Troubled Business Deals Cause Star Island Strife

Claudio and Amarilis Osorio once stood on the pinnacles of business and philanthropy. Now they find themselves shrouded in suspicion.

By Vytenis Didziulis

Around 5 a.m. On January 13, a day after a 7.0 magnitude earthquake shook Haiti to its core, toppling homes into pancakes and killing more than 250,000 people, Amarilis Moran Osorio received an urgent call. It was Barth Green, the chairman of neurological surgery at the University of Miami and the founder of Project Medishare, a volunteer program for doctors, nurses and surgeons looking to provide free health care to the poorest Haitians. “We need passports for some nurses and doctors,” he told Amarilis, a prolific fundraiser for social and political causes who knows how to pull strings among Miami’s elite.

“I made a couple of calls to some people,” she explains coyly. “He got those passports pretty fast.”

Three days later Amarilis got another call from Green. This time he said, “I’m hungry.” Along with the doctors and nurses working at the overburdened Medishare hospital, Green was eating canned foods and power bars. So Amarilis, who in 2007 alone raised $4 million for social causes, began buying fresh food from Publix, Kentucky Fried Chicken, Chicken Kitchen and Bongos and sending it on daily flights to Haiti. For almost a month she sent subs, arroz con pollo, fresh apples and mandarin oranges. She also had her caterer provide some gourmet food, though the croissants with Brie did not earn as many fans in Port au Prince as they did on Star Island.

Even before the earthquake, Amarilis and her husband Claudio Osorio—two Venezuelan transplants—had cultivated business and philanthropic interests in Haiti through Green and former President Bill Clinton, who had been appointed as the United Nation’s Special Envoy to the island nation and was a friend of Chris Korge, one of their business partners. Claudio founded and is the CEO of innovida Holdings, a young multi-national enterprise that is trying to upend the construction business by introducing new building materials. Haiti, like other developing countries around the world, had a housing deficit that Claudio was seeking to capitalize on. After the earthquake, innovida donated 1,000 prefabricated small homes to victims left without a roof over their heads.

Claudio is convinced the construction business is an antiquated industry in need of technological revolution. Innovida’s upheaval comes in the form of fiber composite panels that are simultaneously more resistant to fire and water than wood, and are easier to erect than steel or concrete. In tests, the composite panels were able to bend more than 20 percent, three times more than steel, explains Claudio. That malleability makes innovida structures the “smarter choice” in earthquake-prone areas, according to a company brochure. The panels are also purported to withstand winds of 156 miles per hour, be fire resistant until 2282 degrees Fahrenheit, and be essentially termite-proof.

The true innovation, however, is in the construction process. Using beams, columns, interior and exterior walls and proprietary bonding adhesives, innovida can construct a building without heavy equipment, relying only on scaffolds and ladders. This allows innovida to build quickly with relatively inexperienced labor, slashing 50 percent off the price of a comparable structure built of wood, concrete or steel, Claudio says. “It’s like comparing American Airlines and jetblue,” he adds. “We don’t need the huge workforce, skilled labor or huge operations.”

In October, innovida completed a 6,500-square-foot school for Royal Caribbean in the northern Haitian resort of Labadee. The school was built in just 30 days with the help of 50 local workers. In December, innovida announced it had completed about 130 buildings, including homes and office space, for World Vision, Hand in Hand for Haiti, and the World Food Programme. “If you’re in a developing country, building slowly translates into increasing deficits in housing,” says Claudio. “In the developed world, it translates into higher costs, which have progressively
left out a significant segment of the population that has no other option but to rent.”

Claudio and Amarilis are building a global company to take advantage of the growing demand in both emerging and developed countries. According to Claudio, innovida has factories in China, Angola, Tanzania, Oman, Dubai, India and Miami, and is looking to open new factories in Brazil and New Orleans. For the most part, they say Claudio takes care of the business side, while Amarilis—a March of Dimes “Humanitarian of the Year”—manages the company’s foundation and social footprint. She learned to value social work from her parents; her father ran a community kitchen in a Caracas slum and her mother volunteered at local hospitals.

“My parents taught me it wasn’t really about writing a check but having direct contact,” she says. With the financial help of Claudio, Amarilis has taken that tradition to an international stage, founding orphanages in Siberia and Uganda, and day care centers in Venezuela, India and Ecuador.

Meanwhile, Claudio describes his role in innovida as a veteran pilot. “The old guy is needed for the tight spots, for the crises,” he says. “I have the experience dealing with multinational environments that you need to deal with the different governments.”

