

Exhibit 3

1 CONSUMER FINANCIAL PROTECTION BUREAU

2

3

4 In the matter of:)

5 INTEGRITY ADVANCE,)

6 a corporation.)

7 -----)

8

9 Tuesday, June 17, 2014

10

11 Venable, LLP

12 575 7th Street, Northwest

13 Washington, D.C.

14

15 CONFIDENTIAL COMMERCIAL INFORMATION

16

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18 The above-entitled matter came on for
19 investigational hearing, pursuant to notice, at 9:31
20 a.m.

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24

25

IH-000001

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Carnes

Integrity Advance

6/17/2014

1 APPEARANCES:

2

3 ON BEHALF OF THE CONSUMER FINANCIAL PROTECTION BUREAU:

4 ALUSHEYI J. WHEELER, ESQ.

5 WENDY J. WEINBERG, ESQ.

6 Consumer Finance Protection Bureau

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12 ON BEHALF OF INTEGRITY ADVANCE AND THE WITNESS:

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1 PROCEEDINGS

2 - - - - -

3 Whereupon--

4 JAMES CARNES

5 a witness, called for examination, having been first
6 duly sworn, was examined and testified as follows:

7 EXAMINATION

8 BY MR. WHEELER:

9 Q. Good morning.

10 A. Good morning.

11 Q. My name is Alusheyi Wheeler, and I'm an attorney
12 with the Consumer Financial Protection Bureau. Today,
13 along with my colleague Wendy Weinberg, we'll be
14 conducting an investigational hearing. As your attorney
15 has probably explained to you, an investigational
16 hearing is similar to a deposition in that I'll ask
17 questions, and you'll provide answers under the oath
18 that you just took a second ago.

19 There are a couple of differences between this
20 process and a deposition. One, generally the only
21 objections allowed are to privilege and to protect your
22 Constitutional rights generally, so you have to answer
23 almost every question we ask you.

24 Because the hearing is being transcribed by the
25 court reporter, there are a couple of sort of ground

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1 rules. One, we'll have to make every effort not to
2 speak over each other, and I'll do my best, and please
3 do your best. Obviously the court reporter can't record
4 two voices at the same time. Also, please make every
5 effort to give your answers orally, so try to avoid head
6 nods or shaking your head yes or no.

7 When we're asking questions, we'll assume that
8 you understand our questions. If you don't understand a
9 question, you can ask us to rephrase or explain, but if
10 you answer the question, we'll assume you understood the
11 question and answered it accurately. We'll take breaks
12 throughout the day. If at any point you need a break,
13 that's fine, just ask. We would just ask that if
14 there's a question pending, you answer that question
15 before we take a break.

16 Do you understand all that?

17 A. I do.

18 MS. BAKER: Before we start, can I just make a
19 couple preliminary statements? We would like to have
20 this deposition transcript or this investigational
21 hearing designated confidential commercial information,
22 and subject to Exemption 4 of the Freedom of Information
23 Act, and we would also like to note a couple of other
24 items.

25 The first is that we would like to have the

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1 ability to read and sign at the end of the deposition.
2 I know that it takes a little while for the transcript
3 to come back, but I'm requesting that as well.

4 Then the other question or statement I would
5 like to make is that our position is that the inability
6 of attorneys to routinely object to questions prevents
7 the CFPB from subsequently using this transcript in any
8 court proceeding of any kind given that the rules of
9 evidence require that a witness be permitted -- and the
10 Federal Rules of Civil Procedure require that a witness
11 be able to have his or her attorney make objections in
12 realtime during the course of an examination.

13 So I just want to make those preliminary
14 statements on the record before we begin. Thank you.

15 MS. WHEELER: Thank you.

16 BY MR. WHEELER:

17 Q. Would you place state your full name?

18 A. James Robert Carnes.

19 Q. Mr. Carnes, are you taking any medication today
20 that would prevent you from testifying fully and
21 accurately?

22 A. I'm not.

23 Q. Have you failed to take any mediation today that
24 you would need to testify fully and accurately?

25 A. I have not failed.

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- 1 Q. Where do you reside Mr. Carnes?
- 2 A. In Mission Hills, Kansas.
- 3 Q. What's your address?
- 4 A. 2700 Verona Road.
- 5 Q. Could you please describe your educational
- 6 background after high school.
- 7 A. I went to the University of Kansas and obtained
- 8 a bachelor of arts degree with two majors, one in
- 9 mathematics, specializing in statistics and the other
- 10 one in economics.
- 11 Q. Any other education?
- 12 A. No.
- 13 Q. Are you currently employed?
- 14 A. I'm self-employed.
- 15 Q. What's your self-employment right now?
- 16 A. I'm the CEO of Blitztrade.
- 17 Q. What is Blitztrade?
- 18 A. Blitztrade is a stock trading business.
- 19 Q. How long have you been the CEO of Blitztrade?
- 20 A. Since I founded the company in 2008.
- 21 Q. And you said you're the CEO?
- 22 A. Yes.
- 23 Q. What are your duties as the CEO?
- 24 A. The normal duties of what you would think of as
- 25 a CEO in running the company and being the boss, making

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1 decisions.

2 Q. Do you have employees?

3 A. I do.

4 Q. How many?

5 A. Six.

6 Q. I want to switch gears and talk about Integrity
7 Advance a little bit. When was Integrity Advance
8 formed?

9 A. I believe the formation of the company, the
10 Delaware formation of the company was sometime in 2007,
11 but I'm not positive.

12 Q. Were you one of the founders of the company?

13 A. Yes.

14 Q. Were there any other founders?

15 A. Define a founder, please.

16 Q. How did you found the company?

17 A. How did I what?

18 Q. How did you start the company?

19 A. The company was formed with the intent of doing
20 lending, which we did, and at the time that we were
21 doing that, it was around the beginning -- or end of
22 2007, beginning of 2008, and we were in the middle of a
23 transaction with Stephens, and that was part of the
24 impetus to form Integrity was to start the new company
25 with new investors.

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1 Q. You mentioned Stephens, what is that?

2 A. They're a private equity fund.

3 Q. Did they invest in Integrity Advance?

4 A. Yes.

5 Q. Could you describe how Stephens came to invest
6 in Integrity Advance?

7 A. They -- we were introduced to Stephens by a --
8 by one of my at the time investors, and they were
9 interested in doing transactions in the space, and we
10 just met and proceeded to work up the transaction.

11 Q. You said we met with Stephens. Who did you mean
12 when you said "we"?

13 A. The company, me, myself, my -- the two equity
14 holders on the -- that you've seen: Edward Foster, I
15 think you get to talk to him next week, and Eric
16 Bunting, who are the other -- those are the other two
17 equity holders besides myself and Stephens of course.

18 Q. So did Stephens give Integrity Advance a loan?

19 A. No.

20 Q. They took an equity share in the company?

21 A. They did.

22 Q. What was their equity share?

23 A. At the beginning it was in the mid 40 percent.
24 At the end, I think it's in one of the exhibits you
25 have, it ended at 41 percent or something like that. I

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1 can't remember exactly what it is.

2 Q. How much did Stephens pay for their equity share
3 in Integrity Advance?

4 A. It was a little bit of a complicated deal, but
5 in cash they paid 790,000. There were other components
6 of debt that the company took on, but that wasn't out of
7 their pocket.

8 Q. Does Integrity Advance still operate?

9 A. No.

10 Q. When did it cease operations?

11 A. Define cease operations.

12 Q. Well, you said the company is no longer
13 operational, correct?

14 A. It's not. I just want to make sure we are on
15 the same page on what I think of as operations and what
16 you think of as operations. It still exists, the
17 company.

18 Q. Okay. Does the company have any employees
19 currently?

20 A. No, no.

21 Q. So when you say it exists, do you mean that it's
22 still a registered entity?

23 A. Yes.

24 Q. But there are no employees?

25 A. No employees.

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1 Q. Is the company loaning money to any consumers
2 currently?

3 A. No.

4 Q. When was the last time that the company loaned
5 money to consumers?

6 A. The last loan went out the door in December of
7 2012. I don't know the exact date, but I think it was
8 around the middle of December.

9 Q. And we've touched on it some, but could you
10 describe the goods and services that Integrity Advance
11 provided?

12 A. It provided one product which was a Delaware
13 licensed loan prescribing to the Delaware loan rules,
14 and it was the one -- if you would read the Delaware
15 loan rule regulation, it was exactly what they allowed.
16 That was the only product we ever provided.

17 Q. Where was Integrity Advance located?

18 A. In Delaware.

19 Q. Did the company have an office in Delaware?

20 A. Yes.

21 Q. Did the company have any other offices?

22 A. Yes -- Integrity Advance did not have any other
23 offices other than Delaware.

24 Q. How many employees did Integrity Advance have?

25 A. Zero.

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1 Q. So how did the company function?

2 A. The company was set up as a lending entity, only
3 there were -- there was a -- there was an org chart
4 which I'm sure you've seen with Hayfield was the parent
5 company of Integrity, and there were other sister
6 companies of Integrity that had employees that performed
7 functions for Integrity and other sister companies.

8 Q. So which company supplied labor for Integrity
9 Advance?

10 A. HIP Financial. It's over there on the left.

11 Q. So how many HIP Financial employees were
12 performing functions for Integrity Advance?

13 A. There were probably the list that we gave you of
14 the senior people -- I can't remember, there's what, 10
15 or 12 people on that list maybe? It's in the
16 interrogatory, and then beyond that, there were a number
17 of junior people that over time came and went, and I
18 couldn't tell you exactly how many.

19 Q. Could you approximate?

20 MS. BAKER: What period of time are you talking
21 about?

22 BY MR. WHEELER:

23 Q. So let's say at its most staffed period. I
24 don't know when that is. When did Integrity Advance
25 have the most staff -- or I'm sorry, when did HIP

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1 Financial have the most staff working for Integrity
2 Advance?

3 A. Probably in 20 -- I'm not really sure, '10
4 or '11.

5 Q. So in 2010 or '11, could you estimate, outside
6 of the senior executives, how many people were
7 performing functions for Integrity Advance?

8 A. At HIP, there were a total of probably 20, maybe
9 22. I'm not positive though. It's in that range
10 though.

11 Q. And then were there people at other sister
12 companies who were performing functions for Integrity
13 Advance?

14 A. Integrity Advance, for the -- it outsourced its
15 call center and collection functions, so those were
16 performed elsewhere, and those companies had employees
17 that were not ours.

18 Q. When you say not ours, they were not part of --

19 A. We didn't employ them. We just paid a fee for
20 the service.

21 Q. Could you say which companies you used?

22 A. Yeah. Yes, they're in the list of vendor
23 relationships.

24 MS. BAKER: During what time again, same
25 question?

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1 BY MR. WHEELER:

2 Q. Same timeframe, 2010-2011. Whenever the company
3 was most staffed.

4 A. It was Clearvox was the -- did the customer
5 service end of things at that point, and Integrity
6 Financial Partners was doing the collections, and I
7 would like to note that Integrity Financial Partners has
8 absolutely zero affiliation whatsoever with Integrity
9 Advance. It's random that the names are similar.

10 Q. And I'm sorry, could you say again what Clearvox
11 was -- what functions they were performing?

12 A. Customer service.

13 Q. Do you know how many people Clearvox used to
14 provide that service to you?

15 A. I don't.

16 Q. Going back to the approximately 20 people you
17 said were working technically for HIP Financial but
18 providing functions to Integrity Advance, I was
19 wondering, is there any sort of broad categories those
20 people were in?

21 A. Sure.

22 MS. BAKER: You mean broad categories of
23 employment?

24 MR. WHEELER: Yes.

25 THE WITNESS: You had a technology group. You

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1 had a finance group. You had a marketing group, a legal
2 person. I think that covers it.

3 BY MR. WHEELER:

4 Q. Were all of those groups located in Delaware?

5 A. No. Those 20 to 22 people were located in --
6 that worked for HIP were located in Kansas City.

7 Q. What was the address in Kansas City?

8 A. 1901 West 47th Place, Suite 310, Westwood,
9 Kansas, 66205.

10 Q. So the 20 HIP employees we've been discussing,
11 they worked out of the address in Kansas City?

12 A. Yes, sir.

13 Q. Did the senior executives work out of Kansas
14 City as well?

15 A. That includes the 20 -- that's included in the
16 20.

17 Q. Okay. You mentioned that Integrity Advance
18 was -- strike that.

19 Was there anyone providing functions for
20 Integrity Advance who was based in Delaware?

21 A. Yes.

22 Q. Who was that?

23 A. We had a storefront location, which we had an
24 employee there named George Davis.

25 Q. Anyone else?

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1 A. Over time, I don't know when -- exactly when the
2 Clearvox relationship ended, but when that ended, we
3 used a call center in Delaware.

4 Q. Was that provided by a third party vendor?

5 A. Sort of. They were -- it acted like a captive.
6 There was no margin on it. It was just -- we did not --
7 we still paid a fee to a third party, but there was no
8 margin on it, and we basically effectively ran it.

9 Q. Did Integrity Advance have any other storefront
10 locations other than the one you mentioned that was run
11 by Mr. Davis for a time?

12 A. No.

13 Q. Was there anyone who was working at Integrity
14 Advance -- strike that.

15 Was there anyone who was working and providing
16 services to Integrity Advance who received part of their
17 compensation based on incentives?

18 MS. BAKER: What do you mean by incentives?

19 BY MR. WHEELER:

20 Q. Do you understand the question?

21 A. What do you mean by incentive I guess?

22 Q. Did all the employees receive a salary?

23 A. Which employees are you talking about
24 specifically?

25 Q. Well, maybe we should go back. Who at Integrity

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- 1 Advance received a salary?
- 2 A. Nobody -- Integrity Advance had no employees.
- 3 Q. Who at HIP that was providing services to
- 4 Integrity Advance received a salary?
 - 5 A. Everybody at HIP received a salary.
 - 6 Q. Did anybody receive bonuses?
 - 7 A. Yes.
 - 8 Q. Could you describe those bonuses?
 - 9 A. In a broad sense I can. I don't again recall
 - 10 exactly what the -- I don't recall exactly the details
 - 11 to be honest with you.
- 12 Q. But your broad sense?
- 13 A. My broad sense is there were different people
- 14 that had different kinds of deals where -- employment
- 15 deals, and they had different kinds of incentives given
- 16 whatever they were doing.
- 17 Q. What kind of incentives?
- 18 A. It just depended on what their job was.
- 19 Q. Can you think of an example?
- 20 A. Sure. An IT guy, for instance, we would have
- 21 some IT projects that we wanted to get done, and we
- 22 would try to put dates on -- delivery dates on those,
- 23 and if he hit the delivery date, he would get bonuses.
- 24 Q. What about someone in the finance group?
- 25 A. The finance group, nobody there had any sort of

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1 incentive pay with the exception of one of the -- one of
2 the employees had a -- was issued phantom stock in the
3 company. There were three employees that had phantom
4 stock.

5 Q. What does phantom stock mean?

6 A. It's phantom stock. It's the same around my
7 company or any other company you looked at.

8 Q. I'm sorry, I'm not familiar with the term.

9 A. Phantom stock is stock that basically is -- in
10 an LLC, it would act like a profits interest. Does that
11 make sense?

12 Q. I'm sorry.

13 A. I'm not an accountant nor a lawyer, so it's hard
14 for me to describe exactly what you're searching for.
15 If you think of a profits interest, if we're
16 distributing money, they would get a piece of the money
17 you were distributing.

18 Q. Okay.

19 A. And that stock would follow -- it would stay
20 with them as long as they were with the company. If
21 they left the company, they would not retain the stock.
22 That's why it's phantom.

23 Q. Did anyone receive additional compensation based
24 on the performance of the company?

25 A. There were the three phantom stockholders.

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1 There were the three real stockholders plus Stephens,
2 and then besides that, there would be the normal
3 bonusing of people on terms of great performance or a
4 Christmas bonus, the like, normal company kinds of
5 things.

6 Q. Would anyone receive additional compensation for
7 closing a certain number of loans?

8 A. Again that was an outsourced third party thing,
9 so we weren't in charge of that. I don't -- no. I
10 mean, I would guess that they had some way of evaluating
11 their employees, but I don't know what it was.

12 Q. You mentioned that Integrity Advance was
13 registered in Delaware?

14 A. Yes.

15 Q. Did the company obtain a lending license there
16 as well?

17 A. Yes.

18 Q. What steps did the company go through to obtain
19 that license?

20 A. To obtain -- again I'm not the attorney, and I
21 wasn't -- other than reviewing the process, I wasn't
22 intimately involved in it, but you -- it's my
23 understanding to obtain a lending license in Delaware,
24 you download the application, fill it out. You've got
25 to put together a set of lending documents that you plan

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1 on using with consumers that they approve.

2 You have to have them in English and in Spanish.

3 You have to submit both to them. They do a pretty
4 exhaustive background check on every beneficial owner,
5 so it's -- all your personal information in terms of who
6 you are. I know that I had to do a personal financial
7 statement. I'm sure there are other things. Again off
8 the top of my head, I can't recall exactly what else
9 there was.

