios, 38 Studios Baltimore, Mercury Project and a "Special IP Subsidiary."

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TUDIOS | THE NEXT STEP

hafee turns to forensic audit to get answers

rnor says a key question is how much founder Schilling has put up of his own money

y **KATE BRAMSON**
OURNAL STAFF WRITER
ATHERINE GREGG
NAL STATE HOUSE BUREAU

OVIDENCE — Gover-
hafee is seeking a foren-
idit of Curt Schilling's
game company, which
ted on a $75-million
agreement when it laid
early 300 employees
day without notifying
ate.
e just want to know ev-
erything possible," Chafee told about 30 reporters at the State House. "The taxpayers have tens of millions of dollars invested in this company. It has been difficult to get answers from them. We want to know everything possible about what happened to every penny of [those] taxpayer dollars."

The company's lack of

SEE **38 STUDIOS, A2**

THE PROVIDENCE JOURNAL / **STEVE SZYDLOWSKI**

At 38 Studios, a sign referring to founder Curt Schilling and a state Labor Department worker greet laid-off workers Friday.

Laid-off workers get help from state, video-game industry

By **ANDY SMITH**
JOURNAL STAFF WRITER

PROVIDENCE — A day after mass layoffs at 38 Studios, Curt Schilling's financially troubled video-game company, the state and the game industry both reached out to its former employees.

At 38 Studios headquarters at One Empire Plaza in downtown Providence, perhaps 50 employees entered the building Friday morning as the state's Department of Labor and Training sent a team to explain unemployment insurance and other benefits.

SEE **WORKERS, A2**

OVER

HOOLS | SAFETY

WOONSOCKET

R.I. says yes to sale of

3 TUDIOS

ıtinued from A1

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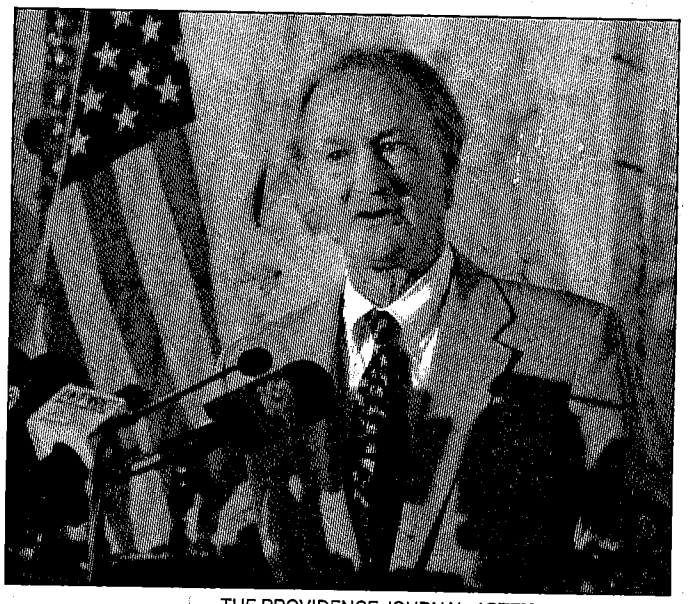
nunication about its lay- ɔiolated 38 Studios' loan ɜment with the state and he company in default second time this month, ɜe said. That default also ɜs the company ineligi- ɔr $8.4 million in state ax credits it's seeking ɔduction work done last ɔn its video game, "King- of Amalur: Reckoning." rthermore, Chafee said l not know that Keith W. ɜs, the former executive ɔr of the Rhode Island ɔmic Development Cor- ion, had signed a docu- last August waiving a ɜement that 38 Studios' ɜt monitor, IBM, provide DC with detailed written ɜs on the company's fi- al and project mile- lid not know, and I as- the board did not about that action, said e, who chairs the EDC's "From what I under- from [the] EDC, that protect sensitive infor- ı from being on printed that might be lying l the office. That was ɜplanation I heard on

ɔre Chafee took office ɜppointed four new



THE PROVIDENCE JOURNAL / **STEVE SZYDLOWSKI**

Governor Chafee at a news conference Friday: "We just want to know everything possible" about 38 Studios' situation.

inception of the idea of the state getting involved in this industry," Chafee said. "Right now we've really focused our energies on every effort to get 38 Studios solvent, and to deal with the employees. There will be plenty of time for that look back. August of 2011 was a while ago."

Asked whether he's relying on the state police to secure the company's financial records, Chafee replied, "We are talking to everybody."

Reached on Friday night, Rhode Island State Police Col. Steven G. O'Donnell said the state police have had many conversations with the governor's staff about 38 Studios and that they've been "monitoring 38 Studios very closely" for the last several weeks.

we proceed, we will make sure that all records are secure."

When asked whether he had reason to believe anything criminal had happened, Chafee replied, "Not yet ... but we are [taking] every avenue to protect the taxpayer dollars. I hope that doesn't occur. I really do."

Chafee said he's relied on Providence lawyer Jonathan Savage, an unpaid adviser, to communicate with 38 Studios executives in recent days. Savage is "brainstorming" with company executives, the governor said, about ways to find outside investors that might pump money into the company. The governor has said the crux of the company's troubles is that it has been unable to secure the next round of investment it tails about its financial status.

38 Studios executives have declined comment.

"We are still trying to ascertain exactly how much of his own money has been invested," Chafee said of Schilling. "We hear different things. And what we hear is different from what we can so far document. That's why this audit is so important."

Last week, EDC legal counsel David M. Gilden said the corporation had only received oral reports from IBM. The document Stokes signed last August allowed IBM to provide the EDC with oral briefings only, though the EDC could still request more detailed information.

Asked Friday whether the EDC has sought written documentation, Chafee replied, "I don't know the answer to that."

Chafee has not announced a successor to Stokes.

Conversations between Chafee and EDC board members continue, after vice chairwoman Helena B. Foulkes resigned Thursday.

Chafee said he told three others whose terms expired in February that he intends to replace them.

One of them, Rhode Island AFL-CIO President George Nee, who voted for the deal in 2010, has acknowledged that Chafee asked him on Wednesday to resign, linking the request to his 2010 vote to approve the loan guarantee.

"He said that it would be better to have a clean slate," Nee said. "... He just said that it was a bad decision."