As they move forward they seek to develop close political ties in key countries. In the U.S., the couple has held fundraisers for Hillary Clinton, Barack Obama and Nancy Pelosi. In Haiti, President René Preval met with them over one of Amarilis’ airlifted arroz con pollo meals. In China—where they have partnered with a Beijing suburb to build a $200 million factory—the country CEO is a relative of Deng Xiaoping, the paramount leader of China who seceded Mao Zedong. Innovida has also distributed literature identifying big names on its board of directors, such as former presidential candidate Gen. Wesley Clark, former Florida Gov. Jeb Bush, and Miami real estate magnate Jorge Pérez.

Claudio made his name with CHS Electronics, a computer distribution company he started in 1983 and built up to a multinational $8.7 billion enterprise that peaked at 189 on the Fortune 500 list in 1997, earning Claudio “Entrepreneur of the Year” honors from Ernst & Young, NASDAQ and USA Today. But CHS filed for bankruptcy just three years later amid falling profits and a federal investigation brought by investors who claimed the company violated securities laws regarding financial reporting and disclosure.

Claudio may be in hot water again: In recent months two innovida investors have filed suit in Miami-Dade Circuit Court alleging Claudio and Amarilis defrauded them of their million-dollar investments. Another investor in Dubai-based innovida Middle East Ltd. alleged Osorio misappropriated $10 million in company funds and is under investigation by local authorities, according to a report in the South Florida Business Journal. Not surprisingly, Jeb Bush is no longer on the board and Jorge Perez says he never was.

This month alone, Claudio lost a $6 million verdict in a case brought by Marc Iacovelli, a Star Island neighbor who alleges Claudio failed to make capital contributions in a joint venture and lied to business associates, ultimately leading to the company’s demise. And Swiss justice officials asked a U.S. District judge for cooperation in looking into Claudio’s handling of CHS Electronics. The investigation is trying to determine whether Claudio filed false financial statements and minutes of shareholder meetings that never occurred, helping to artificially inflate CHS’ stock price. CHS allegedly has $220 million in debt.

The Osorios are still facing lawsuits in Miami seeking to recover $12.3 million. The court cases have also caused high social drama on Star Island, the exclusive and swanky community where the Osorio’s and two of their accusers live. For this story PODER spoke to the Osorios, the plaintiffs and their lawyers, and sifted through hundreds of pages of court documents.

Engin Yesil, a Turkish-born entrepreneur who founded Lens Express and now operates real estate company Core Development Holdings (Core), is seeking to recover more than $8 million he invested in innovida in 2007. A Star Island resident, Yesil himself has a storied past. Soon after starting Lens Express in 1986, Yesil and his business
partner, Yale Golan, began selling cocaine to correct the company’s cash flow problems. They pleaded guilty and were sentenced to six years in prison and fined $150,000 each. While in jail, Yesil infiltrated a drug organization and helped federal authorities in what they said were “many arrests and multi-kilogram confiscations.” The undercover work ultimately helped Yesil avoid deportation, allowing him to sell Lens Express in 1997 for $31 million.

Yesil met Osorio through his accountant and became friendly when their wives met on the Star Island social scene. In late 2006 and early 2007 they discussed a possible investment in innovida and took a tour of a production plant in Dubai, ultimately entering into a stock purchase agreement whereby Core acquired a 30 percent ownership interest in innovida Inc. For $6.3 million. According to the agreement signed by Yesil and Claudio, innovida Inc. Owned a 100 percent stake in innovida Holdings, Inc., and innovida Holdings—two separate entities in the innovida corporate structure.

A few months later, according to court documents filed by Yesil, Claudio told him he had invested an additional $3.9 million in innovida Inc. And asked Yesil to contribute $1.7 million more to coincide with his 30 percent ownership stake. Yesil provided the money to innovida as a loan with a 7 percent annual interest rate, but things turned sour when Yesil insisted on seeing proof of Claudio’s additional investment. Some time thereafter, Yesil says, “Claudio and Amarilis caused the restructuring of various entities such that the majority if not all of the innovida-related entities were brought under the control of [innovida] Holdings...To the extent that the restructuring was intended to purposefully extinguish Core’s 30 percent ownership interest, it was effective in doing so.”

Yesil and his attorney Abbey Kaplan (who is also representing Marc Iacovelli) further allege that Claudio and Amarilis failed to pay fees and submit filings for innovida Inc., effectively rendering it inactive. They also allege the Osorios changed the names of various subsidiaries, shifted ownership stakes around the companies they controlled, and issued new securities in these innovida-related companies to third-party investors. “At a minimum, the allegations of the complaint detail unprofessional and unbusinesslike behavior perpetrated among the innovida entities and their principals and officers,” says Kaplan in court documents. “The conduct alleged clearly raises the question of whether or not the innovida conglomerate of companies are, in fact, legitimate business entities or whether they are being used for something otherwise.”

