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1 IN THE MATTER OF AN ARBITRATION  
2 BETWEEN  
3 LANCE ARMSTRONG and §  
4 TAILWIND SPORTS, INC. §  
5 §  
6 Claimants, § ARBITRATION BEFORE THE  
7 § HONORABLE RICHARD  
8 VS. § FAULKNER, RICHARD  
9 § CHERNICK, AND TED LYON  
10 SCA PROMOTIONS, INC. and §  
11 HAMMAN INSURANCE SERVICES, §  
12 Inc. §  
13 Respondents.  
14  
15 ARBITRATION  
16 TRANSCRIPT OF PROCEEDINGS  
17 SEPTEMBER 26, 2005  
18 VOLUME 1  
19 CONFIDENTIAL  
20  
21 On 26th day of September, 2005, at 10:59  
22 a.m., the arbitration in the above proceedings came on  
23 before Arbitrators Richard Faulkner, Richard Chernick  
24 and Ted Lyon, at the offices of JAMS, 8401 North  
25 Central Expressway, Suite 610, in the City of Dallas,  
County of Dallas, State of Texas.

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1 APPEARANCES  
2 FOR THE CLAIMANTS:  
3 Mr. Tim Herman  
4 Mr. Sean Breen  
5 Mr. Lawrence Temple  
6 HERMAN HOWRY & BREEN  
7 1900 Pearl Street  
8 Austin, Texas 78705-5408  
9  
10 FOR THE RESPONDENTS:  
11 Mr. Jeffrey M. Tillotson, P.C.  
12 Mr. Cody L. Towns  
13 \* LYNN TILLOTSON & PINKER, L.L.P.  
14 Suite 1400  
15 750 North St. Paul Street  
16 Dallas, Texas 75201  
17  
18 ALSO PRESENT:  
19 Ms. Mariela Evora  
20 Mr. Chris Compton  
21 Mr. John Bandy  
22 Mr. Jason Barnes  
23  
24  
25

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<p style="text-align: right;">Page 5</p> <p>1 PROCEEDINGS</p> <p>2 MR. TILLOTSON: Okay. The parties have</p> <p>3 designated deposition testimony from Kelly Price,</p> <p>4 Terry Michelitch and Frank Lorenzo. I haven't seen</p> <p>5 Mr. Herman's designations. To be fair, I didn't send</p> <p>6 him mine until last night either, so I haven't had an</p> <p>7 opportunity to object or lodge objections.</p> <p>8 It's a little different in a bench trial</p> <p>9 as it is in the testimony that I'm going to be asking</p> <p>10 you to not consider. So Mr. Herman and I have</p> <p>11 generally agreed that -- that we could just argue</p> <p>12 objections or to the weight of the evidence, and he</p> <p>13 can argue to these three depositions so that we don't</p> <p>14 have to take time to clean them up of objections and</p> <p>15 whatnot.</p> <p>16 And that's fine with me because as I</p> <p>17 recall, most of the objections would have been for</p> <p>18 things like leading or -- or, you know, assumes facts</p> <p>19 not in evidence or whatnot. There is one issue that</p> <p>20 I -- that I realized when I went back and looked at it</p> <p>21 is that these witnesses were deposed for both this</p> <p>22 hearing and the hearing in December. And so there</p> <p>23 were some questions regarding other issues besides</p> <p>24 just the pure fact of whether or not this is the</p> <p>25 business of insurance.</p>	<p style="text-align: right;">Page 7</p> <p>1 MR. TILLOTSON: Okay. I just wanted to</p> <p>2 highlight --</p> <p>3 ARBITRATOR FAULKNER: We'll only --</p> <p>4 THE REPORTER: Wait, wait, wait. One at</p> <p>5 a time.</p> <p>6 ARBITRATOR CHERNICK: My suggestion was</p> <p>7 that the Panel assure the parties that we will</p> <p>8 consider only relevant evidence and specifically</p> <p>9 evidence relevant to the bifurcated issue which is</p> <p>10 before us today.</p> <p>11 MR. TILLOTSON: Thank you.</p> <p>12 ARBITRATOR CHERNICK: And obviously</p> <p>13 you're free to argue in whatever form orally or in</p> <p>14 posttrial submissions that certain evidence that</p> <p>15 was -- that was offered is not germane to that issue.</p> <p>16 MR. TILLOTSON: Thank you.</p> <p>17 ARBITRATOR FAULKNER: Now, are we ready,</p> <p>18 gentlemen?</p> <p>19 MR. HERMAN: Yes, we are. We call Mark</p> <p>20 Gorski.</p> <p>21 ARBITRATOR FAULKNER: Okay.</p> <p>22 (Pause.)</p> <p>23 ARBITRATOR FAULKNER: If you'll get</p> <p>24 comfortable in that chair to the extent you can with</p> <p>25 the three of us being able to see you.</p>
<p style="text-align: right;">Page 6</p> <p>1 And I haven't looked at your designations</p> <p>2 to see whether you excluded testimony that wouldn't</p> <p>3 relate to that or you concluded that. I tried not to</p> <p>4 designate anything other than on the key issues of</p> <p>5 insurance. The dealings, I've already said later on</p> <p>6 in '04 with regard to -- to the underlying contract</p> <p>7 and all of that, I've designated, and I haven't seen</p> <p>8 your designation. I wanted to either -- post sort of</p> <p>9 a global objection. I don't know what to do about it</p> <p>10 but maybe ask if you designate such testimony.</p> <p>11 MR. HERMAN: I can't recall specifically,</p> <p>12 but to the extent that there may be testimony or</p> <p>13 evidence regarding claims handling, the -- the issue</p> <p>14 of -- the issue of investigating or adjusting a claim</p> <p>15 or loss is a -- specifically engaging in the business</p> <p>16 of insurance, so there may be some of that in there</p> <p>17 but -- but not to any significant degree.</p> <p>18 But I think the simplest way to handle</p> <p>19 that is -- I mean, in a bench trial setting is that --</p> <p>20 like we agreed to do, is just me move to strike it or</p> <p>21 move to object to it, you know, in writing. You know,</p> <p>22 it's the same -- I think I've got the same situation</p> <p>23 with you.</p> <p>24 ARBITRATOR CHERNICK: How about if the</p> <p>25 Panel promises to only consider relevant evidence?</p>	<p style="text-align: right;">Page 8</p> <p>1 THE WITNESS: Okay.</p> <p>2 ARBITRATOR FAULKNER: Okay.</p> <p>3 MR. HERMAN: Are you okay back there?</p> <p>4 MARK GORSKI,</p> <p>5 having been first duly sworn, testified as follows:</p> <p>6 ARBITRATOR FAULKNER: Proceed.</p> <p>7 DIRECT EXAMINATION</p> <p>8 BY MR. HERMAN:</p> <p>9 Q. Give us your name and business address,</p> <p>10 please, sir.</p> <p>11 A. Business address?</p> <p>12 Q. Yeah.</p> <p>13 A. Mark Gorski. I'm executive vice president</p> <p>14 with Shoop Company, which is an advertising agency in</p> <p>15 St. Louis. We're at 401 Pine Street, St. Louis,</p> <p>16 Missouri 63102.</p> <p>17 Q. Were you at one time the chief executive</p> <p>18 officer of Tailwind Sports?</p> <p>19 A. Yes.</p> <p>20 Q. In connection with the Armstrong -- Lance</p> <p>21 Armstrong bonuses of 2002, 2003, and 2004, tell the</p> <p>22 Panel what you asked for, what you got, and what --</p> <p>23 how you -- what you thought you were buying and</p> <p>24 receiving.</p> <p>25 MR. TILLOTSON: I'll object as compound.</p>

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1 MR. HERMAN: Well --  
 2 MR. TILLOTSON: We were --  
 3 ARBITRATOR FAULKNER: Wait a second. Do  
 4 you guys want --  
 5 MR. HERMAN: No, no. You do it.  
 6 ARBITRATOR FAULKNER: All right.  
 7 Gentlemen, lawyer testimony, compound questions, et  
 8 cetera, this Panel is real experienced, and the Rules  
 9 of Evidence don't strictly apply us to anyway, so to  
 10 make this more efficient, from this point forward, if  
 11 you hear an objection, don't say anything until you  
 12 hear, you know, what we decide to do with the  
 13 objection. And from that point forward, we'll rule  
 14 and tell you what do.  
 15 But by and large, fellows, the Rules of  
 16 Evidence don't apply, so you might want to save a  
 17 whole lot of the objections. It will go much faster.  
 18 We can and will decide what is relevant and only take  
 19 that, and so that may even help y'all a little further  
 20 on some of your objections.  
 21 MR. TILLOTSON: With that guidance, I'll  
 22 withdraw my objection.  
 23 ARBITRATOR FAULKNER: Okay. Thank you.  
 24 All right, sir. Please answer.  
 25 A. We were trying to secure an insurance policy.

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1 We were working with insurance broker ESIX  
 2 Entertainment Insurance -- Entertainment Sports  
 3 Insurance Experts. We regarded it all along as  
 4 insurance. We treated it within the company,  
 5 Tailwind, as insurance, spoke -- spoke about it with  
 6 ESIX our -- our brokers who we were relying on their  
 7 expertise as insurance, and I think clearly in my mind  
 8 it was -- it was an insurance policy.  
 9 Q. (By Mr. Herman) Did you ever refer to the SCA  
 10 agreement as anything other than insurance or an  
 11 insurance policy?  
 12 A. No.  
 13 Q. Tell us a little bit about your career, Mr.  
 14 Gorski. You were a cyclist yourself?  
 15 A. I competed for 17 years, from 1974 to 1989.  
 16 I was on the 1980 Olympic Team which boycotted. I won  
 17 a gold medal in 1984 Olympics in Los Angeles. I was  
 18 an alternate on the 1988 team.  
 19 I served -- well, retired in 1989. After  
 20 four years, I was a vice president with Wells Fargo  
 21 Bank in Los Angeles in the trust and investment  
 22 division. And then for two years following that, in  
 23 1993, I was director of corporate development for USA  
 24 Cycling, which is the governing body for cycling here  
 25 in the United States, licenses all the 50,000 plus

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1 racers here in America.  
 2 I had known Tom Weitzel, who's an  
 3 investment banker in San Francisco, for a number of  
 4 years. I approached him in 1995 or we -- we met in  
 5 1995. He expressed a lot of interest in trying to  
 6 sort of rebuild his -- his team and try and improve it  
 7 and -- and drive it to a higher caliber to get to the  
 8 Tour de France, et cetera.  
 9 Q. Let me stop you right -- let me just  
 10 interrupt you there for a moment. What -- what would  
 11 be required in order for a team to compete in the Tour  
 12 de France bicycle competition? What would you have to  
 13 do?  
 14 A. Well, we needed sponsorship dollars. We  
 15 needed staff. We needed -- and probably most  
 16 importantly, we needed some world class riders.  
 17 There's a -- there was a qualification system to  
 18 qualify to the Tour de France, and we needed riders  
 19 that had "X" number of UCI points, which was sort  
 20 of -- it was a point system that ranked the riders.  
 21 We needed "X" number of riders with  
 22 points to get us into the qualifications system and  
 23 ultimately qualify to participate in the tour.  
 24 Q. What is UCI -- what is UCI, and what does it  
 25 have to do with the Tour de France?

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1 A. Well, the Union Cyclist International is the  
 2 worldwide governing body in the sport of cycling.  
 3 It's based in Switzerland, and it is a member  
 4 organization of the International Olympic Committee.  
 5 It governs cycling. USA Cycling is a  
 6 member body at the -- of the UCI, and it's the  
 7 sanctioning body for the Tour de France.  
 8 Q. What does it -- does the UCI certify the  
 9 official winners of UCI events, including the Tour de  
 10 France?  
 11 A. Yes.  
 12 Q. And is the UCI the sole body or entity that  
 13 can determine the official winner and can disqualify  
 14 riders and that sort of thing?  
 15 A. Yes.  
 16 Q. Okay. Now, you were -- you were beginning to  
 17 describe the USA Cycling. Tell us what your role was  
 18 with USA Cycling.  
 19 A. With USA Cycling --  
 20 Q. Yes.  
 21 A. -- or with this -- with Tom Weitzel and  
 22 Montgomery Sports.  
 23 Q. Well, the -- with USA Cycling, what  
 24 specifically did you do for --  
 25 A. I was head of corporate sponsorship.

<p style="text-align: right;">Page 13</p> <p>1 Q. All right. And then you mentioned the '95 -- 2 you --</p> <p>3 A. I happened to run into Tom Weitzel. I had --</p> <p>4 Q. Who is Tom Weitzel?</p> <p>5 A. He's an investment banker in San Francisco, 6 was the founder and one of the partners of Montgomery 7 Securities, which was a -- had been an investment bank 8 in San Francisco since 1971.</p> <p>9 Q. Okay.</p> <p>10 A. He had -- he had had supported an amateur 11 cycling team prior to that, and I sort of had a chance 12 meeting with Tom, and he said, jeez, you know, I'd 13 really like to, you know, elevate our team, take it to 14 another level.</p> <p>15 And I said, you know, this may be a -- I 16 said to myself, this may be a great challenge. And so 17 I sent him a proposal of how I could do this, help 18 build the team, to develop sponsorship and help 19 identify the right staff members, the right team 20 members, attract top talent and so on. And he 21 accepted my proposal, and in May of 1995, I set out to 22 do that.</p> <p>23 Q. And what -- describe how long you -- well, 24 how long were you with Montgomery?</p> <p>25 A. Well, Montgomery Sports, I -- I began there</p>	<p style="text-align: right;">Page 15</p> <p>1 and create its own entity Tailwind Sports, and we 2 actually -- the other divisions were spun out to those 3 partners who came in with these divisions.</p> <p>4 Q. Okay. So Tailwind Sports was engaged 5 exclusively in the professional cycling?</p> <p>6 A. We -- we owned and managed the US Postal 7 Service pro cycling team. We were a half -- we -- we 8 owned 50 percent in the San Francisco Grand Prix 9 cycling event. We were also -- we had a consulting 10 agreement with USA Cycling to assist in their 11 foundation.</p> <p>12 Q. Tell us when Mr. Armstrong -- Lance Armstrong 13 became associated with either Distant Firs -- well, 14 with Montgomery or Disson Furst and -- or -- or 15 Tailwind. Just kind of give us the -- how that -- how 16 that happened and how it progressed.</p> <p>17 A. Well, I'll cut to the -- to the relevant 18 points here. Lance announced in September of 1997 19 after he was diagnosed in October of 1996 -- with the 20 chemotherapy and the brain surgeries and so on, and 21 then went through a period of time where he wasn't 22 sure what he wanted to do.</p> <p>23 And in September of 1997, he announced 24 that he wanted to make a comeback, and so Tom and I 25 began discussions with Lance in 1997.</p>
<p style="text-align: right;">Page 14</p> <p>1 in May of 1995. In May of 1999, Montgomery merged 2 into an entity called Disson Furst &amp; Partners.</p> <p>3 Q. Okay. And what was your role there at Disson 4 Furst?</p> <p>5 A. I was partner and managing director of the 6 cycling division.</p> <p>7 Q. And how long -- how long did -- I know Disson 8 Furst somehow became Tailwind. Describe to the Panel 9 how that happened.</p> <p>10 A. Well, Disson Furst &amp; Partners, we wanted to 11 diversify our business outside of -- to a broader 12 range of sports. We were just -- Montgomery Sports 13 owned the cycling team, the US Postal Service team. 14 We wanted to expand into other areas of sport, and we 15 had -- the -- the -- the company that we merged with 16 had a figure skating division, a motor racing 17 division, a corporate consulting division, and action 18 sports and music division. And then we brought this 19 cycling division into it.</p> <p>20 We -- it --</p> <p>21 Q. And that was Tailwind?</p> <p>22 A. That was Disson Furst &amp; Partners.</p> <p>23 Q. Okay.</p> <p>24 A. It didn't really work as well as everyone had 25 hoped, and we decided to spin out the cycling division</p>	<p style="text-align: right;">Page 16</p> <p>1 Q. And did he ultimately sign with Montgomery 2 Sports?</p> <p>3 A. Yes.</p> <p>4 Q. And how long did Mr. Armstrong compete under 5 the Montgomery Sports banner?</p> <p>6 A. Well, 1998 and up to May of 1999 when the 7 entity became Disson Furst &amp; Partners, so a year and a 8 half essentially.</p> <p>9 Q. Did you recruit and sign other professional 10 cyclists to be on the team at the same time 11 Mr. Armstrong was?</p> <p>12 A. Yes. We -- at the time we signed Lance, we 13 had 18 or 20 team members. We had other top cyclists, 14 international cyclists and American cyclists.</p> <p>15 Q. Did you have any arrangement with 16 Mr. Armstrong for the payment of bonuses depending 17 upon individual achievements for the 1998 season?</p> <p>18 A. Yes, we did. That was a key part of the 19 negotiation with Bill Stapleton, Lance's agent, and 20 with Lance. In recruiting him to the team in the fall 21 of '97 for the '98 year was providing the kind of 22 incentives, the kind of motivation that -- that we 23 knew and that Lance expressed a lot of -- you know, a 24 real strong desire.</p> <p>25 He wanted -- he wanted that kind of</p>

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1 motivation. He's -- you know, he's a -- he is an  
 2 athlete, a person that responds to that, and so we put  
 3 some performance incentives in place, in addition to a  
 4 base salary for the 1998 season. We --  
 5 Q. Tell us how that turned out. Did you-all end  
 6 up paying bonuses to Mr. Armstrong in '98?  
 7 A. We did. We ended up paying bonuses of over  
 8 \$1 million.  
 9 Q. How were those funded? Who paid them?  
 10 A. Well, in that case, Montgomery Sports ended  
 11 up being acquired by -- Montgomery Sports and  
 12 Montgomery Securities up being acquired by Nations  
 13 Bank. Nation's Bank ultimately, as the owner of the  
 14 team at that point -- this is pre-Disson Furst &  
 15 Partners -- ultimately was responsible for that bonus.  
 16 We were very fortunate, I guess, because  
 17 we had a -- a large corporation that had ownership for  
 18 a very short period of time. But had we been a small  
 19 entity that was not owned by Nations Bank, it would  
 20 have put us out of business.  
 21 Q. Well, did you then have in place bonuses for  
 22 the 1999 or thereafter for Mr. Armstrong?  
 23 A. Yes, we did.  
 24 Q. And what sort of a -- how long was your  
 25 contract with Mr. Armstrong? How long -- when was the

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1 expiration date of the contract with Mr. Armstrong,  
 2 the first one?  
 3 A. The first one was -- and forgive me because  
 4 there was a lot that went on in terms of -- we had --  
 5 we had contracts in place, but, you know, there  
 6 were -- at times there were renegotiations or  
 7 extensions added on, but we had an agreement through  
 8 the end of 1999, I believe, and we always really  
 9 essentially had to match these up with our agreements  
 10 with the US Postal Service.  
 11 Because without the US Postal Service  
 12 sponsorship revenue, there was no way that we could  
 13 pay salaries to Lance or anybody else. So we couldn't  
 14 extend obligations of the company to Lance or anybody  
 15 else beyond the time where we had contractual  
 16 agreements. So I -- I think at that time we had -- we  
 17 had -- this contract ran through the end of 1999. It  
 18 was pre-Tour, and so that -- that's where we were.  
 19 Q. Did -- you left Tailwind in 2003?  
 20 A. Yes.  
 21 Q. At any time while you were there, did  
 22 Tailwind make money?  
 23 A. No.  
 24 Q. Tell us what sort of net income Tailwind or  
 25 net loss Tailwind suffered during time you were there.

