

WITNESS STATEMENT

DATE: August 14, 2013

TIME: 10:20 a.m.

INTERVIEW OF: Alfred J. Verrecchia, DOB: [REDACTED]
[REDACTED]
[REDACTED] Rhode Island

INTERVIEW BY: Detective Corporal Kenneth Buonaiuto
and
Investigator Lori Tellier
Rhode Island State Police Financial Crimes Unit

LOCATION: [REDACTED]
[REDACTED] Rhode Island

SUBJECT:

1. Q. Mr. Verrecchia, can you state your full name and spell your last?
A. Alfred Joseph Verrecchia. Last name is V, as in Victor, - e - r - r - e - c - c - h - i - a.
2. Q. And your date of birth, please?
A. [REDACTED]
3. Q. And do you have a cell phone number that we'd be able to contact you with?
A. Yes, area code 401 [REDACTED]
4. Q. Thank you. Mr. Verrecchia, it's our understanding that you were a member of the Board at the Economic Development Corporation at a certain point in time, is that correct?
A. That's correct.
5. Q. And if you can give us a timeframe of that time when you were appointed on the Board?
A. Let me look backwards. This is 13. So Chafee was - took office in January of '11,

correct? Yeah, I resigned January of '11. So I was on the Board during 2010, and I believe, if I remember correctly, we were actually appointed in 2010 when - when they restructured the Board. I could be off on that, but I think it was - I think it was 2010 when the senate got around to finally approving everything. And - and then I - when we - when Chafee was elected Governor, I wrote them a letter, you know, offering my resignation indicating to him that - that he - he would be as Governor, Chairman of the EDC Board, and I felt that he should have the opportunity to have his own vice chairman ... Governor Carcieri had appointed me over a four-year term as the vice-chair, and so I said I - well I'm willing to stay on un- until the work with you. I authored my resignation and I got a call from - well, talked with him, although he didn't say anything about accepting or rejecting the resignation. Then I got a call a few minutes later from his Chief of Staff at the time that said he wanted to accept my resignation, and so I never attended any meetings in - in the - in the Cha- in the 2011.

6. Q. Okay, so you were appointed by Governor Carcieri --

A. Yes.

7. Q. -- or nominated at least in - back in 2009, and you actually took office in January --

A. I think so.

8. Q. -- 2010?

A. I think so. I mean I'm - I'm -- Yeah.

9. Q. Okay.

A. Yeah. I think so on that. I - I know when I got off and I know we were on for --

10. Q. Mm hmm.

A. -- really just - I think we came on in early 2010, if I remember correctly.

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11. Q. Okay. And correct me if I'm wrong, you're employed by Hasbro, is that correct?

A. Well, I'm retired. I'm Chairman of the Board, but I'm - I'm not an employee, a member of the Board of Hasbro.

12. Q. Okay. And can you give us a little, just a brief little history of your - your employment with Hasbro.

A. Yeah. I started with Hasbro October 1, 1965 while I was a student at URI, and ultimately in 2003, became CEO. I stepped down at CEO in May of 2008, became Chairman of the Board, and I currently hold that position, and I have been at Hasbro, you know, 48 years.

13. Q. Okay. And prior to Governor Carcieri appointing you as a member of the Board for EDC, did you have any experience with the Economic Development Corporation?

A. What happened is Governor Carc- when - W\when who was ever the current chair - who's ever chairman of the ED- not chairman, but executive director of the EDC, I think it was Mike McMann at the time - he left. And then uh, then the interim executive director came on. And Governor Carcieri called me and he asked Paul Choquette and I to chair a group to review, you know, the workings of the EDC, and he appointed several other members of that committee. We spent, you know, quite some time looking at economic development activities in Rhode Island, and in particular, the EDC, and we issued a report to the Governor. One of the things that we recommended was a re structuring of the Board at the time that they had an Economic Policy Council and Economic Development Corporation Board. And there were two different boards, and the - the policy council sort of set economic policies that the EDC was supposed to carry out. But - but the two boards are separate and apart, and what we recommended is that you - you bring the boards together and have one board. And we made a

whole series of other recommendations as part of our report, which is a public document that you can get. So when the Governor was looking to restructure the Board, he asked both Paul and I to serve on the Board. You know, both of us were a bit hesitant about it, but given that he asked us to chair this committee, we did that, we made a report, didn't feel we could say no to the guy. So that's when we were on the Board. So my involvement with EDC really started with that review commission or - or committee. Prior to that I had had no direct contact with the EDC, you know, no more /no less than any other business person in the state. I think that over the years at one time I think, you know, Hasbro had an economic development, you know, bond or something like that, and, you know, but I didn't - you know, I wasn't really involved with the - with the organization any other way.

14. Q. Okay. And January 2010, you became a member of the Board, and - and during your span of one year that you were on the Board, did you have the opportunity to review or were you presented with a proposal for a 75 million dollar bond loan to a company called 38 Studios?

A. Yes, we were.

15. Q. Can you give me a - give us a brief explanation of how that came about and how the Board w- how it was presented to the Board or how you became aware that the EDC was considering possibly --

A. Yeah. Uh --

16. Q. -- allowing these bonds to go through?

A. Don't hold me to the timelines, 'cause, you - you know. But I think sometime in the spring of 2010, yeah. Whether it was April, May, what have you. But in and around that time Keith Stokes, who had been appointed (Pause / Outside Interference) Uh, Keith Stokes had been appointed the executive director and he had an assistant, to - who was sort of filling in

before Keith took over, his number two guy there. I'll - I'll --

17. Q. Mike Saul (phonetic)?

A. Mike - Mike Saul. And they came to a Board meeting one time and said that the legislature had approved a 150 million dollar loan program for companies that dealt primarily in soft assets: intellectual product, you know, software companies, you know, perhaps media companies, where you could lend to them and they didn't have hard assets (indiscernible), things like that that uh, you know, typically you would - you would loan against. And, you know, we were -- I don't want to say we were surprised, we didn't know that the EDC had gone to the legislature to even propose that, but, you know, at that stage, we were early Board members, and - and for all I know, it could have been before we were Board members, so I didn't think a whole lot of it.