GRADUATIONS 2012

St. Andrew's School

St. Andrew's School in Barrington will graduate 40 students in its ceremonies at 11 a.m. Saturday on the school's Buckley-Henius Quad. The school does not rank students, and there is no valedictorian or salutatorian. Instead, the faculty, administration and staff select a King Medalist based on academic effort, leadership, responsibility, citizenship, improvement and ability to stand on his or her own feet. The King Medalist will be announced at commencement. The senior class this year selected Edesia as its annual charity. Edesia is a Providence-based nonprofit that produces ready-to-use foods for malnourished children around the world. St. Andrew's School will be contributing $3,000 to Edesia. The list of graduates can be found at: www.standrews-ri.org/page.aspx?pid=736

Immaculate Conception Academy

Bishop Emeritus of Providence the Most Rev. Louis E. Gelineau will preside over a Mass Saturday for the 14 graduates of Immaculate Conception Academy at the school at 4780 Tower Hill Rd., South Kingstown. The Mass will begin at 10 a.m. followed by a commencement ceremony. The valedictorian is Margaret Antonio. There is no salutatorian.

NEW ENGLAND DIGEST

Pilgrim nuclear plant gets new license

BOSTON — The Nuclear Regulatory Commission approved the renewal of the Pilgrim Nuclear Power Station's operating license for another 20 years, the agency announced Friday, despite objections from Governor Patrick.

The commission voted 3 to 1 to authorize staff to renew the license before June 8, when the original 40-year license of the Plymouth, Mass., facility was set to expire.

Patrick and other officials had called on the NRC to hold off until all safety and environmental contentions had been resolved.

Boston Archdiocese places priest on leave

FALMOUTH, Mass. — A Cape Cod priest who pleaded no contest seven years ago to embezzling $135,000 from his former parish has been placed on leave after a child sex-abuse allegation.

The Boston Archdiocese said Friday that it has removed

ble for $8.4 million in state film-tax credits it's seeking for production work done last year on its video game, "Kingdoms of Amalur: Reckoning."

Furthermore, Chafee said he did not know that Keith W. Stokes, the former executive director of the Rhode Island Economic Development Corporation, had signed a document last August waiving a requirement that 38 Studios' project monitor, IBM, provide the EDC with detailed written reports on the company's financial and project milestones.

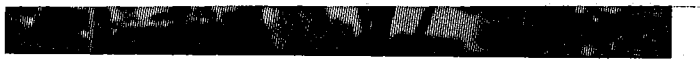
"I did not know, and I assume the board did not know" about that action, said Chafee, who chairs the EDC's board. "From what I understand from [the] EDC, that was to protect sensitive information from being on printed papers that might be lying around the office. That was the explanation I heard on that."

Before Chafee took office and appointed four new board members, the board in 2010 approved the controversial $75-million loan guarantee that lured Schilling's company from Massachusetts to Providence.

Stokes, a key architect of the loan guarantee, resigned May 16. He did not return a call from The Providence Journal on Friday.

Chafee was in office last August when Stokes signed that letter, but he would not say whether he thought Stokes' action was a mistake.

"There is going to be so much scrutiny on everything that happened right from the inception of the idea of the state getting involved in this industry," Chafee said. "Right now we've really focused our energies on every effort to get 38 Studios solvent, and to deal with the employees. There will be plenty of time for that look back. August of 2011 was a while ago."



THE PROVIDENCE JOURNAL / **STEVE SZYDLOWSKI**

Governor Chafee at a news conference Friday: "We just want to know everything possible" about 38 Studios' situation.

Asked whether he's relying on the state police to secure the company's financial records, Chafee replied, "We are talking to everybody."

Reached on Friday night, Rhode Island State Police Col. Steven G. O'Donnell said the state police have had many conversations with the governor's staff about 38 Studios and that they've been "monitoring 38 Studios very closely" for the last several weeks.

He declined comment on whether the police have secured the company's financial documents, but he said there was no official investigation of the company.

"We're monitoring all the dynamics of 38 Studios, and when the time's right, if a criminal investigation is warranted, we'll turn that page," O'Donnell said.

Chafee would not say what the state was doing to secure the company's financial records.

"We have the confidence that we are in good shape right now," he said. "And as we proceed, we will make sure that all records are secure."

When asked whether he had reason to believe anything criminal had happened, Chafee replied, "Not yet ... but we are [taking] every avenue to protect the taxpayer dollars. I hope that doesn't occur. I really do."

Chafee said he's relied on Providence lawyer Jonathan Savage, an unpaid adviser, to communicate with 38 Studios executives in recent days. Savage is "brainstorming" with company executives, the governor said, about ways to find outside investors that might pump money into the company. The governor has said the crux of the company's troubles is that it has been unable to secure the next round of investment it needs to continue work on the multiplayer online game it was developing with the $47.4 million in loan money it has received.

"It's a difficult industry, and we are not optimistic, but we are still working on it," Chafee said. "... In fact, I am very pessimistic."

Many questions remain unanswered, in part because the EDC and Chafee have met for hours behind closed doors with Schilling and his team. But also, Chafee says, because the company has not been forthcoming with briefings only, though the EDC could still request more detailed information.

Asked Friday whether the EDC has sought written documentation, Chafee replied, "I don't know the answer to that."

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Conversations between Chafee and EDC board members continue, after vice chairwoman Helena B. Foulkes resigned Thursday.

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One of them, Rhode Island AFL-CIO President George Nee, who voted for the deal in 2010, has acknowledged that Chafee asked him on Wednesday to resign, linking the request to his 2010 vote to approve the loan guarantee.

"He said that it would be better to have a clean slate," Nee said. "... He just said that it was a bad decision."

But Nee said he called the governor Friday to say: "I will not resign from the board."

On Friday, Chafee recalled saying during his campaign for office that board members might be liable for the decision to grant Schilling the loan deal.

"That wasn't a popular statement to make," he said. "And I knew when I made it [that] it wouldn't be a popular statement to make. ... But I felt that strongly about this."

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Immaculate Conception Academy

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his former parish has been placed on leave after a
sex-abuse allegation.

The Boston Archdiocese said Friday that it has r
the Rev. Joseph Byrne from public ministry pendir
investigation.

The archdiocese said the new allegation against
dates to the early 1970s, but was just recently repo

Fall River child who fell from third floor

FALL RIVER — A Fall River toddler who fell fro
third-floor window earlier this week has died.