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1 A. Well, it ranged from -- and remember, part of  
 2 this time -- if you're talking specifically about  
 3 Tailwind --  
 4 Q. Well, no. I'm talking about Montgomery --  
 5 A. All -- all the years.  
 6 Q. Yes. All the years.  
 7 A. They lost money every year ranging from 3 or  
 8 \$400,000 to -- I think our worst would be 1.1 million.  
 9 It was in the neighborhood of \$1 million.  
 10 Q. Other than during that period when Nations  
 11 Bank had an interest in the team, who funded those  
 12 losses?  
 13 A. Various sources. We had -- for a number of  
 14 years -- well, for many years, we had lines of credit  
 15 with First Republic Bank in San Francisco. We -- I  
 16 spent a lot of time in front of commercial bankers.  
 17 We were -- you know, we were managing our cash flow  
 18 through lines of credit, in essence.  
 19 Q. All right. In 1999, tell us what sort of  
 20 bonus structure there was for Mr. Armstrong in '99,  
 21 and if you had, you know, an agreement for longer than  
 22 that, describe what the bonus structure was for him  
 23 generally.  
 24 A. Well, generally, you know, we had a base  
 25 salary in place. I'm going to guess at that time I

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1 think it was around \$400,000. And we put -- we  
 2 negotiated -- we were negotiating in June of 1999  
 3 prior to the Tour for the bonus of a million dollars  
 4 to win Tour de France and -- and at the same time  
 5 trying to secure insurance for that obviously because  
 6 we didn't have the ability to pay that -- that kind of  
 7 liability as a company.  
 8 Q. How did you go about finding insurance?  
 9 A. Well, we had -- I believe it was through  
 10 Allen Furst actually. He knew the people at ESIX, had  
 11 worked with ESIX as insurance brokers for years and  
 12 knew of them as -- as experts in the sports insurance  
 13 area and recommended that I call ESIX.  
 14 And Terry Michelitch at ESIX was the guy  
 15 that I ended up developing a business relationship  
 16 with, and Terry worked with us to help secure  
 17 insurance to underwrite the liabilities that the  
 18 company wanted to be able to offer to Lance to keep  
 19 Lance on the team and to keep him under contract with  
 20 our team.  
 21 Q. You mentioned the million dollars. A million  
 22 dollar liability without insurance would have done  
 23 what to Tailwind or Disson Furst at the time?  
 24 A. It would have put us out of business or  
 25 certainly at a minimum would have caused us to add

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1 another million dollars in debt to the company.  
2 Q. It's been suggested that -- that, for  
3 example, in 1999, Mr. Armstrong winning the Tour de  
4 France, even though you would incur a liability of a  
5 million dollars, would be a good thing for Disson  
6 Furst. What have you to say to that?  
7 A. Well, it was a good thing in a potential  
8 sense. It ultimately could help the company in future  
9 years, but in the current year -- you know, I had to  
10 manage and try and -- you know, getting long-term  
11 contracts out of sponsors was something I worked hard  
12 to do, and sometimes you'd lock in at dollar levels  
13 that wouldn't reflect the value that you were going to  
14 be provided or we didn't expect Lance was going to  
15 win.  
16 So we had -- a lot of our revenue levels  
17 were locked in, and yet we were -- we were incurring  
18 obligations through bonuses that, I mean, had we had  
19 not had insurance, it would have put us out of  
20 business.  
21 So ultimately it could have been a good  
22 thing long term, but there were -- it crimped the  
23 finances of the company, you know, dramatically. I'm  
24 sure they would have without insurance in the -- in  
25 those years, 99, 2000, 2001, et cetera.

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1 Q. How long was -- had you signed an agreement  
2 with the Postal Service by 1999?  
3 A. We had at that time -- I believe we had at  
4 that time a two-year relationship with them  
5 contractually through the end of 2000, as -- as I  
6 remember. I think that is right. I'd have to go back  
7 and look but --  
8 Q. Did you ultimately -- were you able to secure  
9 insurance covering 1999?  
10 A. Yes. We -- Terry, on our behalf as our  
11 broker, was able to secure insurance through Global  
12 Specialty Risk.  
13 Q. And how much was that policy for?  
14 A. It was -- the initial policy was \$1 million.  
15 I believe what we -- I think the initial one was  
16 500,000, and we added on to it, so it -- it totaled \$1  
17 million bonus for Lance. There was some other bonuses  
18 for stage wins and number of days in the yellow  
19 jersey, and it ultimately ended up being close to \$1.5  
20 million in insurance.  
21 Q. All right. Did you or ESIX ever refer to the  
22 Global Specialty Risk coverage as anything but  
23 insurance?  
24 A. No.  
25 Q. Did you have -- did there occur some

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1 confusion or dispute about the amount of the actual  
2 coverage with respect to the '99 insurance?  
3 A. There was -- because we had an initial  
4 contract and then we added to the amount, there was  
5 a -- what was communicated to me by ESIX in terms of  
6 what the cap for the -- the combined policies was  
7 different than -- apparently it was different than  
8 either what was communicated and -- and formalized  
9 between ESIX and Global Specialty Risk.  
10 So there was a dispute about the total  
11 cap, the total liability on the part of Global  
12 Specialty Risk. There was -- there was a differential  
13 of \$500,000.  
14 Q. Well, what -- what difference would that  
15 \$500,000 have made to Disson Furst in '99?  
16 A. Well, it would not have been a good thing.  
17 It would either put us out of business or we'd have to  
18 take on more debt, which I'm not sure we could have  
19 done or -- or figured something out. I mean, it -- it  
20 was not a -- it wasn't a pleasant scenario.  
21 Q. And did that ultimately get resolved  
22 between -- as between Global Specialty Risk and ESIX?  
23 A. ESIX accessed their E&O insurance, and we  
24 were paid by their E&O carrier.  
25 Q. Did you have insurance coverage for

Page 24

1 Mr. Armstrong's bonuses in 2000 and 2001?  
2 A. Yes.  
3 Q. And was that provided by an insurance  
4 company?  
5 A. Yes.  
6 Q. And what insurance company was that?  
7 A. Well, it was EBI, and I believe the -- the  
8 carrier it was written on, I think, Redland Insurance  
9 Paper.  
10 Q. EBI's a broker or wholesaler?  
11 A. I guess. I -- I never had any contact with  
12 them, but that's -- I remember the name, and I  
13 remember the name as I saw it on the agreements, and  
14 ESIX placed it with EBI.  
15 Q. All right. And any problem about Redlands  
16 paying the claims as they accrued?  
17 A. No.  
18 Q. Now, tell us as -- as we're now -- let's go  
19 back to, let's say, the fall of 2000. Are you -- tell  
20 us what the status of -- of the relationship with  
21 Mr. Armstrong is.  
22 A. Well, we were negotiating for an extension of  
23 his relationship. We were simultaneously negotiating  
24 with Lance to extend his agreement with the team  
25 through 2004. At the same time we were negotiating to

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1 extend -- and it was -- they were -- we were  
 2 negotiating with US Postal Service for an extension of  
 3 our -- our contractual relationship between Tailwind  
 4 and -- or DFP at the time with the company through the  
 5 end of 2004, as well.  
 6 Q. All right. And was there any assurance that  
 7 you had that either you would retain the Postal  
 8 Service relationship or the Lance Armstrong  
 9 relationship after the year 2004, assuming you were  
 10 successful?  
 11 A. No, no. We -- we knew we had contractual  
 12 liabilities to Lance, to all the riders, to all the  
 13 staff, and we had revenue via our sponsorship  
 14 contracts through the end of 2004, but we -- we didn't  
 15 know at that time if there was going to be one dollar  
 16 earned by the company after December of 2004.  
 17 Q. Well, why -- let's say that Mr. Armstrong  
 18 would win in 2001. Were there provisions in your  
 19 sponsor contracts where you go back and renegotiate  
 20 and get more money and that sort of --  
 21 A. No.  
 22 Q. -- that sort of thing?  
 23 A. No.  
 24 Q. Tell us what sort of insurance issues you  
 25 were -- you were dealing with when Mr. Armstrong had

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1 won the '99 and 2000 events for -- and you had bonus  
 2 coverage in place for 2001 with Redlands?  
 3 A. Yes.  
 4 Q. All right. And so in constructing the  
 5 bonuses for 2002, 2003, 2004, tell us what the process  
 6 was and -- and how you came to arrive at the numbers  
 7 that will -- that we've seen.  
 8 A. Well, it was a combination of negotiation  
 9 with Lance and Bill Stapleton about what levels of  
 10 bonuses would be acceptable, what would motivate  
 11 Lance, what would motivate him to continue riding  
 12 through 2004, and then negotiate -- and then  
 13 discussion and negotiation with Terry Michelitch at  
 14 ESIX about what -- you know, what could we get and at  
 15 what price.  
 16 And it was a heck of a lot more difficult  
 17 in the fall 2000, I'm assuming; although, I wasn't  
 18 doing the negotiating, but, you know, based upon what  
 19 Terry was saying, it was a heck of a lot more  
 20 difficult, you know, finding someone to underwrite a  
 21 single -- an additional victory in the 2002 Tour than  
 22 it obviously was in -- for leading up to '99.  
 23 So Terry came back to me with the idea --  
 24 the concept of underwriting consecutive Tour wins. So  
 25 in other words -- but it would -- it would be required

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1 that they'd be consecutive wins by the carrier so  
 2 that --  
 3 Q. When you say, the carrier, you're talking  
 4 about the insurance carrier?  
 5 A. Right. Right. And that was really, I think,  
 6 the only way that we could find coverage for those  
 7 Tour victories for the company at any kind of a  
 8 reasonable premium because I think if it'd just gone  
 9 to an insurance company and said, what would it cost  
 10 just to insure a victory in 2002, certainly the  
 11 premium would have been significantly higher, and we  
 12 couldn't have afforded it as a company.  
 13 Q. Well, is that how the 2001 race -- winning  
 14 that race became a precondition or requirement to  
 15 getting the 2002 bonus?  
 16 A. Obviously. Because it required consecutive  
 17 victories, so it needed to be -- 2001 would -- a chain  
 18 need to be kept unbroken.  
 19 Q. All right. If you would --  
 20 MR. HERMAN: John, do we have an exhibit  
 21 book for Mark?  
 22 MR. BREEN: Sure.  
 23 Q. (By Mr. Herman) I'm going to ask you to turn  
 24 to Tab 1 of the exhibit book.  
 25 THE WITNESS: Thank you.

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1 ARBITRATOR FAULKNER: Can we assume that  
 2 these exhibits will be in evidence if not objected to  
 3 when -- when first referred to?  
 4 MR. HERMAN: I think we've agreed with  
 5 the -- to the extent that we have objections, we will  
 6 make them in writing or subsequent to the --  
 7 MR. TILLOTSON: I'll agree to preadmit  
 8 all of your stuff if you agree to preadmit all mine.  
 9 MR. HERMAN: Well, I have objections to  
 10 some of your stuff, and I think you have to mine,  
 11 but -- but subject to our right to make objections  
 12 later, yeah, that's fine to facilitate this -- the  
 13 process.  
 14 MR. TILLOTSON: This is the only  
 15 situation where I'm -- I'm agreeing to let us go, and  
 16 then I later find out I -- I'm --  
 17 MR. HERMAN: Well, I mean, the chapters  
 18 from your insurance book and the CLE stuff, I'm going  
 19 to have objections -- I'm going to have objections to,  
 20 but I think that -- that we can make those to the  
 21 Panel later. I mean, they're going to see it either  
 22 way so --  
 23 MR. TILLOTSON: All right.  
 24 MR. HERMAN: Which -- and I wouldn't  
 25 presume to prejudice your right to object to my stuff

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1 either.  
2 MR. TILLOTSON: I don't have any  
3 objections to -- to the exhibits that I've seen put in  
4 front of me so far, so I think they can be preadmitted  
5 or predesignated.  
6 ARBITRATOR FAULKNER: Okay. That's fine.  
7 Why don't we move on.  
8 Q. (By Mr. Herman) Mr. Gorski, if you will turn  
9 to the addendum to the letter agreement -- well, first  
10 of all, let me ask you: Does this accurately reflect  
11 the contractual obligations of Disson Furst & Partners  
12 to Mr. Armstrong?  
13 A. Yes.  
14 Q. Now, if you look at the addendum to the  
15 letter agreement, can you tell us what -- what Disson  
16 Furst had obligated itself to pay Armstrong in the  
17 event of the consecutive wins?  
18 A. 1.5 million in '02, 3 million in '03, and 10  
19 million '04.  
20 Q. All right. Is there -- I notice in this  
21 agreement that the triggering event is that Armstrong  
22 is the official winner of the Tour de France. Were  
23 there any other conditions on Tailwind's obligation?  
24 A. No.  
25 Q. What -- do -- do you know what it was you had

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1 asked ESIX to do for you in connection with the  
2 exposures reflected on Claimaints' Exhibit 1?  
3 A. We asked them to underwrite or find an  
4 underwriter and secure an insurance policy to  
5 indemnify our company of that risk and, in essence,  
6 limit our liability as a company and -- so that we  
7 could continue operating.  
8 Q. If you were to -- if Disson Furst or Tailwind  
9 later on were to incur -- let's say Armstrong won the  
10 2001 and 2002 Tour de France and you were obligated to  
11 pay 1.5 million, would that be an unfavorable event or  
12 an adverse event to Disson Furst's economic interest?  
13 A. If we didn't have it covered by insurance?  
14 Q. Right.  
15 A. Of course, yes.  
16 Q. Could Tailwind have survived economically  
17 that sort of loss?  
18 A. I think it would have been very difficult.  
19 I -- you know, I mean, potentially there's ways --  
20 additional capital, lines of credit, and so on. But  
21 these certainly wouldn't have helped the financial  
22 condition of the company at all.  
23 Q. At this point you -- I think you earlier  
24 testified that you had entered into sponsorship  
25 agreements through the 2000 -- through calendar year

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1 2004?  
2 A. Yes.  
3 Q. And was there any ability if Armstrong won in  
4 2002 to up the ante from your sponsors essentially?  
5 A. No, not contractually.  
6 Q. Now in 2002, did -- did SCA pay?  
7 A. Yes.  
8 Q. Was there any question about their obligation  
9 to pay?  
10 A. No.  
11 Q. And was your -- was Tailwind's liability  
12 triggered upon Armstrong being declared the official  
13 winner?  
14 A. Yes.  
15 Q. Let me ask you this: When you -- when you  
16 were attempting to secure insurance, did -- was any --  
17 did anyone represent to you that this liability to  
18 Armstrong incurred -- when he became the official  
19 winner, did anyone indicate to you that there would be  
20 an exception or exclusion in the policy that even  
21 though he was the official winner and had not been  
22 stripped of his title, that one or more of the  
23 insurance companies still wouldn't have to pay?  
24 A. No, no.  
25 Q. What if someone had told you that the -- one

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1 or more of the insurance companies could independently  
2 decide not to pay even though your liability was  
3 clear? What would you have done?  
4 A. I wouldn't have signed an agreement that  
5 allowed for that.  
6 Q. In that connection -- this is Price 3, but if  
7 you'll turn to Tab 12 -- Claimaints' 12.  
8 ARBITRATOR CHERNICK: Can I just ask a  
9 question about 1 while you're there?  
10 MR. HERMAN: Yes.  
11 ARBITRATOR CHERNICK: The contract -- the  
12 letter's dated October 10th, 2000. The addendum is --  
13 simply refers to the October 10th date. Was it  
14 executed at some point after October 10th, 2000?  
15 THE WITNESS: Yes.  
16 ARBITRATOR CHERNICK: Is it after the  
17 2001 Tour de France?  
18 THE WITNESS: No.  
19 ARBITRATOR CHERNICK: A little bit  
20 before?  
21 THE WITNESS: It was -- it was in the  
22 spring. It was May -- May or some -- late May maybe.  
23 ARBITRATOR CHERNICK: All right. So at  
24 the time the addendum was added, it was not known  
25 whether he was the winner of the 2001 Tour de France?

