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BEFORE THE ARIZONA CORPORAT

IN THE MATTER OF: )  
BRIAN C. HAGEMAN, an unmarried man, )  
DELUGE, INC. A dissolved Delaware )  
corporation, )  
HYDROTHERM POWER CORPORATION, a )  
dissolved Delaware corporation, )  
Respondents. )

DOCKET NO.  
S-20896A-13-0378

At: Phoenix, Arizona  
Date: July 14, 2014  
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VOLUME I  
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1 BE IT REMEMBERED that the above-entitled and  
2 numbered matter came on regularly to be heard before the  
3 Arizona Corporation Commission, in Hearing Room 1 of  
4 said Commission, 1200 West Washington Street, Phoenix,  
5 Arizona, commencing at 10:04 a.m., on the 14th of July,  
6 2014.

7

8

BEFORE: MARC E. STERN, Administrative Law Judge

9

10 APPEARANCES:

11

For the Arizona Corporation Commission Securities  
12 Division:

13

Ms. Wendy Coy  
Staff Attorney, Securities Division  
14 1300 West Washington Street  
15 Phoenix, Arizona 85007

15

16 For the Respondent:

17

Mr. Brian Hageman, Pro Per  
18 18832 North 95th Street  
Scottsdale, Arizona 85255

19

20

21

22

KAREN L. KESSLER, RPR  
23 Certified Reporter  
24 Certificate No. 50821

24

25

1 ALJ STERN: This hearing is now open in the  
2 matter of Brian Hageman and Deluge, Incorporated, and  
3 Hydrotherm Power Corporation, Docket  
4 No. S-20896A-13-0378. My name is Marc Stern. At this  
5 time we'll take appearances.

6 MS. COY: Wendy Coy for the Securities Division.

7 ALJ STERN: Mr. Hageman, do you want to enter  
8 your appearance?

9 MR. HAGEMAN: Yeah. Brian Hageman for the  
10 respondents.

11 ALJ STERN: Okay. I assume you all had a chance  
12 to discuss this matter further. There's no possibility  
13 of a resolution?

14 MS. COY: Doesn't appear so at this time, Your  
15 Honor.

16 ALJ STERN: Okay.

17 MS. COY: Although, we did discuss possibly  
18 having a stipulation to some of the exhibits.

19 ALJ STERN: Okay.

20 MS. COY: And I don't know -- Mr. Hageman was  
21 going to check which ones he would be willing to  
22 stipulate to.

23 ALJ STERN: Before we start with that, the other  
24 issue I had was -- Mr. Hageman, did you submit any  
25 exhibits? Because I haven't seen any.

1 MR. HAGEMAN: No, sir.

2 ALJ STERN: Okay. So are you intending to use  
3 any today, I mean, whenever?

4 MR. HAGEMAN: I don't have any plans of  
5 submitting exhibits, or I didn't submit any witnesses.

6 ALJ STERN: Okay.

7 MR. HAGEMAN: A witness list.

8 ALJ STERN: Are you intending to testify at all,  
9 yourself?

10 MR. HAGEMAN: I'm listed as a --

11 ALJ STERN: Witness for them, I guess.

12 MR. HAGEMAN: So I guess if I'm a witness for  
13 them, I'm going to have to respond.

14 ALJ STERN: Well, you can enter anything you  
15 want. You may decline to testify also. You have  
16 constitutional rights. But that's up to you.

17 Okay. Ms. Coy, where do we stand on stipulated  
18 exhibits?

19 MS. COY: I defer to Mr. Hageman. He was going  
20 to go check the list and see which ones he was willing  
21 to stipulate to.

22 ALJ STERN: Or maybe the list would be smaller  
23 as to which ones he objects to.

24 MS. COY: That may be too.

25 ALJ STERN: Have you had a chance to review

1 those, Mr. Hageman? She gave them to you quite a while  
2 ago, so...

3 MR. HAGEMAN: The request for a list of ones  
4 that I stipulate, the request was given five minutes  
5 ago. I had never seen that request before.

6 ALJ STERN: Okay.

7 MR. HAGEMAN: And I'm looking at that as we  
8 speak. There's 47 exhibits. I'll go through and --

9 ALJ STERN: Do you want to take a minute, or  
10 five minutes or so, or ten minutes?

11 MR. HAGEMAN: If that's the order of the  
12 procedure.

13 ALJ STERN: It sometimes saves us a little bit  
14 of time. But if not, we can admit each one, but  
15 sometimes it saves us time overall.

16 MS. COY: It's up to you, Mr. Hageman. We can  
17 go through and you'll have an opportunity to object to  
18 any of the exhibits or agree to them at that time.

19 ALJ STERN: See, here's what happens,  
20 Mr. Hageman. Normally, let's say, she will have a  
21 witness on the stand, and she will call the witness's  
22 attention to Exhibit No. 32, let's say. All right. If  
23 you stipulate, if you've gone through the list and say,  
24 I stipulate to Exhibits 1 through 40, I can't stipulate  
25 to these three, or whatever. Okay. When she then is

1 questioning that witness, she will lay a foundation if  
2 they're talking about an exhibit particularly, and then  
3 she will move it into evidence. At that time you'll  
4 have a right, if you want to, to object to that  
5 particular exhibit, assuming you have a valid objection,  
6 which you may or may not, I don't know. But it just  
7 saves a little bit of time. But otherwise, it's up to  
8 you as to what you want to do.

9           If you want to have her introduce each one  
10 individually, that's fine. If you see certain things  
11 like corporate records for Deluge or Hydrotherm or  
12 certain other information in there that you're familiar  
13 with and don't have any problem with it, you may say,  
14 you know, I can stipulate to these following exhibits,  
15 but these particular ones I want to hear why I object to  
16 them, so -- or why I shouldn't object to them.

17           So do you want to take time to look through  
18 these and stipulate? Or, like I say, she can introduce  
19 each one with each witness.

20           MR. HAGEMAN: I think it would be helpful if she  
21 knew before we even start what I'm objecting to.

22           ALJ STERN: Okay.

23           MR. HAGEMAN: If I can get a little time, yeah,  
24 that would be --

25           ALJ STERN: Okay. About ten minutes, do you

1 think will be enough to take a look through?

2 MR. HAGEMAN: Yes.

3 ALJ STERN: All right. We'll back about 22  
4 after 10:00, 23 after 10:00. Thank you.

5 MS. COY: Thank you, Your Honor.

6 (Recess taken from 10:09 a.m. to 10:21 a.m.)

7 ALJ STERN: We're back on the record in the case  
8 of Brian Hageman.

9 All right. Have you had a chance to review the  
10 documents?

11 MS. COY: Yes, sir, Your Honor. And if you'd  
12 like, I can go through a list, and Mr. Hageman can tell  
13 me if I missed one or he changed his mind.

14 ALJ STERN: Just give me a minute. Okay.

15 I have got a list with 41 on it. That's  
16 current, right?

17 MS. COY: That's correct.

18 ALJ STERN: Okay. What are we going to  
19 stipulate to?

20 MS. COY: S-8 through S-23.

21 ALJ STERN: Wait a minute.

22 All right.

23 MS. COY: S-25 through S-33.

24 ALJ STERN: S-25 through S-33.

25 MS. COY: 33, yes.

1 ALJ STERN: Okay.

2 MS. COY: And then S-35 through S-39, and then  
3 S-41.

4 ALJ STERN: Okay. So S-8 -- again, I just want  
5 to make sure I have the beginning ones right -- S-8  
6 through S-23, correct?

7 MS. COY: Correct.

8 ALJ STERN: Okay. All right. Ready to proceed,  
9 Mr. Hageman?

10 MR. HAGEMAN: Ready.

11 ALJ STERN: Okay. And you agree with those  
12 stipulated numbers she cited?

13 MR. HAGEMAN: Yes, sir.

14 ALJ STERN: All right. Are you ready to make  
15 opening statements?

16 MS. COY: Yes, sir.

17 ALJ STERN: Okay.

18 MS. COY: Oh, can you admit those exhibits then?

19 ALJ STERN: Oh, I'm sorry. That's a good idea.  
20 All right.

21 Without further ado, Exhibits S-8 through S-23  
22 are admitted, pursuant to stipulation; Exhibits S-25  
23 through S-33 are admitted, pursuant to stipulation;  
24 Exhibits S-35 through S-39 are admitted through  
25 stipulation; and Exhibit S-41 is also admitted.

1 (Exhibits S-8 through S-23, S-25 through S-33,  
2 S-35 through S-39 and S-41 were admitted into evidence.)

3 ALJ STERN: Okay. Anything else?

4 Opening statements.

5 Go ahead, Ms. Coy.

6 MS. COY: Thank you, Your Honor.

7 Today we're here regarding an individual who had  
8 an idea, created two companies and needed capital to  
9 support that idea. Mr. Hageman has been raising funds  
10 from investors through the sale of stock in Deluge,  
11 Inc., and Hydrotherm Power Corporation since, at least,  
12 1998 through, at least, September 2013. Mr. Hageman is  
13 the CEO of Deluge and Hydrotherm -- and I'll shorten  
14 their names, Deluge and Hydrotherm -- and he also  
15 controlled both entities.

16 Both entities were incorporated in the State of  
17 the Delaware and were filed as foreign corporations in  
18 the State of Arizona. As of 20 -- or 2009, the foreign  
19 corporation status was revoked in Arizona. As of 2010,  
20 the Delaware corporations were void due to failure to  
21 pay taxes. Even though the entities were no longer  
22 valid entities in either Arizona or Delaware,  
23 Mr. Hageman continued to offer and sell stock in both  
24 entities.

25 Mr. Hageman sold stock, alternating between the

1 different entities. Mr. Hageman asserts that he only  
2 sells to accredited investors. However, there are  
3 numerous offers and sales to unaccredited investors.

4 For Deluge, a number of Form Ds were filed with  
5 the SEC, Securities and Exchange Commission. Not all  
6 offerings were covered by the Form Ds that were filed.  
7 There were no Form Ds filed for Hydrotherm. And even  
8 though the Form Ds were filed, the Securities Division  
9 alleges they were not complied with and not available  
10 for Mr. Hageman to use.

11 The Securities Division will establish that  
12 Mr. Hageman, Deluge, and Hydrotherm did not qualify for  
13 an exemption under 506 of the Federal Regulations due to  
14 seeking investors through general solicitations.

15 Although Mr. Hageman stated that if a person  
16 wasn't accredited he would not sell to them, he did. At  
17 one point, Mr. Hageman suggested that an offeree claimed  
18 to be accredited when they clearly were not. Further,  
19 many of the investors came through general solicitations  
20 on the Internet, friends of friends, and Mr. Hageman's  
21 radio show. Mr. Hageman stated that he did not have  
22 prior relationships with all these investors.

23 There were some disclosure documents for Deluge;  
24 however, later in the offering, there were no disclosure  
25 documents provided to the investors. Hydrotherm never

1 had any type of disclosure documents. The only  
2 information investors received was about Deluge.  
3 According to Mr. Hageman, so long as he sold only to  
4 accredited investors, he didn't need to provide any type  
5 of disclosure documents. However, we will show that he  
6 did offer and sell to unaccredited investors.

7 At least one offeree was told that they would  
8 receive a return, 100 percent return, within three to  
9 five years. However, Mr. Hageman had failed to inform  
10 investors and offerees that he had been selling stock  
11 since 1998, and the entities had little to no revenue,  
12 and no returns or dividends had ever been paid to  
13 investors.

14 Further, after 2010, Mr. Hageman failed to  
15 disclose to offerees that Deluge and Hydrotherm were no  
16 longer active corporations due to the failure to pay  
17 back taxes, yet he continued to offer and sell stock in  
18 nonexistent entities.

19 Mr. Hageman admits to taking what he terms as  
20 shareholder loans. However, he failed to disclose to  
21 the offerees and investors that any funds raised from  
22 investors will go to him first. And if any funds are  
23 left over, then they will go to the companies. Further,  
24 there are no written agreements to support these  
25 shareholder loans. Nor are there any set terms,

1 including the interest rate, payments, or when the loans  
2 are required to be repaid. Nothing is in writing.

3 The stock in Deluge, Inc., and Hydrotherm Power  
4 Corporation was not registered. There were no  
5 exemptions available from registration, nor were they  
6 registered as an issuer dealer. Mr. Hageman was not a  
7 registered securities salesman or a dealer.

8 Since 1998 Deluge, Inc., and Hydrotherm Power  
9 Corporation have offered and sold securities in the form  
10 of stock -- excuse me -- to over 700 investors.  
11 Mr. Hageman has raised over \$11 million.

12 The Securities Division seeks a cease and desist  
13 order be issued against Mr. Hageman, Deluge, Inc., and  
14 Hydrotherm Power Corporation. In addition, an order of  
15 restitution should be issued in the amount of  
16 \$11,243,754.89. And an administrative penalty should be  
17 ordered for violations of the Arizona Securities Act.  
18 Thank you.

19 ALJ STERN: Okay. These are defunct  
20 corporations? They're gone?

21 MS. COY: Correct.

22 ALJ STERN: I mean, legally speaking, they are  
23 gone. They are out there, I think --

24 MS. COY: Correct.

25 ALJ STERN: For purposes of this proceeding they

1 are still existing, but they are gone by law.

2 MS. COY: They are no longer foreign  
3 corporations in Arizona, and the Delaware corporations  
4 are considered, what they term, void.

5 ALJ STERN: Okay. And that was effective 2009,  
6 2010?

7 MS. COY: That's correct.

8 ALJ STERN: And stock was still sold, right?

9 MS. COY: Correct.

10 ALJ STERN: Okay.

11 MS. COY: That's what we're alleging.

12 ALJ STERN: Okay. Mr. Hageman, do you want to  
13 make an opening statement?

14 MR. HAGEMAN: Yes, Judge Stern. Thank you. And  
15 just to -- well, hang on a second.

16 Thank you, sir. Just to finish that thought,  
17 talking about the Delaware corporations. Some were, in  
18 these documents, were stated some prices that were  
19 required to reinstate, or that was behind on taxes of  
20 some hundreds of thousands of dollars. It was, it was  
21 around \$380,000 that said that each of the companies  
22 owed in back fees and taxes to the State of Delaware.  
23 And that seemed to be an issue.

24 I had spent a considerable amount of time on the  
25 phone with Delaware recently and was provided with new

1 fees that are due to reinstate the companies.  
2 Basically, the state has a form, the State of Delaware,  
3 certificate for renewal and revival of charter. It's a  
4 process that I have gone through before, and it's, it  
5 has accounting methods in it to provide a fee based on,  
6 it's called assumed par value. And we have a stated par  
7 value, so we use that.

8           And it turns out that the taxes due to Delaware  
9 for Deluge is about \$3,500. And I have already made a  
10 down payment on that. So we're working towards reviving  
11 that charter with the State of Delaware. And they will,  
12 with the full payment of \$3,500, reinstate the company  
13 as a full Delaware corporation. And according to the  
14 rules in Delaware, when a charter, a Delaware  
15 corporation, becomes a corporation again, it's as if  
16 they always were a corporation.

17           So that's, I'm planning on getting Deluge taken  
18 care of within the next month here. And Hydrotherm is a  
19 little bit more around \$500,000. But I plan to be  
20 getting that done. That's was one of the reasons why I  
21 asked for an extension to get those in place before the  
22 hearing. But we'll deal with it this way.

23           As far as my opening statement. Yes, I grew up  
24 an inventor. I always had that kind of talent to be an  
25 inventor. And it was working overseas in the energy

1 business, in Saudi Arabia, that I came across this idea  
2 for extension of liquids inside a closed container to,  
3 that will generate some power. And it's taken me years  
4 and years to develop prototypes based on that thought.

5 But it's all based on the fact that I have been  
6 in the energy business all my life. Basically, ever  
7 since I was out of high school, practically, I was  
8 designing and building oil refineries, going overseas to  
9 Indonesia, and then to Saudi Arabia, building these huge  
10 energy plants. Came back here and changed companies and  
11 went into nuclear business and built, as a construction  
12 engineer, the three plants at San Onofre in California,  
13 and then -- or the two plants in California, I'm sorry,  
14 two plants in California. And then came out here and  
15 did the three plants here in Arizona that were all  
16 nuclear power plants generating electricity.

17 And I had the inside job of finishing all the  
18 high pressure reactor coolant cycle steam -- reactor  
19 coolant, processed piping, plus all the safety injection  
20 systems for all those systems. It was a huge job. But  
21 it gave me a background in high pressure piping that's  
22 needed in the technology that I have developed.

23 I built my first engines in my garage, you know,  
24 ran it off of hot and cold water from the kitchen sink  
25 to prove it to myself that the technology was real, and

1 then started working on some other prototypes that I can  
2 build myself out of Home Depot parts, basically.

3 But it came to a point in time that I knew I  
4 needed to raise money. This came at a point in my life  
5 though, that it was after -- I left the nuclear power  
6 business because my doctor -- I ended up in the hospital  
7 with double pneumonia. They diagnosed me that with  
8 pulmonary fibrosis. And my doctor came in the room and  
9 told me, Brian, you never should work again in your  
10 life. So I went on full disability. And while on  
11 disability, worked with counselors that helped me find,  
12 you know, ways to go back to school, you know, and still  
13 get paid on disability, and ways to try out new jobs on,  
14 you know, and try to find something that I can handle  
15 based on my disability.

16 And so that's what I did. The invention world  
17 came back open to me, and I met a few people that I knew  
18 the only way we were going to make this company go  
19 forward with the technology is to raise money. And I  
20 also knew, from going to Glendale college and getting an  
21 honors degree in business management, the accounting  
22 classes I took, I knew that there were steps and  
23 procedures that had to followed.

24 So the first thing we did is hire an attorney.  
25 We hired an attorney to write a private offering

1 memorandum based on the SEC 506(c)(3) rules, and we  
2 followed it. We brought in accountants that were  
3 experts to help set up our accounting. And then during  
4 the first, I think, five years or six years, I insisted  
5 on bringing in auditing teams from several different  
6 auditing companies to make sure that everything in the  
7 company was being done right, besides, not just the  
8 bookkeeping, but also any stock sales and stock records  
9 that were being kept, and the way we treated  
10 shareholders, was all being directed to me through  
11 policies and procedures that were written and followed.  
12 The whole time we ever sold stock, we followed those  
13 procedures that were audited.

14           And the auditing companies were experts, experts  
15 in the field of accounting and auditing. And the first  
16 group we brought in was a local Phoenix firm. The  
17 second group was Arthur Andersen, an international, very  
18 well respected at the time, auditing company and  
19 business management company. We brought them in for  
20 months, paid them a lot of money, and they looked at all  
21 of our work and said okay, you need to upgrade this and  
22 this and this from the first auditing company, and they  
23 did a good job, and they also were advising me on  
24 business strategy for the growing company.

25           A year later, Arthur Andersen left the scene;

1 their company folded. And we brought in a third  
2 auditing team that said, both your first and your second  
3 auditors didn't do things right. They had their own  
4 opinion on a lot of things, on how things should be  
5 done. And as far as record keeping and stock  
6 certificate holdings and stuff, they advised us on  
7 better procedures to use than the first two auditing  
8 companies that, I thought, were experts. You know, we  
9 paid them a great deal of money.

10 So the third auditing team came in, and we  
11 pretty much left those same procedures with us since.  
12 But we felt that over time having three sets of auditors  
13 come into the company would provide the assurance to  
14 anybody that we're not just, you know, selling stock out  
15 of the garage. We're following procedures that have  
16 been in place and used by many other companies in the  
17 United States. And I felt confident in the, the  
18 consultation that I had been getting from these, you  
19 know, advisors whether they were accountants, auditors,  
20 or attorneys.

21 There was a period of time where, basically, the  
22 first couple of sales were in Hydrotherm -- and I'm  
23 sorry if I'm going too long here, sir, but --

24 ALJ STERN: I just want to comment.

25 This is an opening statement where you sort of

1 summarize things. And I don't know whether you intend  
2 to actually offer testimony under oath, which is your  
3 prerogative if you wish to do so, but, you know, you  
4 should be aware of any possible actions that could  
5 subsequently happen based on your sworn testimony. And  
6 I, and at this point you're not under oath so you can  
7 say some things, but I just want to have you sort of  
8 narrow down and maybe summarize what you want to say.  
9 But like I say, for testimony purposes, you'll have to  
10 make that decision a little bit later. Your general  
11 statements are fine as to what they're -- it's not  
12 evidence, just so you understand that.

13 MR. HAGEMAN: I would have plenty of other  
14 things to say about any of these topics if I was a, you  
15 know, under oath and being questioned.

