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Unsecured Creditors

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

NORTHERN DIVISION

In re

REED E. SLATKIN,

Debtor.

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Bk. No. ND 01-11549-RR

Chapter 11

FIRST INTERIM REPORT OF THE TRUSTEE AND THE CREDITORS COMMITTEE UNDER 11 U.S.C. §§ 1103, 1106(a)(3)-(4)

DATE: December 17, 2001
TIME: 2:00 P.M.
PLACE: Courtroom 201
[Judge Riblet]

[Volumes 1 Through 4 Of Charts And Exhibits Concurrently Filed Under Separate Cover]

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I. INTRODUCTION

R. Todd Neilson, the trustee (the "Trustee") of the Chapter 11 Bankruptcy estate (the "Estate") of debtor Reed Slatkin ("Slatkin"), submits this interim report under 11 U.S.C. § 1106 (a) (3)-(4) on the financial condition and business operations of Slatkin and his Estate. Because the Official Committee of Unsecured Creditors (the "Committee") has been very active in the investigation of these matters pursuant to its authority under 11 U.S.C. § 1103, this report is a joint report of the Trustee and the Committee and is based on their joint investigations.

The purpose of this report is to provide information concerning Slatkin's assets, liabilities, and financial affairs. In general, the Trustee does not have personal knowledge of the events described in this report, as he was appointed after many of the events transpired. Thus, this report reflects the personal views of the Trustee, his professionals, and the Committee's professionals based on their investigation to date and it is not intended to bind any person or entity and does not result from a trial or factual determinations on the merits. There may be persons and entities that strongly disagree with the Trustee's and the Committee's assessment of the facts contained herein or of their respective rights and obligations. Absent a Bankruptcy Court approved settlement of disputes, if any, between the Trustee and various persons and entities mentioned in this report regarding their respective rights and obligations, the Court will ultimately determine the facts and law. The Trustee and the

Committee reserve the right to amend and supplement this report in light of any additional information that they may receive. The Trustee and the Committee intend to file additional and supplemental reports as may be appropriate or directed by the Court.

Although the Trustee, the Committee, and their respective professionals (the Trustee's counsel, the Trustee's accountants and financial advisors, and the Committee's counsel (collectively, the "Professionals")) have reviewed voluminous documents and financial records, some documents in their possession have not yet been completely reviewed. Moreover, the Professionals have conducted very few examinations of witnesses under oath to date, although informal interviews with certain witnesses have been conducted. Because Slatkin has asserted his Fifth Amendment privilege against self-incrimination, counsel has not yet been able to examine Slatkin under oath, although he has been informally interviewed concerning selected subjects on several occasions by the Trustee, the Trustee's counsel, and the Committee's counsel.

While numerous subpoenas to third-party witnesses have been authorized by the Bankruptcy Court for the production of documents and several for the examination of material witnesses pursuant to Bankruptcy Rule 2004, most of those examinations have not yet been conducted. Accordingly, in the future, the Professionals expect to obtain substantial additional documents from third parties and conduct a substantial number of oral examinations. Information obtained from that future investigation may support, amplify, modify, or even possibly contradict certain aspects of the conclusions outlined in this report. In addition, the investigation into the acts and conduct giving rise to Slatkin's bankruptcy and the identification and tracing of assets is an ongoing process. As that investigation has not been concluded, this report intentionally omits any discussion of certain areas of ongoing investigation. This report also highlights and discusses certain assets of the Estate, but does not list or discuss all assets, such as each stock holding and partnership interest.

II. SUMMARY OF TRUSTEE'S CONCLUSIONS

Slatkin appears to have conceived and nurtured a perception or aura that he was a financial wunderkind who graciously bestowed his investment wisdom upon an exclusive and dutifully grateful constituency. In actuality, Slatkin conceived, executed, and perpetrated a massive multi-year fraud on his investors, using funds from new investors to pay inflated and false returns to other and older investors, while wasting tens of millions of dollars on ill-conceived and disastrous investments and paying staggering sums to certain associates and consultants. Slatkin sought investors' funds with the full knowledge that he would be incapable of providing those returns and that the invested funds would quickly disappear into the ever expanding vortex of his

fraudulent Ponzi scheme**.** "Generically, a Ponzi scheme is a phony investment plan in which monies paid by later investors are used to pay artificially high returns to the initial investors, with the goal of attracting more investors." In re Bonham, 299 F.3d 750, 750 n. 1 (9th Cir. 2000).

Slatkin's fraudulent scheme was not a recent development precipitated by the current financial slowdown or the collapse of the dot.com or high-tech bubble. Rather, it was a carefully orchestrated charade extending as far back as 1986. Predictably, and inevitably, the Ponzi scheme grew geometrically in the later years requiring an ever increasing flow of cash from investors to maintain the illusion of Slatkin's unattainable financial promises. Ultimately, Slatkin's scheme collapsed amidst lawsuits from concerned investors, government inquiries, and criminal investigations.

While holding himself out to be a highly skilled investment counselor, Slatkin's actual financial and investment skill ranged from unspectacular to dismal until he made a serendipitous investment as one of the founding investors in Earthlink. Ex. 1[1] (Slatkin Depo., p. 146). That single successful investment in Earthlink propelled Slatkin to a new level of theretofore unattainable credibility. Slatkin used that credibility as a further inducement to investors and he was able to rapidly and aggressively expand the funds under his control, most of which were quickly dissipated.

The Trustee and the Committee believe that an objective review of most of the investments remaining in the Estate compels the conclusion that Slatkin's opportune investment in Earthlink was an aberration. It is apparent that many millions of dollars that Slatkin told investors he had wisely invested in business ventures (for the most part allegedly in publically traded securities) capable of providing meaningful return have, in fact, been lost in a financial black hole. When viewing Slatkin's entire remaining portfolio of publicly traded securities, an experienced financial investment counselor with a national investment advisory firm described the remaining portfolio as "the worst I have ever seen in all of my years of experience."

Many of the approximately 800 Slatkin investors have experienced extreme personal and family economic hardship due to the loss of their investments, as well as the fact that many investors have informed the Trustee or the Committee that they dutifully reported and paid taxes on the profits which Slatkin listed on their respective investor statements, profits that were completely illusory.

The single most commonly asked question in this case has been what happened to the money? From 1986 to 2001, Slatkin received approximately $593 million from investors. He distributed approximately $535 million to investors. Of this $534 million, 75 investors received approximately $279 million, even though they

had invested only $128 million, thereby realizing an excess return of approximately $151 million.

From his stock brokerage transfers, Slatkin realized a gain of approximately $65 million, the vast proportion of which resulted from sales of his Earthlink stock. Slatkin expended at least $88 million on various assets and investments, many of which are illiquid or valueless, and spent approximately $47 million in "operating" expenses, including taxes.

The "select few," approximately 75 persons in number, substantially profited from their financial arrangement with Slatkin. The total amount paid to these investors from 1986 to 2001, above and beyond their original investments, is in excess of $151 million or $2 million per investor. Slatkin paid these funds from commingled accounts, essentially using other investors' money, and not profits actually earned on investments. A small number of Slatkin associates were also able to experience a financial windfall by acting as his "consultants." Some of those "consultants" were paid millions of dollars for ill-defined services. The Trustee is investigating the recovery of these funds, which represent the greatest single expectation for any meaningful financial dividend to the unfortunate bulk of investors who did not share in Slatkin's largesse. The Trustee has not initiated any litigation of any kind while he completes his investigation.

Estimates of creditors' claims in this Estate have ranged from approximately $250 million to approximately $800 million. The cause for this wide disparity finds its genesis in the very nature of the Slatkin Ponzi scheme. Apparently, to persuade investors to retain their investments and often to invest additional funds, Slatkin completely fabricated monthly or quarterly statements for investors that reflected fictitious investments in securities and other assets and cash reserves, as well as a substantial appreciation from those investments. That phantom appreciation or investment gains ranged from an average annual return of 24% to as high as 100%. From 1986 to 2001, Slatkin reported approximately $700 million in bogus profits to investors, of which in excess of $600 million was falsely reported in the last seven years.

The Trustee believes that creditor claims (investments net of payments) are approximately $255 million. Investors may have believed, however, based upon the statements they received from Slatkin, that their investor accounts had grown to approximately $778 million as of December 31, 2000.

On investor statements, the cumulative value of each year's investment appreciation would be added to the principal and thus compounded. Thus, an unsuspecting investor who invested $500,000 with Slatkin and received an average return, at least according to the fraudulent investor statements, of 28% over four years would have believed that the original investment had ballooned from $500,000 to a $1,340,000 "nest egg." In actuality, there was no such "nest egg," because Slatkin had used the $500,000 investment to pay fictitious

returns, to make unwise investments, and/or to pay his "consultants" and expenses.

By the end of 2000, the actual funds required to maintain Slatkin's hypothetical investment structure approximated $130 million annually. This was an unattainable sum because Slatkin had dissipated many millions of dollars that had been entrusted to him and he did not possess the funds required to generate this large return.

On May 1, 2001, under a barrage of civil lawsuits and threats by investors (some of whom now sit on the Committee) to file an involuntary bankruptcy petition, Slatkin filed a voluntary petition under Chapter 11 of the Bankruptcy Code. Shortly thereafter, the FBI and the IRS conducted raids authorized by search warrants on the homes and businesses of Slatkin, and the Ponzi carousel finally ground to a halt.

III. SLATKIN'S BACKGROUND

A. Background

Reed Slatkin was born in a suburb of Detroit, Michigan on January 22, 1949. According to Slatkin's SEC deposition testimony, he graduated from the University of Michigan with a major in Asian languages in approximately 1971. He did graduate work at both Stanford University and the University of California at Berkeley in languages and literature. In 1975, he married Mary Jo Slatkin. They have two adult children. Ex. 1 (Slatkin Depo., p. 12).

During Slatkin's formative years, he became involved in Scientology, which had been founded by L. Ron Hubbard in the 1950s. In 1975, Slatkin was ordained a minister in the Church of Scientology (the "Church" or "Scientology"). From 1974 through approximately 1984, Slatkin and his wife did volunteer work for the Church on a full time basis. Ex. 1 (Slatkin Depo., p. 39). Their income during this period was insignificant. Id.

While the underlying issues in the Slatkin bankruptcy case are primarily economic, not religious, it would be difficult to imagine a more dominant force in the life of Slatkin than Scientology. It would be fair to say that Scientology permeated almost every aspect of his life. It appears that most of Slatkin's early, as well as present, business associations relate to his affiliation with Scientology, and a large number of the present investors came to Slatkin for advice because of their mutual involvement with Scientology.

B. Slatkin's Early Investment Experiences

In about 1979-1980, Slatkin met Robert F. Duggan ("Duggan"), a fellow Scientologist, who Slatkin describes as "a successful professional investor, primarily in the stock market." Ex. 1 (Slatkin Depo., p. 40). Slatkin had no prior formal training in investments and money management, and it was Duggan who provided

Slatkin with rudimentary investment training. During this period, Duggan began to teach Slatkin about the stock market and the process of analyzing companies as potential investments. Ex. 1 (Slatkin Depo., pp. 40-42, 173-74).

In about 1984, Slatkin made the transition from full-time ordained minister to that of professional self-employed investor. At about the same time, Slatkin began making investments for "friends." Ex. 1 (Slatkin Depo., p. 180). At first, Slatkin had a dozen or fewer "friends" who invested money with him. Id. Slatkin described these investor "friends" to the Securities and Exchange Commission ("SEC") as "people who were spending their time working in the church, or working to help the church, or working to get themselves off this bridge . . . , or training themselves" in Scientology. Id. p. 124. According to Slatkin, he "wasn't ever looking for anybody [to make investments for] except people that were associated with the church, who came to me." Id., p. 235. Slatkin's purported criterion was "someone who was associated with the church, who was working to help the church." Id. His professed purpose in making investments for these "friends" was "to help the Scientologists who have their attention away from their money and they're helping the church." Id., p. 238.

In connection with an audit of his 1983 and 1984 tax returns, Slatkin wrote a note stating that he "never intended and in fact did not ever receive money for doing this." Ex. 2. Slatkin further explained that the individuals on whose behalf he was investing were his relatives or associates and the association was primarily designed to reduce brokerage fees through the joint buying of stocks.

It was reportedly in about 1985 that an attorney named Dan Lang drafted a form letter for Slatkin's "friends" to sign when they began to invest with Slatkin; the letter reads: "Dear _____, You have asked me to do you a favor and invest some of your money as a friend . . . ." Ex. 1 (Slatkin Depo., p. 196); see Ex. 3 (Sample Investor Letter). According to Slatkin, everyone who invested with him signed this letter (Ex. 1, Slatkin Depo., p. 197), and numerous persons who had no prior connection with Slatkin signed this letter so that Slatkin would make investments for them.

C. The Ponzi Years: 1986-2001

In 1985, Slatkin was in the process of becoming an established money manager. At that time, Slatkin met Ronald Rakow ("Rakow") and Chris Mancuso ("Mancuso"), and they invested money with Slatkin. Ex. 3 (Rakow Depo., p. 190, 191, 315). Rakow and Mancuso were involved in a company called Culture Farms. In 1985, Culture Farms was the subject of a criminal investigation and was subsequently placed into receivership. Rakow and Mancuso were convicted of criminal conduct arising out of their involvement with this company.

Ex. 3, p. 229.

By late 1986, Slatkin estimates that he was managing about $7-8 million for his "friends." Ex. 1 (Slatkin Depo., p. 193).

In August 1987, Slatkin met Richard Levine ("Levine"), who was then a stockbroker at Prudential-Bache Securities. Slatkin showed Levine the performance of his "investment pool" which boasted a 40%-50% return and demonstrated to Levine a computer program that he claimed automatically flagged stocks to buy and sell based on certain market developments and other criteria. Levine, impressed by the software and the returns, decided to enter into a business arrangement with Slatkin.

In February 1988, Slatkin and Levine entered into a tentative transaction with John and Amy Jo Gottfurcht ("Gottfurcht"). Ex. 5. Gottfurcht had an existing money management company called Statistical Sciences Inc. ("SSI"), an investment advisory firm registered with the SEC, and he claimed to control over $100 million in client funds. The SSI transaction called for Slatkin and Levine to acquire a 25% interest in SSI and for Slatkin to contribute the license to use his software to SSI. Id. As part of the proposed transaction, an independent audit was made of certain aspects of the business, including Slatkin's trading results of 40%-50% returns. The audit ultimately concluded that Slatkin's statements and trading records were not correct and Slatkin admitted to falsifying those records.

Slatkin also had a business association with Patrick Gallagher ("Gallagher") during 1986-1990. Gallagher was a commodities trader licensed with the Chicago Board of Trade. Slatkin and Gallagher came to an agreement whereby Slatkin would make funds available to Gallagher, who was properly licensed, to make the trades. Ultimately, a bitter dispute arose between them relating to capital accounts and tax allocations. In the final exchange Gallagher's attorney intoned, "We are fearful that a comprehensive review of certain trading and account activity may reveal unsavory characteristics of a scabrous nature involving, among other things, irregularities with respect to the exchange rules and conduct, which, under closer scrutiny, may subject one to prosecution by various government agencies." Ex. 6 (¶ 7).

Over the years, Slatkin's reputation grew, based upon the falsified returns of his portfolio, and people sought out his expertise in ever growing numbers and he had an increasing amount of money under his control. In 1994, Kevin O'Donnell ("O'Donnell") convinced Slatkin to invest in Earthlink. Within three years, Earthlink became a dot-com success story and Slatkin's Earthlink stock in the company was worth over $100 million; however, that stock was restricted and was not freely transferable. Slatkin's Earthlink investment enhanced his

credibility with investors.

During the 1990s, Slatkin received hundreds of millions of dollars. He and his family lived in a large estate in Santa Barbara and employed an estate manager to tend to the property. They took vacations to Europe and Hawaii, belonged to an elite country club, and their social circle included some of Santa Barbara's wealthiest and most influential people. Reed Slatkin had "arrived."

During this period Slatkin was investing in a wide array of real estate developments throughout the United States, film and production companies, investment partnerships, and securities in a variety of companies. Most of these investments would prove to be financial disasters.

Unfortunately, for both Slatkin and his investors, with the exception of Earthlink, Slatkin's financial castle was built upon the shifting sands of lies and misrepresentations. The fissures started to be exposed in 1999.

As discussed in greater detail in the following section of this report, in late 1999, the SEC began a formal investigation into Slatkin's activities to determine if he was as acting as a paid investment advisor who was required to be registered as such under federal law. In an attempt to convince the SEC of his intention to remove himself from the area of money management, in January 2000 Slatkin told the SEC that $300 million of investor funds was in overseas accounts in Switzerland and that he was in the process of liquidating those accounts to pay off his investors, closing investors' accounts, and referring investors to licensed money managers. Ex. 1 (Slatkin Depo., p. 212).

To date, the Trustee and the Committee have found no evidence to confirm the existence of those foreign accounts or the transfer of substantial funds abroad. Instead, it appears that Slatkin's representations to the SEC were a further extension of the ruse in which he had been engaged since 1986. Moreover, between January 2000 and April 2001, Slatkin had not stopped his investment activities but had taken in over $135 million in order to maintain the financial charade.

Between 1986 and 2001, Slatkin had approximately 800 investor "friends" who had given him as much as $593 million to invest for them. Periodically, Slatkin provided his investors with statements that purported to show the securities that Slatkin held for their benefit. Ex. 1 (Slatkin Depo., pp. 187-88). Those statements showed glowing results - - that Slatkin regularly and uninterruptedly made money for the investors both in good and bad economic conditions. Although Slatkin purchased some of the securities reflected on those statements, the vast majority of those purported holdings did not exist and the gains reported on those statements were illusory. Slatkin regularly "doctored" real brokerage account statements in an apparent effort to support the

existence of fictitious investments and profits. The unfortunate reality is that Slatkin operated a Ponzi scheme cloaked as legitimate and highly profitable investment advice.

