



38 Studios

The deal that could have saved Rhode Island... twice.

Presentation Basics

- All statements that are in black or white lettering are facts that have been taken from any number of sources, including, but not limited to; media reports, House Oversight Committee hearings, House Oversight documents procured through APRA requests, or from legitimate informants that I have established throughout the investigation.
- All statements that are unverified “logical conclusions” or “strongly supported hypotheses” – they are “opinions” and they will be in **green lettering**.

38 Studios related credentials of Representative Michael Chippendale

- Appointed to the newly formed House Oversight Committee by Speaker Fox in early 2013.
- Appointed Secretary of Oversight by newly elected Speaker Mattiello in April of 2014.
- Setup an office with the Chairman of Oversight, Rep MacBeth, where we both worked countless hours with staff members to utilize all the documentation that was already received by Oversight, and also to request much more documentation from several state and municipal agencies.
- After our appointments were made public, public support came pouring in for MacBeth and me because “they finally put someone we can trust in charge.”
- Because of this we received contact from many individuals who had “information” about the 38 Studios deal. Most were bogus, but there were a few extremely important and credible sources of information that we developed relationships with.
- Many of these sources were also able to provide us with credible documentation as well as other individuals with whom we could speak.
- We collected over 3,000 documents through the APRA process in addition to hundreds of critical documents from a well-placed former manager at 38 Studios - “Insider A”.
- An individual who is in the “gaming industry” and had personal relationships with employees at 38 Studios also provided a great deal of legitimate information – “Insider B”.
- A Sub-Contractor on the 38 Studios build-out, Mike Rossi, also provided valuable information that was validated by the RISP.
- I would estimate conservatively that I’ve spent over 1,000 hours in the course of working on uncovering the truth in this entire issue.

Basic Timeline



The earliest interaction between RI officials and 38 Studios occurred on October 8, 2009 when the Maynard MA facility was visited by Speaker William Murphy, Majority Leader Fox and Providence Tax Credit Attorney Mike Corso.



Representative Chippendale discovered in a conversation with a former Senior Manager from 38 Studios (“Insider A”) that Murphy, Fox and Corso all went to the Maynard MA facility and signed Non-Disclosure Agreements (NDAs) with 38 Studios. Rep Chippendale later confirmed this when reviewing a 2GB thumb drive full of documents provided by Insider A. Unfortunately there was no information about the visit, what was discussed or what its alleged “purpose” was. Murphy, Fox and Corso all either “do not recall the visit” or refuse to answer questions about it. This was most likely a junket to explore opportunities to bring the well known and loved baseball star’s business to RI and because of the secrecy in which it has been shrouded it can be concluded that some element of impropriety was part of the plan.



In early 2010, roughly February, the EDC ED Keith Stokes and Governor Carcieri develop their plans to create a \$50m Loan Guarantee program.*

*This was most likely a legitimate attempt by Carcieri to produce an economic development tool that would lend to his “Legacy Building.” This was “sold” later in the process to the public as **“The deal that could save Rhode Island’s economy”**. Fox and the General Assembly were not planning to move forward with authorizing Carcieri’s plan until Fox “changed his mind” shortly after talks with 38 Studios had started.



February 2010 - Fox is introduced to Tom Zaccagnino by Michael Corso. Fox later stated that he felt “Corso wasn’t trying to make any money off of the deal”.**

** Based on Fox’s relationship with Corso, and the fact that they met with Zaccagnino, it can likely be concluded that this was an attempt to “go around” the proper process of going through EDC.



March, 6 2010 - Schilling hosts a party at his home in Maynard Mass and Gov. Carcieri attends. They speak about his videogame company.*



* It is suspected that Carcieri was invited to the party for a WWII Memorial Project at Schilling's house so that Curt could meet the governor and mention his interest in coming to RI in order to get the governor interested in his project.



Based on EDC emails, a large number of staff have been working on the pre-approval process of 38 Studios as far back as February.**



** A large volume of emails obtained through APRA from EDC and several other financial entities indicate that there was a large amount of due diligence and other work being performed on 38 Studios by the EDC. At this point Michael Saul had essentially taken over the 38 Studios project within EDC.



STRATEGY
ANALYTICS

INSIGHTS FOR SUCCESS



Perimeter
Partners

April 22, 2010 - In an EDC Email from Michael Saul, a trip to tour the Maynard 38 Studios facility is planned with Perimeter Partners and Strategy Analytics*

* Saul schedules a trip to Maynard Office along with Corso and the two financial/marketing firms. For this project to be at this advanced stage in the DD process, and for firms to have already been hired to perform finance and marketing work, it is fair to conclude that all parties included felt there was a strong likelihood that this project was definitely going forward.



May 19, 2010 – Steven Costantino (Finance Chairman) introduces bill H-8158 creating the “EDC Jobs Guaranty Loan Program” for the governor’s original sum of \$50mil.**

** This bill was submitted well after the deadline for bill submission, was never heard in any House Committee (according to RI Legislature website Bill Tracker), and was amended to \$125mil from \$50mil – a delta of exactly the amount that 38S was seeking - \$75mil. It passed the House immediately, went to the senate, came out on 6/11/10 and was signed that day by the governor.