10 Q. Who was responsible for putting that all
11 together?

12 A. At the time it was Edward Foster.

13 Q. Anyone else?

14 A. Edward was coordinating it from the company. We
15 had outside counsel who were industry experts helping us
16 with the documents and the processes that we had to go
17 through.

18 Q. Why did the company pick Delaware?

19 MS. BAKER: Let me just caution you in terms of
20 answering that question, you should answer that question
21 to the extent you can do so without disclosing any
22 conversations or communications you would have had with
23 counsel in connection with that decision, but you should
24 answer it as I've instructed.

25 THE WITNESS: Delaware is a -- as you probably

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1 are aware a very pro business state. There are more
2 LLCs formed in that state than any other state in the
3 country, and they were generally just -- it seemed like
4 an attractive place to do business.

5 BY MR. WHEELER:

6 Q. In its submissions to Delaware, do you know if
7 Integrity Advance ever informed the state that the
8 company had operations outside of Delaware?

9 A. Delaware was aware that we had -- we had things
10 going on outside of Delaware, yes.

11 Q. Let's take a look at tab 1. It will be marked
12 Exhibit 1.

13 (Whereupon, Exhibit Number 1 was marked for
14 identification.)

15 MR. WHEELER: For the record we're looking at
16 tab 1. This is Bates INTEG000194.

17 MS. BAKER: So it appears --

18 MS. WEINBERG: This is an excerpt of a document.

19 MS. BAKER: Thank you. Because I want to note
20 for the record that it looks like it's Bates numbered
21 Integrity 194, 196 to 197 and Integrity 217 to 218. I'm
22 not even sure if this was even one document that was
23 submitted or several compiled together, but for purposes
24 of today, we'll agree to the representation that this
25 constitutes Exhibit 1.

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1 MS. WEINBERG: I can represent to you these were
2 all taken from one document.

3 THE WITNESS: Okay.

4 BY MR. WHEELER:

5 Q. Mr. Carnes, do you recognize Exhibit 1?

6 MS. BAKER: I would instruct you to spend a
7 minute to look at it before you answer any questions
8 about it, if that's okay.

9 MR. WHEELER: That's fine.

10 (Discussion off the record.)

11 THE WITNESS: The first couple of pages looks
12 like it's something out of a renewal for a license
13 renewal for Delaware.

14 BY MR. WHEELER:

15 Q. Did Integrity Advance submit a document like
16 this every year?

17 A. Yes, in order to renew your license you do.

18 Q. Did you have a role in the preparation of this
19 document?

20 A. I did not.

21 Q. Do you know if you had a role in approving it?

22 A. I don't know that -- I don't recall approving
23 it.

24 Q. Do you recall approving any renewal
25 applications?

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1 A. I'm sure I was involved in the process, but I
2 don't recall exactly. When you say approving, what do
3 you mean?

4 Q. Well, you said you didn't prepare it, correct?

5 A. No.

6 Q. I guess I'm asking: Did someone put it in front
7 of you when it was done or nearly done and ask you, Mr.
8 Carnes, do you approve of this, does it have your
9 sign-off?

10 A. Early on in the early years, I'm sure I looked
11 at it. The subsequent years I don't think that many
12 changes were made to it. There's not much changes over
13 the years. The product never changed. Our address
14 never changed.

15 Q. Let's look at the second page, which ends in
16 Bates 196, and if you would look at item number 3, it
17 asks: "Address of principal offices where the business
18 is being conducted."

19 Do you see that?

20 A. Yes, sir.

21 Q. What address is listed there?

22 A. 300 Creek View Road, Suite 102. Is that what
23 you're talking about?

24 Q. Yes.

25 A. Yes.

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1 Q. In what state?

2 A. It's in Delaware.

3 Q. Why didn't the company list the Kansas City
4 location?

5 A. Because this is where business was being
6 conducted in the office of -- there is where our lending
7 license was hanging on the wall, and that's where we
8 lent.

9 Q. But the senior executives were in Kansas City,
10 correct?

11 A. Yes.

12 Q. And most of the people providing functions for
13 Integrity Advance were based in Kansas City, correct?

14 A. Again, when you say most of, I think you would
15 have to say that at some points we had a significant
16 number of people in the call center, and the call center
17 when it was in Delaware was significantly bigger than in
18 Kansas City.

19 Q. If you look a little further down, also item
20 number 3 where it says "additional licensed locations
21 being renewed," do you see that?

22 A. Yes.

23 Q. Do you see there's nothing listed?

24 A. There's nothing listed, no.

25 Q. Do you know why Integrity Advance didn't

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1 disclose its Kansas City location in this section?

2 A. Because it wouldn't be a licensed location.

3 Delaware wouldn't allow you to have a licensed location
4 outside of the state.

5 Q. You mentioned earlier that the company had a
6 Delaware storefront. Do you know --

7 A. That's the address, 300 Creek View Road.

8 Q. Yes. Do you know what percentage of Integrity
9 Advance's business was generated by the storefront?

10 A. I don't.

11 Q. Do you have an estimate?

12 A. I don't.

13 Q. Would it be more or less than 25 percent?

14 A. Less probably.

15 Q. More or less than 10 percent?

16 A. Again I don't know exactly -- I don't think it
17 was very much, but I don't know. We treat every
18 customer the same.

19 MS. BAKER: I would like to note for the record
20 that this is an incomplete document as I noted before.
21 I'm just looking at it, and there's references made to
22 various parts and application portions that are not
23 included in this exhibit, so I would like the record to
24 reflect that this is -- I'm not sure what this is,
25 apparently an excerpt of something, but it's certainly

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6/17/2014

1 not anything that's a complete document that was
2 produced by the company or provided to the State of
3 Delaware.

4 MS. WEINBERG: Just for the record, Ms. Baker,
5 you can make a standing objection to all of the
6 documents, but in the interest of not copying
7 everything, we have only excerpted the relevant portions
8 of the documents that we'll be introduced or potentially
9 introducing today. These are all documents already
10 produced by the company with the Bates stamps that the
11 company provided.

12 So the company has these full documents and
13 should be able to see fairly easily what the complete
14 document is.

15 MS. BAKER: Understood. Thank you.

16 BY MR. WHEELER:

17 Q. Integrity Advance lent to consumers outside of
18 the State of Delaware, correct?

19 A. Repeat that, please.

20 Q. Did Integrity Advance make loans to consumers
21 who did not live in Delaware?

22 A. Yes, we made loans to consumers who listed
23 states other than Delaware on their application.

24 Q. Did anyone at Integrity Advance make a
25 determination which states it would be legal to lend in?

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1 A. We had a -- I would say, yes, there was an
2 effort to make -- to figure out where we could lend.

3 Q. Can you describe that?

4 A. It was relying on outside counsel.

5 Q. Could you be any more specific?

6 MS. BAKER: I would just caution you to the
7 extent that you can answer the question without
8 disclosing communications protected from disclosure by
9 the attorney/client privilege, go ahead and do so.

10 THE WITNESS: I don't know how I could answer
11 without talking about my attorney's conversations with
12 us.

13 BY MR. WHEELER:

14 Q. Let's take a look at tab number 2. Let's get
15 this marked as Exhibit 2.

16 (Whereupon, Exhibit Number 2 was marked for
17 identification.)

18 BY MR. WHEELER:

19 Q. I apologize for the small Bates at the bottom.
20 It's INTEG008462 and take a second to familiarize
21 yourself with the document.

22 Do you know what this document is, Mr. Carnes?

23 A. Yes.

24 Q. What is it?

25 A. It appears to be a letter to Integrity Advance

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1 from the Kentucky Department of Financial Institutions.

2 MS. BAKER: Go ahead and read the letter before
3 you answer additional questions about it.

4 BY MR. WHEELER:

5 Q. Just let me know when you're ready.

6 A. Okay.

7 Q. Have you seen this letter before?

8 A. I don't recall.

9 Q. And what's the date of the letter?

10 A. November 8, 2010.

11 Q. I want to direct your attention to, it's the
12 middle of the third paragraph, a sentence that
13 starts "until it is appropriately." Do you see that?

14 A. I do.

15 Q. The sentence reads: "Until it is appropriately
16 licensed by the department, Integrity Advance must
17 ceasing and desist conducting any online payday lending
18 in the Commonwealth of Kentucky."

19 Did I read that correctly?

20 A. Yes.

21 Q. Was Integrity Advance loaning to Kentucky
22 residents in 2010?

23 A. I am not certain.

24 Q. Do you have a reason to believe that it was not?

25 A. Again I don't know.

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1 Q. Do you know if Integrity Advance continued to
2 lend to Kentucky residents after receiving this letter?

3 A. I don't know.

4 Q. Did Integrity Advance ever seek to gain a
5 lending license in Kentucky?

6 A. No.

7 Q. Did they ever establish a physical location in
8 Kentucky?

9 A. No.

10 Q. Let's take a look at tab 4.

11 MR. WHEELER: Mark that Exhibit 3 I guess we're
12 on.

13 (Whereupon, Exhibit Number 3 was marked for
14 identification.)

15 BY MR. WHEELER:

16 Q. Just for the record the Bates is INTEG 008563.
17 And give yourself -- take a second to familiarize
18 yourself with the document. It may or may not be in
19 correct order. I think it was Bated in the wrong order,
20 so I think it's in correct Bates number but it may be an
21 odd order in real life if that makes sense.

22 A. Okay.

23 Q. What is Exhibit 3, Mr. Carnes?

24 A. It's a letter from Michigan State Department of
25 Insurance, Department of Insurance and Financial

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1 Services -- For the Record, the Department of Insurance
2 and Financial Services in the matter of Integrity
3 Advance, Enforcement Case Number 13-11719, settlement
4 agreement.

5 Q. Have you seen this before?

6 A. No.

7 Q. So you didn't have any role in negotiating this
8 settlement agreement?

9 A. No.

10 Q. Or approving it?

11 A. No.

12 Q. On the signature page, which ends in Bates 564,
13 whose signature is that for Integrity Advance?

14 A. Edward Foster.

15 Q. Just going back to the first page for a second,
16 we see Integrity Advance up on the upper left-hand hand
17 corner is listed as the Respondent. Do you see that?

18 A. I do.

19 Q. And then if we turn again to the page ending in
20 565, paragraph 14?

21 A. Yes.

22 Q. That reads: "Respondent agrees to cease lending
23 to Michigan residents"?

24 A. Yes.

25 Q. Did I read that correctly?

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1 A. Yes.

2 Q. Did Integrity Advance ceasing lending to
3 Michigan residents after this settlement agreement was
4 signed?

5 A. I would -- again I wouldn't know for 100 percent
6 fact, but I'm sure we did.

7 Q. You are sure you did stop lending to Michigan
8 residents?

9 A. Yes. I have always been a big believer in that
10 do what we say we're going to do, so if we signed this,
11 I would -- it would be my instruction to the company
12 that we would stop lending.

13 Q. Do you know why Integrity Advance agreed to this
14 settlement agreement?

15 A. I wasn't involved in the negotiations.

16 Q. Do you know if anyone had sought to determine
17 whether or not it was legal for Integrity Advance to
18 lend in The State of Michigan?

19 MS. BAKER: Could you repeat that question?

20 MR. WHEELER: Can you read it back?

21 (The record was read as requested.)

22 THE WITNESS: I think back to your prior
23 question, we had outside counsel helping us with where
24 to lend.

25 BY MR. WHEELER:

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1 Q. What was your role at Integrity Advance, Mr.

2 Carnes?

3 A. Well, my title was CEO.

4 Q. What did that mean?

5 A. It changed over time. It started out being a
6 pretty full time job, and then I transferred a lot of
7 the operational duties to Mr. Foster and started to
8 concentrate on other business models and projects.

9 Q. During what period of time was it a full-time
10 job?

11 A. 2008, probably part of 2009.

12 Q. Then you say you transferred a lot of the
13 responsibilities to Mr. Foster?

14 A. Yes.

15 Q. I guess at some point in 2009?

16 A. I don't remember the date that we promoted him
17 or I promoted him from -- he was EVP and general
18 counsel and was promoted to chief operating officer, and
19 I believe it was -- I can't remember what date it was,
20 but I believe it was sometime in 2009.

21 Q. During the time when it was a full-time job,
22 2008 and part of 2009, where did you primarily work
23 geographically?

24 A. Out of the address in -- what?

25 Q. Were you working out of Kansas City?

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1 A. Yes.

2 Q. How often were you in the office?

3 A. Daily.

4 Q. Did you have people who reported directly to
5 you?

6 A. In the beginning everybody reported directly to
7 me, and then when we promoted Mr. Foster, people -- he
8 reported to me, and everyone else reported to him. I
9 think we gave you an org chart that shows that.

10 Q. When -- before you promoted Mr. Foster, how many
11 people were reporting to you?

12 A. Probably eight or nine direct reports, and then
13 they would have -- the rest of the 20ish people we
14 talked about would report to one of those.

15 Q. As the CEO, I assume you had ultimate say over
16 the company's policies and procedures; is that correct?

17 A. Yes.

18 Q. What about hiring decisions, were you in charge
19 of that?

20 MS. BAKER: During what time are you talking
21 about, for the prior question and for the pending
22 question?

23 MR. WHEELER: So far we're just talking about
24 2008, first part of the 2009 when he said running
25 Integrity Advance was a full-time job.

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1 MS. BAKER: Okay.

2 THE WITNESS: In that timeframe, I was involved
3 in the hiring of people, and then after that, I was less
4 involved.

5 BY MR. WHEELER:

6 Q. What about setting compensation?

7 MS. BAKER: Same timeframe?

8 MR. WHEELER: Yes.

9 THE WITNESS: Yes, I was involved in that.

10 BY MR. WHEELER:

11 Q. During the same timeframe, were you also
12 involved in the company's underwriting standards?

13 A. Yes.

14 Q. So after you promoted Mr. Foster and you said
15 your responsibilities changed, could you explain that
16 more for me?

17 A. The goal of the company at the time was to
18 expand into different products, different business
19 models, and I was focused on that more than running of
20 Integrity Advance, but those didn't exist in 2008 or
21 early 2009.

22 (Whereupon, Exhibit Number 4 was marked for
23 identification.)

24 BY MR. WHEELER:

25 Q. Let's take a look at tab 5. I think we're on

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1 Exhibit 4. Have you had a chance to review Exhibit 4?

2 A. Yes, I have.

3 Q. What is Exhibit 4?

4 A. It's a reporting structure. It's probably
5 misnamed IADV reporting structure because IADV didn't
6 have any employees, but that's the reporting structure
7 of HIP.

8 Q. What does IADV mean?

9 A. I would assume it's an abbreviation for
10 Integrity Advance.

11 Q. What does the DV stand for?

12 A. I think that was just a -- it came from -- in
13 the business where you're sending Excel mails back and
14 forth of data, you had to have a lot of the -- a lot of
15 the marketing partners had four letter abbreviations for
16 each lender, and somehow we ended up with IADV, I mean,
17 Integrity -- I is for Integrity and ADV for advanced I
18 believe is a shortening.

19 Q. Yeah, okay. Does Exhibit 4 look accurate to
20 you?

21 A. It is accurate.

22 Q. And would this reflect the reporting structure
23 after the period of time we were discussing before, sort
24 of after 2008, after early 2009?

25 A. This is when we made Edward Foster chief

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6/17/2014

1 operating officer. Prior to this, I would have been in
2 his box, and he would have been in one of the other
3 boxes at the bottom.

4 Q. Could you describe Mr. Foster's role?

5 A. He started out as executive vice president and
6 general counsel and was promoted to chief operating
7 officer in early 2009.

8 Q. What did he do as chief operating officer?

9 A. Managed operations.

10 Q. What would that include?

11 A. Meaning with individual department heads on a
12 regular basis, monitoring company metrics, reporting to
13 me any issues he thought I needed to deal with,
14 day-to-day running of the company.

15 Q. How often do you meet with Mr. Foster?

16 A. Daily, not always about issues, but it could be
17 everything.

18 Q. How often did you meet with Mr. Foster about
19 Integrity Advance business?

20 A. There would be something that would come up that
21 we would talk about a few times a week probably.

22 Q. And I assume Mr. Foster was working out of the
23 Kansas City office we've talked about?

24 A. He was.

25 Q. Was he in the office on a daily basis?

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1 A. Yes.

2 Q. Looking at the reporting structure, Stephanie
3 Schaller over on the left-hand side, do you see her?

4 A. Yes.

5 Q. What was Ms. Schaller's role at the company?

6 A. She headed our decision science team.

7 Q. What is decision science?

8 A. Analytics.

9 Q. Could you explain?

10 MS. BAKER: Explain what?

11 THE WITNESS: You mean give you a definition of
12 analytics?

13 BY MR. WHEELER:

14 Q. When you said analytics, what did you mean?

15 A. Analytics would be the mathematics, statistical
16 component of a company.

17 Q. Did you hire Ms. Schaller?

18 A. I did.

19 Q. Was there a period of time when she directly
20 reported to you?

21 A. Yes.

22 Q. Would that have been during that early period
23 we've been discussing?

24 A. Yes.

25 Q. Under the structure represented here on Exhibit

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1 4, would she have reported directly to you?