A spokesman for the Bristol County district atto
office said the 26-month-old girl died Friday at Has
Children's Hospital. His office is not releasing her

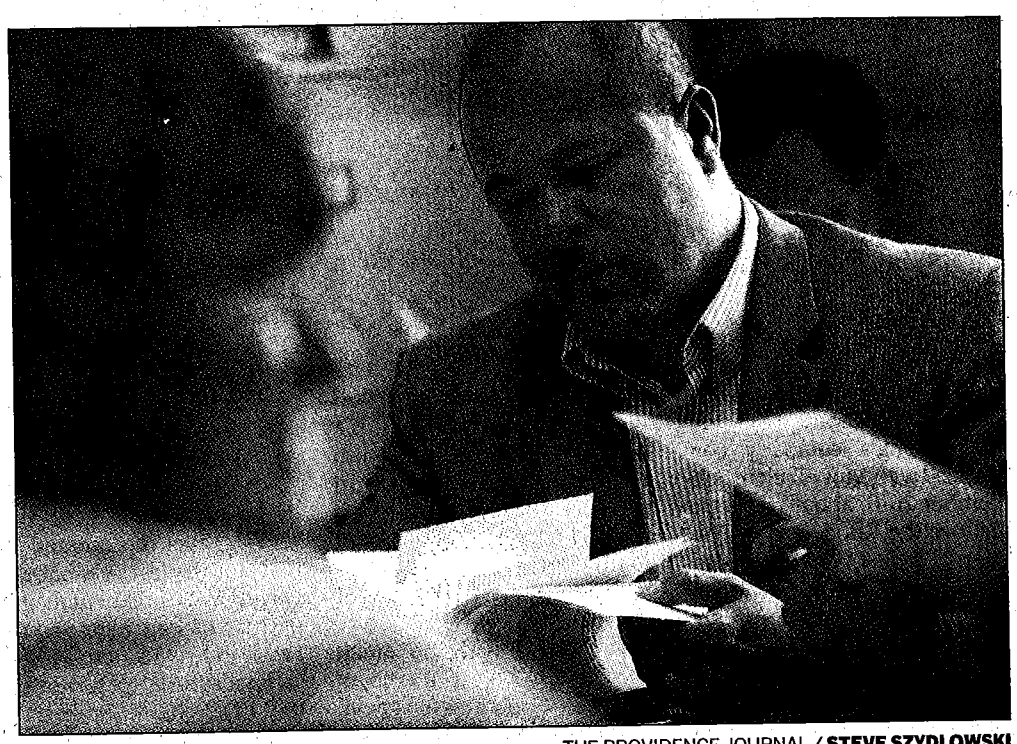
Police say there's no evidence the death was sus

COMPILED FROM THE ASSOCIATE

EAST GREENWICH

3 face charges in burgla

House plan gets Senate panel OK



THE PROVIDENCE JOURNAL / **STEVE SZYDLOWSKI**

Sen. Juan Pichardo, a member of the Senate Finance Committee, looks over the budget passed by the House of Representatives early Friday morning after last-minute debate.

New tolls, taxes included in proposal

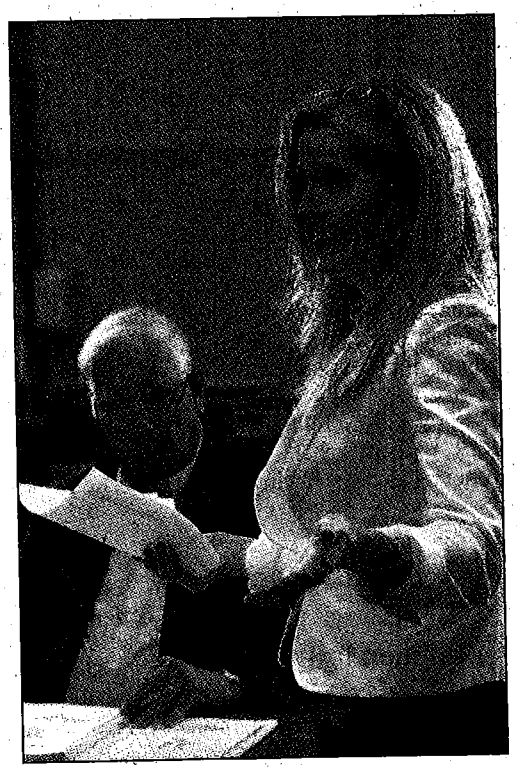
By RANDAL EDGAR, KATHERINE GREGG and PHILIP MARCELO
JOURNAL STATE HOUSE BUREAU

PROVIDENCE

An $8.1-billion state budget that expands the sales tax, hikes the cigarette tax and opens the door to tolls on the Sakonnet River bridge moved one step closer to passage Friday despite complaints that the tolls and taxes will send shoppers and tax dollars to neighboring Massachusetts.

Senate Finance Committee members voted 8 to 0, with one abstention, to recommend passage of the proposed budget, which also recasts the state's education hierarchy by creating a single new 11-member committee to oversee elementary, secondary and higher education.

Committee members needed all of about 40 minutes to discuss the tax and spending plan — approved by the House about 12 hours earlier after a marathon session that began Thursday afternoon and ended at 3:38 a.m. Friday morning.



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isabilities.

Public TV: Continues
financing for Rhode
Island PBS.

Bond questions: $209
million in bonds to be
decided on the No-
vember ballot, in-
cluding $50 million for
modernization of
Rhode Island College;
$94 million for new
Veterans Home; $25
million for affordable
housing; $20 million
for clean water; and
$20 million for open
space and recreation.

WHAT'S NEXT?

R.I. Budget

Full Senate debates
and votes Monday.
Session begins at 4
p.m. After passage,
budget goes to Gover-
nor Chafee, who can
sign, veto or let it be-

AME OVER

38 STUDIOS

"Kingdoms of Amalur: Reckoning" was the only video game from 38 Studios.

U.S., R.I. investigators probe bond, loan deals

THE PROVIDENCE JOURNAL / **BOB THAYER**

July 26, 2010: Curt Schilling, right, and former Gov. Donald L. Carcieri appear shortly after the EDC approves a $75-million loan guarantee for 38 Studios.

The rise and fall of 38 Studios in Rhode Island

Stokes

Fox

Corso

Chapter 7 filing shows company owes $151 million, has $21 million in assets; state may be on hook for millions

By **MIKE STANTON** and **KATE BRAMSON**
JOURNAL STAFF WRITERS

PROVIDENCE — The dream of former baseball star Curt Schilling and Rhode Island politicians to build a video-game empire in Providence came to a crushing end Thursday, as 38 Studios declared bankruptcy and the Rhode Island State Police and FBI confirmed that they are investigating the company.

Four weeks of public turmoil that saw the company's troubled finances exposed and its 400 workers laid off — including 291 in Providence — ended shortly past noon, with a Chapter 7 bankruptcy filing in Delaware.

Unable to find a financial savior, Schilling's company

SEE **BANKRUPT, A10**

Taxpayers are on the

Mass.