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1 THE WITNESS: Correct.  
 2 ARBITRATOR CHERNICK: Thank you.  
 3 Q. (By Mr. Herman) Was Tailwind's, along those  
 4 lines -- along what Mr. Chernick has -- was Tailwind's  
 5 liability for the bonuses precisely the same as was  
 6 set out ultimately in the SCA policy?  
 7 A. Yes.  
 8 Q. In that connection, if you'd look at Exhibit  
 9 12, were you provided the last -- the second -- the  
 10 last two pages of Exhibit 12 as -- it shows the SCA  
 11 Promotions, Inc., contract. Were you provided and did  
 12 you sign this agreement?  
 13 A. Yes.  
 14 Q. If you'll look at the second page of -- of  
 15 the agreement or Exhibit "A" to the agreement, in --  
 16 item 2(b) indicates that SCA indemnifies sponsor.  
 17 Incidentally the sponsor was Disson Furst?  
 18 A. Yes.  
 19 Q. In respect of Disson Furst's liability to  
 20 award such performance awards to Mr. Armstrong to the  
 21 extent provided for in this contract, was it -- what  
 22 was it that -- well, strike that.  
 23 Was it your liability under Claimaints'  
 24 Exhibit 1; that is, the consecutive bonus liability  
 25 that you were insuring here?

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1 A. Yes.  
 2 Q. And was there any question about how your  
 3 liability was going to attach? By that I mean, if  
 4 Armstrong won the races, were you obligated to pay  
 5 him?  
 6 A. Yes.  
 7 Q. Now, if you look over on the first page of  
 8 the -- of the contract itself. At the -- at the top  
 9 it says, sponsor's name. That would be Disson Furst  
 10 which ultimately became Tailwind; correct?  
 11 A. Yes.  
 12 Q. And the type of promotion is entitled Cyclist  
 13 Incentive Bonus Program. Was that the -- the  
 14 promotion that Disson Furst had put in place?  
 15 A. Yes.  
 16 Q. Did Disson Furst have anything to do with  
 17 either the rules, staging or implementation of the  
 18 Tour de France?  
 19 A. No.  
 20 Q. Who was the sponsor of the Tour de France?  
 21 A. Well, the owner of the Tour de France is ASO,  
 22 the Amaury Sports Organization. It's a privately held  
 23 company in Paris.  
 24 Q. All right. And they're the ones that put it  
 25 on?

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1 A. Yes.  
 2 Q. And the governing body, I think you've  
 3 already testified, is UCI.  
 4 A. They're the sanctioning body.  
 5 Q. Okay.  
 6 A. The rules -- the rules of UCI apply at the  
 7 Tour de France. That's what part of the sanctioning  
 8 body relationship means.  
 9 Q. All right. Now, if you turn to the next tab,  
 10 Claimaints' 13. This is an invoice dated January 9,  
 11 and the client is shown as Disson Furst & Partners.  
 12 Was the contract fee \$420,000?  
 13 A. Yes.  
 14 Q. Did you -- did Disson Furst pay \$420,000?  
 15 A. Yes.  
 16 Q. That was actually collected by ESIX, was it  
 17 not?  
 18 A. Yes.  
 19 Q. And then remitted to SCA?  
 20 A. Yes. I'm -- I'm assuming so.  
 21 Q. Okay. The payment was indicated to SCA  
 22 Promotions, Inc., though, was it not, on that -- on  
 23 Claimaints' Exhibit 13?  
 24 A. Yes.  
 25 Q. Okay. Now, we talked a little bit about

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1 the -- about the earlier bonus payments having been  
 2 covered by insurance; that is, 1999 through 2003. All  
 3 of those contingent obligations of Tailwind were  
 4 covered by insurance and paid by the insurance  
 5 company?  
 6 A. Yes.  
 7 Q. And in 2004, what have you to say about  
 8 the -- whether the creation of a \$5 million liability  
 9 for Tailwind to Mr. Armstrong was a positive thing or  
 10 an adverse risk?  
 11 A. Without insurance, the company could not pay  
 12 the -- could not have paid the liability. It would  
 13 have put the company out of business.  
 14 Q. You wanted Mr. Armstrong to win the Tour de  
 15 France, didn't you?  
 16 A. Yes.  
 17 Q. Well, why -- whether you had insurance or  
 18 not, why wouldn't that have been a good thing?  
 19 A. I'm not sure what you're asking.  
 20 Q. Well, I think it's -- you know, it's -- you  
 21 may have answered it with the last question. But the  
 22 fact that you wanted Mr. Armstrong to win, if you had  
 23 not had insurance, the company would not have been  
 24 able to survive?  
 25 A. That's right, yes.

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1 Q. Do you know who ESIX approached about writing  
 2 the insurance on this risk, other than SCA?  
 3 A. Yes. It was Lloyd's and Chubb, I believe.  
 4 Q. And do you know Lloyd's and Chubb to be  
 5 insurance companies?  
 6 A. Yes.  
 7 Q. And Redlands Insurance Company had paid --  
 8 had provided the coverage in 2000 and 2001 in that  
 9 area; correct?  
 10 A. Yes.  
 11 Q. If you look at Claimants' Exhibit -- Exhibit  
 12 18. I'm sorry.  
 13 MR. HERMAN: For the Panel, the -- the --  
 14 the top page you should turn over, but the -- there is  
 15 the Lloyd's policy is immediately under the top page,  
 16 and then Exhibit 19 is the Chubb policy.  
 17 Q. (By Mr. Herman) You were provided copies of  
 18 the Chubb and Lloyd's policy, Mr. Gorski?  
 19 A. Yes.  
 20 Q. How did you refer to the Chubb and Lloyd's  
 21 policy?  
 22 A. As insurance.  
 23 Q. Okay. If you'd look at the second page of  
 24 the Lloyd's policy -- well, strike that.  
 25 Look at the first page of the certificate

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1 of insurance.  
 2 A. Uh-huh.  
 3 Q. The type of insurance is what?  
 4 A. I don't know.  
 5 Q. Does -- on the certificate of insurance, is  
 6 it -- the type of insurance is defined as "prize  
 7 insurance"?  
 8 A. Right.  
 9 Q. Okay. And on the second page where it  
 10 defines type --  
 11 A. Prize indemnity insurance.  
 12 Q. And what did you get from SCA? What sort of  
 13 indemnity did you get from SCA? Did it differ in any  
 14 material way from what you got from Lloyd's?  
 15 A. Not -- my understanding of what we were  
 16 getting was exactly the same. It was prize -- prize  
 17 insurance, prize indemnity insurance.  
 18 Q. All right. And if you'd go back to the SCA  
 19 contract, which is Price --  
 20 MR. HERMAN: I mean, was it Price --  
 21 ARBITRATOR CHERNICK: 12.  
 22 Q. (By Mr. Herman) It's Exhibit 12 for the  
 23 claimants, but it may be indexed as something  
 24 differently. But in any event, if you look at the  
 25 second page again under -- under 2(b), SCA indemnifies

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1 Tailwind for Tailwind's liability to award the prizes  
 2 or awards to Mr. Armstrong; correct?  
 3 A. Yes. They all look the same to me or doing  
 4 the same thing.  
 5 Q. Now, if you'll turn to Claimants' Exhibit  
 6 19. And the fourth page of Exhibit 19 is the  
 7 endorsement to the Chubb policy. Well, I'm sorry.  
 8 That's Michelitch either 3 or 4.  
 9 Once again, tell us what -- tell us what  
 10 was -- what was covered by this Chubb policy. Did it  
 11 differ in any way -- any material way from what you  
 12 agreed with SCA as it relates to the 2004?  
 13 A. No. It was my understanding it was the same,  
 14 and I -- I was relying on ESIX throughout this  
 15 process. I should probably say that now, that I was  
 16 relying on them to let me know if there were any  
 17 material differences, which they did not. I mean, I  
 18 assumed they were all the same. They were providing  
 19 that same kind of indemnification.  
 20 Q. When you would confer with Mr. Michelitch  
 21 about the -- about the various coverages that were in  
 22 place, did -- how did you and Mr. Michelitch refer to  
 23 the SCA coverage?  
 24 A. As insurance.  
 25 Q. And did that vary at any time?

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1 A. No.  
 2 Q. For example, let's look at number --  
 3 MR. HERMAN: Where is that addition to  
 4 Exhibit No. 40?  
 5 MR. BREEN: Where was that?  
 6 MR. HERMAN: It's this one here.  
 7 MR. BREEN: That one-pager?  
 8 MR. HERMAN: No. This is the --  
 9 MR. BREEN: Look in the back of your  
 10 exhibit book.  
 11 MR. HERMAN: Okay. Did we give the Panel  
 12 this?  
 13 ARBITRATOR FAULKNER: Untabbed 40 --  
 14 MR. HERMAN: Oh, you've got -- okay.  
 15 Exactly. Okay.  
 16 ARBITRATOR FAULKNER: -- is in the back  
 17 of these.  
 18 MR. HERMAN: Oh, okay.  
 19 MR. BREEN: It should be the untabbed 40  
 20 in yours, too.  
 21 ARBITRATOR CHERNICK: Got it.  
 22 MR. BREEN: Do you have the cross exhibit  
 23 that we can put up?  
 24 MR. HERMAN: Yes. Oh, oh, no. I don't.  
 25 It's -- no, I don't, but that's okay.

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1 Q. (By Mr. Herman) You can look on the hard  
 2 copy, Mr. Michelitch [sic]. Tell us what -- tell us  
 3 what Exhibit 40 is. It's apparently three or four  
 4 e-mails and responses.  
 5 A. Yeah. It was just the communication between  
 6 Terry and I following the -- this was following the  
 7 execution of the agreements and the Tour and  
 8 thanking -- thanking him for his assistance and, you  
 9 know, helping -- helping the company.  
 10 Q. And that was -- that was after the 2002 Tour?  
 11 A. Yes.  
 12 Q. On the second page of Exhibit 40, in the  
 13 first paragraph, you indicate your thanks to Mr.  
 14 Michelitch, and you note: As you know, I will always  
 15 feel indebted to you for your help on the insurance.  
 16 Was the only insurance in place as of 2000 -- the 2002  
 17 event, the SCA insurance?  
 18 A. Yes.  
 19 Q. Okay. Now, Mr. Michelitch, when he replies,  
 20 talks about how he has spoken to SCA and they do not  
 21 have any problem making the check out to Lance, et  
 22 cetera. Let me direct your attention to a little bit  
 23 further down in there.  
 24 I would predict this will be the  
 25 smoothest accounts receivable you will ever see, and

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1 then, open paren, at least from a bonus insurance  
 2 perspective.  
 3 Had -- at any time did anyone, either at  
 4 SCA directly to you or at ESIX, indicate to you that  
 5 this was not technically insurance? Were you ever  
 6 under the impression that it was anything other than  
 7 insurance?  
 8 A. No.  
 9 Q. Now, look at Claimaints' Exhibit 23. This  
 10 check was made payable to Tailwind Sports, LLC, for  
 11 \$1,500,000, and it came directly from SCA Promotions  
 12 Inc.; correct?  
 13 A. Yes.  
 14 Q. Is there anything on this check that would  
 15 indicate to you that this was the payment of an  
 16 insurance or that this was an insurance proceed?  
 17 A. The word "claim" on the check copy.  
 18 Q. Have you ever seen that used, other than in  
 19 an insurance context?  
 20 A. No.  
 21 Q. Look at Claimaints' Exhibit 27. This is the  
 22 2003 check, and does this, likewise, refer to a claim?  
 23 A. Yes.  
 24 Q. Have you ever seen -- you indicated that  
 25 "claim" is normally used in insurance transactions.

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1 Have you ever seen it used in -- in connection with a  
 2 payment outside an insurance transaction?  
 3 A. I don't think so.  
 4 Q. And, incidentally, this payment came directly  
 5 from SCA, did it not?  
 6 A. You know, I don't know because I was not with  
 7 the company any longer at this time.  
 8 Q. Okay. Well, as to -- the 2002 payment came  
 9 from SCA --  
 10 A. Yes.  
 11 Q. -- to Tailwind?  
 12 Now, look at Claimaints' Exhibit 29.  
 13 This is a letter from Kelly Price at ESIX to Lauren  
 14 Hundley at Capital Sports & Entertainment. She  
 15 indicates, I'm enclosing a copy of all three of the  
 16 incentive bonus policies. What were the three  
 17 incentive bonus policies that involved the 2004 Tour  
 18 de France?  
 19 A. It would have been SCA, Chubb, and Lloyd's  
 20 policy.  
 21 Q. Have you ever seen the term "policy" utilized  
 22 to describe a document, other than in an insurance  
 23 context?  
 24 A. No.  
 25 Q. Now, if you turn to Claimaints' Exhibit 25.

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1 This is an e-mail from Terry Michelitch to Kelly Price  
 2 dated June 19, 2003. It states: Mark called wanting  
 3 to make sure that each of Tailwind's bonus policies  
 4 were endorsed.  
 5 Can you tell me what you had requested  
 6 from Mr. Michelitch?  
 7 A. Well, we -- we converted from an LLC to a  
 8 corporation, and as part of that, we needed to ensure  
 9 that all of the contracts and obligations, anything  
 10 that had been formalized in a legal document were  
 11 assigned to Tailwind Sports, Corp., and I wanted to  
 12 make sure -- because ESIX was the on -- they were --  
 13 they had all the communication with the insurance  
 14 companies, so we were relying on them to help make  
 15 that happen.  
 16 And I was simply asking Terry if -- if  
 17 they -- if that had been done.  
 18 Q. Again, the SCA agreement is referenced by the  
 19 entertainment and sports insurance experts as bonus  
 20 policies in an insurance company; correct?  
 21 A. Yes.  
 22 Q. Now, look at -- look at Claimaints' Exhibit  
 23 26, which is Lorenzo 13. This is not -- is not  
 24 directed to you, but Mr. Floerchinger at SCA  
 25 Promotions references claim coverage risk, et cetera.

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1 Are those -- how -- how -- what business do you  
2 associate those terms?  
3 A. Well, it's -- all the language looks very  
4 clearly like it's regarding an insurance claim --  
5 insurance policy.  
6 MR. HERMAN: Jason, put up this slide.  
7 MR. BREEN: 101051.  
8 MR. HERMAN: No, the others. May I  
9 borrow yours for a second, first?  
10 MR. BREEN: Sure.  
11 MR. HERMAN: I've got another copy. Let  
12 me just hand it to the witness.  
13 MR. TILLOTSON: I've got a copy here, if  
14 you want it.  
15 MR. BREEN: It's slide 15.  
16 MR. TILLOTSON: Yeah. There you go.  
17 THE WITNESS: Thank you.  
18 Q. (By Mr. Herman) Is that headed, Definition of  
19 Insurance in Texas?  
20 A. Yeah.  
21 Q. Now, in connection with the SCA agreement,  
22 you were charged a fixed price of \$420,000; correct?  
23 A. Yes.  
24 Q. And as part of that agreement, did SCA  
25 undertake to compensate you 1.5 million in 2002, 3

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1 million in 2003, 5 million in 2004 if, in fact,  
2 Tailwind became obligated to pay Mr. Armstrong?  
3 A. Yes.  
4 Q. And was -- at the time you entered this  
5 agreement with SCA, was that a contingency that  
6 neither of you knew would or wouldn't happen; that is,  
7 you didn't know Mr. Armstrong was going to win?  
8 A. Absolutely not.  
9 Q. All right. And if he had won and you did not  
10 have insurance coverage in place, that, I take it,  
11 would have bankrupted or ended Tailwind as -- as you  
12 knew it?  
13 A. Yes.  
14 MR. HERMAN: I'll pass the witness.  
15 ARBITRATOR FAULKNER: Is this a good time  
16 to take a break, gentlemen?  
17 MR. TILLOTSON: Yeah.  
18 ARBITRATOR FAULKNER: Because it's right  
19 at noon.  
20 MR. TILLOTSON: That's fine.  
21 (Break from 12:02 p.m. to 1:06 p.m.)  
22 ARBITRATOR FAULKNER: Sir, you're still  
23 under oath. If you will please answer counsel's  
24 questions.  
25 CROSS-EXAMINATION

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1 BY MR. TILLOTSON:  
2 Q. Good afternoon, Mr. Gorski. You are here  
3 from St. Louis?  
4 A. Yes.  
5 Q. And you've come in at the request of the  
6 claimants, Mr. Herman?  
7 A. Yes.  
8 Q. Now, I had a chance to depose you in  
9 St. Louis. Do you recall that?  
10 A. Yes.  
11 Q. And you had a chance prior to your deposition  
12 to meet with Mr. Herman to prepare for it. Do you  
13 recall that?  
14 A. Yes.  
15 Q. And did you also get a chance to meet with  
16 Mr. Herman to prepare for your testimony here today?  
17 A. Yes.  
18 Q. Now, I want to start off with some of the  
19 testimony you gave us a little earlier this morning  
20 about what you thought you were doing when Tailwind  
21 entered into contracts with SCA. You testified this  
22 morning that you thought you were buying insurance; is  
23 that right?  
24 A. Uh-huh.  
25 Q. In fact --

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1 A. Yes.  
2 Q. -- everyone you dealt with -- Chubb, Lloyd's,  
3 Global Specialty, SCA -- you thought you were buying  
4 insurance?  
5 A. Yes.  
6 Q. And the reason you thought that is not  
7 because you investigated SCA's business; correct?  
8 A. Yes.  
9 Q. Because you didn't investigate, did you?  
10 A. No.  
11 Q. You didn't go on-line to our web site to see  
12 what kind of company they were, did you?  
13 A. No.  
14 Q. And you didn't think that because you'd never  
15 dealt with them before, because you had not; correct?  
16 A. That's right, yes.  
17 Q. And so really what you were relying on was  
18 what you saw or what your broker told you; correct?  
19 A. Yes.  
20 Q. Because you really weren't an expert in the  
21 insurance business working for Tailwind; fair?  
22 A. Yes.  
23 Q. Now, your broker was a company called ESIX;  
24 correct?  
25 A. Yes.