2 A. I believe when she was hired she reported
3 directly to me. I believe she was hired before he was
4 made COO, but I'm not positive.

5 Q. After Mr. Foster was made CEO --

6 A. COO.

7 Q. Excuse me. After Mr. Foster was made COO, would
8 Ms. Schaller have reported directly to Mr. Foster and
9 then through to you, or was she able to talk to you
10 directly?

11 A. She reported -- would have reported to Mr.
12 Foster. However, we had an open door policy that if I
13 -- I was accessible to anybody that wanted to talk.

14 Q. Does decision science include underwriting
15 standards?

16 A. Yes.

17 Q. What about Mr. Pickett, what was his role?

18 A. He was in charge of the legal affairs of the
19 company. He would do things like manage the -- any
20 outside counsel with any issues that we had ongoing. He
21 would manage the license renewal process. Contracts, he
22 would review contracts and edit them with vendors.

23 Those are his main obligations.

24 Q. Did you hire Mr. Pickett?

25 A. At some level because I'm the CEO I hired

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1 everybody, but I didn't -- he was -- I believe he worked
2 with Mr. Foster at a prior company, so that's how they
3 knew each other, and Mr. Foster brought him in.

4 Q. George Davis, what was his role?

5 A. He was the manager of the Delaware office.

6 Q. I believe you testified earlier that he managed
7 the storefront of the Delaware office?

8 A. That's what I mean, sorry.

9 Q. Timothy Madsen, what was his role?

10 A. He was in charge of marketing.

11 Q. And what did that mean?

12 A. Anything relating to the purchase of data like a
13 lead to customer interactions with Emails, texts, phone
14 calls, et cetera.

15 Q. Did Integrity Advance advertise?

16 A. No.

17 Q. And did you hire Mr. Madsen?

18 A. I did.

19 Q. The next name, Andrew Peck, what was his role?

20 A. He was in charge of the finance department.

21 Q. And what did that mean?

22 A. He was in charge of accounting, doing monthly
23 profit and loss statements, balance sheets, interfacing
24 with our outside accountants that did our taxes,
25 interfacing with another outside accountant that would

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1 do our audits, managing the controller who would do our
2 payables, writing checks and general reporting, internal
3 reporting.

4 Q. Did you hire Mr. Peck?

5 A. I did.

6 Q. The next name, Hassan Shahin, I'm not sure how
7 to pronounce it?

8 A. Hassan Shahin.

9 Q. Shahin, is that a man or a woman?

10 A. A male.

11 Q. What was his role at the company?

12 A. He was in charge of our technology, which meant
13 servers, development, software development. I don't
14 know about software development, but servers and all of
15 the third party software we used and making it all work
16 together.

17 Q. Did Integrity Advance have a website?

18 A. Yes.

19 Q. Would he have been in charge of developing that
20 website?

21 A. The IT portion of it he would have something to
22 do with. Ultimately we got the next guy on the box,
23 Bruce Andonian, who became really the development side
24 of IT, so Hassan was more of the -- managed the servers
25 and infrastructure and software and so forth, and then

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40

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1 Bruce managed the development side of coding, if you
2 will, of the site and so forth.

3 Q. Did you hire Mr. Shahin?

4 A. I did.

5 Q. Then we already talked a little bit about what
6 Mr. Andonian did. Did you hire Mr. Andonian?

7 A. Yes.

8 Q. Mary Anne Reece, she was the controller at the
9 company?

10 A. Yes.

11 Q. What did that mean?

12 A. Like I said she did payables, she pays -- writes
13 checks for all of our monthly expenses. She would
14 manage our internal reporting and then help Andrew with
15 the monthly reconciliations, typical controller duties.

16 Q. Did you hire Ms. Reece?

17 A. I did.

18 Q. And Mark Rondeau?

19 A. Rondeau, right.

20 Q. What was his role?

21 A. He is in charge of the networking, desktop
22 support, Email, those sorts of things.

23 Q. Did you hire him as well?

24 A. Again I made the final decision to hire
25 everybody, but he was generally hired by Mr. Foster.

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1 Q. We talked a little earlier about the website.

2 Did you have final say in what happened on the website?

3 A. I did.

4 Q. Do you remember approving the contents of
5 Integrity Advance's website?

6 A. Uh-huh, I do.

7 MS. BAKER: Can we take a break?

8 MS. WEINBERG: Can we do two or three more
9 questions; is that okay?

10 MS. BAKER: Sure.

11 MS. WEINBERG: I'm almost through with a
12 section.

13 MS. BAKER: Are you okay?

14 THE WITNESS: I'm fine.

15 BY MR. WHEELER:

16 Q. Who prepared Integrity Advance's financial
17 statements?

18 A. Again they're prepared by Andrew on the monthly
19 reconciliations. We had a third party do the taxes and
20 another third party do the audit, audits.

21 Q. Who were the signatories on Integrity Advance's
22 bank accounts?

23 A. Mr. Foster and myself.

24 Q. And then you mentioned earlier that people
25 employed by HIP Financial provided labor for Integrity

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42

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1 Advance. Did HIP Financial provide labor for any other
2 entities?

3 A. Yes.

4 Q. What were those?

5 A. It would be easier if I showed you on the
6 company's structural original chart. I'm sure you have
7 it at some tab.

8 MS. WEINBERG: 9.

9 THE WITNESS: 9.

10 BY MR. WHEELER:

11 Q. We're going to get to that later.

12 MS. BAKER: Can we take a break.

13 MR. WHEELER: Yes, let's take a break.

14 MS. BAKER: Thanks.

15 (Whereupon, a brief recess was taken.)

16 EXAMINATION

17 BY MS. WEINBERG:

18 Q. We are completely switching gears now, Mr.
19 Carnes, and I think since you were a math major and an
20 econ major, hopefully this part will be very comfortable
21 for you. Net profit numbers for both Integrity and for
22 Hayfield -- and for the sake of making it easier to
23 speak, can I refer to Hayfield Investment Partners, LLC
24 as Hayfield throughout this line of questioning?

25 A. Sure, sure.

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1 Q. And that will be comprehensible?

2 A. Yes.

3 Q. And at this point in the deposition, I will only
4 be referring to Integrity. Rather than say Integrity
5 Advance, if I can say Integrity, would that be okay with
6 you?

7 A. That's just fine.

8 Q. So Integrity and Hayfield. So if you turn to
9 tab 15, I'm going to start going through a number of the
10 documents here. Now, you did not provide us with any
11 tax returns for 2010 for Hayfield or for Integrity; is
12 that correct?

13 A. I have no idea what tax returns you were
14 provided. I know you were provided some tax returns,
15 but I'm not sure which years.

16 Q. Well, what we do have for 2010 is some net
17 income statements that you provided in conjunction with
18 your application for the Delaware licensing.

19 MS. BAKER: Ms. Weinberg, when you say "you,"
20 you mean Integrity Advance?

21 MS. WEINBERG: You the company.

22 THE WITNESS: Yes.

23 MS. BAKER: Okay.

24 THE WITNESS: Okay.

25 BY MS. WEINBERG:

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1 Q. Mr. Carnes, were you involved in reviewing the
2 document production to Consumer Financial Protection
3 Bureau pursuant to our CID?

4 A. It was a pretty exhaustive amount of documents
5 that were produced to my knowledge, and I went through
6 the interrogatories relatively carefully. I did not
7 look at every document.

8 Q. And were you involved in decisions about what
9 was produced and what was not produced?

10 A. No.

11 Q. Who was involved in that?

12 A. It was a combination between our original
13 attorneys who were on this that I believe were
14 negotiating with the original attorneys on your side
15 that were involved. I can't remember who the people
16 were to be honest, but I wasn't involved in that. They
17 were just trying to limit the laundry list to some
18 degree. I cannot even tell you what got limited.

19 Q. And when it came to actually producing documents
20 from the company, who was involved from the company?

21 A. Chris Pickett was mainly the person on our side
22 who organized all of the documents, and he as well as
23 Claudia Callaway, our prior attorney, kind of put things
24 together, and then we had another third party who I
25 guess -- I don't know why, but apparently you required

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1 some specific format, and we had to have the third party
2 put it into that format to submit it, so there were
3 multiple people involved in that process.

4 Q. Was there somebody -- anybody at a higher level
5 at the company than Chris Pickett who was involved in
6 choosing which documents to produce and which not to
7 produce?

8 MS. BAKER: Let me just caution you. To the
9 extent you can answer Ms. Weinberg's question without
10 disclosing communications that are protected from
11 disclosure by the attorney/client privilege, you should
12 go ahead and answer her question, but if you cannot do
13 so without disclosing privileged communications, you
14 cannot answer the question.

15 MS. WEINBERG: I'm asking about who at the
16 company.

17 BY MS. WEINBERG:

18 Q. I'm not asking what your attorney said to you.
19 I'm asking who at the company was involved in --

20 A. At the company was Chris Pickett. Well, it
21 touched a bunch of people because of the scope of
22 requests. It touched finance, so finance had to help.
23 You had -- it touched analytics, so we had to have all
24 the underwriting charts and stuff we put in here. We
25 had -- there were marketing questions that were asked.

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1 It kind of touched almost everybody to some
2 degree, so everybody had -- I can't say every person,
3 but most departments had some kind of input into what
4 was produced.

5 Q. And then let's just say you needed something
6 that came from IT. Would someone above the IT -- we can
7 look at the names, but the IT director, would someone
8 above the IT director review what the IT director
9 suggested producing?

10 A. It was generally all reviewed by Mr. Pickett,
11 and Mr. Foster to some degree I believe reviewed it, but
12 I'm not positive. I didn't review, like I said, every
13 document. I reviewed the interrogatories and then some
14 of the stuff that I was asked to.

15 Q. Did you review any of the document production or
16 just the interrogatories?

17 A. Some of the document production.

18 Q. What type of documents?

19 A. If someone had a question about the document,
20 where it came from or how we could answer a question,
21 they might have asked me, and I would have told them
22 what I thought.

23 Q. So back to the financials. So if you look at --
24 these are not going to be in exact order of questions,
25 but go to tab 15, and go to INTEGRITY000215, which is

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1 like the fourth page in.

2 MS. BAKER: Is this an exhibit to this
3 deposition, this entire tab, or are you making each of
4 these documents an exhibit?

5 MS. WEINBERG: We can do it individually.

6 MS. BAKER: Well, these documents are not all
7 one document --

8 MS. WEINBERG: No, they're not.

9 MS. BAKER: -- in terms of how they were
10 produced.

11 MS. WEINBERG: No, they're not.

12 MS. BAKER: So that's what I'm trying to
13 understand. So I guess you haven't labeled exhibits
14 yet.

15 MS. WEINBERG: No.

16 MS. BAKER: Okay. Okay.

17 MS. WEINBERG: And I think that the court
18 reporter is only going to be labeling her set, so we can
19 denote them for the record as whatever Exhibit Number.

20 MS. BAKER: I would like the record to reflect
21 exhibits.

22 MS. WEINBERG: Yes, they will be, but nothing
23 was premarked.

24 MS. BAKER: Okay.

25 BY MS. WEINBERG:

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6/17/2014

1 Q. So 00015, which we can denote Exhibit 5, do you
2 recognize this?

3 (Whereupon, Exhibit Number 5 was marked for
4 identification.)

5 THE WITNESS: Uh-huh, I do.

6 BY MS. WEINBERG:

7 Q. What is it?

8 A. It's a Hayfield Investment Partners consolidated
9 income statement year to date through September 2010.

10 Q. Okay. And this indicates that the net income I
11 assume from January through September of 2010 for
12 Hayfield was \$10,357,179; is that correct?

13 A. That's what it says.

14 MS. BAKER: Just a question for you before you
15 ask the next question. This highlight here is CFPB's
16 highlight, correct?

17 MS. WEINBERG: Correct, it is.

18 MS. BAKER: This isn't exactly the document that
19 was provided. It's been annotated by you.

20 MS. WEINBERG: Correct. Any documents that are
21 highlighted were by the CFPB for the ease to attempting
22 to facilitate the testimony today.

23 MS. BAKER: Thank you.

24 MS. WEINBERG: And I don't think there were any
25 highlights in any of the documents produced by the

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1 company.

2 BY MS. WEINBERG:

3 Q. So let's look at Integrity Advance's net income
4 for the same period, and that will be the first page
5 after tab 15, which is INTEGRITY000211, which we'll
6 denote as Exhibit 6.

7 (Whereupon, Exhibit Number 6 was marked for
8 identification.)

9 BY MS. WEINBERG:

10 Q. Do you recognize this?

11 A. The one that shows 13,874?

12 Q. Correct. So what is the total net income for
13 Integrity Advance?

14 A. It appears it's \$13,874,072.

15 Q. Do you know whether Integrity's income changed
16 for the last two months of 2010?

17 A. I have no idea.

18 Q. Okay. Did Integrity's income generally go up
19 each month during this period?

20 A. I don't understand go up. What do you mean go
21 up?

22 Q. Was there a constant stream of revenue that
23 exceeded its expenses during this period?

24 MS. BAKER: And this period is?

25 MS. WEINBERG: January through September of 2010

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50

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6/17/2014

1 as reflected in the statement.

2 BY MS. WEINBERG:

3 Q. And just to get a full years picture, I'm trying
4 to figure out if you have any idea what might have
5 happened for -- I don't know if -- do you know if this
6 is September 30, 2010, that this reflects through
7 September?

8 A. It would reflect through September, yes.

9 Q. Then we have three months left of the year,
10 October, November, December, correct?

11 A. That's correct.

12 Q. So my question is: I'm trying to figure out
13 what might have happened for the final months of 2010 in
14 terms of Integrity Advance's profits.

15 A. So I don't know to answer your question. If you
16 look through, we had a -- I know we gave monthly
17 statements in the production, and most of the months
18 were profitable, that we did have some losing months but
19 not very many of them, so very few losing months.

20 I can't remember what -- we did produce a ton of
21 monthly statements to you, but very few losing months,
22 but we did have some, but I don't know what happened
23 those last three months off the top of my head.

24 Q. And the same question for Hayfield for -- we
25 have the same issue with Exhibit 5. Do you know whether

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IH-000050

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6/17/2014

1 the net income for Hayfield changed during that period?

2 A. I don't.

3 MS. BAKER: Just for clarification, that period
4 again is January through September 30 of 2010?

5 MS. WEINBERG: No. That period is a period not
6 reflected in these income statements. These income
7 statements go from January 1 through September 30 of
8 2010.

9 THE WITNESS: You're asking me if I know what
10 happened from October 1 to the end of December of 2010.

11 By MS. WEINBERG:

12 Q. Precisely.

13 A. And I don't know what happened off the top of my
14 head on either Integrity or Hayfield. December is not
15 usually a great month for lending because you spend so
16 much money on marketing. The profitability anyway, you
17 spend so much money on marketing, so December is -- you
18 don't make much money. We generally didn't make much
19 money in December to my recollection, but I couldn't
20 tell you. This is four years ago, and I just don't know
21 what those months looked like.

22 Q. So then just based on these, as of September 30
23 of 2010, Integrity had about \$3,500,000 more in net
24 income than Hayfield; would that be accurate?

25 A. Roughly accurate.

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1 Q. Roughly.

2 A. Yes.

3 Q. So let's look at 2011, and these pages are
4 roughly sequential in years, so 2011 starts --

5 A. Which page are you going to?

6 Q. I'm going to go to 313.

7 MS. BAKER: That's Bates number 313?

8 MS. WEINBERG: Yes, which I'm --

9 MS. BAKER: That's a tax return.

10 MS. WEINBERG: Oh, sorry.

11 BY MS. WEINBERG:

12 Q. So for the full year -- actually let me back up.
13 Can you describe what net income means?

14 A. Where?

15 Q. Well, let's go back to any of the profit
16 statements of Integrity, like Exhibit 5.

17 A. Net income would be described as whatever -- it
18 would be the -- there's an accounting definition for it.
19 I would think most people would think of it as profits
20 of whatever entity you're looking at.

21 Q. Okay. Thank you. So let's go back to 2011.

22 MS. BAKER: That's your understanding of it? I
23 just want to make sure we have a clear record.

24 THE WITNESS: That's my understanding, yes.

25 That's my understanding that it would be profits of that

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1 period.

2 MS. BAKER: You're not a CPA?

3 THE WITNESS: I'm not a CPA, but I know there's
4 a better definition of income than I just gave you.

5 BY MS. WEINBERG:

6 Q. So looking at I guess what will be 7 which is
7 the 2011 tax return.

8 A. We're back to 313 now?

9 (Whereupon, Exhibit Number 7 was marked for
10 identification.)