IV. PROCEDURAL BACKGROUND

A. The Securities and Exchange Commission Investigation of Slatkin

In 1997, the SEC began an informal investigation of Slatkin's investment activities. Ex. 1 (Slatkin Depo., pp. 122-23). The SEC launched its formal investigation of Slatkin in 1999.

In his examination by the SEC in 2000, Slatkin falsely testified under oath that he was discontinuing his investment operations: "This process of liquidating accounts is now in full swing." Ex. 1 (Slatkin Depo., p. 125). "I am not accepting any new accounts or any money from existing accounts. And I plan to transition to close or liquidate all accounts over the next few months." Id., p. 131. In fact, while Slatkin was paying certain of his investors their purported account balances, at the same time, he was continuing to take in millions of dollars from other "friends." As noted above, during 2000 until he filed bankruptcy, Slatkin took in some $135 million from investors.

Slatkin also represented to the SEC and to certain of his investors that he had hundreds of millions of dollars of investor money in Switzerland. According to Slatkin's testimony before the SEC, in 1987, he began moving his "friends" money to a company called NAA Financial ("NAA") in Switzerland. Ex. 1 (Slatkin Depo., p. 195). All of this money purportedly was in Slatkin's name in two accounts, one for Slatkin and one for his "friends." Id., pp. 210-12.

In early 2000, Slatkin also testified that, in approximately 1990-91, he deposited $12-15 million into his own account at NAA. Ex. 1 (Slatkin Depo., p. 221). In addition, he testified that he had not made deposits into either of the NAA accounts in the last 12 years (i.e., since 1988). Id., pp. 231-32. Finally, Slatkin represented that, in 2000, there was $300 million in his personal account with NAA. Id., p. 212.

Based upon the Trustee's investigation to date and investigations conducted by certain of Slatkin's investors, Slatkin's story was a complete fabrication. It also appears that NAA does not exist. At the very least, investigators have not been able to identify any such company. Investigators also determined that Slatkin's purported NAA accounts with Union Bank of Switzerland do not exist. Although Slatkin hired Ernst & Young to audit NAA's books in Switzerland, apparently there is no such audit report.

There also is currently no evidence that Slatkin directly transferred any large sums of money to Switzerland in 1987-1989. Moreover, it is clear that Slatkin was attempting to create the false image of Swiss

accounts to mislead the SEC and to delay or derail its investigation. In the midst of his SEC investigation, Slatkin used International Telecommunications Consulting, LLC ("ITC") to set up a telephone line that forwarded calls made to a Swiss telephone number to Santa Barbara, where they were answered. In February 2000, Chris Mancuso, who apparently owned ITC, wrote to Slatkin concerning the telephone line: "when you dial the number the line has been conditioned to provide a truly genuine European ring (nice touch, huh?)." Ex. 7.

On May 11, 2001, ten days after Slatkin filed bankruptcy**,** the SEC commenced a formal action entitled Securities and Exchange Commission v. Reed E. Slatkin, Case No. 01-4283 RSWL (MANx), in the United States District Court for the Central District of California, Western Division (the "SEC Enforcement Action"). In its complaint, the SEC alleged that Slatkin was unlawfully operating as an unregistered investment advisor and that he had and was engaged in transactions, acts, practices, and courses of business in violation of federal securities laws.

On May 18, 2001 the United States District Court entered a Preliminary Injunction against Slatkin and froze his assets. Ex. 8. In substance, ¶ 6 of the Preliminary Injunction enjoined Slatkin from transferring "any funds, assets, securities, claims, or other property, owned by Slatkin, including such funds, assets, claims or other property that he controls or has possession of or custody of." In support of the Preliminary Injunction, the District Court entered Findings of Fact and Conclusions of Law ("SEC Findings"). Ex. 9.

On May 29, 2001, Slatkin signed a Consent of Defendant Reed E. Slatkin to Entry of Judgment of Permanent Injunction and Other Relief (the "Consent"). Ex. 10. In executing the Consent, Slatkin agreed that he would not deny any allegation in the SEC's complaint or create the impression that the complaint was without factual basis. Id., ¶ 8. Based thereon, on June 7, 2001, the District Court entered its Judgment of Permanent Injunction and Other Relief Against Defendant Reed E. Slatkin (the "Judgment"). Ex. 10. The Judgment permanently enjoined Slatkin from further violating the federal securities laws as alleged in the SEC's Complaint. It also permanently froze, among other assets, all monies and assets held in the name of or for the benefit of Slatkin or any of his affiliates. Id., ¶ VII. At the Trustee's suggestion, the Judgment subsequently was modified to make clear that third parties holding assets subject to the Judgment were required to cooperate with the Trustee. Ex. 11.

Although the Judgment required that Slatkin give the SEC "a detailed and complete schedule of all of his assets, foreign or domestic, including the source of such assets" (Ex. 10, ¶ XI), to the best of the Trustee's knowledge Slatkin still has not done so.

B0 Litigation Against Slatkin

In early 2001, before the SEC commenced litigation against Slatkin, certain of Slatkin's investors became alarmed about their inability to obtain the return of money that Slatkin purportedly had invested for them.

1 The Poitras Litigation: In February 2001, an investor named John Poitras transferred $10 million to Slatkin for investment. Instead of making investments for Poitras, Slatkin, as he had typically done, used the bulk of those funds to pay off other investors and to pay personal expenses. Ex. 9 (SEC Findings ¶ 10-11). Later that month, Poitras requested the return of his money. After Slatkin stalled and was not able to repay Poitras, Poitras commenced litigation against Slatkin on April 11, 2001. Ex. 12 (Poitras Dec.). In that litigation, Mr. Poitras served writs of attachment to freeze Slatkin's assets. Ex. 13.

2 Arthur and Lois Berke Litigation: Between 1996 and 1999, Arthur Berke invested about $700,000 with Slatkin; he later invested another $2 million. Ex. 14 (Berke Decl., ¶¶ 3-14). In April, 2001, Arthur and Lois Berke filed suit in the Los Angeles Superior Court alleging causes of action against Slatkin for fraud and breach of contract. Ex. 15.

3 The Wesley West Litigation: On April 19, 2001, Wesley West Flexible Partnership and others (all affiliates of the Stedman family) commenced litigation entitled Wesley West Flexible Partnership [et. al.] v. Slatkin, Case No. 01-03628 RSWl (MANx) in the United States District Court for the Central District of California. Ex. 16. The Wesley-West group also sought to obtain writs of attachment against Slatkin.

Counsel for Poitras and Stuart Stedman, among others, participated in meetings with Slatkin's representatives during the last week of April, 2001, and participated in an informal group of creditors that successfully negotiated for Slatkin to file this bankruptcy case, to turn over voluminous documentation to Deloitte & Touche (which was to safeguard the documents and have them imaged), and to turn over his passport to Slatkin's counsel. Poitras and Stedman are now members of the Committee. Wesley West's counsel has now become Committee counsel.

C0 Slatkin's May 1, 2001 Voluntary Petition for Relief; Appointment of the Trustee

On May 1, 2001, Slatkin commenced this bankruptcy case by filing a voluntary petition for relief. Slatkin filed his petition only after **(1)** the SEC had been formally investigating him for a year and a half; **(2)** he had been sued by Poitras, the Berkes, and the Wesley West group who had invested tens of millions of dollars with him; and **(3)** certain of his creditors had threatened to file an involuntary bankruptcy petition if Slatkin did not voluntarily file bankruptcy.

In a chapter 11 bankruptcy case, generally the debtor remains in possession of his assets and may continue to operate his business with a view toward reorganizing the business. However, in certain circumstances defined in 11 U.S.C. 1104(a), the Bankruptcy Court may order the appointment of an independent chapter 11 trustee to administer the debtor's assets and operate his business. The circumstances in which the appointment of a chapter 11 trustee is appropriate include fraud, dishonesty, incompetence, or gross mismanagement of the affairs of the debtor either before or after the commencement of the bankruptcy case.

On May 10, 2001, certain of Slatkin's creditors filed a motion in the Bankruptcy Court for the appointment of an independent chapter 11 trustee; and on May 14, 2001, the United States Trustee filed her own motion for the same relief. The latter motion was set for hearing on an expedited basis on May 16, 2001.

Immediately prior to the May 16 hearing, Slatkin sought to convert his chapter 11 reorganization case to a chapter 7 liquidation case. Three significant consequences of conversion from chapter 11 to chapter 7 are that **(1)** an independent trustee is automatically, and randomly, appointed to administer the debtor's assets and pay creditors; **(2)** if a chapter 7 creditors committee is appointed, it cannot retain counsel at the expense of the bankruptcy estate; and **(3)** distributions to creditors from a chapter 7 bankruptcy estate generally takes years. Accordingly, if the Bankruptcy Court had permitted Slatkin to convert his case to chapter 7, the Committee would have been without a viable means of employing counsel or continuing its investigation, and the creditors would not have the opportunity to file a chapter 11 liquidating plan, in order to begin earlier distributions.

At the May 16 hearing, the Bankruptcy Court determined not to permit Slatkin to convert his case to chapter 7. The Court then ordered the appointment of a chapter 11 trustee and the U.S. Trustee made the appointment of R. Todd Neilson as the chapter 11 trustee.

D0 The Official Committee of Unsecured Creditors

The Bankruptcy Code also provides for the appointment of a committee of creditors holding unsecured claims and for counsel for that committee in a chapter 11 case. 11 U.S.C. § 1102. The retention of such counsel is subject to Bankruptcy Court approval, and their fees and expenses are payable by the bankruptcy estate after notice and hearing and upon order of the Bankruptcy Court.

In this case, the Committee has been appointed and it has retained counsel pursuant to Bankruptcy Court order entered on or about May 10, 2001. The Committee has six members who, along with their affiliates and associates, collectively hold claims against the Estate in the approximate amount of $115 million for funds they invested with Slatkin, net of any payments received.

V HIGHLIGHTS OF THE FORENSIC INVESTIGATION

A0 Introduction

Ronald Rakow, a close business associate of Slatkin, advised Slatkin in a memo, "Remember you live and thrive in a world of adulation & respect. In a brutally frank critique and examination you will be found to be a Human . . . ." Ex. 17. The primary source of this "adulation and respect" was Slatkin's supposedly "proven" prowess as a financial advisor who consistently provided double-digit annual returns on investments tendered to his care. Through their analysis of millions of documents and transactions, the Trustee and his professionals have made the "brutally frank critique and examination" of which Rakow warned. In essence, "the truth is in the numbers."[2]

In order to make the required analysis of Slatkin's financial affairs, NE first had to secure the records of Slatkin and related entities. That task was accomplished through coordination with the FBI, the IRS Criminal Division, Justice Department lawyers, and legal counsel for both the Trustee and the Committee. The Trustee obtained more than 300 boxes of records which are maintained in a centralized document center. In addition, voluminous data was downloaded from Slatkin's computers; and the Trustee and his counsel obtained substantial additional records from third parties such as banks, brokerage firms, and other businesses, both through the issuance of Rule 2004 subpoenas and informal document productions.

Once the records were available for review, NE commenced its analysis. To date, NE has examined the approximately $1.5 billion which flowed between 63 bank accounts and 318 brokerage accounts (see Exs. 18 and 19); and under the direct supervision of Mr. Judd, 9 people have spent over 6000 hours analyzing and dissecting Slatkin's financial dealings over a 15-year period. In all, NE has reviewed literally millions of pages and related financial documents. The financial investigation is ongoing and will continue during the pendency of this bankruptcy case. However, a significant amount of the financial information that has been gleaned illuminates, both for the Court and other interested parties, Slatkin's scheme.

B0 Investment Procedure and Income Reporting

After an investor opened an account with Slatkin, Slatkin typically provided quarterly "statements," which he carefully crafted in order to create the impression that Slatkin had made highly profitable investments and stock trades, generally averaging annual returns of from 25% to 50%. See Ex. 20. Obviously pleased, investors often transferred additional funds to Slatkin or simply did not withdraw funds from their accounts as they watched their wealth grow geometrically year after year (at least according to Slatkin's quarterly

statements). Many of Slatkin's investors had a sense of financial well-being that was finally jarred from its moorings by his bankruptcy.[3]

NE's analysis confirms that the statements sent to investors were, by and large, completely fraudulent. The returns reflected in those statements were inflated or non-existent. Virtually none of the reported trades had been made, and the securities which supposedly were held in the investors' accounts had never been purchased or had been purchased in far smaller quantities than Slatkin reported. Similarly, Slatkin's other oral and written representations concerning his investment returns were utterly false and fraudulent.

As an example, the following Schedule compares the profits reported to investors with those actually reported on Slatkin personal tax returns for the calendar year 1995.

REED E. SLATKIN

All Investors - All Accounts

Summary of Activity for the Year Ended December 31, 1995

	Amounts
Activity as Reported to Investors	
Investor Account Balances - December 31, 1994 (383 Investor Accounts)	$ 133,663,272
Add: Investor Cash Receipts	32,058,091
Deduct: Investor Cash Disbursements	(23,421,246)
Profits Reported to Investors	**67,819,920**
Investor Account Balances - December 31, 1995 (484 Investor Accounts)	$ 210,120,038
Adjusted Income/Profit as Reported on Tax Returns (note 2)	
Interest Income	$ 465,079
Dividend Income	152,265
Income (losses) from k-1's	(793,139)
Consulting Business Expenses (note 3)	(1,298,459)
Short-term/Long-term Gains (losses)	1,943,162
Miscellaneous	(51,675)

Adjusted Income/Profit as Reported	**$ 417,233**

Note 1: The amounts as reported on Reed E. Slatkin's personal tax return for the year materially agree to activity from actual cash receipt and disbursement detail, brokerage accounts and partnership k-1's. These amounts are representative of actual results.

Note 2: Includes both Reed E. Slatkin's personal return and Slatkin Investment Club.

Note 3: Reed Slatkin's personal tax return includes consulting income from investors. These payments which are classified as income for tax purposes are classified as ordinary investment receipts from investors and reported as such to the investor. Accordingly, they are not included as income for purposes of this analysis.

Source: Books and records of the Debtor

As the above Schedule reveals, Slatkin began 1995 with 383 investor accounts and ended the year with 484 accounts (a net increase of 101 accounts). During that period he reported to investors that they had made profits of approximately $68 million, i.e., a purported annual return of 49.15%. In fact, Slatkin overstated the profits by $67.5 million, having gained only approximately $400,000 on funds still in his care.

The Schedule below reflects the annual rate of return, as reported by Slatkin, from 1994 through 2000. Those returns ranged from 19.68% to 49.15%. The Trustee believes that those returns were, by and large, imaginary -- the result of Slatkin’s systematic fraudulent reporting of non-existent gains and income. In fact, Slatkin did not generate gains on his entire investment portfolio; he generated massive losses. Moreover, all of the funds which Slatkin received from investors were commingled and used for whatever purpose he determined at the time.

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REED E. SLATKIN

All Investors - All Accounts

Summary of Activity for the Years 1994 through 2000

Activity as Reported to Investors	Amounts	Number of Accounts	Estimated Annual Rate of Return
Investor Account Balances - December 31, 1993	$ 91,848,540	297	
Add: Investor Cash Receipts	26,236,410		
Deduct: Investor Cash Disbursements	(18,147,333)		
1994 Profits Reported to Investors	**33,725,656**		
Investor Account Balances - December 31, 1994	133,663,272	383	35.05%
Add: Investor Cash Receipts	32,058,091		
Deduct: Investor Cash Disbursements	(23,421,246)		
1995 Profits Reported to Investors	**67,819,920**		
Investor Account Balances - December 31, 1995	210,120,038	484	49.15%
Add: Investor Cash Receipts	42,290,351		
Deduct: Investor Cash Disbursements	(38,476,105)		
1996 Profits Reported to Investors	**62,671,772**		
Investor Account Balances - December 31, 1996	276,606,056	623	29.56%
Add: Investor Cash Receipts	66,588,599		
Deduct: Investor Cash Disbursements	(42,295,853)		
1997 Profits Reported to Investors	**86,935,289**		
Investor Account Balances - December 31, 1997	387,834,092	757	30.11%
Add: Investor Cash Receipts	100,113,775		
Deduct: Investor Cash Disbursements	(76,279,109)		
1998 Profits Reported to Investors	**109,740,117**		
Investor Account Balances - December 31, 1998	521,408,875	762	27.45%
Add: Investor Cash Receipts	97,614,364		

Deduct: Investor Cash Disbursements	(101,817,431)		
1999 Profits Reported to Investors	**138,970,796**		
Investor Account Balances - December 31, 1999	656,176,604	774	26.76%
Add: Investor Cash Receipts	102,620,503		
Deduct: Investor Cash Disbursements	(109,074,273)		
2000 Profits Reported to Investors	**128,522,538**		
Investor Account Balances - December 31, 2000	778,245,372	734	19.68%

C0 Reed Slatkin Investment Club: 1998

In 1990, Slatkin registered the Reed Slatkin Investment Club as a dba in Los Angeles County. On March 3rd of that year, he also formed a limited partnership called the Reed Slatkin Investment Club, LP ("RSIC"), of which Slatkin was the sole general partner. Ex. 21. Most of the RSIC accounts were in the name of various retirement plans; and it appears that Slatkin formed RSIC for retirement funds that were being invested for the long-term, so that he could expect that, in any given year, only a small percentage of the funds would be withdrawn.

As a further example of how Slatkin falsely reported gains to investors, NE analyzed RSIC's investment structure, comparing its 1998 financial results, as reported by Slatkin, with its actual results. As detailed in Exhibit A, as of January 1, 1998, there were 64 investors with a reported $45,110,218 in their retirement accounts. Slatkin added seven new accounts during the year. None were closed. Therefore, at the end of the year, Slatkin controlled 71 accounts through RSIC.