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1 Q. And there were two people working at ESIX  
 2 that you dealt with, Mr. Michelovitch --  
 3 A. Michelitch.  
 4 Q. -- Michelovitch --  
 5 A. Uh-huh.  
 6 Q. -- and Ms. Price; correct?  
 7 A. Yes.  
 8 Q. And those individuals as brokers, they were  
 9 representing you, Tailwind; right?  
 10 A. Yes.  
 11 Q. And they acted for you in dealing with all  
 12 these other entities; fair enough?  
 13 A. Yeah, yes.  
 14 Q. And you never actually had any conversations  
 15 with SCA?  
 16 A. No.  
 17 Q. So to the extent you thought this was  
 18 insurance, which you said you did, you got that from  
 19 something the broker told you or something you read or  
 20 saw; fair?  
 21 A. Yes.  
 22 Q. Now, to -- to -- you testified this morning  
 23 that you expected the broker to tell you if there were  
 24 any material terms that were different among the  
 25 various agreements you had; is that fair?

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1 A. Yes.  
 2 Q. I mean, if one of these things wasn't  
 3 insurance, so to speak, you figured the broker would  
 4 tell you if it mattered; right?  
 5 A. Yes.  
 6 Q. And what mattered was not what it was called  
 7 but whether or not it was going to pay bonuses if  
 8 Mr. Armstrong won the events; correct?  
 9 A. Yes.  
 10 Q. So to be fair, you didn't really care as the  
 11 head of Tailwind whether you were buying insurance.  
 12 You really cared about that you were getting coverage,  
 13 that someone was going to pay Tailwind if it had to  
 14 pay Mr. Armstrong; fair?  
 15 A. Yes.  
 16 Q. All right. And I think, as I asked you in  
 17 your deposition -- call it what it was -- that was not  
 18 really what you cared about. You cared about the  
 19 coverage; fair?  
 20 A. Well, you asked me in my deposition if I  
 21 cared whether it was insurance or not, and the truth  
 22 is I didn't care.  
 23 Q. Okay.  
 24 A. Although all of the references to it and my  
 25 assumption was that it was insurance.

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1 Q. Let's talk about that. Now, prior to your  
 2 work with Tailwind, you had not had any experience  
 3 with prize indemnification contracts, had you?  
 4 A. No.  
 5 Q. Okay. So this is your first experience, and  
 6 the first one you had was with a company called Global  
 7 Speciality Risk; is that right?  
 8 A. Yes.  
 9 Q. Again, handled by the broker, but that was  
 10 the entity?  
 11 A. Yes.  
 12 Q. Okay. And then second one you had was with a  
 13 company called Redlands; is that correct?  
 14 A. EBI.  
 15 Q. EBI? And so we have the time frames: '98  
 16 for Global Speciality Risk; '99, 2000 for --  
 17 A. '99, 2000, and 2001.  
 18 Q. For EBI.  
 19 A. Yeah.  
 20 Q. And then '01 through '04, that involved SCA  
 21 and later Chubb and Lloyd's; is that right?  
 22 A. Yes.  
 23 Q. Okay. Now, in your prior dealings with Chubb  
 24 and Lloyd's and Global Specialty Risk and SCA, you  
 25 would actually get paperwork from those entities

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1 reflecting the coverage; right?  
 2 A. Yes.  
 3 Q. And you know with respect to Chubb and  
 4 Lloyd's, you got things called "insurance policies";  
 5 correct?  
 6 A. Yes.  
 7 Q. And, in fact, if you'll look there under the  
 8 Claimants' Exhibits, Tab 18, which you earlier  
 9 identified for us this morning, the second page of  
 10 that, that's actually the Chubb policy, is it not?  
 11 A. And this -- that's 18?  
 12 Q. I'm sorry. Claimants' 18.  
 13 MR. HERMAN: I think it's Lloyd's.  
 14 Q. (By Mr. Tillotson) I'm sorry. Lloyd's  
 15 policy. Look at 18, second page.  
 16 A. Sorry.  
 17 Q. That's all right.  
 18 The second page, do you see that there?  
 19 A. Uh-huh. This one we're talking about?  
 20 (Indicating.)  
 21 Q. Yes.  
 22 A. Lloyd's, yeah.  
 23 Q. That the Lloyd's policy; right? And you got  
 24 with Lloyd's something called a "certificate of  
 25 insurance"; correct?

Page 53	<p>1 A. Yes.</p> <p>2 Q. And an actual policy number?</p> <p>3 A. Yes.</p> <p>4 Q. Terms and conditions that were part of this?</p> <p>5 A. Yes.</p> <p>6 Q. And you've got an endorsement on the last</p> <p>7 page; right? The very last page of this exhibit --</p> <p>8 A. Yes.</p> <p>9 Q. -- something called an "endorsement"?</p> <p>10 A. Yes.</p> <p>11 Q. And it talked about an insured and the sum</p> <p>12 insured; correct?</p> <p>13 A. Yes.</p> <p>14 Q. And that's similar to what you also got from</p> <p>15 Lloyd's -- or, I'm sorry, Chubb, which is contained in</p> <p>16 the very next tab, Tab 19; correct?</p> <p>17 A. Yes.</p> <p>18 Q. Certificate of Insurance, endorsement, the</p> <p>19 same kind of thing?</p> <p>20 A. Yes.</p> <p>21 Q. Now, those documentations that you got from</p> <p>22 those entities, you will agree with me, were vastly</p> <p>23 different from what you got from SCA; correct?</p> <p>24 A. In my mind, I wouldn't say they were vastly</p> <p>25 different. They provided indemnification from a</p>	Page 55	<p>1 contract that you saw as part of these two pages?</p> <p>2 A. Yes.</p> <p>3 Q. No terms of conditions like an insurance</p> <p>4 policy we saw with Lloyd's?</p> <p>5 A. Yes.</p> <p>6 Q. No endorsement page that we saw?</p> <p>7 A. Well, the -- the SCA policy does have terms</p> <p>8 and conditions.</p> <p>9 Q. No endorsement page, for example?</p> <p>10 A. Yes.</p> <p>11 Q. Am I right?</p> <p>12 A. Yes.</p> <p>13 Q. Now, if you will, let's compare what we're</p> <p>14 looking at here as Exhibit 12 within my little binder</p> <p>15 you have in your lap what's marked as Exhibit 18.</p> <p>16 A. Okay. Yes.</p> <p>17 Q. That's the Global Speciality Risk contract,</p> <p>18 the very first one you dealt with; is that right?</p> <p>19 A. Yes.</p> <p>20 Q. And that was also called a contingency</p> <p>21 contract, was it not?</p> <p>22 A. Yes.</p> <p>23 Q. All right. And similar to the SCA contract,</p> <p>24 this did not have a certificate of insurance; correct?</p> <p>25 A. Yes.</p>
Page 54	<p>1 result by Lance Armstrong in a bike race.</p> <p>2 Q. Well, look, if you will, at Claimaints'</p> <p>3 exhibit there in the black binder, Exhibit 12, which</p> <p>4 is the SCA promotion contract. Do you have that in</p> <p>5 front of you?</p> <p>6 A. Yes.</p> <p>7 Q. Okay. The first page -- if you'll turn to</p> <p>8 the second page, you've identified that as the blank</p> <p>9 contract. Do you see that?</p> <p>10 A. Yes.</p> <p>11 Q. Okay. You'll agree with me that unlike what</p> <p>12 we saw with Chubb and Lloyd's, this was not called an</p> <p>13 insurance policy; correct?</p> <p>14 A. Yes.</p> <p>15 Q. And there's nothing in here about your</p> <p>16 company being the insured. It speaks of</p> <p>17 indemnification; correct?</p> <p>18 A. Yes.</p> <p>19 Q. And this wasn't the first time you had seen a</p> <p>20 contract like this in the prize indemnification world,</p> <p>21 was it?</p> <p>22 A. I think there were other -- I think prior</p> <p>23 contracts look somewhat like this.</p> <p>24 Q. And you'll agree with me, there's no</p> <p>25 certificate of insurance issued with this particular</p>	Page 56	<p>1 Q. Nor did it have an endorsement page like</p> <p>2 we've seen in some of the others?</p> <p>3 A. Yes.</p> <p>4 Q. Now, it's true, is it not, that there was a</p> <p>5 problem with Global Specialty Risk regarding how much</p> <p>6 coverage they had provided?</p> <p>7 A. Yes.</p> <p>8 Q. All right. And in connection with that</p> <p>9 dispute -- that problem, you found out that Global</p> <p>10 Specialty Risk had insured their coverages with a</p> <p>11 different insurance company, hadn't you?</p> <p>12 A. No, I don't think I was aware of that.</p> <p>13 Q. You were never told by the broker that Global</p> <p>14 Specialty Risk was not an insurance company and had</p> <p>15 insured their contract with a different insurance</p> <p>16 company?</p> <p>17 A. No.</p> <p>18 Q. If, in fact, that is true, and Ms. Price</p> <p>19 testifies to that, that is something that you would</p> <p>20 have wanted to know; correct?</p> <p>21 A. Yes.</p> <p>22 Q. Now --</p> <p>23 A. Although, I -- I wouldn't -- GSR was</p> <p>24 obligated to pay, and if they -- if they passed off</p> <p>25 their liability on to someone else, I mean, I don't</p>

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1 know if I really would have cared about that, but  
 2 anyway --  
 3 Q. So long as GSR paid under the contract --  
 4 A. Yes.  
 5 Q. -- you didn't really care if they were an  
 6 insurance company or they insured it or what, so long  
 7 as they paid?  
 8 A. Yes.  
 9 Q. And as it turned out, the -- the -- the  
 10 entity that sort of took the hit, so to speak, for the  
 11 dispute was your broker; correct?  
 12 A. It was their E&O insurance provider.  
 13 Q. They -- they had somehow messed up in the  
 14 translation about what should have been covered and  
 15 what amounts; fair?  
 16 A. Yes.  
 17 Q. Nevertheless, despite that dispute, you  
 18 continued to use ESIX in connection with further  
 19 contracts; correct?  
 20 A. Yes.  
 21 Q. Now, you have policy numbers for -- for --  
 22 for Chubb and Lloyd's, but you never had a policy  
 23 number for SCA; fair?  
 24 A. I --  
 25 Q. Take a look, if you will, at Claimaints'

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1 Exhibit 29 there in the black binder -- Claimaints'  
 2 Exhibit 29. I'm sorry to jump around. We just didn't  
 3 put our binders together, so I -- I'll try to direct  
 4 you.  
 5 This was a document shown to you earlier  
 6 this morning on direct testimony from Kelly Price.  
 7 She's the broker at ESIX, and she's writing to Lauren  
 8 Hundley; correct?  
 9 A. Yes.  
 10 Q. Now, let's connect the two entities. Capital  
 11 Sports & Entertainment is who?  
 12 A. Is the company in Austin, Texas that is the  
 13 management agency for Lance Armstrong and is at this  
 14 point involved in the management of Tailwind Sports.  
 15 Q. Okay. So that we know, Tailwind Sports  
 16 exists and what I'll call CSC exists, and that's  
 17 Mr. Armstrong's management company?  
 18 A. Yes.  
 19 Q. And they're obviously interested in the bonus  
 20 arrangement and any coverage being provided; correct?  
 21 A. I would think so.  
 22 Q. Okay. And you'll see in this letter that --  
 23 it says in the middle paragraph that the original,  
 24 unsigned copy of the SCA contract has been enclosed,  
 25 and then the next paragraph after that talks about the

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1 remaining 5 million split between those two policy  
 2 numbers. Do you see that?  
 3 A. Yes.  
 4 Q. And so you'll agree with me that Tailwind  
 5 never had a policy number for the SCA contract?  
 6 A. Where -- let's go back to the original.  
 7 ARBITRATOR CHERNICK: Exhibit 12,  
 8 Claimaints' Exhibit 12.  
 9 A. Contingent prize contract number.  
 10 Q. (By Mr. Tillotson) Okay. All right. Did you  
 11 understand that to be an insurance policy number from  
 12 the language contingent prize contract alone?  
 13 A. Essentially, yes.  
 14 Q. Okay. And if you understood that, it would  
 15 have either come from just simply looking at this  
 16 document and drawing that or something your broker  
 17 told you?  
 18 A. Yes.  
 19 Q. Okay. Now, we've talked what about you  
 20 thought you were doing. Let's talk about the  
 21 mechanics of the way in which the operation worked.  
 22 Disson Furst owned the cycling team?  
 23 A. Yes.  
 24 Q. And they later merged with Tailwind, so I'll  
 25 just call them Tailwind, if that's all right. As

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1 owning a cycling team, Tailwind had to go out and find  
 2 riders to be on that team?  
 3 A. Yes.  
 4 Q. And signed them so that they would be  
 5 obligated to ride for the team; fair enough?  
 6 A. Yes.  
 7 Q. And as the owner of the team, Tailwind's job  
 8 was not only to get the riders but to put the team  
 9 together and to help the team succeed; correct?  
 10 A. Yes.  
 11 Q. Trainers, doctors, nutritionists, those kinds  
 12 of things; fair enough?  
 13 A. Yes.  
 14 Q. And pay for them?  
 15 A. Yes.  
 16 Q. And manage the team as to which people should  
 17 be on the team and what the composition of the team  
 18 would be so that you can win; right?  
 19 A. Yes.  
 20 Q. And it is true, is it not, that this venture  
 21 to manage this team was to be a money-making venture?  
 22 A. Yes.  
 23 Q. It was profit motivated?  
 24 A. Yes.  
 25 Q. This is not a charitable event that was being

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1 run with borrowed or gifted funds. It was to make a  
2 profit?  
3 A. Yes.  
4 Q. Okay. Now, although, you did have a fairly  
5 wealthy backer at one point in time, did you not?  
6 Mr. Weitzel?  
7 A. Yes.  
8 Q. Now, in connection with the -- the profit  
9 motivation, the way -- after you get your team  
10 together and you -- you start focusing on a win, the  
11 way in which you would derive income to pay for the  
12 team and hopefully make a profit was through  
13 sponsorship income; fair?  
14 A. Yes.  
15 Q. And sponsorship income but not only  
16 sponsoring the team at large but also other  
17 sponsorship arrangements you might be able to  
18 negotiate?  
19 A. Yes.  
20 Q. One thing you could have done but in this  
21 case did not do was you did not take a cut of  
22 Mr. Armstrong's individual endorsement money that he  
23 might have himself gotten; right?  
24 A. Yes.  
25 Q. But you could have tried to negotiate that,

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1 but you did not; fair?  
2 A. Yeah. I don't think that would have been  
3 standard or typical for any team in any sport to -- to  
4 do, but certainly -- certainly it may have been  
5 possible.  
6 Q. Okay. Now, let's talk about the economics of  
7 how it works. To sell yourself to sponsors, one of  
8 things that you would do is you would -- you would  
9 tell them that there was going to be high visibility  
10 for your team; correct?  
11 A. Yes.  
12 Q. If you'll look in the binder in front of you  
13 at Tab 4. I've got there the things we showed you in  
14 your deposition that was the sponsorship agreement  
15 with the US Postal Team. And I'm going to -- I'm  
16 going to refer you just to a couple of pages so that  
17 we can -- we can put this together.  
18 If you'll go to -- and I'll --  
19 MR. TILLOTSON: If I may just approach  
20 him because there's many pages. I'll bring it up --  
21 ARBITRATOR FAULKNER: Sure, sure.  
22 MR. TILLOTSON: -- and mark it. Thank  
23 you.  
24 Q. (By Mr. Tillotson) One of the things that you  
25 mentioned in sort of selling yourself -- let me use my

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1 version here -- was that you would have objectives  
2 which would be -- those objectives would be to win  
3 events; is that right?  
4 A. Yes.  
5 Q. For example, the gold medal, prepare to  
6 launch a full-scale Tour de France Team there at the  
7 bottom and hopefully become the first American cycling  
8 team to win the Tour de France. Do you see that?  
9 A. Yes.  
10 Q. And then the way that would translate into  
11 money for your team -- excuse me -- would be on --  
12 I'll turn you to this page is --  
13 MR. TILLOTSON: If you'll bring that up.  
14 Q. (By Mr. Tillotson) -- is that you would then  
15 say, people are going see this team win, and that's  
16 going to equal exposure; fair enough?  
17 A. Yes.  
18 Q. And so we have here, if you're looking there  
19 at media on-site impressions, you actually try to  
20 estimate how many people will see the team, how much  
21 television, and print broadcasting; is that fair?  
22 A. Yes.  
23 Q. Okay. And then part "C" of all this is, you  
24 add those two together -- let me take you to this  
25 page, which says, you then estimate the total amount

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1 of exposures into media dollars; is that right?  
2 A. Yes.  
3 Q. And then you convince the sponsor that, in  
4 effect, you're sponsoring our team, but you're really  
5 buying 14 million bucks' worth of ads --  
6 A. Yes.  
7 Q. -- and we'll give it to you at a discount  
8 hopefully or something of that nature; is that fair?  
9 A. Yes.  
10 Q. And the goal here is, is the more exposure,  
11 the greater the price hopefully you can charge the  
12 sponsor; right?  
13 A. Yes.  
14 Q. And now, this was for United States Postal  
15 Service who was the main sponsor, but this logic was  
16 also used for other sponsors like Yahoo, Visa?  
17 A. Yes.  
18 Q. These are all sponsors you were -- actually  
19 were able to obtain; right?  
20 A. Yes.  
21 Q. Coca-Cola at one point?  
22 A. Yes.  
23 Q. Subaru, I think?  
24 Okay. And the goal here was if  
25 Mr. Armstrong and the team could win the Tour de

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1 France, for example, this exposure would be even  
 2 higher and you could charge more; fair?  
 3 A. Yes.  
 4 Q. And the Tour de France -- this will sound  
 5 silly to you as a professional cyclist, but for those  
 6 of us who are not -- the Tour de France is the premier  
 7 cycling event in the world?  
 8 A. Yes.  
 9 Q. And that would be the best way to increase  
 10 exposure for your cycling team, to win the Tour de  
 11 France; fair?  
 12 A. Yes.  
 13 Q. Now, we've talked hypothetically about how  
 14 this would work, but, in fact, it did actually work  
 15 that way, did it not? I mean, you had an agreement  
 16 with the Postal Service Company that ended and was  
 17 renegotiated effective '01; correct?  
 18 A. Yes.  
 19 Q. Okay. So it ran from, like, '99 to '01, and  
 20 it was renegotiated from '01 to '04; fair?  
 21 A. Yes.  
 22 Q. And in that 2000 time period, you were able  
 23 to get more money from US Postal Service for your  
 24 team; correct?  
 25 A. Yes.