16 ALJ STERN: Well, you're free to testify if you  
17 wish to do so, if you make that decision. However, you  
18 know, when you're making your opening statement,  
19 generally you're summarizing what you hope your evidence  
20 will prove during the course of the proceeding. You  
21 said you aren't going to introduce any documents. I  
22 don't know whether you're going to call any witnesses.  
23 You know, you're making statements about things that  
24 happened, but they're unsworn statements. They're not  
25 what we call evidence in the proceeding until you, under

1 oath, and/or any witnesses you might subsequently call  
2 who would be testifying under oath also, would establish  
3 evidence. Just so you understand.

4 MR. HAGEMAN: Okay. Thank you. For the  
5 explanation. I appreciate that.

6 Just to move on -- and I will finish up here  
7 shortly. What I'm doing is trying to, at the same time,  
8 answer some of the State's attorney's discussion in  
9 their opening statement.

10 One thing that was brought up in, not just her  
11 opening statement, but the early documents filed with  
12 the, this issue, were the shareholder loans that were  
13 given to me over the years. And that's something that  
14 our accountants looked at, our auditors looked at, and  
15 they said it's basically an accounting function. At  
16 that time, that we started doing it many years ago, it  
17 was an accounting function, and we followed all  
18 accounting rules.

19 They mentioned that I need to be a  
20 broker/dealer, an issuer dealer. We were never told  
21 that. Everything I was told, that we can sell stocks if  
22 we were an officer of the corporation, any corporation  
23 in the United States is allowed to do that.

24 We requested that a cease and desist on the  
25 companies that are not put in place. I have an

1 obligation to the U.S. patent office, as an inventor, to  
2 carry forward that technology, you know, and that -- I'm  
3 trying to do it in the way I know how.

4 And the restitution of money, you know, the  
5 investors know they'll get, they'll get paid when the  
6 company makes money. They all know that. At least 99.5  
7 percent of them do. You've got a few of them in here  
8 today. Thank you.

9 ALJ STERN: Okay. Thank you.

10 Ms. Coy, who is your first witness?

11 MS. COY: The Securities Division calls Nita  
12 Killebrew.

13 ALJ STERN: Okay.

14

15 NITA KILLEBREW,  
16 called as a witness on behalf of the Securities  
17 Division, having been first duly sworn by the Certified  
18 Reporter to speak the truth and nothing but the truth,  
19 was examined and testified as follows:

20

21 DIRECT EXAMINATION

22 BY MS. COY:

23 Q. Can you please state your name for the record?

24 A. Nita Killebrew.

25 Q. Okay. And where do you reside?

1 A. Now? In Phoenix, Arizona.

2 Q. And how long have you been in Phoenix, or the  
3 Phoenix area?

4 A. Oh, the Phoenix area. 23 years.

5 Q. What is your employment history?

6 A. Well, I have been an admin, and then I'm a  
7 financial analyst. My background is economics and  
8 finance.

9 Q. Where are you currently employed?

10 A. Christ Church of the Valley as an admin.

11 Q. Are you familiar with someone by the name of  
12 Brian Hageman?

13 A. Yes.

14 Q. Are you familiar with Deluge, Inc.?

15 A. Yes.

16 Q. Are you familiar with the Hydrotherm Power  
17 Corporation?

18 A. Yes.

19 Q. We may be calling it Deluge and Hydrotherm; we  
20 mean the full name of the companies.

21 How are you familiar with Mr. Hageman, Deluge,  
22 and Hydrotherm Power Corporation?

23 A. My husband and I were introduced to Mr. Hageman  
24 and Deluge and Hydrotherm through one of their employees  
25 at the time Dave Russell.

1 Q. And how and what did Mr. Russell tell you about  
2 Deluge and Hydrotherm Power Corporation?

3 A. He said they were looking for investors, and his  
4 job was to find investors, and that it was on the  
5 cutting edge of Hydrotherm Power. And that was  
6 definitely a topic that was being discussed in our  
7 presidential elections, and so we knew it was an  
8 opportunity, and we took a look at it.

9 ALJ STERN: Excuse me. What year was that? You  
10 said the presidential election.

11 THE WITNESS: You know, I don't remember the  
12 exact year. I'm going to say probably '96, '97. It was  
13 being discussed about --

14 ALJ STERN: So this is awhile ago. It's not  
15 within the last couple of years?

16 THE WITNESS: That's correct.

17 ALJ STERN: Okay. Go ahead.

18 THE WITNESS: We were asked to come down and  
19 take a look at what Mr. Hageman had done so far. And  
20 there was a pump the size of a warehouse, and it was  
21 amazing the things they were talking about and what they  
22 could do. And we truly believed at that point that it  
23 was something that was an opportunity for people, for  
24 us.

25 BY MS. COY:

1 Q. So at that point, did you meet with Mr. Hageman?

2 A. Yes.

3 Q. And did Mr. Hageman confirm the information that  
4 Mr. Russell had provided to you?

5 A. Yes.

6 Q. At that point in time, so you're saying it's --  
7 if you look at Exhibit S-27 in front of you.

8 A. Uh-huh.

9 Q. There's a, the first page of Exhibit S-27,  
10 what's the date of that document?

11 A. December 16th 1997.

12 Q. So the conversation where you met Mr. Russell  
13 and Mr. Hageman and had discussions about this engine,  
14 was that approximately around the same time?

15 A. It had to be. It was prior to that actually.

16 Q. Okay. Did Mr. Russell or Mr. Hageman talk to  
17 you -- who was present when you met with Mr. Russell and  
18 Mr. Hageman?

19 A. You know, I don't recall. I know that at some  
20 point we were introduced to some attorneys, but other  
21 than that, I don't remember.

22 Q. Was it just you?

23 A. My husband and I.

24 Q. Okay. Did either Mr. Russell or Mr. Hageman  
25 talk about any type of risk involved with the

1 investment?

2 A. No.

3 Q. Did they tell you, or make comments about, what  
4 kind of return you could expect on this investment?

5 A. Well, they did, but I can't tell you exactly  
6 what that was.

7 Q. Did you believe you were going to receive some  
8 type of return on the investment?

9 A. A tremendous return. They were going to go  
10 public.

11 Q. Did they tell you when they were going to go  
12 public?

13 A. No, they needed to refine the technology and get  
14 it to where -- they already had over 200 orders from  
15 India, and they just needed the money to refine the  
16 technology and make it a more compact size that could be  
17 utilized by more people.

18 Q. When they talked about going public, what is  
19 your understanding, would that benefit your investment?

20 A. Absolutely. If it went public, the shares would  
21 be worth more and we would be liquidatable.

22 Q. Did both Mr. Russell and Mr. Hageman tell you  
23 about going public?

24 A. Yes.

25 Q. And you mentioned there were contracts already.

1 Can you explain that?

2 A. Well, they had asked Harmon, they wanted Harmon  
3 to be a shareholder, and at the time we didn't have the  
4 money to be a shareholder.

5 Q. Let me interrupt you for a minute.

6 Who is Harmon?

7 A. Harmon is my husband.

8 Q. Thank you.

9 A. And they wanted to use his name. And I notice  
10 they spelled it wrong on the stock certificate. But  
11 they knew the value of his name. They knew his  
12 licensure. They knew that he was a well-known sports  
13 athlete, and that he, through his influence, would bring  
14 other people into the company and introduce them. And  
15 they offered Harmon stock in exchange for them coming  
16 into and meeting people through Harmon.

17 Q. Your husband had a charitable organization where  
18 they raised money on a regular basis, correct?

19 A. Yes.

20 Q. Was Mr. Russell present at those functions?

21 A. Oh, yeah, a lot.

22 Q. And did Mr. Russell contribute to those  
23 charitable organizations?

24 A. He didn't contribute. It was actually  
25 difficult, because he would approach everybody, Harmon's

1 family, friends, his peers, about Deluge and Hydrotherm,  
2 trying to get them to buy stock.

3 Q. And was that with the approval of you and your  
4 husband?

5 A. No, not at all.

6 Q. Were you ever told how the funds would be used?

7 A. It was all about developing the technology  
8 further so that it could be refined and made more  
9 usable. I mean, you couldn't ship a warehouse sized  
10 pump anywhere. You had to make it smaller. And the  
11 window -- we did discuss, Mr. Hageman and I discussed,  
12 the first time we ever met, that the window of  
13 opportunity was very small. They needed to move quick,  
14 and they needed the money to get together to move quick.

15 And I was told by Mr. Hageman and Dave Russell  
16 that day that they were so far ahead of everybody else  
17 in the development of that technology that that wasn't  
18 an issue.

19 Q. Prior to investing, were you given any  
20 documents?

21 A. Not that I recall. But I don't, I can't say for  
22 sure.

23 Q. The information about going public, was that  
24 before you invested or after you invested?

25 A. That was after. The first time.

1 Q. The first time was after you invested?

2 A. After Harmon had agreed to let them use him, his  
3 name, and say he was a shareholder, they were supposed  
4 to give him shares. It took quite a while for them to  
5 give him shares, I know. Until that, they were allowed  
6 to use his name to say he was a stockholder. And after,  
7 I don't know, a short period of time, they were talking  
8 about going public. And I know that by, gosh, 2000,  
9 they were, we were being told by Dave Russell and  
10 Mr. Hageman that they were going public within weeks,  
11 within months.

12 Q. Do you know which company was supposed to go  
13 public?

14 A. Deluge.

15 Q. Not Hydrotherm?

16 A. No.

17 Q. What was your financial condition at the time of  
18 the investment?

19 A. In 1997 or --

20 Q. Yes.

21 A. Well, in 1997 we were, we were digging out of a  
22 big hole that my husband had had from a prior life,  
23 prior to marrying me. We were, we were making money,  
24 but not a great deal of money.

25 Q. Did you eventually make an investment in Deluge

1 or Hydrotherm?

2 A. Yes. Both.

3 Q. Okay. Do you recall which was your first  
4 investment?

5 A. I think Hydrotherm was. And we were talked into  
6 that by Mr. Hageman and by Dave Russell. Because when  
7 they went public, within a few very, a short period of  
8 time, Dave Russell told us within two weeks, we put  
9 Mr. Hageman on the phone, on speaker phone. And he said  
10 it had been delayed, because they had to refile some  
11 paperwork. It would be within the month they would go  
12 public. And then we invested in Hydrotherm. So that  
13 check was in 2002.

14 Q. Okay. Just a second.

15 Mrs. Killebrew, could you slow down just a  
16 little bit? I think the court reporter needs to just  
17 take a breath.

18 ALJ STERN: Wait. I want to back you up a  
19 minute.

20 You said you invested in Deluge first?

21 THE WITNESS: I don't remember which one came  
22 first. But I will tell you that I signed the checks,  
23 because I signed all the -- well, actually, my husband  
24 signed the first check for 25,000.

25 ALJ STERN: That was in --

1 THE WITNESS: 2000.

2 ALJ STERN: 2000.

3 BY MS. COY:

4 Q. And you're looking at Exhibit S-27, Bates --

5 A. Yes.

6 Q. Okay. Bates ACC002349?

7 A. Correct. And then the second check I signed  
8 was --

9 ALJ STERN: Wait a minute. Just a second.

10 THE WITNESS: Okay.

11 ALJ STERN: Now, this check, May 10th, 2000 for  
12 \$25,000 isn't written to a corporation, it's written to  
13 Mr. Hageman. Why would that be?

14 THE WITNESS: We were asked to do it. It was  
15 for shares in Hydrotherm.

16 ALJ STERN: Oh, I see. It says for 5,000 shares  
17 of Hydrotherm.

18 Did you ever get a stock certificate that said  
19 that?

20 THE WITNESS: Yes, we did. We got it in -- let  
21 me see. It says, May 2002. It's Exhibit 2350.

22 ALJ STERN: May of 2000, May 22nd, 2000; is that  
23 right?

24 THE WITNESS: Right.

25 MS. COY: That would be Exhibit S-27, Bates No.

1 ACC002350.

2 ALJ STERN: Okay. Go ahead.

3 BY MS. COY:

4 Q. Okay. The stock certificate that's the first  
5 page of Exhibit S-27 in December 1997, is that the stock  
6 Mr. Killebrew received for the use of his name?

7 A. Yes.

8 Q. Okay. And so when, when you actually put money  
9 into the company would have been in May of 2000,  
10 correct?

11 A. Cash. That's correct. But the value of  
12 Harmon's name and his reputation was worth way more than  
13 anything we put into the company.

14 Q. Wait a minute. You said you put cash in also?

15 A. Well, the 25,000, yes.

16 Q. Which is represented by the check in Exhibit  
17 S-27?

18 A. Yes.

19 Q. Okay. And then the third page of Exhibit S-27,  
20 ACC002350 is the stock certificate you received after  
21 investing \$25,000?

22 A. Correct.

23 Q. Okay. If you turn to the next page in Exhibit  
24 S-27, ACCd002351. That's a --

25 Can you identify that document for me?

1 A. It's a Deluge, Inc., certificate for shares of  
2 stock for 25,000.

3 Q. That's 25,000 shares, correct?

4 A. Yes, yes.

5 Q. Okay. And what's the date of this?

6 A. June 1st, 2000.

7 Q. Do you recall why you received this stock  
8 certificate?

9 A. No, I don't.

10 Q. Do you recall whether you invested additional  
11 funds in Deluge at this point?

12 A. I can't tell you that. I don't know.

13 Q. Okay.

14 ALJ STERN: What was the use of your husband's  
15 name, again? What did you get for that?

16 THE WITNESS: They were supposed to give him  
17 shares of stock.

18 ALJ STERN: Could that be this?

19 THE WITNESS: That could be. I just, I'm not  
20 sure.

21 ALJ STERN: Okay. But it's your testimony you  
22 only invested this 25,000?

23 THE WITNESS: No. We also invested another  
24 12,500 in Deluge.

25 ALJ STERN: Oh, okay. Okay. Go ahead.

1 BY MS. COY:

2 Q. Okay, looking at the next page in Exhibit S-25,  
3 ACC002352.

4 Can you identify that for me? What is the date  
5 of that document?

6 A. January 15th, 2002.

7 Q. And what is this document?

8 A. It's where we enclosed a check for 12,500 for  
9 25,000 shares of Deluge stock.

10 Q. Okay. You've got to slow down a little bit.

11 A. I'm sorry.

12 Q. My court reporter's fingers.

13 Okay. So is this a letter -- your name is on  
14 the signature block of this letter, correct?

15 A. That's correct.

16 Q. And do you recall making an additional  
17 investment in Deluge, Inc., for \$12,500?

18 A. Yes.

19 Q. Okay. If you turn to the next page -- well,  
20 before we do that.

21 How did you come to actually invest 12,500 with  
22 Deluge in January of 20, or 2002?

23 A. That was because Dave Russell came over and said  
24 that they were going public within two weeks and they  
25 needed more money. And they had orders from all over

1 the world now, we are talking thousands of orders. And  
2 Harmon said he wanted to hear that from Mr. Hageman's  
3 mouth, himself. And so Dave called him, and he put him  
4 on speaker, and he said they were going to go, be  
5 public, yes, within a month.

6 Q. And you were present during this conversation?

7 A. I was, yes.

8 Q. And you were -- you heard that over the speaker  
9 phone?

10 A. I did.

11 Q. Okay. Turning to the next page of Exhibit S-27,  
12 Bates No. ACC002353.

13 Can you identify this document for me, please?

14 A. That's the check that we wrote for the shares of  
15 Deluge stock.

16 Q. Is that your signature on this check?

17 A. Yes, it is.

18 Q. And in the memo section, what does it say?

19 A. 25,000 shares of common stock.

20 Q. And the check was made out to Deluge?

21 A. Yes.

22 Q. And then the next page in Exhibit S-27,  
23 ACC002354.

24 What is this document?

25 A. It's 25,000 shares of Deluge stock.

1 Q. And what's the date on the stock certificate?

2 A. January 25th, 2002.

3 Q. Now, would this have been the stock certificate  
4 you received from the purchase of \$12,500?

5 A. I'm going to assume, because it's the same  
6 month, yes.

7 Q. The documents in front of you related to Deluge  
8 and Hydrotherm, are those documents you provided to the  
9 Securities Division?

10 A. Yes.

11 Q. And these are your records that you keep at  
12 home, correct?

13 A. That's correct.

14 Q. And you're the one that sent them to the  
15 Securities Division, correct?

16 A. I did, yes.

17 Q. Okay. Now, at the time in 2002, what was your  
18 financial condition like?

19 A. We were making more money. We were actually  
20 even with the board. We were in a fairly good financial  
21 position.

22 Q. Okay. The next document in Exhibit S-27 was  
23 ACC002355.

24 Can you identify this document for me, please?

25 A. It's a letter from the Hydrotherm to

1 stockholders.

2 Q. And what is the date of the document?

3 A. February 28, 2005.

4 Q. Do you know who signed the document?

5 A. Brian Hageman.

6 Q. There is some writing at the bottom.

7 Do you know what that is? Is that your  
8 handwriting?

9 A. That's my husband's handwriting.

10 Q. Do you know, have you looked at this letter  
11 recently?

12 A. Not recently, no. Oh, it was the ten to one  
13 stock split. Yes, I did look at that.

14 Q. Okay. Can you tell us what this letter was  
15 about for Hydrotherm?

16 A. They were going to do a stock split because they  
17 needed more money to develop the technology, and they  
18 had to split the stock to sell more shares of it.

19 Q. And did you receive --

20 A. A new certificate?

21 Q. Yes. Did you receive a new certificate?

22 A. Unless it's in here, I don't -- yes, it is.

23 Q. Okay. Let's turn to the next page in S-27,  
24 Bates No. ACC002356.

25 Is this another letter from Hydrotherm?

1 A. Yes, it's a confirmation of receipt.

2 Q. Okay. What's the date on this letter?

3 A. I don't see the date, but my husband -- oh,  
4 March 31st, 2005.

5 Q. And what is the content of this letter?

6 A. To confirm receipt of the Hydrotherm Power  
7 Corporation stock.

8 Q. Do you recall receiving this?

9 A. Yes.

10 Q. Okay. If you turn to the next page of Exhibit  
11 S-27.

12 A. Uh-huh.

13 Q. ACC002357. Can you tell me what this document  
14 is?

15 A. It's the shares from the ten to one stock split.  
16 It was our new Hydrotherm shares certificate.

17 Q. Okay. And your name is -- the stock certificate  
18 was in both your names?

19 A. Yes.

20 Q. Okay. And if you turn to the next page in S-27,  
21 Bates No. ACC002358.

22 Is this the stock certificate that you were  
23 talking about?

24 A. Yes.

25 Q. Okay. And what's the date on the stock

1 certificate?

2 A. March 31st, 2005.

3 Q. Okay. And how many shares of Hydrotherm Power  
4 Corporation did you get?

5 A. From the split?

6 Q. Yes.

7 A. 50,000 shares.

8 Q. Okay.

9 ALJ STERN: What is -- how many shares did you  
10 hold originally in Hydrotherm? Do you recall?

11 THE WITNESS: Let me look real quick. It was  
12 5,000.

13 ALJ STERN: Okay. So it was a ten for one.  
14 Okay.

15 THE WITNESS: Yeah.

16 BY MS. COY:

17 Q. And at some point, did you ever approach  
18 Mr. Hageman or Mr. Russell and request your money back?

19 A. My husband did, yes.

20 Q. And approximately when was that?

21 A. I think probably right around 2006 when he  
22 realized that it wasn't going public, and that the jig  
23 was up.

24 Q. So did you and your husband have a discussion  
25 about concerns about the Hydrotherm or Deluge stock?

1 A. Yes.

2 Q. And what were those concerns?

3 A. Well, it was obvious they were just going out  
4 and getting new investors, instead of doing what was  
5 prudent for their investors that they had. They  
6 promised dividends every year, and dividends never came.  
7 People were calling us and saying, you know, what is  
8 happening with this. And we didn't have an answer.

9 And, yeah, so Harmon, he did, he finally got fed  
10 up asked Dave Russell to get his money back.

11 Q. And was what was the response? Were you  
12 present?

13 A. Yes.

14 Q. What was Mr. Russell's response?

15 A. He said he would do what he could.

16 Q. Okay. And turning to S-27, ACC002359.

17 Can you identify this for me, please?

18 A. Yes. He sold some of the shares of Deluge for  
19 Harmon, and we got a check from a gentleman for \$50,000.

20 Q. Do you have -- who bought the stock? Does it  
21 say?

22 A. The Daniels Family Trust, Dorin S. Daniels.

23 Q. Do you know Dorin Daniels?

24 A. No.

25 Q. So did you or your, to your knowledge, your

1 husband have anything to do with Dorin Daniels?