May 28, 2010 - EDC Portfolio Mgr Sean Esten expresses deep concern in an email to all of his EDC superiors that he has not received satisfactory finance information about 38 Studios. Esten goes so far as to compare the lack of information on the \$75 million loan to what he normally gets for a \$10,000 loan. Esten points out that all the projections he's received from 38 Studios would require unprecedented performance for a company like this in order to be a successful venture.*

* Esten's email was the equivalent of waving a warning flag to everyone that the project was not viable under the terms that they were working. Just one line from his email; "To be honest, I have more information on the typical \$10k micro loan than I have on a \$75 million request – this is a problem." Another line "...the cash flow does not work to support the debt. The more I look at this, the less comfortable I become with the credit." In response to Esten's concerns his superiors essentially "fluffed him off" and seemingly edged him out of the process. From the hindsight position it is clear that Mr. Esten's concerns were not only valid, but validated when the company collapsed in part for the reasons he warned them about.



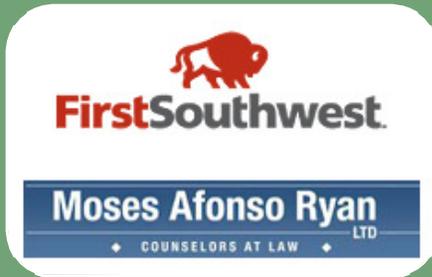
June 4, 2010 – Stolzman of AP&S in an email to Michael Saul of EDC tells him that the “bills will be amended” then exactly when the bills will move in the process and when they will be voted on and signed by the Governor.*

- How does a private lawyer working on contract for the state know when bills will be moved, voted on, and what the outcome will be before the legislators themselves know what is even in the language of a bill? This is a major violation of our republican process, and furthermore no one should realistically know the outcome of a vote ahead of time unless that outcome has already been promised to them.
- This is the most revealing event to demonstrate how special interests control RI policy and politics.



June 7, 2010 – Rob Stolzman of AP&S offers legal opinion to fast track the “Authorizing Resolutions” from EDC to authorize the 38S deal.**

** Adler Pollock and Sheehan is a RI law firm that has a lot of political connections in RI and does a tremendous amount of work for the state. After issuing this email to fast-track, Mike Saul of EDC responds “Let’s keep the resolution as flexible as possible.”



June 9, 2010 - In EDC emails they dictate to financial firms that they will be making the final presentation on 38S to the EDC Board and ask all agencies to “be prepared”*



* First Southwest indicates that they have “no projections to work from.” Tim Cole (EDC) states that they have “upside” but no “downside” projections. Stolzman downplays the need for “downside” projections. Strategy Analytics announces they have not worked on “downside” projections and all of their work product is based on “assumptions” and plan to move forward “as-is”.



June 11, 2010
Governor Donald Carcieri
Signs H-8158 “EDC Jobs
Guaranty Loan Program”
into law.**



** Until this point in time, the 38 Studios Loan Guaranty was not even possible because there was no program in existence without this law, however much work had been done by many parties on preparing for this 38 Studios deal at taxpayers’ expense. It would be easy to conclude that the fix was in from the very beginning and that 38 Studios was going to happen no matter what.



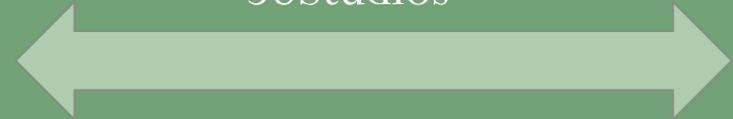
On June 12, 2010 Strategy Analytics starts to ask questions about the “downside”.*



* SA emails EDC and Perimeter Partners explaining their concerns over having no companies to make a comparable analysis to under the conditions of RI’s deal. Their main concern is that 38 Studios is a “Pre-Revenue” company and that all of the projections made thus far are only based on 38 Studios’ own business plan.



June 12, 2010 – SA responds to an email from Zaccagnino explaining the method that they used to calculate the projected success of a fully capitalized 38Studios**



** In the SA presentation they base the success of 38 Studios on the release of their 1st video game. They used sales figures of 2million copies in the first year, and 600,000 average monthly subscribers. The problem is that well established gaming companies hardly ever see over 300,000 monthly subscribers and the overall success of much better known firms is less than what is projected for 38 Studios.



June 15, 2010 - Governor Donald Carcieri triumphantly announces to the Rhode Island public that Red Sox hero Curt Schilling will be moving his start-up video game company “38 Studios” to Rhode Island along with hundreds of high-tech, high paying jobs that will anchor what Carcieri and the EDC has now labeled “RI’s Knowledge District.”*



* At this point it is widely believed that Carcieri was not fully informed of the political jockeying that had taken place not only within the EDC but with the political players of Gordon Fox, Michael Corso, Steven Costantino, and several other well placed political operatives.