March 10: House Speaker Gordon Fox tells Keith Stokes, the Economic Development Corporation's executive director, that Schilling's company is interested in moving from Maynard, Mass., to Rhode Island. Carcieri tells Stokes the same thing.

March 16: Schilling and 38 Studios board member Tom Zaccaghino meet with Stokes and Fox in the office of Providence attorney Michael Corso, who is working for 38 Studios.

March 22: Schilling and Zaccaghino meet with Stokes, J. Michael Saul, the EDC's finance director at the time, and EDC attorney Rob Stolzman.

March 24: The Providence Journal reports Schilling is interested in moving company from Maynard, Mass., to Rhode Island.

May 19: Rep. Steven Costantino moves EDC loan guarantee program into a separate bill.

May 25: House passes Costantino's bill.

June 11: Carcieri signs into law Assembly approved bill authorizing EDC to guarantee up to $125 million in economic development bonds.

June 14: EDC directors vote preliminary approval of a $75 million loan guarantee for 38 Studios.

July 26: EDC board grants final approval of 38 Studios loan guarantee. Schilling's firm promises to create 450 jobs.

July 27: During a radio interview, gubernatorial candidate Lincoln Chafee criticizes loan guarantee and imagines Schilling's famous bloody sock.

July 28: During a radio interview, Schilling defends transaction.

AP / CHARLES KRUPA

Schilling's bloody sock became famous during the 2004 World Series.

SEE **TIMELINE, A11**

State is exploring ways to lower the millions in principal and interest due on EDC bonds

By **PAUL GRIMALDI**
JOURNAL STAFF WRITER

Curt Schilling's star-crossed partnership with the Rhode Island Economic Development Corporation left behind bills running to the tens of millions of dollars that somebody has to pay.

In large part, that will be the state's taxpayers.

The largest bill is for the $75 million in bonds the EDC sold in 2010 to raise money to attract 38 Studios from Maynard, Mass., to Providence. Just like any borrowing, bonds come with a face amount — in this case, that $75 million — and interest payments.

The original principal and interest payments totaled $112.6 million. The tab now stands at up to $102 million,

SEE **TAXPAYERS, A10**

FURNITURE & MATTRESSES
42-W. WARWICK, RI Exit 8 off

ee names Crowley serve on EDC board

Owner of La Forge Restaurant will replace Alison Vareika, whose nod stirred criticism

PROVIDENCE — Governor Chafee is nominating Peter Crowley, the longtime owner of Newport's La Forge Casino Restaurant, as a replacement for one of his earlier nominees to serve on the board of the Rhode Island Economic Development Corporation.

The governor's move came after Alison Vareika, the founding co-owner of William Vareika Fine Arts — located in the same Newport block as Crowley's restaurant — withdrew her name from consideration because of criticism that her service would have been a potential conflict of interest. Her son, Christian Vareika, is the governor's deputy communications director.

In naming Crowley as her replacement on Thursday, Chafee said the restaurant owner "knows how valuable tourism and hospitality are to the Rhode Island economy" and would add an Aquidneck Island perspective to the board.

RICHARD C. DUJARDIN

TIMELINE Continued from A1

The rise and fall of 38 Studios

Sept. 18: EDC says Schilling's video-game company won't be able to use money backed by the loan guarantee to receive state tax benefits, specifically the film-tax credit.

Sept. 23: 38 Studios announces it has picked a location, One Empire Plaza, in downtown Providence. Bond-rating agencies Moody's and Standard & Poor's issue favorable ratings for the bonds underpinning the $75-million loan guarantee.

Oct. 12: 38 Studios reveals a few details of its upcoming game, "Kingdoms of Amalur: Reckoning."

Oct. 18: Gina M. Raimondo, then a candidate for state treasurer, calls the deal "as high risk a venture as you can find." A venture capitalist, Raimondo said her colleagues in the Boston area "looked at the deal and decided to pass."

Nov. 2: Bond sale completed; 38 Studios receives first $13-million installment. Stokes calls it "catalytic economic development."

2011

March 14: Schilling offers a glimpse of 38 Studios' first game, "Kingdoms of Amalur: Reckoning," at a conference at the Boston Convention and Exhibition Center.

April 8: 38 Studios starts moving into its new Providence headquarters.

Nov. 1: First scheduled payment made to bondholders from reserve fund raised as part of bond sale.

Nov. 8: EDC releases final installment of $1.38 million to 38 Studios.

2012

January and February: Film-tax credit broker Michael Corso borrows $8.5 million from Bank RI, secured by

Nov. 8: EDC releases
38 Studios.

2012

January and February: Film-tax credit broker Michael Corso borrows $8.5 million from Bank RI, secured by 3,200 gold coins owned by Schilling and $14.3 million in tax credits that 38 Studios expected, but never received.

Feb 7: About 150 people are on hand to meet Schilling at a video-game store in Bellingham, Mass., at midnight when "Kingdoms of Amalur: Reckoning" goes on sale for $59.95. The game receives positive reviews.

March 10: Sales of "Reckoning" among top five video games, according to a market research firm.

April: Chafee, summoned to a meeting at 38 Studios' downtown offices, learns the company is on the ropes. "They were tapped out," Chafee says later. "They needed further help from the state. We came out of there stunned."

May 1: 38 Studios defaults on loan by failing to make a $1.1-million loan-guarantee payment to the EDC.

May 14: After meeting with 38 Studios executives and EDC officials, Chafee says they're reviewing "all the financials." What's at stake, he said, is "keeping 38 Studios solvent."

May 15: Chafee calls emergency EDC board meeting to discuss 38 Studios' situation.

May 16: Schilling appears at EDC meeting to ask for immediate vote on forgiving loan-fee-payment default and expediting film-tax credits. "They said they needed some sort of help from the state that day or they would have to close their doors," Chafee says later, adding state needs more financial information.

May 17: Stokes' resignation made public; Chafee searches for successor. 38 Studios delivers $1.1 million loan-fee check to EDC, but then calls and says company has insufficient funds to cover the check.

May 18: 38 Studios makes $1.1 million payment, curing its loan default.

May 21: EDC Deputy Director William J. Parsons oversees day-to-day operations in wake of Stokes' resignation.

May 22: 38 Studios employees among 300 applicants at video-game company job fair at Hotel Providence.

May 23: Chafee says that 38 Studios has not received outside investment or millions in tax credits, that communicating with the company has been "frustrating" and "difficult," and that game-industry insiders had describe the company's first video game as "an abject failure."

May 24: 38 Studios lays off its entire work force, including nearly 300 in Rhode Island.

May 25: State officials reach out to laid-off 38 Studios employees to help with unemployment and health-insurance issues, while video-game companies begin interviewing the displaced workers.