2 A. Not at all.

3 Q. Okay. So who arranged this stock sale?

4 A. Dave Russell.

5 Q. Okay. And what what's the date of this  
6 document? Can you tell?

7 A. The check is written on, it looks like 6/6/08.

8 Q. Okay. And the next page of S-27, ACC002360.

9 A. Uh-huh.

10 Q. Can you identify this document?

11 A. It's dated June 30th, 2008. It's from Shelly  
12 Shanahan of Deluge. And attached is a copy of my  
13 Deluge, Inc., stock certificate for 25,000 shares of  
14 capital stock.

15 Q. Slow down a little bit, please.

16 A. Sorry.

17 Q. And who signed the letter?

18 A. My husband.

19 Q. Okay. And did I ask you the date of this  
20 letter?

21 A. Yes. June 30th, 2008.

22 Q. Okay. And do you know what the request is here?

23 A. He sold 10,000 shares. And he wanted them to  
24 reissue his certificate, the one to the Daniels Trust,  
25 and then the other to himself for the remainder.

1 Q. Do you know if that took place?

2 A. Yes, it did.

3 Q. If you turn to S-27, ACC002361.

4 Can you identify that document for me, please?

5 A. Excuse me. It's dated July 20th, 2008. It's  
6 written to us from Investor Relations Department of  
7 Deluge:

8 Enclosed you will find a certificate for 15,000  
9 shares of Deluge, Inc., stock, issued in the name of  
10 Harmon and Nita Killebrew.

11 Q. Okay. So this would be in the reissued shares?

12 A. Correct.

13 Q. And then the next page, the last page of Exhibit  
14 S-27, is that the stock certificate?

15 A. Yes, it was.

16 Q. And it's made out to both you and your husband?

17 A. Right.

18 Q. What's the date on that?

19 A. It is July 20th, 2008.

20 Q. Now, you indicated you and your husband had some  
21 concerns about this investment so you made a request to  
22 get your money back.

23 Did you make other requests to either  
24 Mr. Russell or Mr. Hageman?

25 A. Many times, yes.

1 Q. And what was the response?

2 A. They just couldn't. They weren't in a position  
3 to do that, to cash out. Harmon even asked to have his  
4 friends liquidated, they wanted to be liquidated as  
5 well. And they just couldn't do it. They didn't have  
6 the money to do that.

7 Q. So with all this stock, what type of return were  
8 you expecting?

9 A. Well, if it was going public, we would expect a  
10 great return.

11 Q. Is that one of the reasons you invested?

12 A. Absolutely. And the technology was good in the  
13 beginning. It was very, very good. It was ahead of the  
14 game.

15 Q. When were you told you could expect the return  
16 on your investment?

17 A. Soon, very soon. Always within the month or by  
18 the end of year we'd be getting dividends. And it just  
19 never happened.

20 Q. Were you ever told how Deluge or Hydrotherm was  
21 going to earn income?

22 A. By selling these Hydrotherm pumps.

23 Q. Were you ever given any information on how  
24 Hydrotherm was going forward -- did they ever indicate  
25 to you where their funds were coming from?

1 A. No. They -- well, new investors, I suppose.  
2 But they never did tell us that. But they wanted  
3 investors to develop the technology and refine it so  
4 that it could be usable and affordable.

5 Q. Other than the times you've invested that are  
6 part of Exhibit S-27, were you approached to invest  
7 other times?

8 A. Oh, yes, many, many times.

9 Q. And who would approach you?

10 A. Dave Russell.

11 Q. Prior to making your investment, were you asked  
12 about your net worth?

13 A. Not that I recall.

14 Q. Were you asked about your financial condition?

15 A. Not that I know of.

16 Q. And you've indicated that at certain points  
17 since 1997 you've had financial problems?

18 A. Yes, we have had them.

19 Q. And were those financial problems discussed with  
20 Deluge or Hydrotherm?

21 A. No.

22 Q. Was it part of your request to receive a refund  
23 at any point?

24 A. A refund or to sell stock?

25 Q. To sell your, to obtain your investment funds

1 back.

2 A. Yeah, we talked about it. It just never  
3 happened, other than the 50,000.

4 ALJ STERN: When you got that \$50,000 back,  
5 that, did that represent a recovery of all the funds you  
6 invested? I remember a \$12,500 check and a \$25,000  
7 check.

8 THE WITNESS: The 25 was for stocks of  
9 Hydrotherm, which we still hold. The -- that was for  
10 Deluge stock.

11 ALJ STERN: The 25,000?

12 THE WITNESS: The \$50,000 check was for Deluge  
13 stock.

14 ALJ STERN: Well, the 50,000 was for Deluge  
15 stock.

16 THE WITNESS: Yes.

17 ALJ STERN: But overall, between the two  
18 entities, Deluge and Hydrotherm, I believe I only saw  
19 two checks, one for 25,000, one for 12,500. So the, at  
20 least out of, disregarding names --

21 THE WITNESS: Uh-huh.

22 ALJ STERN: -- there was \$37,500 transferred to  
23 the respondent, and somewhere, subsequently, I think you  
24 said his name was Russell, someone who worked with the  
25 company. Is that what --

1 THE WITNESS: That's correct.

2 ALJ STERN: Okay. Do you know what his position  
3 was or anything?

4 THE WITNESS: He was on the payroll. He told us  
5 he was on the payroll, but I don't --

6 ALJ STERN: You don't know.

7 THE WITNESS: I don't know what his position  
8 was.

9 ALJ STERN: Okay. But somehow, somehow, was it  
10 Mr. Russell who produced the -- what was the name of the  
11 people, the Dorins?

12 THE WITNESS: Yes. Daniels.

13 ALJ STERN: The Daniels Family Trust?

14 THE WITNESS: Yes, that's correct.

15 ALJ STERN: Mr. Russell found those people to  
16 invest?

17 THE WITNESS: Yes.

18 ALJ STERN: And they paid you and your husband  
19 50,000.

20 THE WITNESS: For 10,000 shares.

21 ALJ STERN: For 10,000 shares of --

22 THE WITNESS: Deluge.

23 ALJ STERN: -- Deluge. And you're still left  
24 with how many shares of Hydrotherm?

25 THE WITNESS: 15 of Deluge and 50,000 of

1 Hydrotherm.

2 ALJ STERN: Okay. But your actual cash out of  
3 pocket, if I, just so I understand the numbers, was  
4 37,500?

5 THE WITNESS: As far as my records would show,  
6 that's correct.

7 ALJ STERN: Okay. And you did get back 50,000.

8 THE WITNESS: That's correct.

9 ALJ STERN: You actually got 50,000 that went  
10 into your bank account.

11 THE WITNESS: That's right.

12 ALJ STERN: Okay. So, at least dollar-wise,  
13 you're sitting with a lot of stock that hasn't gone up  
14 in value, necessarily.

15 THE WITNESS: But we didn't, we didn't -- and  
16 that was, really, we felt like we were lucky. And  
17 unfortunately, Harmon's friends weren't as lucky.

18 ALJ STERN: So, at least dollar-wise, you came  
19 out better than you started.

20 THE WITNESS: Exactly.

21 ALJ STERN: And if things ever improve for the  
22 pumps maybe you'll still come out.

23 Okay. Go ahead. Continue.

24 BY MS. COY:

25 Q. Was there ever any written contract between your

1 husband and Deluge or Hydrotherm regarding the use of  
2 his name and how he was to be compensated?

3 A. You know, there was supposed to be, but I don't  
4 remember ever seeing one.

5 Q. Do you recall how Mr. Killebrew was supposed to  
6 be compensated for the use of his name?

7 A. It was supposed to be in stocks in the  
8 beginning.

9 Q. But you don't recall how much?

10 A. No. And I do the contracts. I did the  
11 contracts for Harmon when he was alive. I would be the  
12 one that would be asking for the contract, but I don't  
13 remember getting one. But, again, that's from my  
14 records of what I had in hand. That doesn't mean there  
15 wasn't one. I just didn't have a copy in my records.

16 MS. COY: Okay. At this time, I have no further  
17 questions, but Mr. Hageman might.

18 ALJ STERN: All right. Just a minute.

19 MS. COY: Or Judge Stern.

20 ALJ STERN: Okay. Mr. Hageman, do you have any  
21 questions for the witness?

22 MR. HAGEMAN: Yes, Judge Stern, I have a few.

23 ALJ STERN: Okay.

24 ///

25 ///

1 CROSS-EXAMINATION

2 BY MR. HAGEMAN:

3 Q. Thank you, Mrs. Killebrew, for coming in. We  
4 all miss Harmon. I brought his autographed baseball  
5 that he gave me once over at the house. He was quite  
6 the man. He was loved by everybody in the family,  
7 company, and also by the industry. We all miss him.  
8 And I hope you get your stamp.

9 You mentioned Dave Russell as an employee. I  
10 think Dave Russell may have worked, was on payroll,  
11 maybe, for a few months, but not very long.

12 A. He said he was for at least 18 months.

13 Q. Was it that long?

14 A. That's what he told us.

15 Q. I don't remember it being that long, but he was  
16 on the Board of Directors of the company. He left that  
17 position --

18 MS. COY: Objection. Is there a question here?

19 ALJ STERN: Yeah. I don't know what your  
20 question is, sir.

21 MR. HAGEMAN: Yeah. I was trying to establish  
22 who she was buying from, whether it was an employee or  
23 an officer of the corporation or both.

24 ALJ STERN: And I don't know if you have  
25 anything to establish his corporate relations.

1 MR. HAGEMAN: Yeah. He retired quite a long  
2 time ago.

3 ALJ STERN: Well, whatever, it --

4 BY MR. HAGEMAN:

5 Q. The question is did you know he was an officer  
6 of the corporation?

7 ALJ STERN: Which corporation?

8 BY MR. HAGEMAN:

9 Q. Both. When he sold stock?

10 A. I didn't know he was an officer of the  
11 corporation, no.

12 Q. Okay. The original stock certificate we issued  
13 to Harmon and you was for, we wrote it up as stock for  
14 services.

15 A. And I think that's probably correct.

16 Q. And we don't have a contract, and I don't see  
17 anything in writing on exactly what was behind that. I  
18 don't know if he did some public appearances or what.  
19 But it wasn't until 2002, a few years later, where you  
20 actually wrote a check.

21 A. Correct.

22 Q. And we had -- did we explain to you the policy  
23 at the time that, if you were a shareholder, no matter  
24 where it came from, that you were allowed to buy more  
25 shares?

1 A. Well, I don't remember being told differently.  
2 I mean, that would be common knowledge, wouldn't it?

3 Q. Well, the policy of the company being -- well,  
4 we, we sell shares to anybody that's a shareholder.  
5 That's, I guess that was common knowledge.

6 A. Yeah.

7 Q. Well, the difference being, we never went to you  
8 and asked you to fill out a subscription agreement and  
9 identify yourself as an accredited investor because you  
10 already were a shareholder. Is that not right?

11 A. Well, that could be correct. I don't remember  
12 that. I don't know the details of that, but that could  
13 be correct. If it's, if it's legal, I guess that's what  
14 it would be.

15 Q. That was our policy back then. I don't know if  
16 anybody explained that to you.

17 MS. COY: Objection. He needs to ask questions,  
18 not testify.

19 ALJ STERN: Okay. Yes, Mr. Hageman, it's, often  
20 times when you're doing this without having done it  
21 before or recently -- when you cross-examine the  
22 witness, ask her questions. Making a statement of fact  
23 in responses to a comment of the witness or in trying to  
24 ask a question is not a question.

25 So I'm just going to caution you on that. So

1 try and think about it before you ask a question.

2 BY MR. HAGEMAN:

3 Q. You mentioned that the, we did a stock split so  
4 we could sell more shares.

5 A. That's what we were told, for Hydrotherm.

6 Q. Okay. I don't ever remember giving that out as  
7 talking points, but if that's what you heard, that's  
8 what you're testifying you heard.

9 ALJ STERN: Mr. Hageman, again, you're making a  
10 statement, sir. Ask questions.

11 BY MR. HAGEMAN:

12 Q. Can I ask if you were ever told that we would go  
13 public if we received the amount of investment that we  
14 needed to go public?

15 A. No.

16 Q. That was never told to you?

17 A. No. And, sir, I'd like to remind you, you were  
18 the one that told us you were going to go public within  
19 the month.

20 Q. If we got the full investment.

21 A. You didn't say that.

22 Q. That was our plan. But to go on.

23 Did we ever say that we would try to raise the  
24 money and pay you dividends?

25 A. Yes.

1 Q. From other investors?

2 A. We were told we would be paid dividends through  
3 sales --

4 Q. Through sales?

5 A. -- of the pumps by the end of the year, every  
6 year.

7 ALJ STERN: That was back in 2000 or --

8 THE WITNESS: It was repeatedly.

9 ALJ STERN: Do you know when it began?

10 THE WITNESS: Right from the beginning.

11 ALJ STERN: From 2000 -- or '97.

12 THE WITNESS: When we first looked at this,

13 Mr. Hageman, as we toured the facility, told us he  
14 already had over 200 orders from India, and he needed  
15 the money to develop the technology and refine it to  
16 make it more affordable to ship.

17 BY MR. HAGEMAN:

18 Q. But you were told that you would get paid  
19 dividends based on sales of --

20 A. Yeah.

21 Q. -- products?

22 A. Yeah. You already had those sales in the  
23 pocket.

24 Q. Okay. Did the company ever explain to you about  
25 our stock repurchase program?

1 A. Not me, no.

2 Q. You recall letters that were sent out from the  
3 company, various letters from --

4 A. Yes.

5 Q. -- every once in a while? Usually --

6 Do you remember the bottom line, you always  
7 asked for more money?

8 A. No.

9 Q. You always asked for more money.

10 A. I don't --

11 Q. You don't recall that?

12 A. I don't remember that.

13 Q. And you testified that you, that the Daniels  
14 family bought a bunch of stock from you.

15 A. They bought 10,000 shares through Dave Russell.

16 Q. It was on my recommendation. You probably  
17 didn't hear that.

18 A. I didn't know that.

19 Q. Yeah. I kind of moved that to try to help you  
20 guys out.

21 But that made you net positive on all the money  
22 you put in the company.

23 A. The money, but not to Harmon's efforts and his  
24 services.

25 Q. If you can testify to what services he provided.

1       A.       You used his name.  You used his licensure.  It  
2 was worth a lot of money.  He got paid, he got paid for  
3 his licensure.  He got paid to make appearances.  He got  
4 paid to be where people would come to him and get  
5 autographs.  You had him come to shareholder meetings.  
6 You had him come to Deluge where other people, possible  
7 investors, were coming in.  You had him come in to  
8 validate yourself.

9       Q.       I recall him at some investor meetings, but I  
10 never remember telling him you have to do that for a  
11 contract.

12       A.       That was part of the arrangement that you made  
13 in the beginning.

14       Q.       Do you have any documents that show --

15       A.       No.  Interestingly enough, I don't remember ever  
16 getting a contract.

17       Q.       Do you recall how many other shareholders he  
18 might have brought in?

19       A.       Harmon didn't bring in anybody.  He would come  
20 to the company and you would have him there, and other  
21 investors were brought in.  He didn't bring any in.

22               The ones that came in that bothered him the  
23 most, were the ones Dave Russell gleaned from our  
24 events, which were Harmon's close friends.

25               ALJ STERN:  If I understand you correctly,

1 ma'am, from what you're saying, did Mr. Killebrew go to  
2 wherever the -- was it like a manufacturing facility or  
3 something?

4 THE WITNESS: He did, and also to Mr. Hageman's  
5 house one time.

6 ALJ STERN: Where was the manufacturing  
7 facility? If you recall.

8 THE WITNESS: I can't remember.

9 ALJ STERN: All right. So he would appear there  
10 to meet with prospective investors?

11 THE WITNESS: That was the idea, to schmooze  
12 people and sign autographs. That's what he gets paid to  
13 do.

14 ALJ STERN: They'd tell them he was an investor  
15 too, or something?

16 THE WITNESS: Well, they were -- that's what  
17 they wanted to say, Harmon believes in this technology.  
18 And he did.

19 ALJ STERN: All right. Go ahead.

20 BY MR. HAGEMAN:

21 Q. Did you ever hear any other investors at  
22 meetings try to bring in other shareholders based on  
23 their shares?

24 A. I think you'll recall that I didn't attend any  
25 of those meetings. I went through the first tour at the

1 plant and met you there. I did not attend any of those  
2 other meetings.

3 MR. HAGEMAN: Okay. That's all I have for you.

4 ALJ STERN: Okay. I don't have any other  
5 questions for her.

6 MS. COY: Just one follow up.

7 ALJ STERN: Just a minute. Just a minute.

8 MS. COY: Oh, I thought you said no.

9 ALJ STERN: I have a question, then you can do  
10 your follow-up.

11

12

EXAMINATION

13 BY ALJ STERN:

14 Q. You said when you first went to, I guess you  
15 went to the facility wherever it was, you don't recall,  
16 but you said the pump was the size of a warehouse?

17 A. It was huge.

18 Q. I mean --

19 A. I'm a dairy girl. We had a big dairy farm, and  
20 it was bigger than any of our tanks where we gathered  
21 milk. It was huge.

22 Q. You mean like a tank, like a milk tank?

23 A. Kind of big round hydrotherm pump, solar  
24 powered, that would have filled this room. It was huge.  
25 But the technology was amazing.

1 Q. But the idea was to make it smaller?

2 A. Absolutely. And usable.

3 ALJ STERN: Okay. Go ahead, Ms. Coy.

4

5 REDIRECT EXAMINATION

6 BY MS. COY:

7 Q. Just one.

8 At the time Mr. Russell initially approached you  
9 to invest, you believed him to be an employee of  
10 Hydrotherm or Deluge?

11 A. Yes. He told us he was an employee. He was on  
12 the payroll for Deluge.

13 Q. Okay. Just for clarification.

14 Can you tell us what your husband did that he  
15 had licenses for?

16 A. He was a major league baseball player, a  
17 Hall-of-Famer.

18 MS. COY: Thank you. No further questions.

19 ALJ STERN: Okay. You're excused, ma'am. Thank  
20 you.

21 Do we have another witness ready to go?

22 MS. COY: We do. Can we take a couple minute  
23 break?

24 ALJ STERN: Yeah. We can take five minutes.

25 I'd like to see if we can get air conditioning on in

1 here, because it seems a bit warm.

2 MS. COY: Okay. Thank you.

3 ALJ STERN: We'll recess.

4 (Recess taken from 11:22 a.m. to 11:29 a.m.)

5 ALJ STERN: Returning to the record.

6 Ms. Coy, who's your next witness?

7 MS. COY: The Securities Division calls William  
8 Santee.

9 ALJ STERN: Okay.

10

11

WILLIAM H. SANTEE,

12

Called as a witness on behalf of the Securities

13

Division, having been first duly sworn by the Certified

14

Reporter to speak the truth and nothing but the truth,

15

was examined and testified as follows:

16

17

DIRECT EXAMINATION

18

BY MS. COY:

19

Q. Can you please state your name for the record?

20

A. William H. Santee.

21

Q. What is your employment background?

22

A. Well, I currently work for the Arizona

23

Corporation Commission as a special investigator. Prior

24

to that, private investigator for about five, six years;

25

prior to that ten years at Wells Fargo Corporate

1 Security as a vice president with corporate security,  
2 handling all threats against the bank; prior to that,  
3 about two years with Bank of America, working  
4 international credit card fraud; and prior to that,  
5 21 years with the Wheat Ridge Police Department in  
6 Colorado, retired as a detective sergeant.

7 Q. Are you an Arizona resident?

8 A. Yes, I am.

9 Q. As part of -- can you explain what your job  
10 duties are as a special investigator?

11 A. I conduct inquiries in securities and investment  
12 matters. I interview witnesses or investors. I conduct  
13 undercover investigations. I complete reports, testify  
14 in hearings and examinations under oath, and other  
15 duties as assigned.

16 Q. As part of your job duties, are you familiar  
17 with Brian Hageman, Deluge, Inc., and Hydrotherm Power  
18 Corporation?