July 12, 2010 The Director of the RI Budget Office, Rosemary Booth Gallogly, is tasked with reviewing the 38 Studios Loan Guaranty and immediately expressed serious concerns about the current terms sheet, and the overall lack of supporting documentation. The tone of her email is very serious, and she appears displeased with the stage of the funding based on the available info.*



* Gallogly, who has a very good reputation as a stern and extremely talented financial professional emails EDC, Bond Counsel, the Financial Analysts and Keith Stokes himself listing the documents that are lacking, including; Business Plan, Proposal for how to see this venture succeed, a report from an independent financial advisor indicating whether or not the \$75m investment is “worthy of our consideration”, a summary of EDC’s policy on the number of jobs to be created per million of investment. Gallogly also points out that the 38 Studios plan IF SUCCESSFUL still fails to meet the federal guidelines of jobs created/\$100mil invested. A short time later, Gallogly seems to disappear from the discussion – no emails, no more consulting with her office. It could be perceived as her being “eliminated” from the process for asking too many questions that point out some of the multitude of flaws in the setup of the deal.



Since the announcement of the 38 Studios Deal by the governor on June 11, 2010, Michael Corso and his associates both in government and outside of government work on the build-out and future funding of 38 Studios.

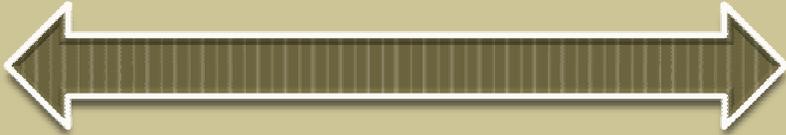


In parallel to the work being done by Corso and crew, the EDC is scrambling to make the funding happen to support the deal made with 38 Studios.

This is the point in time when the 38 Studios deal started to “get risky” - but because of the “investments” made by all parties, both sides – the state and the political cronies were determined to do whatever it is that they felt necessary to make the funding happen, and Corso was working to keep control of the cash flow through the RI 38 Studios location. Rhode Island was desperate to make the funding happen because the entire deal obviously hinged on securing the money, but they were also starting to consider several realizations of promises made to both 38 Studios and the people of RI and that these promises were most probably not going to match what ultimately happens in the end.



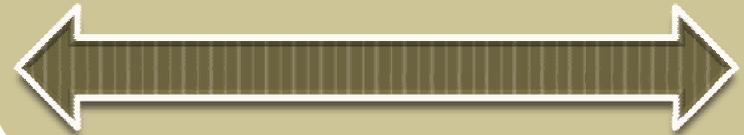
Between June 15, 2010 and September 2010 38 Studios has prepared to move to RI. The process was orchestrated and overseen on the 38S end by Tom Zaccagnino.*



*Through meetings with a former Senior Manager at 38 Studios (Insider A), Rep Chippendale acquired large amounts of verifiable information and some hyperbole. It was learned that Tom Zaccagnino had gained Curt Schillings faith as a friend and had essentially led every move that was made in the 38 Studios deal. To this day Schilling swears Zaccagnino is his friend and would never have hurt or betrayed him.



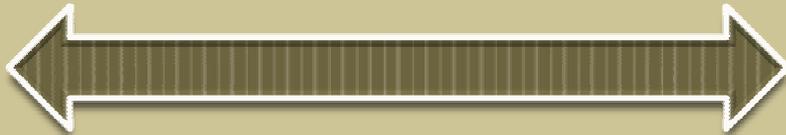
During the same period, Michael Corso, and probably other RI Insiders were orchestrating the move to RI for 38 Studios.**



** Documents obtained by Rep Chippendale from “Insider A” provided all purchase orders, work orders, and contracts that were given by 38 Studios. Corso had signed a contract on July 1, 2010 to work on securing “Bridge Funding” for 38 Studios. The same source indicated that Schilling liked 3 sites in RI – all outside of Providence. Corso forced Schilling, through Zaccagnino to make his choice between 3 buildings, all located in Providence. Corso would NOT allow a location out of Providence.



On September 1, 2010 38 Studios announces that they have chosen the former Blue Cross Building at One Empire Plaza.*



* At this point Corso has already hand selected every single contractor and subcontractor that will work on the 38 Studios “build-out”, and how the business would be conducted. The term “Build-out” is the process through which the current space is converted into a high-tech office place which the infrastructure and technology to support the type of work to be done. It also gives the entire location a complete “face lift.”