May 25: Chafee seeks forensic audit of 38 Studios.

May 27 and 28: In exclusive Providence Journal interviews, Schilling blames collapse of his company on state reneging on film-tax-credit promises and on "devastating" remarks Chafee made about health of 38 Studios.

May 29: Chafee denies his remarks scared off potential private investors in 38 Studios.

May 30: Chafee announces teams of state-appointed auditors have begun forensic audit of 38 Studios.

June 2: Moody's Investors Service affirms its A2 rating on the bonds sold by EDC to back 38 Studios and says a shutdown of the company would not affect how it rates the debt.

June 4: Chafee asks director of the state's Department of Business Regulation, Paul E. McGreevy, to help reorganize EDC.

June 6: 38 Studios and three affiliates file for bankruptcy to liquidate the companies.

By KATE BRAMSON
and LYNN ARDITI
JOURNAL STAFF WRITERS

Studios reports $150.67 million bilities in bankruptcy filings, with than 100 unsecured creditors se "nonpriority" claims total 52 million. Also, 291 former em- ees are owed more than $1.4 mil- in unpaid wages, listed as "unse- d priority claims."

Blue Cross and Blue Shield of RI: $715,399.

Citizens Bank Credit Card: $266,156.

Rhode Island Convention Center Park (parking garage) Providence: $97,185.

Silverman McGovern Staffing: $47,604.

Carousel Industries of North America: $9,742.

Greenwich: $3,510.

All four entities associated with 38 Studios that filed for bankruptcy list $115.9 million in secured claims, listing creditors for that amount as the Rhode Island Economic Development Corporation and The Bank of New York Mellon, the trustee of the state's loan agreement.

The three other entities list what appears to be an additional $7.4 mil- claims by 92 employees, totaling $354,108.18.

Other creditors include:

Electronic Arts Inc., Redwood City, Calif.: $3.4 million

Blue Cross and Blue Shield of RI: $154,220.

Citizens Bank Credit Card: $56,494.

U.S. Treasury, electronic federal tax payment system: $55,000.

Verlag und Marketing GmbH in Germany; Go Massage in Chicago, Ill.; Sony Computer Entertainment America Inc.; Transgaming Inc. in Toronto, Canada.

Mercury Project LLC's unsecured claims — Electronic Arts: $1.9 million.

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larditi@providencejournal.com
(401) 277-7335

ANKRUPT

ntinued from A1

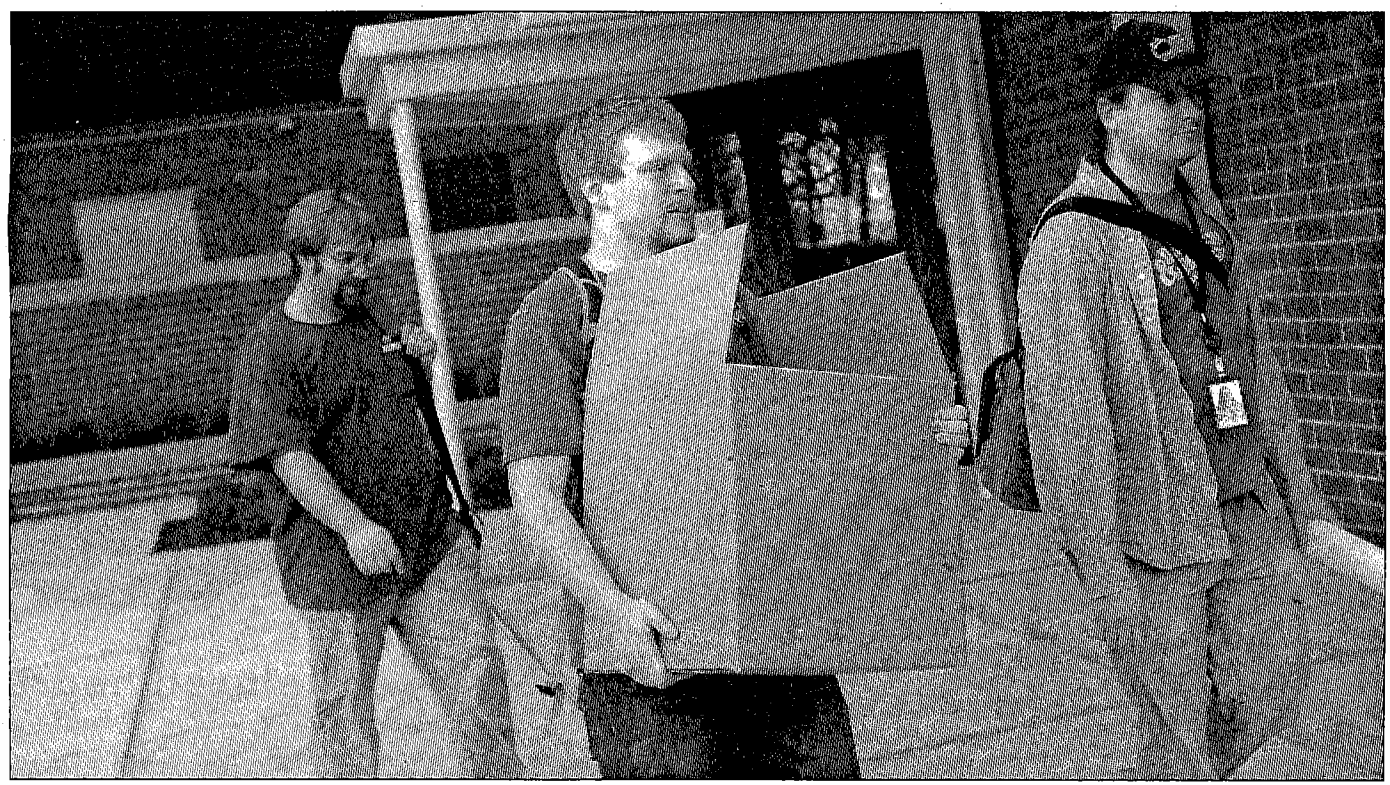
ate, FBI investigate

its three affiliates will be dated. 38 Studios report- court filings that it owes million and has just $21 on in assets — including 7 million held in reserve he state in public bond eeds.

he largest creditor is the of Rhode Island. Tax- rs are on the hook for .9 million in principal, in- t and fees, according to iling. That stems from a roversial $75-million loan antee for 38 Studios that leaders, led by former Donald L. Carcieri and se Speaker Gordon Fox, ed through in 2010 to the company from Mas- usetts. The potential was jobs and a company that ld anchor a cluster of ing and high-tech compa- in Providence.

he reality struck Thurs-

3 Studios listed among its s $1.4 million in wages to 291 former Rhode Island loyees, $10 million on the e of its downtown Provi- ce headquarters and



THE PROVIDENCE JOURNAL / **BOB THAYER**

Workers leave 38 Studios on Empire Street in Providence on May 23 carrying bags and boxes of personal possessions after being informed that they had been laid off.