During the year, RSIC reported profits to investors of $10,446,643, which he added to their individual account balances. The records further reflect that he returned $4,319,228 to investors during the year. Thus, according to the quarterly statements that investors received from either Union Bank of California or Santa Barbara Bank & Trust, the aggregate value of their accounts at the end of 1998 was $51,237,633.

A review of the purported $10,446,643 profit during the year reveals that it "consisted" almost entirely of fictitious interest from a Union Bank account, fabricated dividends, and bogus stock sales. Slatkin attributed to investors' accounts their share of interest on a purported $21,992,980 on deposit in a Union Bank account as of December 31, 1998. However, the actual cash balance in that account on that date was only $9,950.

As reflected in the following Schedule, Slatkin overstated RSIC's cash by $21,983,029, reporting that RSIC held $24,173,478 compared to the $2,190,449 it actually held. According to Slatkin's statements, the aggregate value of securities in RSIC accounts, listed at cost, was $24,508,272, but securities actually held by

RSIC were worth only $834,801 — a net overstatement of $23,673,471. Slatkin told his RSIC investors that unrealized gains on their holdings totaled $4,140,004, despite the fact that there was an actual unrealized loss on stocks of $431,525 – a net overstatement of $4,571,529. Finally, the total amount of investor retirement accounts was purportedly $51,237,633, when it was actually only $2,593,724 – a net overstatement of $48,643,909.

REED E. SLATKIN

Slatkin Investment Club

Comparison of Actual to Reported - Balance Sheet

As of December 31, 1998

	Balances As Reported 12/31/98	Actual Balances 12/31/98
Assets:		
Cash - Union Bank - Highmark	$ 21,992,980	$ 9,950
Cash - Santa Barbara Bank	515,846	515,846
Cash - Imperial "Prin Cash"	13	13
Cash - Imperial Bank	24,039	24,039
Cash - Imperial - Monarch Gov't Fund	1,640,600	1,640,600
Total Cash	24,173,478	2,190,449
Securities at Cost	24,508,272	834,800

Unrealized Gains - Stocks	4,140,004	(431,525)
Due From (to) Reed Slatkin	(1,584,120)	0
Total Assets	$ 51,237,633	$ 2,593,724
Total Liabilities & Capital		
Capital - Partner Capital Accounts	$ 51,237,633	$ 2,593,724

Source: Books and records of the Debtor

RSIC also reported $160,685 in dividends on stocks supposedly held in the accounts. In actuality, RSIC received no dividends during the entire year. Finally, RSIC reported stock sales of approximately $11.8 million, when they were actually no stock sales whatsoever during 1998. In sum, instead of reported income of $10,446,645, RSIC actually had a net loss of $127,138.

REED E. SLATKIN

Slatkin Investment Club

Comparison of Actual to Reported Income Statement

For the Year Ended December 31, 1998

	Income as Reported	Actual Income

	12/31/98	12/31/98
Dividends	$ 160,685	$ 0
Imperial bank - Treasury Bill Interest	32,256	32,256
Imperial Bank - Monarch Gov't Fund	24,171	24,171
Imperial Bank - Interest	980	980
Santa Barbara Bank - Interest	11,884	11,884
Union Bank - Highmark Interest	1,066,344	532
Realized Gains:		
Short-term	7,650,676	0
Long-term	4,181,358	0
Unrealized gain adjustment	(1,326,309)	(20,562)
Expenses:		
Management Fees - Reed Slatkin	(1,179,000)	0
Trust fees - Imperial Bank	(117,968)	(117,968)
Trust fees - Santa Barbara Bank	(46,853)	(46,853)
Custodial fees - Imperial Bank	(1,725)	(1,725)
Custodial fees - Bank of California	(2,500)	(2,500)
Tax preparation fees	(7,330)	(7,330)
Bank charges	(22)	(22)
Net Income	$ 10,446,645	$ (127,138)

Source: Books and records of the Debtor

Attached are Exhibits B, C, and D that reflect a similar pattern of misstatement for 1997. The Schedule below is a recap of the RSIC balances as reported by Slatkin to investors for the year ended December 31, 1997 as compared to the actual balances as gleaned from the financial records of Slatkin for the same period.

As shown, Slatkin reported Partner Capital accounts totaling $45,110,218 when the actual RSIC balance was $1,196,150 for an overstatement of $43,1914,068.

REED E. SLATKIN

Slatkin Investment Club

Comparison of Actual to Reported - Balance Sheet

As of December 31, 1997

	Balances As Reported	Actual Balances
	12/31/97	12/31/97
Assets:		
Cash - Union Bank - Highmark	$ 14,082,266	$ 11,918
Cash - Santa Barbara Bank	375,449	375,449
Cash - Imperial "Prin Cash"	96	96
Cash - Imperial Bank	36,050	36,050
Cash - Imperial - Monarch Gov't Fund	348,800	348,800
Total Cash	14,842,661	772,313

Securities at Cost		25,206,362		
Union Bank #27194107				554,134
Imperial Bank #04647				280,666
Unrealized Gains - Stocks		5,466,312		
Union Bank #27194107				(351,072)
Imperial Bank #04647				(59,891)
Due From (to) Reed Slatkin		(405,118)		0
Total Assets	$	45,110,218	$	1,196,150
Total Liabilities & Capital				
Capital - Partner Capital Accounts	$	45,110,218	$	1,196,150
Source: Books and records of the Debtor				

Exhibit B is a copy of the actual 12/31/97 Union Bank Statement, Exhibit C is a copy of the actual 12/31/97 Imperial Trust Statement, and Exhibit D is a copy of the altered balance statements as prepared by Slatkin for the same period.

As previously detailed, RSIC reported large and comforting gains to those investors who entrusted Slatkin with their retirement funds. In actuality, Slatkin fabricated those gains. Moreover, the cash supposedly sequestered in RSIC investor accounts was routinely transferred to Slatkin's general operating accounts. If Slatkin needed to fund withdrawal requests by RSIC investors, he simply transferred funds back to RSIC from his general operating accounts. There was no segregation of the various funds or accounts. Because RSIC held few assets and had minimal income, the only possible way for Slatkin to maintain its operations was to secure

additional funds from new investors.

D. NE's Conclusions

As a result of their detailed analysis, both NE and the Trustee have come to the conclusion that Slatkin intentionally engaged in a Ponzi scheme. The vast preponderance of funds received by Slatkin were never invested in the manner reported on the investor statements, but were either paid to investors as a continuation of the Ponzi scheme or used to make unwise and unprofitable investments.

Exhibit E provides an overall recap of Slatkin's investment receipts and disbursements, and the results of his investment activities. As shown in that Exhibit, Slatkin needed a continual infusion of additional funds by investors to maintain this illusion of profitable trades. That need grew in intensity until, during 2001, it would have required an annual expenditure of $130 million to maintain promised returns commensurate with past performance - a clearly unattainable sum.

E. Total Claims and Net Overpayments

The following represents a recap of the total amount of money invested with Slatkin from January 1, 1986 through April 30, 2001 and the remaining claims.

REED E. SLATKIN

All Investor Activity - All Bank & Brokerage Accounts

For the Period January 1, 1986 through April 30, 2001

	Amounts
Total Investor Receipts (note 1)	**$ 593,189,536**
Total Investor Disbursements (note 1)	**$ (534,073,577)**

Total Net Overpayments (net debtors)	**$ (195,481,276)**
Remaining Net Investor Claims	**$ 254,597,235**

Note 1: Receipts and disbursements include all investor activity including but not limited to investments, investment withdrawals, loans, loan repayments, wages, consulting fees, interest, expense reimbursements, stocks, gold etc.

Source: Books and records of the Debtor

As the Schedule shows, the total amount invested with Slatkin during that 15-year period was $593 million. During that time, he disbursed $534 million to investors. The remaining net claims, representing actual cash invested but not returned, is approximately $255 million.

A number of the investors received varying amounts in excess of their original investment. Between 1986 and 2001, that group collectively received in excess of $195 million more than they had deposited. The following represents (in descending order), a list of 75 investors who profited handsomely from their long term association with Slatkin. They received $151 million of the $195 million. (The remaining $44 million was paid to investors who received total overpayments of less than $630,000 each.) The preponderance of these overpayments occurred within the past seven years.

REED E. SLATKIN

Schedule of 75 Largest Net-Debtors

For the Period January 1, 1986 through April 30, 2001

Investor Name	Total Receipt Amount	Total Disbursement Amount	Net Overpayment
Joel Kreiner & Stina Hans	$ 3,143,315	$ 9,009,898	$ (5,866,583)
William W. & Anne Hutchins	1,611,206	7,100,839	(5,489,632)
R.E. (Burt) Laing	423,465	5,779,597	(5,356,132)
Robert & Karen Rakow & Highlands Group	3,056,077	8,273,876	(5,217,798)
Jeffrey B. & Debra Schwartz	2,643,071	7,731,232	(5,088,161)
Glenn & Barbara Johnson	772,000	5,262,657	(4,490,657)
Linda Rosen	10,742,865	15,069,844	(4,326,979)
Joseph C. & Molly Walton	2,203,000	6,487,765	(4,284,765)
Richard & Barbara Levine	2,566,969	6,639,764	(4,072,794)
Richard & Joanne McMullin	426,174	4,213,197	(3,787,023)
Anthony & Margaret Hitchman	751,500	4,499,969	(3,748,469)
Arlo Gordin	5,070,559	8,794,782	(3,724,222)
Richard & Judith Freedman	2,193,291	5,719,047	(3,525,756)
Donald Rackemann	700,000	4,125,600	(3,425,600)
Brian & Joan Reso	1,120,174	4,137,779	(3,017,605)
James William Firman	551,825	3,494,131	(2,942,306)
Jean Batesman Summers	572,081	3,487,081	(2,915,000)
Armyan B. Bernstein et al	3,447,988	6,326,963	(2,878,975)
Daniel W. & Myrna Jacobs	760,500	3,486,201	(2,725,701)

Chris Mancuso & Mancuso LLC	1,827,800	4,306,214	(2,478,414)
Ron Rakow	1,201,053	3,608,666	(2,407,613)
Ansel Slome	600,000	2,880,900	(2,280,900)
Peter Henman Laufer & Milova	2,121,699	4,393,143	(2,271,445)
David Singer & Diana Venegas	1,614,800	3,824,556	(2,209,756)
Stuart & Deborah Steinberg	518,734	2,648,653	(2,129,919)
Roy & Lynette MacNeill	4,332,748	6,397,250	(2,064,502)
Paul & Ann Minshull	0	2,056,000	(2,056,000)
Donald & Karen Simons	2,342,000	4,345,919	(2,003,919)
Michael & Anne Kananack	1,902,021	3,903,943	(2,001,922)
Denise Del Bianco	501,085	2,475,000	(1,973,915)
Peter Summers	1,152,521	3,070,000	(1,917,479)
Peter & Hilary Jackson	653,708	2,556,321	(1,902,613)
John & Alexandra Rome Mudd	600,000	2,434,617	(1,834,617)
Robert & Susie Coelho Rounds	1,790,230	3,563,214	(1,772,984)
Sally Jo Levy Soverinsky	2,332,135	3,939,018	(1,606,883)
Bernard & Carol Levine	175,000	1,761,400	(1,586,400)
Tony & Joan Lonstein	5,929,800	7,475,651	(1,545,851)
Ronald & Ellen Schmier	1,489,575	2,962,000	(1,472,425)
Ralph Cooper & Karen Rounds	3,211,076	4,657,121	(1,446,045)
Sandra Codding	700,000	2,137,000	(1,437,000)
Joel Stevens	825,000	2,167,500	(1,342,500)
Bentley Richards	1,925,000	3,192,000	(1,267,000)
Lawrence & Sheila Gluck	1,211,479	2,431,720	(1,220,241)
Charles Lyons	2,527,243	3,732,786	(1,205,543)

Mary T. Walton	244,000	1,415,000	(1,171,000)
Dick & Patricia Zimmerman	371,865	1,531,792	(1,159,926)
Lee S. Minshull	1,897,365	3,052,359	(1,154,994)
Jean Janu	330,006	1,468,611	(1,138,605)
Armand Berstein	0	1,122,000	(1,122,000)
John & Sara Isham	360,000	1,472,263	(1,112,263)
Michael & Sara Doughty (Champ Frame)	823,000	1,913,651	(1,090,651)
William Reilly	859,010	1,948,000	(1,088,990)
Nathan & Lucille Bercovitz	270,000	1,357,831	(1,087,831)
Linwood (Chip) Lacy	1,000,000	2,080,972	(1,080,972)
Adrienne Rappoport	468,458	1,545,950	(1,077,492)
Rachel Walton	174,000	1,246,410	(1,072,410)
Michael Humphrey (aka Mark Parker)	1,000,000	1,998,794	(998,794)
Kevin & Maryann O'Donnell	20,831,975	21,818,364	(986,389)
George W. Murgatroid III	2,204,951	3,189,340	(984,389)
Omega Trust - Linda Heineman	753,259	1,708,000	(954,741)
Peter Coyote	393,000	1,336,442	(943,442)
Bernardo & Jeanne Lan	729,515	1,665,000	(935,485)
Timothy & Betsy White	652,626	1,543,008	(890,383)
Walter & Majorie Butcher	279,151	1,140,500	(861,349)
Mary Thompson	450,000	1,272,190	(822,190)
Robert Engel (Green Key)	500,000	1,311,644	(811,644)
Dinu & Francine Goldenberg	875,000	1,660,000	(785,000)
Jill Tate Higgins (OS II Inc)	1,500,000	2,238,703	(738,703)

Irving & Lillian Rakow	137,500	839,000	(701,500)
Don & Elizabeth Curier	2,600,000	3,268,000	(668,000)
Jeffrey & Shelley Katke	532,500	1,198,000	(665,500)
John Coale & Greta Van Susteren	2,076,130	2,735,000	(658,870)
Thomas M. Skrenes	275,000	932,113	(657,113)
Jeff & Jill B. Choder	326,300	961,000	(634,700)
Anna R. Hawken	1,365,322	1,995,000	(629,678)
TOTALS	$ 128,520,701	$ 279,525,749	$ (151,005,048)
Balance of Net Debtors (371 Accounts)	$ 85,521,034	$ 129,997,262	$ (44,476,228)

Note: Receipts and disbursements include all receipts from and disbursements to each Investor regardless of the description or type.

Source: Books and records of the Debtor.

F. Examples of Account Analyses

Exhibits F through I reflect an analysis of four individual investor accounts or groups of accounts and detail all investor activity in those accounts. The Exhibits range from relatively simple to highly complex. They are provided to highlight the difficulties encountered by NE and other professionals in deciphering Slatkin's investor accounts.

Exhibit F - Investor A - represents an investor who invested a total of $925,000 and received no

distributions. Slatkin reported bogus profits of $1,381,945.

Exhibit G - Investor B - reflects a relatively simple analysis of an investor with two accounts.

Investor B had two accounts and made a total cash investment of $115,787. Over the period of his/her investment activity (1987 through 2001), Investor B received $586,570 more than the amount he/she invested ($559,920 profit plus a transfer of $26,650). Page 2 and 3 of Exhibit G-1 reflects Investor B's yearly additions and withdrawals of funds.

Exhibit H - for Investors C, D, E & F - is a complex analysis of four investors with various permutations of investments and accounts due to marriages and other familial relationships. The large amount of total investment, $47,649,382, further complicates the analysis of these individual accounts.

Exhibit I - for Investors G, H, I, J & K - is a complex variation of a number of related investor accounts with numerous joint accounts allocated between and among the various parties.

G. Slatkin's Investment "Acumen"

Slatkin may have been viewed by many as a financial "whiz kid" generating stupendous returns for those investors fortunate enough to entrust their money to him. This reputation seems to have been primarily based on three factors: **(1)** substantial returns (albeit completely fabricated) as reported on the investor monthly statements provided by Slatkin; **(2)** the investors' ability, at least until the latter stages, to withdraw money without difficulty from their accounts; **(3)** Slatkin's appearance of expertise based on his opportune Earthlink investment.

With the notable exception of his Earthlink investment, for the most part Slatkin's investments achieved far from stellar results. The Trustee has come to the sad, but inescapable conclusion that tens of millions of dollars, supposedly wisely invested in seasoned and liquid assets capable of providing a meaningful return, were in fact invested in highly speculative and illiquid ventures and that much of the invested funds have been lost as a result of those imprudent investments. The creditors of the Estate would have been vastly better off had Slatkin simply invested those funds into low interest T-bills. The following Schedule is an example reflecting the performance of 37 investments made by Slatkin. As indicated, Slatkin invested $69.5 million and received a return of $22.5 million for a net loss of $47 million.