During the Build-Out, Michael Corso oversaw every single aspect of the project and everyone – including Schilling answered to Corso.**



** Corso, according to employees at 38 Studios, strutted through the Empire Plaza location as if he were the owner. However, at this point in time he had only signed two contracts with 38S. One to work on securing “bridge funding” from July 1, 2010 through Sept 1, 2010 as well as a contract with 38 Studios to be their lawyer on September 10, 2010. The contract was a simple legal representation engagement letter, there was no language of his involvement with the build-out. **Tom Zacc advises all email participants to “cc Mike Corso on all correspondence with 38.”**



From the time that 38 Studios plans to move into the Empire Plaza location, until 2011 there is little news coverage and the “business” being carried out by Corso continues until the building officially opens in April of 2011.*



* Documents obtained by Rep Chippendale provide insight into the dealings that Corso ordered with the sub-contractors, the General Contractor and 38 Studios. Corso eventually entered into 4 separate contracts with 38S that could personally net him 8 figure profits. Other RI Insiders also made large profits in either cash, or goods and services.



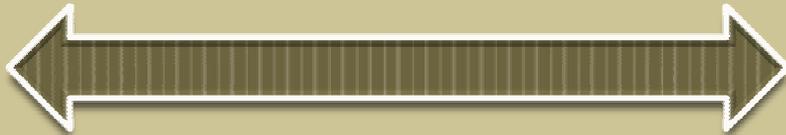
During the same period, partners of EDC started to become seriously concerned about financial arrangements, and it appears that EDC was operating in “Damage Control Mode”**



** A lot of questions are being asked about the veracity of the 38 Studios projections, the reports being issued by the financial institutions and the lack of data to substantiate the assumptions that all previous work was based upon. It appears that EDC will “do whatever it takes” to make the funding available. Including Private Placement of the bonds with very strict terms.



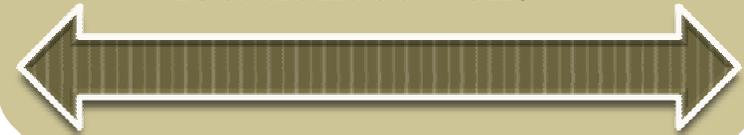
In November of 2011 the RI State Police are alerted to bid-rigging and other improprieties occurring with the work being performed at 38 Studios site*



* Michael Rossi, a Project Manager at a subcontractor to Nappa Construction brings evidence to the RISP demonstrating that there is illegal activity such as over billing, theft and general misappropriations of materials and labor occurring on the 38 S job site. The RISP display no interest at this time and in fact dismiss Mr. Rossi from the Barracks and tell him not to come back.



Tazza Café – owned by Mike Corso, receives free materials and labor that is billed directly to 38 Studios. There are indications that this may be occurring in other locations as well.**



** Corso had laborers working at Empire Plaza, then clocking out at 3pm, going to his café Tazza and performing work there. The labor hours after 3pm were billed to 38 Studios. He even had a subcontractor install a \$25,000 sound system which was directly billed to and paid for by 38 Studios. This information was later confirmed by the RISP in 2014.



The Bond Resolution Summary for the MO Bonds to be issued on November 2, 2010 contained many conditions that were hammered out between the EDC, financial partners and the bond counsel in preparation for the underwriting of the bonds. This was a highly customized offering.



The bonds were co-underwritten by Barclays and Wells Fargo. Many requirements were put in place such as; rate enhancement through securing insurance from Assured Guaranty on a “failure to pay” issue, split maturity rates for the 3 main lump sum dispersals, Nearly \$20mil in payment reserves would need to be secured to guarantee payment for 3 years, cash dispersals would be based on job creation milestones, a Third-Party Monitoring company had to be secured to ensure programming and other milestones were being met along with several other requirements. Ultimately 38 Studios would only be receiving \$49mil of the \$75 because of fees, reserves etc. A short time after the money was dispersed, the Third Party Monitoring agreement somehow was ignored until EDC realized there was a problem with 38 Studios. Zaccagnino strongly objected to EDC asking for a copy of the TPM Report stating it contained “trade secrets” and that 38S had no plans of making this document public. Furthermore, 38 Studios was in a panic over the actual sum of money they would be receiving (\$49m) because they knew they needed \$125mil to fully complete the two video games in their business plan and they were promised by Corso \$75m from RIEDC, then bridge funding through his company with tax credits too. Corso and Zaccagnino continued to assure Schilling that they would take care of the funding end.



October 18, 2010 – then candidate for Treasurer Gina Raimondo made a public statement that calls the deal "as high risk a venture as you can find." A venture capitalist, Raimondo said her colleagues in the Boston area "looked at the deal and decided to pass."



There were many questions flying around about this very issue – until this point in the timeline the public had very little knowledge of the 38 Studios deal, and a candidate making this type of comment in a heated election wasn't treated as seriously as her observations warranted. It had become a strong line of reasoning to ask why if VCs in MA wouldn't touch it, and the governor of MA Deval Patrick offered no assistance and "wished Schilling and his company good luck in their future endeavors", then what would make this such a good deal for Rhode Island? Perhaps if this question had been asked by the right person at a much earlier time in the process this whole catastrophe might have been avoided.



March 14, 2011 - 38 Studios introduces its first game "Kingdoms of Amalur –Reckoning"*

* A public preview of "Kingdoms" is personally given by Schilling himself at a gaming conference at the Boston Convention Center.