"We're looking into any activity around those transactions — the use of state money and federally insured banks surrounding 38 Studios," said O'Donnell.

The federal criminal statute for bank fraud states that it is a crime to obtain money from a financial institution "by means of false or fraudulent pretenses, representa-

paid $232,800 on March 30, 2012 — one month before 38 Studios missed a $1.12 million payment to the state that precipitated its demise. The list does not state what the payment was for.

Corso and his companies are located at 155 Chestnut St. in Providence's Jewelry District — an address shared with the Tool & Dye hair salon

been in talks with potential investors the past few weeks, and that 38 Studios' unfinished massively multiplayer online fantasy game, "Project Copernicus," could be worth "tens of millions" of dollars. In the bankruptcy filing, the value of "Copernicus" and other intellectual property is listed as "unknown."

The company's Maryland studio, 38 Studios Baltimore, formerly Big Huge Games until Schilling bought it, reported assets worth $335,000. The Maryland affiliate produced the company's first game, "Kingdoms of Amalur: Reckoning," which was released in February.

According to court papers, the company was paid $22 million in 2010 and 2011 in a "work-for-hire" agreement with a subsidiary through an agreement with Electronic Arts, the video-game giant that distributed the game. In addition, papers show, Electronic Arts paid $28 million to Project Mercury, a 38 Studios affiliate that also declared bankruptcy Thursday, for a publishing agreement for January to May 2012.

A fourth subsidiary, Precision Jobs, also declared bankruptcy.

38 Studios listed $302.29 in petty cash.

The company also owes $1.7 million to best-selling fantasy author R.A. Salvatore,

247,000 in federal and state axes.

Schilling, the former Boston Red Sox pitcher who told The Providence Journal last week that he launched the company with dreams of becoming "Bill Gates rich," said he stands to lose $50 million – "everything I have." Court filings show that he owned 2.9 percent of 38 Studios.

Things had grown so desperate last winter that 38 Studios turned to Rhode Island film tax credits to stay afloat. That led to $8.5 million in loans early this year from Bank Rhode Island, secured by anticipated tax credits that had yet to be issued — and still have not been.

Those loans, revealed by the Journal Saturday, have caught the eye of law enforcement.

"The Rhode Island State Police, the Rhode Island attorney general, the U.S. Attorney and the FBI are working together investigating the activities that have recently come to light at 38 Studios," said Col. Steven G. O'Donnell, state police superintendent.

The investigation, O'Donnell said, revolves around the $5 million in state bonds for the company, as well as the Bank RI loans of $1.5 million in January and $7 million in February.

tions of promises.

Jim Martin, a spokesman for U.S. Attorney Peter F. Neronha, confirmed that federal prosecutors and the FBI are coordinating with the state police regarding 38 Studios. He declined further comment.

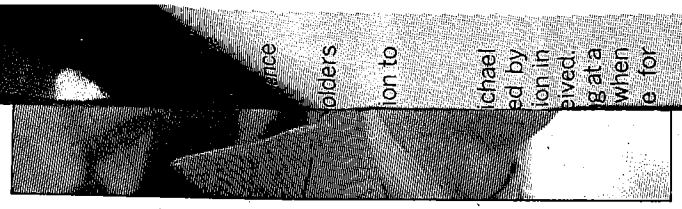
The president and CEO of Bank RI, Mark Meiklejohn, said his institution has not received a subpoena for any records regarding the loans.

"We have not yet been contacted by law enforcement," said Meiklejohn. "Certainly, we will cooperate."

Meiklejohn declined further comment on a "customer matter" when asked why Bank RI would make such potentially risky loans, which were secured by $14.3 million in anticipated state film tax credits that have never been issued.

As additional collateral for the $7-million loan, the bank also received a personal guaranty from Schilling, backed by a gold-coin collection valued at up to $5.5 million.

Michael Corso, the film tax-credit broker who borrowed the $8.5 million from Bank RI and loaned it to 38 Studios for operating capital, appears in bankruptcy papers as both a creditor and someone who was paid an unspecified amount for various services.



THE PROVIDENCE JOURNAL / **CONNIE GROSCH**

Governor Chafee holds a news conference Thursday at the State House to announce that 38 Studios had filed for Chapter 7 bankruptcy in Delaware.

Corso, a Providence lawyer who brokers tax-credit deals across the country and recently attended the Cannes Film Festival in France, also is a friend of Fox and was instrumental in brokering 38 Studios' move to Providence as the company's paid lawyer.

Early in 2010, Corso helped arrange a pivotal meeting between Fox and Schilling in his downtown Providence law office. That led Fox and his ally, then House Finance Chairman Steven Costantino, to add $75 million to a $50 million job guarantee loan program that was approved by the legislature.

Rank-and-file legislators say they didn't know the $75 million was ticketed for 38 Studios until summer 2010, when the Rhode Island Economic Development Corporation approved the sale of $75 million in taxpayer-backed bonds for Schilling's company. The loan was controversial, but pushed by then-Governor Carcieri, who early in 2010 had broached the idea to Schilling at a fundraiser honoring World War II veterans at Schilling's home.

According to bankruptcy papers, 38 Studios owes Corso $77,600, and also owes his Preservation Credit Fund $11.5 million for the anticipated Rhode Island tax credits he used as security for the Bank RI loans early this year.

The bankruptcy filing also reports other financial ties with Corso in a 13-page list of contracts and leases. Among them: a July 1, 2010, engagement letter for Corso's Kingston Capital Group; a Nov. 7, 2011, developer services agreement for his Orb Development; a Dec. 7, 2010, personal engagement letter; and a Jan. 1, 2011, consulting agreement with Corso's Kingston Capital. The papers do not say how much he was paid, and Corso did not return calls seeking comment.

A list of checks written by 38 Studios in the last three months shows that Corso was owned by Fox and his domestic partner, Marcus LaFond. Corso told The Journal last Friday that the hair salon is his tenant, and pays "market rent."

The remains of 38 Studios are now in the hands of Jeoffrey L. Burtch, a court-appointed trustee in Wilmington, Del., with the authority to liquidate any assets and distribute any proceeds among creditors. A meeting of creditors is scheduled for July 10.