18. Q. Did you - did you think it should have been a requirement that the Board should have been made aware or that maybe the Board should have approved that? It's - it's not part of the process, is that correct?

A. Yeah. Well, I - I don't know what happens now, but, you know, I think if - if the EDC wants to put forth a new program, yeah, I think the Board should be aware of it. I mean, whether they should have to approve it, you know, depends upon, you know, quite frankly what the - the by-laws and what the rules and regulations say. But I certainly think if the Board was going to put together a new program of sorts, whether its to support, you know, green development programs or something like that, yeah, you expect the Board to be aware of it. You know, if for no other reason than, you know, you ... want a director to be embarrassed when somebody says, hey, you let that new program in and you don't know anything about it.

19. Q. Right.

A. But this particular program, you know, I - you know, at first I said, gee, I didn't - I didn't know about that. But I didn't think much of it, because again, we were new Board members, and for all I knew that, you know, my guess is that given the way the legislature works, that had to be put forth probably sometime in 2009 for all I know. But - but I - but I don't know that for sure, I don't know when the program was actually proposed to the legislature. But anyway, it - it - it came to the Board and we said, yeah, that's great.

20. Q. And again, this was the assistant, Mike Saul that was presenting it?

A. Well both Mike and - and - and Keith were --

21. Q. (Indiscernible)

A. -- were talking about this. You know, and at that same meeting, you know, they indicated that they were negotiating with a company to possibly bring their business into Rhode Island, and we didn't - we were not made aware of the name of the company right out of the box. And I'm not really quite sure whether or not the first time it was raised they even mentioned how much the company was looking for. But either that first time we heard about it or shortly thereafter they indicated that the company was looking for 75 million dollars. You know, and I can only speak for myself, you know, certainly, you know, the vast majority of the Board, if not to a person, said gee, 75 million dollars to one company out of 150 million bucks seems - seems to be a - a - a lot of money, you know, why are we doing that? And, you know, the answer was - We didn't get much of an answer, it was, you know, well, you know, this is a great opportunity and - and it's a good company coming in. And it might have been at that time we were made aware that it was 38 Studios, but I'm - I'm not a hundred percent sure of

that. But, but in any event, I - I seem to remember that I called Keith and I said, you know Keith, you know, why, you know, 75 million dollars to one company is a - is a - is a lot of money, a - a - a big portion of the loan I said, and, you know, my sense is the Board is - is - is concerned about that I said, so, you - you know, you need to tell us what's going on here. And so the next meeting is when he indicated that originally he went to the legislature for a 75 million dollar program, and the legislature increased that to 150, if I remember the numbers correctly. But they increased it by 75 million dollars, specifically for 38 Studios. So I know I said, well, okay, but tell us that, you know, don't, you know. So that's sort of the first time that the Board - at least my recollection is - that the Board became aware of the fact that the original program was considerably less; was increased by 75 million dollars with the intent of supporting a 38 Studio loan program.

22. Q. Now were these meetings - these are closed-door meetings, is that correct, or (indiscernible)...?

A. No, these were open. These were --

23. Q. They were.

A. Yeah, this - this was - I mean, I can't -- We, we didn't go - I mean, we would go into executive se- I mean, you have - they had the ability to go into executive session when they were negotiating. You know. So some of this stuff was in nego- was in executive session / some of it wasn't. And I - you know, it's hard for me to recall specifically what, but. You know, I - I would suspect until it was made public that we were going -- negotiating with 38 Studios it was probably kept in executive session, like most of these things are. You know, but clearly we - we were made aware at that point in time that the loan program was beefed up in order to

provide funding for the 38 Studios. And - and the Board's job was to put together, you know, a uh, you know, a loan agreement and to, you know, evaluate whether or not we should or shouldn't do that.

24. Q. Now when you say the Board's job was to evaluate, in - in what way, review - review information that you were provided with or actually go out yourselves and - and - and fish around and - and kind of do your own investigating and ...?

A. No. No. We - we would depend upon staff. I mean, the - the - You know, if you - if you look at the make up of the Board, you know, you - you had a large variety of skill sets there. But you know - you know, staff, and - and in particular most of the - most of the presentations regarding the program were made by Mike Saul, and Mike was sort of honcho-ing (phonetic) the program. But we - the, the Board, so I understand, is going to be 38 Studios and it's - it's for 75 million dollars. There was a lot of discussion within the Board about the risks associated with the video game business. You know, and - and certainly, you know, coming - having run Hasbro for a while and - and being involved to some degree in that business, you know, I was aware, as were some others, the risks associated with a video game business. I mean it - it - it's a hit-driven business. It's a great business; you can make a lot of money at it, but you know, a lot of video games come on the market and - and relatively few of them are successful. So we - we - we talked about that. So we, you know, you know, the other question is, okay, do we want to take this risk? So that was for the one risk, just the risk of the video game business. And we talked about the notion of, you know, trying to capitalize on - on technology and - and software here in Rhode Island. You had a number companies that were doing stuff in that arena: G-Tech was one; Hasbro was one. You had a lot of other

smaller companies that, you know, could - it was just an opportunity to really create sort of a, you know, a - a center of excellence, and begin to build on that. The company was going to bring in three / four hundred jobs. You know, they had to hit certain bench marks in order to get the money, but that - that's what they were doing. The other risk was just the risk of - of, you know, the financial risk: any company starts with a - with a plan, but, you know, the one thing you know about plans is you - you're either going to be plus or minus, it's never - never dead center on the plan. So we talked about, you know, the - the financial risks, and one of the things that we required, and uh - and I'm not sure if ... I think the record shows it was - it was, you know - you know, my motion or suggestion, but - but both Donna Cupelo and I felt that we ought to have a third party monitoring agreement with somebody. You know. And for two reasons: one is, well, you know, we felt the EDC had people with - on its staff who, you know, were financially orientated. There certainly wasn't anyone there that could evaluate whether or not the game development was - was on target. And if - and if you were going to look at the budget, you had to do that in the context of was the game development proceeding; were the milestones being achieved. Or the idea in - in actually made it, or what we did anyway, made it a condition of the - of the closing that there had - had to have a third party monitoring agreement that would inform the Board or the EDC, really the EDC staff of, you know, was progress being made according to the milestones (indiscernible) the budget, and, you know, and that sort of thing. You know. And I think we were pretty cognizant of the fact that, you know, we - we could do a lot of things, and I think we did, to ensure that the game got to market. But, you know, we - no one can guaranty it's going to be a successful game.