11 BY MS. WEINBERG:

12 Q. We're back to 313. Can you tell me what
13 Hayfield's business income was for 2011?

14 MS. BAKER: If I -- go ahead. Answer the
15 question. There's just -- Exhibit 7 isn't a complete
16 document.

17 MS. WEINBERG: No, it isn't. I said it's
18 INTEGRITY000313.

19 THE WITNESS: Yes.

20 MS. WEINBERG: None of these are going to be
21 complete documents. They're all going to be excerpts.

22 MS. BAKER: Well, just for the record,
23 INTEGRITY313 is the front page of the partnership tax
24 return for 2011, but there are significant -- for
25 Hayfield Investment Partners. There are significant

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1 pages missing from this tax return to make it really an
2 incomplete document, but I will allow the witness to
3 answer questions to the extent he's able, but I would
4 just like the record to reflect that there's about 15
5 pages missing.

6 MS. WEINBERG: Ms. Baker, as I've said before,
7 none of these are going to be complete documents. The
8 company supplied the complete document. If you need to
9 look at the complete tax return now, I have a complete
10 copy with me, but for the sake of attempting to
11 facilitate the testimony, rather than giving everybody
12 six binders with pages that we weren't going to look at,
13 we attempted to just go to the germane pages.

14 If the witness needs the full tax return, I can
15 give it to him.

16 THE WITNESS: I can answer the question you
17 asked.

18 BY MS. WEINBERG:

19 Q. Thank you.

20 A. Which was I believe what was the ordinary
21 business income for Hayfield Business Partners for 2011,
22 and it's \$5,492,365. Is that the question you were
23 wanting to ask?

24 Q. Thank you, thank you. Yes.

25 So let's just compare that to the net income

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6/17/2014

1 that was provided to Delaware for that same period we're
2 talking about, January through September.

3 A. Of 2011?

4 Q. 2011.

5 A. So which page are you on?

6 Q. Now we're going to INTEGRITY000254.

7 (Whereupon, Exhibit Number 8 was marked for
8 identification.)

9 BY MS. WEINBERG:

10 Q. This will be Exhibit 8.

11 A. Okay.

12 Q. What was Hayfield's net income for -- this one
13 is actually January through October 2011 rather than
14 January through September 2011.

15 A. Right.

16 Q. Would that be through the end of October,
17 through October 31?

18 A. Yes, ma'am.

19 Q. And so what was Hayfield's net income for that
20 period?

21 A. \$5,037,354.

22 Q. Okay. So Hayfield's net income went up about
23 almost \$500,000 for the rest of 2011 based on the tax
24 return. Would that be accurate?

25 A. 450,000.

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1 Q. 450,000?

2 MS. BAKER: Wait one second. The number you are
3 looking at for the tax return is ordinary business
4 income, which has a different definition than net other
5 income.

6 MS. WEINBERG: Would you like to testify about
7 the definition?

8 MS. BAKER: No, I'm just trying to understand.
9 We're talking about two different things, so I would
10 just like the record to reflect that. You're not
11 comparing apples to apples. You're comparing apples and
12 oranges.

13 BY MS. WEINBERG:

14 Q. Mr. Carnes, can you tell me the difference
15 between ordinary business income and net income?

16 A. Sure. Well, actually I can't tell you the
17 accounting definition.

18 Q. What's your understanding of the difference?

19 A. My understanding is that the company produced
20 page 254. This was done by the accounting department
21 with Andrew Peck and Mary Anne Reece. This tax return
22 was done by Weaver and Martin, our tax accountants. I
23 know that there are things that affect the tax return
24 like basis and -- again there are a number of accounting
25 things that will change this number to get to this

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1 number, and I don't do taxes for a living, and I don't
2 know exactly what those things are, but I know basis is
3 one of those things that can change it.

4 Q. And for basis, are you referring to any stock
5 that the company had?

6 A. Not necessarily company stock but just -- again
7 I'm not an accountant. I don't know how they get from
8 point A to point B, but they are different, and this
9 does take into account some different aspects of
10 accounting than this does. That's all I know, so my
11 best understanding. In this case they're obviously very
12 close.

13 Q. Right. And other than the basis that you were
14 referring to before, are there any other distinguishing
15 factors between what goes into a calculation of net
16 income, to the extent you know?

17 MS. BAKER: I just would caution, this line of
18 questions -- I mean, I understand what you're asking,
19 and it's all fair game, but there are very specific
20 legal definitions associated with ordinary business
21 income that are used by the Internal Revenue Code, and
22 Mr. Carnes has testified he's neither a lawyer or an
23 accountant.

24 MS. WEINBERG: I'm only asking him --

25 MS. BAKER: You're asking him to --

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1 MS. WEINBERG: I'm asking for his understanding
2 of the terms.

3 MS. BAKER: I just want the record to reflect
4 that his understanding is going to be that of a
5 layperson, and obviously he can testify about his
6 understanding, but it's not going to be anything that
7 you get with precision as to what this means, so I just
8 want the record to reflect that. Please answer Ms.
9 Weinberg's question.

10 MS. WEINBERG: I promise I will not go to the
11 IRS and say that he represented that he was a tax
12 accountant.

13 THE WITNESS: On page 254, I have a pretty good
14 understanding of how all those numbers were created and
15 what went into it. On page 313 of the taxes, I know
16 there's a number of adjustments and things that
17 accountants do to try to accurately represent, from a
18 tax perspective, what happened with the company.

19 And I don't know what all those things are
20 because I'm not an accountant, but I do know that over
21 time there are different adjustments and things that are
22 made to the net income numbers that we provide to get to
23 the point where we give the IRS whatever we give them,
24 but I do know there are some different things that go
25 into the 313 versus the 254. I can't tell you what they

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6/17/2014

1 all are.

2 BY MS. WEINBERG:

3 Q. Okay. So let's stick with apples to apples.
4 We've looked at Hayfield's income statement for 2011
5 from January through October of 2011, and that was
6 Exhibit 8. Let's look at Integrity's statement for the
7 same period, and that's INTEGRITY000251.

8 (Whereupon, Exhibit Number 9 was marked for
9 identification.)

10 BY MS. WEINBERG:

11 Q. And what was Integrity's net income for that
12 period?

13 A. On page 251?

14 Q. Yes.

15 A. The one that's \$12,109,552?

16 Q. Correct.

17 MS. BAKER: And that period is January 1 to
18 October 31, 2011?

19 THE WITNESS: Yes.

20 MS. WEINBERG: Right.

21 MS. BAKER: Okay.

22 BY MS. WEINBERG:

23 Q. And that's the same period that's reflected in
24 the Hayfield document that we were just looking at,
25 correct, 254, which was Exhibit 8, so Exhibit 8 and

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60

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6/17/2014

1 Exhibit 9 are the same period for the two different
2 entities; is that correct?

3 A. Yes, yes, that's correct.

4 Q. Do you have any reason to doubt the accuracy of
5 these numbers?

6 A. No.

7 Q. So Integrity's net income for that period was
8 around \$7 million more than Hayfield's; is that
9 accurate?

10 A. Uh-huh.

11 Q. That's what I thought.

12 A. The difference in those numbers is 7 million,
13 but that's -- I don't -- I think your statement is
14 incorrect.

15 Q. Tell me what was wrong about my statement.

16 A. You said the net income for Integrity is 7
17 million more -- I guess it's somewhat correct, but I
18 mean, Integrity made \$12 million for the period.

19 Hayfield, the parent, made 5 million for the period.
20 The 7 million got invested in other businesses. Is that
21 what you're trying to say? I'm trying to follow what
22 you're trying to say or ask.

23 Q. Well, let me just ask that.

24 A. Okay.

25 Q. Was the 7 million that we are saying is the

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1 difference between the net income for Hayfield and
2 Integrity for that period?

3 A. Yeah.

4 Q. Are you saying it was invested in other
5 businesses?

6 A. Yes.

7 Q. Okay. Can you explain that?

8 A. Yes. If you go to -- what's the org chart of
9 the company?

10 Q. That's at tab 9, and I guess we should introduce
11 that as an exhibit, so that will be Exhibit 10?

12 THE WITNESS: So the taxes are all --

13 MS. BAKER: So Exhibit 10 is tab 9, and Exhibit
14 10 is the org chart for Hayfield's corporate structure.

15 (Whereupon, Exhibit Number 10 was marked for
16 identification.)

17 THE WITNESS: The shaded box?

18 BY MS. WEINBERG:

19 Q. Yes.

20 A. That's the parent company. That's where the
21 taxes are filed.

22 Q. For the record since she can't see the box,
23 you're referring to Hayfield Investment Partners, LLC?

24 A. Yes, I am.

25 Q. Okay.

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6/17/2014

1 A. That's where the taxes are filed.

2 Q. Okay.

3 A. That's also where -- all these little boxes at
4 the bottom of the page are all rolled up into one entity
5 for Hayfield. Integrity Advance is one of those little
6 boxes.

7 Q. Okay.

8 A. So what you're referring to between the 12 and
9 the 5 would represent that we lost \$7 million in these
10 other little boxes somehow, made or lost, but what the
11 total added up to. Does that make sense?

12 Q. I'm not sure I do understand now. So the fact
13 that the net income for Integrity was \$7 million more
14 than Hayfield reflects losses in the other companies,
15 not income in Integrity?

16 A. This is why we got down this path because you
17 just said that Integrity's income was 7 million more,
18 which is -- in reality it is 7 million more, but the way
19 you're kind of saying that makes me think that you think
20 there's 7 and 5. I don't know, but Hayfield made 5
21 million for the period, right? Integrity made 12.

22 All the other little boxes for that period
23 total -- some of them may have made money, some may have
24 lost money, but in total lost 7 million for the period.

25 Does that make sense?

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1 Q. Let me try and rephrase it. Let me finish this:
2 Is your testimony -- I'm not trying to put words in your
3 mouth, I'm just trying to understand really what you're
4 saying -- that Hayfield's net -- Hayfield's statement
5 reflects the profits and losses of all of the companies?

6 A. Right.

7 Q. Together?

8 A. Yes.

9 Q. It does not reflect --

10 A. Integrity is only one of those companies.

11 Q. Exactly. Is that what you were saying?

12 A. Yes.

13 MS. BAKER: If I can just caution the witness to
14 let Ms. Weinberg ask her question, answer her question,
15 kind of keep that colloquy so we have a clean record.

16 THE WITNESS: Sorry.

17 MS. BAKER: Because the record is a little
18 muddled at the moment.

19 MS. WEINBERG: Is there something you think is
20 unclear, Ms. Baker?

21 MS. BAKER: Keep going. It's not my record,
22 it's yours. I just -- question, answer, question,
23 answer. That's what I like to see, so please ask your
24 next question, and Mr. Carnes I'm sure will answer.

25 BY MS. WEINBERG:

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IH-000063

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1 Q. And I want to ask you, since we have these net
2 income statements, which are Exhibits 8 and 9 for
3 Integrity and for Hayfield for ten months of 2011, do
4 you know whether there was any change in that net income
5 for Integrity for the final two months of 2011?

6 A. I don't know. I mean, I think you would -- like
7 I said, the tax return is close to what the net income
8 is, especially back then because we weren't doing any I
9 don't think any extraneous factors that would change it,
10 but the tax return is accurate for what the year looked
11 like for Hayfield.

12 Q. So you don't know for either Integrity or for
13 Hayfield whether that number changed?

14 A. I cannot remember what the last two months of
15 2011 was for either company.

16 MS. BAKER: What do you mean by number changed?
17 What is it that you're asking?

18 BY MS. WEINBERG:

19 Q. Mr. Carnes, do you understand the question?

20 A. I believe -- let me ask: Are you asking, Did
21 the company continue to produce profits in the last two
22 months of the year 2011?

23 Q. Exactly.

24 A. And I don't know the answer to that. I would
25 direct you to the tax returns and compare that to

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1 Exhibit -- or page 254.

2 Q. Right. The fact that Hayfield's tax return
3 shows an additional roughly \$500,000 in ordinary
4 business income, does that reflect anything on the
5 income of Integrity?

6 A. Again it's all those little boxes below Hayfield
7 added up to whatever that number, \$450,000, is.

8 Q. We'll get to the boxes later so we'll just put
9 that aside for now, but we're going to do this exercise
10 with 2012.

11 A. Okay.

12 Q. So let's turn to 296, 000296.

13 (Whereupon, Exhibit Number 11 was marked for
14 identification.)

15 BY MS. WEINBERG:

16 Q. And can you tell me what this is?

17 A. It's a Hayfield Investment Partners consolidated
18 income statement January to October 2012.

19 Q. We're back to October. We've switched our
20 months again. The net income for that period?

21 A. \$4,381,043.

22 Q. Again this would reflect net income through
23 October 31?

24 A. That's correct.

25 Q. And let's look at this same document for

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1 Integrity Advance, which is the preceding page, 000293.

2 MS. BAKER: Is that Exhibit 12?

3 MS. WEINBERG: That will be Exhibit 12.

4 MS. BAKER: That's Bates number 255.

5 MS. WEINBERG: No. That's Bates number 293,
6 000293.

7 (Whereupon, Exhibit Number 12 was marked for
8 identification.)

9 BY MS. WEINBERG:

10 Q. Can you tell me what this document is?

11 A. Integrity Advance income statement January
12 through October 2012.

13 Q. And so what does it reflect to be the net income
14 for Integrity for that period of January through
15 October?

16 A. \$12,078,239.

17 Q. So then roughly Integrity's net income was about
18 \$8 million more than Hayfield's for the same period in
19 2012?

20 A. 7.6ish, yes.

21 Q. You're the mathematician.

22 A. Right.

23 Q. And, yes, your math is more accurate. 7.6
24 million.

25 A. Yes.

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1 Q. Just for the sake of keeping a complete circle,
2 do you know whether or not -- do you know if there's any
3 change in the net income for either Hayfield or for
4 Integrity for the final two months of 2012?

5 MS. BAKER: And again can you explain what you
6 mean by change, just so we have a clean record?

7 MS. WEINBERG: These documents reflect net
8 income for the period January 1 through October 31 of
9 2012. We don't have the net income figures here for the
10 entire calendar year of 2012.

11 So my question to Mr. Carnes was whether he has
12 any information that he can testify to today about any
13 changes in the net income to either Integrity or
14 Hayfield so that we have a picture of the full year.

15 So either everything was static, there was no
16 loans. There were no losses. There were no expenses,
17 and on December 31, the number remained \$4,381,043 in
18 the case of Hayfield's statement for that period, or
19 there was some activity and the number went either up or
20 down.

21 BY MS. WEINBERG:

22 Q. Does that clarify?

23 A. It does. I don't know the answer to the
24 question again. We DID ceasing lending in that --
25 December of 2012, so that would impact that negatively,

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6/17/2014

1 but that's all I can tell you.

2 Q. Do you know when in December? Was it the
3 beginning of the month?

4 A. It was the middle of the month somewhere.

5 Q. And just to -- for what its worth, let's look at
6 the tax return for Hayfield for 2012, and that's
7 INTEGRITY000365.

8 MS. BAKER: And is this --

9 MS. WEINBERG: That's about halfway through.

10 MS. BAKER: Is this supposed to be Exhibit 13?

11 MS. WEINBERG: Yes.

12 MS. BAKER: Again I would like the record to
13 reflect that this document that is Exhibit 13 is Bates
14 numbered as follows: 365, 387, 388.

15 MS. WEINBERG: No, no, no, I'm just --

16 MS. BAKER: 382.

17 MS. WEINBERG: Ms. Baker. Ms. Baker, I'm only
18 introducing this one page. The exhibit is one page. It
19 is 000365. That's it.

20 MS. BAKER: So the only -- then there's a
21 staple. Then it's stapled together in my version, so
22 that was my reasoning for understanding it was all one
23 document because it was provided to me stapled, so
24 Exhibit 13 then is the first page of a U.S. tax return
25 for Hayfield Investment Partners form 1065, 2012.

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1 That's the only part of this tax return that's being
2 introduced as page 1 of this Exhibit 13.

3 MS. WEINBERG: This entire exhibit is one page,
4 000365. The other pages, to the extent that we
5 introduce them, will be introduced as separate exhibits
6 with separate numbers.

7 MS. BAKER: So there shouldn't be a staple.

8 MS. WEINBERG: I apologize for the staple.
9 There are other staples in here which also do not
10 reflect a collective exhibit.

11 MS. BAKER: It's fair mistake on my part to
12 assume it does.

13 MS. WEINBERG: Okay.

14 (Whereupon, Exhibit Number 13 was marked for
15 identification.)

16 BY MS. WEINBERG:

17 Q. So let's go back to 365. Your attorney
18 recognizes it. Do you recognize this document?

19 A. Yes.

20 Q. What is it?

21 A. It's our Hayfield Investment Partners 2012 first
22 page of the tax return.

23 Q. And what does it reflect is the ordinary
24 business income for Hayfield for 2012?

25 A. \$4,242,975.

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1 Q. So then compared to the previous document where
2 we were looking at the net income of Hayfield, the
3 numbers dropped a little bit; is that correct?

4 A. Correct, and I think I gave an explanation as to
5 possibly why.

6 Q. Right.

7 MS. BAKER: I would like to caution ordinary
8 business income and net income are two different things.
9 They're not apples and apples. They're apples and
10 oranges.