REED E. SLATKIN

Schedule of Selected Investments

Investment Name	Initial Investment Date	Total Investment Amount	Total Investment Return	Remaining Investment Value	Estimated Loss
Advanced Resin Technology	11/5/91	$ 1,997,973	$ 50,000	$ 0	$ 1,947,973
Alliance Manufacturing Software	4/22/97	1,524,991	0	0	1,524,991
Apollo Medical Partners	1/6/99	850,000	0	Unknown	850,000
Bios Partners, LLC	1/7/00	475,670	0	0	475,670
Chantal Pharmaceutical	8/3/95	490,000	0	0	490,000
Compass Advisors Inc.	4/5/91	500,000	650,488	0	(150,488)
Concentric Network	9/6/95	1,175,000	2,002,581	0	(827,581)
Connections One Inc.	2/20/90	742,000	1,281,616	Unknown	(539,616)
Crystallize Inc.	1/7/00	1,700,000	0	Unknown	1,700,000
DSN Technology Inc.	7/28/95	588,262	0	0	588,262
E. Companies	8/26/99	600,000	0	Unknown	600,000
Enhancive	11/16/00	1,500,000	0	Unknown	1,500,000
Fatpipe, Inc.	11/12/99	300,000	0	Unknown	300,000
Fortress Technology	6/11/98	810,000	0	Unknown	810,000
Instant Video Technologies	4/3/96	1,570,000	70,868	0	1,499,132
Insys	10/30/98	500,000	0	0	500,000
Jordon Pharmaceuticals	9/10/98	1,300,000	0	0	1,300,000
Mall Properties	6/12/97	20,385,268	6,587,358	Unknown	13,797,910
Mindful Partners LP	1/13/94	250,000	1,136,000	0	(886,000)
Mountain Park Development	5/2/94	11,537,264	350,000	5,250,000	5,937,264
PCS One	11/29/95	350,000	986,818	0	(636,818)
Physicians Data Corp.	6/25/96	5,982,000	119,486	0	5,862,514
Popmail.com, Inc.	1/26/00	1,000,001	0	Unknown	1,000,001
Premier Horse Network	11/7/95	425,000	0	0	425,000
Receive TV/Vital Stream	6/22/00	375,000	0	0	375,000
Riverbenders/RB Minimart	12/16/86	1,152,310	2,800	0	1,149,510
RJ Groux Corporation	6/27/97	500,000	0	0	500,000
RJS Concessions	10/20/93	805,000	713,889	0	91,111
Safeguard Anti-flame	7/16/99	400,000	0	0	400,000
Santa Barbara Connected System	11/4/96	789,000	30,000	Unknown	759,000
Seize the Day	5/3/93	529,086	79,062	0	450,024
Skin Market	8/3/99	1,715,696	0	Unknown	1,715,696
SST Productions	1/16/90	489,363	0	0	489,363
Stryker/Telsoft	10/17/89	4,146,036	2,572,792	50,000	1,523,244
Taryag Partners	11/4/91	600,000	150,000	0	450,000
Tradesafe Online	7/12/99	700,000	0	0	700,000
University Village	11/3/95	957,000	456,371	Unknown	500,629

	$ 69,711,920	$ 17,240,129	$ 5,300,000	$ 47,171,791

Source: Books and records of the Debtor.

While many of these assets may still yield a small return, it is the opinion of the Trustee that any such return will be negligible when compared to the total investments.

Many of the investments made by Slatkin were ill-founded for the following reasons:

1. When Slatkin would seek investments from investors, he often agreed to invest in their companies with little or no due diligence as to the wisdom of that particular investment.

2. Slatkin did not perform substantial due diligence prior to making many of his largest investments or to monitor their post-investment operations. If he had done so, many of these investments would never have been made or, once made, based on an analysis of the facts (which Slatkin did not make) corrective measures could have been taken to minimize or eliminates losses.

3. Due to his newfound "paper" wealth generated by the Earthlink investment, Slatkin was seemingly propelled into a euphoric sense of financial invincibility. Investments were made in highly speculative projects with the assumption that "financial lightning" would again strike for Slatkin. During the discussions the Trustee has had with Slatkin relative to various investments, Slatkin continued to cling to the illusion that the "dot.com wand" would somehow touch investments in companies that had never generated profits and had no foreseeable hope of doing so, and magically transform them into financial behemoths. In fairness to Slatkin, he is not the only person in the United States so afflicted.

VI. POST-BANKRUPTCY INVESTIGATIONS

A. Overview of the Process

This is the first report of the work performed by the Trustee, Committee and their Professionals on behalf of the Estate. This is a joint report because much of the investigative work, be it forensic, legal, or accounting, has been shared among the Trustee and the Committee, and their Professionals. This case presents unique challenges because Slatkin is the subject of an ongoing criminal investigation.

The Trustee and the Committee have developed a close working relationship and have attempted to avoid duplication of effort by having their respective counsel work as much as possible on separate tasks. Only one set of accountants and real estate advisors were retained by the Trustee for the extensive forensic accounting and valuation work required, and the Committee determined not to separately engage accountants, investment bankers, or investigators.

This section of the report discusses the division of responsibility and the process of the investigation to date. The Trustee and Committee broadly focused their work on two main areas or goals: the identification (and ultimate liquidation) of the known assets, and the investigation of Slatkin's conduct in order to determine the disposition of hundreds of millions of dollars entrusted to him by investors and how much of those funds could be located, accounted for, and perhaps recovered.

The Trustee's counsel, Gumport, Reitman & Montgomery ("GRM"), is comprised of attorneys who specialize in representing trustees and have substantial fraud investigatory experience. The Committee's counsel, Kirkland & Ellis ("K&E"), has a large bankruptcy group but is also a full service firm with expertise in real estate, real estate insolvency matters, tax, regulatory and securities issues, and white collar criminal law. Because this case is not an ordinary commercial dispute, and due to the complex interplay of criminal justice and the bankruptcy systems, there have been substantial modifications to the normal procedures implemented in most bankruptcy cases. First, it was imperative that the Trustee and the Committee obtain and retain access to the voluminous documents that had been turned over by Slatkin to Deloitte & Touche at the request of an informal group of his creditors (before the Trustee or the Committee was appointed), as well as those documents seized by the government.

The Trustee has possession of approximately 300 boxes of documents, now subject to Grand Jury Subpoenas, and another approximately 30 boxes of documents seized during FBI raids on the homes of Slatkin and various associates. A major concern of the Trustee and Committee was that the relevant documents not be impounded by the Grand Jury and thereby rendered unavailable for review. The Trustee was able to negotiate an agreement with the U.S. Attorney and FBI whereby the Trustee created a document center as the ultimate repository for all documents. Additional documents have been added to the document center as they have been received from third parties. It is estimated that there are now approximately two million documents in the document center, not counting numerous gigabytes of computer data that has also been seized or turned over from the computers used by Slatkin or his associates.

Although the Trustee and the Committee had hoped that they would not need to perform an intensive review of the two million documents, by mid-July it became apparent that a more complete review was necessary. At the inception of this case, because the Trustee was receiving requests for the sale and disposition of properties, capital calls on many of Slatkin's investment interests, and information that certain contracts and agreements were in default, and he recognized that immediate action needed to be taken with respect to assets. However, since Slatkin has asserted his Fifth Amendment right against self-incrimination, as is his right, even

the identification of the Estate's assets was difficult. Slatkin did not file a Schedule of Assets and Liabilities as required by the Bankruptcy Code, so the Trustee and his professionals had to attempt to identify the assets of the Estate for the Schedules of Assets and Liabilities and for working purposes.[4]

At the beginning of this case, the Trustee and the Committee had very little reliable or verified information available to them, which greatly hampered their ability to understand, much less address, the complexity of Slatkin's financial universe. The Professionals first compiled a file-level index of the Slatkin documents.

The Trustee and the Committee requested that the Committee's counsel organize a major asset and issue "strike force team" to review key Slatkin documents based on the file level index. The initial requirement was to locate and identify documents relating to readily identifiable major assets of the Estate, as Slatkin owned interests in numerous partnerships, joint ventures, real estate investments, and securities investments. Because of the nature of the documentation, including partnership and other venture agreements, correspondence, letter agreements, and various securities-related agreements, Committee counsel organized a team of largely corporate attorneys, paralegals, and case assistants to analyze and summarize that information on an expedited basis.

The initial asset-oriented review assisted the Trustee in organizing and locating the basic documents concerning hundreds of investments. The information obtained has allowed the Trustee to determine what course of action to take concerning many of Slatkin's major investments, including interests in three mall properties, an operating hotel, other developed commercial and residential properties, undeveloped real property, investment partnerships, and a variety of closely held operating companies in which Slatkin owned a substantial interest.

At the same time, the Trustee and the Committee requested that the creditor body provide information concerning their payments to and withdrawals from Slatkin's accounts, in order to ensure that all bank accounts that Slatkin used were identified and the relevant bank records obtained. As reflected in Exs. 18 and 19, Slatkin had numerous bank and brokerage accounts over the years. Since a major focus of the investigation is to locate any hidden funds or assets, identifying all possible bank and brokerage accounts was a necessary step in the forensic examination. The Trustee's accountants then organized a review of all of Slatkin's investor, bank, and brokerage account records in order to begin tracing the flow of funds. Due to the size and complexity of the forensic accounting, the Trustee's accountants had nine people working on this matter.

After the initial asset-oriented document review was completed, the Trustee and the Committee decided

that a more complete document review was required to determine what had occurred, whether assets had been secreted, and what potential causes of action might exist to recover funds, properties, and other assets belonging to the Estate. Committee counsel therefore expanded the document review team to include an analysis and creation of a database of all Slatkin documents. That project is ongoing.

At the same time, the Trustee's forensic accountants continued reviewing and analyzing all of the cash inflows to and outflows from Slatkin's accounts. The accountants also analyzed all of Slatkin's internal financial records, various computer records, and available financial institution records and account statements.

Since all of this work was performed in the document center, there were regular coordination and meetings between the two teams in order to share information. Whenever information from letters, pleadings, and correspondence with respect to particular financial tracing issues was relevant to the investigation, that information would also be shared. To facilitate this, the Trustee and the Committee have entered into an Information Sharing Agreement, which has since been approved by the Court, ensuring the privileged nature of this joint work product.

Substantive areas of work requiring counsel were divided as much as possible. For example, Committee counsel (K&E) assisted the Trustee's investigation of Slatkin's real estate investments (except his investments in Oregon) and various substantial issues relating to three shopping center malls partially owned by Slatkin. They also accompanied the Trustee to meetings and assisted him in real estate workout negotiations.

GRM has primary responsibility for assisting the Trustee with respect to, among other things, the following matters:

(a) It is responsible for obtaining financial records missing from Slatkin's files and assisting the Trustee in investigating Slatkin's investments in numerous businesses. To obtain that information, GRM has prepared and served dozens of formal discovery requests and has made numerous informal requests for information and documents. GRM regularly reports on its investigations and conclusions to the Trustee and to counsel for the Committee.

(b) GRM is responsible for negotiating and documenting agreements for the disposition of Estate assets and obtaining Court authorization to sell assets. To date, GRM has prepared motions to sell the Estate's securities in publicly traded companies, La Cumbre Country Club membership, automobiles and wine collection, and to sell or otherwise dispose of interests in closely held organizations and accounts receivable.

(c) GRM also is responsible for obtaining Court authorization to employ professionals, such as

real estate, wine and automobile brokers, a real estate consultant, and special counsel for litigation and for matters relating to real estate interests in Oregon.

Jan Handzlik, a white collar criminal specialist at K&E, worked on coordination of efforts with the U.S. Attorney's Office and the FBI, and the overlap of criminal and bankruptcy issues. Robert Jason, a tax specialist at K&E, and Vernon Calder, CPA and a tax specialist at NE, were responsible for providing tax advice to the Estate and to the Committee and prepared memoranda that were distributed to the Committee and creditors. The Trustee determined that he did not need to hire his own tax, criminal, or securities counsel, relying instead upon the Committee's counsel, a working arrangement that had been proposed in the application to employ the Committee's counsel and approved by the Bankruptcy Court.

Because most of the creditors of the estate are investors and many of them claim to have lost their life savings, creditor activity and requests for information have been substantial. For this reason, the Trustee and Committee determined early on that it was important to keep creditors informed. Most of the communication with investors was delegated to the Committee and its counsel. The Committee and its counsel have responded to numerous inquiries by creditors and have prepared two large mass mailings of information to creditors. The Trustee has also created a website to further post information concerning the case, and that information is regularly updated.

B. Slatkin's Conduct Since Bankruptcy

This section discusses Slatkin's conduct in connection with this case and his cooperation with the Trustee. It does not address each and every request directed to Slatkin or all of his activities; rather, it is intended to summarize significant matters. In considering the degree to which Slatkin has cooperated with the Trustee, readers should bear in mind that Slatkin is the subject of an ongoing federal criminal investigation and "may be constrained in his ability to fully cooperate with the Trustee at this time based on advice of counsel." Ex. 22.

By filing chapter 11, Slatkin seemingly hoped to keep possession of his assets, and, in fact, Slatkin did attempt initially to retain control, asserting repeatedly that, by maintaining control and through the efforts of his chosen counsel, he could significantly reduce the cost of administering the Estate. While it may have been less expensive in terms of legal and accounting fees simply to leave Slatkin in control, certain of the Estate's creditors determined not to trust him to look out for their financial interests and to have an independent trustee appointed to take charge of Slatkin's assets and liabilities and conduct a thorough investigation into his pre-petition conduct.

Shortly after Slatkin filed his chapter 11 case, certain of Slatkin's creditors and the U.S. Trustee sought the appointment of an independent trustee. On May 14, 2001, Slatkin suggested the appointment of an examiner instead of an independent trustee. Ex. 23. The appointment of an examiner would have increased the costs of administering the Estate and would have left Slatkin in possession of his assets. The Committee and the U.S. Trustee objected to this suggestion, and Slatkin abandoned it.

At a hearing held on May 16, 2001, Slatkin attempted to convert his case to chapter 7, which was vigorously opposed by the Committee. The Bankruptcy Court ordered that the case would remain in chapter 11 and that an independent trustee be appointed. The United States Trustee promptly selected Mr. Neilson as the chapter 11 trustee.

At the same time that certain creditors and the U.S. Trustee were seeking the appointment of an independent trustee, Slatkin threatened that he would seek to have a receiver appointed over his assets by the United States District Court in the SEC Enforcement Action. Ex. 24. The prospect of such an appointment posed several substantial risks tox the proper administration of this Estate. First, the powers of a receiver are different from and more limited than those a bankruptcy trustee. For example, a receiver does not have the Rule 2004 investigative powers of a trustee; a receiver's conduct and that of his professionals are not subject to the same oversight; and a receiver does not have the asset avoidance and recovery powers afforded a trustee under the Bankruptcy Code. Second, if a receiver other than Mr. Neilson had been appointed, there would have been a conflict over who was entitled to administer Estate assets. Third, even if Mr. Neilson had been appointed as the receiver, it likely would have increased administrative costs because Mr. Neilson might have been required to deal with different courts (i.e., the Bankruptcy Court in which Slatkin's bankruptcy case is pending and the United States District Court in which the SEC Enforcement Action was pending). Ultimately, after the Trustee and Committee had prepared pleadings objecting to this proposed relief, and based upon intense negotiations with his counsel, Slatkin abandoned that proposal.

After the Trustee was appointed, Slatkin continued to seek to interject himself in the administration of his Estate. Specifically, on May 25, 2001, Slatkin's counsel wrote to the SEC and offered Slatkin's assistance in attempting to recover assets. Ex. 25. As stated in that letter, "absent Mr. Slatkin's cooperation, it would frankly be impossible to recover millions of dollars of assets. . . ." Id. Examples of such assets discussed in that letter are the three malls, University Village, the Oregon assets, and Boomtown/Beacon. The quid pro quo that Slatkin wanted was two fold: Slatkin's counsel still urged the appointment of an equity receiver, and Slatkin wanted the

Estate to pay for his attorney. Id. Neither the Committee nor the Trustee was willing to accede to those requests.

On June 4, the Trustee's counsel wrote Slatkin's counsel and called to their attention the obligations imposed on a debtor under 11 U.S.C. § 521 -- including the duty to cooperate with a trustee -- and made a detailed request for information and cooperation. Ex. 26. The Trustee sent similar requests for assistance on June 11 and 12. Exs. 27, 28. Slatkin did not respond in writing to these letters and, for the most part, he has not provided the requested cooperation. A general explanation given by Slatkin for his failure to provide requested information is that such information is contained in records in the Trustee's possession. Exs. 29, 30. Slatkin has repeatedly offered to be debriefed or informally interviewed concerning his assets and maximizing their value, and the Trustee and the Professionals have had several interviews with Slatkin concerning specific assets, liabilities, and investments.

In June 2001, while Slatkin continued to reside at his Via Esperanza residence, he advised the Trustee about maintenance required for the residence and other real properties in Santa Barbara and provided the Trustee with a list of service providers. In about August 2001, Slatkin vacated Via Esperanza and moved into the residence that Mrs. Slatkin had rented. Slatkin gave the Trustee advance notice of this move and of his intended removal of certain personal property.

On June 13th, the Trustee wrote to Slatkin's counsel identifying and demanding the turnover of valuable paintings estimated to be worth approximately $1 million. Ex. 31. The Trustee never received a written response to that letter. On June 20, 2001, the Trustee inspected the Via Esperanza residence. There was no indication during that inspection that any paintings had been removed from the premises, i.e., there were no out-of-place empty walls, and no holes in walls or other evidence that any paintings had been removed. On July 18, 2001, the Trustee's representatives went to Slatkin's Via Esperanza residence to remove the paintings to a more secure location. Again there was no evidence that any art had been removed. After the existing paintings were removed by his representatives, the Trustee determined that the valuable paintings were not among the removed items and appeared to be missing. Ex. 32. The Trustee immediately demanded an explanation from Slatkin. On July 19, Slatkin informed the Trustee that the missing paintings had been sold the prior summer to Rakow and Del Bianco for $1 million.

The Trustee has reliable information that the valuable paintings were, in fact, removed from Slatkin's residence after Slatkin filed bankruptcy and that Slatkin immediately replaced them with art of insignificant value. The Trustee and the Committee believe that the purported sale of paintings to Rakow and Del Bianco

was a sham transaction and that, at a minimum, the automatic stay of 11 U.S.C. § 362 was violated by the post-petition removal of the paintings. The Trustee has informed the FBI and U.S. Attorney's Office of the facts concerning this transaction.

The Trustee subsequently requested that Slatkin sign a declaration regarding his purported agreement to sell the paintings to Rakow and Del Bianco and the removal of the paintings from his residence. Slatkin has provided information for that declaration, but a finalized declaration has not been submitted to Slatkin for his signature.