25. Q. Right.

A. Now they had put out one game already, and they had a distribution agreement with Electronic Arts, which probably the largest video game distribution - distributing company on - on - on the planet. So, you know, they had some credibility in - in the sense that their first game went out.

26. Q. Is that the *Kingdom of Amalur* or--

A. Yeah.

27. Q. -- something like...?

A. You know. And it did - You know, it - it fell a bit short of the original projection, but it did over a million pieces, which is, you know, not bad. And - and the *Kingdom of ... Amalur* I guess was - was sort of the uh - the, the MMOG, the um, massively multi player online game that they were developing was - was sort of based upon this first game. And again, they were going to have a distribution agreement with - with EA. So they, you know, they had credibility from that standpoint. But, you know, that doesn't ensure success.

28. Q. Right.

A. So but we did feel that if we monitored the game development and we monitored the budget, we ought to be able to get the game to market. And that was based upon the fact that they had put together a plan that was reviewed by EDC staff: that it was a viable plan; they had the cash flow projections, and, you know, this - this would work.

29. Q. Is - did you or any other Board members, were you presented with any sort of a financial projection, which actually had the numbers and, you know, and the projections as the years went on, you know, to determine if the 75 million dollars was going to be enough to get them to the point where they could start marketing, or at least finish this --

A. Yeah, I mean, I - I --

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30. Q. -- this game? Do you remember seeing any sort of financial documents? You know, showing (indiscernible) --

A. I know that we had a, you know - You're asking me two questions here: one is did I physically see some piece of paper with numbers on it, and I'm trying to recall. Because we saw a lot of things. We had presentations made by two consulting firms, or one consult and one banking firm, that - that supported the deal. We also saw, you know, a slide presentation on financials. I'm - I'm just trying to remember, you know--

31. Q. Right.

A. -- what actually was presented...

32. Q. And I have several here that may - may --

A. Yeah.

33. Q. -- be able to help you out. I - I think one of them was presented, or prepared anyway, by Strategy Analytics --

A. Yeah.

34. Q. -- out of Boston.

A. That was one of them. That was this - this, you know, video game cluster in Rhode Island. And I think that the Board - and again, I won't speak for other Bo- other than myself - it was one of, hey, that - that would be great, but, you know, that - that's a little bit of a stretch that we're going to, you know - 'Cause even if the game was very successful and 38 Studios was really, really successful, it doesn't mean you - you are going to move your company into Rhode Island. I mean, it - it - it's great to think that way, and I'm not suggesting that, you know, it - it wasn't a potential, but I don't think it was -- It d- It didn't play a big role in - in - in my

thinking.

35. Q. Your decision.

A. Yeah, it was--

36. Q. Or -

A. -- it was --

37. Q. - or was a deciding factor or your catalyst --

A. No. No. I mean, hey, that'd be great, but, you know.

38. Q. Okay.

A. You know, we're the second largest toy company in the world, we're not still bringing a lot of toy companies to Rhode Island, so that - that's - that's hard to do.

39. Q. Right.

A. I did think though that it - it could probably add to the overall technology climate in Rhode Island, but there a lot of companies involved in technology.

40. Q. Right.

A. We - we did see -- There were financial presentations made that said that the 75 million dollars, less some hold backs, and I don't recall whether somebody said they're holding back x or y. They talked about, you know, setting up a - a, you know, thinking fund or reserve fund. But you know, our - our question was not so much how much are you holding back, 'cause I - you know, that wasn't an issue for me as much as is the money we're giving ... the financial plan. And - and Mike Saul presented along with - I forget the - the banker that was there , but.

41. Q. From Wells Fargo?

A. Yeah, it might have been - it was a woman - you know, said yeah, they got a plan that works. And - and so now - Yeah, and we - and we - and we relied upon staff to - to tell us it'll work, you know, ...

42. Q. So ... you saying that (indiscernible) ...

A. I mean, I didn't get any papers directly from --

43. Q. Right.

A. -- from, from 38 Studios, I didn't sit at my desk and, you know, --

44. Q. Right.

A. -- calculate a budget, we relied upon - upon the staff, and - and Mike Saul made the presentation. Now who on staff underneath him worked on that or anything like that, that I don't know.

45. Q. So is it your understanding that based on what they're telling you that, okay, that you have a 75 million dollar loan, obviously, there are going to be some fees associated with --

A. Mm.

46. Q. -- the closing of that, and then there's this re- reserve fund that some money is going to be taken out. So you had an understanding that they - that they weren't going to get the full 75 million, is that correct?

A. Yeah, they weren't going to get the full 75 million dollars.

47. Q. But you had no idea--

A. But the -

48. Q. -- what --

A. But the --

49. Q. -- percentage of it that they were going to get.

A. I'm - I - I don't recall if somebody put that out there or not, because, you know, my response to that was, look, are they going to have enough money for the financials to work? Because if - if you're telling me that you - you're gonna hold back 10 million, and - and they need s- and 65 is - is, you know, what they're going to get, is 65 enough, or is 55 enough, or is this 75 enough? So I wasn't interested in the amount they were holding back as sort of a guard against default or anything like that as much as I was is the amount of money they're going to get going to be sufficient for them if they adhere to this financial plan. And the answer to that question from staff was, yes.