April 8, 2011 – 38 Studios begins moving into their newly refurbished studio space at Empire Plaza**

** After all of the major work is completed, the General Contractor on the job – Nappa Construction, procured a temporary "Certificate of Occupancy" on the building and never secured a permanent CO. The build-out also cost 38 Studios \$ 12.5mil – far more than they had anticipated. If the contracts signed were executed, Michael Corso netted \$ 1.25 million through his percentage from the build-out – there is strong evidence to suggest that there was a reciprocal agreement with the subcontractors that may have made that figure at least double what was reported.



November 1, 2011 – 38 Studios makes 1st scheduled payment to bondholders out of capital in the reserve fund.*



November 8, 2011 – 38 Studios receives final dispersal of bond proceeds of \$1.38 million.**

* One of the stipulations of the bond sale was that there be established a reserve fund to provide for the first few scheduled payments. This is one of the reasons why 38 studios did not receive the full \$75mil.

** By this point in time, the principals at 38 Studios have realized that they are in financial trouble because of “undercapitalization” by RIEDC Loan, the extremely high cost of “doing business” in RI, and the fact that they are dreadfully behind in the progress of their second video game release.



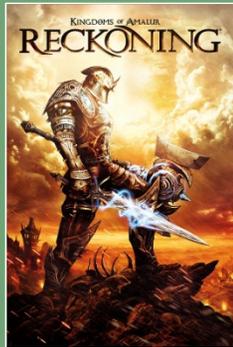
2012 – 38 Studios realizes that they are grossly undercapitalized and that they need to obtain much more funding if they are to stay open and finish the publishing of their 2nd game – “Copernicus”.*

* On 1/25/2012 38S Signs its 3rd and 4th contract with Mike Corso the first stating the Film Tax Office has authorized \$14.3mil in credits for “Copernicus” and that Corso will secure credits through 38 Studios and he will retain 37 cents per dollar (37%) of the tax credits. The second contract is for “bridge funding” to be secured by Corso which of course he will get a percentage of.



February 2012 – Corso borrows \$8.5 mil from Bank of RI with a secured loan.**

** The loan that Corso received from the bank was secured by 3,200 gold coins belonging to Schilling and the anticipation of \$14.3 mil in tax credits (which actually never happened.)



March 10, 2012 – 38 Studios is encouraged when sales of “Reckoning” are determined to be “among the top 5 games.”*

* Market research indicates that the game “Reckoning” is a high volume seller and has quickly climbed the charts of current video games. This is certainly a positive development for 38 Studios and gives them the drive to continue working on the Copernicus release.



April 2012 – 38 Studios is advised by Corso to “cry poverty” in order to force the hand of the governor into ensuring that the film tax credits get issued.**

** Schilling is advised to threaten the governor that he will miss the first payment in order to make him more receptive to forcing the tax office to issue the film tax credits for both 2011 and 2012 in order to keep the company capitalized long enough to release the second game. This information was provided to Rep Chippendale by “Insider B” who is a professional in the gaming industry, but did not work for 38 Studios.



May 1, 2012 – 38 Studios intentionally misses the \$1.1mil loan guaranty payment to EDC.*

*This is part of the contrived “plan” to force the administration – who 38S knew was not a fan of the deal but did want to see them survive to strong-arm the tax office into issuing the tax credits. It was also speculated that Richard Licht was involved behind the scenes and perhaps even helped develop the plan with Corso (Source: Insider B).

RIEDC
Rhode Island
Economic Development Corporation



May 14 2012 – 38 Studios meets with Chaffee, Licht, Fox and others to discuss the May 1st default. Chafee and Fox leave the meeting “stunned” that 38S claims that they are broke.**

** According to Fox (Newsmakers) and Chafee, they were both “blown-away” to learn that the company was having financial troubles. Fox claims that he knew nothing about the business other than it existed and he was under the impression that it was operating fine.



May 15, 2012 – Chafee calls an emergency meeting of EDC to discuss the 38 Studios situation.*



May 16, 2012 – Schilling appears before the EDC to implore the state to help them “keep their doors open” by forgiving loan fees and expediting the tax credits.**

* Although Chafee was not an original supporter of the deal, he claimed that he was determined to “keep the company solvent” because it meant so much to Rhode Island.

** Somewhere around May 1st when 38S defaulted on the first payment, Insider B served Chafee with a legal document alerting him that issuing tax credits to an out-of-state corporation is against RI General Laws (38 Studios was a Delaware LLC.) Insider B threatened Chafee with legal action if he issued the credits.



May 17, 2012 – Keith Stokes tenders his resignation and Chafee appoints Deputy Director William Parsons to oversee EDC operations while he searched for replacement.



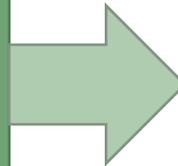
May 18, 2012 – 38 Studios makes good on the defaulted check for the first payment that was due preventing technical default. Then Chafee immediately denies tax credits.**

**Whether or not the actions of Insider B had any impact on Chafee's decision is not really known, but his actions were swift once the payment cleared from 38 Studios. It was after that point that Chafee began a public campaign of maligning 38 Studios' reputation.