As a secured creditor, Rhode Island is at the front of the line. But the list of creditors is long — 17 pages of single-spaced names, from Action Pest Control, in Acton, Mass., to Yellow Cab, in Cranston — and the assets few. The company does not expect unsecured creditors to receive any money.

38 Studios' bankruptcy lawyer, Laura Davis Jones of Wilmington, reported being paid $36,000 in connection with Thursday's filing.

The only intellectual property awarded a dollar value in 38 Studios' bankruptcy filing is its Helios platform for its computer games, valued at $3.75 million.

Jonathan Savage, a corporate and bankruptcy lawyer who has been advising Governor Chafee, said that he has a company visionary who helped develop the storylines for Schilling's sword-and-sorcery games.

While Schilling didn't draw a salary as 38 Studios' founder, chairman and "executive visionary," he was paid $16,454 in medical and dental benefits in the past year, and $39,424 in travel expenses, bankruptcy documents show.

Unlike a Chapter 11 bankruptcy, in which a company tries to reorganize its finances, Chapter 7 means "there's ... not even a whimsical chance of reorganizing the business," said Jack Williams, a professor at Georgia State University's College of Law.

Unsecured creditors are often the people and companies who have provided goods and services to a firm, Williams said — window washers, coffee sellers and others.

"Often, the people in the least position to absorb it find themselves in a very difficult position."

With staff reports from Andy Smith, Lynn Arditi and Paul Grimaldi

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'AXPAYERS

Continued from A1

npact of 38 Studios bankruptcy

ounting for money that has been aside from the bond proceeds to ke early payments to bondhold-

That $102 million could be further uced if the state were to refinance bonds, or take possession of and l the assets of 38 Studios.

Jonathan Savage, an adviser to vernor Chafee, said the state has ked with investors interested in e assets, including intellectual operty, such as the drawings, docments and computer code that ent into making video games.

"The discussions we've had are in e tens of millions of dollars," he id.

Under terms of the agreement beeen Curt Schilling's 38 Studios d the EDC, the company was supsed to pay back the bondholders from the money it made selling video games. But with Thursday's bankruptcy filing by 38 Studios, that obligation now falls to the taxpayers — under terms of the state guarantee when the bonds were sold.

Rhode Island pledged its "moral obligation" to pay the bill if 38 Studios didn't pay back the bondholders. For the state to do that, the General Assembly would have to approve that spending.

What happens if legislators balk at appropriating the money to pay back bondholders?

The EDC added what appeared, at first, to be an extra layer of financial protection in 2010 by securing bond insurance from Assured Guaranty Municipal Corp. at a cost of about $500,000.

"I sure as heck hope that the guarantee is valid or that it does kick in," said George Kilborn, an investment adviser and owner of Compton Capital Management. Kilborn has a client that owns $50,000 worth of 38 Studios bonds.

For years, bond insurance was seen by governments as a way to pay lower interest rates on bonds they sold. In essence, a state or municipality pays an insurer to use its better credit rating.

The insurer also promises to pay bondholders should a city or government entity be unable. If the state asks Assured Guaranty to pay off the bondholders, the insurer will demand the state pay Assured Guaranty back and may impose conditions on the state.

"They get certain privileges ... they can demand [tax] rate increases," said Richard Lehmann, publisher of Distressed Debt Securities Newsletter. "This is how they protect themselves; they embed themselves into the workings of the government."

The state also may look for other ways to pay the bondholders.

Rosemary Booth Gallogly, director of the state Department of Revenue, said renegotiating the terms of the original bond agreement is "obviously something that we would look at."

Another would be to issue new, general obligation, bonds, backed by the full faith and credit of the state. Those bonds are considered safer investments, and thus cost the state less in interest payments.

The state would use the proceeds of the new bond sale to pay off the old bond debt, saving money.

Under the terms of the state's $75-million loan guarantee, 38 Studios received $47.4 million from the bond sale to develop its second video game. The EDC set aside an additional $23.4 million in two accounts: one to pay the first two years of interest on the bonds and the other to hold as reserve in case the company missed later payments.

The remaining bond proceeds went into an account to guarantee the lease payments for 38 Studios offices in downtown Providence and to pay the costs of issuing the bonds, such as payments to bond underwriters and attorneys.

The next bond payment is due Nov. 1 and will be made out of one of the state's reserve funds.

38 Studios was expected to make a bond payment on May 1, 2013, and then to make payments each Nov. 1 and May 1 until Nov. 1, 2020, totaling about $12.75 million per year.

If 38 Studios misses those payments, the reserve account of $12.75 million set up from the bond proceeds could be used to make next year's payments, reducing the outstanding principal on the bonds from $75 million to $67.6 million, according to the EDC.

With contributions from Kate Bramson and Andy Smith.

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Bank RI subpoenaed for loans secured by film-tax credits

Rhode Island State Police, FBI are looking at two loans made early this year

By MIKE STANTON
JOURNAL STAFF WRITER

Federal law-enforcement subpoenas have gone out in the 38 Studios investigation.

Bank Rhode Island, which loaned $8.5 million early this year to help Curt Schilling's now-bankrupt video-game company stay afloat, confirmed Wednesday that it received a subpoena for records last Friday.

"We have a deadline, and we'll meet that deadline," says Mark Meiklejohn, president and CEO of Bank RI. "We're fully cooperating."

The Rhode Island Economic Development Corporation, which sold $75 million in taxpayer-backed bonds to lure 38 Studios to Providence in 2010, also received a federal subpoena Friday requesting records, according to Jonathan Savage, the EDC's lawyer.

The Rhode Island State Police and the FBI are looking at two loans that Bank RI made early this year to companies affiliated with Providence lawyer Michael Corso, a broker in film-tax credits and a friend of House Speaker Gordon Fox.

Corso, who represented 38 Studios, arranged a pivotal 2010 meeting between Schilling and Fox that led legislative leaders to add $75 million to a $50-million job-guarantee loan program that was approved by the General Assembly that year. The EDC subsequently sold $75 million in taxpayer-guaranteed bonds to bring 38 Studios to Rhode Island, with the promise of creating 450 well-paying jobs and sparking a cluster of video-game companies in Providence's Knowledge District.

The Bank RI loans, revealed in a Providence Journal story on June 1, were secured by $14.3 million in anticipated Rhode Island film-tax credits that 38 Studios had applied for but ultimately never received. As added collateral, Schilling, the ex-Boston Red Sox star and founder of 38 Studios, put up his personal collection of 3,200 gold coins, valued at up to $5.5 million.