50. Q. Okay.

A. And both myself and Donna Cupelo, and I think the - the record probably indicates I made the motion, but we really made it ... together is, we need to have a third party monitoring agreement to make sure that happens. Because there wasn't, in - in our opinion, any expertise at the EDC to monitor game development. And - and game development was going to determine to a great degree whether or not you're achieving the cash flow budget. And, you know, and that was a condition of closing. I was really taken aback and really shocked when, you know, I found out that there was never any, you know, third party agreement put in place. And I was also shocked that no one looked at the financials, essentially, until the guy went bankrupt. I mean it - you know. And they were supposed to be looking on a monthly basis.

51. Q. Now - now talking of - speaking of financials, you stated that, you know, your main concern was, hey, the money that they're going to get, is that enough to get them to the point where they're going to be profitable on --

A. Yeah.

52. Q. -- their own and --

A. Yup.

53. Q. -- to --

A. Yup.

54. Q. -- repay the loan.

A. Yup.

55. Q. This financial that I'm showing you right here, this projection, --

A. Yup.

56. Q. -- do you remember seeing this particular document before?

A. **Well, I remember seeing a presentation. Whether this is the exact one or not, you know, I just don't recall; that's a couple of years back. But I mean, we certainly --**

57. Q. When you say "presentation," do you mean like a PowerPoint presentation?

A. **Yeah. Yeah.**

58. Q. Okay.

A. **Yeah.**

59. Q. All right. Now, in your experience in finances from - with Hasbro, --

A. **Mm hmm.**

60. Q. -- I'm not sure if you're able to do that just by scanning through this, but when - when you get to the page that speaks of the - or the influx of the money from the loan, --

A. **Mm hmm.**

61. Q. -- it indicates in 2010 --

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A. Mm hmm.

62. Q. -- the - the 75 million dollars, --

A. Mm hmm.

63. Q. -- which now becomes a debt to them, but they show the money --

A. Mm hmm.

64. Q. -- and, and then eventually in 2013 they're projecting that they're going to be profitable.

A. Mm hmm.

65. Q. If you had seen this, or maybe you did / maybe you didn't, but if you had seen this, then you saw the number, 75 million dollars, but in fact you knew that they really weren't going to be getting a full 75 million dollars, would that have been a concern to you?

A. Well - well --

66. Q. Or is this merely just a projection and that wouldn't really concern you?

A. Well, the question would have been a little bit in terms of - of presentation too.

Was the 75 million dollars, you know, representing the outside debt and they built in some expenses somewhere else to offset that? You know, again, and I don't know what the a- I don't recall what the amount of the holdback was, but --

67. Q. You believe it was somewhere in the area of 20 million dollars.

A. Yup. We - we were - we were specifically told that the amount of money that they were going to be given, and then based upon the flow of that money, if they achieved ... certain objectives, would be sufficient for them to achieve the business plan that they put forward and presented to the Board? And I say "presented to the Board," it was given to the EDC, the EDC reviewed that plan, and they presented it to us, --

68. Q. Right.

A. -- and they told us that they had a workable plan.

69. Q. All right. So (indiscernible)--

A. And our - our concern again was making sure they could adhere to the plan.

70. Q. So, so educate me a little bit about this. Then so this is not necessarily saying that now all of a sudden they have 75 million dollars in their hand to move forward, but they're just - this is just saying that they have a 75 million --

A. Well it could --

71. Q. -- dollar debt?

A. It, it could be, I don't know. I mean I'd have to ask somebody. I mean somebody could m--

72. Q. But you can't tell by this - by looking at this?

A. Not necessarily, because somebody could make - somebody could make the - the - the um- You know, somebody could decide I'm - I'm going to present just a net - net debt. What I would be looking at is cash flow projections. You know, I - you know, I want to see how much cash they expect coming in and how much cash is going to be going out on a monthly basis. Because at the end of the day, you don't run out of cash in one month.

73. Q. Right.

A. So to me, if they - if we watch the cash every month, you know, it's just like your own household budget, you - you know, if your - if your - you know, if you spend more one month that you had planned, okay, I got to spend less month or I'm going to have a problem. You do that two months in a row, you sit down and say okay, we gotta fix this.

74. Q. Mm hmm.

A. All right. So you know - you know - the, the uh - the 75 million was ultimately what they could get less any hold backs, and that depended upon, you know, the hiring of people, which - which probably in retrospect was the wrong metric to use. But we did.

75. Q. So it kind of was like a necessary evil: they o- they had to spend--

A. Yeah.

76. Q. -- the money to get the money --

A. Yeah.

77. Q. -- but then --

A. Yeah.

78. Q. -- they spent--

A. Now, --

79. Q. -- too much money to explain (phonetic)?

A. Yeah. Now, you know, again, that - that's - you know, that's a little bit of money more than quarter back because --

80. Q. Right.

A. -- they also said that's how they wanted to be judged as well, so it wasn't, you know, it was - You know, again, everybody's looking to - for jobs and so if you, you know, base it on something other than jobs, you're criticized: Well wait a second, you know, the EDC is supposed to be promoting jobs; there's nothing in here about jobs. So if you tie it to jobs, you know, now the guy's gotta go out and hire somebody to get the money, and really, you know, is he hiring people he doesn't quite need yet. You - you know, we - you know it - it's

you're-damned-if-you-do-and-you're-damned-if-you-don't type thing. But again, you know, but - You know, the Board -- I think the Board had a reasonable understanding. When I say "reasonable understanding" of the risks, um, you and I can sit here and say we have an understanding of the risk, but until it takes place, that's when you really find out if you - if you understood it. I certainly understood the risk with the video game and that they could have brought a game to market and it - and it could have not been successful. And - and there was a risk out there for that. And I also understood the risk of any budget plan, especially around game design. And I think I made the statement, look, game development, the one thing about game development, and ... and several other Board members knew this as well, it - it always costs more and takes longer than you think, so let's get a third party monitor in here to - to go ahead and - and - and make sure that this plan works. I think it was - whether it was Wells Fargo or - or someone else looked at the plan and they said that the plan, in their mind, was viable, workable, cash flow was there, and - and they knew all the details of the loan, so we accepted their ... affirmation that we had a viable plan. There was no one on the Board that ... 38 Studios and they themselves did an audit and checking and all that sort of stuff, we relied upon staff to do that. But we still asked again for the third party monitoring agreement to ensure - and the expectation was that we would get monthly reports, both in terms of the budget, and we'd probably be look at game development on a, maybe a quarterly basis.