In June, after several prior requests and a demand for turnover, Slatkin turned over to the Trustee a computer (containing business information), stock certificates, and title and other asset ownership documents in the possession of Slatkin's criminal counsel. Also in June, July, and August 2001, Slatkin provided the Trustee with various bank statements and other information regarding certain Estate assets. However, during the Summer of 2001, the Trustee learned that Slatkin had previously filed a mail-forwarding request with the Post Office. As a result, mail, which should have gone directly to the Trustee, was diverted to Slatkin. Slatkin did not tell the Trustee that he had made this mail forwarding request, and the Trustee only learned of it upon inquiry to the Post Office. Exs. 33, 34.

In addition to receiving information by letter through Slatkin's attorneys, in June, Slatkin and his attorney participated in three telephone conferences with the Trustee's attorney. A fourth such telephone conference was held in July. During those telephone conversations, Slatkin responded to questions about the Estate's assets. Among other things, the Trustee's counsel requested that Slatkin assist in preparing the required schedules and assets and liabilities and a statement of financial affairs. The Trustee's counsel also requested that Slatkin agree to file bankruptcy petitions for entities that he controlled. As discussed below, Slatkin did not provide substantial cooperation with respect to these matters.

On June 26, 2001, Slatkin's counsel notified the Trustee that Mrs. Slatkin had vacated the Via Esperanza residence and had removed Estate personal property from the Estate's Riley Road property to her new residence (and provided photographs of the moved personal property). Ex. 35. On July 3 and 13, the Trustee received further letters about property that had been removed to Mrs. Slatkin's new residence. Exs. 36, 37. Neither Slatkin nor Mrs. Slatkin gave the Trustee advance notice of the movement of this personal property. Thereafter, Mrs. Slatkin permitted the Trustee to inspect the personal property that she had moved to her new residence.

In July, the Trustee, with the assistance of his professionals, prepared and filed Slatkin's schedules of

assets and liabilities and statement of financial affairs. Slatkin did not render substantial assistance in preparing those documents. He did, however, have one meeting with the Trustee during which he reviewed a draft of the schedules and statements and, in general, discussed the Estate's assets and liabilities. Slatkin stated that he could possibly provide greater assistance following a review of documents in the document center. Faced with the impending deadline for the filing of bankruptcy schedules and statements, the Trustee prepared them with little input from Slatkin. After the Trustee filed Slatkin's schedules, Slatkin and then Mrs. Slatkin each filed a Schedule C of claimed exemptions.

In July 2001, Slatkin turned over to the Trustee a valuable Patek Philippe wrist watch. However, Slatkin did not volunteer to the Trustee that he owned this jewelry and turned it over only after the Trustee had demanded that he do so.

Prior to filing bankruptcy, Slatkin commenced litigation for the involuntary dissolution of Infinity Acceptance Corporation. Upon the commencement of Slatkin's bankruptcy case, the Trustee was substituted in that litigation in the place of Slatkin. In July, the Trustee requested that Slatkin waive conflicts of interest and the attorney-client privilege to enable the Trustee to employ in that litigation the same counsel that previously had represented Slatkin. Slatkin agreed to that request. The Trustee believes that Slatkin's cooperation in this regard has and will save the Estate money because the Trustee is now able to use counsel who already is familiar with the facts of the case. In the Infinity Acceptance case, the Trustee requested that Slatkin voluntarily appear for his deposition by the defendants. Although Slatkin agreed to that request, he thereafter failed to appear for that examination (for the stated reason that his personal attorney was not available).

In July 2001, the Trustee requested that Slatkin execute deeds to transfer title to real properties held in the name of the RMJ 1995 Trust into the Trustee's name. Slatkin promptly complied with that request.

Also in July, the Trustee requested that Slatkin stipulate to extend the time for the Trustee and creditors to object to claimed exemptions and for creditors to object to the discharge of debts pursuant to 11 U.S.C. § 523(c). The Trustee also requested that Mrs. Slatkin stipulate to extend the time for the Trustee and creditors to object to her claimed exemptions. Slatkin and Mrs. Slatkin promptly agreed to those requests. That agreement has facilitated the administration of the Estate by avoiding the need for the Trustee and creditors to immediately file and prosecute exemption objections and for creditors to immediately file and prosecute complaints under 11 U.S.C. § 523. (The Trustee recently requested that Slatkin and Mrs. Slatkin agree to further extend these deadlines from December 31, 2001 to July 1, 2002, which they also agreed to do.)

During July, the Trustee requested that Slatkin, Mrs. Slatkin, and their children turn over certain

automobiles, jewelry, and music memorabilia. Slatkin and his family turned over certain of the automobiles (which are now being sold pursuant to Bankruptcy Court order), but Mrs. Slatkin and the Slatkin children refused to turn over other automobiles, jewelry, and music memorabilia, claiming that those items are their separate property. Exs. 38, 39. The Trustee and the Committee have obtained an order pursuant to Fed.R.Bankr.P. 2004 for the production of documents by, and examination of, Mrs. Slatkin with respect to her separate property claims; and the Trustee and the Committee intend to file a similar motion with respect to the separate property claims of the Slatkin adult children. If these issues cannot be resolved by agreement, the Trustee will file a complaint to seek to recover this property.

At the same time, the Trustee also sought the turnover of Earthlink stock held in the names of the Slatkin children. The Slatkin children refused to turn over the stock certificates, claiming that the stock is their separate property, but did enter into a stipulation which provides that the stock certificates will remain in the possession of Slatkin's counsel until entitlement to the stock is determined. Again, if an agreement on these issues cannot be reached, the Trustee will file a complaint to recover those securities.

On July 30, 2001, Slatkin attended his first meeting of creditors held pursuant to 11 U.S.C. § 341(a). Slatkin asserted his Fifth Amendment right against self-incrimination and declined to answer questions. The Trustee appreciated Slatkin's attendance and so informed him.

In August, at the Trustee's request, Slatkin turned over season tickets for the Lobero Theatre and Santa Barbara County Bowl. So that their value would not be lost, Mrs. Slatkin offered to purchase certain of the tickets for events that were imminent. However, the Trustee has not yet received that payment.

The Trustee requested a list of property claimed to be separate property of Mrs. Slatkin and the children. In September, Slatkin provided the Trustee with a detailed list of assets claimed by Mrs. Slatkin or the Slatkin children as exempt or as their separate property.

In October, Slatkin offered to prepare his 2000 tax returns and requested access to his documents that are in the Trustee's possession. Ex. 30.

Also during October, Slatkin and the Trustee reached an agreement which facilitated the Trustee's recovery of approximately $400,000 in cash values held in life insurance policies owned by Slatkin. As part of that agreement, the Trustee will hold $16,000 of those proceeds pending Bankruptcy Court determination of Slatkin's claimed exemptions in life insurance cash values. Exs. 40, 41.

Also in October, the Trustee requested that Slatkin sign attorney-client waivers relating to his pre-

bankruptcy counsel and a Doe consent for the disclosure of records in the possession of financial institutions. Slatkin has not responded to those requests. However, Slatkin did cooperate with the Trustee in connection with a Rule 2004 subpoena that GRM caused to be served on Credit Suisse. Credit Suisse raised Swiss banking secrecy laws as an impediment to its production of documents. GRM negotiated with the bank's counsel regarding this issue and prepared a waiver of Swiss privacy laws which Slatkin signed. After receiving the waiver, Credit Suisse produced documents to the Trustee.

Throughout this case, Slatkin has appeared whenever requested for interviews by the Trustee, the Trustee's accountants, and Committee counsel, and several such interviews have been conducted. During those meetings and interviews, Slatkin has expressed his willingness to provide information about the Estate's assets. His stated reason for doing so is to maximize the amount of assets available for distribution and to minimize the loss incurred by the investors. Slatkin has offered generalized information concerning various assets and has repeatedly requested access to the document center in order to provide more complete assistance. Slatkin has visited the document center on a number of occasions and has met with the Trustee's accountants four times to provide further information concerning his business operations. Unfortunately, Slatkin's assistance has been somewhat limited for a number of reasons:

(1) Slatkin is "under the cloud" of a criminal indictment and, consequently, he is walking the fine line between full and complete disclosure and the protection against self-incrimination afforded under the Fifth Amendment. The Trustee, his counsel, and the Committee's counsel have been sensitive to that issue, but it has naturally impeded a full and frank discussion.

(2) Slatkin's initial assurances that his assistance would be not only valuable but absolutely essential in maximizing the return on the major assets of the Estate turned out to be untrue. Not only was his assistance not invaluable, but due to the publicity surrounding the bankruptcy and the investigation by the FBI, many of Slatkin's former business partners and lenders view Slatkin as a financial pariah. Rightly or wrongly, they do not want Slatkin's name continuing to taint their individual investments.

(3) Most of Slatkin's investments, including real estates ventures and closely held companies in which he owns a significant interest are not capable of producing the financial deliverance hoped for by Slatkin. In fact, most were financial disasters, with or without Slatkin's assistance and without regard to any adverse impact that might have been caused by his legal troubles. The Trustee has had to engage in "damage control" on almost all of Slatkin's major investments.

(4) Slatkin's cooperation was generally broad and somewhat uninhibited when dealing with the general assets of the Estate and most investors. However, when the Trustee probed the edges of suspicious financial transactions that involved certain people, Slatkin's "cooperation" became selective, vague, non-committal, and, in most cases, useless.

As noted above, Slatkin has generally been accessible to the Trustee and has offered to assist in any way he can to maximize the return on Estate assets. Hopefully, his cooperation will move into a more frank and helpful stage sometime in the near future.

The Committee and the Trustee have also requested that Slatkin appear for several days of formal questioning under oath, and Slatkin is considering that request.

The Committee and the Trustee have made other requests for assistance by Slatkin, several of which are pending. In addition, the Trustee and the Committee have requested that Slatkin waive his right to a bankruptcy discharge so that creditors will not have to file non-dischargeability complaints and the Trustee will not have to file a complaint objecting to Slatkin's discharge.

C. Rule 2004 Examinations

1. Document Requests

As discussed more fully in this and the following sections, on behalf of the Trustee, GRM contacted third parties and requested that they voluntarily provide information to the Trustee. Where voluntary cooperation was not forthcoming or the Trustee decided not to seek voluntary cooperation, GRM prepared and filed Rule 2004 motions for the production of documents.

In response to the Trustee's requests to confirm the extent of Slatkin's relationships with financial institutions and to obtain copies of financial records missing from the records that Slatkin turned over to the Trustee, GRM informally requested documents from and/or prepared Rule 2004 motions for the production of documents by at least the following financial institutions: Abner, Herman & Brock, Advest Group, A.G. Edwards, American National Bank & Trust Company, Banc of America Securities, Bank of America, Bank One Texas, Bear Sterns, Branch Banking & Trust (as successor to First Federal Savings), Brookstreet Securities, California Bank & Trust, Capital Federal, Charles Schwab & Co., Credit Suisse First Boston, Donaldson, Lufkin & Jenrette, Deutsche Bank, Goldman Sachs, First Southwest Company, Gloverville Federal Savings, Hambrecht & Quist, H.C. Wainwright & Co., Highland Federal Savings, Hudson River Bank & Trust, Imperial Bank (now Comerica Bank), Jersey Shore Trading, Kayne Anderson Securities, Kemper Securities, Kennebec Savings, Kennebunk Bank, Lehman Brothers, Lincoln Federal Savings, Merrill Lynch Pierce Fenner & Smith, Middlesex

Savings, Morgan Stanley Dean Witter, North Penn Savings & Loan, North American Title Company, OBA Federal Savings, Oswego City Savings, Ozarks Federal Bank, Pacific Century Bank, Payne Webber Securities, Phillip Lewis Trading, Pioneer Savings Bank, Prudential Securities, Raymond James & Associates, Robertson Stephens, Inc., Roth Capital Partners, Inc., Santa Barbara Bank & Trust, Schroders Investments, Scudder Investment Services (for Kemper Funds), Seidler Companies, Solomon Smith Barney, South Adams Savings, Troy Savings (formerly Catskill Savings), UBS Paine Webber, Umpqua Bank, Union Bank of California, and Wells Fargo Bank (California and Oregon).

In its investigations, GRM determined that First Southwest Company and Jersey Shore ("Jersey Shore") had been used by Slatkin (or entities in which Slatkin had an ownership interest) to move large amounts of money in the last year before his bankruptcy and that more than $700,000 was still held in a Slatkin-affiliated account with Jersey Shore. Because Wedbush Morgan Securities, Inc. ("Webush") served as the clearing broker for Jersey Shore, GRM obtained Wedbush's representation that it would not permit any assets to be transferred out of Slatkin-affiliated accounts and that, should Wedbush receive a request for such a transfer, it would give the Trustee an opportunity to seek a court order preventing the transfer. Exs. 42, 43.

Slatkin's business records reflect that he invested millions of dollars in Beacon Communications, LLC, Boomtown Investments, LLC, RBG Capital Group, LLC, and California Media Group, LLC. Slatkin also transferred hundreds of thousands of dollars to certain of the other owners of those entities. Counsel for the Trustee and the Committee obtained Rule 2004 orders directed to those entities, as well as to Richard D. Rosman and Charles Lyons, two of their principals. Those examinees recently produced documents in response to the Court's Rule 2004 order. As discussed in the following section, after those documents have been reviewed, lawyers for the Trustee and the Committee will examine Rosman and Lyons (and probably others associated with those entities).

In addition to the above-described Rule 2004 subpoenas, on behalf of the Trustee, GRM has requested documents (informally or by means of Rule 2004 motions and subpoenas) from the following (with most of which Slatkin had an ownership interest or other business dealings): Aves Associates, Aviarian Partners, California Brokerage Services, Century Direct Marketing, George Elvin, Hertz Hershon & Co., National Pension Service, Orno Partners, Raptor Partners, Skinmarket, Mary Jo Slatkin (Slatkin's wife), counsel for Topsight Entertainment, TradeSafe, Mark Zaplin, and Zaplin-Lambert Gallery.

2. Oral Examinations

Early in the case, the Trustee and the Committee decided that they would attempt to obtain extensive records in the possession of third parties relating to Slatkin's business and financial affairs before conducting numerous oral examinations pursuant to Fed.R.Bankr.P. 2004. For that reason, to date, the Trustee and Committee have conducted few oral examinations pursuant to Rule 2004. In June 2001, GRM prepared a Rule 2004 motion for the examination of and production of documents by Slatkin's accountant, Marshall L. Yagan. After the Court approved that motion, GRM coordinated the document production, reviewed approximately 15,000 pages of documents produced by Yagan, and examined Yagan under oath on July 10. Yagan's documents consisted primarily of federal and California income tax returns and his working papers for 1979 through 1999 for the preparation of tax returns for Slatkin, members of Slatkin's immediate family, the Reed Slatkin Investment Club, and several other entities owned and/or controlled by Slatkin. The information gathered as a result of this investigation has substantially broadened the Trustee's information base concerning Slatkin's business and financial affairs.

The Trustee and the Committee have also obtained orders for, but have not yet taken, the oral examinations of Mary Jo Slatkin (Slatkin's wife), Rosman and Lyons (both of whom are associated with RBG Capital Group, LLC, California Media Group, LLC, Boomtown Investments, LLC, and Beacon Communications, LLC), and George Elvin (both in his individual capacity and with respect to Aves Associates, LLC, Aviarian Partners, L.P., Orno Partners, LLC, and Raptor Partners, LLC). Finally, in the near future, the Trustee and the Committee expect to file motions for the examinations of Slatkin's adult children.

3. Informal Investigations

In addition to formal discovery pursuant to Fed.R.Bankr.P. 2004, the Trustee and the Committee have conducted extensive informal investigations of Slatkin and his investments. For example, beginning in late June, in connection with the investigation of Slatkin's direct and indirect investments in Oregon real property, GRM and the Trustee's accountants conducted a day-long interview with Douglass Neuman and his counsel in Ashland, Oregon concerning Slatkin's investments in those assets which Neuman manages. Since then, the Trustee, his accountants, and GRM have had further meetings with Neuman and his counsel both in person and by telephone. Neuman has cooperated with the Trustee in his investigations and has permitted the Trustee and his accountants to inspect the assets and book and records of the Oregon entities in which the Estate has interests.

Since becoming involved in this case, the Trustee, GRM, and K&E have communicated with representatives of the SEC regarding that agency's investigations of Slatkin and to obtain documents produced

to the SEC by investors. GRM assisted the Trustee in making a formal request for such information and in negotiating an agreement for the production of those documents. Upon receipt of those documents, GRM reviewed several boxes of such materials and reported the results of its review to the Trustee.

Beginning in June, GRM began its investigation into Slatkin's representation by the Bryan Cave LLP law firm in connection with the SEC's formal investigation of Slatkin that began in late 1999. Bryan Cave produced approximately ten boxes of documents, including what it represented were all of the documents that Slatkin had produced to the SEC in the course of its investigation. GRM also has had telephone conferences and exchanges of correspondence with Bryan Cave representatives regarding Bryan Cave's representation of Slatkin, its production of documents, the turnover of billing records, and privilege and work-product issues (including Bryan Cave's assertion of the work-product doctrine with respect to its communications and documents received from Ernst & Young, which Bryan Cave retained to audit Slatkin's purported Swiss accounts at NAA). This investigation is continuing.[5]

GRM also interviewed and conducted an examination under oath (but not pursuant to a Rule 2004 motion and order) of Mark Laudon, Slatkin's property manager. This investigation resulted in the identification of additional assets and added to the Trustee's knowledge about Slatkin's real properties in the Santa Barbara area and Slatkin's business affairs.

On behalf of the Trustee, GRM has also investigated real estate owned by Slatkin, members of his family, and Slatkin affiliates; reviewed appraisals and background information about those properties; and consulted with the Trustee and his real estate broker, Coldwell Banker about those properties, their value, and issues relating to the Estate's ability to sell them. Similarly, GRM investigated automobiles owned by Slatkin, members of his family, and his affiliates and consulted with an automobile broker regarding the value and best means of disposing of those vehicles.