Corso says he loaned the money to 38 Studios to alleviate a cash crunch. Had 38 Studios received the tax credits, for which it had received "initial certification" from the Rhode Island Film & Television Office, Corso had a deal to sell them, for a profit, to Blue Cross & Blue Shield of Rhode Island, to reduce the health insurer's state tax liability.

But Governor Chafee balked at issuing the tax credits after 38 Studios' financial troubles emerged in May. The company subsequently laid off its 400 employees in Rhode Island and Maryland and declared bankruptcy last week, the same day law enforcement confirmed its probe, leaving taxpayers on the hook for $115 million in state-backed bonds and interest payments.

Corso told The Journal recently that he, along with Schilling, is liable to repay the loans. The initial $1.5-million loan in January was secured solely by the anticipated tax credits. The second loan, for $7 million in February, was secured by the tax credits plus Schilling's personal guarantee and gold coins.

Col. Steven G. O'Donnell, superintendent of the state police, said last week that his agency, along with the FBI, U.S. Attorney and Rhode Island attorney general, are investigating "activities that have recently come to light at 38 Studios," including the Bank RI loans.

Jim Martin, a spokesman for U.S. Attorney Peter F. Neronha, confirmed last week that his office is working with the state police and FBI. He declined comment Wednesday.

The federal criminal statute for bank fraud states that it is a crime to obtain money from a financial institution "by means of false or fraudulent pretenses, representations or promises."

38 Studios' court-appointed bankruptcy trustee in Delaware did not respond to a question Wednesday regarding whether law enforcement has sought the firm's financial records.

Corso did not respond to requests for comment Wednesday night regarding whether he, too, has received a subpoena.

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BIZBLOG

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Follow John Kostrzewa's posts at www.providencejournal.com/business and at www.facebook.com/johnkostrzewa

38 Studios not the first

failed in clinical trials, Alpha-Beta filed for bankruptcy and defaulted on paying back the bonds, leaving taxpayers on the hook.

State officials reduced the taxpayers' loss by refinancing the bonds and then selling the closed plant to the Collaborative Group of New York. The plant changed hands again after Collaborative moved out and Dow Chemical Co. moved in. After Dow left, Alexion, based in Connecticut, took over the facility, upgraded the equipment and still makes Soliris, a drug to treat a rare blood disorder at the plant.

But the idea in 1993 that Alpha-Beta, backed by state taxpayers, would become the hub of a cluster of biotech companies never panned out.

Neither did state officials' plans to bring 38 Studios here to form the hub of a video-game industry. The bankruptcy could cost taxpayers up to $102 million to pay back the bonds sold to get Schilling and his company to move from Maynard, Mass., to Providence.

Not much left of the $75 million

The bankruptcy filing by Curt Schilling's 38 Studios on June 7 raised taxpayers' questions about what's left from the proceeds of the $75 million in bonds sold in 2010 to attract the video-game company to Rhode Island.

The quick answer is not much. Here's the breakdown:

$47.4 million — paid to 38 Studios. Rosemary Booth Gallogly, director of the state Department of Revenue, said that money is

$12.7 million — set aside in a capital reserve fund for one year of principal and interest payments on the bond if 38 Studios doesn't make them in 2013.

$10.6 million — set aside in a capital interest account to make interest-only payments on the bonds in 2011 and 2012.

$2.1 million — placed in a reserve fund to guarantee lease payments at 38 Studios offices at One Empire Plaza in Providence. The status of that money is unclear because in its bankruptcy filing, 38 Studios said it had a liability of $10 million in lease payments.

$2.2 million — paid in fees for bond underwriters and lawyers, bond insurance, trustee fees and analytical services.

Judge overseeing liquidation a sailor

Judge Mary F. Walrath has been assigned to preside over the liquidation of 38 Studios and three affiliated companies that Curt Schilling set up to operate a video-game enterprise from Providence but later went bankrupt.

Walrath will oversee the case from U.S. Bankruptcy Court for the District of Delaware, but at least in one regard she has something in common with many Rhode Islanders — she's a sailor.

Walrath started out sailing as a young girl vacationing with her family in New Jersey. She reportedly ordered her first sailboat through the Sears mail-order catalog and over the years developed her skills to sail to the British Virgin Islands and the Baltic.

dergraduate degree from Princeton University and her law degree from Villanova University.

38 Studios and the affiliates filed for Chapter 7 under the bankruptcy code. A creditors' hearing in Delaware is scheduled for July 10.

Schilling mum on his plans for future

What does a 45-year-old future Hall of Famer with three World Series rings do after he runs his first, big business enterprise into bankruptcy?

Who knows.

Curt Schilling, the founder and majority owner of 38 Studios, isn't talking.

Since his video-game company and three affiliates filed for liquidation in federal bankruptcy court, Schilling has made no public comments. He hasn't said anything on Boston's talk radio, where he used to sound off regularly on political, business or baseball issues, or on his Facebook page.

His last Facebook posting about 38 Studios was on May 25: "God Bless you and thank you to everyone sending thoughts and prayers to the team and families of 38 Studios."

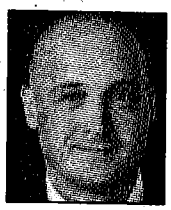
Schilling apparently continues to do part-time work as a baseball analyst for ESPN's "Baseball Tonight," a job he's held since 2010.

Since the former Boston Red Sox pitcher hung up his spikes in March 2009 after 20 seasons, his celebrity status and baseball career kept him busy and in demand.

But the doors that opened for him in the baseball and business worlds because of his record on the ball field may start to close after the painful bankruptcies left hundreds out of work, another empty building in downtown Providence, angry Rhode Island taxpayers who will have to pay back money borrowed to support 38 Studios and analysts who question Schilling's busi-

PEOPLE ON THE MOVE IN R.I.

Peregrine Group LLC



Hogan

Mick Hogan has joined Peregrine Group LLC as director of business development, responsible for developing and strengthening existing client relationships throughout southeastern New England. Prior to joining the company, he was a commercial real estate broker at Hayes & Sherry Real Estate Services in Providence.

Lifespan

Hyatt

Lifespan has named **Ian Hyatt** as its vice president and chief technology officer. He will focus on enhancing Lifespan's technical infrastructure and incorporate the organization's technology vision with its business imperatives, while finding ways to enhance patient care.

YMCA of Greater Providence

Saccoccio

The board of directors of the YMCA of Greater Providence has elected **Mark Saccoccio** as chair of the board for the next two years. He was previously vice chair of the board.

NetCenergy

Salisbury

Wayne Salisbury has joined NetCenergy in the new role of service delivery manager to reinforce the company's commitment to client satisfaction and