19 A. I am.

20 Q. What were your job duties with respect to  
21 Mr. Hageman, Deluge, and Hydrotherm?

22 A. I was requested by the investigating agent to  
23 conduct an undercover conversation with Mr. Hageman.

24 Q. And did you do that?

25 A. I did.

1 Q. If you turn to Exhibit S-11.

2 A. Okay.

3 Q. Do you recall how you initially contacted  
4 Mr. Hageman or Deluge and Hydrotherm?

5 A. Yes, I do.

6 Q. How did you initially contact Mr. Hageman or  
7 Deluge or Hydrotherm?

8 A. I sent an email to Mr. Hageman on March 16th,  
9 2012.

10 Q. If you look at the bottom of S-11, the first  
11 page.

12 A. Okay.

13 Q. Some of these email strings are out of order, so  
14 I will direct you.

15 At the bottom half of S-11, Bates No. ACC000042.  
16 Is that the email you just mentioned, or that you  
17 indicated you sent an email to Mr. Hageman?

18 ALJ STERN: You're talking Exhibit S-11?

19 MS. COY: Correct.

20 ALJ STERN: And what --

21 MS. COY: The bottom half of the first page.

22 ALJ STERN: The one where it starts out, Chris  
23 Rogers. At the very top, I'm just saying, it says, to  
24 Chris Rogers in my book.

25 MS. COY: I don't know that name.

1 ALJ STERN: Well, see that's -- I may have a  
2 different -- okay. I have the wrong book. I'm sorry.  
3 It said book one. That's why it didn't make any sense.

4 Can I borrow it and then -- either that, or I  
5 have to go back and get Volume I.

6 How many exhibits are you going to be referring  
7 to?

8 MS. COY: Three or four.

9 ALJ STERN: It should be in my office by the  
10 table there somewhere.

11 BY MS. COY:

12 Q. Okay. If you look at the bottom of S-11.

13 Is that your contact with Mr. Hageman?

14 A. Yes, it is.

15 Q. Okay. How did you get that email address? What  
16 did you do to get that email address?

17 How about if I refer you to S-8?

18 A. Okay.

19 MS. COY: Should we just wait?

20 ALJ STERN: Go ahead. I think I can live with  
21 it.

22 BY MS. COY:

23 Q. Okay. S-8, do you know what S-8 is?

24 A. Yes, I do.

25 Q. What is S-8?

1 A. This is a web page for Deluge, Inc.

2 Q. And if you turn to Bates No. ACC003943.

3 A. Yes.

4 Q. As part of your, I think you called it an  
5 undercover investigation, did you complete this contact  
6 information off the web page?

7 A. Part of it, yes.

8 Q. Okay. And is that the, going back to S-11, that  
9 bottom half, is that where, is that what you sent to  
10 Mr. Hageman?

11 A. It is.

12 Q. And what was the date of that?

13 A. March 14th, 2012.

14 Q. And -- just a second.

15 (Brief pause.)

16 BY MS. COY:

17 Q. Okay. So you filled out the information.

18 What name did you use?

19 A. Billy Matthews.

20 Q. And did you, in the comment section, talk about  
21 an interest in investing?

22 A. Yes.

23 Q. What did you say? Can you read it?

24 A. Yes. It says:

25 Hello, Margo told me about your investment in

1 the Hydro company, but I have never invested before, and  
2 I don't fall under any of the things on the paper she  
3 showed me. I just inherited some money and I wanted to  
4 invest 100,000 with a new company and like what you have  
5 done. The patents are very promising, you seem very  
6 smart. Please let me know what I can do. Thanks.

7 Q. And who is Margo?

8 A. Margo is the special investigator in this case,  
9 Annalisa Weiss.

10 Q. And did you receive a response from Mr. Hageman?

11 A. Yes, I did.

12 Q. Is that at the top of the page on Bates  
13 No. ACC42?

14 A. Yes.

15 Q. Okay. And what did he, what date is that?

16 A. That is March 14th, 2012.

17 Q. And did, what did Mr. Hageman say?

18 A. He said: Hi Billy - thank you for your interest  
19 in the Deluge technology. It sounds like it would be  
20 helpful if we talked on the phone. Please email a phone  
21 number and times you are available. Brian Hageman.

22 Q. Okay. And if you turn to the second page of  
23 S-11, did you respond to that email?

24 A. Yes, I did.

25 Q. When did you respond to that email?

1 A. On March 16th, 2012.

2 Q. And did you provide him a phone number?

3 A. I did.

4 Q. And did Mr. Hageman respond?

5 A. Yes, he did.

6 Q. And what date, or what, what's the date of the  
7 response?

8 A. March 16th, 2012.

9 Q. And that's at the second email on Bates  
10 No. ACC43, correct?

11 A. Correct.

12 Q. And did he provide you any information at that  
13 time? Did Mr. Hageman provide you any information at  
14 that time?

15 A. I don't believe so, not at that time.

16 Q. If you look at his email, what did he say?

17 A. Hi Bill - good to talk to you. Attached is the  
18 subscription agreement and the other info docs.

19 So I guess he did.

20 Q. And if you turn to S-13.

21 Can you identify S-13 for me, please?

22 A. Yes. This was an executive summary that was  
23 sent to me by Mr. Hageman.

24 Q. Is that what you received that was mentioned in  
25 the email in S-11?

1 A. Yes.

2 Q. And if you turn to Bates No. ACC000060.

3 What is that document? Or is that another  
4 document you received?

5 A. Yes. This is an informational report entitled,  
6 Natural Energy Engine Frequently Asked Questions.

7 Q. And this is from Deluge, correct?

8 A. Yes, it is.

9 Q. And if you turn to ACC000064.

10 A. Okay.

11 Q. Where did you get this document?

12 A. Same place.

13 Q. From Mr. Hageman?

14 A. Yes.

15 Q. And what is this document?

16 A. This is a Hydrotherm Power Corporation  
17 Subscription Agreement.

18 Q. And in that subscription agreement, does it say  
19 where Hydrotherm Power Corporation is incorporated?

20 A. Yes. It says a Delaware corporation.

21 Q. And what date did you receive these documents?

22 A. State of Arizona.

23 Q. No. I'm sorry. What date --

24 A. Oh.

25 Q. -- did you receive it? Do you recall?

1 A. I believe it was the 16th.

2 Q. Of March?

3 A. Yes. Of March 2012.

4 Q. Okay. So 2012?

5 A. Right.

6 Q. Okay. And does it also, in the subscription  
7 agreement, discuss Reg D?

8 A. It mentions it.

9 Q. And is that in the first paragraph?

10 A. Yes, it is.

11 Q. And then if you turn to the second page of that  
12 document, ACC65.

13 A. Okay.

14 Q. Is there a list about accredited investors?

15 A. Yes.

16 Q. And they have different levels, a through g,  
17 correct?

18 A. Correct.

19 Q. And g is other accredited?

20 A. Correct.

21 Q. Do you know what that means? Or did you have an  
22 idea looking at it what it meant?

23 A. Not really, no.

24 Q. Okay. Okay. Let's go back to Exhibit S-12.

25 What is Exhibit S-12?

1 A. This is a transcription of the audio recording.

2 Q. Now, in S-11 Mr. Hageman talked about wanting  
3 your phone number and to have a conversation with you.

4 Did you have a conversation with him?

5 A. Yes, I did.

6 Q. Did you record that conversation?

7 A. Yes, I did.

8 Q. And subsequently was that tape recording put  
9 into a transcript?

10 A. Yes, it was.

11 Q. And did you compare the tape recording and the  
12 transcript to make sure they were accurate?

13 A. Yes, I did.

14 Q. Okay. And were they accurate?

15 A. Yes, they are.

16 Q. Okay. If you turn to page four of the  
17 transcript -- oh, before we do that.

18 What date did the phone call take place? Do you  
19 recall?

20 A. This was a recorded phone call between Brian  
21 Hageman and myself on March 16th, 2012.

22 Q. Okay. If you turn to page four, did Mr. Hageman  
23 indicate that you must be accredited to invest in his  
24 companies?

25 A. Well, his comment was that's something that we

1 have to kind of hold to. That was his statement.

2 Q. Okay. But you did have a discussion about being  
3 accredited, correct?

4 A. Yes, we did. Yes.

5 Q. And you were reading from line two of page four?

6 A. Yes, I was.

7 Q. And did Mr. Hageman ever indicate whether it's  
8 difficult or easy to qualify as accredited?

9 A. He said, it was from line six, he said:

10 It's fairly loose in its interpretations to some  
11 extent, and it's changed over the last 15 years since I  
12 have been selling stock in the company.

13 Q. At any time in your conversation with  
14 Mr. Hageman, did you discuss risk? And if you look at  
15 page five, around line 21 --

16 A. Yes, he did.

17 Q. What did he say?

18 A. Okay. Well, it -- you know, investing in a  
19 private company is risky, and usually we, we don't want  
20 anybody to sink their whole, you know, their whole  
21 dollar, their savings account into.

22 Q. So Mr. Hageman did tell you it was going to be a  
23 risky, potentially risky, investment?

24 A. Yes, he did.

25 Q. And going further, if you turn to page six, did

1 Mr. Hageman discuss how to meet the requirements of  
2 being accredited?

3 A. Yes, he did.

4 Q. And what did he say?

5 A. That's the, usually not the, not the way to take  
6 a risk. But the, the, there's all -- you know, as far  
7 as the, the subscription agreement, you should probably  
8 estimate that off of your inheritance and your  
9 disability income that you expect to make more money.

10 Q. So at the time you told him that you were on  
11 some type of disability?

12 A. Correct.

13 Q. Did, did Mr. Hageman tell you what an accredited  
14 investor was?

15 A. Yes, he did.

16 Q. And what did he say?

17 A. He said, from line ten:

18 You're, you're planning on investing that money,  
19 it's going to be so you, you can get over the 200,000 a  
20 year threshold. I mean, it, it's easy to say that and I  
21 have got plenty of investors. We've got, you know, 700  
22 shareholders in the company.

23 Q. And at any point, did he tell you -- what other  
24 information did he give you about meeting the  
25 qualification of being accredited?

1 A. He said on line 18:

2 We're not required to verify any of the  
3 information on your subscription agreement.

4 And then on line 22, he said:

5 We just need to have a signed piece of paper in  
6 our file.

7 Q. And then what's the last line and the first of  
8 the next page?

9 A. Oh, okay.

10 You know, but, you know, and a lot of our  
11 shareholders, when they signed it, they were fully  
12 accredited.

13 But then on line five:

14 But then after -- then three years later, they  
15 lost it all.

16 Q. At any point during your conversation, did  
17 Mr. Hageman ever discuss the type of return you could  
18 expect?

19 A. Yes.

20 Q. If you turn to page eight.

21 A. Okay.

22 Q. What type of return did Mr. Hageman tell you you  
23 could expect on this investment?

24 Starting at line three, did he talk about the  
25 return?

1 A. Yes. He stated:

2 And, you know, we'd be more than happy to put it  
3 to work with Deluge, but our return to investment is, is  
4 slower than you would get on some other -- well, they  
5 would probably be a higher risk.

6 And then line seven:

7 Specialty investments that might make you money  
8 sooner, but you are a young guy.

9 Q. Did Mr. Hageman tell you what you would receive  
10 for your investments?

11 A. Yes.

12 Q. What were you going to receive?

13 A. Common stock.

14 Q. And would you get something for your investment?  
15 How would you -- did he tell you what you would receive  
16 to show your investment?

17 A. Yeah. I'd be getting a stock certificate is  
18 what he said.

19 Q. Okay. That's at page 16.

20 A. Right here. Line 12:

21 The stock, you get common stock.

22 And then on line 14:

23 You get a certificate for common stock. I mean,  
24 that is a lot of experience too. This is all I have  
25 been doing for the last 12 to 15 years.

1 Q. Okay. And if you go down to line 19.

2 Did he indicate how much money has been raised  
3 so far?

4 A. Yes.

5 Q. How much?

6 A. Growing the company, developing the company, and  
7 we've brought in about 14 million in investments.

8 Q. And then looking at line 23, does he say how he  
9 brought in that money?

10 A. And it's all only one way, common stock.

11 Q. Okay. If you turn to page 17.

12 Did he tell you about the stock in Deluge?

13 A. Yes. On line, starting on line three, he said:

14 It's common stock, and the Deluge is sold out.

15 Basically, we can't sell any more stock in Deluge.

16 We've reached a limit of 500 shareholders.

17 Q. Okay. But did he tell you what, what company  
18 you could buy stock in?

19 A. Yes.

20 Q. And what company could you buy stock in?

21 A. Hydrotherm, which was apparently the parent  
22 company for his outfit.

23 Q. And did he indicate that he's selling stock in  
24 that company on line 12?

25 A. Yes. He said:

1           So the parent company is my patent holding  
2 company that we sell stock in now.

3       Q.     Okay. And again, did Mr. -- on page 18, did  
4 Mr. Hageman, again, tell you how many shareholders he  
5 had? Maybe not. Just a second. Sorry.

6           Did Mr. Hageman tell you about a return on  
7 investment on page 18?

8       A.     Yes. Starting on line 14.

9       Q.     And when were, would a shareholder and investor  
10 see a return on their investment?

11      A.     He said:

12           Next year we should start seeing income coming  
13 in. And if it's income coming in like your royalty  
14 base, that doesn't have any overhead, and I can just  
15 send that out to the shareholders directly.

16      Q.     And then going on, did he give a time frame?

17      A.     Yes, he did:

18           But, you know, three to five years it will be,  
19 you know, to really get a hundred percent return on your  
20 investment. And then after that the stock price is  
21 going to be going up.

22      Q.     And how would you receive your return? Did he  
23 say it at the bottom of page 18?

24      A.     Yes. Starting on line 25:

25           And your dividends will start going up.

1 Q. Okay. On page 19, does Mr. Hageman tell you how  
2 many shareholders he has?

3 A. Yes. On line 16, he says:

4 We have shareholders, like I said, of about 700.  
5 Most of them I have never met.

6 Q. And turning to page 22, did Mr. Hageman tell you  
7 how much the stock certificates or stock would be?

8 A. Yes. He says on line eight, yeah:

9 We didn't talk about the stock price. Well, on  
10 the subscription agreement, it says \$5 a share.

11 Q. And then does he talk about possibly giving  
12 discounts?

13 A. Yes.

14 Q. What does he say?

15 A. Starting on line 11:

16 But, you know, I want to -- I, I have been  
17 giving some discounts to other folks lately just to help  
18 raise money. We'll do it, and we'll do it at like a  
19 dollar a share.

20 Q. Okay. And that's the end of the transcript and  
21 your telephone call at that point?

22 A. Getting pretty close to the end.

23 Q. Okay. At any time during that initial telephone  
24 call that we talked about that has the transcript of  
25 Exhibit S-12, did Mr. Hageman ever ask about your prior

1 investment history, that you recall?

2 A. No.

3 Q. Did Mr. Hageman ever ask whether you considered  
4 yourself a sophisticated or experienced investor?

5 A. No.

6 Q. In any conversation you had with Mr. Hageman,  
7 did he tell you that Deluge and Hydrotherm were no  
8 longer valid companies in Delaware?

9 A. No.

10 Q. Did he tell you that there were a number of  
11 lawsuits filed against him and the entities?

12 A. No.

13 Q. Did he tell you that there were a number of  
14 judgments against him and the entities?

15 A. No.

16 Q. But he did tell you that he had been raising  
17 money for 12 to 15 years and that he raised about  
18 \$14 million from 700 shareholders, correct?

19 A. That's correct.

20 Q. But did he ever tell that you none of those  
21 shareholders had received any return on their  
22 investment?

23 A. No.

24 Q. Did Mr. Hageman disclose to you in that  
25 telephone conversation, or at any time, that Deluge and

1 Hydrotherm had little to no revenue since he had been  
2 raising money?

3 A. No.

4 Q. Did Mr. Hageman tell you that almost all funds,  
5 the funds that came -- let me start over -- that almost  
6 all funds that Deluge and Hydrotherm received were from  
7 investors?

8 A. No.

9 Q. Did Mr. Hageman, at any point in this, in your  
10 conversations with him, indicate that the investor funds  
11 would be used to pay him first and then the money would  
12 go to the entities?

13 A. No.

14 Q. Did you have any other further communication  
15 with Mr. Hageman?

16 A. No.

17 MS. COY: I have no further questions at this  
18 time.

19 ALJ STERN: Okay. Mr. Hageman, do you have any  
20 questions for this witness?

21 MR. HAGEMAN: Yes. Thank you, Judge Stern.

22

23

CROSS-EXAMINATION

24 BY MR. HAGEMAN:

25 Q. Mr. Santee, beyond this telephone conversation,

1 have we ever talked?

2 A. Yes.

3 Q. When was that?

4 A. You talked to me as Billy Matthews.

5 Q. That's the conversation I was talking about, as  
6 Billy.

7 Have we ever talked beyond this transcript?

8 A. No.

9 Q. Do you know, as -- and, again, this is a little  
10 tricky for me. I'm speaking to you as Mr. Santee and  
11 not as Billy.

12 Billy is just the undercover name?

13 A. Correct.

14 Q. Do you know what an accredited investor is?

15 A. I do.

16 Q. Did you know when we you went into this what an  
17 accredited investor is?

18 A. Yes.

19 Q. Okay. So the story you were giving me was just  
20 a story, not the truth, as to whether you really knew  
21 what an accredited investor is?

22 A. That's correct.

23 Q. On how much I said you were going to possibly  
24 get paid in the future, back to, it's page 18, line 14.

25 I start off:

1           Next year we should start seeing income coming  
2 in, and if it's income coming in like from royalty base,  
3 that doesn't have an overhead, and I can just send that  
4 out to the shareholders directly?

5           On line 15 I said: And if it's income.

6           I always tried to preface it, if we get our full  
7 investment, the company can move on.

8           You understood that I was giving you a  
9 possibility of return?

10          A.     Yes.

11          Q.     But it wasn't a guarantee?

12          A.     No.

13          Q.     You read through the entire Hydrotherm  
14 subscription agreement that talks about risk and  
15 accredited investor requirements?

16          A.     I read the, I read the documents.

17          Q.     As Mr. Santee, would you qualify for any of  
18 those?

19          A.     No.

20          Q.     You were working for the State as this happened,  
21 and working with one of the other agents, and so I'm  
22 trying to, you know, understand the relationship between  
23 Billy and Margo. But does it really matter? I mean,  
24 it's, it was all an undercover type of operation.

25          A.     That's correct.

1 Q. So anything you said about Margo was just a  
2 story made up?

3 A. Correct.

4 Q. Have you heard of other companies that go  
5 through recessions that change their price of stock,  
6 discounted to reflect harder times?

7 A. Yes.

8 Q. So you weren't surprised either way that we  
9 would offer that lower than the \$5 stated price?

10 A. No.

11 Q. The mention in there that I get paid first, did  
12 that surprise you, or is that normal course for a guy  
13 starting up a company and hadn't gotten paid in a long  
14 time?

15 A. It wasn't discussed.

16 Q. You didn't question it any further on that?

17 A. No.

18 MR. HAGEMAN: Thank you very much, Mr. Santee.

19 That's all I have.

20 ALJ STERN: Okay. I don't believe I have  
21 anything.

22

23

EXAMINATION

24 BY ALJ STERN:

25 Q. So, Mr. Santee, if I understand things

1 correctly, you just spoke to him one time in your  
2 undercover position as an investigator with the Division  
3 on the 12th -- the 16th of 2012?

4 A. That's correct, sir.

5 Q. And at that time, Mr. Hageman was talking to you  
6 about selling you stock in Hydrotherm; is that correct?

7 A. That's correct.

8 Q. And legally speaking, Hydrotherm -- you may not  
9 have knowledge, or you may have as a result of your  
10 investigation -- was not a functioning corporation at  
11 that point?

12 A. I didn't know that at that time.

13 ALJ STERN: Okay. I don't have any other  
14 questions.

15 Any redirect, Ms. Coy?

16

17

REDIRECT EXAMINATION

18 BY MS. COY:

19 Q. Just a clarification.

20 At any point in the Exhibit S-12, the transcript  
21 of your conversation, did Mr. Hageman indicate to you at  
22 all that he was getting paid first?

23 A. No.

24 Q. That wasn't even discussed in the transcript,  
25 correct?

1 A. That's correct.

2 MS. COY: No further questions.

3 ALJ STERN: All right. Thank you, Mr. Santee,  
4 you're excused.

5 And I think we're at a good time to take our  
6 break. And we'll come back at about 1:40, 1:45,  
7 somewhere in there.

8 MS. COY: Thank you.

9 (Recess taken from 12:01 p.m. to 1:41 p.m.)