11 MS. WEINBERG: Right.

12 THE WITNESS: There was a lot going on in 2012
13 with the EZCORP transaction, and there could have been
14 other moving parts that affected that. Again to my
15 attorney's point, net income and ordinary business
16 income on a tax return are not the same thing.

17 BY MS. WEINBERG:

18 Q. Okay. But you have testified that it's your
19 understanding that net income and profits are
20 essentially the same thing?

21 A. Again I'm not an accountant, and there are
22 definitions -- better definitions than I could give.
23 I've always thought of net income personally as profits,
24 but that doesn't mean that that's what everybody else
25 thinks.

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1 Q. When we asked your attorney for profit numbers
2 for the years 2011, '12 and '13, were you involved in
3 providing those numbers?

4 A. I was involved -- I did not -- I was involved.

5 Q. Okay.

6 A. I didn't do the -- I'm not -- I don't know how
7 to go figure it out, but I had to have somebody go do
8 that, and then I gave it to my attorney.

9 Q. Who else at Integrity was involved in producing
10 those numbers?

11 A. Well, these were all produced by our accounting
12 departments. At this point there is no employees of
13 Integrity or Hayfield or anywhere, so I have to go hire
14 people to come back to get into the system to produce
15 whatever you asked for, which is what I did in this
16 case.

17 Q. Right. In April, April 18 of this year, which
18 was after the document production that your company
19 provided to the Bureau, your attorney provided some
20 profit numbers to the Bureau. Are you aware of that?

21 A. I am aware.

22 Q. Okay. And you said that -- I'm sorry. I missed
23 this. Who did you say was involved in producing those
24 numbers?

25 A. I had to hire somebody to come in and get into

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1 the accounting system and try to produce what you're
2 asking for.

3 Q. Who was that?

4 A. Mary Anne Reece.

5 Q. And was anybody else involved in making that
6 calculation other than Mary Anne Reece?

7 A. I think it was just her.

8 Q. And did you oversee her in that?

9 A. I couldn't run QuickBooks to save my life, no.

10 Q. Did you give her any guidance about what
11 constituted profits?

12 A. No.

13 Q. Okay. Did she tell you what she thought profits
14 were or what constituted profits?

15 A. No.

16 Q. Can you explain why Integrity's net income
17 statement for 2011 that we've already looked at reflects
18 net income for ten months of the year of \$12,109,552,
19 and the profit number for that same period provided in
20 April of this year was \$10,509,347?

21 A. Again I didn't produce -- I wasn't in charge of
22 producing either one, so I would have to go back and
23 look line by line what the differences were. I don't
24 know.

25 Q. So was there a calculation that she provided you

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1 to come up with the number of \$10,509,347? Did she give
2 you some document that said, Here's the numbers, here's
3 my calculation?

4 A. I believe I forwarded the Email from my attorney
5 to her and said, Can you help me figure this out, and
6 she sent back answers.

7 Q. Was her answer just one number?

8 A. Yes.

9 Q. You might be able to guess the answer to this.
10 I'm going to go through this exercise for 2012 as well.
11 So the net income numbers that we looked at in document
12 Bates 000293, which was --

13 MS. BAKER: Exhibit 12.

14 BY MS. WEINBERG:

15 Q. -- Exhibit 12, reflected net income of
16 12,078,239 for Integrity, and the number that you
17 provided based on Mary Anne Reece's calculations, I
18 assume it was the same for 2012 -- that your 2012
19 figures were also based on Ms. Reece's calculations --
20 was \$8,775,481. Does that sound correct?

21 A. Yes.

22 Q. And can you explain why those numbers are
23 different?

24 MS. BAKER: Can I ask for a point of
25 clarification? So Ms. Weinberg, you're reading from an

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1 Email we sent to the CFPB with respect to a request for
2 profits for different years, and you're reading that
3 response, and that's a profit response for all of '12,
4 and then you're comparing that to the net income number
5 from January to October of '12? Is that the comparison
6 you're making?

7 MS. WEINBERG: January to October or January
8 through November. It changes as we've already gone
9 through.

10 MS. BAKER: Well, I'm just --

11 MS. WEINBERG: Yes, that is correct.

12 MS. BAKER: So it's Exhibit 12 that you're
13 comparing to that Email?

14 MS. WEINBERG: That's correct.

15 MS. BAKER: Okay. I just want to make sure I
16 understand what the comparisons are. Okay.

17 THE WITNESS: Repeat the question. Sorry.

18 MS. WEINBERG: Can you repeat the question?

19 (The record was read as requested.)

20 THE WITNESS: It is my belief -- I'm not
21 positive or 100 percent certain.

22 MS. BAKER: If you know the answer, answer it,
23 but do not guess.

24 THE WITNESS: I would be guessing.

25 BY MS. WEINBERG:

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1 Q. Can you give me your understanding of the
2 difference between the numbers?

3 A. Again I would be guessing. I think I know.

4 Q. It's okay to guess.

5 MS. BAKER: As long as the record reflects he's
6 guessing.

7 THE WITNESS: I don't know for certain at all.

8 BY MS. WEINBERG:

9 Q. What is your best understanding of the
10 difference?

11 A. My best guess, my best guess is that I said, Go
12 find the profits for Integrity, and so she probably
13 said, Okay, what -- and she looked at it and said, Okay,
14 well -- the closing numbers we gave you are less, right,
15 in the Email?

16 Q. Correct.

17 A. Correct. Right. So the difference would have
18 to be the fact that -- this is an educated guess, that
19 there's probably -- she looked at this and said, Okay,
20 there's no employee cost in this, there's no kind of
21 servicing cost in this number, and there aren't, there
22 isn't.

23 And so she probably said, Okay, what portion of
24 employees can we associate with Integrity, and she
25 probably took that out of it, so it's looking -- if you

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1 want to see a true profits number for Integrity, that's
2 my guess as to what she did.

3 Q. Okay. Going back to your testimony about an
4 hour ago, is it correct that you said Integrity had no
5 employees?

6 A. Yes.

7 Q. So did you ever in your accounting for
8 Integrity's net profits or loss attribute employee
9 costs?

10 A. No.

11 MS. BAKER: When you say your, do you mean
12 Integrity or do you mean Mr. Carnes? I'm not sure what
13 you're asking.

14 MS. WEINBERG: Integrity.

15 MS. BAKER: Okay.

16 THE WITNESS: Back to -- let's go back to number
17 9.

18 BY MS. WEINBERG:

19 Q. The favorite tab. The best tab.

20 A. The taxes again were done out of Hayfield
21 Investment Partners, LLC, shaded in the middle of tab 9.

22 Q. Yes.

23 A. All of these little boxes contributed to that.

24 Q. Right.

25 A. One of those boxes for instance is HIP

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1 Financial. HIP Financial, we've talked about, is the
2 company that employed everybody.

3 Q. Right.

4 A. It didn't have any income except what it charged
5 Integrity. It didn't even charge them directly, but it
6 just lost money every month because it was just paying
7 salaries out, right?

8 Q. Okay.

9 A. So if you add all that together, there was never
10 a reason to go back to Integrity and say, Okay,
11 Integrity, we're going to allot you this many employees
12 and so forth this much cost, because in reality we just
13 added it all together and put the taxes in as Hayfield.
14 So there was no -- to your point. There was no drilling
15 down to -- at an Integrity level to associate what true
16 costs of running the business were to Integrity, and
17 that's my guess is what she did. Does that make sense?

18 Q. Well, if we're looking at -- it partially makes
19 sense because if we look at -- just to pick one of these
20 at random 000251 which is Integrity's statement for
21 January through October of 2011.

22 MS. BAKER: Exhibit 9.

23 THE WITNESS: Hang on. 000251? Okay.

24 BY MS. WEINBERG:

25 Q. There are, it's a fairly -- it's an income

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1 statement that has one section that reflects revenue and
2 another section that reflects expenses.

3 A. Uh-huh.

4 Q. So other than employee expenses, which you would
5 normally find if this was a completely independent
6 company, are there other expenses that are not reflected
7 in this income statement or other sources of revenue
8 that are not reflected?

9 MS. BAKER: For Integrity Advance?

10 MS. WEINBERG: For Integrity.

11 MS. BAKER: Okay.

12 THE WITNESS: There are certainly no other
13 sources of revenue for Integrity Advance that are not
14 reflected. In terms of expenses, I would direct you to
15 000254, which is Hayfield's, and I would compare
16 expenses of -- on all those expense lines with all the
17 Integrity expense lines and figure out which ones are
18 missing, and those are ones -- obviously wages and
19 benefits is \$2,047,000, that's a big number, that's not
20 reflected in Integrity's, but it's in Hayfield's.

21 Now, those wages were doing work for all those
22 entities, some more than others, but there's a number of
23 things that are on here that aren't on here, so I
24 wouldn't just say it was the only place.

25 MS. BAKER: Can we take a five minute break?

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1 MS. WEINBERG: Okay.

2 MS. BAKER: Great. Thank you.

3 (Whereupon, a brief recess was taken.)

4 BY MS. WEINBERG:

5 Q. I think that we were -- when we went off the
6 record, we were discussing the income numbers that you
7 gave your attorney to give us in April of this year.

8 MS. BAKER: They were profit numbers.

9 MS. WEINBERG: Profit numbers, excuse me. Thank
10 you.

11 BY MS. WEINBERG:

12 Q. And you said that those had been calculated by
13 Mary Anne Reece; is that right?

14 A. Yes.

15 Q. Was she the person who produced the net income
16 statements that were submitted to the Delaware regulator
17 that we had been reviewing for the last half hour?

18 A. It would be a combination of she and Andrew
19 Peck. I don't know how they divided their duties and who did
20 what, but I know a lot goes into the income statement.
21 I don't know how they divided who did what.

22 Q. And was one of those the other's supervisor?

23 A. Yes.

24 Q. Which one?

25 A. Mary Anne worked for Andrew.

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1 Q. So let's just look at two other numbers from
2 2012, and we are going to look at the asset statements.
3 I'll direct your attention to INTEGRITY000297, which I
4 guess will be 14, and also let's make INTEGRITY313
5 Exhibit 15. I'm sorry, not 313, 297 to 294.

6 MS. BAKER: 294. I'm not sure I have 294. Is
7 that possible?

8 (Whereupon, Exhibit Numbers 14 and 15 were
9 marked for identification.)

10 BY MS. WEINBERG:

11 Q. So can you tell me what Exhibit 14, which is
12 Bates 297, is?

13 A. Hayfield Investment Partners consolidated
14 balance sheet as of October 31, 2012.

15 Q. And can you tell me what your understanding of
16 assets is, under the line that says total assets? What
17 does that reflect?

18 A. My understanding of an asset is something that
19 you own.

20 Q. So is that a way of valuing the worth of the
21 company, its financial worth?

22 A. I would think assets of a company would have a
23 lot to do with the value.

24 Q. Okay. And so for this period, January through
25 October 31, 2012, what were the assets of Hayfield?

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1 A. Well, we had cash and cash equivalents.

2 MS. BAKER: So we're on Exhibit 14?

3 THE WITNESS: Yes, cash and cash equivalents.

4 We had performing loans, allowance for bad debt, reserve
5 escrow and other. We had fixed assets. We had net and
6 tangible assets, under performing loans, receivables.

7 Those are assets.

8 BY MS. WEINBERG:

9 Q. The figure under total assets for that period
10 was what?

11 A. \$11,573,844.

12 Q. Okay. Let's compare that to Integrity's total
13 assets for that same period, and again that's January 31
14 through October 31, 2012. What was the figure for
15 Integrity for that period?

16 A. \$69,992,248.

17 Q. And again for the record, do you have any reason
18 to question the accuracy of these documents or do you
19 think that they are not accurate, excuse me?

20 A. I have never questioned it, but looking at this,
21 you would think the parent would have more equity than
22 -- or assets than the child company, and it doesn't, so
23 I'm not sure why -- I'm sure there's a reason, but again
24 I'm not an accountant, so I don't know why that is.

25 Q. And is it fair to say that the largest

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1 contributor to Integrity's assets were its receivables?

2 A. That would be fair to say.

3 Q. And that's 67 million and change?

4 A. That's correct.

5 MS. BAKER: That's Exhibit 15, right?

6 MS. WEINBERG: Exhibit 15, yes.

7 BY MS. WEINBERG:

8 Q. And would those receivables be the consumer
9 loans?

10 A. Yes.

11 Q. And looking at Hayfield's balance sheet
12 statement, which is Exhibit 14, is it fair to say to a
13 lesser extent that its largest asset was also performing
14 loans?

15 A. Its largest asset is performing loans, correct.

16 Q. And would those be consumer loans?

17 A. That's the only kinds of loans they make.

18 Q. And would those -- where were those receivables
19 coming from? Were those Integrity Advance or were those
20 loans from another company?

21 MS. BAKER: You're talking about performing
22 loans receivable?

23 THE WITNESS: So where there's 8,515,000 on
24 Hayfield?

25 BY MS. WEINBERG:

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1 Q. Yes.

2 A. That would be -- again you're looking at the
3 parent company here.

4 Q. Exactly.

5 A. They could have loans from Integrity and others.

6 Q. So that would be combined?

7 A. Yes. The parent company combines all of the
8 children entities.

9 Q. Okay. So finally, I think the moment we've been
10 waiting for. We're going to go through all the
11 children. So it would be easier if we focus on Exhibit
12 9.

13 MS. BAKER: Do you mean tab 9 or Exhibit 10?

14 MS. WEINBERG: Exhibit 10.

15 BY MS. WEINBERG:

16 Q. So is it fair to say that Integrity Advance was
17 the most profitable company among all of these children,
18 as you have referred to them, the companies that are
19 listed below the Hayfield Investment Partners logo or
20 gray designation in the middle of this sheet, Exhibit
21 10?

22 A. Define profitable, please.

23 Q. Did it make the most money in excess of its
24 expenses?

25 A. Yes.

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1 Q. Okay. And were there other companies -- for the
2 record -- let's sort of go through these. Looking at
3 all these companies on this Exhibit 10, were there any
4 other companies here that were profitable as defined
5 where there income is in excess of their expenses?

6 MS. BAKER: When you say other companies,
7 what are you -- can you actually, Ms. Weinberg, be
8 specific about what you're talking about here?

9 BY MS. WEINBERG:

10 Q. Okay, Mr. Carnes, which companies on this
11 document, document 10, produced revenue for Hayfield
12 Investment Partners?

13 A. Produced revenue would be Zipcash, Integrity,
14 Cornerstone Marketing, Go Cash UK, Go Cash -- well, I'm
15 just talking about -- we have some sub childs here too,
16 but the Cornerstone entities produced revenue. The Go
17 Cash entity produced revenue. The UK produced revenue,
18 and the Go Cash, LLC, US produced revenue.

19 Q. So we're talking about five different entities.
20 Is Cornerstone Processing, LLC, part of Cornerstone
21 Marketing?

22 A. Cornerstone Processing as you can see from the
23 chart is a child of Cornerstone Marketing.

24 Q. So when you're talking about the five, that
25 includes the children or the grandchildren I guess we're

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1 talking about here?

2 A. Those two together, correct.

3 Q. Cornerstone Processing would be a grandchild and
4 Go Cash Limited would be a grandchild, right?

5 A. Right.

6 Q. So was -- again sticking to the definition of
7 profits that I just offered where companies are bringing
8 in more money than expenses, can you agree that that's
9 an acceptable use of the term?

10 A. The profits is where revenue exceeds expenses.

11 Q. Yes.

12 A. I would say it's a generally accepted term.

13 Q. Excellent. We're making progress. So was
14 zipcash profitable?

15 A. Yes.

16 Q. Integrity Advance we have seen was. Was
17 Cornerstone Marketing profitable?

18 A. No.

19 Q. Was Go Cash UK profitable?

20 A. Timeframe? On a monthly basis, yearly basis,
21 ever, lifetime basis?

22 Q. Let's start -- let's take it for the period of
23 time that Integrity Advance operated. So let's start
24 with 2010.

25 A. I don't have the numbers in front of me. It was

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1 not a significantly profitable or -- there were more
2 months that it was profitable than not. I don't recall.

3 Q. Do you have a recollection of about 2011?

4 A. Again it wasn't a big factor so I don't recall.

5 Q. I'm sorry, what was --

6 A. It wasn't a very big factor. It wasn't a very
7 big company within the family of companies, and so I
8 don't recall the yearly performance specifically.

9 Q. Do you recall if it was profitable or
10 unprofitable?

11 A. Overall I believe from start to finish it was
12 unprofitable.

13 Q. What about Go Cash, LLC?

14 A. Again it made money, but we invested so much in
15 it from the start that it wasn't profitable on an income
16 basis, profits basis I guess I should say.

17 Q. Is there another way it was profitable?

18 A. In the -- that was the asset that was sold to
19 EZCORP, so that was profitable.

20 Q. So let's look at Go Cash UK. Let me go back to
21 tab 15, and we're going first into the 2011 tax return,
22 and that would be INTEGRITY000337.