81. Q. Do you know why that didn't happen, or ...?

A. I don't. I was - I - You know, I um, I was interviewed by Max Wistow, and, you know, were several things that - that Max Wistow said to me that, if true, were, you know, were - were very surprising. One is he showed me what he said were handwritten notes of Rob Stolzman,

who was the - the general counsel, so to speak, or outside counsel for the EDC, that were referencing a - a telephone call that they had had with the outside financial advisors. And ... and apparently in that call, the - the outside financial advisors recommended not to do this loan. It wasn't good; didn't have a good financial plan; it wasn't gonna work, et cetera. And - So I said, well, ... I'm really surprised by that, I'm - I'm surprised because ... of Rob, I just didn't think Rob would do something like that, so I w- I - I'm really surprised by that. But I said I don't - I don't know that those are his notes or anything like that; you're showing me this document and --

82. Q. I - I'm pulling out notes right now. I - I - I'm not sure if these are what you're referencing, but are these the notes that you're talking about?

A. Um. It was certainly a paper like that. I - And, and --

83. Q. And can - Would you be able to point out where on here it said - said that about not doing the loan?

A. Uh --

84. Q. Do you think you want to - Do you want to take a minute to kind of review it a little bit?

A. I think there was something in here where -- Yeah, it was something like here: net proceeds, 65 million does not work. You know.

85. Q. And that is coming from?

A. Well, you - According to Max Wistow, this - these were notes that - that Rob Stolzman made from a telephone conversation with Mike Saul, Wells Fargo, and - and maybe Strategy Analytics, I don't know. But it was a group of people, --

86. Q. Mm hmm.

A. -- and basically saying that the financial plan is not going to work. And I was surprised by that because that never came to the Board. There was never any comment to the Board that the financial plan wasn't going to work.

87. Q. Well were you aware of anybody from 38 Studios coming back to EDC and saying, you know, we really need 75 million net, not gross?

A. Not at the time. And I found out later that apparently that's what they did. The -- the two other things that - 'Cause that was one of the - The, the other thing that surprised me is that there was no third party monitoring agreement in place. And I said, well how is that be? We had it as a condition of closing, and Max Wistow said, yes, I know it was a condition of closing. And, and I said, Max, I don't - And I'm having trouble with this, because it's sort of like law 101, you know, if there's a condition of closing, what you're telling me is that the lawyers allowed this to close without all the conditions being met that - You know, that - that's - You - you know.

88. Q. But it appears, and correct me if I'm wrong, that, who was it, IBM, is that correct --

A. Yes.

89. Q. -- was going to do the monitoring, that there - there was a contract with them, but they - they wouldn't report directly back to EDC, they'd only report back to 38 Studios, is that correct? Is that the way you understood it?

A. Well, I heard about that later.

90. Q. Okay.

A. All right. And there was also this - this comment that 38 Studios was worried about confidentiality. And, you know, and - and, you know, my response to that is, you know, that's - that's BS. I mean, first of all, all 38 Studios had to do was to take the copy of the report that

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they got from IBM and give it to the EDC. What, are you tell - ... you know, you just say, look, either you make sure that we get a copy of that report directly from IBM, and you tell them that, or you're not going to get the money, and that would have been that. And, and the other thing is confidentiality, you can - you can discuss that in closed session, you know. I mean I understand that they certainly want to - didn't want the - the world to know where they were in game development on - on their MMOG, because that would, you know, clearly be a - a competitive issue, but you didn't have to make that con- you know, public information. All you really wanted to know is was it on target, and were they - were they managing the budget. So when I had heard that I said, you know, that (indiscernible) is going to accept that. So the - the fact that we didn't have the third party monitoring agreement, the fact that - that you know, supposedly Stolzman and Saul and staff were told that this was not a viable plan, was not something that came to the Board. And the - and the other thing that was - was surprising to me, if I remember the numbers correctly, I think the actual amount of money that 38 Studios got was something like 47 million dollars. And I think they got 22 of it during the time that Governor Carcieri was - was Governor. I think the other 25 came afterwards. And it just sort of surprised me that the new administration was - was really upset about this, didn't want to do it, didn't support it or anything like that. Why weren't they looking every month and - and why would they - why would they give money? Because one of the requirements of the - the later round was to have a formal distribution agreement with the EDC for the ga- with EA for the game. I believe that's correct. And I'm told by Max Wistow that they - they did not have a formal agreement with EA, but they were still given the money. And, I don't know, some of the law firms reviewed it and said it was okay, and I don't remember which ones. I know Moses

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and Alfonso's name came up, but I'm not sure what their involvement was to be honest with you. and I was just sort of - it - you know, it's kind of strange that, you know, the new administration who was - was really opposed to this and, you know, you know, wouldn't be looking over their shoulder like 24 hours a day, seven days a week, and, you know - you know, and if something went wrong, they wouldn't have dealt with it. So I - I was surprised by those - those concerns.