10 ALJ STERN: Returning to the record in the case  
11 of Brian Hageman, et al., Docket No. S-20896A-13-0378.

12 Ms. Coy, who is your next witness?

13 MS. COY: Annalisa Weiss.

14

15

ANNALISA WEISS,

16 called as a witness on behalf of the Securities  
17 Division, having been first duly sworn by the Certified  
18 Reporter to speak the truth and nothing but the truth,  
19 was examined and testified as follows:

20

21

DIRECT EXAMINATION

22 BY MS. COY:

23 Q. Please state your name for the record.

24 A. Annalisa Weiss.

25 Q. Where are you employed?

1 A. With the Arizona Corporation Commission  
2 Securities Division.

3 Q. What's your job title?

4 A. Special Investigator.

5 Q. What's your employment history?

6 A. For 13 years I worked for the Moses Lake Police  
7 Department, and for the last three and a half years I  
8 have worked here at the Commission.

9 Q. Have you been assigned -- are you familiar with  
10 Brian Hageman, Deluge, Inc., and Hydrotherm Power  
11 Corporation?

12 A. Yes.

13 Q. Were you assigned to this matter?

14 A. Yes.

15 Q. What were your job duties in relationship to  
16 your assignment?

17 A. To be the investigator to the case, so look into  
18 background information, research Mr. Hageman and his  
19 entities, interview witnesses, and collect and log  
20 evidence, and put everything into reports.

21 Q. I'm going to hand you -- or in front of you is  
22 Exhibit S-1.

23 Can you look at that, please?

24 A. Yes.

25 Q. As part of your investigation, did you do any

1 background into Mr. Hageman to determine whether he was  
2 registered as a securities salesman or dealer under the  
3 Arizona Securities Act?

4 A. Yes, I did. And I obtained a certification  
5 stating that he has not been registered from 1995 to  
6 2013.

7 Q. And this is a certified record, correct?

8 A. Yes.

9 Q. Can you turn to Exhibit S-2, please?

10 A. Okay.

11 Q. Looking at Exhibit S-2, there's an a and b,  
12 correct?

13 A. Yes.

14 Q. Okay. During your investigation, did you have  
15 an opportunity to determine whether Deluge, Inc., was,  
16 had securities that were registered or were registered  
17 as a dealer or salesman -- well, a dealer, securities  
18 dealer?

19 A. Yes. I obtained certification stating Deluge,  
20 Inc., is not registered from 1995 to 2013. And I also  
21 received certification stating that on October 1st,  
22 1997, the Arizona Corporation Commission received a  
23 Form D notice for an offering named, Private Offering  
24 No. 1 from Deluge, Inc.

25 Q. And that was received when?

1 A. October 1st, 1997.

2 Q. And you're reading from Exhibit S-2b, correct?

3 A. Correct.

4 Q. Okay. But with respect to, other than what's on  
5 2b, with respect to S-2a, Deluge, Inc., had no  
6 securities registered with it, correct, with the  
7 Securities Division? Just S-2a.

8 A. S-2a just shows that they're not a dealer or  
9 broker.

10 Q. Okay. And then on S-2b, there's a second  
11 paragraph there.

12 Can you tell us what the date is and what that  
13 is?

14 A. It states on July 14th, 2000, the Arizona  
15 Corporation Commission received a Form D for an offering  
16 named, Deluge, 400,000 common shares, dated 6/1/00 from  
17 Deluge, Inc.

18 Q. And both S-2a and S-2b are from the records of  
19 the Securities Division in the Corporation Commission?

20 A. Correct.

21 Q. And can you go to S-3?

22 A. Okay.

23 Q. And S-3, can you identify Exhibit S-3 for me,  
24 please?

25 A. S-3 is a certification for Hydrotherm Power

1 Corporation that states they are not registered as of  
2 19, or between 1995 and 2013.

3 Q. And there were no exemptions listed either,  
4 correct?

5 A. There are no exemptions on this, no.

6 Q. And does this, does S-3 also indicate whether or  
7 not Hydrotherm Power Corporation was registered as a  
8 dealer?

9 A. They were not.

10 MS. COY: At this point, I'd like to move  
11 Exhibits 1, 2, 3 -- well 1, 2a, 2b, and S-3.

12 ALJ STERN: Any objections?

13 MR. HAGEMAN: Objection, yes.

14 ALJ STERN: What are they, to which exhibit?

15 MR. HAGEMAN: All of them.

16 ALJ STERN: All three?

17 Well, for what reason, sir?

18 MR. HAGEMAN: That the corporations were never  
19 required to become a broker/dealer.

20 ALJ STERN: Well, you can argue that in a legal  
21 brief, but insofar as these are -- well, go ahead,  
22 Ms. Coy.

23 MS. COY: Your Honor, these are just records of  
24 the Corporation Commission indicating that there was no  
25 registration on file, either for the securities or

1 whether, or that they weren't a dealer. It doesn't  
2 indicate that they were required, it just says according  
3 to the records during that time frame they were not.

4 ALJ STERN: Okay. See, I think you're sort of  
5 misunderstanding what the purpose of these documents  
6 are. All they are are official records. They're  
7 certified records which indicate that the Commission had  
8 no records for a certain period of time for, either  
9 yourself, Hydrotherm, or Deluge. Whether yourself,  
10 Hydrotherm, or Deluge were required to meet certain  
11 requirements of the Arizona statutes and the  
12 Commission's rules is another matter which you can  
13 argue, in the form of a legal brief, if you believe,  
14 subsequently, that these, that you weren't required --  
15 the existence of these documents merely establish the  
16 fact that, certainly, neither of you three entit -- you,  
17 yourself, and the two entities were registered.

18 So over your objection, I'll admit these  
19 documents for what they establish. But as I say,  
20 subsequently, if you want to try, in some form of brief,  
21 argue that no matter what, even though you weren't, you  
22 weren't required anyhow, even though you weren't  
23 registered, you weren't required to be registered,  
24 that's a separate issue.

25 (Exhibits S-1, S-2a, S-2b, and S-3 were admitted

1 into evidence.)

2 MR. HAGEMAN: Yes, Your Honor. I understand.

3 ALJ STERN: Okay. Go ahead, Ms. Coy.

4 BY MS. COY:

5 Q. Okay. Can you pull Exhibit S-4, please?

6 A. Go ahead.

7 Q. What is Exhibit S-4?

8 A. These are certified copies from the State of

9 Delaware for the incorporation of Deluge, Inc.

10 Q. And what's the date that they were incorporated?

11 A. November 14th, 1996 at 3 o'clock p.m.

12 Q. And are these certified records from Delaware?

13 A. Yes.

14 Q. Okay. Can you -- this doesn't indicate, Exhibit

15 S-4 doesn't indicate the current status of Deluge, does

16 it?

17 A. No.

18 Q. Do you know what the current status is in

19 Delaware?

20 A. As of this date, it is void.

21 Q. Okay. Can you turn to Exhibit S-5a?

22 A. Okay.

23 Q. What is Exhibit S-5a?

24 A. These are certified copies from the State of

25 Arizona for the application of Deluge, Inc.

1 Q. Application for authority?

2 A. Yes.

3 Q. And what's the date of this document, or of the  
4 application for authority?

5 A. April 8th, 1997.

6 Q. And then S-5b.

7 A. It's a certified copy from the State of Arizona,  
8 filing a legal document, dated March 29th, 2009.

9 Q. Let me ask you this.

10 When -- as part of your duties, did you request  
11 that the Corporation Section of the Arizona Corporation  
12 Commission pull the records related to Deluge, Inc.?

13 A. Yes, I did.

14 Q. And does Exhibit 5 represent what documents are  
15 in the Corporation Commission, or Corporation Section  
16 records for the Arizona Corporation Commission, or for  
17 Deluge, Inc.?

18 A. Part of them, yes.

19 Q. Okay. If you go to S-2, or 5c, S-5c, what is  
20 that?

21 A. It's the same thing that I just described,  
22 except it's another legal document dated August 19th,  
23 2009.

24 Q. Okay. And if you look at S-5d.

25 A. Same thing, dated April 22nd, 2010.

1 Q. And S-5e.

2 A. Same thing, dated June 18th, 2010.

3 Q. And then if you look at S-5f.

4 A. It's a certified copy from the State of Arizona,  
5 a certificate of revocation for Deluge, Inc., dated  
6 February 18th, 2010.

7 Q. And if you turn to the second page of 5f, does  
8 it indicate why they were revoked?

9 A. Yes. It says they were revoked because they  
10 failed to file the annual report.

11 Q. Based on your review of the Corporation  
12 Commission, Corporation Section records, have they ever  
13 reapplied or corrected the reason there was a  
14 certificate of revocation?

15 A. There's no documents that reflect that.

16 MS. COY: Okay. And if you can --

17 I'd like to move, at this point, S-4 and S-5a,  
18 b, c, d, e, and f.

19 MR. HAGEMAN: No objection.

20 ALJ STERN: Okay. Exhibits S-5a, b, c, d, e,  
21 and f, are hereby admitted.

22 (Exhibits S-5a, S-5b, S-5c, S-5d, S-5e, and S-5f  
23 were admitted into evidence.)

24 BY MS. COY:

25 Q. Okay. And if you turn to Exhibit S-6 --

1 Oh, S-4.

2 ALJ STERN: S-4. Are you --

3 MS. COY: We moved S --

4 ALJ STERN: Okay.

5 MS. COY: Did I skip S-4?

6 ALJ STERN: Go ahead.

7 MS. COY: I'd like to move S-4.

8 ALJ STERN: Okay. Any objections to Exhibit

9 S-4?

10 MR. HAGEMAN: No objection.

11 ALJ STERN: Okay. Exhibits S-4 and S-5a, b, c,  
12 d, e, f are hereby admitted.

13 (Exhibit S-4 was admitted into evidence.)

14 BY MS. COY:

15 Q. Okay. Now Exhibit S-6. Can you identify what  
16 S-6 is for me, please?

17 A. S-6 is a certified copy from the State of  
18 Delaware.

19 Q. For what?

20 A. The certificate of incorporation for Hydrotherm  
21 Power Corporation. It's dated November 15th, 1995 at  
22 9 o'clock a.m.

23 Q. And this is for Hydrotherm Power Corporation,  
24 correct?

25 A. Yes.

1 Q. Okay. And this is a certified record that you  
2 requested as part of your duties and your assignment on  
3 this case?

4 A. Correct.

5 Q. Okay. If you can look -- oh, what is the  
6 current status of Hydrotherm Power Corporation in  
7 Delaware?

8 A. They are also void.

9 Q. And if you can turn to Exhibit S-7.  
10 Can you identify Exhibit S-7 for me, please?

11 A. S-7 is a certified copy from the State of  
12 Arizona.

13 Q. And that's 7a, correct?

14 A. Yes, 7a. As the application for authority for  
15 Hydrotherm Power Corporation, dated December 5th, 1995.

16 Q. Okay. Did you, as part of your duties, obtain  
17 the records from the Arizona Corporation Commission's  
18 Corporations Section?

19 A. Yes, I did.

20 Q. And if you turn to S-7b.

21 Can you identify b for me, please?

22 A. It's a certified copy from the State of Arizona,  
23 the Corporation Commission, notice of pending  
24 revocation, dated February 10th, 2009 for Hydrotherm  
25 Power Corporation.

1 Q. Okay. And if you turn to S-7c.

2 A. It's as certified copy from the State of Arizona  
3 for Hydrotherm Power Corporation. It's a certificate of  
4 revocation, dated April 16th, 2009, stating they were  
5 revoked because they failed to file their annual report.

6 Q. In your review of the Corporation's records  
7 related to Hydrotherm Power Corporation, did you see any  
8 application to reinstate the company?

9 A. As of this date, there has been no  
10 reapplication.

11 MS. COY: Okay. At this time, I'd like to move  
12 Exhibits S-6, S-7a, b, c.

13 ALJ STERN: Okay. Any objections, sir?

14 MR. HAGEMAN: No, sir.

15 ALJ STERN: No objections to Exhibit 6 and 7a,  
16 b, and c, so Exhibit 6, 7a, b, and c are hereby  
17 admitted.

18 (Exhibits S-6, S-7a, S-7b, and S-7c were  
19 admitted into evidence.)

20 BY MS. COY:

21 Q. Okay. At this time, as part of your  
22 investigation into Deluge, do you, are you -- Deluge,  
23 Hydrotherm, and Mr. Hageman, are you aware of any type  
24 of web page that one of the entities or Mr. Hageman had?

25 A. Yes. Deluge had a website.

1 Q. Can you turn to S-8, please?

2 A. Okay.

3 Q. Can you identify Exhibit S-8 for me, please?

4 A. These are the pages of the Deluge website.

5 Q. And did you make a copy of these?

6 A. Yes, I did.

7 Q. And this is part of the records of the  
8 Securities Division, correct?

9 A. Yes.

10 Q. And at some point -- or do you know if  
11 Hydrotherm Power Corporation had a website?

12 A. I could not find one.

13 Q. If you can turn to Bates No. ACC003943.

14 ALJ STERN: I'm sorry. What's that number?

15 MS. COY: ACC003943.

16 ALJ STERN: That's part of S-8?

17 MS. COY: S-8. Yes. I'm sorry.

18 BY MS. COY:

19 Q. Do you know if Deluge's website had any  
20 information related to investing opportunities  
21 available?

22 A. Yes, it did.

23 Q. And is that what we're looking at as part of S-8  
24 and Bates No. ACC3943?

25 A. Correct.

1 Q. And can you read the statement under contact  
2 information?

3 A. Contact information:

4 If you have any questions about investment  
5 opportunities with Deluge, please send your contact  
6 information below. Note that Deluge can only work with  
7 accredited investors as -- correction -- as defined by  
8 Securities and Exchange Commission Regulation D rules.

9 Q. Did you attempt to contact Deluge using this  
10 part of the website?

11 A. Yes, I did.

12 Q. And did you receive a response?

13 A. Yes, I did.

14 Q. If you can turn to S-9.

15 Looking at the second page of S-9, which is  
16 Bates ACC2. Let me first --

17 Can you identify what Exhibit S-9 is?

18 A. Exhibit S-9 are a series of emails and  
19 attachments from Mr. Hageman during our course of the  
20 emails.

21 Q. And the first email you sent, is that on the  
22 second page, under ACC2?

23 A. I assume so.

24 Q. Okay. And that's the bottom half of the page?

25 A. Correct.

1 Q. What date did you attempt to contact Mr. Hageman  
2 and Deluge and Hydrotherm?

3 A. March 5th, 2012.

4 Q. And what was your comments?

5 A. I'm interested in your energy investment.

6 Q. Did you receive a response?

7 A. Yes, I did. The following day on March 6, 2012.

8 Q. And that's the top of the page, correct?

9 A. Correct.

10 Q. And who is Margo?

11 A. That is my undercover name.

12 Q. And does Mr. Hageman make any indication about  
13 the types of investments he has?

14 A. Yes, he does.

15 Q. What does he say?

16 A. He thanks me for the interest; he has various  
17 levels of investment for accredited investors; he would  
18 like to send me more information. Before that, he wants  
19 to verify if I'm accredited and explains what that  
20 means.

21 Q. Did you respond?

22 A. Yes, I did.

23 Q. And that's on the first page of Exhibit S-9,  
24 correct?

25 A. Correct.

1 Q. And did you indicate that you were an accredited  
2 investor?

3 A. Correct.

4 Q. And did he respond to you at that point?

5 A. Yes, he did.

6 Q. And that's the top page of Exhibit S-9, correct?

7 A. The first page, yes.

8 Q. And did he provide you any type of documents?

9 A. Yes, he did.

10 Q. What did he provide you?

11 A. The Deluge executive summary, some frequently  
12 asked questions, and the Hydrotherm subscription  
13 agreement.

14 Q. Okay. And if you look at the, starting at Bates  
15 No. ACC3, are these the rest of Exhibit S-9, the  
16 documents you received?

17 A. Yes, they are.

18 Q. Okay. And if you look at ACC3, is that the  
19 executive summary?

20 A. Correct. They're in order of how they were  
21 attached.

22 Q. Okay. And if you look at ACC19, can you tell me  
23 what that is?

24 A. Those are the frequently asked questions.

25 Q. Okay. And the ACC23, what is that?

1 A. That's the Hydrotherm Power Corporation  
2 subscription agreement.

3 Q. And you received these on March 7th, 2012?

4 A. Correct.

5 Q. Now, what website did you respond to?

6 A. Deluge, Inc.

7 Q. And what subscription agreement did you receive?

8 A. Hydrotherm Power Corporation.

9 Q. And what were you supposed to -- what type of  
10 product would you receive if you completed the  
11 subscription agreement and paid some money?

12 A. I was purchasing stocks and, into the patents,  
13 interest into the patents.

14 Q. Okay. So if you look at the subscription  
15 agreement, does it indicate where Hydrotherm Power  
16 Corporation is incorporated?

17 A. It states it's a Delaware corporation.

18 Q. But that's in 2012, correct?

19 A. Correct. It's inaccurate.

20 Q. Based on your investigation, that wasn't  
21 accurate, correct?

22 A. Correct.

23 Q. Okay. And if you turn to the second page of the  
24 subscription agreement, ACC24.

25 Does it list ways to -- starting at a through g,

1 does it talk about, I guess it's 8a through g -- are  
2 those ways to be accredited, or considered accredited?

3 A. Correct. It states to pick one to show that  
4 you're accredited.

5 Q. Okay. And then on the last page, ACC26.

6 Does it indicate what the price per share would  
7 be?

8 A. I think it was \$5. Yes, \$5.

9 Q. Okay. Did you have any further contact with  
10 Mr. Hageman?

11 A. Yes, I did.

12 Q. Okay. If you can turn to S-10.

13 A. Okay.

14 Q. What is S-10?

15 A. It's another chain of emails between Mr. Hageman  
16 and myself, or my undercover identity.

17 Q. Okay. I hate to do this, but can you go back to  
18 the subscription agreement in S-9?

19 A. Okay.

20 Q. At -- were you present at any time with  
21 Mr. Hageman where he described what the other accredited  
22 category is of 8g on ACC24?

23 A. I wasn't with him, but he emailed.

24 Q. No, this was -- subsequent in your  
25 investigation, were you ever present when Mr. Hageman

1 discussed the other accredited category?

2 A. Oh, during his EUO. I thought you meant when we  
3 were meeting here. Sorry.

4 Q. So there was an examination under oath of  
5 Mr. Hageman, correct?

6 A. Correct.

7 Q. And you were present?

8 A. Yes.

9 Q. When was that? Do you recall?

10 A. A long time ago.

11 Q. If you look at S-16, if that will refresh your  
12 memory.

13 A. The transcript says April 30th, 2012.

14 Q. And while you were at the examination under  
15 oath, did you have -- do you recall Mr. Hageman  
16 describing what the other accredited investor category  
17 was?

18 A. Yes.

19 Q. And how did he describe the other accredited  
20 category?

21 A. I don't remember word for word, but it was  
22 something more along of being a sophisticated investor,  
23 businessman, banker, kind of thing.

24 Q. Now you can turn to S-10, please.

25 A. Okay.

1 Q. Okay. And I think -- can you identify what S-10  
2 is?

3 A. These are emails between Mr. Hageman and my  
4 undercover identity.

5 Q. Okay. And what's the date? If you look down  
6 towards the bottom of ACC27, it looks like the first one  
7 may be at the bottom of the first page.

8 A. It says March 9th, 2012.

9 Q. And then the one above it, I think is next.  
10 And what's the date on that?

11 A. March 12th, 2012.

12 Q. And then, if you turn the page, it looks like  
13 there's a response.

14 ALJ STERN: You're on S-10, right?

15 MS. COY: S-10, yes.

16 BY MS. COY:

17 Q. So the first two on the first two pages, you're,  
18 he responds, and then you respond back on March 12th,  
19 correct?

20 A. Yes.

21 Q. Okay. And at that point, what was the purpose  
22 of that email?

23 A. I was just checking in, and I had someone else  
24 who -- I told him I had another person that was also  
25 interested. So checking back.

1 Q. Who was that other person?

2 A. Special Investigator Santee.

3 Q. And at that point, did you indicate that he  
4 would be accredited or not accredited?

5 A. I said he was not accredited.

6 Q. Okay. And did you receive a response back from  
7 Mr. Hageman?

8 A. Yes, I did.

9 Q. And how did he describe that? Or how did he  
10 address your concern with respect to your friend?

11 A. He said they can allow people to invest if they  
12 have some degree of sophistication with investments or  
13 contracts.

14 Q. Did he go on to describe those types of people?

15 A. Yes. He said they were to include business  
16 owners, realtors, bankers, stock brokers, and other  
17 management skilled individuals.