“Innovida and Claudio deny the material allegations of the complaint,” says Jonathan Robbins, the attorney representing the Osorios and innovida in the case. “Amarilis Osorio was not involved in the business dealings between Yesil/Core and innovida,” he adds. When the Osorios came to know about Yesil’s sordid past, they felt it would not jive with the other high-profile members or its creditors. “Mr. Yesil’s failure to disclose certain information to innovida regarding his background [both criminal and otherwise], among other conduct on the part of Mr. Yesil [rather than the Osorios and innovida], gave rise to the dispute between the parties,” says Robbins.

Around the same time Claudio came to know and solicit an investment from Yesil, he also began building a strong friendship with Chris Korge, an attorney, investor and heavy hitter in Democratic Party circles. During the 2008 presidential primaries Korge met Amarilis, who in turn introduced him to Claudio. The Osorio’s impressive resumes, innovida’s star-studded board, and the technological promise of its fiber composite panels gave off “every appearance of legitimacy and success,” Korge says in court documents.

Claudio and Korge became close friends and spoke regularly about innovida. In September 2009, Korge joined innovida’s prominent board and soon after entered into an agreement with Claudio to buy 1.25 million shares of innovida stock for $312,500, or $0.25 a share. Korge says Claudio offered a stock option whereby he could purchase an additional 11.25 million shares during the following nine months, and upon completion had a 90-day window to increase that option to 36.25 million shares. Claudio’s approach was cunning, says Korge’s attorney.
Kendall Coffey. “He didn’t come on as a snake oil salesman, he didn’t come on as a used car salesman... It was a lot more subtle, sophisticated and patient.”

During the next couple of months, Korge says Claudio told him he was in final negotiations with a Middle Eastern sovereign wealth fund intent on purchasing one fifth of innovida for $500 million, or $2.50 a share. Claudio also produced financial statements showing innovida had an excess of $39 million in cash or cash equivalents. When Korge did not exercise his stock option, Claudio said he would extend the deadline. A few days later, Korge alleges Claudio told him the agreement with the Middle Eastern sovereign wealth fund was a “done deal” and would close in 120 days. One day before the extended deadline expired, Korge deposited $3 million in innovida bank accounts.

On May 3, 2010, Claudio was set to close the deal between innovida and the Middle Eastern investors, according to Korge’s complaint. When the deal hadn’t been reached by June 30, Korge asked for his money back and Claudio promised to return the cash if an agreement wasn’t struck by July 31. After that, Korge says he had trouble locating Claudio or Amarilis. They said they were in China trying to seal a deal with Chinese investors to replace the botched Middle East deal, all the while continuing to represent innovida as on solid financial ground. “Claudio is out of town...we won another big project,” Amarilis text messaged Korge in August.

“In reality, there were never any closing scheduled with Middle Eastern sovereign wealth funds or Chinese investors;” Coffey writes in the complaint. “Masquerading as a close friend, [Claudio] Osorio was stealing from [Korge] the entire time.”

Robert Zarco, the Osorios’ attorney in the Iacovelli and Korge cases, refutes Korge’s assertion that he was swindled. “At the time he made these investments he was an extremely active member of the board. He had complete access to the books and records of the company so he knew exactly what he was investing in,” he adds. Furthermore, the stock sale agreement made no mention of an impending sale and created no refund mechanism. “The investment has not gone bad,” says Zarco. “[Korge] just wants a return on his money. He had to borrow $3 million to make the investment. He thought he was going to turn that $3 million into $30 million in 46 days.”

Zarco has also gone on the record about what he thinks is a case of the tail wagging the dog, given that Claudio and two other investors own 99 percent of the company and the other six own about 1 percent. Claudio agrees: “In this company, no shareholder has ever exited, nor have we ever paid any dividends. It’s not that we’re bringing in shareholders constantly nor are shareholders leaving constantly. This is a very stable company.”

Like a fight between siblings, this tussle has gotten ugly and personal. In the Osorios’ motion to dismiss the lawsuit they link Korge’s motivations to a personal financial crisis and schizophrenic allegations. “[Korge’s] complaint is nothing short of a device being utilized by a disgruntled investor with an acute sense of buyer’s remorse,” it reads. For his part, Claudio thinks these disputes are “normal in a fast growing company.” He adds, “We are defending ourselves vigorously and are happy it is not affecting our day to day operations.”