23 MS. BAKER: INTEGRITY000337 is just a page.

24 It's a form 5471, Hayfield Investment Partners.

25 MS. WEINBERG: Right.

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1 MS. BAKER: This isn't a tax return.

2 MS. WEINBERG: No.

3 MS. BAKER: This is a page of a part a tax
4 return.

5 MS. WEINBERG: Same objection, Allyson. Same
6 response.

7 MS. BAKER: Well, I'm not even sure what we're
8 looking at to be frank with you.

9 BY MS. WEINBERG:

10 Q. Mr. Carnes, do you know what this is?

11 A. I don't know if I've ever seen this before. I'm
12 assuming this is some piece of Hayfield's tax return
13 that you've taken out and put in this book. Is that
14 correct?

15 Q. Correct, correct. Does it reflect which company
16 these numbers are related to?

17 A. I don't know what these numbers -- I don't know
18 what company these numbers relate to.

19 Q. In the upper left-hand corner of this document,
20 what company is identified?

21 A. Go Cash UK.

22 Q. And then it says schedule C income statement, so
23 does this reflect the income for Go Cash UK in 2011?

24 MS. BAKER: I'm just going to object to this
25 whole line of questions and say that again this is a

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1 page of a tax return, of a section of a tax return.
2 It's an incomplete document. I don't think anyone can
3 answer questions about this. If you don't have the
4 entire document, we can make copies for you.

5 BY MS. WEINBERG:

6 Q. Mr. Carnes, are you able to answer this
7 question?

8 A. I'm not able to answer the question, no. I
9 mean, this is a tax document, and I don't know what -- I
10 mean, there's --

11 Q. Would it help you to see --

12 A. It says \$200,000, I have no idea what that is,
13 and I don't know. Again a tax document to me is wholly
14 different from a profits document. They don't always
15 match, and I don't know enough about taxes to tell you
16 what this means.

17 Q. Would it make any difference if I showed you the
18 entire tax return?

19 A. No.

20 (Discussion off the record.)

21 (Whereupon, Exhibit Number 16 was marked for
22 identification.)

23 BY MS. WEINBERG:

24 Q. Let's go back to the org chart, Exhibit 10 to
25 sort of recap where we were. You said -- out of these

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1 five companies that you identified, is it your testimony
2 that Integrity Advance was the most profitable?

3 A. Yes.

4 Q. And it contributed most of the income to
5 Hayfield Investment Partners?

6 A. Yes.

7 Q. Is it your testimony that the only other company
8 that produced profits that were funneled to Hayfield was
9 Zipcash?

10 A. No.

11 Q. Please correct me.

12 A. Zipcash was again profitable. There were --
13 some of these other companies may or may not have been
14 profitable on a monthly basis. They may have had
15 monthly profits. They may have had monthly losses, but
16 at times there were other contributing entities to
17 Hayfield.

18 Q. Overall how would you compare the amount that
19 Integrity Advance contributed to Hayfield's profits to
20 these other companies, the five?

21 A. Well, again trying to figure out what you're
22 asking, if you look at Go Cash, with how we built Go
23 Cash and its profits of selling to EZCORP were
24 substantial, which were -- I don't know how that
25 compares to Integrity Advance and its profits, but they

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1 were both substantial.

2 Q. Let's put aside --

3 A. But the rest of -- the other companies were
4 not -- Cornerstone was significantly unprofitable, and
5 Go Cash UK was up and down depending on the month. Does
6 that answer your question?

7 Q. Partly. We're almost there.

8 A. Okay.

9 Q. Let's put aside the sale to EZCORP and just look
10 at the operation of the companies prior to that date.

11 A. Okay.

12 Q. Does that change how you would answer the
13 question?

14 A. Prior to that date --

15 MS. BAKER: What's the question?

16 MS. WEINBERG: The question is -- could you read
17 the question back?

18 (The record was read as follows:

19 "QUESTION: Overall how would you compare the
20 amount that Integrity Advance contributed to Hayfield's
21 profits to these other companies, the five?"

22 THE WITNESS: Do you mine defining overall?

23 BY MS. WEINBERG:

24 Q. Okay.

25 A. Time period?

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1 Q. 2010 through 2012. January 2010 through
2 December 2012.

3 A. That would be -- yes. The answer would be yes.

4 Q. Now, I think I need the question reread. The
5 question --

6 A. I feel like we're back to school. I think I was
7 asking for a comparison of --

8 MS. BAKER: I'm a little confused. What is the
9 pending question to which Mr. Carnes is answering?

10 MS. WEINBERG: That's what we're attempting to
11 clarify, Allyson. If you will give me a minute, we will
12 get there. Okay?

13 MS. BAKER: Okay.

14 BY MS. WEINBERG:

15 Q. Let's take 2010 and compare the profit -- the
16 amount in profits that each of the five companies
17 contributed, Integrity, Zipcash, Cornerstone, Go Cash UK
18 and Go Cash, LLC. Okay?

19 A. Yes.

20 Q. Which of those five companies contributed the
21 most in profits to Hayfield?

22 A. Integrity Advance.

23 Q. Is there a second company?

24 A. In 2010?

25 Q. In 2010.

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1 MS. BAKER: A second company that --

2 THE WITNESS: Do you want me to rank them?

3 BY MS. WEINBERG:

4 Q. Is there any other company that produced profits
5 overall for 2010 to Hayfield?

6 A. I don't have the numbers in front of me so I
7 can't tell you.

8 Q. But you've testified generally that Cornerstone
9 was not profitable?

10 A. Yes.

11 Q. Go Cash UK went up and down a little bit but was
12 generally not profitable, and Go Cash, LLC, was
13 generally not profitable for U.S., other than the sale
14 to EZCORP which we're going to put aside for the
15 purposes of this discussion.

16 A. I didn't say it was not profitable. Again I
17 don't have the numbers in front of me. It wasn't
18 significantly profitable.

19 Q. Okay. So is it fair to say in 2010 the most
20 significant portion of Hayfield's profits or revenue
21 came from Integrity?

22 MS. BAKER: Can you define significant?

23 MS. WEINBERG: I'm using the word that he just
24 used.

25 THE WITNESS: Okay. We also used profits and

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1 revenues. Those are drastically different concepts.

2 BY MS. WEINBERG:

3 Q. Let's stick with profits.

4 A. Yes.

5 Q. Significant, does that mean more than 50
6 percent?

7 A. Yes.

8 Q. More than 75 percent?

9 A. Yes.

10 Q. Okay. Using those same definitions and
11 parameters, is it fair to say that the most significant
12 portion of Hayfield's profits from 2011 came from
13 Integrity?

14 A. Yes.

15 Q. 2012, same question?

16 A. Yes.

17 Q. Okay. All right. Let's move on to something
18 much simpler.

19 MS. BAKER: Before you -- I don't know what time
20 you guys want to break for lunch.

21 MS. WEINBERG: We just took a break so maybe
22 12:15, 12:30, does that work for you?

23 THE WITNESS: I don't care. Whenever they want
24 to eat.

25 BY MS. WEINBERG:

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1 Q. This is taking --

2 MS. BAKER: Do you have a preference in terms of
3 time?

4 MS. WEINBERG: I think that these next questions
5 are going to go much faster I think, so I would like to
6 see if we can get through some chunk here.

7 MS. BAKER: That's fine, if that's good for you.

8 THE WITNESS: I don't want to be here at nine
9 tonight so I would like to get through it.

10 MS. BAKER: Okay.

11 BY MS. WEINBERG:

12 Q. Did you receive a salary from Integrity?

13 A. Integrity had no employees and paid no salaries.

14 Q. Did you receive a salary from Hayfield?

15 A. Hayfield had -- Hayfield Investment Partners?

16 Q. Yes.

17 A. -- had no employees and paid no salaries.

18 Q. Did you receive a salary from Willowbrook?

19 A. So looking at this now, I think it would be a
20 good time to make a correction just as you asked that
21 question. There is a company -- there are two companies
22 that are not represented here and not for any reason,
23 just didn't get put on. One is called Willowbrook
24 Partners, and one is called Willowbrook Managers, and
25 Willowbrook Partners is the manager of the Hayfield

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1 Investment Partners, LLC.

2 Q. I'm sorry, just hold on one second. Could you
3 repeat that, please?

4 A. Willowbrook Partners is the manager of Hayfield
5 Investment Partners, LLC.

6 Q. Okay.

7 A. Willowbrook Management is a wholly owned
8 subsidiaries of Willowbrook Partners, and that employed
9 Mr. Foster and myself, and we received salaries from
10 that. For managing Hayfield, Willowbrook Partners took
11 a monthly management fee. In addition to employing
12 us --

13 Q. Could I stop you for one second? Is there any
14 relationship between Willowbrook Partners of which
15 Willowbrook Managers was a part, if I understand your
16 testimony?

17 A. Correct.

18 Q. And Willowbrook Marketing?

19 A. No. Well, they're both -- I own 100 percent of
20 Willowbrook Management. I own 98 and a half percent of
21 Willowbrook Partners, and Mr. Foster owns 1 and a half
22 percent of Willowbrook Partners.

23 Q. I'm sorry. Could you say that again, please?

24 A. I own 98 and a half percent of Willowbrook
25 Partners. Mr. Foster owns 1 and a half percent of

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1 Willowbrook Partners. Willowbrook Management paid
2 salaries to Mr. Foster and myself. Willowbrook Partners
3 took a fee, monthly fee, management fee for managing
4 Hayfield out of Hayfield and then paid other expenses as
5 well in addition to our salaries. I couldn't tell you
6 exactly what they all were though.

7 Q. I thought it was confusing before.

8 A. Sorry for the omission.

9 Q. That's okay. Any other corrections you want to
10 make to this chart?

11 A. No.

12 Q. Just to clarify, was Willowbrook Partners in
13 existence for the entire time of Integrity Advance, or
14 what was the period of time that Willowbrook Partners
15 existed?

16 A. I'm not sure, for the majority of the time. I
17 don't recall the exact date they were each created.

18 Q. So let's go back to salary. Do I understand
19 your testimony to be that you received a salary from
20 Willowbrook Management?

21 A. That's correct.

22 Q. And what was your salary in 2010 from
23 Willowbrook?

24 A. I can't recall exactly. I think it was
25 \$250,000.

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1 Q. What about 2011?

2 A. I believe it was the same for all years.

3 Q. Okay. And were there -- what were your -- what
4 were you paid for in your salary to Willowbrook
5 Management, other than any activities that you conducted
6 in relation to Integrity Advance?

7 MS. BAKER: Can you clarify that question? I'm
8 not sure what you mean by paid for.

9 BY MS. WEINBERG:

10 Q. Did your salary from Willowbrook Managers
11 reflect any of your oversight responsibilities for
12 Integrity?

13 A. Yes.

14 Q. Did your salary from Willowbrook Management
15 reflect compensation for duties outside of your
16 oversight of Integrity?

17 A. Yes.

18 Q. What were those duties?

19 A. All these other boxes.

20 Q. Okay. So you were -- you had an oversight role
21 for Zipcash?

22 A. Yes.

23 Q. And what was that?

24 A. Again just being the CEO in essence of Hayfield,
25 I had oversaw each one of the companies.

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1 Q. And was your role -- what was your title at
2 Zipcash?

3 A. Zipcash didn't have any employees.

4 Q. So the only title that you had was as a partner
5 of Hayfield; is that --

6 A. Yes, that's correct. Actually Zipcash may have
7 had employees a long time ago. I don't remember, before
8 Hayfield was created.

9 Q. And were your management responsibilities for
10 these five companies or for the four companies any
11 different from the management responsibilities that
12 you've described at Integrity?

13 A. Generally oversaw operations and was the lead
14 decision maker and so typically CEO type duties for all
15 boxes.

16 Q. So hopefully we can do this without looking at
17 the documents, but the Hayfield tax returns, and we can
18 look at this if necessary, reflect salaries of
19 \$3,275,478 in 2012. Can you tell me who those salaries
20 were paid to?

21 A. Hayfield tax returns had salaries of \$3 million.

22 Q. In 2012.

23 A. So those would be -- again, I'm not an
24 accountant nor did I prepare that.

25 Q. Right.

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1 A. My best guess is that they are likely the
2 salaries of all of the other -- the people within HIP
3 Financial of which I was not. What year, '10?

4 Q. It would be the same for all the years. I gave
5 you the number for 2012.

6 A. Okay. So it would also include salaries from
7 Cornerstone Marketing because we separated employees
8 there at some point. I don't know if it was '10, '11
9 or '12, but at some point they were on their own in
10 terms of employees.

11 Q. How many employees did they have?

12 MS. BAKER: At what time?

13 BY MS. WEINBERG:

14 Q. Let's start with 2010.

15 A. I don't recall exactly. I would say less than
16 ten for each year. I don't remember exactly what it
17 was.

18 Q. Less than 10 from 2010 to 2012, is that
19 accurate?

20 A. Yes, yes.

21 Q. Other than the salary that you received from
22 Willowbrook Managers, did you receive any other salaries
23 related to your management of Integrity for the period
24 of 2010 to 2012?

25 A. No.

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100

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1 Q. All right. So let's shift then to partnership
2 income. Let's start about 2011, and I would like to
3 refer you to a document which is part of but not a
4 complete document of the 2011 tax return for Hayfield.

5 A. We're back to tab 15?

6 Q. We're back to tab 15, and looking at the 2011
7 tax return and the document that is Bates stamped
8 000319.

9 MS. BAKER: Again I just want to register the
10 same statement, that this is a page of a tax return.
11 It's not a complete document, and it relies on other
12 pages of that same return for it to actually have some
13 meaning and relevance. That's my statement.

14 MS. WEINBERG: Can we agree that that will be
15 your standing objection to all these documents?

16 MS. BAKER: No, because it may not be an
17 objection I have for every document.

18 MS. WEINBERG: But all of the documents that are
19 related to the tax returns.

20 MS. BAKER: I don't know. I can't -- I don't
21 want to make that statement standard because it may not
22 be an objection I have to every document, but I will
23 make that statement here. This is a page of the tax
24 return.

25 BY MS. WEINBERG:

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101

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1 Q. Mr. Carnes, once again I will offer you the
2 complete tax return if that will help you in answering
3 these questions. Would you like to see it?

4 A. Why don't you ask the question, and if I feel
5 like I need it, I'll tell you.

6 (Whereupon, Exhibit Number 101 was marked for
7 identification.)

8 THE WITNESS: We're on page 319 here? Am I
9 correct?

10 BY MS. WEINBERG:

11 Q. So can you tell me what this is, if you
12 recognize it?

13 A. Well, it says it's a 2011 schedule K-1 partner's
14 share of income, deductions and credits.

15 Q. And for what company is that?

16 A. Hayfield Investment Partners.

17 Q. This is for a particular partner in box F.

18 A. Willowbrook Marketing.

19 Q. Excuse me?

20 A. Willowbrook Marketing, LLC.

21 Q. And is it fair to say that you were the hundred
22 percent owner of Willowbrook Marketing?

23 A. That's correct.

24 Q. So then does this reflect distributions to you
25 in 2011 from Willowbrook?

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102

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1 A. When you say "this," what is this?

2 Q. This document, the schedule K-1. Let's look at
3 box 19 where it says distributions.

4 A. Yes.

5 Q. And what is the number there?

6 A. \$4,208,821.

7 Q. Is that the amount you received from Willowbrook
8 in 2011?

9 MS. BAKER: You mean Mr. Carnes or Integrity?
10 You've used "you" differently.

11 MS. WEINBERG: Mr. Carnes through Willowbrook
12 Marketing, LLC.

13 THE WITNESS: It was my understanding that
14 Willowbrook Marketing in 2011 received distributions
15 totaling \$4.28 million.

16 BY MS. WEINBERG:

17 Q. And you were the hundred percent owner of
18 Willowbrook Marketing?

19 A. I was.

20 Q. So would you have received those distributions?

21 A. It depends on -- I can't remember what
22 Willowbrook Marketing did with the money at the time,
23 whether it invested in other businesses. I know it
24 invested in other businesses and was doing other things,
25 so I don't know that I would have personally pocketed

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103

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6/17/2014

1 the money if that's what you mean.

2 Q. Okay. And in box 1 of this same document, it
3 reflects the ordinary business income of 2011 for
4 Willowbrook; is that accurate?

5 A. That's what it says, yes.

6 Q. What is the number there?

7 A. \$2,867,934.

8 Q. And do you think that's an accurate statement of
9 what the business income for Willowbrook was for 2011?

10 MS. BAKER: That's the ordinary business income
11 that this number reflects?

12 THE WITNESS: It's the ordinary business income
13 from Willowbrook Managers associated with its investment
14 in Hayfield Investment Partners.

15 BY MS. WEINBERG:

16 Q. Did Willowbrook marketing have business income
17 from entities other than Hayfield?

18 MS. BAKER: Business income or ordinary business
19 income? There's actually a difference.

20 BY MS. WEINBERG:

21 Q. Did it have any income from any entity outside
22 the Hayfield Investment Partners?

23 A. I can't recall.

24 Q. Or its companies?

25 A. I can't recall.

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104

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1 Q. You said that some of the distributions might
2 have been channelled into investments in some of the
3 other companies; is that accurate?