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1 Q. And one of the main reasons you could get  
 2 more money was because Mr. Armstrong had won two Tour  
 3 de Frances and was -- was very visible; fair?  
 4 A. Yes, of course.  
 5 Q. And the goal was, now, let's do it again and  
 6 keep increasing that visibility and make money; fair?  
 7 A. Theoretically, yes, except we were not making  
 8 money.  
 9 Q. Okay. We'll talk about it in a second.  
 10 We're talking about the goal here.  
 11 Okay. Now, you've -- you've -- you've --  
 12 and that was your job, was to negotiate with the  
 13 sponsors to make this work?  
 14 A. Yes.  
 15 Q. Okay. Let's turn around on the athlete's  
 16 side. Since you want to win Tour de Frances -- when I  
 17 say, want to win, Tailwind wants the team to win the  
 18 Tour de Frances; fair?  
 19 A. Yes.  
 20 Q. Okay. To make the athletes want to win, you  
 21 sign contracts with them where you pay them salaries;  
 22 right?  
 23 A. Yes.  
 24 Q. And incentive bonuses; fair?  
 25 So that way, they'll -- they'll make

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1 money if the team wins the Tour de France and  
 2 hopefully that win will translate into further dollars  
 3 for your Tailwind team down the road; right?  
 4 A. Yes.  
 5 Q. Now, the bonus amounts that you agreed to  
 6 pay, when you paid -- when you were negotiating these  
 7 bonus amounts or agreeing to them, it's true, is it  
 8 not, that you were only going to pay bonuses based  
 9 upon what kind of contractual coverage you could get  
 10 for those bonuses?  
 11 A. Yes.  
 12 Q. In other words, you didn't enter into a  
 13 contract where you going to pay a \$5 million or a \$10  
 14 million bonus to Mr. Armstrong before you knew you  
 15 could, in effect, get coverage for that bonus payment;  
 16 fair?  
 17 A. Yes. Although, we needed to -- we needed to  
 18 offer bonuses at a level that was competitive with  
 19 other entities in the sport, so we didn't just pull  
 20 numbers out of the air that, hey, we can get an  
 21 insurance amount for this amount, so we're going to do  
 22 it at this amount. We needed to -- we need to make it  
 23 competitive in the marketplace.  
 24 Q. Okay. Let me -- there was minimum bonuses  
 25 that you knew you were going to have to pay to be

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1 competitive, and then you were going to try and get  
 2 additional bonus amounts above that based upon how  
 3 much coverage you could get; fair?  
 4 A. Yes.  
 5 Q. Okay. But you didn't enter into any of these  
 6 contracts with the expressed purpose of hoping to lose  
 7 money, did you?  
 8 A. The contracts with the riders?  
 9 Q. Yes.  
 10 A. No.  
 11 Q. I mean, the goal was -- even though you were  
 12 entering to pay these bonus obligations, the goal of  
 13 entering into this and paying these bonuses was  
 14 ultimately to produce a benefit for Tailwind; fair?  
 15 A. Yeah. But obviously we tried -- the event --  
 16 the event -- if the event were to occur, if the  
 17 performance were to be realized by Lance or another  
 18 rider without insurance, that would have been a very  
 19 bad event.  
 20 Q. Okay. We'll talk about that in a second, but  
 21 let's -- first, let's talk about Mr. Armstrong. His  
 22 initial contract with you, which was renegotiated, you  
 23 were able to pay him higher salaries and higher bonus  
 24 amounts; true?  
 25 A. Yes.

<p style="text-align: right;">Page 69</p> <p>1 Q. And we haven't got to the contract yet that 2 brings us here today. There were a couple of 3 contracts. There was an initial one that paid him a 4 salary within the \$450,000 range. Do you recall that? 5 A. The initial one was actually less than that. 6 Q. Okay. Let me see -- just so we can identify 7 it and have it here, I'm going to -- if you'll look at 8 what we've marked as Respondents' Exhibit 2 -- Tab 2 9 right there -- this is the -- is this the initial 10 Armstrong contract? 11 A. No, it's not. This is from the 1999 season. 12 Q. Okay. So there's one before this, and then 13 it was renegotiated -- and '98 was renegotiated, and 14 we're looking at the '99 now; is that right? 15 A. Yes. 16 Q. Okay. With a salary increase and then some 17 bonuses paid; fair? 18 A. Yes. 19 Q. Okay. And then if you'll turn to Tab 3, it's 20 redone in July of '99. It covers him from '99 to 21 December '01, and we're looking at the agreement; is 22 that right? 23 A. Yes. 24 Q. And salaries are able to increase there in 25 the paragraph two to now three-quarters of a million</p>	<p style="text-align: right;">Page 71</p> <p>1 a much better United States Postal Service contract; 2 correct? 3 A. Yes. 4 Q. And one of the reasons you were getting that 5 was because the team had been successful? 6 A. Yes. 7 Q. And, in fact, Mr. Armstrong's contract was 8 dependent upon entering into that US Postal Service 9 agreement; correct? 10 A. Yes. 11 Q. And that's reflected there at the top 12 paragraph. It says, this agreement will become fully 13 binding; fair? 14 A. Yes. 15 Q. And then if you'll turn the page, now we see 16 the bonus amounts for the Tour de France, and there 17 you've got numbered amounts but with the parentheses 18 minimum. Can you see that? 19 A. Yes. 20 Q. And it is true, is it not, that you thought 21 that those were the bonus amounts in which you felt 22 reasonably certain you could get coverage? 23 A. Yes. 24 Q. And that you were then going to try and find 25 more coverage and raise those bonus amounts up;</p>
<p style="text-align: right;">Page 70</p> <p>1 and almost a million in '01; is that fair? 2 A. Yes. 3 Q. And the reason there was more money to pay 4 for salaries was because of increased sponsorship 5 income or hopeful increase in sponsorship income; 6 right? 7 A. Yes. 8 Q. And then you've got bonus amounts on page 9 two. I mean, their bonus amount was only -- I say, 10 otly, but it was a million dollars for winning the 11 Tour de France; is that correct? 12 A. Yes. 13 Q. Okay. Now, when you -- after he won the Tour 14 de Frances and you had to -- and you renegotiated his 15 agreement, you entered into the actual contract 16 that -- that we have, which is now Tab 1 of the black 17 binder in front you, so now we've sort of moved up to 18 the actual contract that brings us here today. 19 A. Uh-huh. 20 Q. Now, by this point in time, you could pay 21 Mr. Armstrong three times -- you could pay 22 Mr. Armstrong three times the salary you had in the 23 other agreements; correct? 24 A. Yes. 25 Q. Because of -- you were anticipating a very --</p>	<p style="text-align: right;">Page 72</p> <p>1 correct? 2 A. Yes. 3 Q. But if you couldn't get any other coverage, 4 other than what's reflected there, you would not have 5 agreed to pay Mr. Armstrong \$10 million for a sixth 6 win, would you? 7 A. No. 8 Q. There would have been no way to do it; right? 9 A. Yes. 10 Q. Okay. And that is, in fact, reflected at the 11 very last page, which is the addendum to the letter of 12 agreements, the very last page of Exhibit 1. These 13 are the new bonus amounts. They are in paragraphs 14 one, two, and three, which now reflect higher amounts 15 than what was in his original agreement; correct? 16 A. Yes. 17 Q. And the only reason you would ever have 18 entered into this addendum is because you, at that 19 point, had secured contractual protection insurance 20 coverage, indemnification -- call it what you want -- 21 to pay those amounts; true? 22 A. I wouldn't say it was the only reason. I 23 think we wanted to provide an incentive to Lance to 24 continue to ride to -- to -- and motivate him to 25 perform at the highest level for three -- you know,</p>

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1 looking at out three or four years in the future.  
 2 Q. Okay. But if -- without the contractual  
 3 coverage from SCA, for example, or Chubb or Lloyd's,  
 4 you will not have agreed to pay these amounts;  
 5 correct?  
 6 A. Yes.  
 7 Q. Okay. So when you say that you had a \$10  
 8 million obligation, if you won a sixth Tour de France,  
 9 the reason you incurred that \$10 million was you want  
 10 to incentivize him but also because you knew that you  
 11 had some contractual protection to cover you; fair?  
 12 A. Yes.  
 13 Q. All right. Now, even though you -- you sign  
 14 this addendum and were obligated to pay these bonuses  
 15 with your contractual obligation, is -- it's true, is  
 16 it not, that you still wanted Mr. Armstrong very much  
 17 to win the third, the fourth, the fifth, and sixth  
 18 Tour de Frances -- you being Tailwind?  
 19 A. Yes.  
 20 Q. I mean, you weren't actively trying to keep  
 21 him from not winning so you didn't have to pay the 10  
 22 million; correct?  
 23 A. Yes.  
 24 Q. All right. And when I say, you wanted him to  
 25 win, it wasn't just personal desire. Tailwind

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1 undertook actions to help him and aid him with --  
 2 A. Yes.  
 3 Q. Okay. And those include managing the team  
 4 and the things we've talked about?  
 5 A. Yes.  
 6 Q. And you will agree with me that Mr.  
 7 Armstrong's continued success in the Tour de France is  
 8 not the result of just pure luck or chance, is it?  
 9 A. Of course not.  
 10 Q. I mean, it's through hard effort and work on  
 11 his part?  
 12 A. Yes.  
 13 Q. And hard effort and work on the team's part  
 14 to support him?  
 15 A. Yes.  
 16 Q. Okay. Now, it's true, is it not, that in  
 17 connection with, for example, the -- a seventh  
 18 possible win for the Tour de France, didn't Tailwind  
 19 try and get additional coverage for even more wins for  
 20 Mr. Armstrong?  
 21 A. I don't know.  
 22 Q. You were gone by then?  
 23 A. Yes.  
 24 Q. Okay. Was -- did -- while you were there,  
 25 did Tailwind attempt to get even more coverage than

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1 what's reflected in this addendum --  
 2 A. No.  
 3 Q. -- for this time period?  
 4 And the -- the cost at this point in time  
 5 of the bonuses -- for you to pay the bonuses now once  
 6 you've got this contractual protection, the actual  
 7 cost to Tailwind of this bonus of -- of -- of 14.5  
 8 million is the amount of the premiums or fees it has  
 9 to pay to get that coverage?  
 10 A. Yes.  
 11 Q. Okay. And that's what the number you looked  
 12 at in terms of whether you were going to make a profit  
 13 is how much of a premium or fee am I going to have to  
 14 pay; how much income am I going to derive; and how  
 15 many expenses am I going to have, and you put this  
 16 bonus stuff aside; right?  
 17 A. Yes.  
 18 Q. It didn't matter. Okay.  
 19 Now, in the course of this particular  
 20 relationship, Mr. Armstrong obviously won the '01 and  
 21 the '02 Tour de Frances, and he -- he had a bonus  
 22 under this of 1.5 million; is that right?  
 23 A. Yes.  
 24 Q. And in connection with that bonus  
 25 arrangement, you are aware, are you not, that -- that

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1 Ms. Price made efforts to collect the money on your  
 2 behalf --  
 3 A. Yes.  
 4 Q. -- on Tailwind's behalf?  
 5 And you are aware, are you not, that at  
 6 some point in time Ms. Price either requested or  
 7 sought to have the check made payable directly to  
 8 Mr. Armstrong to facilitate payment?  
 9 A. Yes.  
 10 Q. Okay. And in connection with that, you --  
 11 you now know that an e-mail was sent to Ms. Price  
 12 stating that this was not insurance by SCA; correct?  
 13 A. I -- I've seen the e-mail, yes.  
 14 Q. Okay. Let's bring that e-mail up, and we  
 15 will put it in front of you. It's Tab 10, the -- of  
 16 the -- of my exhibits.  
 17 A. Okay.  
 18 Q. Do you see that in front of you, and -- and  
 19 there's an e-mail from Ms. Price to Mr. Overton there  
 20 at the bottom. Do you see that?  
 21 A. Yes.  
 22 Q. And do you generally remember this -- this --  
 23 the events that sort of caused this, which was that  
 24 they were trying to facilitate Mr. Armstrong getting  
 25 paid, and it was -- the notion was floated to pay him

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1 directly?  
 2 A. Yeah, vaguely. I mean, I wasn't paying  
 3 particular close attention, but I knew what was going  
 4 on.  
 5 Q. Okay. And this particular e-mail which was  
 6 responded back to Ms. Price from Tom and Todd at SCA  
 7 which says, I think Kelly misunderstands. The payment  
 8 is not insurance, and he not an insured.  
 9 Do you see that?  
 10 A. (Witness nods head up and down.)  
 11 Q. The first time you saw that was in connection  
 12 with your deposition when you were shown this  
 13 document; is that correct?  
 14 A. Yes.  
 15 Q. Ms. Price or Mr. Michelitch, the brokers,  
 16 never shared with you this particular statement or  
 17 this sentiment; is that correct?  
 18 A. No.  
 19 Q. But this, nevertheless, is something that you  
 20 believe the brokers should have told you regarding the  
 21 relationship, if it mattered?  
 22 A. If it mattered.  
 23 Q. All right. Now, were you around when  
 24 Tailwind sought to -- to change the names on the  
 25 contracts from the Disson Furst to Tailwind?

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1 A. I was at the early stages of that.  
 2 Q. Okay. If you'll turn to the tab, which is  
 3 Tab 11.  
 4 ARBITRATOR LYON: Let me -- let me ask  
 5 you this.  
 6 MR. TILLOTSON: Yes. I'm sorry.  
 7 ARBITRATOR LYON: Just to clear up  
 8 something in my mind. Todd Overton is with SCA?  
 9 MR. TILLOTSON: Yes. If -- if I may  
 10 clarify. Todd Overton is the salesperson at SCA that  
 11 was the individual -- the salesman responsible for  
 12 the -- the Tailwind contract.  
 13 ARBITRATOR LYON: All right.  
 14 MR. TILLOTSON: And Tom is --  
 15 ARBITRATOR LYON: And Kelly Price is who?  
 16 MR. TILLOTSON: Kelly Price is the broker  
 17 at ESIX that is representing Tailwind. And then Tom,  
 18 we'll refer there as Tom Floerchinger. Which I won't  
 19 attempt to spell, but F-l-o-e-r-c-h-i-n-g-e-r.  
 20 ARBITRATOR LYON: And who is he with?  
 21 MR. TILLOTSON: He's CFO of SCA.  
 22 ARBITRATOR LYON: All right.  
 23 Q. (By Mr. Tillotson) Now, if you'll -- if  
 24 you'll --  
 25 MR. TILLOTSON: Anything else?

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1 ARBITRATOR LYON: No. I just needed to  
 2 know the individuals' names.  
 3 Q. (By Mr. Herman) I think we're looking at Tab  
 4 11, and this is an e-mail from -- from -- I'm going to  
 5 call it from Terry to Ms. Price. He references that  
 6 you had called him wanting to make sure the bonus  
 7 policies were endorsed to recognize Tailwind Sports  
 8 has merged. Do you see that?  
 9 A. Yes.  
 10 Q. And, in fact, that change making it from --  
 11 from -- from -- from -- from DF Partners to Tailwind  
 12 Sports, that change was effectuated for all of the  
 13 contracts you had --  
 14 A. Yes.  
 15 Q. -- regarding the policy?  
 16 So Chubb, there was an addendum, Lloyd's,  
 17 and there was one for SCA; correct?  
 18 A. Yes. I -- I believe there was.  
 19 Q. Did you actually sign the addendum for SCA?  
 20 A. I don't know. I may have.  
 21 Q. Okay. Why don't we take a look at it real  
 22 quick to -- if we could. And I'm afraid it's in  
 23 the -- it's Tab 16 of the black binder in front of  
 24 you.  
 25 A. That's Dan Osipaw's signature who was --

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1 became the interim general manager of the team when I  
 2 departed.  
 3 Q. Okay. So that we have the timing right, you  
 4 set in motion those changes, and then you were gone by  
 5 the time the addendums were actually signed?  
 6 A. Yes.  
 7 Q. Okay. But the purpose of all these addenda  
 8 with Chubb and Lloyd's and SCA was to do anything  
 9 other than simply change the name as to who was the  
 10 party to the contract?  
 11 A. Assign the obligation to Tailwind Sports,  
 12 Corp.  
 13 Q. New policies weren't issued or new contracts  
 14 weren't entered into, were they?  
 15 A. No.  
 16 Q. Okay. Now, in connection with the process,  
 17 though, of -- of -- of the payments, it is true, is it  
 18 not, that you didn't ever get a proof of loss or claim  
 19 form from SCA?  
 20 A. No, I did not.  
 21 Q. Okay. And you didn't ever actually have to  
 22 fill out an application for SCA, did you?  
 23 A. I never did for any of the insurance that we  
 24 did through ESIX over the course of five or six years.  
 25 Q. Okay. Now, while at Tailwind, you were

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1 involved, were you not, in connection with other  
 2 possible insurance for Mr. Armstrong, like life  
 3 insurance or disability insurance. Do you recall  
 4 that?  
 5 A. There may have been a discussion about it.  
 6 We -- I don't -- we never got into negotiation, or  
 7 there -- it may have been mentioned to me by ESIX, but  
 8 I don't believe we ever -- we never took out any  
 9 policies like that, no.  
 10 Q. But it was contemplated or at least  
 11 considered that maybe we could get a disability or a  
 12 life insurance or some other kind of insurance policy?  
 13 A. I don't think it was contemplated by us, but  
 14 it was probably proposed by ESIX.  
 15 Q. It just never went anywhere; right?  
 16 A. Yes.  
 17 Q. Okay. And even up until the point you left,  
 18 despite the various bonuses that Tailwind had  
 19 contracted to pay Mr. Armstrong if he won certain  
 20 events, it was Tailwind still acting and wanting  
 21 Mr. Armstrong to win the Tour de France; fair --  
 22 A. Yes.  
 23 Q. -- up until the day you left?  
 24 MR. TILLOTSON: I'm going to pass the  
 25 witness.