In the course of their investigations, GRM and the Trustee discovered that paintings worth approximately $1 million had been removed from Slatkin's residence by Slatkin's business associate, Denise Del Bianco, after the time he filed bankruptcy. GRM consulted with the Trustee concerning that removal and action to be taken. GRM also communicated with Slatkin's counsel, the Committee's counsel, and witnesses about the removal of the paintings. After making that investigation, GRM prepared a declaration for Slatkin regarding the removal of the paintings, discussed the declaration with Slatkin and his counsel, and reviewed GRM's requested changes to that declaration. GRM has demanded that Del Bianco and her husband, Rakow return these paintings but so far

that demand has been refused.

In its investigations, GRM also discovered that another valuable painting, worth approximately $150,000, had been delivered by Slatkin's business associate, Rakow, to the Hollis Taggert Gallery in New York. GRM communicated with the gallery to ascertain the relevant facts. When those facts were ascertained, GRM obtained the gallery's agreement to hold the painting until it was released from that agreement by the Trustee or a Court order.

GRM investigated life insurance policies owned by Slatkin and members of his family. GRM communicated with the life insurance companies which had issued the policies and with Slatkin's counsel about the turn over of cash values.

At the Trustee's request, GRM also investigated the existence of various storage lockers used by Slatkin, and communicated with the storage companies about storage space that Slatkin had rented. The purpose of that investigation was to determine if stored property existed that should be turned over to the Trustee and if, when, and by whom property had been removed from those storage facilities.

In addition to the interviews, meetings, and document productions described above, on behalf of the Trustee, GRM has informally requested documents from, among others, the following entities and persons, with most of which Slatkin had a direct or indirect ownership interest or other business relationship: Capsfair LLC, Conceptus, Inc., Co-Right Investments, Crystallize, Inc., Double Click, Fortress Technologies, Norman Harrower and entities supervised by him (i.e., the Bon Carre, Eastgate and Ft. Pierce malls and related properties), Krispy Kreme, Kristy Stubbs Gallery, International Dispensing Corporation, iVillage, William Kilpartrick (who was a co-owner with Slatkin of Topview LLC), Mission Hills Plaza, PFC Technologies, Questcor, Rio Blanco Homeowners Association, Streamingrock.com, Telsoft Solutions, Thomas Weisel Partners (TWP CEO Founders Circle (AI) L.P.), counsel for Topsight Entertainment, and University Village.

Finally, since their respective appointments, the Trustee, the Committee, and the Professionals have regularly received communications from Slatkin's creditors and business associates (and/or their counsel) regarding information which those persons have about Slatkin's business and financial affairs. Actions taken on information provided by Slatkin's creditors and business associates has resulted in the identification of a number of assets.

VII. SLATKIN'S BUSINESS ASSOCIATES

The Trustee's and Committee's investigations to date have identified a number of persons with whom

Slatkin had close business relationships over an extended period. Generally, they were either business partners, consultants, or persons who performed Slatkin's bookkeeping and related services. What follows is a brief discussion of some but not all of Slatkin's key associates, in alphabetical order. This discussion is intended to facilitate the reader's understanding of Slatkin's methods of operation and business activities. Due to the complexity of Slatkin's business and financial arrangements, Committee Counsel has created a series of charts, attached hereto as Exhibits AA to QQ.

The fact that a person is discussed below should not be construed as an allegation by the Trustee that such person has engaged in any improper or illegal conduct or any conduct that might give rise to liability to the Estate or to any other person.

A. Army Bernstein

Armyan "Army" Bernstein ("Bernstein") and his wife Christine began investing with Slatkin before 1987. Ex. 44. Bernstein also referred his parents, Armand and Lynne Bernstein, to invest with Slatkin. The Bernstein family had accounts with Slatkin in their own names and in the names of a family trust and a profit sharing plan. Until the late 1990s, Bernstein's relationship with Slatkin appears to have been primarily as an investor. In the meantime, Bernstein had developed a reputation as a respected movie producer.

In 1998, Bernstein and Kevin O'Donnell ("O'Donnell") approached Slatkin with the idea to acquire the majority interest in Beacon Communications LLC ("Beacon") from Ascent Entertainment. That investment was accomplished through a company called Boomtown Investments LLC ("Boomtown"). Exs. 45, 46. Slatkin became a significant participant in the buyout and provided significant funds to Boomtown and Beacon for working capital and film financing. Richard D. Rosman, Esq., a long-time Slatkin investor who also represented Bernstein and O'Donnell, was also involved in the transaction and became an owner of Boomtown.

In an April 2001 letter to Slatkin, Bernstein proposed that Slatkin engage Bernstein to negotiate with O'Donnell for the purchase of O'Donnell's interest in Boomtown/Beacon using Slatkin's funds. Ex. 47. Bernstein also gave Slatkin documents (which Slatkin did not sign) that would have given Bernstein a lien on Slatkin's interest in Boomtown. Ex. 48.

B. Denise Del Bianco

Denise Del Bianco ("Del Bianco") is reputed to be Ronald Rakow's wife and appears to have been an active participant in numerous business deals orchestrated by Rakow. Del Bianco was a "consultant" to Slatkin and received $1,375,000 for her purported services. In addition, Slatkin loaned her money to purchase stock in certain companies, including Physicians Data Corporation, which is now defunct. Ex. 49. Del Bianco was also

involved in other Rakow-Slatkin transactions. Exhibit GG to this report is a chart of Del Bianco's relationship with Slatkin.

As discussed above, after Slatkin filed bankruptcy, Del Bianco removed paintings valued at $1 million from Slatkin's residence.

C. George Elvin

George Elvin ("Elvin") resides in New York City and is a long-time business partner of Slatkin. Their relationship goes back more than 12 years. Ex. 50. According to records in Slatkin's files, Slatkin and Elvin (or other members of their families) each own (or owned) interests in AAR Partners, Aves, LLC ("Aves"), Aviarian Partners (which may now be known as Wahoo Partners) ("Aviarian"), Orno Partners, LP/Orno Partners, LLC ("Orno"), BKE Group, LLC (which may have been merged into Orno), and Raptor Partners LLC ("Raptor"). There may be other business ventures that are or were jointly owned by Slatkin and Elvin, alone or with others. It appears that each of these businesses is a trading partnership, i.e., a vehicle through which Slatkin and Elvin invested in other business entities and/or traded stock and debt in publicly held companies.

Slatkin's interest in these Elvin-related entities is significant, and at least some of these entities have substantial assets. For example, in April 2001, Elvin stated that Orno had adjusted capital of approximately $11.9 million. Ex. 51. In addition, in March 2001 Slatkin and Elvin opened an account for Aves at Jersey Shore Trading. Ex. 52. On April 9, 2001, approximately $767,090 was transferred into an Aves account. Immediately thereafter, there was a failed attempt to transfer $750,000 out of that account. Ex. 53. Pursuant to the Judgment entered in the SEC Enforcement Action and at the request of the Trustee, this account has been frozen, and it now contains approximately $774,567. Ex. 54. Moreover, it appears from Slatkin's records that he and Mary Jo Slatkin received hundreds of thousands of dollars in the form of "salary" from certain of these entities, including Raptor.

In July, one of Slatkin's investors, who had sued Slatkin, sought to obtain discovery from Elvin regarding the transfer of millions of dollars to Aviarian in late 2000. Elvin declined to provide information. Ex. 55. Recently, the Trustee obtained a Rule 2004 discovery order to require the production of documents by Aves, Aviarian, Orno, Raptor, and Elvin and the oral examination of Elvin. This discovery is set for January 2002.

Exhibit MM to this report is a chart that outlines Elvin's relationship with Slatkin.

D. James Fisher

James Q. Fisher ("Fisher") is an attorney. He has been associated with Slatkin since the late 1970s. Ex.

56. During the 1970's, Fisher had a law partnership with Joel Kreiner. Fisher, Kreiner, and Slatkin have been involved in a number of real estate investment partnerships since the late 1970s, including 105th Street West Partners, Laurel Canyon Properties, Leeward Properties, Fountain Properties, and 4686 Woodside Properties. Exs. 57 and 58. Additionally, Fisher represented Slatkin with respect to estate planning. Ex. 56.

Fisher also sent letters to various Slatkin investors telling them that he was keeping duplicates of their investment statements from Slatkin in safe deposit boxes. Ex. 59. Fisher billed Slatkin for those safe deposit boxes. Ex. 60.

Exhibit KK to this report is a chart concerning Fisher's relationship with Slatkin.

E. Daniel Jacobs

Dan Jacobs ("Jacobs") claims that he has been affiliated with Slatkin since 1974, and that he has provided consulting and advisory services to Reed Slatkin & Associates since that time. See Ex. 61. In 1978, Jacobs founded Corporate Development International ("CDI"), a management consulting firm. He has served as CDI's President and CEO since that time. Id.

In a letter, Jacobs wrote that he served as a consultant to Slatkin with respect to his investments in, among other entities, Stryker Technology, Advanced Resin Technology, and Earthlink, for which he claims he earned more than $3 million in consulting fees as well as up to 5% of Slatkin's Earthlink stock. Ex. 62. By 2001, Jacobs was charging Slatkin a $40,000 per month retainer. Ex. 63. Between 1991 and 2001, Slatkin paid Jacobs and CDI $3,068,423 in consulting fees. In addition, it appears that Slatkin paid Jacobs at least $100,000 for services rendered to the Slatkin children. Ex. 64. Slatkin also issued a 1099 for consulting services to Jacob's wife, Myrna Jacobs in at least 1997. Ex. 65.

F. Jean Janu

According to Jean Janu ("Janu")[6], she met Slatkin through her client Mark Zaplin, who was involved in a restaurant business named Riverbenders in Laughlin, Nevada. Janu's relationship with Slatkin is illustrated in Exhibit F. Slatkin was an investor in that business along with David Purcell. Ex. 66 (Janu Depo., pp. 18-19).

Janu began performing bookkeeping services for Slatkin in about 1990. Ex. 66 (Janu Depo., p. 18). She performed those services in New Mexico where she lived and traveled to Santa Barbara on a regular basis to meet with Slatkin. Id., pp. 9, 128. Early projects on which Janu worked include Riverbenders, Lizardhead Partners, and Aviarian Partners. Id., p. 24. In 1995, Janu began working full-time for Slatkin (as an

"independent contractor") and within a year thereafter Slatkin was her only client. Id., p. 20. Janu maintained Slatkin's investor list. Id., p. 207. She also posted the investments for Slatkin's client accounts. Id., pp. 51, 54, 73. Slatkin paid her approximately $1,131,000 for her services.

Janu claims to have invested approximately $255,000 with Slatkin some time after she began working for him full-time. According to Janu, she sold real property and used the proceeds of that sale to make the investment. Ex. 66 (Janu Depo. pp. 143-48). By the time Slatkin filed bankruptcy, Janu had withdrawn $302,311 from that account.

Janu's parents, Nelson and Virginia Spencer, also invested with Slatkin. They received approximately $604,000 more than they paid to Slatkin.

In April 1995, Janu transferred to Slatkin for an unknown consideration title to real property in New Mexico that was held in the name of her child's trust. Ex. 67. On April 23, 2001, one week before his bankruptcy, Slatkin transferred that property back to Janu also for an unknown consideration. Ex. 68. Although the Trustee has sought an explanation of this transaction, Janu has refused to provide that information, invoking her Fifth Amendment right against self-incrimination. Ex. 69. However, Janu's counsel has represented to the Trustee that Janu will not transfer that property without Court authorization. Id.

G. Glenn Johnson

According to a letter apparently written by Glenn Johnson ("Johnson") in August 2000, he was an "early pioneer of the Personal Computer Industry" and a co-founder of Ashton-Tate Software and Government Technology Services, Inc. Ex. 70. (Kevin O'Donnell is a co-founder of the latter company.)

Johnson was a "consultant" to Slatkin and also invested money with him. Johnson stated that he "heads up technology research" for Slatkin. Ex. 70. According to Slatkin's bookkeeper Phyllis Rogers, Johnson's purported duties included helping Slatkin identify investments. Ex. 71. (Rogers Depo., pp. 59-60).

Johnson also was an investor with Slatkin. He received approximately $4.5 million in payments over and above what he paid to Slatkin.

H. Mark Leibovit

Slatkin had a long-term business relationship with Mark Leibovit. Leibovit was married to (and is now divorced from) Alice Leibovit and is the brother of Arnold Leibovit. Mark Leibovit and various members of the Leibovit family invested with Slatkin.

Slatkin and his wife initially entered into business dealings with the Leibovits around 1989, when Slatkin

invested in the Sedona Spirit Theater ("SST"). Through various business developments and dealings relating to SST, Slatkin acquired property in Sedona, Arizona and shares in International Well Control.

The Leibovits also involved Slatkin in Talking Rings Entertainment, a company that was formed to provide financing for science fiction films. Slatkin invested in Talking Rings through a combination of debt and equity holdings. The successor to Talking Rings is now defunct.

In 1993 Leibovit and Slatkin formed a partnership called Lizardhead Partners ("Lizardhead"), to buy and sell stock. Ex. 72. According to Slatkin's 1999 K-1, he owned 100% of Lizardhead by 1999. Ex. 73. The net amount of Slatkin's investment in Lizardhead was $895,587. Ex. 1 (Slatkin Depo. pp. 271-274).

Mark and Alice Leibovit divorced in 1997 and divided their investment accounts with Slatkin at that time. Exhibit NN to this report is a chart of their relationship with Slatkin.

I. Joel Kreiner

Joel Kreiner ("Kreiner") is an attorney who has been associated with Slatkin since the late 1970s. Ex. 74. During the 1970s, Kreiner had a law partnership with James Fisher. Since the late 1970s, Kreiner and his wife, Stina Hans, have been involved with Slatkin and Fisher in real estate investment partnerships including 105th Street West Partners, Laurel Canyon Properties, Leeward Properties, and 4686 Woodside Properties. Ex. 58. Kreiner and Hans hold their interests through various entities controlled by them. See Exhibit K.

Kreiner and Hans also invested money with Slatkin. They received approximately $5.8 million in payments over and above what they paid Slatkin. Exhibit KK to this report is a chart of their relationship with Slatkin.

J. Richard Levine

Richard Levine ("Levine") has known Slatkin since at least the mid-1980s. Exhibit HH to this report is a chart of their relationship. When they first met, Levine was working as a stock broker for Prudential-Bache Securities.

It appears that Slatkin and Levine first worked with each other in about 1987 connection with a company called Statistical Science, Inc., which was in the investment advisory business. It also appears that Slatkin and Levine began making investments for customers or "friends" during this time period. The Trustee and Committee have reliable evidence that by not later than 1989, Levine knew that Slatkin had been making fraudulent representations about his investment results.

Slatkin and Levine were partners in Tarzana Partners ("Tarzana") (a trading partnership) and made numerous other investments together. Ex. 1. (Slatkin Depo., p. 90). By way of example of their longstanding

relationship, in June 1991, Slatkin and Levine entered into an agreement, which recites that Slatkin is a general partner in Montecito Partners ("Montecito") and Levine is a general partner in Tarzana Partners ("Tarzana"). Pursuant to that agreement, Levine was to receive 50% of Montecito's profits, and Slatkin was to receive 50% of Tarzana's profits. It appears that Montecito ultimately merged with Tarzana, effective at the beginning of 1997. See Ex. 75. Slatkin and Levine also were co-owners of other businesses including Coldwater Associates (Ex. 76), MJR Investments, Sterling Asset Management Partner (aka Sterling Asset Managers, Redstone Financial (along with Ronald Rakow) (Exs. 77 and 97), Triangle Partners (Ex. 78), and Infinity Acceptance Corporation (which is now in receivership). In addition, Levine was a co-signatory on various bank accounts with Slatkin and had trading authority over various brokerage accounts held by Slatkin. Ex. 1 (Slatkin Depo., pp. 88-90).

On or about April 17, 2001, Slatkin signed an agreement pursuant to which Slatkin purportedly transferred to Levine Slatkin's interests in Tarzana, MJR Investments, and Sterling Asset Management Partners and the outstanding loans owed to Slatkin by those entities. In exchange, Levine purported to transfer to Slatkin the investment accounts that the Levine family had with Slatkin. Ex. 79.

Levine also was an investor with Slatkin. He received approximately $4 million in payments over and above what he paid Slatkin. After the SEC commenced its investigation of Slatkin, Levine and members of his family withdrew at least $1.47 million more from their accounts than they paid into those accounts during that period.

K. Charles Lyons

Slatkin probably met Charles Lyons ("Lyons") through his investment in Beacon/Boomtown. Lyons was the president of the Beacon's parent, Ascent Entertainment, a publicly traded company which also owned professional sports franchises (the Colorado Avalanche and the Denver Nuggets). Lyons then was involved with spearheading other entities in which Slatkin invested including California Media Group, LLC and RBG Capital Group. Lyons had a consulting agreement with Slatkin for an annual retainer of $750,000 a year. See Ex. 80. He also borrowed money from and invested money with Slatkin. In total, Lyons received approximately $1.2 million from Slatkin over and above what he paid Slatkin.

L. Christopher Mancuso

In about 1985, Slatkin became associated with Christopher Mancuso ("Mancuso") and Rakow. The Trustee is informed that Mancuso and Rakow were each convicted of federal crimes arising out their

involvement with a company called Culture Farms. See Ex. 81.

In the 1980s, Mancuso established investment accounts with Slatkin. Mancuso also was involved with accounts managed by Slatkin in the names of Givsen and Trojan Financial. Hundreds of thousands of dollars were transferred among and from those
accounts. Exs.82 and 83.

More recently, in 1998, Mancuso, the "founder" of Communications Consulting, Inc., attempted to borrow $2.5 million from Slatkin. Ex. 84. Additionally, from 1989 to 1995, Slatkin invested a net amount of $139,600 in NTC and in 1995, invested $850,000 in Incommnet, two companies with which Mancuso was involved. Ex. 85.