4 MS. BAKER: Some of the distributions --

5 THE WITNESS: I don't recall exactly what
6 Willowbrook marketing did with all its money that it
7 got. It clearly distributed to it. I don't know in
8 2011 or whenever what it did with the money. I know it
9 did a lot of other things. I can't tell you exactly
10 what they all were.

11 BY MS. WEINBERG:

12 Q. Was there anybody other than you personally who
13 would have received the funds? There were distributions
14 of a little over \$4 million?

15 A. Right.

16 Q. And you were the 100 percent owner of
17 Willowbrook Marketing, correct?

18 A. Correct.

19 Q. So is it accurate to say that you would have
20 been in control of the decisions about any distributions
21 of this \$4 million?

22 A. Yes.

23 Q. And so if you could clarify your testimony then
24 about what you think happened with this distribution.

25 MS. BAKER: And this distribution for the record

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105

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1 is again box 19 A of this incomplete document, schedule
2 K-1? Is that the distribution you're talking about?

3 MS. WEINBERG: That's the distribution.

4 THE WITNESS: I don't recall what Willowbrook
5 Marketing did with all the money.

6 BY MS. WEINBERG:

7 Q. Okay.

8 A. I don't have that information in front of me.

9 MS. BAKER: If I could ask you a question. To
10 the extent you have additional questions about these tax
11 returns, you have the lunch hour, would you mind
12 providing the entire tax return in connection with the
13 questions.

14 MS. WEINBERG: I have asked Mr. Carnes
15 repeatedly if he wants it, and he has said that he has
16 no need for it yet. If he decides he needs it, I'm
17 happy to do so.

18 MS. BAKER: Well, I'm asking you as a matter of
19 courtesy if you would do that, and if you need
20 assistance in getting them copied, we can take care of
21 that for you here, but I think it would actually be a
22 clearer record if you provided a copy of the entire tax
23 return for '11 and/or '12 to the extent you have
24 additional questions after the lunch hour.

25 BY MS. WEINBERG:

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106

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1 Q. So let's move on to the 2012 tax return and look
2 at 000402. Can you identify that document?

3 MS. BAKER: Same statement here. This is part
4 of a tax return.

5 (Whereupon, Exhibit Number 18 was marked for
6 identification.)

7 MS. WEINBERG: We understand.

8 MS. BAKER: This is an incomplete document.
9 You're asking my witness to testify about something that
10 is incomplete.

11 BY MS. WEINBERG:

12 Q. Mr. Carnes, do you need to see the 2012 tax
13 return in its entirety in order to answer some questions
14 about this single page?

15 A. If I do, I'll let you know and we can get it.

16 Q. Okay. Thank you.

17 MS. BAKER: Is this the page? It's
18 INTEGRITY402, that's the only page for Exhibit 18?

19 MS. WEINBERG: That is correct.

20 BY MS. WEINBERG:

21 Q. Can you tell me what this document IS?

22 A. It's a schedule K-1 for 2012 for partner's share
23 of income, deductions and credits for Hayfield
24 Investment Partners, LLC.

25 Q. And this document reflects distributions of

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107

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6/17/2014

1 \$2,229,498; is that correct?

2 A. That's correct.

3 Q. And do you know what happened with the
4 distributions, those distributions in 2012?

5 A. Again I don't have the information in front of
6 me.

7 Q. Okay. Did Integrity generate partnership income
8 to any other entities other than Hayfield? Was its
9 income attributed to any entities other than Hayfield?

10 MS. BAKER: I'm not sure I understand what
11 you're asking. Partnership income is actually a legal
12 term. What is the question?

13 THE WITNESS: I don't understand either. Sorry.

14 BY MS. WEINBERG:

15 Q. Was Integrity wholly owned by Hayfield?

16 A. Yes.

17 Q. Did you have any ownership or management
18 interest in any of the affiliates of Integrity Advance?

19 A. I don't understand what you mean by affiliates.

20 Q. Any of the companies that it did business with?

21 A. You mean like a vendor?

22 Q. Like a vendor.

23 A. No.

24 Q. And for the record, if we could look at what was
25 produced as attachment 5.

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108

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6/17/2014

1 A. Only in my capacity as Willowbrook Marketing.

2 Q. Okay. So let's just get that? The next thing
3 we're going to cover is the sale to EZCORP.

4 MS. BAKER: Do you think it's time to break for
5 lunch?

6 THE WITNESS: We can go another five minutes,
7 can't we?

8 MS. BAKER: Well, if we start a line of
9 questions, it might be hard for them to find a good time
10 to break.

11 MS. WEINBERG: We can go off the record.

12 (Whereupon, at 12:24 p.m., a lunch recess was
13 taken.)

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109

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1 AFTERNOON SESSION

2 (1:01 p.m.)

3 BY MS. WEINBERG:

4 Q. I promised when we broke that we would talk
5 about the sale to EZCORP, so let's do that.

6 A. Right.

7 Q. How did that sale come about?

8 A. We had decided to -- one of the early
9 determinations we made in 2008 was to build a platform
10 that we thought would interest one of the big publicly
11 traded companies.

12 Q. Can you define "we"?

13 A. The company.

14 Q. Is "we" Hayfield? Who was it?

15 A. The company, yeah, "we." Hayfield, yeah, call
16 it. The managers of Hayfield.

17 Q. And who are we talking about here?

18 A. The senior level of Hayfield was Edward Foster,
19 myself, Eric Bunting, and then input from Stephens.

20 Q. So Ed Foster?

21 A. Eric Bunting.

22 Q. Bunting.

23 A. Myself and Stephens, so that was the beginning
24 of Go Cash. It was also the beginning of Cornerstone.
25 It was the beginning of Go Cash UK. These were all

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110

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1 things we thought we could build and sell to someone who
2 didn't have an online presence, and we built them and
3 started marketing ourselves, and we had a couple of
4 different interested companies, and we ended ultimately
5 -- ended up going with EZCORP.

6 Q. So is it your testimony that when you started
7 all of these companies, it was your intention to sell
8 them to --

9 A. We started them because we wanted to build them,
10 and we knew that we would have a -- we knew we would
11 have a likely buyer in some of the big companies because
12 none of them except for CashAmerica had online presence
13 of any significance.

14 Q. And so did you approach EZCORP? Did EZCORP
15 approach you? What happened?

16 A. We had hired an investment banker to sell the
17 company, and he approached a number of people, including
18 EZCORP.

19 Q. And when was this?

20 A. When did he approach EZCORP?

21 Q. Yeah.

22 A. June of -- I don't know exactly, but somewhere
23 in the middle of 2012. I don't recall a date.

24 Q. And who was involved in the actual negotiations
25 with EZCORP?

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111

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1 A. On their side we were dealing with --

2 Q. Just from your side.

3 A. Oh, my side. On our side, it was again the four
4 people I mentioned prior.

5 Q. So Mr. Bunting, Mr. Foster, you and Stephens?

6 A. Their representative, yes.

7 Q. A Stephens rep?

8 A. Right.

9 Q. So Hayfield was selling all of the companies
10 that we have discussed then that appeared in that org
11 chart; is that correct?

12 A. No. Hayfield was -- well, we were trying to
13 sell pieces of companies or companies that we thought
14 would have an interest with the publicly traded company
15 or bigger company I would say.

16 Q. And for the purposes of the sale to EZCORP,
17 Integrity was divided into different segments; is
18 that -- so we can say they bought some parts of
19 Integrity and did not buy some parts of Integrity. Is
20 that fair to say?

21 A. They only bought one piece of Integrity. They
22 actually made a lot of statements about how they didn't
23 want Integrity at all except for a customer list, which
24 was used in a small number of states.

25 Q. Okay. Well, they purchased the intellectual

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112

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1 property of Integrity Advance; is that right?

2 A. Yes, in the document that's what it says.

3 Q. And they purchased the customer lists, the
4 current and future customers of Integrity; is that
5 right?

6 A. Yes.

7 Q. And they did not -- I'm just going over the
8 overview, and then we'll dig down into each of these a
9 little bit more, but I just want to see if we have a
10 playing field in agreement. They did not purchase the
11 property and assets; is that right?

12 A. Yes.

13 Q. And they didn't purchase the loans, the consumer
14 loans themselves; is that right?

15 A. No.

16 Q. Were there any performing loans at the time of
17 the sale?

18 A. Yes.

19 MS. BAKER: Can I ask you a question about no
20 property or assets, what do you mean by assets?

21 MS. WEINBERG: As defined in the asset purchase
22 agreement between Integrity and -- I mean, between
23 Hayfield and EZCORP.

24 MS. BAKER: That's the frame of reference?

25 MS. WEINBERG: Yes.

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IH-000112

113

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1 MS. BAKER: Okay.

2 BY MS. WEINBERG:

3 Q. And then just to get the broad parameters, and
4 you just referred to this earlier, they didn't assume
5 any of the liabilities of Integrity; is that right?

6 A. Correct.

7 Q. Have I missed anything else in terms of the
8 broad strokes of what the agreement called for in terms
9 of Integrity?

10 A. Not to my recollection.

11 Q. How did Hayfield -- so they purchased the
12 intellectual property and customer lists, right? That's
13 what we've just agreed to, customer list, current and
14 future?

15 A. Well, there weren't any future customers, and
16 there really wasn't any intellectual property. They
17 just really got -- they bootstrapped it in the document
18 to say that, but they really just got a customer list
19 from Integrity.

20 Q. So how did Hayfield value the customer list for
21 the purposes of the sale?

22 A. We didn't.

23 Q. How did EZCORP value the customer list for the
24 purposes of the sale?

25 A. No idea.

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114

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1 Q. How did you value the other portions of the
2 company, of the other companies that you were -- that
3 were part of the package of the sale to EZCORP? In
4 other words, was there an evaluation done that Go Cash,
5 LLC is worth X dollars, Zipcash is worth Y dollars?

6 A. No.

7 Q. There was no analysis done of any of the
8 components of the sale?

9 A. To my knowledge the analysis was at a much
10 higher level.

11 Q. And what type of analysis was there?

12 A. Analysis of just kind of what they were buying
13 in terms of -- for instance one of the main components
14 was a software. They had a third party come in,
15 consulting company come in and do -- had four guys
16 on-site for a week looking at the software, what it did,
17 how much lines of code, what the value of it was, and
18 they came back and said it was worth \$12 million.

19 Q. And was this the software that was Integrity
20 using?

21 A. No.

22 Q. What software was it?

23 A. A software we built inhouse for Go Cash.

24 Q. And so was this software only being used by Go
25 Cash US?

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1 A. Yes, yes.

2 Q. So what was the main thing of value in the sale
3 to EZCORP?

4 A. We sold them an experienced team, software
5 capabilities, underwriting that were -- that the plan
6 was to take that and develop it into a bigger business
7 and dovetail with their own business. They had no
8 underwriting -- I mean, they had no online presence, and
9 they had no way of making online loans, and this gave
10 them an online avenue that their customers were
11 demanding.

12 They were losing customers to other online
13 because lenders because they didn't have a presence and
14 made its customer service easier where the customers
15 wouldn't have to go to the store to make a payment.
16 They could schedule it online, things like that.

17 Q. So then the price tag for the sale, is it your
18 testimony that the final number was a result of sort of
19 higher level negotiations rather than negotiations for
20 component parts so that you said -- you said, I want X
21 dollars; they said, We'll offer you Y dollars for the
22 entire deal rather than saying, We'll give you Z dollars
23 for the software and A dollars for --

24 A. It wasn't a laundry list. It was a package.

25 Q. So you were negotiating only for the total

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1 number?

2 A. Yes.

3 Q. Okay. And you've already testified there was no
4 intellectual property of Integrity; is that right?

5 A. I don't know if you would classify customer
6 lists as intellectual property or not, but if you did,
7 that would be the only intellectual property that I'm
8 aware of that was transferred.

9 Q. No, that's a separate question. The customer
10 lists that you sold, can you describe them?

11 A. It was one list, and I don't know the size of
12 it, and the utility to EZCORP would have only been in
13 the states that they were operating versus Integrity
14 obviously operated in states that EZ is not operating,
15 so it would only be that subset of states that they
16 would have an interest in.

17 Q. I would like to get some sort of sense of the
18 number. Would you say it was more than 10,000 names?

19 A. I couldn't tell you off the top of my head what
20 the total list is.

21 Q. Do you have any idea ball park?

22 A. I have no idea.

23 Q. Okay. And is there a document that reflects
24 what that list was comprised of?

25 A. No, not to my knowledge.

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IH-000116

117

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1 Q. So if I -- where is that information contained?

2 A. On the server somewhere.

3 Q. On the server?

4 A. Yes.

5 Q. And who generated the list for EZCORP?

6 A. It wasn't generated per se. What do you mean by
7 generated I guess?

8 Q. Well, at some point I'm assuming, and please
9 correct me if I'm wrong, that somebody from Integrity
10 handed over to someone from EZCORP a document, either
11 electronic or in paper form that said, Here are all of
12 our customers.

13 A. No.

14 Q. No? What happened?

15 A. So again they had no online presence.

16 Q. Right.

17 A. They had nothing.

18 Q. Right.

19 A. So we had all this stuff set up and working on
20 servers, on our servers that they just took over the
21 servers.

22 Q. So any existing customers and their information
23 that were on the servers then just became the property
24 of EZCORP; is that what you're saying?

25 A. EZCORP was very specific in the assets they

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118

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1 wanted to buy, and the assets they wanted to buy was --
2 we made sure that the servers that we transferred to
3 them had all of the assets they wanted to buy. Does
4 that answer you?

5 Q. No. They purchased the customer lists. What
6 did that mean? They purchased customer lists of current
7 and prospective customers, so I'm just trying to
8 understand what that was?

9 A. Integrity had no prospective customers, first of
10 all. But the customer list, it was -- like I said, it
11 was on a server being used, and they just took that
12 over. I mean, it was -- I don't know how much -- how
13 else I can explain it.

14 Q. Let me see if I understand it, and please
15 correct me if I'm wrong. Maybe it's the post lunch
16 haze. Let's say Jane Doe borrowed money from you and
17 was listed in your -- on your server as a customer,
18 right?

19 A. Uh-huh.

20 Q. EZCORP in essence purchases the server. Jane
21 Doe's information is on the server; is that right?

22 A. Who is Jane Doe a customer of?

23 Q. She's a customer. Of Integrity?

24 A. Integrity Advance?

25 Q. Right.

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1 A. So Jane Doe's information would be on a server;
2 yes, and I'm actually trying to figure out where you're
3 going to I can explain.

4 Q. I'm trying to figure out what they got, if
5 there's some way you can explain since -- the customer
6 data information related to prospective and past
7 customers was part of what they purchased. I'm just
8 trying to figure out what that is.

9 A. So it's a list of consumers that take out a loan
10 at EZCORP -- I'm sorry, at Integrity Advance and had an
11 outcome, either good or bad, paid it back or gone bad,
12 or I guess that's it. And those outcomes were at the
13 time of the sale also being used by Go Cash, and they
14 bought Go Cash, all of the servers and hardware and all
15 the stuff in Go Cash, so it was in essence actually
16 already there, so nothing had to be transferred at the
17 time of the sale.

18 Q. So the information that they obtained included
19 information that Jane Doe lives at 123 Main Street at
20 Anywhere U.S.A., and this is her Email address or some
21 other --

22 A. Or she has a loan paid back or whatever the case
23 may be.

24 Q. So that was hard. So they got -- for what
25 period of time is it -- they got this information on

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120

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1 customers. Was it all customers from the inception of
2 Integrity until its closing, or was it for a sub period
3 of that?

4 A. My understanding is it would have been all
5 customers.

6 Q. From the first customer who was John Doe up to
7 Jane Doe who was your last customer, and did it also
8 include information that you would have received from
9 lead generators but not yet turned those leads into
10 customers?

11 A. Like give me an example.

12 Q. Skipping to another part of the outline, but is
13 it the case that a lot of Integrity's customers came
14 through lead generators?

15 A. Yes.

16 Q. Correct? And the lead generator gave you some
17 information about a potential customer so that you could
18 follow-up and try to turn that person into a customer;
19 is that right?

20 A. Correct.

21 Q. So at the time of the sale, did you have
22 information that you had obtained from lead generators
23 about potential customers who you hadn't yet had an
24 opportunity to talk to to turn into actual customers?

25 A. No, because at the time of the sale, there were

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121

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1 just such different portfolios. We had stopped lending
2 in Integrity -- I can't remember when we stopped buying
3 leads in Integrity. I don't know if we stopped buying
4 leads in Integrity before we stopped lending. I can't
5 remember the actual dates of that, but then when the
6 switch over to Go Cash -- or I'm sorry, Easy Money, it
7 was just a complete switch over and we weren't trying
8 to -- because you couldn't convert an Integrity customer
9 into an Easy Money customer because they didn't have the
10 right documents. It would have -- it just wouldn't have
11 worked very well.