91. Q. So do you - do you feel that you were intentionally misled as to the viability of the - of this working, now - now that you know that, or you - you s- I think you stated that you - you knew that they weren't going to get the full 75 million dollars, but you - you questioned the director and executive director of the EDC, and they were confident that the amount that they were going to get was going to work, but now you see other documents, even though a Monday - Monday morning quarterback and you're seeing them later on, that actually they had knowledge that it wouldn't have worked, that you felt like you were intentionally --

A. Well--

92. Q. -- misled?

A. Yeah. Yeah, I - I've been asked the same question by Max Wistow, you know. I'll give you the same answer I gave him. You know, assuming these - these documents are accurate or correct, and - and - and those accusations are correct, you know, I - I hate to reach conclusions without having the other guy sitting there and saying to me, well tell me why we didn't have the - the third party monitoring ... tell me why if these notes are accurate you didn't tell us that. But, but yeah, I - I - you know, it - it - You know, in the end if all this is true, then it would seem that we were intentionally misled. But the - the - I, I don't want to draw that conclusion yet, because I - you know, I have to tell you, I - I'm shocked by Rob Stolzman. I

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mean, Rob was with the EDC for many, many years, and, you know, he's - he's - his reputation is good. I just don't - I don't see him intentionally lying to somebody. Now, --

93. Q. No, I - I know - I know you're saying you don't want to make that conclusion, but let's say that - that - that it's true and factual.

A. If it's true in fact, then yeah, I would --

94. Q. What can -

A. Yeah, then I'd think we'd been misled, and I - and I --

95. Q. Can you surmise why that would have -why that would be? You - you would think that somebody would benefit from that if that were the case. And - and just--

A. Well, --

96. Q. -- in your experience, --

A. - Well, look --

97. Q. -- on what you s- what you saw inside, do you have, you know.

A. Look, again, I only speak for myself. No one - when I say this, I never got a call from any legi- any member of the legislature, I never got a call from Gordon Fox, and I never got a call from the Governor putting pressure on me to approve and vote for. They were clearly supportive of it, I mean, the two most influential politicians in the state put forth a piece of legislation to give them 75 million dollars. So I mean, we certainly were aware of it, and - and we were certainly told by Keith that if we did -- if, if we did not give - give the loan, and - and were going to give that money to somebody else in some different form, that that was going to upset the Speaker. That's as far as it got. But I never got a call from any of those people saying, look, you know, you - you should do this / you need to do this.

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98. Q. And - and why would that make a difference to you - to you or to anybody on the Board if the Speaker was upset?

A. Well I'm not saying it did make a difference, I'm just, you know, that - that - I'm just telling you that's what he said. You know, the idea was because we were sitting there at one point in time saying: this is a 150 million dollar loan, you know, loan guaranty, you know; 75 million to one group is too much. And that's when he said no, the intention of the legislature was to do 75 million dollar program and 75 million dollar for 38 Studios. Now, you know, if -- if the legislature passes legislation to do that, you know, that they have the - I don't want to use the term "right," - but that's what they do. And if we're not going to, you know, support that, it isn't that because an individual personality is upset, it's that, wait a minute, the legislature wants this 75 millions dollars to go here, not there. So--

99. Q. Even if you believe it was an extremely risky --

A. Well, that's a --

100. Q. -- venture?

A. You know, if - if we - if, if somebody wanted to say look, we can't - we can't approve this loan, it's too risky, you know, we don't think we should approve the loan, you know, you, you know, then that would have gone down some course of action. Now whether the legislature would have said, well okay, we do it for the loan amount, okay, we'll give the money away to somebody else, you know, who knows what would have happened. So if - if we got to a point in time where we said no, this is not a - we, we can't put together a - a loan agreement with enough covenants in it to - to have a reasonable degree of protection for, you know, for the - for the - the loan amount, then, you know, the EDC and the legislature would

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have had to figure out whether - what - what they want to do. So I - it's not a question of, you know, somebody saying, well gee, the Governor's going to be upset or the - or the Speaker's going to be upset, and that's why we did something, but, you know, quite the contrary. I don't - I don't think there was ever a time in the - in the meetings that I've - that I attended where anyone put any, you know, undue pressure or anything like that on people to do that. The comment regarding Fox was early on in the context of, look, we asked for a 75 million dollar back... they added 75 for 38 Studios; you can't just take that 75 and go give it to somebody else, that's - that's going to upset the Speaker because that's - they specifically passed the legislation for that. Now, you know, you read in the paper after that that, you know, the legislators are claiming they knew nothing about it and it got in there and, hey, you know, that's way out of my league, I don't know what - what happened there, but, you know, we - we were told specifically that's what it was for. We - we discussed the risks, we put together a - viewed the loan package to make sure that we had - that they had a financial plan, and we relied upon staff to - to do that work and present it to us.

101. Q. The Speaker--

A. We had consultants telling us that they reviewed it and they supported it. We asked for a third party monitoring agreement to ensure that the plan was being adhered to, and - and, you know, quite frankly when 18 months later they went bankrupt, I was, you know, I was surprised because I read more about it, you know, I'm - I wasn't surprised because no one was - was appear -- it appears no one was providing any oversight during the timeframe. Because there is no reason that that company had to go bankrupt. Now, if the game came to market, whether it would have been a successful game or not, that's anyone's guess.

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102. Q. Now going back to the - the reports or risk assessments that you rely upon that are done by EDC employees, did you actually physically see those or are you just relying on the feedback from the director of ---

A. No, there was - there was - there were slide presentations made - I - you know what I mean, there were a lot of slide presentation that I can't just recall every single slide --

103. Q. Right.

A. -- that was up there. But no, there were - there were - there were slides, slide presentations made. Absolutely.

104. Q. But you didn't actually physically see a, like a report by an E- and EDC employee that just strictly does risk assessments on loans for EDC, you didn't actually see his report or...

A. No, we di- we did -- we did not get that. No.

105. Q. Do you know a gentleman by the name of Sean Esten (phonetic)?

A. No.

106. Q. Okay. And --

A. Is he the guy - Is he the staff guy for Saul who - who's again, tell me, I -

107. Q. Right. Correct.

A. I don't know him, --

108. Q. Did you see his --

A. I don't know him --

109. Q. Mm hmm.

A. You know, if he was sitting here, I'd look at his face, did I ever see him in a Board?

I mean, I'd have to see his face, but I don't know him, so.