As discussed below, Slatkin owned undeveloped real property at 6 Sea Greens, Newport Coast, California. Slatkin proposed to sell the property to a company called IBAR Development LLC or to Mancuso LLC. Ex. 86.

On May 22, 1999, Rakow wrote to Slatkin:

> "I was miraculously and accidentally, [sic] privy to a comm. between Mancuso and his Atty. yesterday, and all I can say is that if in your madness you don't fund the escrow on Monday you will look back on that instant and this advisory, for a long time, with extreme regret and embarrassment. . . . Remember you live and thrive in a world of adulation & respect. In a brutally frank critique and examination you will be found to be a Human . . .

Ex. 17. Although Slatkin was to be the seller of the property, on or about May 24, 1999, he transferred $3,750,000 to an escrow account at North American Title Company.

On May 27, 1999, even though the sale had not closed, the escrow company transferred $2,646,856.40 of Slatkin's money to Mancuso's company, Mancuso LLC. Ex. 87. The remainder of the funds were returned to Slatkin.

On June 4, 1999, Mancuso wrote to Slatkin "Please give me a call on Monday and I will explain to you what I have done." Ex. 88.

In addition, as discussed above, in the SEC's investigation, Slatkin testified that he had hundreds of millions of dollars in accounts in Switzerland. In an apparent attempt to create the false image that those accounts were real, in about February 2000, Slatkin used International Telecommunications Consulting, LLC ("ITC") to set up a Swiss telephone line that actually forwarded calls to Santa Barbara, California, where they were answered. Mancuso, on ITC letterhead, wrote to Slatkin about this phone line, noting that "when you dial

the number the line has been conditioned to provide a truly genuine European ring (nice touch, huh?)." See Ex. 7.

As noted, Mancuso was an investor with Slatkin. He received approximately $2.4 million in payments over and above what he paid to Slatkin. Exhibit EE to this report is a chart of Mancuso's relationship with Slatkin.

M. Richard McMullin and Joanne Rubinstein (His Mother)

Richard McMullin was an "investment consultant" to Slatkin from at least 1986 until 1999, when he ceased working for Slatkin. Ex. 89. By the early 1990s, Slatkin also hired McMullin's mother, Joanne McMullin (who later married and change her name to Rubinstein) to assist with office tasks such as "typing, bookkeeping and records management as needed." Ex. 90. Rubinstein worked for Slatkin through 2001.

N. Douglass Neuman

Douglass Neuman ("Neuman") has known Slatkin since about 1975. Neuman was involved with Slatkin's business operations as early as the late 1970s and had an "apprenticeship" with Robert Duggan around the same time as Slatkin, learning how to analyze stocks and companies for investment purposes. Ex. 91. He and members of his family have also invested money with Slatkin. Since the mid-1990s, Neuman was Slatkin's partner in extensive real estate operations in Oregon.

Slatkin and his family appear to have been close friends with Neuman and his wife, Becky, choosing to designate the Neumans as the guardians of the Slatkin children in their wills.

Exhibit JJ to this report is a chart concerning Neuman's relationship with Slatkin.

O. Kevin O'Donnell/MaryAnn O'Donnell

Slatkin and Kevin O'Donnell ("O'Donnell") began doing business deals together by the early 1990s. Ex. 92. Prior to meeting Slatkin, O'Donnell had co-founded a successful company called Government Technology Services, Inc. Between 1990-1992, O'Donnell and Slatkin were involved in a few stock trading partnerships which sometimes involved other individuals, such as O'Donnell & Gale, Slatkin & O'Donnell and Gale & Connard. Id.

Slatkin's association with O'Donnell ultimately led Slatkin to make his initial investment in Earthlink. O'Donnell's son had gone to school with Earthlink's founder, Sky Dayton, and O'Donnell introduced them and persuaded Slatkin to invest. Ex. 1 (Slatkin Depo., pp. 146-47) Following the Earthlink investment, Slatkin entered into other business deals with O'Donnell. For example, O'Donnell was involved in Army Bernstein's

plan to acquire Beacon Entertainment from Ascent before Slatkin became involved. O'Donnell was also an investor in the Bon Carre, Eastgate, and Fort Pierce mall properties with Slatkin.

The relationships among Slatkin, O'Donnell, Army Bernstein, and Richard Rosman became strained during 2000 and 2001. In an April 2001 letter to Slatkin, Bernstein wrote: "Mr. O'Donnell is in breach of his obligations under the Boomtown and Beacon operating agreements, has been uncooperative in furthering the objectives of Boomtown and Beacon, and has threatened to divulge confidential information of Boomtown and Beacon." Ex. 47.

O'Donnell was married to MaryAnn O'Donnell throughout the time he was associated with Slatkin. The O'Donnells legally separated in 1999, and their divorce became final in December 2000.

Slatkin and O'Donnell also invested together (along with others) in numerous other companies. Exhibit LL to this report is a chart concerning Slatkin's relationship with the O'Donnells.

P. Ronald Rakow

As discussed above, in May or June 1985, Slatkin became associated with Rakow when he purportedly invested with Slatkin $200,000 that he had received from Culture Farms. Ex. 4 (Rakow Depo. p. 315). Shortly thereafter, Rakow withdrew those funds. Id., p. 315. The Trustee is informed that Rakow was convicted of federal crimes arising out of his involvement with Culture Farms. Ex. 4 (Rakow Depo. p. 229).

Notwithstanding Rakow's legal problems, Slatkin maintained a very close association with Rakow.

According to Slatkin, Rakow advised Slatkin about the purchase of art.

Among numerous other transactions, Slatkin claims to have sold valuable paintings to Rakow and his wife; and during the summer of 2000, Slatkin purportedly sold Rakow and Del Bianco paintings worth approximately $1 million. The Trustee has reliable information that, notwithstanding this "sale," the paintings remained in Slatkin's possession until Del Bianco removed them from Slatkin's residence after Slatkin filed his bankruptcy case. After learning that the paintings had been removed from Slatkin's residence, the Trustee's counsel communicated with Zaplin about the art. According to Zaplin, after June 2001, Rakow told him that he did not know where the paintings were located. Ex. 93.

In addition, in late January 2001, the Hollis Taggert Gallery in New York sold the Thomas Moran painting, "View of East Hampton," to Slatkin for $150,000. On June 14, 2001, Rakow personally delivered that painting to the gallery. According to the gallery's owner, Rakow claimed that he had purchased the painting from Slatkin, but did not provide any details or documentation evidencing that purchase. Rakow asked the gallery to sell the painting on a consignment basis and asked that the consignment be listed in Del Bianco's

name. Exs. 94. The gallery has possession of the painting and has agreed not to sell or transfer possession of the painting without the Trustee's permission or a Court order.

Slatkin's records show that Rakow was a "consultant" from the late 1980's through at least 1997. Ex. 95. Slatkin described Rakow as an "entrepreneur and private business analyst" and claimed that Rakow provided him with preliminary and follow-up business and financial analysis for companies "under accumulation," as well as investment ideas. Ex. _. It also is apparent that Rakow solicited investors for Slatkin and assisted Slatkin in making investments and other payments. Indeed, he may have directed certain of Slatkin's activities. This is evidenced by the following examples:

* Rakow introduced Slatkin to Dr. Arlo Gordin, Mark Zaplin, John Svirsky (Ex. 96), the Azeez, and others as a potential investment advisor.

* Rakow had signing authority on some of Slatkin's accounts. Ex. 97.

* Rakow directed the purchase of $2 million of disastrous investments through Co-Right Investments, a Canadian company owned by Slatkin. Ex. 98.

* Rakow was involved with or otherwise connected to numerous companies into which Slatkin poured millions of dollars, many of which either no longer exist or have struggled with severe financial problems. Examples of such companies include Stryker Systems Inc. (which became Stryker Technologies and then Telsoft), Ex. 99, Advanced Resin Technologies, Fashion Development Co., Intellego f/k/a Physicians Data Corporation, Ko-Ko Knits (Ex. 100), Janice McCarty Enterprises (Ex. 101), Digital Lightwave (Ex. 102), Tradesafe.com (Ex. 103), and American Interactive Media.

* As discussed above, Rakow was involved with Mancuso and the Sea Greens property. Ex. 86.

On or about June 25, 2001, the government seized $386,885 in cash (the "Cash") from the residence of Rakow and Del Bianco in connection with a court-authorized search of that residence conducted in connection with the government's criminal investigation of Slatkin's activities. The Trustee moved the Bankruptcy Court for an order requiring that the government turn over the cash to the Trustee. Although the Cash had been seized from their residence, Rakow and Del Bianco did not oppose the substance of the Trustee's motion.

Members of Rakow's family and entities controlled by them were investors with Slatkin. They are large "net debtors" having received at least $6 million more from Slatkin than they gave to him to invest for them.

In addition, Rakow personally received at least $2.4 million more from Slatkin than he gave to Slatkin.

Q. Phyllis Rogers

Phyllis Rogers ("Rogers") began working for Reed Slatkin in approximately 1984. Ex. 71 (Rogers Depo., pp. 13-14). According to Rogers, her husband (Larry Rogers) is an accountant and knows Marshall Yagan, who was Slatkin's accountant. It was Yagan who introduced her to Slatkin. Id., pp. 34-35. Rogers used her husband's mainframe computer at Rogers Accountancy Corp. in Century City to do work for Slatkin and Rogers gave one-half her salary to her husband. Id., pp. 129-31.

Rogers described herself as Slatkin's personal assistant, who was responsible for the day-to-day running of his personal life, including his personal banking; but she did not trade stocks for him. Ex. 71 (Rogers Depo., pp. 13-15). She testified that, at some point she became aware that Slatkin was investing other people's money, but "it's not like a business" but "something he does as help to people." Id., p. 56-57. Rogers also testified that the majority of Slatkin's investors are from the Church of Scientology. Id., p. 133.

R. Richard D. Rosman

Richard D. Rosman is a Los Angeles attorney. He has been a Slatkin investor since 1988. Ex. 104. Rosman was a partner at LeWinter & Rosman Rosman until early 2000, when he left that firm and established his own practice.

Rosman has been a lawyer for Kevin and MaryAnn O'Donnell, Army Bernstein, and in limited cases, for Slatkin. Rosman was also counsel to and a principal in RBG Capital Group, LLC ("RBG"), California Media Group, LLC ("CMG"), Boomtown, and Beacon. Rosman acquired his interest in Boomtown/Beacon as part of his compensation for providing legal representation to Bernstein, O'Donnell and Slatkin relating to Boomtown's acquisition of Beacon from Ascent Entertainment. Ex. 105. Rosman was an active principal in the operations of Beacon/Boomtown. He was regularly in contact with Slatkin reminding him of his funding obligations for the acquisition of Beacon, and requesting that Slatkin fulfill his bridge financing obligations for the films "Thirteen Days" and "Family Man." Rosman was also involved with the mall properties, Skinmarket, and other ventures with Slatkin. During 2000, Rosman regularly faxed Slatkin requesting funds for the O'Donnells and for Army Bernstein. Ex.106. He also sent Slatkin accountings for funds between the parties. Ex. 107.

S. Consultants

1. "Investment" Consultants

Over the years, Slatkin paid numerous individuals who ostensibly assisted his stock trading and investing practices by providing analysis and recommendations. They include Dr. Bill Hutchins, Glenn Johnson, Richard McMullin, Hank Owens, Joseph Walton, Robert Welch, and Irwin "Izzy" Zackberg. It appears that some of

these individuals maintained their own investment businesses and simply sent Slatkin investment and trading information, recommendations, and ideas. Others were more like Slatkin employees in that they apparently reported to Slatkin's offices each day, performed analyses of companies at his direction, and assisted with other tasks around the office. Slatkin sometimes provided computers and other office accoutrements for them to use and reimbursed them for travel expenses.

2. Computer Consultants

Over the years, Slatkin also paid numerous persons for services relating to his computer software and hardware needs, including for programming services to help Slatkin develop proprietary software to provide trading information and recommendations, as well as to keep records of those transactions. Slatkin's computer consultants include Frank Still, Patrick Siefe, Jason Ciaraffo, Lawrence Carhardt, and Jeffrey Donovan.

VIII. ASSETS OF THE ESTATE

A. Introduction: The Property of the Slatkin Bankruptcy Estate

Upon the commencement of this bankruptcy case, among other things, the following assets became property of the Estate: **(1)** all of Slatkin's legal and equitable interests in property as of that date (11 U.S.C. § 541(a)(1)), **(2)** all interests of Slatkin and his spouse (Mary Jo Slatkin) in their community property as of that date (11 U.S.C. § 541(a)(2)), and **(3)** interests in property that the Trustee may recover under various provisions of the Bankruptcy Code and applicable state law (including claims arising out of 11 U.S.C. § 541 (a) (3), and fraudulent and preferential transfers).

Assets of the Estate also include the assets of Slatkin's controlled entities which should be substantively consolidated with the Estate. Courts have repeatedly ordered substantive consolidation, even when the parties involved are different types of legal entity. In re Standard Brands Paint Co., 154 B.R. 563 (Bankr. C.D. Cal. 1993) (granting substantive consolidation); 5 Collier on Bankruptcy ¶ 1100.06, p. 1100-35 (15th ed. 1995). The test for retroactive substantive consolidation in the Ninth Circuit was established in In re Bonham, 229 F.3d 750 (9th Cir. 2000). Adopting the test in In re Augie/Restivo Baking Company, Ltd., 860 F.2d 515 (2d Cir. 1988), Bonham held that substantive consolidation could be ordered when either "(1) the creditors dealt with the consolidated entities as if they were the same [i.e., as a single economic unit and did not rely on their separate identity in extending credit], or (2) the affairs of the consolidated entities are so entangled that it would not be feasible to identify and allocate all of their assets and liabilities." 229 F.3d at 771.

As discussed above, the Trustee has begun but has not completed his investigations into those assets. Nevertheless, there are four strong preliminary conclusions to be drawn from those incomplete investigations:

(1) most of the assets which Slatkin represented to his investors that he owned for their benefit do not and never did exist; **(2)** the tangible assets that Slatkin owned as of the date of his bankruptcy are, for the most part, worth far less than the amount which Slatkin paid or invested to acquire them, and in many cases, those assets (for which Slatkin paid millions of dollars) have no realizable value; **(3)** Slatkin paid a select group of investors almost $200 million in excess of their original investments; and **(4)** Slatkin paid additional millions of dollars to persons who he has described as his consultants or co-venturers.

The Trustee and the Professionals are in the process of investigating the numerous assets that belong to the Estate, and have spent significant hours reviewing Slatkin's records. They have also conducted a number of interviews with Slatkin's creditors and associates. As a result, the Trustee has developed a comprehensive asset list of more than 500 investments. The Trustee is still in the process of investigating each and every asset, and it is therefore premature for the Trustee to make a meaningful estimate as to their cumulative value. However, the Trustee believes that the value of the tangible personal property and real property owned by the Estate is approximately $30 million. It is the intention of the Trustee and the Committee to file a further report dealing primarily with the Estate's assets and the intended course of action for each asset.

Nevertheless, the Trustee wishes to provide to the Court a report of his findings about a number of assets.

B. Earthlink Stock

The following discussion provides information about the creation of the Earthlink stock asset and recent transactions (both pre- and post- bankruptcy) involving that stock.

As previously noted, Slatkin was a co-founder of Earthlink, having been brought to the transaction by a business associate, Kevin O'Donnell. In early 1997, Earthlink went public. Its common stock presently trades over the counter on NASDAQ under the symbol - ELNK.

Following procedures established by the Court, the Trustee has to date sold 200,000 shares of Earthlink stock for a total net proceeds in excess of $3 million (after the payment of commissions). Some of the sale proceeds were used by the Trustee to pay secured indebtedness owed to Bank of America ("BofA") pursuant to a Court approved stipulation among the Trustee, the Committee, and BofA. That transaction resulted in BofA releasing its security interest in other shares of Earthlink stock and other securities that it held as collateral. The remaining sale proceeds are subject to the Trustee's control.

The Estate presently owns approximately one million shares of Earthlink stock. During the past year, the price of the stock has fluctuated from $4.75 to $18.92 per share, but its recent value (approximately at the date

of the completion of this report) was $11.75 per share. Thus the Estate's holding is worth approximately $11.75 million. The Trustee believes that all of the shares may be sold in the public securities market (in some cases pursuant to Rule 144 of the Securities Act of 1933).

The Trustee made a "cashless" exercise of warrants to purchase 24,225 shares EarthLink stock at approximately $3.41 per share. Pursuant to this exercise, some of the shares issuable upon exercise of the warrant were used to pay the exercise price. The remaining 18,017 shares of EarthLink stock were delivered to the Trustee, and these shares are included in the total number of shares owned by the Estate.

In addition to the above shares, Slatkin's children hold at least 24,148 shares of Earthlink stock. The certificates for those shares are held by Slatkin's attorneys pursuant to a Court-approved stipulation with the Trustee. The Trustee contends that this stock is property of the Estate.

In 2000, Slatkin entered into Variable Share Prepaid Forward Sale Contracts for Earthlink stock with BofA and its affiliate, Banc of America Securities LLC ("BAS"). Pursuant to these Forward Sale Contracts, Slatkin agreed to sell and deliver a maximum number of Earthlink stock at a future date in exchange for a cash payment based on a discounted value of those shares. Slatkin's performance of his obligation to sell the stock was secured by delivering Earthlink stock to BofA/BAS. Pursuant to this arrangement, Slatkin pledged one million shares of Earthlink stock. It appears that Slatkin used most of the proceeds of that transaction to pay secured indebtedness owed to BofA.