18 Q. And then were there further responses after the  
19 March 12th at 3:54?

20 A. Yes.

21 Q. Okay. If you turn the page of Exhibit S-10 to  
22 ACC29.

23 Is that the response? Or did you send a  
24 response to Mr. Hageman?

25 A. Yes, I did.

1 Q. And what was the purpose of that email to  
2 Mr. Hageman on the 19th?

3 A. Just was some general questions about the  
4 investment.

5 Q. And what were those questions?

6 A. I asked him how would the monies be used, when  
7 do your patents expire, and what is the expected return.

8 Q. And did you get a response from Mr. Hageman?

9 A. Yes, I did.

10 Q. And what date did you receive a response?

11 A. The same day.

12 Q. And how did he respond to your questions?

13 A. He stated, they're looking forward to generating  
14 revenues over the next few years, that my monies would  
15 be used in general business development helping to pay  
16 for administrative costs associated with the projects,  
17 the patents expire in 2017, and he's raised 14  
18 million -- or he's not raised, correction -- he has  
19 about 14 million invested in the technologies by  
20 investors, and he would expect to have a full investment  
21 return within a couple of years, followed by dividends  
22 paid quarterly, and he would expect 10 to 15 percent of  
23 net revenues be returned as dividends.

24 Q. And going back to ACC29, did he discuss any type  
25 of risk involved with this investment?

1 A. Yes, he did.

2 Q. What did he say about risk?

3 A. He stated:

4 As you know, any investment involves a certain  
5 amount of risk, but you have the good fortune of  
6 investing after many years of research and development.

7 Q. And then at the end, you acknowledged, in your  
8 email on the morning of the 19th, that you were aware of  
9 his radio show.

10 A. Correct.

11 Q. And did he respond?

12 A. Yes, he did.

13 Q. And what did he, how did he describe his radio  
14 show?

15 A. It's been a great resource for me to connect  
16 with the right people around the industry.

17 Q. And then did you have further conversations with  
18 him via email?

19 A. Yes, I did.

20 Q. Okay. And that's on ACC31, correct?

21 A. Correct.

22 Q. And did he provide you some type of documents?

23 A. Yes. It was a comparison on thermal engines.

24 Q. And is that starting at ACC000034?

25 A. Yes.

1 Q. And then if you look at ACC000040.

2 Were there additional emails?

3 A. Yes.

4 Q. And does Exhibit S-10 and S-9 comprise your  
5 entire conversations with Mr. Hageman?

6 A. Correct.

7 Q. You never spoke to him via phone?

8 A. No. Well, not during undercover, no.

9 ALJ STERN: So if I understand you correctly,  
10 your conversations with Mr. Hageman during your role  
11 playing, your undercover role, were strictly emails.

12 THE WITNESS: Correct.

13 ALJ STERN: No phone conversations, no personal  
14 conversation?

15 THE WITNESS: No.

16 ALJ STERN: Okay. Go ahead.

17 MS. COY: Okay. At this point, I'd like to move  
18 Exhibits S-8, S-9, and S-10.

19 ALJ STERN: S-8? They're admitted. They were  
20 admitted by stipulation.

21 MS. COY: Sorry. I have got my note to move  
22 exhibits.

23 ALJ STERN: Okay.

24 BY MS. COY:

25 Q. All right. Can you turn to S-14?

1 A. Okay.

2 Q. As part of your investigation of Mr. Hageman,  
3 Deluge, and Hydrotherm, was there an occasion for  
4 another investigator to contact Mr. Hageman in an  
5 undercover capacity?

6 A. Yes.

7 Q. Do you recall who that was?

8 A. That was special investigator Doug Barrett.

9 Q. Is he currently employed with the Securities  
10 Division?

11 A. No, he is not.

12 Q. Did Mr. Barrett actually contact Mr. Hageman?

13 A. Yes, he did, through the same way that I did,  
14 through the website.

15 Q. Okay. And if you look at S-14.

16 Is this a copy of the contact with Mr. Hageman  
17 by Mr. Barrett?

18 A. Yes, it is.

19 Q. Okay. And when did Mr. Barrett attempt to  
20 contact Mr. Hageman?

21 A. It was about a year later on June 5th, 2013.

22 Q. And at the bottom of S-14, is that the email  
23 that you're talking about? And it's continued on to the  
24 second page.

25 A. Correct.

1 Q. And what did Mr. Barrett say?

2 A. He said:

3 I'm interested in information about whatever  
4 opportunities you have.

5 Q. And did Mr. Hageman respond?

6 A. Yes, he did.

7 Q. When did he respond?

8 A. The same day.

9 Q. And that's at the top of S-14, correct?

10 A. Correct.

11 Q. And did he indicate they had opportunities?

12 A. Yes, he did.

13 Q. What type of opportunities did he have?

14 A. Investment opportunities to accredited  
15 investors.

16 Q. And did, did Mr. Barrett get back to Mr. Hageman  
17 on that?

18 A. He did. And --

19 Q. Before we go on.

20 Did Mr. Barrett use his real name?

21 A. No. He used the name Richard Minor.

22 Q. Okay. Thank you. So on the second page of  
23 S-14, Mr. Barrett responded to Mr. Hageman on June 6th,  
24 right?

25 A. Yes.

1 Q. And at that point, what did he indicate?

2 A. That he was interested in investment  
3 opportunities.

4 Q. And did he receive a response?

5 A. Yes, he did.

6 Q. What was the response?

7 A. From Brian Hageman, the same day, it says he has  
8 attached his current licensing business plan, that was a  
9 draft, and an investment subscription agreement.

10 Q. Did he indicate what the minimum investment  
11 would be?

12 A. Yes. 25,000.

13 Q. And what was the product, the type of investment  
14 product?

15 A. It was for stock.

16 Q. Okay. And then do you know if Mr. Barrett  
17 received any additional communication with Mr. Hageman?

18 A. I think this was it.

19 Q. If you turn to Exhibit S-15.

20 Can you identify Exhibit S-15 for me, please?

21 A. These are the documents that were attached to  
22 Barrett's email.

23 Q. In Exhibit S-14, correct?

24 A. Correct.

25 Q. And starting at the first page, can you tell me

1 what that document is?

2 A. It's from Deluge, Inc. It's stamped, draft. It  
3 says, natural energy engine licensing plan.

4 Q. Okay. And then if you look at Bates  
5 No. ACC003900.

6 Can you identify that document for me, please?

7 A. This is the Deluge engine technology license  
8 agreement.

9 Q. And was there another document that was provided  
10 to Mr. Barrett?

11 A. Yeah. There was a subscription agreement.

12 Q. If you look at ACC0003917.

13 A. Yes. That's in Deluge, not Hydrotherm.

14 Q. Okay. And does it indicate where Deluge is  
15 incorporated?

16 A. It's a Delaware corporation.

17 Q. But this was 2013, when Mr. Barrett contacted  
18 Deluge and Hydrotherm and Mr. Hageman, correct?

19 A. Yes. It's inaccurate.

20 Q. And if you go to the second page, it also has  
21 the description, the same, other accredited investor,  
22 category?

23 A. Correct.

24 Q. And the last page of the subscription agreement,  
25 does it say how much the shares of stock in Deluge is,

1 are?

2 A. \$1.

3 ALJ STERN: What, what's that Bates number where  
4 it says a dollar?

5 MS. COY: ACC0003920.

6 ALJ STERN: Okay. Go ahead.

7 BY MS. COY:

8 Q. Okay. During your investigation, I think you  
9 indicated you were part of an examination under oath of  
10 Mr. Hageman.

11 Did he ever indicate how Deluge and Hydrotherm  
12 obtained investors?

13 A. He said they, that -- through talking with  
14 people.

15 Q. Okay.

16 A. He had a radio show that he got investors from.  
17 The website, he got investors from. I know people met  
18 him at a restaurant. Someone met him on a bus. It was  
19 just meeting people.

20 Q. Besides doing the undercover investigation, did  
21 you, on occasion, talk to any of the investors that were  
22 in Deluge or Hydrotherm?

23 A. Yes. We called quite a few.

24 Q. And did you do that by yourself or were there  
25 others that helped you with those phone calls?

1 A. No. The whole, pretty much the whole department  
2 helped me with those phone calls. There was a lot of  
3 investors.

4 Q. Okay. Did Mr. Hageman ever indicate the type of  
5 investors he would speak with about the investment?

6 A. He stated, during the EUO, he would only talk to  
7 accredited investors.

8 Q. And did he explain, was there a dollar amount at  
9 all involved?

10 A. There's been a couple that I've seen thrown  
11 around, but it was basically a net over a million, or  
12 income anywhere from 100,000 up to 250,000.

13 Q. Did Mr. Hageman ever indicate whether he would  
14 talk to people that were not accredited?

15 A. No. He said he would only talk to people who  
16 were accredited.

17 Q. During the examination under oath of  
18 Mr. Hageman, did he indicate who actually spoke with  
19 each of the, each of the investors?

20 A. Depending on where they came from, outside  
21 sources who may have brought him, or he talked to them,  
22 but he said specifically that he would always make sure  
23 that he spoke to every investor himself.

24 Q. Did Mr. Hageman ever indicate what type of  
25 relationship he had with all these investors?

1 A. He did.

2 Q. And --

3 A. Some he knew, and some he said he didn't know.

4 Q. In either of the contacts with Mr. Hageman, the  
5 undercover pitches that either you did yourself or that  
6 Mr. Barrett did, did Mr. Hageman ever state that Deluge  
7 and Hydrotherm were no longer valid companies in  
8 Delaware?

9 A. No, he did not.

10 Q. Did he ever tell you that there were a number of  
11 lawsuits filed against him and the entities?

12 A. No, he did not.

13 Q. Did he ever tell you -- well, during the  
14 examination under oath, did he ever indicate that he was  
15 aware of these lawsuits?

16 A. Yes, he did.

17 Q. And what did he say about them?

18 A. He acknowledged that they were valid.

19 Q. Did Mr. Hageman ever tell you that there were a  
20 number of judgments against him and his entities?

21 A. During which time?

22 Q. Sorry. When you were doing the undercover  
23 pitch?

24 A. No, he did not.

25 Q. Did, at any point, did Mr. Hageman tell you how

1 long he had been raising money?

2 A. Yes. I would have to go look specifically, but  
3 I think in one of the emails it said, I would come in on  
4 the very end, that he had been doing it for years.

5 Q. Do you recall, during the examination under  
6 oath, if Mr. Hageman indicated when he started raising  
7 money?

8 A. I don't specifically, but around '96, '97, '98.

9 Q. Did Mr. Hageman, during the undercover pitches,  
10 ever tell you that none of the shareholders had received  
11 any return on their investment?

12 A. He did not.

13 Q. Did Mr. Hageman ever tell you, during the  
14 undercover pitches, that almost all the funds from  
15 Deluge and Hydrotherm received were from investors, that  
16 there were no revenues or sales made of the product?

17 A. Correct.

18 Q. During his examination under oath, did  
19 Mr. Hageman discuss how Deluge or Hydrotherm earned  
20 income or revenue?

21 A. Yes.

22 Q. And what did he say?

23 A. He said that, I don't know if the word lease is  
24 correct, but businesses had given him money to use the  
25 technology, or to use the patent. I don't remember

1 which one.

2 Q. Do you know if they had any prototypes, or did  
3 he talk about prototypes?

4 A. He talked about prototypes. And those were --  
5 that's what I'm talking about. So I don't know if you  
6 call it technology or the patents, but businesses had  
7 paid from using those prototypes. I don't know if it  
8 was actually a 3D dimensional thing or paper.

9 Q. Do you recall whether Mr. Hageman ever indicated  
10 whether Hydrotherm has had any revenue?

11 A. One of the entities had. I don't remember if  
12 it's Hydrotherm or Deluge. I believe it's Deluge.

13 Q. At any point in your undercover pitches, did  
14 Mr. Hageman ever provide any type of financial documents  
15 of either Deluge or Hydrotherm to you?

16 A. No.

17 Q. Do you know if any financial documents were  
18 available to investors?

19 A. I don't know.

20 Q. Do you know if Mr. Hageman was asked whether  
21 there were audited financial statements for Deluge or  
22 Hydrotherm?

23 A. If he asked --

24 Q. Did he ever indicate that with the undercover  
25 pitches?

1 A. No.

2 Q. Now, in his examination under oath, did he  
3 indicate there were audited financial statements?

4 A. He said that he had auditors come in. I don't  
5 know if there are actual hard statements.

6 Q. Do you recall in his EUO whether he indicated  
7 there were any reports written by these auditors?

8 A. I don't believe there's any reports.

9 Q. Do you recall if he said why?

10 A. No.

11 Q. Okay. Did Mr. Hageman ever discuss how the  
12 funds would be used in your undercover pitches?

13 A. Yes.

14 Q. And how were the funds to be used?

15 A. Towards the technology and the business costs,  
16 research development.

17 Q. Did he ever indicate to you in the undercover  
18 pitches that the funds raised from investors would be  
19 used to pay him first, and then the technology?

20 A. No.

21 Q. Do you know if, in the EUO, or the examination  
22 under oath of Mr. Hageman, if he indicated that he told  
23 people about him being paid first for the shareholder  
24 loans?

25 A. I don't believe so.

1 Q. As part of your investigation, did you review  
2 any court proceedings that may have been filed against  
3 Mr. Hageman, Deluge, or Hydrotherm?

4 A. Yes.

5 Q. Some of those were attached to the corporation  
6 records, correct?

7 A. Correct.

8 Q. Now, if you turn to S-18.

9 A. Okay.

10 Q. Can you identify S-18? Let's see there's a, b,  
11 c, d, and e.

12 What is S-18a?

13 A. This is a default judgment, filed in Superior  
14 Court of Arizona, County of Maricopa, on behalf of  
15 Merdinger, M-E-R-D-I-N-G-E-R, Fruchter, F-R-U-C-H-T-E-R,  
16 Rosen, R-O-S-E-N, and Corso, C-O-R-S-O, P.C., a foreign  
17 corporation, vs. Hydrotherm Power Corporation, a voided  
18 Delaware corporation, and Deluge, Inc., a voided  
19 Delaware corporation.

20 Q. Okay. What's the date of this default judgment?

21 A. October 16th, 2003.

22 Q. In looking at the second page, is there a dollar  
23 amount associated with this judgment, default judgment?

24 A. Yes. \$25,235, plus interest at 10 percent per  
25 annum.

1 Q. Okay. And looking at S-18b, what is that  
2 document?

3 A. This is the same thing as I just described,  
4 except it's a satisfaction of judgment, dated  
5 April 21st, 2005.

6 Q. Thanks. And S-18c?

7 A. It's the same thing, except it's a judgment  
8 against garnishee holding funds, nonearnings, dated  
9 January 15th 2004.

10 Q. And S-18d?

11 A. It's the exact same thing, except it's dated  
12 July 1st, 2004.

13 Q. Now, S-18a, b, c, and d are certified records of  
14 Maricopa County Superior Court, correct?

15 A. Did you say a, too?

16 Q. Yes, a, b, c, and d.

17 A. Yes.

18 Q. And then S-18e is what?

19 A. That's just a printout from the web that shows  
20 the court dates and what's occurred and the date.

21 Q. Okay. And if you could look at S-19a, b, c.

22 A. Okay.

23 Q. Can you identify these documents, please?

24 A. This is a different default judgment. There's  
25 certified copies from Superior Court of Arizona in

1 Maricopa for BOA Marketing, L.L.C., vs. Deluge, Inc., a  
2 Delaware corporation.

3 Q. Can you tell if there was a monetary judgment  
4 awarded on this default judgment?

5 A. Yes. It's for \$91,000 plus interest. It's  
6 dated June 24th, 2010.

7 Q. And this is a certified record of the county,  
8 Superior Court?

9 A. Yes.

10 Q. Okay. If you can turn to S-19b.

11 A. It's the same thing I just described, except  
12 it's a judgment against the garnishee, and it adds Bank  
13 of America. It's dated November 10th, 2010.

14 Q. Okay. And if you look at S-19c.

15 What is S-19c?

16 A. It's just the printout from the web where you  
17 can look up these cases and the dates and what happened.

18 Q. Anywhere in the court records, do you know if  
19 this judgment was ever satisfied?

20 A. It doesn't appear that it's been satisfied.

21 Q. Okay. If you can turn to S-20a, b, c, and d.

22 What is Exhibit S-20a?

23 A. This is a notice of lodging proposed form of  
24 judgment, filed in the State of Arizona, in Maricopa.

25 And these are also certified copies.

1 Q. And who are the parties in this case?

2 A. Thomas Marchetti and Janis M. Marchetti, against  
3 Brian Hageman and Deluge, Inc., a Delaware corporation.

4 Q. And what is 20b?

5 A. It's the same case. It's a certified copy of  
6 the minute entry.

7 Q. Okay. And what is S-20c?

8 A. The same court case. It's a certified copy of  
9 the final judgment, dated June 26, 2012.

10 Q. Was there a monetary award issued in this case?

11 A. Yes. It's 111,500, plus 7,800 -- correction --  
12 \$7,080 in attorneys' fees, and court costs of \$351 at a  
13 rate of 10 percent per annum.

14 Q. And what's the date of the judgment?

15 A. June 26, 2012.

16 Q. And then looking at the last exhibit, S-20d.

17 What is that?

18 A. This is just a printout from the web, that it  
19 shows that this one also hasn't been satisfied.

20 Q. In your review of the, the Superior Court case  
21 represented in Exhibit S-20a through d, do you know if  
22 this judgment was ever satisfied?

23 A. It does not appear it's been satisfied.

24 Q. Okay. Can you look at S-21a?

25 ALJ STERN: I was just going ask -- well, go

1 head, continue. I'll catch up with you in a few  
2 minutes.

3 THE WITNESS: Okay.

4 ALJ STERN: Go ahead.

5 BY MS. COY:

6 Q. Can you identify Exhibit S-21a?

7 A. This is an additional judgment, certified copy,  
8 filed in Superior Court of Arizona in Maricopa, from  
9 Control Distributors, L.L.C., against Deluge, Inc. It's  
10 a judgment for \$23,196.09, at 18 percent per annum,  
11 dated July 30th, 2010.

12 Q. And what is --

13 That's a certified record, correct?

14 A. Yes.

15 Q. And what is S-21b?

16 A. It's the printout from the web, which also shows  
17 it has not been satisfied.

18 Q. If you turn to S-22a.

19 A. Okay.

20 Q. Can you identify this document, please?

21 A. This is an additional judgment, certified copy,  
22 from Superior Court in Arizona and in Maricopa, Philip  
23 Jones and Florence Jones against Deluge, Inc. It's a  
24 judgment in the amount of \$113,676.28 --

25 Q. Okay.

1 A. -- at a rate of 10 percent annum, dated  
2 October 27th, 2010.

3 Q. And what is S-22b?

4 A. It's the printout from the web that also shows  
5 it's not been satisfied.

6 Q. And if you look at S-23a.

7 A. Okay.

8 Q. What is S-23a?

9 A. This is another default judgment. It's a  
10 certified copy. The Justice Court of McDowell Mountain  
11 in Maricopa from the Ironwood Village Association, an  
12 Arizona nonprofit, against Brian Hageman and Jane Doe  
13 Hageman. It is for the amount of \$2,951.87, 10 percent  
14 annum. Attorney's fees were \$925, court cots \$132.50.  
15 Oh, here, it's on the final page. It comes to  
16 \$4,009.37, dated January 15th, 2013.

17 Q. And S-23b?

18 A. It's the printout from the web on this court  
19 case that shows it has not been satisfied.

20 ALJ STERN: Okay. Now I can ask my question.  
21 You're at the end of these judgments.

22 Did the, during the course of your  
23 investigation, did you total up the total amount of  
24 these various judgments against the various respondents,  
25 or anything like that?

1 THE WITNESS: I don't believe so.

2 ALJ STERN: Okay. Go ahead.

3 BY MS. COY:

4 Q. Looking at S-25.

5 A. Okay.

6 Q. What is S-25?

7 A. This is a letter from Deluge to the Arizona  
8 Corporation Commission for a notice of termination of  
9 their private offering, dated October 22nd, 1997.