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1 Thank you, Mr. Gorski.  
 2 ARBITRATOR FAULKNER: Redirect?  
 3 MR. HERMAN: Yes.  
 4 REDIRECT EXAMINATION  
 5 BY MR. HERMAN:  
 6 Q. Just a couple of questions. Mr. Gorski, if  
 7 you go to Claimaints' Exhibit 1. Look at page two.  
 8 At the time this contract was entered into, of course,  
 9 Mr. Armstrong had already won his first and second  
 10 Tours --  
 11 A. Yes.  
 12 Q. -- had he not?  
 13 If you'll look up there, it says, Tour De  
 14 France GC wins, that's, what general classification?  
 15 A. Right, yes.  
 16 Q. That's the overall win; right?  
 17 A. Yes.  
 18 Q. Now, assume with me that -- well, strike  
 19 that.  
 20 That bonus for the third Tour doesn't  
 21 have anything to do with consecutive wins, does it,  
 22 sir?  
 23 A. No.  
 24 Q. The addendum to the agreement, in order for  
 25 Mr. Armstrong to qualify for the 1.5 million, the 3

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1 million, and the 10 million, those had to be  
 2 consecutive wins?  
 3 A. That's right, yes.  
 4 Q. And you went out and bought insurance to  
 5 cover your liability --  
 6 A. Yes.  
 7 Q. -- right?  
 8 Now, if he had not won in 2001 but had  
 9 won in 2002, would that have been an adverse event for  
 10 Tailwind?  
 11 A. Yes, it would. And I think -- and to kind of  
 12 refer back to some of the questions, is it -- it was  
 13 easy for us to cheer on Lance to victory for Tailwind  
 14 when we had the insurance, but there's -- you're  
 15 pointing out a scenario that we potentially were un --  
 16 uninsured for which was a nonconsecutive win of a  
 17 fourth or fifth or sixth Tour by Lance in which a 1  
 18 million or 1.5 or \$2 million obligation would have  
 19 been created to the company because it was  
 20 nonconsecutive.  
 21 In other words in 2002, if he had broken  
 22 his leg a week before the Tour, then come back and won  
 23 in 2003, we still had an obligation to pay a bonus but  
 24 didn't have insurance coverage for it, and we worried  
 25 about that. We spent a lot of time and -- and, I

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1 think, had it actually gone that way, you know, we --  
 2 we would have -- with all due respect to Bill being  
 3 here, we would have probably been rooting against  
 4 Lance to win the Tour because we could have had a \$1.5  
 5 million obligation that we had no coverage for.  
 6 Q. So just looking at the contingency -- that  
 7 is, the contingency being Tailwind's duty and  
 8 obligation to pay Armstrong his bonus without looking  
 9 at whether you had insurance or -- or didn't have  
 10 insurance, that, I take it, would be an extremely  
 11 adverse event for Tailwind?  
 12 A. Yes.  
 13 Q. And is that why you went out and tried to buy  
 14 insurance?  
 15 A. Yes. From -- I mean, going back to the first  
 16 time we tried to secure this kind of insurance, it was  
 17 to avoid a catastrophic event for the company  
 18 financially --  
 19 Q. Okay.  
 20 A. -- and prevent us from going under as a  
 21 company. We didn't have the ability. We were a small  
 22 company. Most of our revenue was locked in. There  
 23 were no bonuses connected from its -- from our  
 24 sponsors connected to the victory.  
 25 Yes, potentially in the future it could

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1 have increased the value of the team, but it could  
2 have been a catastrophic event for the company.  
3 Q. And as I understood your earlier testimony  
4 talking about going to the insurance market and  
5 finding that because he had won two in a row, that was  
6 going to be impossible to -- to buy insurance at any  
7 sort of an affordable premium, basically you were  
8 going naked on these nonconsecutive wins?  
9 A. And -- and -- and our entire board and  
10 investors were very concerned. This was a -- this was  
11 a topic that was discussed at length at our board  
12 meetings because all of our investigators and board  
13 members knew that we were naked to that contingency if  
14 there were nonconsecutive -- if there was a  
15 nonconsecutive win by Lance, which could happen.  
16 Q. And if you could have bought insurance, you  
17 would have, I take it?  
18 A. Yes. If it -- if it had been affordable,  
19 which I think it probably would not have been.  
20 Q. Now, if you look at Claimaints' Exhibit 22,  
21 Mr. Tillotson asked you about an e-mail, which is the  
22 third page or the earliest e-mail in this exchange  
23 where -- when the proposal was to pay Mr. Armstrong  
24 direct, and Mr. Floerchinger says the payment is not  
25 insurance, and is not an insured.

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1 Now, Kelly Price apparently sent the --  
2 sent the first e-mail August 26th, 2002. She says,  
3 since when was it the obligation of the insurance  
4 company to assess taxes? Of course, Mr. Armstrong was  
5 not the insured, was he?  
6 A. Tailwind Sports was -- or DFP or Tailwind  
7 Sports was the insured, of course  
8 Q. Because it was Tailwind Sports that had the  
9 obligation or the contingency; correct?  
10 A. Absolutely, yes.  
11 Q. Now, look at the second page of Claimaints'  
12 22, and there is the exchange saying that basically  
13 the payment to Armstrong direct would require some  
14 1099 information or something to that effect; correct?  
15 A. Yes.  
16 Q. Now, look at the first page which is the  
17 latest e-mail in the string where Kelly Price  
18 indicates Mr. Armstrong is not available and so that  
19 just -- just go ahead and make check payable to  
20 Tailwind; correct?  
21 A. Yes.  
22 Q. And I think as we've seen in Exhibit 23,  
23 that's exactly what happened, and there was no tax  
24 information or 1099 information required; correct?  
25 A. No, that's right.

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1 Q. Now, Mr. Tillotson asked you about these --  
2 these alleged differences between the Chubb and  
3 Lloyd's documents and the SCA document. Regardless of  
4 the differences in form, is there any difference in --  
5 any functional material difference in the three  
6 documents?  
7 A. Not that I was aware of or that ESIX as our  
8 insurance experts made us aware of.  
9 Q. And the only -- well, strike that.  
10 The 10 million for 2004 was split between  
11 the three companies; correct?  
12 A. Yes.  
13 Q. You mentioned that you didn't ever have to  
14 really fill out any applications or anything like that  
15 during the, I guess, six years that -- that ESIX  
16 brokered your insurance products. Were there any  
17 differences that you can recall in the process or  
18 procedures for Tailwind in securing the Chubb and  
19 Lloyd's coverage versus securing the SCA coverage?  
20 A. No. That's probably why I felt and assumed  
21 through the process of these four, five, or six years  
22 that the coverage and the policies were the same, that  
23 they were insurance of some sort, because the process  
24 that we went through for all of them over the, you  
25 know, five or six different companies was all the

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1 same.  
2 Q. And I think that Mr. Tillotson asked you what  
3 really mattered to you was that if Armstrong won the  
4 races, that the carrier would pay. That's really what  
5 you were buying; isn't that right?  
6 A. Yes.  
7 Q. And that didn't make any difference whether  
8 it was Chubb, Lloyd's, or SCA?  
9 A. Yes, that's right.  
10 Q. So that happened with Chubb and Lloyd's, did  
11 it not?  
12 A. Yes. They -- they paid immediately.  
13 Q. That has not happened with SCA; correct?  
14 A. From what I understand, yes. Obviously  
15 that's why we're here.  
16 MR. HERMAN: I have nothing further.  
17 MR. TILLOTSON: I have just a few.  
18 ARBITRATOR FAULKNER: Sure.  
19 RE-CROSS-EXAMINATION  
20 BY MR. TILLOTSON:  
21 Q. I want to just turn to the contract that  
22 you -- Tailwind had with Mr. Armstrong that you  
23 testified to earlier. First, the -- the bonus amounts  
24 listed in the original contract on page two.  
25 Mr. Gorski, we're looking there in the black binder

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1 Tab 1.  
 2 MR. HERMAN: In the -- in the black --  
 3 MR. TILLOTSON: Plaintiff's Exhibits --  
 4 I'm sorry. Claimaints' Exhibit Tab 1.  
 5 MR. HERMAN: Front -- he just got the  
 6 wrong -- there you go.  
 7 Q. (By Mr. Tillotson) Claimaints' Exhibit Tab 1.  
 8 This is the contract that was assigned to  
 9 Mr. Armstrong that covered bonuses through winning the  
 10 '04 Tour de France; is that right?  
 11 A. Yes.  
 12 Q. And there on page two are the specified bonus  
 13 amounts which you have now testified were  
 14 nonconsecutive and put you at risk such that without  
 15 insurance coverage, you might have been secretly  
 16 rooting against Mr. Armstrong. Have I got that right?  
 17 A. Yes.  
 18 Q. These bonus amounts, however, disappeared and  
 19 were replaced by the amendment; correct?  
 20 MR. HERMAN: What are you referring to,  
 21 Mr. --  
 22 Q. (By Mr. Tillotson) Well, the amendment is the  
 23 bonuses that you ultimately agreed to pay him there on  
 24 last page of this agreement.  
 25 ARBITRATOR CHERNICK: Are you referring

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1 to the addendum?  
 2 MR. TILLOTSON: The addendum, I'm sorry.  
 3 ARBITRATOR CHERNICK: Not the amendment.  
 4 MR. TILLOTSON: I apologize.  
 5 Q. (By Mr. Tillotson) These three paragraphs  
 6 we're looking at is what was ultimately agreed to pay  
 7 him; correct?  
 8 A. Yes.  
 9 Q. Because that tracked the insurance,  
 10 consecutive wins; correct?  
 11 A. Yes.  
 12 Q. In fact, the agreement says -- in the next  
 13 paragraph under what we've highlighted here on the  
 14 board says, this also confirms that policies insuring  
 15 the payments of such bonuses from SCA, Lloyd's, and  
 16 Chubb are being purchased or have been purchased;  
 17 correct?  
 18 A. Yes.  
 19 Q. And that's what was obligated to be paid.  
 20 You never had any coverage protection for  
 21 nonconsecutive bonuses in this contract, did you?  
 22 A. In this addendum?  
 23 MR. HERMAN: Would you -- would you mind  
 24 repeating the question? I'm sorry.  
 25 Q. (By Mr. Tillotson) You never had -- you've

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1 identified, first, the bonus amounts which you've said  
 2 are nonconsecutive and part of the original agreement,  
 3 and that was amended to pay bonuses based on  
 4 consecutive wins; correct?  
 5 A. Yes.  
 6 Q. And the reason you did that was because you  
 7 now had coverage for those consecutive wins; correct?  
 8 A. Yes.  
 9 Q. Okay. Now, the original bonus amounts listed  
 10 in the contract at page two, those were either  
 11 replaced by these bonus amounts, or if they still  
 12 existed, nonconsecutive wins, you had no coverage for  
 13 those; correct?  
 14 A. Yes, that's right.  
 15 Q. Okay. So if you were at risk on those, you  
 16 were always at risk?  
 17 A. We were -- we were at risk before we got  
 18 insurance, yes.  
 19 Q. Right. But the whole point was that the  
 20 reason these were minimums was because it was  
 21 anticipated they were going to change?  
 22 A. Yes.  
 23 Q. And they did change. And, in fact, the  
 24 addendum here was the bonuses that were going to be  
 25 paid to Mr. Armstrong based upon the events and that

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1 was the sum of the bonus payments for the Tour de  
 2 France; correct?  
 3 A. Yes.  
 4 Q. Okay. And that only became possible -- you  
 5 only did that because now you had coverage in place,  
 6 which is what the agreement says; right?  
 7 A. Yes.  
 8 Q. And, in fact, as the last provision there  
 9 says, that if you couldn't collect under the  
 10 addendum -- even if you couldn't collect the -- any of  
 11 the insurance, that you would work together to  
 12 facilitate the payment of those bonuses?  
 13 A. Well, because they knew the company didn't  
 14 have the ability to pay, and we at least wanted to  
 15 have some language that contemplated the insurance  
 16 company becoming insolvent or having -- not having the  
 17 ability to pay for some reason or another.  
 18 Q. Thank you.  
 19 MR. TILLOTSON: Pass the witness.  
 20 ARBITRATOR FAULKNER: Any other  
 21 questions?  
 22 FURTHER DIRECT EXAMINATION  
 23 BY MR. HERMAN:  
 24 Q. When you said -- when you said, Mr. Gorski,  
 25 that the -- the company didn't have the ability to

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1 pay, you're talking about Tailwind?  
2 A. Tailwind.  
3 Q. Okay. Was it within the contemplation of  
4 both parties that a -- a -- a bonus where the  
5 insurance company had -- was insolvent or had gone out  
6 of business would ruin Tailwind?  
7 A. Yes.  
8 Q. And was that the reason that provision was  
9 put in there, to at least have some mechanism for  
10 sitting down and talking about a payout or something  
11 like that?  
12 A. Of course, yes.  
13 Q. Is there any agreement that Tailwind is off  
14 the hook --  
15 A. No.  
16 Q. -- just because the insurance company doesn't  
17 want to pay?  
18 A. No, of course not.  
19 Q. Now, let -- let me just go back to this for a  
20 second. If you'd go to page two of Claimaints'  
21 Exhibit 1, and I want make sure because I'm a little  
22 confused in the record. Do you remember we talked  
23 about, Mr. Gorski, if -- if, for example,  
24 Mr. Armstrong had not -- had failed to win the 2001  
25 Tour, okay, which would kick out all of the insurance

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1 coverage for the consecutive wins; correct?  
2 A. Yes.  
3 Q. But he had won the 2002 Tour. That would  
4 have been his third Tour, would it not?  
5 A. Yes.  
6 Q. And you or Tailwind would owe him \$1 million  
7 for that win, would you not?  
8 A. Well, the question is, based upon the  
9 language of the addendum, did -- would that obligation  
10 still exist or not, and I'm -- I'm a little confused  
11 myself right now whether or not that is -- that was  
12 the case or not.  
13 Q. Well, was -- would it have -- would there  
14 have been any reason for the board to agonize over it  
15 about --  
16 A. No.  
17 Q. -- what happened if, in fact, you had all the  
18 insurance that you'd ever need to cover it?  
19 A. Yeah. No. I definitely remember that, so  
20 I -- I'm -- I'm read -- rereading the contract myself  
21 right now to determine if the --  
22 Q. Well, in connection with the addendum --  
23 let's -- let's just go back to the addendum real  
24 quick. Where it says this addendum supplements, the  
25 letter agreement dated October 10, 2000; correct?

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1 A. Yes.  
2 Q. And then it says, this specifically  
3 confirming that the bonuses payable to Armstrong for  
4 consecutive Tour de France GC wins; correct?  
5 A. Yes.  
6 Q. Okay. But in any event, Mr. Stapleton  
7 negotiated this on behalf of -- of Mr. Armstrong, did  
8 he not?  
9 A. Yes, he did.  
10 Q. Okay. And Mr. Stapleton is now the CEO of  
11 Tailwind?  
12 A. Yes.  
13 Q. And Mr. Stapleton is sitting right behind me,  
14 is he not?  
15 A. Yes, he is.  
16 Q. Okay. Thank you.  
17 MR. HERMAN: That's all I have.  
18 ARBITRATOR FAULKNER: Anything else?  
19 MR. TILLOTSON: Nothing further.  
20 ARBITRATOR FAULKNER: Anything from any  
21 of the Panel members?  
22 ARBITRATOR LYON: Mr. Gorski, was part of  
23 Tailwind's profit motive the fact that you could find  
24 insurance to cover the cost to Armstrong? In other  
25 words --

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1 THE WITNESS: No.  
2 ARBITRATOR LYON: Well, if you -- if you  
3 didn't have -- let me ask it another way.  
4 If you couldn't find insurance to cover  
5 Armstrong, you've testified that y'all would have gone  
6 down the tubes.  
7 THE WITNESS: Yeah.  
8 ARBITRATOR LYON: What was your profit?  
9 In other words, how were -- how were y'all going to  
10 make money?  
11 THE WITNESS: By -- obviously by the  
12 sponsorship revenue exceeding the expenses of the  
13 team.  
14 ARBITRATOR LYON: Right. And you  
15 obviously put together probably one of the -- you  
16 know, you were in charge of putting this team  
17 together, and you put together one of the best teams  
18 in the history of the Tour de France.  
19 THE WITNESS: Yes.  
20 ARBITRATOR LYON: Most of the guys are  
21 still there that you put together, aren't they?  
22 THE WITNESS: Uh-huh.  
23 ARBITRATOR LYON: Okay. But all the way  
24 up till the time you left, y'all didn't make any  
25 money?

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1 THE WITNESS: Well, we were -- you know,  
 2 I would say, analogous to or parallel to a lot of  
 3 professional sports franchises that are losing money  
 4 in terms of current year operating income but their --  
 5 their values are increasing. We were, I think,  
 6 continually looking to the future and trying to build  
 7 some longevity and some equity in our team, and we  
 8 knew that might take some time.  
 9 So we were -- you know, we -- I think we  
 10 were -- we felt that if we continued to develop the  
 11 franchise, build equity and build a -- an organization  
 12 that could attract sponsorship over the long haul, we  
 13 could ultimately make money, but it -- it was going to  
 14 take a while to do so.  
 15 ARBITRATOR LYON: Okay. And that's  
 16 typical with most sports franchises?  
 17 THE WITNESS: I think, yeah.  
 18 ARBITRATOR LYON: I think the Dallas  
 19 Cowboys -- Jerry Jones paid 120 million for them, and  
 20 they're now valued at close to a billion dollars.  
 21 THE WITNESS: But in a lot of the years  
 22 to get to that point, he lost money. In other words,  
 23 there were some lose -- there were some years of  
 24 losing money to do so.  
 25 But I -- but your question was about -- I

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1 mean, was the insurance part of the motive to --  
 2 ARBITRATOR LYON: No. I mean, did you  
 3 have to have -- I mean, you had a profit motive.  
 4 THE WITNESS: Yes.  
 5 ARBITRATOR LYON: I mean, you had -- the  
 6 question to me is: In order -- I mean, you've already  
 7 said, if we didn't have this insurance, we would have  
 8 gone broke; isn't that right?  
 9 THE WITNESS: Yeah.  
 10 ARBITRATOR LYON: Okay. And part of your  
 11 profit motive had to have been the acquisition of the  
 12 insurance, or you couldn't have done it; isn't that  
 13 right?  
 14 THE WITNESS: Yes.  
 15 ARBITRATOR LYON: Okay.  
 16 THE WITNESS: The -- and we were -- we  
 17 knew a key to our future success or what we thought  
 18 was the ideal formula for success for our company was  
 19 Lance Armstrong leading the team. There are 20 other  
 20 teams out there in professional cycling that have  
 21 multi, multimillion dollar budgets. Lance had the  
 22 ability to go out and be signed and be attractive and  
 23 get a 1 or 2 or 3 million dollar bonus from lots of  
 24 other teams.  
 25 So we, with our sort of limited budget --

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1 in fact, the first year that Lance won the Tour in  
 2 1999, we were one of the smaller budgets in the Tour  
 3 de France, so the -- you know, we -- we were trying to  
 4 sort of do the most with what little we had really.  
 5 I mean, that's -- that's the kind of  
 6 change -- to some extent now, the team's grown and  
 7 being able to attract more sponsorship but --  
 8 ARBITRATOR LYON: But the team was all  
 9 over the television all summer long.  
 10 Let me ask you another question. The --  
 11 the broker thought it was insurance; right? You, the  
 12 buyer -- and you thought it was insurance. We're  
 13 talking about this contract here.  
 14 THE WITNESS: Yes.  
 15 ARBITRATOR LYON: Is there any other  
 16 evidence that SCA says it's not the insurance, other  
 17 than the August 26th, 2002 e-mail that's a long time  
 18 after this contract was signed? Have you seen  
 19 anything else?  
 20 THE WITNESS: No, I haven't. I mean, and  
 21 I didn't see that for the first time until a month ago  
 22 or -- you know, my deposition. I've not seen  
 23 anything, and it was -- you know, Tim called me a  
 24 couple months ago and said that one of the  
 25 contingencies in the -- or one of the issues in the

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1 case was whether the -- whether the SCA policy was  
 2 insurance or not, and I paused on the phone for half a  
 3 minute, and I said -- I said to Tim -- I said, what  
 4 else -- what else could this be if it's not insurance.  
 5 We've been dealing with an insurance  
 6 broker. We've been buying the same kind of product  
 7 for the last several years. Our insurance experts  
 8 have been referring it to as insurance. What else is  
 9 it?  
 10 ARBITRATOR LYON: Okay. In my reading of  
 11 these documents, that full practice, signed and  
 12 effective with SCA on the 9th of January 2001, which  
 13 is a year and a half before the August 26th, 2002  
 14 e-mail. Is that about right?  
 15 THE WITNESS: Yes.  
 16 ARBITRATOR LYON: Okay. Thank you.  
 17 ARBITRATOR FAULKNER: Any other  
 18 questions? Either of you gentlemen have anything else  
 19 you want to follow up on?  
 20 MR. HERMAN: No. May Mr. Gorski be  
 21 excused?  
 22 ARBITRATOR FAULKNER: That's what I was  
 23 about to ask. Anyone need to call him back?  
 24 MR. TILLOTSON: No, not at all.  
 25 ARBITRATOR FAULKNER: All right. Thank

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1 you very much, sir. You are excused.  
2 I have already had a request for a short  
3 break, so we'll be taking, like, a 10-minute break  
4 right now, and then we'll resume -- and we'll try to  
5 resume at 2:15.  
6 (Break from 2:05 p.m. to 2:20 p.m.)  
7 BILL STAPLETON,  
8 having been first duly sworn, testified as follows:  
9 DIRECT EXAMINATION  
10 BY MR. HERMAN:  
11 Q. What is your name, sir?  
12 A. Bill Stapleton.  
13 Q. And what do you do for a living,  
14 Mr. Stapleton?  
15 A. I own a company that manages Lance Armstrong,  
16 produces live events, and also manages the Tailwind  
17 Sports Bike Team.  
18 Q. That's Capital Sports & Entertainment?  
19 A. Yes.  
20 Q. Headquartered in Austin?  
21 A. Yes.  
22 Q. How long has Capital Sports & Entertainment  
23 had the responsibility for the Tailwind management?  
24 A. Two years, I believe.  
25 Q. Do you have -- you've got that black notebook

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1 in front of you. Let me refer you to Tab 1, which is  
2 the contract of Mr. Armstrong dated August 10, 2000,  
3 together with the addendum. You didn't have any  
4 affiliation with Disson Furst or Tailwind at the time  
5 this contract was negotiated, I take it?  
6 A. No.  
7 Q. And your -- this letter -- the October 10,  
8 2000 letter is signed by William J. Stapleton, III,  
9 and that would be you?  
10 A. Yes.  
11 Q. Okay. And in your capacity as  
12 Mr. Armstrong's management arm, you negotiated this on  
13 behalf of Mr. Armstrong?  
14 A. Yes.  
15 Q. Okay. Now, look at page two of Claimaints'  
16 Exhibit 1. Can you -- you were present when  
17 Mr. Gorski testified, I take it?  
18 A. Yes.  
19 Q. Tell us what the -- there's no consecutive  
20 requirement with respect to third, fourth, fifth,  
21 sixth Tour. Could you just clear that up for the  
22 Panel, please? Tell them how these bonuses would have  
23 been payable.  
24 A. Well, if the -- the insurance covered  
25 consecutive wins and motivated Lance to win six in a

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1 row, but if Lance lost one along the way -- let's say,  
2 he won the third one and then he lost the next year  
3 and then he won the year after, that would have been  
4 his fourth, and Tailwind would have owed Lance a  
5 million and a half dollars.  
6 Q. All right. And if -- let's turn to the  
7 addendum. It says -- the addendum to the letter  
8 agreement dated October 10, 2000, it says, this  
9 addendum supplements the letter agreement, and then  
10 goes on to say, confirming bonuses payable to  
11 Armstrong for consecutive Tour de France wins.  
12 How does this dovetail or fit with the  
13 minimum bonuses that you just talked about in -- in  
14 your earlier testimony?  
15 A. I think it -- it -- it adds a bonus system  
16 that -- that is attached to consecutive wins, so it  
17 supplements the bonuses that he was going to get, but  
18 it doesn't replace the bonuses for fourth -- third,  
19 fourth, fifth, and sixth wins in the contract.  
20 Q. All right. So that if, as it turned out, he  
21 happened to win those consecutively, of course, they  
22 would have met the minimum requirement by paying these  
23 bonuses here; correct?  
24 A. That's right.  
25 Q. All right. But on the -- on the

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1 nonconsecutive bonuses where there was -- he skipped a  
2 beat, broke a leg, whatever, finished second, then the  
3 minimum bonus would be payable?  
4 A. Yes.  
5 Q. Okay.  
6 A. We would have never agreed to a contract in  
7 which there was a potential, you know, third or fourth  
8 or fifth Tour win where Lance didn't get a bonus.  
9 Q. And unless he won them consecutively, he  
10 wouldn't be entitled to the bonus under the addendum?  
11 A. That's right.  
12 Q. Okay. Now, did you -- were -- did you  
13 participate in the negotiation of the addendum, as  
14 well -- as well as the --  
15 A. I knew the insurance had been purchased, and  
16 I knew that we had to do an addendum. I didn't know  
17 that it was anything that was negotiated.  
18 Q. Okay.  
19 A. Lawrence Temple would have probably been more  
20 involved in this -- drafting this document than I  
21 would have.  
22 Q. Okay. If you'd look at the -- I guess it's  
23 the third paragraph of the addendum. It recites that  
24 this confirms that policies insuring the payment of  
25 such bonuses from SCA Promotion to Lloyd's of London

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1 and Chubb Insurance Group are being purchased -- or  
 2 have been purchased. The premiums for those policies,  
 3 which totaled 570,000, apply against the reserve  
 4 amounts, et cetera, et cetera.  
 5 Was -- did you have any question in your  
 6 mind as to whether or not the consecutive win bonuses  
 7 were insured as are set forward there?  
 8 A. No.  
 9 Q. And if you'll look down at the last  
 10 paragraph, it talks about the parties' mutual  
 11 understanding that Tailwind would be able to spread  
 12 the risk of such liability through procurement of  
 13 commercially available insurance as identified above.  
 14 Is that what you understood had been  
 15 procured commercially -- commercial insurance?  
 16 A. Yes.  
 17 Q. Now, tell the Panel how that last sentence  
 18 came to be included and what it was designed to  
 19 address.  
 20 A. The -- this was -- we knew that if -- if for  
 21 some reason an insurance company who was insuring the  
 22 bonuses couldn't pay for insolvency reasons, that  
 23 Tailwind would go bankrupt if they had to immediately  
 24 pay some of these numbers. I knew at the time that  
 25 they never turned a profit. So this was a mechanism

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1 that we agreed to sit down in good faith and discuss  
 2 potentially a payout over time or another way, but it  
 3 was never designed to relieve Tailwind of their  
 4 obligation.  
 5 Q. When -- when Exhibit -- that -- that is, the  
 6 agreement and the addendum was negotiated, you weren't  
 7 negotiating for Mr. Armstrong?  
 8 A. That's correct.  
 9 Q. And was this negotiation a -- an arm's length  
 10 and difficult negotiation with respect to contract  
 11 provisions and incentives with you on one side and  
 12 Tailwind on the other?  
 13 A. Yes.  
 14 Q. Now, you mentioned that Capital Sports &  
 15 Entertainment had -- had, I guess, some three years  
 16 after this was negotiated taken over the management of  
 17 Tailwind. Is there anything about that relationship  
 18 that makes -- that impacts the liability of Tailwind  
 19 under this agreement?  
 20 A. No. And when I -- when we did that -- you  
 21 know, I've never negotiated a contract for Lance with  
 22 Tailwind, and I wouldn't do that.  
 23 Q. Since you took over your --  
 24 A. Since I took over.  
 25 Q. Yeah. And of course, Mr. Armstrong is

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1 retired now.  
 2 A. Yeah.  
 3 Q. Tell the Panel what Tailwind's current  
 4 obligation is to Mr. Armstrong under this agreement  
 5 and how that's going to be satisfied.  
 6 A. Well, we owe him \$5 million plus interest at  
 7 this point, I would imagine, and the only way that's  
 8 going to be satisfied is for SCA to pay us.  
 9 Q. Did you pay the \$570,000 that was required to  
 10 purchase this coverage?  
 11 A. Tailwind did. I wasn't the CEO at the time,  
 12 but, yes.  
 13 Q. And is there any -- is there any doubt about  
 14 Tailwind's liability to Armstrong for the 5 million  
 15 left out of the 10 million --  
 16 A. No.  
 17 Q. -- for 2004?  
 18 A. No question.  
 19 Q. And is there any way that could ever change  
 20 without the UCI doing something to strip him of a  
 21 title or something?  
 22 A. I don't think so.  
 23 MR. HERMAN: I'll pass the witness.  
 24 MR. TILLOTSON: One second. Okay.  
 25 CROSS-EXAMINATION

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1 BY MR. TILLOTSON:  
 2 Q. Good afternoon, Mr. Stapelton. You and I  
 3 have had a chance to visit in connection with your  
 4 deposition in this matter; is that correct?  
 5 A. Yes.  
 6 Q. First, I want to deal with -- and I'm only  
 7 going to refer you to -- to Claimaints' Exhibit 1,  
 8 which is the contract you had in front of you just a  
 9 second ago. Let me ask you a couple of questions  
 10 about that contract. If you'll start at the last page  
 11 of the actual contract, which is page four of the  
 12 letter agreement, focusing on paragraph seven for a  
 13 moment, if you pull that up. I'm on paragraph seven.  
 14 In connection with signing up Mr.  
 15 Armstrong -- and before I do that, let me set the  
 16 stage. You -- at this time, negotiating the  
 17 agreement, you represented Mr. Armstrong; right?  
 18 A. Yes.  
 19 Q. And you were negotiating with Mr. Gorski, who  
 20 represents Tailwind, to come to some agreement so  
 21 Mr. Armstrong can be part of the United States Postal  
 22 Team?  
 23 A. That's correct. Well, he already was, but it  
 24 was an exception.  
 25 Q. To continue. I'm sorry. Thank you.

<p style="text-align: right;">Page 109</p> <p>1 Okay. And one of the requirements or --</p> <p>2 or rights that Mr. Armstrong has is that he basically</p> <p>3 has extensive input into rider staff and composition;</p> <p>4 correct?</p> <p>5 A. Yes.</p> <p>6 Q. So he can help manage and determine who the</p> <p>7 team should be and how it should function; fair?</p> <p>8 A. Yeah.</p> <p>9 Q. In addition, there was a budget set at 12 and</p> <p>10 a half million. Do you see that?</p> <p>11 A. Yes.</p> <p>12 Q. And if, in fact, the budget had to go below</p> <p>13 12 and a half million, salaries of Mr. Armstrong and a</p> <p>14 couple of other individuals would not be decreased;</p> <p>15 fair?</p> <p>16 A. Yes.</p> <p>17 Q. So Armstrong's salary was protected along</p> <p>18 with the other two individuals, but other individuals'</p> <p>19 salaries may be cut to help bring expenses down to</p> <p>20 allow the team to make some profit; fair?</p> <p>21 A. Yes.</p> <p>22 Q. And it was -- you agree, it was the purpose</p> <p>23 so the Tailwind team could make a profit through this</p> <p>24 arrangement?</p> <p>25 A. Well, they never did. I don't know if that</p>	<p style="text-align: right;">Page 111</p> <p>1 for -- to go out and buy insurance to provide</p> <p>2 enhancements for the bonuses; correct?</p> <p>3 A. Yes.</p> <p>4 Q. And the bonuses that are going to be enhanced</p> <p>5 that it's referring to are the ones we saw on the</p> <p>6 first page that you were shown, the Tour de France GC</p> <p>7 wins; correct?</p> <p>8 A. Yes.</p> <p>9 Q. Okay. Now, those bonuses were, in fact,</p> <p>10 enhanced through an addendum to this contract;</p> <p>11 correct?</p> <p>12 A. Yes.</p> <p>13 Q. That addendum is what we saw, which is the</p> <p>14 last page that we now have up here; right?</p> <p>15 A. Yes.</p> <p>16 Q. And those enhancements were in addition to</p> <p>17 and supplanted the bonus arrangements you previously</p> <p>18 had; correct?</p> <p>19 A. No.</p> <p>20 Q. Okay. So if I can draw it out because I'm --</p> <p>21 I'm confused, and I want to make sure I understand.</p> <p>22 Under the original agreement there on</p> <p>23 page two. If Mr. Armstrong won in '01, there was a \$1</p> <p>24 million bonus; is that right?</p> <p>25 A. If he won the third Tour, there was a \$1</p>
<p style="text-align: right;">Page 110</p> <p>1 was the primary goal, and it wasn't -- it wasn't my</p> <p>2 goal because I negotiated the contract to try to get</p> <p>3 as much money for Lance as I could.</p> <p>4 Q. Okay. Now, let's talk about the bonus</p> <p>5 arrangement that you've described, and if you'll turn</p> <p>6 to page two of the actual agreement. Actually, I'm</p> <p>7 sorry. If you'll turn to page three. We've got the</p> <p>8 charts. I'll go over them in a second. But if you'll</p> <p>9 look at paragraph four.</p> <p>10 It says, paragraph four, DF&amp;P will place</p> <p>11 into reserve and pay 550,000 for '02, 650,000 in '03,</p> <p>12 and 750 in '04 for the follow reasons: Bonuses for</p> <p>13 stage victories at the Tour de France, bonuses for</p> <p>14 wearing the yellow jersey for the Tour de France,</p> <p>15 salary enhancements for winning the GC at the Tour de</p> <p>16 France, and payment of insurance premiums to enhance</p> <p>17 the bonus for the Tour de France GC wins.</p> <p>18 Do you see that?</p> <p>19 A. Yes.</p> <p>20 Q. And so basically you -- Disson Furst was</p> <p>21 required to put aside some money to make sure it could</p> <p>22 pay some of the bonuses required under this contract;</p> <p>23 correct?</p> <p>24 A. Yes.</p> <p>25 Q. In addition, some of that money was earmarked</p>	<p style="text-align: right;">Page 112</p> <p>1 million bonus.</p> <p>2 Q. Okay. '01 third Tour. Okay. And then the</p> <p>3 fourth Tour would have been in '02, and the bonus</p> <p>4 amount payable under the original --</p> <p>5 A. Well, the -- the -- you're -- you're</p> <p>6 mistaking the year with the number of tours.</p> <p>7 Q. Okay.</p> <p>8 A. So this was -- if -- if he won his fourth</p> <p>9 Tour in 2006, Tailwind would have owed him a million</p> <p>10 and a half dollars. So these -- these bonuses are not</p> <p>11 attached to -- to years.</p> <p>12 Q. Okay. I'm going to put the years here when</p> <p>13 they actually happened.</p> <p>14 A. Okay.</p> <p>15 Q. But I -- I understand that clarification.</p> <p>16 So if he won a fifth, okay, then the</p> <p>17 bonus arrangement of the contract would have been 2</p> <p>18 million; is that right?</p> <p>19 A. Yes.</p> <p>20 Q. And if he won a sixth, okay, the bonus</p> <p>21 arrangement would have been 2.5 million; is that</p> <p>22 right?</p> <p>23 A. That's right.</p> <p>24 Q. Now, you'll agree with me, if he didn't win</p> <p>25 in '01, okay, he's never going to get to the sixth</p>