110. Q. All right.

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A. And I - And, and he --

111. Q. Were you aware of his - his con- his conclusion of his report or his investigation into - into the feasibility of this, were you aware of that prior to the vo- anybody come--

A. No. No.

112. Q. -- forward and say --

A. No.

113. Q. -- you know, --

A. No.

114. Q. -- we still want to do this, but --?

A. No, the other person who - who -- the only two people who made - the only staff people, the only two staff people that I recall making presentations were Mike Saul and Keith Stokes, and most of the presentations were made by Mike S- Mike Saul.

115. Q. Okay.

A. Because that was - that was his job. He, he headed up that group within - within the EDC.

116. Q. Did anybody from 38 Studios speak directly with the Board and indicate a specific dollar amount that they needed?

A. Uh, no. They made one presentation. They came, they had the woman who was president.

117. Q. Ms. MacLean? MacLean?

A. Yeah, J- Jen MacLean. Shilling was there and S- a couple of members of the Board, two of whom I was very familiar with, although I didn't know them personally. One was

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the - the author.

118. Q. I'm actually going to pull out a couple of --

A. Salvatore. He did a lot of work for Hasbro. We have a group out of Seattle called "Wizzards of the Coast," and - and he writes all the stories and has published several books - a number of books for - for us. So I knew of him. I actually had never met him until he came to Rhode Island. But he had a - his outstanding reputation, and he was writing the story and it was on the board. The other guy was a - a toy developer, toy - McFarlane? Todd McFarlane. And I was very familiar with his work, he - because he was in the same -- He, he was in high end action figures and something called "Spawn," so I was very familiar with him and actually had met him years and years ago at Hasbro when he was looking possibly to sell his company, and - and we looked at it. So I - I was certainly, you know, knew those people and knew their reputation. So, you know, 38 Studios had some quality people putting this together, and - and I had --

119. Q. Is it fair to say that you were impressed with them?

A. No, not -not impressed. I mean, when I say "impressed" --

120. Q. Or confident with their abilities?

A. I was comfortable with the people they had there. I knew that the - I knew the reputation of those people. I mean, I knew Salvatore. M- Look, when you - when you're doing a video game, it's all about the story, you know, as - as well as the graphics and the action and that sort of thing. And I knew Salvatore was - was a great storyteller and very successful, so I was - I was confident that he would write a good story. Doesn't mean it's going to be successful, but he would write a good story. And I knew that McFarlane in terms of designing

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the characters from an artistic point of view was very, very good, and - and they would do a good job in that. You know, but the comment I made, you know, one of the Board ... look, there - there's - there's no question that Steven Spielberg's a hell of a movie director, but he doesn't hit a home run every time, I said, so even - if they have quality people, they have good people here that - and, and they know what they're doing, but that doesn't guaranty success. But certainly if they had a bunch of no-names, you know, I might have asked at that point in time depending upon the nature of the presentation for somebody to go back or give me a bit more information of who these guys are. But, but I knew of - of - of Salvatore and McFarlane, so I knew they were quality people in terms of - of what - what they were doing. So ... sure they had put together a good team. And, and McFar- And - and Jen MacLean, you know, I knew of her and one of the guys that worked for Hasbro who had worked for years - years ago at - at EA knew Jen well, and - and I just asked him, I said, you know, is she good at operating? And he said yeah, she - she knows the business - well, she's a good operator. So, you know, but I wouldn't use the word "impressed."

121. Q. Okay.

A. And the other thing that, you know, I'll just say that - I know you didn't ask the question, but one of the things that sort of grinds me a little bit, and I just - you know - you know, I can't climb into the heads of the Board members, but I know these people. You sit around the Board, you know, this wasn't about Curt Schilling. You know. The idea was Curt Schilling and everybody rolled over because of Curt Schilling, that - that - that wasn't the case. I mean, I can't guaranty every single Board member, you know, felt that way, but the vast majority of people, or the ones I del- talk with, you know, this had nothing to do with Curt

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Schilling that, you know, he played for the Red Sox, and we weren't mesmerized by him or anything like that I mean. Because a lot of the people on that Board had had over the years been involved and met lots of people who would be, you know, in the category of - of that sort of category. I mean, you know, Tim Babineau runs the hospital, he's the - he meets a lot of people; Shivan Subramaniam who runs FM Global, Choquette, running Gilbane. I mean that wasn't f--

122. Q. You mean celebrities.

A. That wasn't their first time--

123. Q. Right.

A. -- they met a big ball player. You know. So they're not - you know, they weren't, you know, blown away with that.

124. Q. So you feel comfortable that the decision or vote in favor of - of, you know, the loan was really based on the benefits versus the risks, and you felt that if this thing did take off, that the - the risk --

A. (Indiscernible utterance)

125. Q. -- uh, the benefits--

A. There was a lot of --

126. Q. -- certainly outweighed the risks?

A. You know, everybody at that point in time - and I don't - Look, I - I - I've read some of the stuff in the paper about, you know, the tax credits and somebody who's friends with - with Fox was representing 38 Studios for tax credits and all this stuff, I don't - we never knew about that, and not - not - you know ...

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127. Q. Didn't know about the relationship or the - or - or the tax credit?

A. Well I got ta- Didn't certainly know about the relationship.

128. Q. Okay.

A. I'll get to the tax credit in a minute. You know, we were doing this in the depths of a recession, and people would - would - I don't want to use the term "desperate," but we were looking for ways to try and - and get something going in - in the State of Rhode Island and, you know, certainly the City of Providence, if possible. And I think everyone was - was looking at here's an opportunity to - to bring in three - four hundred high paying jobs and can we put together a program here. It, it is risk-associated, no question about that, but let's put together a program and - and monitor that risk and mitigate it as much as we can. But there's three or four hundred jobs here. Now yeah, several of them may be, I don't know, 100 - 150 we're going to be moving from one state to the other, so it wasn't like we were taking a bunch of people off the unemployment lines. But there were a lot of other people that he hired that - that were the new - new employees. And so I think that was in from my perspective and from the Board's perspective, you know, the driving factor, you know, that this was going to create some jobs and an opportunity to maybe get something going. You know, the whole cluster thing, look that - that would be - that's icing on the cake if it happened. But - but that I think is what was driving... In terms of the tax credit, I'm not sure if it was myself or somebody else. I - I know I asked it one time, and somebody might have asked it beforehand as well. Okay, are these guys also entitled to tax credits, you know, on the, you know, film, you know immediate tax credit. You know and soon as the initial emotional response is well, no, you know, we're giving him 75 million dollars, you know, and all this other stuff.