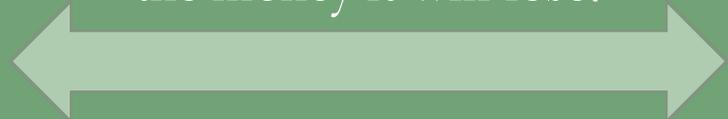


May 24, 2012 – 38 Studios lays off most all workers in RI. Chafee orders a forensic audit of the 38 Studios financials.

“We just want to know everything possible,” Chafee told about 30 reporters at the State House that day. “The taxpayers have tens of millions of dollars invested in this company. It has been difficult to get answers from them. We want to know everything possible about what happened to every penny of [those] taxpayer dollars.”



June 7, 2012 – 38 Studios and 3 affiliate companies file for bankruptcy with the Delaware Bankruptcy Court and RI orders liquidation to recuperate some of the money it will lose.



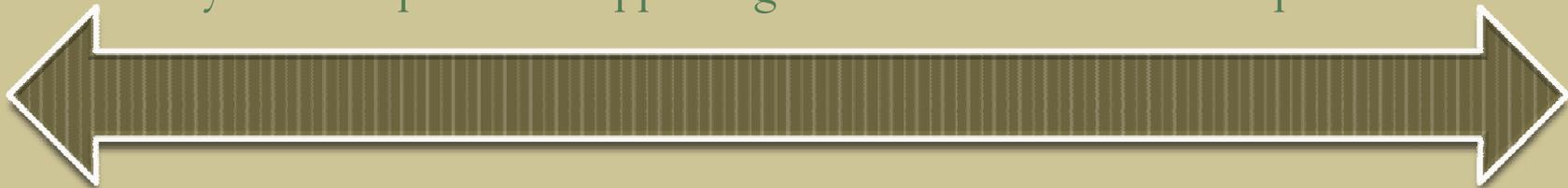
The 38 Studios debacle is exposed to the public
& R.I.ers learn they are on the hook for over
\$100m





Through media reports, the taxpayers started to learn the details of the failed 38 Studios venture and the state of Rhode Island's part in its creation and its downfall.

Immediately it appeared to be more “Rhode Island Business as Usual” and the people watched the news reports as they started to ask the questions that needed to be asked and as 2012 went by, the people learned more and more about just how big of a problem we were facing. At the same time, politicians in leadership positions started to jockey and tap dance around the issue – most legislators felt betrayed by their leadership and that they were “duped” into supporting the bill that made the deal possible.

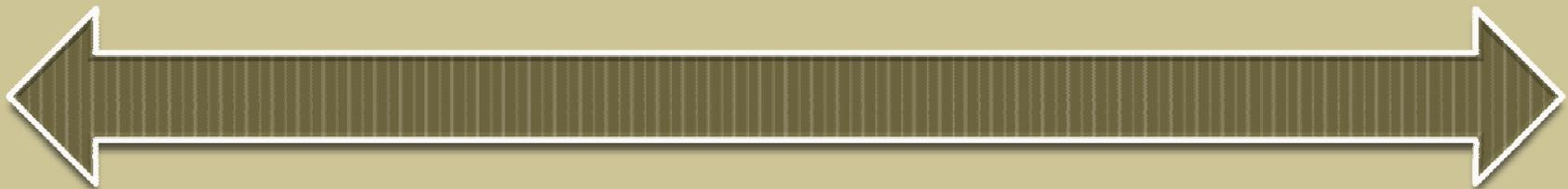




On June 29, 2012 then Speaker Gordon Fox appeared on “Newsmakers” with Tim White and Ted Nesi and stated that he had no former knowledge of the financial troubles that 38 Studios was having until the famous meeting he and Governor Chafee attended with Schilling in 38 Studios at Empire Plaza.

This seems to fly in the face of logic seeing as Fox’s close friend, political financial backer, and broker of the 38 Studios deal, Michael Corso, would have most certainly reached out to Fox for help just as he did when they created the deal.

This is when the public started to really take interest in the details of 38 Studios and also started to realize that once again, RI’s politicians were up to no good.



Reminiscent of the Nixon Era, Rhode Island is about to be thrown into a
**Cover-Up that will do more damage
than the Initial Misdeeds**



Cover Ups & Investigations

Who, If and Why?

Gordon Fox
Former Speaker



Teresa Paiva Weed
Senate President



**Dir. of
Administration**
Richard Licht



Governor
Lincoln Chafee



RISP Col.
O'Donnell



**Former House
Oversight Chair**
Rep. Mike Marcello



House Speaker
Nick Mattiello



**Senate
Oversight Chair**
James Sheehan



Attorney General
Peter Kilmartin



The State of Rhode Island sues EDC and several Individuals for Fraud and/or Negligence

A team of attorneys, headed by Max Wistow are hired to sue EDC, Financial Firms and Individuals for fraud and/or negligence in the creation of the 38 Studios Bond offering. Many individuals are deposed by the court for this lawsuit, but there are several others who have not been deposed and would have served as excellent witnesses for the Oversight Committee. Also, the legal counsel for the 2nd Oversight Committee attends a hearing at the trial and asks the judge to release to the Oversight Committee, the depositions that have thus far been taken. No decision is handed down on this question.

Max Wistow, who also happens to be a constituent of Rep. Chippendale calls him on the phone and tries to persuade him to “back off” on the stern line of questioning that he’s been following and to stop trying to prevent payment of the bonds. Rep Chippendale shares with attorney Wistow the information he has relative to the bond repayment and informs Wistow that such private conversations are probably not productive nor appropriate.



Ambitious Participants



Governor Carcieri
Legacy Builder



Keith Stokes
Carcieri Soldier



Curt Schilling
“Useful Idiot”

Meaning he was blinded by ambition and other, less scrupulous people took advantage of his naivety and lack of money management skills.



Tom Zaccagnino
“Mastermind”
Orchestrated the entire plan while remaining at arms’ length the entire time

According to “Insider A”, Zaccagnino won Schilling’s trust during interactions at social events in the Boston area. He serves on the board of directors of 11 organizations and served as the “Lead Director” of 38 Studios. He drew no paycheck from 38 Studios but yet played a major role in negotiating with RI politicians, EDC and the Financial Institutions that worked with EDC to define the terms of the Loan Guaranty Deal. It was said that Schilling considered Zaccagnino a close friend and confidant and still does.

What benefits Zaccagnino received are not fully understood at this point, but he has business and familial connections to companies that stand to make money from the bridge funding.

Dubious Political Insiders

Bill Murphy
Former House Speaker



The former Speaker's role is unclear. What we do know is that before he handed the reins over to Fox as Speaker, he was part of a confidential trip to 38 Studios' Maynard Facility on 10/8/09.

Mike Corso
Fox Associate



Corso was involved with the Boston crowd and the RI crowd at the same time. It seems nothing occurred at any point in the process without Corso's knowledge and consent. He guided the front-end financial aspects, he ran the entire "build-out" process, and he oversaw the operations of 38 Studios. He held 4 separate contracts with 38 Studios that may have earned him well over \$2mil and stood to make more if the company succeeded.

Gordon Fox
House Speaker



Nothing happens in RI's political world without the consent and action of the House Speaker. Fox's role is also unclear, but what we do know is that he was extremely instrumental in the creation and passage of the law that made the loan to 38 Studios possible.

Steve Costantino
Former Finance Chair

Chairman Costantino was the leader of the drive to pass the legislation in the RI House. He also lied to members of the House regarding 38 Studios.



The Fallout

Rhode Island Residents begin to realize just how much trouble the state is in when news of 38 Studios' collapse starts to make national headlines.

In the background, the politicians, players and participants are scrambling to find shelter for themselves and start to plan their survival strategy.



**38 Studios: Broke
Rhode Island now owns
a video game company**
May 29, 2012



**4 lessons from Curt
Schilling's 38 Studios fiasco**
Schilling, 400 employees, and Rhode
Island taxpayers had to learn the hard
way that venture capital is best left to
those who know how to make money.



**38 Studios Reportedly
Lays Off Staff, Shuts
Down Big Huge Games -
Is This The End?**
May 24, 2012

House Oversight – Round 1

Gordon Fox
Former Speaker



Due to public outcry,
Speaker Fox appoints
loyalist Rep Marcello
to chair the House
Oversight Committee



Oversight Chair
Rep. Mike Marcello



Members are appointed to the newly formed Oversight Committee where most hearings on 38 Studios are simply a proceeding where two staff members essentially review documents relative to 38 Studios that have been procured by the committee. While most members of the committee sit silently through each hearing, Reps MacBeth, Tomasso and Chippendale attempt to drill down and get more information, but because there are no actual witnesses to question, the staff is only able to read what the documents say.

After the second meeting, a member of House leadership takes Rep. Chippendale aside and advises him that “it is best if he just listens rather than ask questions.”

House Oversight – Round 1



**Oversight Chair
Rep. Mike Marcello**

Under Marcello’s chairmanship the House Oversight Committee has absolutely no success in addressing any of the issues surrounding 38 Studios. In fact, no Mission Statement or Goals are ever set for the committee regarding 38 Studios. Marcello is kept on an extremely short leash by the Speaker and the committee ultimately fizzles out completely.



FY 2014 State Budget

The FY 2014 Budget debate in June of 2013 includes a \$2.5 million allotment for payment toward the 38 Studios Bonds. Many Reps. offer amendments to reallocate that money rather than blindly make payments toward the bonds while there are so many unanswered questions about what happened.

The \$2.5 mil payment is rammed through and very little support is garnered to try to amend or defeat that budget article. During the next legislative day it becomes apparent that the House Majority Whip, J. Patrick O’Neil has been “replaced” by two other representatives to whip votes for the last days of that session. O’Neil later releases a statement with his resignation that he “feels he was lied to by Speaker Fox regarding 38 Studios.”