<p style="text-align: right;">Page 113</p> <p>1 bonus; is that right?</p> <p>2 A. He very well could have, yes. Maybe not</p> <p>3 under this contract.</p> <p>4 Q. But this contract, he's not going to. That</p> <p>5 would be -- if he -- if he didn't win in '02, then</p> <p>6 he's not going to get to the fifth bonus level; is</p> <p>7 that right?</p> <p>8 A. I'm -- I'm getting confused to the math, but</p> <p>9 if -- if the -- if the -- your point is that if it's</p> <p>10 outside the term of this contract and he hasn't won</p> <p>11 one, there's not time left enough to get to that one?</p> <p>12 Is that correct?</p> <p>13 Q. Yeah.</p> <p>14 A. Yeah, that's accurate.</p> <p>15 Q. Okay. Now, this supplement, which we're</p> <p>16 looking at here, took and said, if he won in '01 and</p> <p>17 '02, they would pay a bonus of 1.5 million; is that</p> <p>18 right?</p> <p>19 A. That's correct.</p> <p>20 Q. Okay. And if he then won in '01, '02, and</p> <p>21 '03, the bonus would be 3 million; is that right?</p> <p>22 A. That's correct.</p> <p>23 Q. Okay. And finally if he won in -- all three</p> <p>24 of these years, the bonus would be 10 million; is that</p> <p>25 right?</p>	<p style="text-align: right;">Page 115</p> <p>1 example, '03 but win in '04?</p> <p>2 A. But they didn't need it because he had -- he</p> <p>3 was -- he was winning consecutively, but the -- the</p> <p>4 year that he didn't, I assume they were going to have</p> <p>5 to back to the market.</p> <p>6 Q. Okay. And, in fact, I mean, he did win a</p> <p>7 third, a fourth, a fifth, and sixth Tour de France;</p> <p>8 correct?</p> <p>9 A. And a seventh.</p> <p>10 Q. Okay. And -- but these bonus amounts were</p> <p>11 paid. Only these bonus amounts, correct, under the</p> <p>12 contract?</p> <p>13 A. Yes.</p> <p>14 Q. Even though he, in fact, won under --</p> <p>15 A. But those didn't go away, so if he -- you</p> <p>16 know, if he didn't win, they were paid by the</p> <p>17 insurance. But if he didn't win and then he -- and</p> <p>18 then he won the year after, they would have had to pay</p> <p>19 the minimum because that was point.</p> <p>20 Q. Nothing in the contract says that</p> <p>21 Mr. Armstrong was going to -- or either a</p> <p>22 nonconsecutive bonus or the consecutive bonus;</p> <p>23 correct?</p> <p>24 A. Actually the addendum says they have to be</p> <p>25 consecutive, and the contract says they don't.</p>
<p style="text-align: right;">Page 114</p> <p>1 A. Yes.</p> <p>2 Q. Okay. Now, in fact, the only insurance</p> <p>3 protection coverage that ever existed under both of</p> <p>4 these bonus arrangements was for this here; isn't that</p> <p>5 correct? (Indicating.)</p> <p>6 A. As far as I know, yes.</p> <p>7 Q. The company couldn't obtain nonconsecutive</p> <p>8 coverage for nonconsecutive Tour de France wins? You</p> <p>9 recall that, don't you?</p> <p>10 A. Well, I assume that he would. If he lost</p> <p>11 one, then it would be probably easier to obtain</p> <p>12 insurance for nonconsecutive wins.</p> <p>13 Q. But the -- the only coverage that we know of</p> <p>14 that ever existed that you're aware of was in</p> <p>15 connection with consecutive wins?</p> <p>16 A. Yeah. But to the extent that he didn't win</p> <p>17 consecutively, I always assumed that Tailwind would go</p> <p>18 get insurance, and then it would be easier to get</p> <p>19 because I knew they couldn't -- they couldn't make</p> <p>20 these payments.</p> <p>21 Q. Okay. Now -- and, in fact, through the</p> <p>22 course of these years, when -- when he -- when he won</p> <p>23 in '01 or when he won '02, you're not aware of any</p> <p>24 efforts by them to obtain coverage for the</p> <p>25 nonconsecutive bonuses if he were to lose, for</p>	<p style="text-align: right;">Page 116</p> <p>1 Q. Right.</p> <p>2 A. So they're -- it's addressed in both places.</p> <p>3 Q. But there's nothing in the contract that</p> <p>4 says, if he wins consecutive bonuses, we will not owe</p> <p>5 him these amounts. I mean, he -- because he did, in</p> <p>6 fact, win a third, a fourth, a fifth, and a sixth</p> <p>7 amount; correct?</p> <p>8 A. Well, in fact, to your point, if he did win,</p> <p>9 they owed him the money.</p> <p>10 Q. But he -- he did win this event. He did win</p> <p>11 a third Tour de France, but he was not paid or -- or a</p> <p>12 fourth Tour de France, but he was not paid the 1.5</p> <p>13 million plus the 1.5 million; correct?</p> <p>14 A. That's correct.</p> <p>15 Q. And these bonuses were not paid even though</p> <p>16 there's no requirement, other than winning a fourth</p> <p>17 Tour de France?</p> <p>18 A. Right. My point is they don't go away,</p> <p>19 though, and I think you're trying to argue that they</p> <p>20 don't exist and they were replaced. They were</p> <p>21 supplemented. They don't go away because he won.</p> <p>22 Q. It's -- but they just weren't paid, then?</p> <p>23 A. They were paid.</p> <p>24 Q. They were paid under the consecutive bonus?</p> <p>25 A. They were paid -- they were the minimum</p>

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1 bonuses that had to be paid.  
2 Q. Okay.  
3 A. They were paid. They happened to be paid by  
4 insurance. But if they weren't paid or he didn't --  
5 if he didn't win consecutively, they didn't evaporate.  
6 They didn't go away. They weren't replaced.  
7 Q. Okay. But if -- if he didn't win  
8 consecutively, then at least for some of these  
9 bonuses, then there was no coverage that was available  
10 at the time?  
11 A. I don't think they tried to get that  
12 coverage. To the extent that -- he -- he didn't --  
13 he -- maybe if he hadn't won one, right, then they  
14 wouldn't have needed it. But to the extent that he's  
15 winning year after year after year, he's insured.  
16 The next year's insured because he won  
17 the year before. When he didn't win, then they would  
18 have needed insurance for nonconsecutive wins, if that  
19 had happened.  
20 ARBITRATOR CHERNICK: Could I just ask a  
21 question to try to clarify?  
22 MR. TILLOTSON: Yes, please.  
23 ARBITRATOR CHERNICK: Is '01 covered by  
24 Redlands? '01 as a single year is covered by  
25 Redlands?

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1 THE WITNESS: I think that's right.  
2 ARBITRATOR CHERNICK: And you don't know  
3 whether there would or would not have been payment  
4 under the contractual amounts on the left because that  
5 situation never arose because the consecutive amounts  
6 kicked in and -- and there was coverage from third  
7 parties with respect to those amounts?  
8 THE WITNESS: That's correct.  
9 ARBITRATOR CHERNICK: Okay. So you  
10 don't -- no -- on one -- no one had the opportunity to  
11 test whether there was an inconsistency between the  
12 first part of the contract and the addendum because  
13 the situation never arose that there was a year in  
14 which he did not win?  
15 THE WITNESS: That's fair. Although,  
16 the -- I know -- I know what I thought. I know what  
17 Tailwind thought. I know there was a discussion of,  
18 if he loses, what are we going to do. So if he loses  
19 one, what are we going to do? And there was a  
20 conversation I remember I had with Lawrence and others  
21 at the time that it would be easier for Tailwind to  
22 get nonconsecutive insurance if Lance lost.  
23 When he wins year after year after year,  
24 he became more of a sure bet, but once he lost, I  
25 always assumed they'd be able to go to the market and

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1 get insurance.  
2 ARBITRATOR CHERNICK: Lawrence was with  
3 your company?  
4 THE WITNESS: He was the outside counsel  
5 at the time, but he's always been my lawyer.  
6 ARBITRATOR CHERNICK: To your company?  
7 THE WITNESS: Yes.  
8 Q. (By Mr. Tillotson) Was there a conversation  
9 between you or anyone on your behalf and Tailwind --  
10 Mr. Gorski or someone on behalf of Tailwind about  
11 whether there was or was not some inconsistency  
12 between the main part of the contract bonus  
13 arrangements and the addendum?  
14 A. No. Because I think we always were clear  
15 amongst ourselves that these were minimum bonuses like  
16 in any -- in any typical rider of Lance's level.  
17 There's no way there would be a contract negotiated in  
18 which there was a Tour win without a bonus attached to  
19 it.  
20 So I think the word "minimum" in that  
21 contract always addressed the fact that no matter  
22 what, you know, if he doesn't win them consecutively  
23 but he wins them and there's a third or fourth, that  
24 they had to pay a minimum bonus, so I -- I think we  
25 all understood what that meant.

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1 Q. (By Mr. Tillotson) If I may just clarify  
2 based on what I understand. So if, for example, he  
3 didn't win in '01 -- okay. Let's assume he didn't win  
4 in '01. At that point in time he would only -- he  
5 would have won two Tour de Frances. He would not be  
6 eligible for a consecutive bonus, and he would not  
7 receive a bonus for -- for a third win, but he would  
8 be, as you've testified, eligible if he won in '02 for  
9 the third bonus because it would be a third win; is  
10 that right?  
11 A. Correct.  
12 Q. And that's an example you've identified in  
13 insurance. But let's go further down it. If he was  
14 only eligible for the nonconsecutive bonus of this  
15 particular one, the idea was after he lost, hopefully  
16 the company could go out and obtain insurance at a  
17 particular point in time for the next possible  
18 eligible bonus?  
19 A. Yeah.  
20 Q. Okay.  
21 A. That wasn't my problem. My problem -- I  
22 mean, I had a contract in which Tailwind was going to  
23 pay him money, but I always assumed that's what they  
24 would do, yeah.  
25 Q. Because you know that he had to get insurance

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1 to make these payments?  
2 A. Yes.  
3 Q. Okay. And -- and -- but you'll agree with me  
4 that the risk that SCA had was only on this side of  
5 the chart, the consecutive wins?  
6 A. That's correct.  
7 Q. Had no risks with respect to and -- and no --  
8 provided no insurance with respect to any of these  
9 bonuses, SCA?  
10 A. Well, that's correct to the extent that when  
11 he was winning consecutively, they were insuring the  
12 consecutive bonuses which -- while he's doing that, I  
13 think included the nonconsecutive, so they were pay --  
14 they were paying Tailwind money for winning  
15 consecutive wins, that's correct.  
16 Q. Right. And so if we want to analyze what  
17 risk SCA assumed they were insuring in this particular  
18 case, as I understand it --  
19 A. Consecutive wins.  
20 Q. -- this is the side of the ledger we'd look  
21 at?  
22 A. Yes.  
23 Q. And these amounts were all -- the company  
24 always had were fully insured?  
25 A. Yes.

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1 MR. TILLOTSON: Nothing further. Pass  
2 the witness.  
3 MR. HERMAN: I have nothing further.  
4 ARBITRATOR FAULKNER: Richard? All  
5 right. Thank you very much.  
6 MR. HERMAN: May Mr. Stapleton be  
7 excused? He's got two little girls he has to go home  
8 to take care of.  
9 ARBITRATOR FAULKNER: Anyone have --  
10 thinks they need any --  
11 MR. TILLOTSON: No, not at all. Not at  
12 all.  
13 ARBITRATOR FAULKNER: All right. Thank  
14 you very much, sir. You may be excused.  
15 MR. HERMAN: Thanks. We need to call  
16 Terry Michelitch by deposition -- video deposition.  
17 MR. TILLOTSON: Okay.  
18 ARBITRATOR LYON: So you're going to make  
19 Mr. Longley come back tomorrow?  
20 MR. HERMAN: Yeah. He's --  
21 MR. TILLOTSON: You said that somewhat  
22 meanly or with pleasure. I'm not sure which.  
23 MR. HERMAN: Well, that's all right. I  
24 have quite a bit to get even with Mr. Longley on.  
25 MR. TILLOTSON: Can I just ask a point

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1 where -- are you going to -- are you going to play all  
2 three videos now?  
3 MR. HERMAN: That's the plan.  
4 MR. TILLOTSON: Okay.  
5 MR. HERMAN: But if -- if that's -- now,  
6 that's the plan, but -- but I imagine that in the  
7 morning, if -- if we're short, you know, on -- on  
8 finishing the videos, we may put a live witness in  
9 front of --  
10 ARBITRATOR LYONS: Do y'all have extra  
11 copies of the video? Do y'all have extra copies of  
12 these videos?  
13 MR. HERMAN: Of the videos?  
14 ARBITRATOR LYONS: Yes.  
15 MR. TILLOTSON: I'm sure we can get them.  
16 MR. HERMAN: We can get them. I don't  
17 think we have them with us.  
18 MR. TILLOTSON: We -- we do. In fact, we  
19 have copies of the excerpts that we have put together,  
20 collective copies.  
21 ARBITRATOR LYON: Do you have theirs too?  
22 MR. TILLOTSON: I think we have theirs.  
23 I'm not sure if we do. I know we have ours. We --  
24 we've got the exhibits that were used in them, which  
25 we thought we'd just -- would put in front of you so

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1 that you could page through as you follow through,  
2 rather than trying to match those up with the party's  
3 trial exhibits.  
4 ARBITRATOR CHERNICK: And I understand  
5 from a conversation from Mr. Herman that we're not  
6 going to ask the reporter to report the video excerpts  
7 because we have -- we will either have the actual  
8 video or transcript.  
9 ARBITRATOR FAULKNER: Do we have  
10 transcripts?  
11 MR. TILLOTSON: Both parties will provide  
12 you with their excerpts prior to the close of the --  
13 ARBITRATOR LYON: Well, I'm just trying  
14 to think, rather than us sit and listen to  
15 approximately three or four hours of videos --  
16 MR. HERMAN: You're talking like a juror  
17 now.  
18 ARBITRATOR LYON: Yes. If we have the  
19 copies, we can take them and read them in about half  
20 that time.  
21 ARBITRATOR FAULKNER: Are we going to  
22 lose anything by not being able to see these  
23 witnesses? Is there any --  
24 MR. TILLOTSON: I personally think so. I  
25 mean, I -- I think --

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1 ARBITRATOR FAULKNER: Then I'd just as  
 2 soon see the video.  
 3 MR. HERMAN: I don't know about that. I  
 4 don't -- I don't think -- except for Mr. Lorenzo's  
 5 bodyguards, I guess that'd be about the only thing  
 6 that --  
 7 MR. TILLOTSON: I think, I mean, I -- I  
 8 mean, I'm -- it's not an issue of finishing because I  
 9 think we'll be well within the time of finishing. It  
 10 may be an issue of -- of boredom or punishment, but I  
 11 think there are --  
 12 MR. HERMAN: I'm happy for you-all to  
 13 read them. I mean, it may take us a little while to  
 14 get -- to merge them and so forth, but I'm -- I'm fine  
 15 either way.  
 16 ARBITRATOR FAULKNER: Why don't we just  
 17 see the video, guys, so I can see what -- how folks  
 18 testify. It makes it a little bit easier.  
 19 MR. HERMAN: Sure.  
 20 ARBITRATOR FAULKNER: Too many years  
 21 watching people testify. I'd just as soon see their  
 22 eyes and their faces.  
 23 MR. HERMAN: Okay. That's fine with me.  
 24 If any of the rest of y'all want to leave the room  
 25 during this, we will not subject you to it. I suspect

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1 y'all have all seen this before.  
 2 (Proceedings adjourned at 2:47 p.m.)  
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1 STATE OF TEXAS )  
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 3 COUNTY OF DALLAS )  
 4  
 5 I, Kathy E. Weldon, Certified Shorthand  
 6 Reporter, in and for the State of Texas, certify that  
 7 the foregoing proceedings were reported  
 8 stenographically by me at the time and place  
 9 indicated.  
 10 Given under my hand on this the 3rd day of  
 11 October, 2005.  
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