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129. Q. And who is that response from, who - who are you addressing that with?

A. It was - it was no individual, it was sort of just, you know - You know, I don't - I don't want to say that, you know, it w-

130. Q. During - during one of the --

A. Yeah, it --

131. Q. -- Board meetings?

A. -- wasn't - you know, it was in one of the meet- it, it wasn't somebody said that look we have looked and specifically said yes and no, is it, you know, the tax credits were, you know, they weren't going to go get more money from the State on the tax credits and that sort of stuff. And I said, you know, I said, well hold on a second. You know, if a company goes - I mean - and, you know, if Hasbro goes to the bank and borrows a couple a hundred million dollars to run it's business and then spends it on R & D we qualify for the tax credit, we get it. So if 38 Studios borrows 75 million dollars, I mean, they got to pay the bond holders back. We're - we're part of the guarantor and insurers, but, you know, they - we - we didn't write a check to them I said, so why wouldn't they be entitled to that tax credit if in fact they - they qualify? And it was left open, we - nobody discussed it because there were no, you know, there was no - no one had applied for any tax credits and if someone did that was gonna, you know, that would go under a different set of rules and regulations. If they qualified, they're qualified. But from a --

132. Q. And if I can just ask, and what's the timeframe of this conversation, prior to the vote or is this all afterwards?

A. It's prior to the vote. Well, I don't want to - Is it prior to the vote? Well it certainly is

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prior to them getting any money. Now whether it was prior to the vote or not, quite frankly I don't - I don't recall. But, you know, it was one that the initial reaction: well gee, why should they get more? And then the other: well, wait a minute, everybody borrows money, I mean, so that - you know, is that - is - you know, is that something that would disqualify them? You know. And I think we said hey, that - that's not our periphery. I mean that's - there are specific regulations that the Film Institute does and they'll deal with that down, you know, down the road.

133. Q. Okay.

DETECTIVE CORPORAL BUONAIUTO: Lori, anything?

134. Q. Anything else that you think you might want to

INVESTIGATOR TELLIER / INDISCERNIBLE

tell us about or talk to us about that maybe we haven't something important that you think is - you would want us to know, or?

A. Let me think. (Pause) You know, I mean, we - we were - we - we were not aware - I wasn't aware personally, and it was never discussed at the Board, I - I don't ... if I'm suppo- I'm, I'm assuming no other Board member wasn't aware of any relationships that this fella Corso had in terms of - of film credits. We were not aware of staff or some members of staff recommending not to do this loan. We were never advised by either council or any of the financial advisors, never heard a - a recommendation against the loan from them. And - and - and again, was very surprised that we didn't have a third party monitoring agreement - Well, we never got - Now, now - you know, maybe if there was one in place, but they never got the reports and all that sort of stuff. I mean that just -- that, that's sort of shocking to me. And the only - the only other thing is, I mean I - I never went to a Board meeting in - in 2011 while -

while Chaffee was Governor, and I think shortly thereafter, Choquette, because his - his term, he was appointed to a one-year term, as I think Donna Cupelo and Shivan Subramaniam were, and I could be wrong on that, and - and they were - were not re applying. But I had, you know, bumped into, you know, directors and - and when the - when the bankruptcy or the thing sort of blew up, I guess it was when, last spring, you know, I talked to a couple of guys said, are you guys looking, you know, what was going on? And the sense I got was that Board members were asking questions, but were - were - were not - either staff and /or the administration did not want to talk about it. Because, you know, I - some of the people still sitting on that Board, I mean, it, you know, at the time, whether it was George Nee, Steve Lane, you know, I think Dooley is still on the Board, you know, they - they - my sense is that they were - they were surprised, and I was surprised that no one was looking on a monthly or quarterly - at least a quarterly, but monthly basis of, you know, attached floats. And I - and - and I think that my sense is that this is (indiscernible) reach but my sense is they were asking questions, but they weren't being answered.

135. Q. And ... Does the Board have any power to demand it? Like, do they have any sort of some like --

A. They weren't getting answers --

136. Q. -- some subpoena-types --

A. They weren't get--

137. Q. -- powers to ?

A. They weren't getting answers from the administration,. It wasn't 38 Studio.

138. Q. So the uh --

A. I mean -

139. Q. Okay.

A. Yeah. No. Do they have any - any, you know, power? You know, you have a loan agreement, but on the other hand, if they're in default and they're bankrupt, that's not going to help you. So I think that -- Look, my - my own personal feeling is that had they been looking on a monthly basis they could have avoided a bankruptcy. Whether or not at that time, no. If the game was unsuccessful and failed, you know, they probably would have gone under at that point, so but I think people were willing - were, were willing to take a risk upon success of the game, but I don't - you know, I'm - I'm really shocked that they had to go bankrupt.

140. Q. And you don't have any knowledge of anybody that would have benefited from - from this bond issuance regardless of whether the company was successful or not. You know, besides certain fees for closings and whatnot.

A. No. No. No, I mean I don't --

141. Q. Okay.

A. No. And --

142. Q. Okay.

A. No, I don't - I don't.

143. Q. Well we do appreciate your time very much.

A. All right.

DETECTIVE CORPORAL BUONAIUTO: We'll conclude this interview; it is now

11:45.

STATEMENT TAKEN BY: