

BEFORE THE OFFICE OF TAX APPEALS  
STATE OF CALIFORNIA

In the Matter of The Appeal Of:                    ) Case No.  
  ) 18010965  
ARTHUR KASSEL,    )  
  )  
  ) Appellant.  
\_\_\_\_\_)

**CERTIFIED COPY**

TRANSCRIPT OF PROCEEDINGS  
Cerritos, California  
Tuesday, February 14, 2023

Reported by:

SKYY CHUNG  
Hearing Reporter

Job No.:  
40663 OTA (A-AM) (REV3)

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14                   TRANSCRIPT OF PROCEEDINGS,  
15                   taken at Cerritos, California,  
16                   commencing at 9:36 a.m.  
17                   and concluding at 10:06 a.m.  
18                   on Tuesday, February 14, 2023,  
19                   and reported by Skyy Chung, Hearing Reporter.

1 APPEARANCES:

2 Panel LEAD: CHERYL AKIN, JUDGE

3 SARA HOSEY, JUDGE

4 KENNY GAST, JUDGE

5  
6 FOR THE APPELLANT: MORTIMER LASKI

7 Laski & Gordon

8 15233 Ventura Blvd, Suite 1,

9 Sherman Oaks, CA 91403

10 (818)788-5492

11 ANTHONY GLASS

12 Laski & Gordon

13 15233 Ventura Blvd, Suite 1,

14 Sherman Oaks, CA 91403

15 (818)788-5492

16  
17 FOR THE DEPARTMENT: DAVID HUNTER

18 Franchise Tax Board

19 PO Box 942840

20 Sacramento, CA 94240

21 (800)852-5711

WITNESS INDEX

WITNESSES FOR THE APPELLANT:	DIRECT	CROSS	REDIRECT	RECROSS
(NONE)	(NONE)			

WITNESSES FOR THE DEPARTMENT:	DIRECT	CROSS	REDIRECT	RECROSS
(NONE)	(NONE)			

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1 CERRITOS, CALIFORNIA; TUESDAY, FEBRUARY 14, 2023

2 9:36 A.M.

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4  
5 JUDGE AKIN: We are opening the record in appeal of  
6 Kassel, OTA Case No. 18010965. This matter is being  
7 held before the Office of Tax Appeals. Today's date is  
8 Tuesday, February 14th, 2023, and the approximate time  
9 is 9:39 a.m.

10 Again, my name is Judge Cheryl Akin, and I am the  
11 lead administrative law judge for this appeal. With me  
12 today are Administrative Law Judges Sarah Hosey and  
13 Kenneth Gast.

14 As a reminder, the Office of Tax Appeals is not a  
15 court. It is an independent appeals body. The office  
16 is staffed by tax expert and is -- tax experts -- and is  
17 independent of the state taxing agencies. With that,  
18 let me please have the parties introduce themselves for  
19 the record. If you could also spell your name for our  
20 stenographer, that would be appreciated. And I'll start  
21 with Appellants.

22 MR. LASKI: Mortimer, M-O-R-T-I-M-E-R, Laski,  
23 L-A-S-K-I, attorney for the Appellant.

24 MR. GLASS: Anthony, A-N-T-H-O-N-Y, Glass,  
25 G-L-A-S-S, attorney for the Appellant.

1 JUDGE AKIN: Okay. Thank you. And Franchise Tax  
2 Board?

3 MR. HUNTER: David Hunter, H-U-N-T-E-R, on behalf  
4 of FTB. Good morning.

5 JUDGE AKIN: Okay. Thank you. As confirmed at the  
6 prehearing conference and in my minutes and orders that  
7 followed that conference, the issues to be decided in  
8 this appeal are, one, whether Appellants' reported sale  
9 of stock in Flexiciser Inc. during the 2007 tax year had  
10 economic substance beyond tax considerations; and, two,  
11 whether the Appellant is entitled to the reported  
12 capital loss in the amount of \$2,228,000.

13 The second issue includes sub-issues of whether  
14 Appellant has substantiated his reported basis in full  
15 or in part in Flexiciser, and whether Appellant is  
16 entitled to any loss or deduction during the 2007 tax  
17 year for loans or advances made to Flexiciser prior to  
18 the reported sale, which amounted to \$809,900 -- sorry.  
19 \$809,937 by the end of 2020 -- 2007.

20 So, Mr. Laski, is this consistent with your  
21 understanding of the issues to be decided?

22 MR. LASKI: Yes.

23 JUDGE AKIN: And Mr. Hunter?

24 MR. HUNTER: Yes, Lead Judge Akin.

25 JUDGE AKIN: Thank you. All right. With that, I'd

1 like to move on to the evidence in this appeal. I'll  
2 start with Appellant's exhibits. I do have the document  
3 you submitted. I'll get to that in just a moment.

4 Before I do, at the prehearing conferencing, we  
5 noted that Appellant had 28 exhibits, labeled  
6 Appellant's Exhibits 1 through 28, which would be  
7 admitted into the evidence at the hearing today. In  
8 preparing for the hearing, I did note that there was  
9 actually a 29th exhibit that was submitted with the  
10 prehearing conference statement. It just was -- looks  
11 like it was omitted from the index. So I just wanted to  
12 double check with Appellants and see if the intention  
13 was to have that admitted as well.

14 MR. LASKI: Yes, it was, Your Honor.

15 JUDGE AKIN: Okay. And Franchise Tax Board, did  
16 you see that exhibit? It's Exhibit 29. It would have  
17 been the last two pages of the exhibits Appellants  
18 submitted with their prehearing conference statement.  
19 It is a letter that is dated January 11th, 2014, from  
20 Greg Wallace, CPA, to FTB's protest hearing officer. It  
21 was also Appellant's Exhibit A with a reply brief.

22 MR. HUNTER: I thought I saw it before, Judge. We  
23 have no objection.

24 JUDGE AKIN: Okay. With that, then we will be  
25 admitting Appellant's Exhibits 1 through 29 without

1 objection. And those are now admitted into the  
2 evidentiary record.

3 (EXHIBITS 1 THROUGH 29 WERE ADMITTED INTO THE RECORD.)

4 JUDGE AKIN: Franchise Tax Board -- oh, let me back  
5 up. With respect to the document that was provided this  
6 morning, Mr. Laski, could you clarify whether this is  
7 intended as a visual aid for your presentation today, or  
8 is it intended to be admitted as evidence?

9 MR. LASKI: It's primarily meant to be a visual  
10 aid, Your Honor. It could be used as evidence, but it's  
11 no more than a summary of what's been written the last  
12 four years.

13 JUDGE AKIN: Okay. And Franchise Tax Board, did  
14 you have any objections to the use of these documents as  
15 visual aids during the presentation today?

16 MR. HUNTER: I have no objection, Lead Judge Akin.  
17 As a matter of fact, I believe the last three pages  
18 we've already seen. So no objection.

19 JUDGE AKIN: Agree. Okay. Thank you. We will use  
20 that as a visual aid during the presentation today. So  
21 thank you all for that.

22 Franchise Tax Board, it looks like you had  
23 Exhibits A through I. At the prehearing conference,  
24 Appellants did not have any objections to those  
25 exhibits. So FTB's Exhibits A through I are now



1 admitted into the evidentiary record.

2 (EXHIBITS A THROUGH I WERE ADMITTED INTO THE RECORD.)

3 JUDGE AKIN: And just checking, there are no  
4 additional exhibits from either party?

5 MR. LASKI: No, Your Honor.

6 MR. HUNTER: No, Judge.

7 JUDGE AKIN: Okay. Thank you. So last, before we  
8 jump into presentations, I was going to quickly go over  
9 the order of the proceedings today. So Appellants will  
10 have their presentation first, and they have 25 minutes  
11 for that presentation. Following Appellant's  
12 presentation, I will turn to my Panel to see if they  
13 have any questions for Appellant's representatives.

14 After that, Franchise Tax Board will have time  
15 for their presentation, which has been estimated at 20  
16 minutes. Following FTB's presentations, I will again  
17 turn to my Panel to allow any questions of Franchise Tax  
18 Board, after which, I will allow 5 minutes for  
19 Appellant's rebuttal or closing statement.

20 Following that, I will have a final opportunity  
21 for questions that Panel may have for either party  
22 before concluding the hearing. Any final questions  
23 before I move on to the presentations?

24 MR. LASKI: No, Your Honor.

25 JUDGE AKIN: Okay. Well, then, I believe we're

1 ready for Appellant's presentation. Mr. Laski and/or  
2 Mr. Glass, you have 25 minutes, and you may begin when  
3 you're ready.

4 PRESENTATION

5 MR. LASKI: Okay. I think it's appropriate, since  
6 it's a holiday, to wish you all a happy, healthy  
7 Valentine's day. Enjoy.

8 What I did was, I was in bed the last couple of  
9 weeks, and I just kept looking over and looking over the  
10 papers. And I realized, that, in going over the papers  
11 and everything that has been written, there are certain  
12 very key points that have never been mentioned, and I'd  
13 like to bring them up for your consideration today.

14 I will start. I'd like to talk about Greg  
15 Wallace, the CPA. Greg was Appellant's accountant for  
16 20 years. He filed his tax returns -- maybe longer than  
17 that. Greg was the accountant for Flexiciser Inc. since  
18 its inception. Greg was the representative during all  
19 prior orders and hearings. And he spoke for Arthur,  
20 without -- Arthur has no input in this at all. We will  
21 get that to that.

22 Greg was a one-percent owner of a medical company  
23 called Camel, which he owned with Dr. Sheldon. I think  
24 they're in this building, by the way. And Dr. Sheldon  
25 Vinsberg owned a very substantial portion of Camel. And

1 they sold Camel for \$240 million in 2007.

2 Now, Greg -- when we first -- we're going to  
3 leave Greg for a moment, and I want to go to Arthur  
4 Kassel. If Arthur has a quality -- and I knew him when  
5 he owned the Beverly Hills Gun Club, and when he was a  
6 narcotics agent for the state. He is a very loving man.  
7 He was married to Tichi Wilkerson for 20 years. She  
8 owned the Hollywood Reporter. And when she came down  
9 with Parkinson's, he was totally devoted her to her. He  
10 would be in the pool with her, walking with her, and  
11 when he saw this Flexiciser machine, which, it was crude  
12 at the time -- when he saw it and used it with Tichi for  
13 a year or two, it really started to help her  
14 Parkinson's. Unfortunately, at the end of the year, she  
15 died. But Arthur had this phenomenal love, not for  
16 Tichi, but for humanity. He wanted this company to go  
17 on to help all people with Parkinson's disease.

18 Now, the four years that Tichi -- that Arthur  
19 owned this, 2004, 2005, 2006, and 2007, what did the  
20 company do? Well, in 2004, it lost \$647,000. In 2005,  
21 it lost \$598,000. In 2006, \$943,000. 2007, \$638,000.  
22 How much of those millions of dollars of corporate  
23 losses, did Arthur, as an owner, end up paying those  
24 bills? How much of it was that he was able to deduct on  
25 his tax returns? Zero. Do you know why zero? Because

1 his longtime accountant kept his company as a C  
2 corporation. And I don't think it takes more than  
3 somebody a year out of college to know that if you want  
4 to have a deduction from a C corporation at the  
5 beginning of the year, you convert it to an S. So  
6 Arthur converted it. First year, second year, third  
7 year, fourth year.

8 Let me come to the year of sale. All of a  
9 sudden, Camel has a lot of money. And Arthur, or Greg  
10 rather, has this conversation with the other owner of  
11 Zinberg -- Dr. Zinberg. And he says to him, "Would you  
12 like to add this on to the company? We can bring the  
13 machines on. We can do a lot more development with  
14 them." And Doctor said, "That could be a great idea."

15 So what happened? Greg goes back to Arthur and  
16 makes a bid, a paltry bid. But he makes a bid to buy  
17 the company for \$100,000. And as soon as he got any, he  
18 had to put in \$50,000 down for working capital. The  
19 sale goes down. A few days later, Dr. Zinsberg says to  
20 Greg, "I don't think it will be such a good image to  
21 have all those people on wheelchairs on the exercise  
22 floor. Cancel the deal." So a few days later --

23 JUDGE AKIN: I'm so sorry to interrupt. Can I have  
24 you move your microphone a little closer, just to make  
25 sure we're picking up the sound for the recorder. My

1     apologies for interrupting you.

2             MR. LASKI: I'll never been told I'm so quiet  
3     before.

4             A few days later, they canceled the deal. Now,  
5     you look. What does Arthur have to sell? He has  
6     nothing. He has net operating losses. What about the  
7     patent for the Flexiciser machine? Who owns that? The  
8     original inventor, Arthur, was such a terrible  
9     businessman. He never had the patent bought or signed  
10    over to the corporation, so he didn't even have that.

11            Now, why would Arthur take the company back?  
12    Because Greg said to him, "I'm going to close it if you  
13    don't take it back." And when he took it back, what do  
14    you think happened then? Well, in 2008, Arthur ran it  
15    and lost a million 488. In 2009, he lost \$851,000. In  
16    2010, a million 119. 2011, a million 154. 2012, a  
17    million 248. 2013, \$152,021. And 2014, \$363,024.  
18    Needless to say, Arthur was not a businessman. He was  
19    in love and trying to provide a product. He was  
20    taken -- he wasn't even taken advantage of by Greg.

21            When the sale was made, when Greg made the offer,  
22    he had Dr. Zinsberg behind him. And they had something  
23    of value to take, to buy that equipment with. There's  
24    not an argument about it. That's what they canceled a  
25    few days later. So at the time that the sale was made,

1 there actually was a sale made for value. You don't  
2 look at the second sale where he canceled it and say,  
3 "Oh, the sale was not made for value."

4 Well, I think it's important to mention or  
5 repeat, that the only thing the Franchise Tax Board  
6 heard during the audit, during the appeal, was from Greg  
7 Wallace. They never heard from Arthur, which is normal.  
8 He was his accountant. He knew everything that was gone  
9 on his return. He was a representative during all the  
10 prior orders and hearings. Greg was the leading person  
11 involved in this case. I'm not pointing a finger, but I  
12 think the finger points itself. With this, I'll wrap it  
13 up.

14 JUDGE AKIN: Okay. Thank you. And I take it that  
15 concludes your presentation for the time being?

16 MR. LASKI: I think so, yes.

17 JUDGE AKIN: Okay. We'll come back to you for  
18 rebuttal after Franchise Tax Board. I just wanted to  
19 make sure before I turn to my co-panelists for  
20 questions.

21 MR. LASKI: Thank you.

22 JUDGE AKIN: Judge Gast, do you have any questions  
23 for Appellant?

24 JUDGE AKIN: I do not have any questions. Thank  
25 you.

1 JUDGE AKIN: And Judge Hosey?

2 JUDGE AKIN: No questions, but thank you.

3 JUDGE AKIN: Okay. I do have one quick question.  
4 I was wondering if you could clarify for me when  
5 Mr. Kassel repurchased Flexiciser from Mr. Wallace. I  
6 know it happened sometime early in 2008, I believe, but  
7 I don't know that we have the date in the record.

8 MR. LASKI: I can't say for positive, but I think  
9 it was just a matter of days. Dr. Zinsberg changed his  
10 mind and didn't want to be bothered with it. So they  
11 had to sell, and they had to cancel the sale.

12 JUDGE AKIN: Okay. Thank you. That's my only  
13 question for the time being, so I think we are ready for  
14 Franchise Tax Board's presentation.

15 Mr. Hunter, you have 20 minutes, and you may  
16 begin when you are ready.

17 PRESENTATION

18 MR. HUNTER: Sure. We won't need that, Lead Judge  
19 Akin. Thank you for the time.

20 My name is David Hunter, and, again, I represent  
21 the respondent, Franchise Tax Board. And this case  
22 involves a complete and total lack of substantiation.  
23 Appellant reported a 2.2 million-dollar loss on this  
24 2007 income tax return. And when audited, even until  
25 the present day, Appellant remains unable to support his

1 claim tax basis in this transaction, as reported on that  
2 return. The law is clear. Appellant must support his  
3 basis in this stock as claimed. If not, the taxing  
4 authority can reduce the basis all the way down to zero.  
5 As Appellant failed to support his reported tax basis,  
6 Respondent correctly disallowed the reported loss, and  
7 his action should be sustained.

8 Here's what happened: In 2007, Appellant sold  
9 commercial real estate located in Hollywood, California,  
10 and realized a gain of 7.5 million dollars on this  
11 transaction. Appellant also owned the majority  
12 interest -- in interest, in a company called Flexiciser,  
13 which became 83 percent interest towards the end of  
14 2007. He sold his stock to his longtime accountant for  
15 \$100,000, but he claimed a tax basis of \$2.3 million in  
16 the stock. And Respondent asked the Panel to provide  
17 support for his claim to \$2.3 month million in the basis  
18 in the stock. Why would he ever sell stock reporting  
19 the basis of \$2.3 million for the low price of \$100,000?  
20 That was the question posed by Respondent, in order to  
21 ascertain whether or not there was economic substance to  
22 this transaction.

23 First, Appellant claimed that he purchased a  
24 million dollars in stock from Flexiciser. He argued  
25 that he had equity in that amount. But he could not



1 show that he paid for the stock, or that he was even  
2 issued said stock. We later received a stock  
3 certificate for 2.1 million shares. He offered a  
4 Flexiciser stock ledgering, with handwritten notes and  
5 entries. He also submitted checks that he wrote to  
6 Flexiciser; that is in Appellant's Exhibit 1. But these  
7 checks do not correlate with the entries on the ledger.  
8 A lot of the checks -- I'm sorry, majority of the checks  
9 have a memo line in the bottom, which reads "loan,  
10 payroll, or per agreement, which does not reflect the  
11 purchase of shares of stock in the company."

12 Appellant also failed to provide any stock  
13 purchase agreements or corporate minutes to tie these  
14 checks to the payment for his Flexiciser shares. So  
15 there's a complete and total lack of substantiation on  
16 this point, that being equity as basis.

17 Next, Appellant claimed that he loaned a little  
18 bit over a million dollars to Flexiciser, but he  
19 couldn't substantiate that he actually provided the  
20 \$1 million in cash as claimed. The actual number is  
21 1,065,000. And he did not report receiving interest  
22 from this alleged loan from the company.

23 So recently, Appellant argued that the  
24 shareholder loan balance of 809,000, that's listed on  
25 the tax year of 2007 return, that should be the basis

1 for his stock in the company, because it's a line item  
2 that's on a balance sheet. However, Appellant was not  
3 the only shareholder in the company. And we don't have  
4 information in terms of how much of that 809,000 was a  
5 loan that was outstanding to Appellant as a shareholder.  
6 And there are no documents to support the existence of  
7 that loan. So, again, there's a complete and total lack  
8 of substantiation on that point, that being the loan,  
9 that being this issue that we are discussing on the  
10 amount of \$809,000.

11 But in addition to the audit issues, Appellant  
12 could not provide a valid business purpose for this  
13 transaction, and the transaction I'm referring to is the  
14 sale of stock, with \$2.3 million for \$100,000.  
15 Appellant could not explain why he sold his stock to his  
16 accountant for less than 4 cents a share, when just days  
17 before, he said it was valued at 50 cents a share. That  
18 represents a decrease of almost 93 percent in  
19 acquisition value, with no material changes in the  
20 business operations of the company.

21 Also, we've heard the term "paltry sum" this  
22 morning. But Appellant could not show how he arrived at  
23 \$100,000 as being fair market value for the stock or the  
24 selling price of the stock when Flexiciser was still  
25 operating for years. I mean, we have that it was

1 operating until 2016, I believe. And the year issued  
2 was 2007.

3 So Respondent properly found that this  
4 transaction lacked economic substance, because there was  
5 no credible business purpose for this transaction. It  
6 wasn't like the company was worthless. We have  
7 testimony here that another medical company was  
8 interested in the stock. I -- we don't have facts or an  
9 explanation as to why Appellant did not sell the stock  
10 to Mr. Zinberg directly -- why he had to work with his  
11 longtime accountant.

12 And I looked at an exhibit here. It is  
13 Appellant's exhibit. It is a prospectus. And it's on  
14 page 10. And that's also -- that's dated May 1st, 2008,  
15 because you --

16 JUDGE AKIN: I'm so sorry. Can you specify the  
17 exhibit letter or number that it is?

18 MR. HUNTER: I'm sorry, Lead Judge Akin.

19 JUDGE AKIN: Totally.

20 MR. HUNTER: Exhibit 10.

21 JUDGE AKIN: Exhibit 10? Okay.

22 MR. HUNTER: I'd have to -- because I got animated.  
23 But at Page 12 thereof, I understand it's a prospectus.  
24 But you issue a prospectus if you believe that you have  
25 something to sell that's worth value. And they were

1 going to raise several million dollars for this company.  
2 So again, if the position is, the taxpayer had something  
3 something worth 2.3 million dollars, but sold it to his  
4 longtime accountant for the low, low price of \$100,000  
5 because he had no options, well, there were options in  
6 the mind of the taxpayer in the following year. So,  
7 again, same tax year, earlier in the tax year, 7-point  
8 million-dollar gain. Due to the -- resulting from the  
9 disposition of the sale of commercial real estate. And  
10 at the end of the year, we have this transaction, which  
11 gives way to this appeal. Respondent directly found  
12 that this transaction lacked economic substance.  
13 substance. Also, the audit issues have not been  
14 addressed. So on this record, we believe that  
15 Respondent's actions should be sustained. Thank you.

16 JUDGE AKIN: Okay. Thank you. Let me turn to my  
17 Panel.

18 Judge Gast, did you have any questions for  
19 Franchise Tax Board.

20 JUDGE GAST: I had one question. So it's pretty  
21 clear, unless I'm wrong, that the company was losing a  
22 lot of money. So is it unreasonable to sell the company  
23 for 100,000 in 2007? Your thoughts on that?

24 MR. HUNTER: Yes. Our thoughts are -- yes if it's  
25 losing money, it continued to operate, and it was still

1     valuable, because -- well, again, it continued to  
2     operate for years thereafter. So it wasn't worthless.  
3     It wasn't like he -- again, one argument was Appellant  
4     made loans to the company. Well, he did not take a bad  
5     debt deduction. There's no facts here that show that he  
6     wrote the whole thing off and said, "I'm walking away,  
7     and I'm going to take a bad debt deduction off my  
8     personal income tax return." No, he stuck with it. And  
9     he had a rider. When he sold the stock for 2.1 million  
10    shares to his long time accountant, there was a rider  
11    that allowed him to repurchase said stock for  
12    4.2 million dollars -- 4.2 million shares of the stock.  
13    So if something is worthless because the company is  
14    hemorrhaging cash, it doesn't follow that to retain  
15    strings on it, and then set yourself up to become the  
16    major shareholder once again.

17           JUDGE GAST: Thank you. No further questions.

18           JUDGE AKIN: Can I ask just a clarifying question  
19    on that? You said that when you sold it, that it had a  
20    rider that allowed him to repurchase that? Was that in  
21    the sales agreement with -- between Appellant,  
22    Mr. Kassel, and the purchaser, Greg Wallace, or is  
23    that -- is there something else you're relying on.

24           MR. HUNTER: I'm relying on something else, Judge.  
25    And forgive me. I can take a break to to find it, but

1 it was of a more of a corporate document, where -- when  
2 this transaction took place, Appellant was also issued  
3 the option to repurchase 4.2 million shares of the  
4 stock.

5 JUDGE AKIN: So directly from the corporation,  
6 then, is your understanding?

7 MR. HUNTER: Well, there was a rider on the stock  
8 that was sold.

9 JUDGE AKIN: Okay. Thank you. Judge Hosey, did  
10 you have any questions for Franchise Tax Board?

11 JUDGE HOSEY: No questions for me. Thank you.

12 JUDGE AKIN: Okay. Looks like we don't have any  
13 further questions for Franchise Tax Board, so we are  
14 ready for Appellant's rebuttal or closing. We've  
15 allotted five minutes, but you also didn't use all of  
16 your time from your initial presentation, so if you do  
17 need a little more time, that should be just fine. So  
18 you may begin when you're ready.

19 MR. LASKI: Mr. Hunter --

20 JUDGE AKIN: Sorry, can I have you turn on your  
21 microphone and make sure it's close.

22 MR. LASKI: Hello. Hello.

23 JUDGE AKIN: I think that's --

24 MR. LASKI: Hello.

25 JUDGE AKIN: That's totally better. Thank you.

1 CLOSING ARGUMENT

2 MR. LASKI: Okay. When you look at the operating  
3 results I gave you, from 2008, when he was required to  
4 take the property and corporation back, all he did was  
5 have net operating losses of eight-and-a-half million  
6 dollars. They own nothing. They did not own the  
7 Flexiciser. It had no value. The only value Flexiciser  
8 could have had was if Dr. -- whatever his name  
9 was -- Dr. Zinberg would have gone through with the  
10 deal, they would have put Flexiciser on the floor. That  
11 would have been a savior for it.

12 I hate to say, but Arthur would have suffered all  
13 the losses. And I can't carry back that far. But this  
14 is the most hopeless -- this is like looking at the  
15 Titanic and saying, "My God, where are we going to take  
16 it next?" This company was dead. The only life this  
17 company had was the hope that Dr. Zinsberg would buy.  
18 When he made the offer, that made the sale legitimate.  
19 He put in a legit amount to put the Flexiciser on the  
20 floor. Until he changed it, it had died again.

21 By the way, who did the Franchise Tax Board talk  
22 to strictly during the audit, during the hearing, during  
23 everything? They never once spoke to Arthur. Arthur,  
24 you could put anything in front of his nose, and he'd  
25 sign it. He's not a businessman. The last I saw, he

1 was chief of security at a mental institution. Arthur  
2 always works for the state. He just, out of love, he  
3 wanted to see this company go. And he went through his  
4 entire amount of money. And his accountant that should  
5 have watched over for him, did not watch over for him,  
6 but saw that he went through every penny he had and did  
7 not even give a deduction that he would have been  
8 entitled to.

9 And then, if you're going to take Greg Wallace's  
10 word on anything, I don't know what to tell you. I  
11 mean, you can see the man was -- I hate to say it.  
12 Everybody in this case is related to me. Greg Wallace  
13 was, when I was in the master's program teaching income  
14 tax of estates and beneficiaries, he was in the class.  
15 Teechee Wilkinson (phonetic) had someone working for her  
16 back in the early 2000s. He got me to be her  
17 accountant. I got to know everybody a little bit. But  
18 I didn't know that Greg would make up such stories. And  
19 it just shocks me that he handles the entire audit. And  
20 I hear what's being said, and it's not true. Maybe you  
21 just have to be determined that way at the next level.  
22 It's not fair that Arthur suffers like this.

23 I have completed.

24 MR. GLASS: One more thing to add. The cost  
25 basis --



1 JUDGE AKIN: Could I just have you move your  
2 microphone close up.

3 MR. GLASS: Oh, sure.

4 JUDGE AKIN: Yeah, so --

5 MR. GLASS: Sure.

6 JUDGE AKIN: There we go.

7 MR. GLASS: Sure. One more thing to add about the  
8 cost basis. We did provide checks and wire transfers  
9 that was in our Exhibit 1 to our prehearing conference  
10 statement, which references our prior briefs, where a  
11 lot of checks and wire transfer documentation was  
12 provided.

13 JUDGE AKIN: Thank you. Okay. Does that conclude  
14 your closing?

15 MR. LASKI: Yes. It does, Your Honor. Thank you.

16 JUDGE AKIN: Okay. And let me quickly turn to my  
17 Panel again to see if they have any final questions for  
18 either party.

19 Judge Gast?

20 MR. LASKI: No questions. Thank you.

21 JUDGE AKIN: Judge Hosey?

22 JUDGE HOSEY: No questions either. Thank you.

23 JUDGE AKIN: Okay. I was going to turn to  
24 Mr. Hunter. Yeah, I believe you were looking for maybe  
25 the document you referenced?

1 MR. HUNTER: Yes, Lead Judge Akin.

2 CLOSING ARGUMENT

3 MR. HUNTER: And just for clarity, I found that I  
4 was referring to -- on page 2 of Exhibit D, to  
5 Respondent's opening briefs, so it should remain -- yes.  
6 And, again, what I was saying was that Panel had 2.1  
7 million shares, and these were the shares that were sold  
8 to his accountant, but also with a rider and an option  
9 to repurchase double that at 50 cents a share, with a  
10 five-year term. So, again, they were valued at 50 cents  
11 a share. This is November; sold at 4 cents a share in  
12 December. So that correlates with that part of the  
13 argument.

14 Also, these 2.1 million shares were issued in  
15 order to cancel a debt of \$1,065,0000. But we  
16 don't -- we didn't have substantiation for that. There  
17 were some checks and exhibits in one, but, again, these  
18 checks had different connotations on the memo lines, so  
19 they weren't accepted. But I'm sorry. I just wanted to  
20 tie that up for you, Judge. I felt that I owed you  
21 that.

22 JUDGE AKIN: Okay. Thank you. Let me just check  
23 with Appellants, because I always like to give the  
24 Appellants the last word. Did you want to respond?  
25 ///

1 CLOSING ARGUMENT (continued)

2 MR. LASKI: I'd like to know who drew that  
3 document. Arthur worked for the company from the very  
4 beginning. The CEO, he lost a million-seven lawsuit for  
5 raud, and the attorney for the company got fired and had  
6 to get back all this stock. So it was one of those two  
7 or Arthur, or Greg, rather, that wrote that document.  
8 If you could lose \$10 million and not have a penny left,  
9 you have to be a hell of a salesman to sell that  
10 company. That's it.

11 JUDGE AKIN: Okay. Thank you. Any final questions  
12 from my Panel?

13 Okay. Looks like that's a no. Any  
14 final -- anything from either of the parties before I  
15 conclude the hearing today.

16 MR. HUNTER: No, Judge.

17 MR. LASKI: No, Judge.

18 JUDGE AKIN: Okay. Give me just one moment.

19 Okay. With that, we're ready to conclude the  
20 hearing. I want to thank both parties today for their  
21 presentations and for their time. I know it was a  
22 little while getting to hearing on this one, so I  
23 appreciate everyone making it here today. The Panel of  
24 administrative law judges will meet and decide the case  
25 based upon the arguments and the evidence in the record.

1 We will issue a written decision no later than 100 days  
2 from today. The case is submitted and the record is now  
3 closed. This concludes this hearing. Our next hearing  
4 will reconvene at approximately 1:00 p.m. Thank you,  
5 everyone.

6 (HEARING CONCLUDES AT 10:06 A.M.)  
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REPORTER'S CERTIFICATE

STATE OF CALIFORNIA       )  
  ) ss.  
COUNTY OF LOS ANGELES    )

I, SKYY CHUNG, hearing reporter in and for the  
State of California, county of Los Angeles, do hereby  
certify that the foregoing transcript is a full, true,  
and correct statement of the proceedings had in said  
cause.

DATED: FEBRUARY 14, 2023.

  
\_\_\_\_\_  
Hearing Reporter

SKYY CHUNG

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