10 Q. So Exhibit S-25 is part of the Securities  
11 Division records?

12 A. Yes.

13 Q. Okay. And then if you can turn to S-39.

14 A. Okay.

15 Q. What is S-39?

16 A. This is the Form D filed by Deluge, Inc.,  
17 called, Private Offering No. 1. It's dated October 1,  
18 1997.

19 Q. Okay. And then it was terminated in Exhibit  
20 S-25 on October 22nd, 1997, correct?

21 A. Correct.

22 Q. Okay. And S-39, is that a record of the  
23 Securities Division?

24 A. Yes.

25 Q. And then, I hate to make you do this, but go to

1 S-41. And you want to go to S-41 -- just a second -- b  
2 as in boy.

3 A. Okay.

4 Q. What is S-41b?

5 A. This is a certified copy from the United States  
6 Securities and Exchange Commission, Attestation that  
7 says, attached is a copy of the Form D received  
8 October 3rd, 1997 on behalf of Deluge, Inc.

9 Q. Okay. And so this is a certified record from  
10 the SEC, correct?

11 A. Correct.

12 Q. And then if you can turn to S-41a.

13 What is S-41a?

14 A. It's a certified record, again, from the United  
15 States Securities and Exchange Commission that states,  
16 Hydrotherm Power Corporation has never filed any  
17 registration statements or exemptions to the Commission.  
18 And that's dated as of April 2nd, 2014.

19 Q. Okay. And if you look at S-41c.

20 What is S-41c?

21 A. It's another certified record from the United  
22 States Securities and Exchange Commission. It's a  
23 Form D, under the name Deluge, Inc., filed on  
24 October 14th, 1997, for a Private Offering No. 2.

25 Q. Okay. And then it's attached to a copy of that

1 Form D, correct?

2 A. Yes.

3 Q. Okay. And then if you look at S-41d.

4 A. It's a certified copy from the United States  
5 Securities and Exchange Commission that states the  
6 Form D filed July 14th, 2000 in the name of Deluge, was  
7 destroyed in accordance with the Commission's records  
8 retention schedule.

9 ALJ STERN: What was that -- that's 41d and --  
10 let me just find it.

11 MS. COY: Which are you looking for?

12 ALJ STERN: 41d.

13 MS. COY: Okay. I think it's a one page  
14 document. It should be the last one --

15 ALJ STERN: Okay.

16 MS. COY: -- of 41.

17 ALJ STERN: And that's for the, what I think she  
18 testified to, it's the SEC statement that the Form D on,  
19 sent in July 14th, 2000, was destroyed in accordance  
20 with the -- okay. Thank you.

21 BY MS. COY:

22 Q. Okay. Let me ask you this.

23 In the conversations that you had with other, or  
24 other investors -- and you indicated that other Staff  
25 members had contacted investors also?

1 A. Yes, they did.

2 Q. Did you review the information that the other  
3 investigators received from investors in Deluge or  
4 Hydrotherm?

5 A. Yes, of course.

6 Q. Based on your contacting of investors, or asking  
7 the other investigators within the office to do so, do  
8 you know if all the investors that were spoken to were  
9 accredited investors?

10 A. No, they were not.

11 Q. Can you turn to S-28, please?

12 At this time I'd like to move S-41a, b, c, and  
13 d.

14 ALJ STERN: I believe S-41 we admitted.

15 MS. COY: Oh, okay.

16 ALJ STERN: Where are you at now?

17 MS. COY: S-28.

18 ALJ STERN: Okay. S-28. That one has been  
19 admitted also, just so you know.

20 MS. COY: Thank you.

21 BY MS. COY:

22 Q. Okay. Looking at S-28.

23 Can you identify Exhibit S-28 for me, please?

24 A. S-28 is a technology transfer agreement between  
25 Hydrotherm and Mr. Hageman, which was produced to the

1 Division by Mr. Hageman.

2 Q. And what's the date of this document? It's  
3 right at the top.

4 A. November 30th, 1995.

5 Q. Okay. And what does Section 1 say? Just the  
6 caption.

7 A. Section 1, transfer of valuable property rights  
8 from Brian to the company.

9 Q. And looking at Section 1.2, Assignment.  
10 Can you just read that sentence, please?

11 A. For good and valuable consideration of receipt  
12 and -- it's hard to read -- adequacy of which are  
13 acknowledged, Brian irrev -- I can never say that word.

14 Q. Irrevocably.

15 A. Thank you.

16 Assigns to the company all of his rights, title,  
17 and interests in and into the valuable property rights.

18 Q. Okay. And then if you are turn to page two of  
19 this agreement.

20 Is Mr. Hageman compensated for this transfer or  
21 assignment?

22 A. Yes, he is.

23 Q. And how is he compensated?

24 A. It states he will receive a base salary of  
25 75,000 per year.

1 Q. Okay. And then is this document signed? If you  
2 go to ACC000477.

3 A. Yes, it is.

4 Q. Who is it signed by?

5 A. It looks like Michael, middle initial N --

6 Q. Wait, wait. Are you looking at 477?

7 A. Oh, no, sorry. I was looking at --

8 Q. Thank you.

9 A. It is signed by Brian Hageman.

10 Q. Okay. And then if you turn to ACC478.  
11 What is that document?

12 A. It's an amendment to technology transfer  
13 agreement.

14 Q. And what's amended here?

15 A. Section 3.6 is amended.

16 Q. And does it indicate why they did an amendment?  
17 It would be the fourth line down.

18 A. Talking about disclosing confidential  
19 information.

20 Q. I'm looking at, the agreement is not consistent  
21 with what they intended.

22 A. Oh, I'm sorry.

23 Since that date, the parties have discovered  
24 that the wording of Section 3.6 on page 3 of the  
25 agreement is not consistent with what they intended.

1 Q. Okay. What's the date of this amendment?

2 A. November 30th -- oh. There is no date.

3 Q. Okay. But it refers back to the November 30,  
4 1995 technology transfer agreement, correct?

5 A. Oh, I said correct. I think I spoke over you.  
6 I apologize.

7 Q. Okay. And if you turn to Bates No. ACC000749.  
8 What is this document?

9 A. You mean 479?

10 Q. Yes.

11 A. That's the second amendment to the technology  
12 transfer agreement.

13 Q. Is this document dated?

14 A. June 1, 1998.

15 Q. And who are the parties involved in this  
16 amendment?

17 A. The same as the previous two, Brian Hageman and  
18 Hydrotherm.

19 Q. And okay. Can you look at --

20 ALJ STERN: Who signed this agreement?

21 THE WITNESS: Brian Hageman.

22 ALJ STERN: Brian. Who signed on behalf of the  
23 company? Do you know?

24 THE WITNESS: Brian.

25 ALJ STERN: So he signed an agreement with

1 himself to --

2 THE WITNESS: Yes. And he signed it as Brian  
3 Hageman, CEO.

4 ALJ STERN: To pay himself \$2 million for the  
5 valuable property. So the \$75,000 went to 2 million.

6 Is that essentially what this thing is saying,  
7 in your opinion.

8 THE WITNESS: Correct.

9 MS. COY: Yeah. If you look at, it goes from A  
10 to D. So if you look at paragraph D in the recitals.

11 ALJ STERN: Right.

12 BY MS. COY:

13 Q. Annalisa, can you read that, please?

14 A. D. The parties desire to modify compensation  
15 payable to Brian under the technology agreement.

16 Q. And then under the next paragraph of  
17 compensation, what is the new compensation structure?

18 A. It states:

19 In lieu of the compensation identified in  
20 Section 2.4 of the technology agreement, the company  
21 agrees to pay Brian the sum of \$2 million for the  
22 valuable property rights as defined in the technology  
23 agreement.

24 Q. And if you go down to the last sentence of  
25 No. 1 -- well, I guess they're all No. 1 -- of the

1 compensation paragraph.

2 A. Brian shall receive no other compensation,  
3 including salary, bonuses, royalties, or other amounts  
4 in consideration for the transfer of technology  
5 described in the technology agreement.

6 Q. And if you turn to the next page, which is  
7 ACC000480, what is that document?

8 A. It's a \$2 million promissory note, dated June 1,  
9 1998, between borrower, Brian Hageman -- I'm sorry --  
10 between the borrower, which is what we were just talking  
11 about, and Brian Hageman.

12 Q. Okay.

13 A. So Hydrotherm.

14 Q. Okay. And it indicates that the principal sum  
15 is \$2 million and interest accruing?

16 A. Yes. 8 percent interest.

17 ALJ STERN: Who's borrowing the \$2 million?

18 THE WITNESS: The borrower is Hydrotherm.

19 BY MS. COY:

20 Q. Okay. And if you look at the last page of  
21 Exhibit S-28.

22 Can you read who signs this document?

23 A. It's hard, but it looks like Michael with a  
24 middle initial N, and Mat -- no, I don't know.

25 Q. Okay. So you don't know who signed it?

1 A. No.

2 Q. Now, do you know if Mr. Hageman has been paid on  
3 this note?

4 A. Well, he's taken shareholder loans. Has he been  
5 paid in full, no.

6 Q. Do you recall during the examination under oath  
7 of Mr. Hageman, did he indicate whether he had been paid  
8 on this note?

9 A. This note has not -- but he said this note has  
10 not been fully paid.

11 Q. Instead of being paid for the notes, you  
12 mentioned loans?

13 A. Yes. He stated he was taking, I believe it's  
14 \$10,500 a month, what he termed, shareholder loans that  
15 he will some day pay back, but he doesn't pay taxes on.

16 Q. Okay. Do you recall how he explained how the  
17 shareholder loans worked?

18 A. I think he just pays himself. Because I  
19 remember there were no documentation or receipts or  
20 paperwork showing these loans, or documenting these  
21 loans.

22 Q. Do you know if Mr. Hageman ever provided a copy  
23 of the shareholder loan agreement?

24 A. I don't believe he did.

25 Q. Do you know if there is an actual agreement?

1 A. I don't think I have ever seen one.

2 Q. Okay. Do you recall in the examination under  
3 oath whether he testified that there was an actual  
4 agreement?

5 A. I believe he said there was no written  
6 agreement.

7 ALJ STERN: What's this? This promissory note,  
8 isn't this -- oh, there's no, there's no paper agreement  
9 for the --

10 THE WITNESS: Shareholder loans.

11 ALJ STERN: -- shareholder loans?

12 THE WITNESS: Correct.

13 ALJ STERN: But there is for this promissory  
14 note over here?

15 THE WITNESS: Correct.

16 ALJ STERN: Well, does the \$10,500 shareholder  
17 loans substitute for the \$2 million note?

18 THE WITNESS: No. It's just a loan.

19 ALJ STERN: From the company to Mr. Hageman.

20 THE WITNESS: Well, from the --

21 ALJ STERN: Shareholder.

22 THE WITNESS: -- the shareholder, I guess.

23 ALJ STERN: Well, oh, it's a -- well, is he a  
24 shareholder? Right?

25 THE WITNESS: I believe so.

1 ALJ STERN: So, so he was borrowing money from  
2 Hydrotherm or Deluge. Is that the way it was?

3 THE WITNESS: From Hydrotherm, I believe is how  
4 the promissory note is written up. So I'm assuming it  
5 was from Hydrotherm.

6 ALJ STERN: Okay. Okay. Go ahead.

7 BY MS. COY:

8 Q. Did Mr. Hageman tell you, or were you present  
9 during the examination under oath when Mr. Hageman  
10 indicated what the interest rate was on the shareholder  
11 loans?

12 A. The only thing I remember is 8 percent.

13 Q. Okay. Buts that's on the --

14 A. I believe, the only thing I remember is  
15 8 percent, but that was on the promissory note. I don't  
16 recall shareholder loans.

17 Q. Do you know if he, if there was a set interest  
18 rate to repay back on the shareholder loans?

19 A. I don't recall hearing that.

20 Q. If I -- is there something that would refresh  
21 your memory?

22 A. If you have something, maybe so.

23 Q. Would the examination under oath help refresh  
24 your memory?

25 A. Sure.

1 Q. Okay. If you could pull out Exhibit 16.

2 A. Okay. Just a second.

3 Q. I take that back. You don't need to look.

4 A. Okay.

5 Q. But there was, to your knowledge, there was no  
6 actual agreement, correct?

7 A. He's never produced an agreement. I believe his  
8 testimony is there was nothing written, nothing in  
9 writing to document the loans.

10 Q. Did Mr. Hageman ever tell you, or were you  
11 present when Mr. Hageman stated when the loans were due,  
12 loan payments were due?

13 A. There's no date when they're due.

14 Q. Did Mr. Hageman tell you how much he had  
15 received in total?

16 A. I don't remember a figure, but I remember he  
17 stated, two years ago he had been getting them for five  
18 or six years. So it's been probably eight years to  
19 date, at 10,500 a month. So I could do the math if I  
20 had a calculator.

21 Q. Okay.

22 ALJ STERN: About a million?

23 THE WITNESS: I'm bad at math. I would need a  
24 calculator.

25 ALJ STERN: Okay.

1 BY MS. COY:

2 Q. Did Mr. Hageman ever -- okay. You just said he  
3 said it was five or six years ago they started, and that  
4 was in 2012?

5 A. Yes.

6 Q. And was he -- did Mr. Hageman ever tell you how  
7 much he has received over time? I guess I just asked  
8 you that. Sorry.

9 A. I don't believe so.

10 Q. Okay. Can you turn to Exhibit S-32?

11 A. Okay.

12 Q. Can you identify Exhibit S-32 for me, please?

13 A. This is a memo from Brian Hageman to Tony Hakes  
14 and Arthur Andersen, dated October 23rd, 2000. It's  
15 referenced, Brian C. Hageman interest payments. It  
16 states that the promissory note that we have just been  
17 talking about accrues at 8 percent.

18 Q. Okay. And do you know where you, we obtained  
19 this document?

20 A. I believe it was off of a flash drive or a CD  
21 from Mr. Hageman.

22 Q. But it was from Mr. Hageman?

23 A. Yes.

24 Q. And it was from Mr. Hageman to Arthur Andersen,  
25 correct?

1 A. Correct.

2 Q. And he mentions Toback CPA, correct? In the  
3 second paragraph.

4 A. Correct.

5 Q. And did he indicate that Toback CPA had some  
6 concerns?

7 A. Yes.

8 Q. Can you read what those concerns were?

9 A. He had concerns about recording the note because  
10 of issues regarding the valuation of Hydrotherm, since  
11 there is no way, at that time, to put a value on the  
12 technology.

13 Q. And did Mr. Hageman state in this memo anywhere  
14 that he had been receiving funds based on this note? If  
15 you look at the third paragraph.

16 A. It was talking about payments of accrued  
17 interest: \$1,000 per week has been made to me since  
18 July 1, 1999.

19 Q. And who paid the note on behalf of Hydrotherm?

20 A. Deluge, Inc., which was debited to accounts  
21 receivable Hydrotherm.

22 Q. Okay. If you can turn to S-33, please.

23 A. Okay.

24 Q. Can you identify Exhibit S-33?

25 A. This is a letter from Hydrotherm Power

1 Corporation to GMAC Mortgage.

2 Q. Sorry. What is the date of the document?

3 A. June 12th, 2010.

4 Q. And does it discuss at all how much -- or what's  
5 the purpose, content of this letter?

6 A. It appears Michael N. Mastoris -- which is  
7 probably that name that we couldn't figure out on that  
8 other document, actually -- it's kind of a letter that,  
9 I guess, you would get your employer to write to show  
10 that you have income coming. And it was made to GMAC  
11 Mortgage Loss Mitigation Department. So there may have  
12 been a question about payment on his mortgage.

13 So this letter appears that, they're saying that  
14 he receives 10,400 a month and will continue to do so  
15 through 2017.

16 Q. And if you look at the sentence above the bullet  
17 points. What does that say?

18 A. Hydrotherm Power Corporation will continue to  
19 advance to Hageman the following.

20 Q. And how long will he receive these payments?

21 A. Till 2017.

22 Q. And then what does the last line say?

23 A. It also states: In addition, HPC will pay the  
24 promissory note plus dividends, when available.

25 Q. Okay. And if you turn to Exhibit S-34. Or, I'm

1 sorry.

2 Can you turn to S-29, please?

3 A. Okay.

4 Q. What is Exhibit S-29?

5 A. This is a license agreement.

6 Q. Between who?

7 A. Between Hydrotherm Power Corporation and Deluge,  
8 dated May 1st, 2000, but is effective backdated to  
9 January 23rd, 1997.

10 Q. Okay. Now, looking at the recitals, which are  
11 right underneath, is this an agreement where Hydrotherm  
12 and Deluge have entered into an agreement?

13 A. Correct.

14 Q. And what type of an agreement?

15 A. Technology transfer agreement.

16 Q. And what's the purpose of this? It says for the  
17 use by. Can you read that sentence?

18 A. Setting forth the terms and conditions for the  
19 use by Deluge of certain technology owned by Hydrotherm  
20 in the field of hydraulic pump technologies, referred to  
21 as the field.

22 Q. So are they transferring, is Hydrotherm, to your  
23 knowledge, transferring the technology that's in  
24 agreement S-28 now to Deluge?

25 A. It appears that way.

1 ALJ STERN: So, if I understand your testimony  
2 correctly, technology went from --

3 THE WITNESS: Hydrotherm to --

4 ALJ STERN: No. Went from Mr. Hageman to  
5 Hydrotherm and then Hydrotherm to Deluge. Is that what  
6 happened?

7 THE WITNESS: Correct.

8 ALJ STERN: Okay.

9 BY MS. COY:

10 Q. Where did we get the document represented by  
11 S-29?

12 A. From Mr. Hageman.

13 Q. Okay. Can you see, looking at ACC000489 -- I'm  
14 sorry, 490 -- who signed on behalf of Hydrotherm Power  
15 Corporation?

16 A. Brian Hageman, CEO.

17 Q. Okay. If you can turn to Exhibit S-30.

18 A. Okay.

19 Q. Can you identify that document for me, please?

20 A. These are minutes from the Board of Directors,  
21 Deluge, Inc., dated June 25th, 1998.

22 Q. Do you know where you obtained a copy of the  
23 documents?

24 A. From Mr. Hageman.

25 ALJ STERN: Excuse me. I'm sorry.

1           What number are you on?

2           MS. COY: 30.

3           ALJ STERN: Okay. Go ahead.

4 BY MS. COY:

5       Q.     You indicated these were the minutes of Board of  
6 Directors meeting of -- is that Deluge?

7       A.     Correct.

8       Q.     Okay. Looking, fourth paragraph down, can you  
9 read that, please?

10      A.     In financial matters, Brian reported a checkbook  
11 balance of \$23. John Rhodes of Phoenix has invested  
12 \$24,000.

13      Q.     And then going down a couple of paragraphs.  
14 Does it talk about investments again?

15      A.     Yes, it does.

16      Q.     And what does it say?

17      A.     Investment income prospects were discussed by  
18 Dave Russell and Michael Mastoris. Dave reported on the  
19 status of several prospect and expects a target of  
20 200,000 will be reached by the end of September.  
21 Michael revealed that he brought a check for 24,000 and  
22 concurred that Dave's 200,000 estimate was realistic.

23      Q.     Okay. And if you can go to Exhibit S-31.

24      A.     Okay.

25      Q.     What is this document?

1           A.       This is a letter on Deluge, Inc., letterhead,  
2   dated May 4th, 2001, directed to Chairman Zammit.

3           ALJ STERN:   Wait.  I've got to -- I'm looking at  
4   this minutes to the Board of Directors.  What's this  
5   supposed to establish, ma'am?  I'm trying to figure it  
6   out.  Don't look to your attorney.  You have to answer  
7   the question.

8           THE WITNESS:  I think it shows that there was no  
9   money in the bank account, and that our next witness is  
10  Mr. Rhodes.

11          ALJ STERN:   So he's the accountant?

12          THE WITNESS:  No.  He's an investor.

13          ALJ STERN:   An investor.  Okay.  All right.  Go  
14  ahead.

15  BY MS. COY:

16        Q.       Okay.  Looking at Exhibit S-31, and you  
17  identified -- did you identify the date of this  
18  document?

19        A.       Yes.  May 4th, 2001.

20        Q.       And who signed this document, or whose signature  
21  block is on this document?

22        A.       It says Brian Hageman, president of Deluge, Inc.

23        Q.       Okay.  And if you look at the third paragraph  
24  down, can you read the first sentence, please?

25        A.       This good news comes at a desperate time for our

1 company and subsidiaries.

2 Q. I'm sorry. Keep going for the next sentence.

3 A. With our company surviving completely on  
4 investment from private stockholders, we have been  
5 continually seeking further investment.

6 Q. Okay. And then if you go down to the second to  
7 the last sentence of that same paragraph, what does it  
8 say?

9 A. Investment in our company has begun to increase  
10 recently as we have seen rapid sales of stock in the  
11 company.

12 Q. Where did you obtain this document?

13 A. From Mr. Hageman.

14 Q. Okay. If you can turn to Exhibit S-34.

15 A. Okay.

16 Q. Can you identify this document for me, please?

17 A. This is a letter on Hydrotherm Power Corporation  
18 letterhead, dated April 5th, 2008. It talks about a  
19 stock purchase to an Alan and Leslie Jorgensen.

20 Q. Did you happen to speak with either Alan or  
21 Leslie Jorgensen at any point?

22 A. I spoke with Leslie.

23 Q. And do you recall when you spoke with Leslie?

24 A. I don't recall the last -- it was a couple of  
25 years ago.

1 Q. And pursuant to that conversation, where did you  
2 obtain these documents?

3 A. From her.

4 Q. And the first page of Exhibit S-34 you  
5 identified as a letter, and then the second page --

6 And can you identify the second page for me,  
7 please?

8 A. The second page is 6,000 shares of Hydrotherm  
9 Power Corporation stock issued to Alan and Leslie  
10 Jorgensen, dated February 15th, 2008. And the one after  
11 that is 7,000 shares of stock for Hydrotherm Power  
12 Corporation to Alan and Leslie Jorgensen, February 28,  
13 2008.

14 Q. Did you confirm with Ms. Jorgensen that she was,  
15 in fact, an investor of Hydrotherm Power Corporation?

16 A. Yes, I did.

17 Q. During your conversation with Ms. Jorgensen, did  
18 she indicate how she found out about the investment?

19 A. Through another investor.

20 Q. And then do you recall if she indicated who she  
21 actually spoke with about the investment?

22 A. I don't recall.

23 Q. Do you recall what she was told with respect to  
24 what kind of return she could see on her investment?

25 A. She thought she would be getting a large return.

1 Q. And did she ever indicate to you whether or not  
2 she was an, she and her husband were accredited  
3 investors?

4 A. Yes. She told me that they were not accredited.

5 MS. COY: At this time, I'd like to move Exhibit  
6 S-34.

7 ALJ STERN: Okay. Mr. Hageman, do you have any  
8 objections to this exhibit?

9 MR. HAGEMAN: No objection. But I've got one  
10 question. Is this all in lieu of the witness not being  
11 here? Is this done then?

12 ALJ STERN: Basically, yes.

13 MR. HAGEMAN: Jorgensen?

14 MS. COY: Yes. Ms. Jorgensen will not be here,  
15 or telephonically.

16 MR. HAGEMAN: And you've finished your  
17 questions?

18 MS. COY: No.

19 MR. HAGEMAN: On Jorgensen?

20 MS. COY: Yes.

21 ALJ STERN: So do you have any objections?

22 MR. HAGEMAN: No objection.

23 ALJ STERN: All right. Exhibit S-34 is  
24 admitted.

25 (Exhibit S-34 was admitted into evidence.)

1 ALJ STERN: Before you go on to somebody else.  
2 How much more do you have with her?

3 MS. COY: Not a whole lot, but if you want to  
4 take a break --

5 ALJ STERN: Let's take a break for about ten  
6 minutes, and come back. Give the court reporter a  
7 little break.

8 (Recess taken from 3:07 p.m. to 3:20 p.m.)

9 ALJ STERN: Back on the record.

10 Okay. Continue.

11 BY MS. COY:

12 Q. Ms. Weiss, were you, you were present during  
13 Mr. Hageman's examination under oath, right?

14 A. Correct.

15 Q. Did Mr. Hageman ever indicate whether he told  
16 investors about when they could expect a return on their  
17 investment?

18 A. No.

19 Q. Did he claim in his EUO that he never promises  
20 returns?

21 A. Correct.

22 Q. But yet in one of your emails, I believe, didn't  
23 he indicate that there was a time frame when you would  
24 get a return? Do you recall?

25 A. It wasn't specific, but it said in the next few

1 years.

2 Q. If you look at S-10, Bates No. 30, and look at  
3 No. 3.

4 Did he, at that point, tell you when you could  
5 expect a return?

6 A. It said a couple of years.

7 Q. Okay. At any point when speaking with  
8 Mr. Hageman, either in your undercover capacity or while  
9 you were present during his examination under oath, did  
10 he tell you that an investment in Hydrotherm would be  
11 first paid to him and then to the project?

12 A. He said that in the EUO, but not undercover,  
13 when I was talking to him through undercover capacity.

14 Q. During the examination under oath, did  
15 Mr. Hageman discuss what type of disclosure documents he  
16 provided to investors?

17 A. Yes. But he also stated he didn't have to  
18 provide those to accredited people.

19 Q. Was that for Hydrotherm or Deluge?

20 A. I don't recall.

21 Q. Okay. Do you know if, during his testimony, did  
22 Mr. Hageman indicate that he had still been raising  
23 money in 2012?

24 A. Yes, he did.

25 Q. Did he say about how much he had been raising at

1 that point?

2 A. I think it was 40 to \$50,000, he estimated.

3 ALJ STERN: A week, a month, a year?

4 THE WITNESS: During 2012.

5 ALJ STERN: Oh.

6 THE WITNESS: So the whole year.

7 BY MS. COY:

8 Q. Well, do you recall when the examination under  
9 oath was?

10 A. I believe it was April 2012.

11 Q. Okay. So if he testified to that, it was only  
12 for the first few months of 2012, correct, that he  
13 raised the 40 to 50,000?

14 A. That would make sense, yes.

15 MS. COY: Okay. At this point I have nothing  
16 further for Ms. Weiss.

17 ALJ STERN: Okay. Mr. Hageman, do you have some  
18 questions for her?

19 MR. HAGEMAN: Yeah, I have got a couple. I'll  
20 try to be quick.

21 ALJ STERN: Okay.

22 MR. HAGEMAN: I have got a page and a half.

23 ///

24 ///

25 ///

1 CROSS-EXAMINATION

2 BY MR. HAGEMAN:

3 Q. Ms. Weiss, good afternoon.

4 A. Good afternoon.

5 Q. How long have you been with the Securities  
6 Division?

7 A. In October it will be four, three years.

8 Q. Three years in October then?

9 A. Four years in October.

10 Q. Before that you were with the police department  
11 in --

12 A. In Washington.

13 Q. State of Washington?

14 A. Correct.

15 Q. So you led a team of a few special  
16 investigators, including Doug Barrett and William  
17 Santee?

18 A. They assisted me. It's not really a team.

19 Q. Were you the lead administrator for the efforts?

20 A. I was the investigator assigned to the case.

21 Q. Okay. So then the other two were helping you?

22 A. Correct. And I do the same for them when they  
23 need another undercover --

24 Q. Oh, okay. So it's just -- but on this one you  
25 were the lead person?

1 A. Correct.

2 Q. How many -- you said you interviewed  
3 shareholders in Hydrotherm and Deluge?

4 A. Correct.

5 Q. Was it over the course of a period of time, a  
6 year, or how long do you think that was when you were  
7 calling?

8 A. It's been sporadic over the last two years.

9 Q. How many shareholders did you talk to between  
10 both companies?

11 A. I don't know. But if I had to estimate, maybe  
12 20 to 30.

13 Q. And the two other gentleman, maybe 20, 30 each  
14 on their part?

15 A. I believe we asked all the investigators to do  
16 10 to -- I think they were assigned 10 to 20 people to  
17 call.

18 Q. Okay.

19 A. Roughly.

20 Q. So out of the three, you did maybe 60 or 70  
21 total, out of the three of you?

22 A. No. There was more than just three. We have  
23 eight investigators.

24 Q. So there was others besides these two I  
25 mentioned?

1 A. Correct.

2 Q. Do, do you know how many actually worked on this  
3 with you, at any point in time, total? Eight people?

4 A. Probably eight people. And not everyone called  
5 back, or they didn't get through to everybody, so I  
6 don't have an a affirmative answer, but they were  
7 assigned 10 to 20 people to call.

8 Q. Do you think you know, total, approximately, how  
9 many people you talked to, the whole team? A hundred,  
10 200?

11 A. If I had to guess, a hundred people.

12 Q. Okay. And then you were also asking these folks  
13 to come in and be witnesses? Or did you not ask  
14 everybody?

15 A. We did not ask everybody.

16 Q. Okay. I have to think how I ask these questions  
17 as I, with these notes.

18 But having to do with the securities  
19 broker/dealer, did you, when you, when you got the  
20 documents from the State of Arizona, whether we were  
21 broker/dealers, did you, were you requesting those  
22 because you think we should have been broker/dealers?

23 A. It's part of my background. We do that for, for  
24 all the cases to determine if people are registered or  
25 not.

1 Q. If they were -- okay. And over the --  
2 You've been around SEC rules and regulations  
3 just the last three years, or was it before in your  
4 other positions?

5 A. Just since I have been here with the Corporation  
6 Commission Securities Division.

7 Q. So since you've been here, you've seen how the  
8 SEC changes their rules sometimes?

9 A. Correct.

10 Q. There's been some major revisions in rules since  
11 you've been working here at the SEC level?

12 A. There's been changes, yes.

13 Q. You've seen that there's actually changes in the  
14 accredited investor rule, with the new rules that are  
15 just kind of being processed in?

16 A. Correct.

17 Q. And we've, our companies have always used the  
18 old traditional kind of investor definitions.

19 Is that what you saw?

20 A. I'm sorry, what was your question?

21 Q. The accredited investor questions, when they  
22 come up, we show the subscription agreements as if you  
23 were, you know, check the box saying you're accredited  
24 or not, and it's the old method of checking accredited  
25 investors.

1 Have you seen the difference or --

2 ALJ STERN: Wait, wait, wait. You're testifying  
3 a little more than you're asking questions. So I'm not  
4 sure what your question is.

5 BY MR. HAGEMAN:

6 Q. Well, yeah, I was asking whether or not you know  
7 the difference between old accredited investors and new  
8 accredited investors?

9 A. I think I know what you're trying to ask. And I  
10 have seen your documents that have different income  
11 figures than they are today, that make accredited  
12 investors.

13 Is that what you're asking? The amounts are  
14 different?

15 Q. Well, no. I think we have always used the  
16 same -- and I'm not testifying -- I just -- no. I just  
17 wanted to get your understanding of how you learned  
18 about accredited investors.

19 You learned it on the job here --

20 A. Correct.

21 Q. -- what an accredited investor is defined as?

22 A. Correct.

23 Q. The -- all the documents that we have that are  
24 lawsuits, pending litigation, or any kind of litigation,  
25 lawsuits and judgments, were public records.

1           You just retrieved them off public records  
2 documents?

3           A.     Some were off of the public, and some were off  
4 of when the entity was served here at the Commission.

5           Q.     Entity, meaning SEC?

6           A.     No.   Your entity.

7           Q.     Oh, okay.   But, basically, did you see that  
8 those are just public documents that anybody could  
9 access from Superior Court or Maricopa Court?

10          A.     They are public records, yes.

11          Q.     They're public records.

12                 So you understand that part of our definition of  
13 accredited investor is they can go out and do their own  
14 due diligence and find these documents if they wanted  
15 to?

16          A.     I think an accredited investor is something  
17 different than doing due diligence.

18          Q.     Okay.   Okay.   I won't go into explaining our  
19 policy.   But all those documents are public documents.

20                 You've brought up a couple of times that Brian  
21 gets paid first.   I don't understand how you define  
22 that.   I mean, I brought it up, I guess, that, you know,  
23 of course, you know, if there's money around I get up to  
24 my 10,000 a month first before anything else happens.

25                 Is that how you understood it?   Or is it that

1 I'm getting paid before any shareholders get dividends?

2 A. In your examination under oath, you stated that  
3 when money comes in, you have the checks made out  
4 personally to you, and you take your cut, I guess you  
5 could say, and then the rest goes to the company. That  
6 is what I heard you testify to.

7 Q. The shareholder loans, that I have been calling  
8 my 10,000 a month that I get, you saw how it's recorded  
9 in our accounting that was provided to you?

10 A. I didn't do the accounting. A CPA did that.

11 Q. Okay. We're having the other expert witness as  
12 an accountant coming up.

13 ALJ STERN: Are you asking if there's going to  
14 be an accounting witness?

15 MR. HAGEMAN: She reminded me, sorry, she just  
16 reminded me that there will be.

17 ALJ STERN: Tomorrow, I assume?

18 MS. COY: That's correct.

19 BY MR. HAGEMAN:

20 Q. And you talked a little bit about the licenses  
21 between me and Hydrotherm, and then the license  
22 agreement between Hydrotherm and Deluge. There was the  
23 documents that we just talked about.

24 A. Yes.

25 Q. S-24.

1 Did you recognize that the Deluge license was  
2 limited, it wasn't a full patent license?

3 A. I think you're asking a question that's a little  
4 out of my realm. I reviewed the documents.

5 Q. Okay. You didn't see in there that it's, it's  
6 limited in its scope? It's not the full patent that  
7 Hydrotherm owns that's given to Deluge. It's a partial.

8 MS. COY: If he wants her to review the  
9 documents, he can -- they're in front of her.

10 ALJ STERN: Did you want her to look at it?

11 MR. HAGEMAN: Well, just to clarify that, yes,  
12 please.

13 ALJ STERN: S-24?

14 MR. HAGEMAN: S-24.

15 MS. COY: S-24 is not the correct document.

16 MR. HAGEMAN: No, it's not.

17 ALJ STERN: S-28. Is that the one?

18 MS. COY: 28 and 29.

19 ALJ STERN: And what is your question, sir?

20 BY MR. HAGEMAN:

21 Q. Yes. It's, when you were reviewing these  
22 documents, did you understand it's the -- I'm trying to  
23 find which paragraph.

24 ALJ STERN: Would it be the second paragraph of  
25 S-29, under grant of license, where there's a limiting

1 of the license authority? Is that what you're talking  
2 about?

3 MR. HAGEMAN: On S-29?

4 ALJ STERN: S-29, the first page. It's the  
5 licensing agreement. And I think that second paragraph  
6 may be what you're talking about.

7 MR. HAGEMAN: Yeah. It's actually the first  
8 paragraph of the recitals, sir.

9 ALJ STERN: Well, what is it you're asking her?

10 BY MR. HAGEMAN:

11 Q. I'm just -- in the discussion before, it sounded  
12 like it was just, I licensed Hydrotherm, Hydrotherm  
13 licensed Deluge.

14 But did you recognize that it's not a full  
15 license. It's not a full license, it's a full patent,  
16 that first paragraph?

17 A. No, I did not.

18 Q. How often did you see the subscription  
19 agreements filled out and the other accredited investor  
20 section marked?

21 A. I don't recall seeing that.

22 Q. One question about the, the undercover operation  
23 that happened with the -- that was just three of you, I  
24 guess, there was more than three.

25 Were you ever allowed to go all the way to write

1 a check or send some money to me, or was it always  
2 stopped before that point?

3 A. I have never sent money in an undercover  
4 capacity in an investment situation.

5 Q. Were you allowed to?

6 ALJ STERN: The Division's a little tight on  
7 that, I think.

8 MR. HAGEMAN: I wasn't asking for much.

9 BY MR. HAGEMAN:

10 Q. I mean, it stops before that point. Is that  
11 just the normal course of an investigation like that?  
12 It goes to a point and then stops?

13 A. They all go to a point before they stop, yes.

14 If you're asking -- I don't have fake checks, if  
15 that's what you're asking. If you received a bounced  
16 check from another name, that's not me.

17 Q. Okay. Yeah, no, so you did not get to go  
18 through the whole process of investing and getting a  
19 common stock certificate to see the entire transaction?

20 A. No. Everything that we have here in court is,  
21 is what I did. There's nothing else I'm hiding.

22 MR. HAGEMAN: Okay. It was just leading up to  
23 something.

24 I appreciate your time, and that's all the  
25 questions I have.

1 EXAMINATION

2 BY ALJ STERN:

3 Q. Okay, Ms. Weiss, a question. Just sort of a  
4 spinoff of Mr. Hageman's last inquiry.

5 Is it safe so say that when the investigators  
6 conduct somewhat of an undercover investigation and  
7 you're contacting offerors in these situations, that you  
8 deal, essentially, with the offer, not so much with the  
9 sale itself; is that correct?

10 A. Correct.

11 Q. It's with the offer, you're looking at how they  
12 present the offering to you, correct?

13 A. Correct.

14 Q. And with respect to this particular  
15 investigation -- I think I asked you before, or maybe I  
16 didn't -- with respect to all of those outstanding  
17 judgments and defaults and things, did you ever have  
18 occasion to total those up, or you don't know what that  
19 amount is?

20 A. I don't know what the amount is. But if you  
21 want to give me a calculator, I can do that.

22 Q. No, that's all right. Maybe the accounting  
23 witness might know something about it. Just let me look  
24 through here.

25 You said the Jorgensens, Alan and Leslie

1 Jorgensen, I think it was.

2 A. Yes.

3 Q. Where are they from?

4 A. I would have to look. Wyoming or, I think  
5 Wyoming.

6 Q. Sounds good. Out of state, not in Arizona?

7 A. No. Not in Arizona.

8 Q. And how did you come to talk to them?

9 A. Called them on the phone and sent them an email.

10 Q. Where did you get their names from?

11 A. An investor list from Mr. Hageman.

12 Q. I see. And how did they find out about this  
13 opportunity?

14 A. Through another investor.

15 Q. And somebody in Wyoming, or you don't know?

16 A. You know, I have the name, but I would have to  
17 look that person up and see what state they live in. I  
18 don't believe that person was from Arizona either.

19 Q. But they invested in the Hydrotherm investment?

20 A. Correct. Twice.

21 Q. Do you recall how much money they invested?

22 A. I would have to look at my notes.

23 Q. Do you know if they ever got any return on their  
24 investment?

25 A. They have never got a return, nor has any other

1 investor gotten a return.

2 Q. Of all 700 of the investors?

3 A. Correct. Well, I'm assuming.

4 Q. Well, that lady, Mrs. Killebrew, this morning,  
5 got better than what she invested.

6 A. I wouldn't categorize that as a return. She  
7 just sold some of her stock to another investor.

8 Q. So another investor bought her stock. Okay.  
9 It's better than a lot of investors get.

10 A. She's the only one that I found that actually  
11 got out of it --

12 Q. With whatever --

13 A. -- with money.

14 Q. -- they invested. She at least got her money  
15 back.

16 Out of all 700?

17 A. We didn't contact all of the 700. Some people  
18 didn't answer phones, and some people didn't return  
19 phone calls.

20 Q. I see. Based on your investigation and what you  
21 know today, is there still an ongoing, not so much  
22 offering, but is the technology still being developed?  
23 Do you know?

24 A. That I don't know.

25 Q. So you don't know whether Hydrotherm or Deluge

1 is still trying to sell the pumps?

2 A. I have no idea.

3 Q. Did you ever come across any evidence that they  
4 were?

5 A. Selling them?

6 Q. Yes.

7 A. Just from testimony from Mr. Hageman.

8 Q. Okay. That was during his EUO?

9 A. Yes.

10 Q. Okay.

11 A. That they had made money off of prototypes. But  
12 I don't think -- I believe from his EUO, they were  
13 trying to downscale them into a manner where they could  
14 actually be shipped, or put them -- I remember him  
15 talking about being able to put them in cars. So that  
16 would be pretty small, from a big warehouse to something  
17 that would fit in a car.

18 ALJ STERN: Okay. I don't think I have any more  
19 questions.

20 Any redirect?

21 MS. COY: No.

22 ALJ STERN: All right. Okay. Thank you,  
23 Ms. Weiss.

24 You're not going to call any more witnesses  
25 today, right? You're going to bring your accountant.

1 Who else do you have left?

2 MS. COY: I have Mr. Rhodes, who is an investor,  
3 and then Mr. Callahan, who is an accountant.

4 ALJ STERN: Okay. Who is going to be first  
5 tomorrow?

6 MS. COY: Mr. Rhodes.

7 ALJ STERN: Mr. Rhodes. Okay.

8 Is 9:30 okay tomorrow?

9 MS. COY: 9:30 is perfect.

10 ALJ STERN: Okay. We will resume tomorrow at  
11 9:30 thank you.

12 (The hearing recessed at 3:43 p.m.)

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1 STATE OF ARIZONA )  
 ) ss.  
 2 COUNTY OF MARICOPA )

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I, KAREN L. KESSLER, RPR, Certified Reporter  
 No. 50821 for the State of Arizona, do hereby certify  
 that the foregoing printed pages constitute a full, true  
 and accurate transcript of the proceedings had in the  
 foregoing matter, all done to the best of my skill and  
 ability.

WITNESS my hand this 23rd day of July, 2014.

  
 \_\_\_\_\_  
 KAREN L. KESSLER, RPR  
 Certified Reporter  
 Certificate No. 50821