House Oversight – Round 2



Oversight Chair
Rep. Karen MacBeth
And Secretary Rep.
Chippendale

With the new leadership of the Oversight Committee in place, hearings begin quickly and witnesses are called to testify immediately. However shortly after beginning, the leash was tightened and agendas started to be rejected by leadership, and Oversight Hearings started to become a role-playing event for the hand-picked witnesses that the Leadership chose to have appearing in front of the committee.



FY 2015 State Budget

The FY 2015 Budget debate in June of 2014 includes a \$12.3 million allotment for payment toward the 38 Studios Bonds buried inside an article with no direct mention of 38 Studios. Again, many Reps. offer amendments to reallocate the money, to create a special prosecutor etc. and they all fail.

A lot of “horse-trading” takes place prior to the budget debate and the \$12.3 mil payment is passed once again. All attempts to even mention 38 Studios or debate it are attacked as “not germane” or “out of order” and there is a tremendous amount of pressure put on anyone who attempts to create dialog on the subject.

The Investigation



Many people come forward to MacBeth and Chippendale. Many sources of good validated information bring proof of malfeasance on the part of certain individuals to our attention and without a clear outlet through the Oversight Committee, a decision is made to use the RI media as our voices to get this information out.

One such individual, Mike Rossi tells us that illegal work was done at Corso's "Tazza Café" – for which he provided documentation that was validated by the RISP, and he further alleges that he was witness to work also performed at the Beauty Salon owned by the Speaker's husband, work done at the Speaker's House, and also work that was potentially done for a former mayor of Providence.

* Michael Rossi, an individual with a sordid past, appeared on the Buddy Cianci show with Rep Chippendale to expose the illegal work that appears to have been performed for a key player in the 38 Studios deal – this starts a media feeding frenzy.

The Investigation



Letters are mailed to the State House threatening the safety of Rep Chip and his family, and also to Rep MacBeth. The FBI is contacted and the RI State Police are brought in to investigate. The RISP perform a thorough investigation but find no fingerprints or other usable evidence. This is also made public through the media because the thought of making it a high profile issue will potentially make it harder for anyone to make good on the threats.

This is a strong indicator that the Oversight Investigation was on the right track and we struck a nerve with someone. This only validated and solidified our resolve to get to the bottom of the entire issue and expose all of the details to the public.

The Investigation

A public comment is made by Speaker Mattiello when asked why he will not allow the Oversight Committee to issue subpoenas and he responds with “I believe we need to let the investigators investigate, and the legislators legislate.”



The validity of Moral Obligation Bonds becomes a very large topic of discussion among Rhode Islanders and the media. Several “experts” are arranged to testify by the leadership and not-surprisingly offer opinions that back the position of paying the bonds.

However, the only “true” expert that ever spoke about the topic, Mike Riley, offered a very different perspective on what the impact would be if we didn’t pay.



The question of why RI doesn’t utilize the Insurance policy that was mandated by the underwriters is continually brought up and rejected summarily because in order to make use of the policy, the state would first need to default.



The impact that non-payment would have on RI’s bond rating becomes the focus of the discussion surrounding payment/non-payment and all the “hired guns” brought in by the state continue to lead people to believe that it would devastate our ability to borrow.



The Truth about the Investigation

Regardless of whether or not the state pays the bonds, it was always the expressed mission of the newly formed Oversight Committee to “get answers” for the RI taxpayers that they deserve about what happened with 38 Studios.

The problem is that “getting answers” will expose malfeasance and even potential criminal activity that occurred which is what ultimately led to the demise of 38 Studios.

This would diminish the State’s chance of success with its lawsuit, and it could hurt the careers of many well-placed Rhode Island politicians and potentially lead to criminal prosecution. This appears to be the main driving force behind the overall resistance to all efforts to get answers – regardless of who is trying to get those answers.

Non-payment, and the triggering of the insurance policy would then also trigger a REAL investigation by the insurance company which does NOT care one hoot about “political clout” or “who knows who” or any of the other Rhode Island methods of avoiding trouble. They would get answers, they would discover the fraud, and they would then sue the state for their money back.

This is why every effort has been made to avoid an investigation.



Conclusion

The originators of this “deal” framed it as an economic project that could revitalize RI’s ailing economy and create a Knowledge District in our state that will attract high-tech companies from all over the country, thus saving our state from ruin.

That didn’t quite pan out.

It is my opinion that if we either performed a real investigation, or we let the insurance company do it, YES – RI might suffer a temporary black eye on its credit rating etc. But what would also happen is that the people of our state would watch the “bad guys” go to jail, and they would see changes in the way we do business as a state. This is certainly a more effective way to “save our state”. It would clean out the corruption, create new policies to prevent it from happening again, and it would show the world that we are not going to stand for corruption in RI politics ANYMORE!