12 Q. But you could call them up and say, Jane, would
13 you like to take out a payday loan with Easy Money?

14 A. You could, but I don't think we did any of that
15 to my knowledge.

16 Q. And for the record is Easy Money EZCORP's online
17 payday lender?

18 A. It is today.

19 Q. It is today. And is it your testimony -- well,
20 what did Easy Money do with the database of consumers
21 who had taken out loans from Integrity in the past?

22 A. So if you took a -- the database of Integrity
23 and you took, okay, let's say Texas is over here, a
24 slice from Texas, so you take the Texas people, and if
25 there were people who had paid a loan back to Integrity,

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122

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.1 they got offers from Easy Money.

2 Q. So Easy Money would solicit the people who were
3 successful in terms of finding successful paying loans
4 for customers of Integrity?

5 A. That was what the purpose of the customer list.

6 Q. Great. Did it also work that if somebody was
7 let's call them an unsuccessful customer, meaning
8 somebody who did not pull in full an Integrity loan,
9 that Easy Money would use that list to not offer that
10 person a loan?

11 A. I believe so.

12 Q. Okay. You testified previously that the
13 property and assets were excluded from the sale to
14 EZCORP. Did Integrity have any property that it could
15 have sold?

16 A. I -- let me revise that prior testimony. I
17 think there was some property that was sold in terms of
18 there -- I just don't know. I can't remember. We
19 leased servers. We may have owned some servers. There
20 may have -- furniture, there was some office furniture
21 maybe. There was some -- there wasn't anything
22 significant in terms of value of real property, but I
23 think there was some, desktops, laptops.

24 Q. But the servers, you said you're not sure if
25 Hayfield owned them?

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123

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1 A. I think we were leasing them to be honest, but I
2 think we may have owned a couple. I just don't
3 remember. But whatever we had they -- in terms of,
4 whatever we had that was primarily with Go Cash, they
5 ended up buying. Integrity didn't have that. What we
6 used for Integrity was third party or they didn't get it
7 in terms of real property.

8 Q. All right. And similarly you testified that the
9 assets were excluded from the sale, assets being
10 Integrity --

11 A. Assets being the loans?

12 Q. The term assets as used in the asset purchase
13 agreement between Hayfield and EZCORP.

14 MS. BAKER: Do you have an understanding of what
15 that definition is?

16 THE WITNESS: Is there a definition in the
17 agreement? I don't know.

18 BY MS. WEINBERG:

19 Q. Assets related to the business of Integrity
20 Advance.

21 A. The only asset to my knowledge that they got was
22 the customer list.

23 Q. Okay.

24 A. From Integrity.

25 Q. Were there any other assets that Integrity

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124

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1 Advance had at the time of the sale?

2 A. I believe there may have been, but they didn't
3 get included in the sale.

4 MS. BAKER: Do we have a common definition of
5 assets?

6 BY MS. WEINBERG:

7 Q. What would they have been?

8 A. I would --

9 Q. I'm asking him.

10 MS. BAKER: Could we just for the record -- I
11 just want to have a record. What do you mean by asset?

12 MS. WEINBERG: That's what I'm just asking him.
13 I'm asking him what --

14 THE WITNESS: We may have had a server or two, I
15 don't know. I don't know if we owned them or leased
16 them. We may have had -- there may have been a software
17 license or two. I don't know. I don't remember.
18 Nothing was significant that didn't -- from Integrity.
19 I mean, they didn't even get that stuff. They didn't
20 want it. All they wanted from Integrity was a customer
21 list, period, the end. There was nothing else that went
22 through to EZCORP.

23 BY MS. WEINBERG:

24 Q. Did Integrity have any funds in its bank
25 accounts when it ceased operations in December of '12?

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125

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1 A. Yes.

2 Q. How much?

3 A. I have no idea.

4 Q. Ball park?

5 A. No idea.

6 Q. More than 10 million?

7 A. No.

8 Q. More than 5 million?

9 A. No, no. It was probably more than a few --
10 200,000 or 300,000, but I can't tell you.

11 Q. Okay. So let's review the consideration for the
12 sale, which is actually a little bit complicated, as you
13 know. So let's deal with the first layer of
14 consideration. The actual sale price was \$50,775,906.
15 Does that sound correct?

16 MS. BAKER: I just want to -- can you define
17 consideration? Consideration is a legal term, and if
18 Mr. Carnes has an understanding of it, you have an
19 understanding of it, let's make sure that understanding
20 is the same before we continue with this line of
21 questions.

22 So I don't know if you want to offer a
23 definition or ask him what the definition is, but I
24 would like us to have that clear understanding.

25 BY MS. WEINBERG:

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126

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1 Q. The asset purchase agreement denominated some
2 transfer of funds between EZCORP and Hayfield as
3 consideration; is that correct?

4 A. That's correct.

5 Q. And did you understand what it meant in that
6 context, what it meant by consideration?

7 A. I did understand that it was we were being paid
8 to sell them particular assets that they wanted to buy.

9 Q. That's what consideration is.

10 A. To me.

11 Q. Thank you. I think we're on the same page here.
12 So the first layer of consideration was this \$50,775,000
13 price that I mentioned; is that right?

14 A. I don't understand the 775,000 part of it. That
15 was complicated somehow with -- in the asset purchase
16 agreement. I don't know how they got to that. To me it
17 was a \$50 million number.

18 Q. So I will just refer you to part of the 2012 tax
19 return that is one page, and it is not the entire tax
20 return. It is simply one page of the tax return that
21 I'm going to ask you to look at, and again for the
22 record, if you would like to look at the document, I
23 would be happy to give it to you. This would now be
24 Exhibit 19, are we up to, and it's INTEGRITY000388.

25 MS. BAKER: Do you have a copy of the entire tax

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IH-000126

127

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1 return?

2 MS. WEINBERG: Yes.

3 MS. BAKER: Could you mark that as an exhibit
4 and use that? I think that it would be easier for
5 purposes of these questions. I've said that repeatedly.
6 Again I just want to say this for the record.

7 You're asking a witness to testify about
8 isolated pieces of a tax return. Tax return by its very
9 definition is comprised of numerous parts that together
10 form ordinary income, et cetera.

11 MS. WEINBERG: Ms. Baker, can you make this
12 objection? And again, can you just sort of -- can we
13 just shortcut this because it's taking a lot of time for
14 you to make this objection again and again. Could you
15 just say -- and I can also say and remind you that the
16 rules for this hearing say that the only time you are
17 allowed to object is when there's a privileged
18 communication that you're trying to protect or you're
19 trying to protect some sort of Constitutional right.

20 MS. BAKER: I'm not objecting. I'm not
21 objecting for the record. I'm asking a question out of
22 a point of courtesy so we have a clear record. I'm not
23 objecting to your question in form. That's not my
24 objection. I'm asking for record purposes if you could
25 provide the witness with a copy of the tax return.

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1 I don't need a copy. I'm comfortable if you're
2 comfortable. I can just glance over, but if you have a
3 copy, if you could provide that document --

4 MS. WEINBERG: I keep asking him if he wants it,
5 and he keeps saying it's not necessary.

6 MS. BAKER: Well, I'm asking if you could
7 provide it, if you have it available, and if you don't
8 have it available, that's okay too. Please let's just
9 establish that, but I think it would be easier for you
10 and for this record to have that document.

11 (Whereupon, Exhibit Number 19 was marked for
12 identification.)

13 BY MS. WEINBERG:

14 Q. Mr. Carnes, do you need to see the full tax
15 return?

16 A. Again I'm fine right out, but if you ask a
17 question that I need it, then you can get it.

18 Q. Okay. Great. So we're looking at Exhibit 19,
19 and it appears to reflect consideration for or a sales
20 price of \$50,775,906 for the sale to EZCORP; is that
21 correct?

22 A. That's what it appears to reflect, yes.

23 Q. And how would those funds have been distributed
24 at Hayfield? Would they have been distributed in
25 accordance with the ownership percentages that are

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129

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1 reflected on the org chart that we have looked at?

2 MS. BAKER: What fund are you talking about?

3 MS. WEINBERG: \$50,775,906.

4 THE WITNESS: Well, like I said, I don't
5 understand all these asset classes. I don't understand
6 this tax return. I don't understand where they came up
7 with the \$775,000. The deal that I was -- you're making
8 a leap from an asset purchase agreement to a tax return.

9 BY MS. WEINBERG:

10 Q. Okay. Let's break it down.

11 A. So if we just stick to the asset purchase
12 agreement, I could give you better answers because I am
13 just not a tax accountant. I don't know what --

14 Q. I think we will be better off if we stay away
15 from the tax return.

16 A. Stick with the asset purchase agreement.

17 Q. So if we just talk about the asset purchase
18 agreement, we may be able to move on this. So is it
19 accurate to say that the first type of payment for the
20 sale was \$27 million in stock?

21 A. Yes.

22 Q. And is it accurate to say that under the asset
23 purchase agreement, Hayfield could either take the stock
24 or take the cash value of the stock?

25 A. No.

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130

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1 Q. Explain then how that --

2 A. It was their option, cash or stock, and they
3 choose stock.

4 Q. It was their option?

5 A. Their option, not ours.

6 Q. And so do you know what the value of the stock
7 was? Was that \$27 million?

8 A. Yes. And the asset purchase agreement has a
9 formula that calculates how many shares and how you do
10 that.

11 Q. And how was that 27 million distributed within
12 Hayfield?

13 A. Well, it was --

14 Q. Should we go back to the org chart?

15 A. Sure. What tab is that?

16 Q. Sure. It's tab 9, Exhibit 10.

17 A. So this won't -- this will be somewhat helpful,
18 but again we're getting into the accounting, and this is
19 not my forte obviously.

20 Q. Just tell me your understanding.

21 A. The understanding is is that there's a \$50
22 million deal. Out of that deal, we got \$27 million of
23 stock that was transferred to us in December. We were
24 considered some kind of -- we were in a SEC
25 classification of some sort that could only sell stock

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131

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1 during quiet periods, and we couldn't actually make the
2 decisions ourselves. We had to do some kind of 10b5-1
3 plan or I can't remember what it's called but some kind
4 of stock plan that somebody else executes for you where
5 you don't have anything to do with it.

6 So some -- we had a firm that had -- they just
7 took and everyday we're selling X number of shares for a
8 period of time, so we were not involved in the decision,
9 and the time they were selling it was during the quiet
10 period or it was during the allowable -- the tradeable
11 period I guess because I'm not -- again I don't know
12 securities law well enough to know, but there's a quiet
13 period.

14 You can't trade in that period. You can't trade
15 being whatever kind of classification we were, and we
16 had to wait until that period commenced, and once it
17 commenced, we had to have someone else do the
18 transactions for us that was at arms length from us.

19 Q. And so what period of time would sales through
20 the third party would EZCORP stock have taken place?

21 A. I can't remember exactly but call it late first
22 quarter.

23 Q. Of 2013?

24 A. Of 2013.

25 Q. So did you sell all of the stocks?

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132

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1 A. No.

2 Q. What portion of the stocks were sold?

3 A. We sold all but 300,000 shares which were mine.

4 Q. And can you give me some idea of what percentage
5 of the total value the 300,000 shares represented? So
6 you got --

7 A. Well, it was 27 million is about \$20 stock, so
8 1.3 million shares.

9 Q. And then the money that was generated from the
10 shares of those stocks, the 1.3 million shares, let's
11 put your 300,000 shares aside for a minute, what
12 happened to that?

13 A. Of the million shares you're asking?

14 Q. Oh, okay. Because it was 1.3 million total.

15 A. Right.

16 Q. And the 300,000 you kept.

17 A. Yes.

18 Q. So 1 million were sold?

19 A. Approximately.

20 Q. For these purposes, that's fine.

21 A. Okay.

22 Q. So what happened with that?

23 A. Well, that money got distributed to -- every
24 employee at the time of the sale got a bonus. The three
25 phantom shareholders got their percentage of that. The

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IH-000132

133

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1 investment banker that did the deal got a fee, call it a
2 million dollars. Attorneys got 300,000 or \$400,000.
3 There was a waterfall that Stephens was recouping
4 capital on, and after everybody sort of got caught up,
5 there was this split that went down that was equivalent
6 to what you see right here on the top of page -- or tab
7 9.

8 Q. What amount did you obtain from that sale, that
9 portion of the sale?

10 MS. BAKER: I want to make sure we're clear.

11 You mean Mr. Carnes?

12 MS. WEINBERG: Mr. Carnes.

13 THE WITNESS: Willowbrook Marketing, which I
14 own, obtained the 300,000 shares plus an amount of cash,
15 and I can't tell you exactly what the cash was.

16 BY MS. WEINBERG:

17 Q. Let's try to attach some ball park to it.

18 A. Somewhat more than 10 million.

19 Q. So 10 million and 300,000; is that correct, for
20 this first part?

21 A. No, that's wrong. Scratch that. It's not 10
22 million.

23 Q. Is it the 14 million?

24 A. No. It's more like 7 million.

25 MS. BAKER: If I could just caution you --

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134

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1 THE WITNESS: I can't remember. Okay. So I
2 can't answer it. I can't remember the answer. It's not
3 10. It's less than 10. It's somewhere between 5 and --
4 it's more than 5. How about that?

5 BY MS. WEINBERG:

6 Q. Exhibit 18, which we've already looked at, which
7 is INTEGRITY000402 --

8 A. Okay. 408? Where is it?

9 Q. It's behind tab 15, and it's the schedule K-1,
10 2012 is what's at the top, and it's Bates numbered 402,
11 INTEG402.

12 A. 402?

13 Q. Yes.

14 A. Got it.

15 Q. Box 9 reflects a net long-term capital gain of
16 \$14,267,572. Do you know what that is?

17 MS. BAKER: Capital gain is a legal term.

18 MS. WEINBERG: I'm asking him if he knows what
19 that is.

20 MS. BAKER: I just want to note for the
21 record --

22 MS. WEINBERG: I'm just asking.

23 THE WITNESS: I'm not an accountant again. I
24 have no idea how they got to that number. I'm sure
25 there's some kind of basis involved with this

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135

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1 calculation. I'm sure that this had something to do
2 with the 50 million. I don't know how they got to that.

3 BY MS. WEINBERG:

4 Q. Is this related to the sale to EZCORP?

5 A. Yes.

6 Q. Okay. And is it related to the stocks that we
7 were just talking about, that --

8 A. There is some relation there. I don't know what
9 it is though.

10 Q. But however they came to this number, it
11 reflects -- it's the reflection of that \$27 million of
12 stocks and part of the sale between Hayfield and EZCORP?

13 A. I don't know if it's 50 or 50.7. I don't know
14 where it came from because it's not listed as a
15 distribution, so it's just a --

16 Q. All right. That was the first part of the sale,
17 the stock sale?

18 A. Right.

19 Q. There were supplemental payments that were
20 called for as well; is that right?

21 A. Correct.

22 Q. And what were those?

23 A. November of 2013 there was a payment for 11
24 million, and in November of 2014 there's scheduled to be
25 a payment for 6 million, and in November of 2015,

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136

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1 there's going to be another payment of 6 million. Those
2 are what they call the guarantee payments.

3 Q. Did you, Mr. Carnes, receive any of that first
4 payment of 11 million?

5 A. I did.

6 Q. What did you receive?

7 A. I can't remember exactly. It's something
8 like -- ball park would be 5 million.

9 Q. And would that be reflective of your share of
10 the Hayfield partnerships through Willowbrook?

11 A. Yes.

12 Q. And are you anticipating receiving that same
13 percentage, whatever it is that Willowbrook has of
14 Hayfield, on the subsequent payments of 6 million each?

15 A. Well, there are costs that come out of that
16 before I get paid, but, yes. You take costs of
17 attorneys, and there's still investment banking costs
18 out, and there's still other things that come out first
19 before I get -- before the company will -- Willowbrook
20 Marketing and Stephens and Bunting and Foster
21 participate.

22 Q. And do you have any idea the sense -- do you
23 have any sense of the magnitude of those costs, how much
24 gets taken off?

25 A. I don't.

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137

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1 Q. And then the final I believe type of payment
2 that was due under the asset purchase agreement had to
3 do with a net income payment; is that right?

4 A. That's correct.

5 Q. Can you describe what that is?

6 A. It's a section of the document that talks about
7 the supplemental payment, which is what I believe you're
8 describing or supplemental payments which is what I
9 believe you're describing. There's a definition in the
10 documents of what the documents say net income is, and I
11 would refer you to the documents if you wanted that
12 definition, but it's very specific about what is
13 included and what isn't included.

14 And there's a multiple net income on a trailing
15 12 months times I believe it's 6 minus what's been paid
16 or guaranteed already.

17 Q. Okay. And is it accurate to say that the
18 document calls for four of these contingent payments?

19 MS. BAKER: What document are you talking about?

20 MS. WEINBERG: The asset purchase agreement.

21 THE WITNESS: It's my understanding it calls for
22 four of those payments.

23 BY MS. WEINBERG:

24 Q. Have any of those payments been made?

25 A. No.

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