Shortly after the SEC commenced its Enforcement Action against Slatkin, BofA/BAS sought and obtained relief from the United States District Court to accelerate the maturity of the Forward Sale Contracts. Based thereon and apparently in reliance upon 11 U.S.C. § 362(a)(6), BofA/BAS liquidated collateral sufficient to close out the position and the remaining excess collateral was turned over to the Trustee (these shares are included in the total number of Earthlink shares owned by the Estate). The Trustee is continuing to investigate the facts regarding this transaction and the actions of BofA/BAS.

In addition to the Forward Sale Contracts, Slatkin had a revolving line of credit with BofA. That line of credit was secured by additional shares of Earthlink stock, other securities, and cash. By a Court-approved stipulation, the Trustee repaid Slatkin's BofA loan by using the cash held as collateral and additional cash from the Estate's sale of Earthlink stock as described above; and BofA released to the Trustee its remaining collateral for that loan.

C. Real Estate

1. Mall Properties

The Estate owns an interest in three limited liability companies ("LLCs") that, in turn, own commercial business malls anchored by telephone call centers located in the southern United States. The primary properties involved are as follows:

(a) Eastgate Mall ("Eastgate") – located in Chattanooga, Tennessee. The original parcels were acquired during June 1997. Brainerd Town Center is adjacent to the Eastgate Mall and was acquired in October 2000.

(b) Bon Carre Mall ("Bon Carre") – located in Baton Rouge, Louisiana. This property was acquired during November 1998. Three additional properties affiliated with Bon Carre and held by LLC's are Van Gogh, Mid-South, and Lobdell.

(c) Fort Pierce Properties, LLC ("Fort Pierce") – owns and operates Orange Blossom Mall, which was acquired in January 2000. This property is located in Fort Pierce, Florida, near Vero Beach.

The other limited partners in the malls are **(i)** Norman Harrower, III ("Harrower") and Charles Purzner[7], **(ii)** Slatkin and O'Donnell, and **(iii)** Van and Michael Council (collectively, "Council"). While the ownership interests are generally allocated one-third to each of these groups, a brief analysis of the accounting records reflect that Slatkin said the preponderance of capital contributions. It appears, in fact, that Slatkin had contributed approximately $14 million to the three mall LLCs and related entities. (There may be some dispute as to actual allocation of these amounts between Slatkin and O'Donnell.)

The Trustee has been actively involved in attempting to determine the value of these three malls to the Estate. To that end, following approval of the Court, the Trustee engaged Crossroads LLC "(Crossroads") as real estate specialists to review the three projects and assess their continued viability. Following the Crossroads analysis, it is the opinion of the Trustee that the malls will yield little, if any, return of the $14 million investment. Nevertheless, the Trustee will continue to attempt to recover a portion of these funds.

Attached as Ex. I is a chart of the structure of the malls.

2. <u>Oregon Entities and Properties</u>

Beginning in 1991, Slatkin expended approximately $11.5 million to acquire interests in real properties (collectively, the "Oregon Real Property") located in or near Medford and Ashland, Oregon. The Estate's principle interests in the real properties and the entities (collectively, the "Oregon Entities") that hold title to them are described in the following paragraphs. Also attached as Exhibit J is a chart depicting these properties.

(a) Mountain Park Development, LLC: Mountain Park Development LLC ("Mountain Park") was formed in 1994. Its members are Slatkin and Douglass Neuman. Neuman is also its Manager. Mountain Park's principal business is to purchase, develop, and sell real property. It also owns the properties and entities described in the following subparagraphs. Slatkin contributed approximately 95% of Mountain Park's capital. According to Slatkin's 1999 Schedule K-1 for Mountain Park, by the end of the year, his capital account was $9,404,928.

The following is a brief recap of each of the real properties which Mountain Park holds for investment and development:

(1) A five-acre plot with a rental home located at 1739 Thomas Road in Medford. It is zoned presently for farm use.

(2) A two-acre plot located at 2160 Archer, connected to 2175 Archer and 2574 Broadview, which are similarly situated properties owned by Mountain Park. All of the properties are awaiting water connections.

(3) A five-acre plot located at 2175 Archer, connected to 2160 Archer and 2574 Broadview, which are similarly situated properties owned by Mountain Park. All of the properties are awaiting water connections.

(4) An eight-acre plot located at 2574 Broadview, connected to 2160 Archer and 2175 Archer, which are similarly situated properties owned by Mountain Park. All of the properties are awaiting water connections.

(5) A residential home with 10 acres located at 4455 Hwy 99 South in Ashland.

(6) Two one-acre residential lots and one 12-acre residential lot located on the Chetco River in Brookings, Oregon

(7) The Citizens Bank Building in Ashland. This is an historic two-story building across from the Ashland Springs Hotel.

(8) A ten-acre plot of residential property held for future development. It is located on Corp Ranch Road in Ashland, Oregon.

(9) An eight-acre plot a by golf course. Mountain Park owns 50% of the development with another partner.

(10) A one hundred sixty-acre parcel located about 20 minutes from Ashland on the way to Lake

of the Woods. It is intended for residential development and planting of brown trout for use by the Lake of the Woods development.

(11) Lithia Creeks Estates, a development near Lithia Park in Ashland. Many of the lots have already been sold, and only a few remain to be sold.

(12) Sixteen residential lots owned by Mountain Park. David Basset is a 50% owner of these properties.

(13) Twenty-two residential lots located in Talent, Oregon. These lots cannot presently be developed due to a water moratorium.

(14) Residential lots located at 920 and 930 Tolman Creek Road in Ashland.

(15) A three and one-half acre site located on Washington Street in Ashland.

(16) Thirteen acres and one residential vacant lot known as the Windermar Property in Ashland.

(17) Mark Antony Historic Property, LLC (the "Ashland Springs Hotel"): Mountain Park is the sole member of Mark Antony Historic Property, LLC ("Mark Antony") (formed in 1998), and Neuman is its Manager. Mark Antony's principal asset is the Ashland Springs Hotel (the "Hotel"), a recently remodeled 70-room hotel in downtown Ashland, which re-opened in December 2000. The total cost of the Hotel, including assumption of debt, is close to $9.8 million. That results in an average cost of almost $140,000 per room. The Hotel has been tastefully but sumptuously restored in order to maintain its Historic Property designation. There are financial benefits to doing so, but those benefits do not make the Hotel financially viable. Ashland is famous for its annual Shakespearean festival. Unfortunately, the festival lasts only approximately six months and the remainder of the year the Hotel will almost certainly suffer a severe drop in bookings. Even if the Hotel was booked year-round, it would not generate sufficient revenue to provide any return on the investment. Based on the professional input of hotel specialists engaged by the Trustee, the value of the Hotel may not even exceed its existing $3,855,000 debt, let alone its $9.8 million cost. Thus, the Estate will lose approximately $6 million due to Slatkin's lack of investment foresight.

(18) **Lake of the Woods Resort, LLC:** Mountain Park is also the sole member of Lake of the Woods Resort, LLC (the "Resort") (formed in 1998), and Neuman is its Manager. The Resort's principal asset is a lake-front resort on land leased from the United States Forest Service in Klamath County, Oregon. It occupies 18 acres and includes 16 cabins, a lodge (with a restaurant and lounge), a campground (with 30 campground spaces), and a marina. The Resort is located in a pristine setting in the

mountains surrounding Medford and Ashland. The total cost of the Resort was approximately $1.8 million. Notwithstanding its beautiful setting, the Resort's existing revenues do not begin to justify the $1.8 million cost from a revenue perspective. As a result, in the proposed sale to Neuman (discussed below), the Estate will suffer a loss of approximately $800,000.

(b) Topridge Oregon, LLC: In addition to Slatkin's interest in Mountain Park, Slatkin is the sole member of Topridge Oregon, LLC (formed in 1998), and, again, Neuman is its Manager. Slatkin capitalized Topridge Oregon at its inception by contributing approximately $1.8 million. Its principal asset is a 246-acre property and improvements located approximately two miles from Ashland. The improvements on that property include, among others things, a 7,710 square-foot house built in 1995. It is subject to a lien of approximately $180,000.

(c) Strawberry Lane Property: The Strawberry Lane Property consists of real property in Ashland, which Slatkin acquired in his own name in 1991. According to Neuman, this land is being held for development as a seven-parcel residential subdivision.

The Trustee and his professionals have conducted an extensive investigation of these assets, among other reasons, to ascertain the nature and value of the Estate's interests, the profitability or lack of profitability of the Oregon Entities, the encumbrances on the Oregon Real Property, and their approximate fair market values. In the course of this investigation, the Trustee has personally inspected almost all of the Oregon Real Property and met with Neuman and his accountants in Ashland. On June 28, 2001, the Trustee's counsel met with Neuman and his counsel in Ashland and conducted a full-day interview of Neuman concerning the Oregon Entities' businesses and assets; and the Trustee's accountants have met with Neuman and his accountant several times. In addition, the Trustee and his professionals have reviewed numerous documents obtained from Slatkin's files and provided by Neuman concerning these entities and properties which they hold.

The Trustee has determined that it is in the best interests of creditors to liquidate in an orderly manner the Estate's interests in the Oregon Entities and the Oregon Real Property. The Trustee has reached a tentative agreement to sell to Neuman the Estate's interests in Mountain Park, Mark Antony, the Resort, Topridge Oregon LLC, and the Strawberry Lane Property for $5.25 million (subject to overbid); and the Trustee has received draft transaction documents from Neuman's lawyers. After those documents are revised, finalized, and signed, this sale will be the subject of a motion to sell to be filed with the Bankruptcy Court.

The real properties (except the Hotel and the Resort) included in the sale to Neuman will generate

approximately their original purchase price. However, when factoring in the cost of the Hotel and the Resort, the Estate will suffer a loss of approximately $7 million due to this imprudent investment by Slatkin.

3. Esperanza Properties

The Esperanza Properties (4480 and 4484 Via Esperanza, Santa Barbara, California) were Slatkin's primary residence and are located in the exclusive Hope Ranch area of Santa Barbara. The main house is subject to a lien in the amount of $605,000; and the Trustee has been maintaining the payments on this lien from cash in the Estate. There have been substantial improvements affecting both properties, including an expensive driveway, extensive specialized landscaping, and a backup generator for the main house. The total cost of improvements to both properties is approximately $1.852 million. The unique nature of the landscaping requires the services of a landscaping maintenance company and a property manager, which cost is also being borne by the Estate. The properties are listed for sale at $6 million. The realtors engaged to sell the properties have received a substantial number of inquiries and one offer, which the Trustee considers to be below market value. Due to a number of factors, the Trustee believes that considerable time may pass before the Esperanza Properties are sold.

4. Kellogg Property

The Kellogg Property is located at 890 North Kellogg Avenue, in Santa Barbara, California. It consists of a single-family split-level residence in a tract built in or about 1969, a three-car garage, and a pool. In the past few years, Slatkin has used the Kellogg Property as his business office. The property is listed for sale at $775,000; there are no liens against the property. The Trustee has received some substantial interest in the property, but has not been able to secure what he considers to be a reasonable offer.

5. Riley Road Property

The Riley Road Property is located at 3125 Riley Road, Solvang, California. The Estate's interest consists of a single family residence on leased land in the Alisal Ranch area of Solvang, which Slatkin used as a vacation/second home. Slatkin purchased the house in 1997 for $371,597, and there are no liens against the property. The Estate has assumed the ground lease for the parcel. The property is currently listed for sale at $399,000. The Trustee has not received any offers to purchase the Estate's interests in this property. Due to the unique nature of the ground lease and the large number of available properties in the area, the Trustee doubts that a sale will occur in the very near future.

6. Roble Blanco Property

The Roble Blanco Property is located at 1275 Roble Branco Road, Solvang, California and consists of approximately 95–100 acres of unimproved land in the Santa Ynez Valley. Slatkin purchased the property in 1998 for $925,700, and there are no liens against the property. The property is encumbered by restrictions in a Homeowner's Association agreement that may restrict a buyer's ability to subdivide the land. The property is currently listed for sale at $1,650,000, and the Trustee has received two purchase offers. The Trustee did not consider the first offer to be a serious offer and, consequently, he did not make a counter-offer. The second offer, received just recently, was sufficiently high for the Trustee to fashion a counter-offer, which has recently been transmitted to the prospective buyer. Should the parties arrive at a mutually acceptable price, a court hearing will be arranged to conduct the sale. At that time, qualified bidders may be allowed to submit overbids.

7. Sea Greens Property

In October 1995 Slatkin and his wife purchased a parcel of undeveloped real property located at 6 Sea Greens, Newport Coast, California for $1,144,452 and there are no valid monetary liens against the property. Although the Trustee has not obtained a formal appraisal of this property, its estimated value is approximately $3 million. However, as discussed below, it is not clear that the Estate will be able to realize that value.

The Sea Greens Property is located in a planned community project. Pursuant to a lien (the "Anti-Speculation Lien") placed on the property, Slatkin was obligated to construct a suitable single-family residence within a specified period of time or face serious financial penalties. The Anti-Speculation Lien prohibits the sale of the property for a profit prior to its development. Slatkin did not comply with the provision requiring him to construct the residence and, consequently, the Anti-Speculation Lien may preclude the Trustee from selling the property in an open competitive environment. Instead, the Trustee may be limited to selling the property for Slatkin's original purchase price. The Trustee is continuing to investigate means of maximizing the value of the value of this property for the Estate.

Through a convoluted series of transactions that the Trustee is still investigating, Slatkin may have tried to circumvent the Anti-Speculation Lien by attempting to sell the property in a transaction involving Mancuso, a company called IBAR Development LLC, and Rakow. Although Slatkin was the proposed seller, he transferred $3,750,000 to an escrow account at North American Title Company. While the sale did not close, in May 1999, the escrow company transferred $2,646,856.40 of Slatkin's money to Mancuso's company, Mancuso LLC. Ex. 87.

8. Sedona, Arizona Property

The Estate owns four somewhat irregularly shaped parcels of land in Sedona, Arizona. The properties

were acquired by Slatkin in February of 1992, with existing approvals for a development on the site. Those approvals expired in 1992, thus future development will require approval of the city with attendant site plans. One of the properties, located at 65 Brewer Road, is improved with old rental units which produces modest income for the Estate.

There are significant floodway and flood plain issues relating to these properties. Prior to the sale or development of these properties, it may be necessary to obtain hydrologic and hydraulic studies to assess what development restrictions may be imposed by the County of Coconino. There are also drainage, grading, and zoning issues that will need to be addressed prior to sale. Notwithstanding these issues, the Trustee believes the properties to be valuable and intends on pursuing their sale in the next year.

9. University Village LLC and University Village–Phase 1A LLC:

These entities (collectively, the "University Village") are limited liability companies engaged in the purchase and development of property in Riverside, California. Information provided by University Village indicates that, as of June 30, 2001, Slatkin had contributed an aggregate of $532,000 to these entities. According to Schedules K-1 issued to Slatkin by University Village, LLC and University Village Phase 1A LLC, Slatkin owned 14.5% capital interests and 15.24% profit-sharing interests in both of those entities as of the end of 1999. Exs. 108, 109. University Village contends that Slatkin has failed to honor capital calls totaling approximately $400,000 and that this failure renders questionable Slatkin's (and therefore the Estate's) interests in University Village. Ex. 110.

By letter dated November 19, 2001, University Village advised the Trustee that construction on the project had been halted and will be delayed indefinitely unless acceptable financing can be located. Ex. 111.

Until recently, University Village had not given the Trustee's accountants access to their books and records. Recently, however, they have reversed that position, but the Trustee's accountants have not yet had an opportunity to review those financial records. Until that occurs, the Trustee cannot independently assess the value, if any, of the Estate's interests in those entities.

10. Other Real Estate

The Estate may have interests in a number of other real estate investments. The Trustee is reviewing those interests and will describe them more fully in later reports. He will also determine whether any of them have any significant value to the Estate.

D. Other Business Interests

1. Boomtown Investments, LLC/Beacon Communications, LLC

According to Slatkin and one of his attorneys, Slatkin invested approximately $10 million in Boomtown Investments, LLC ("Boomtown"). Boomtown was reportedly formed in 1999 and was described by a Slatkin attorney as the holding company for Beacon. Beacon has produced such pictures as Air Force One, and "Thirteen Days." Slatkin's 1999 Schedule K-1 from Boomtown reflects ownership of 21.7876595% of Boomtown and a capital account of $15,629,421 allocated to Slatkin. Ex. 112. The Trustee is unable, at this time, to assess the ultimate value of the Estate's interest in Boomtown/Beacon. Recently, Boomtown/Beacon produced documents in response to a Rule 2004 order issued by the Court, but the Trustee's review of those documents has not been completed.

2. Co-Right Investments, Inc.

In 1999, Slatkin formed a Canadian company to hold investments for him. With the assistance of Rakow, Slatkin used Co-Right to purchase PopMail.Com, Inc. stock for $1 million and Millionaire.com stock for $333,334. Unfortunately, it appears that these securities are now almost valueless. As far as the Trustee is aware, Co-Right has no other business.

3. Fortress Technologies

Fortress Technologies is located in Oldsmar, Florida and has been in business since 1995. It is in the wireless security technology business. Slatkin contributed at least $810,000 to Fortress Technologies in capital and loans.

The Trustee's investigations reveal that Fortress Technologies has never been successful in marketing its products or made a profit. Current management has informed the Trustee that (1) when Fortress Technologies was formed, its management was dominated by members of the Church of Scientology; (2) one of the non-Church founders, Ben Levy, sued the company and other founders for religious discrimination; (3) the litigation resulted in a $1.8 million settlement in favor of Levy ($600,000 to $800,000 of which is still owed); (4) until Levy receives that money, he is entitled to receive five percent of any financing that is raised by the company; (5) the company may be in default on its payment obligations to Levy; (6) the company's capital burn rate is approximately $300,000 per month, and this is based on reduced staffing; (7) the company immediately needs $1 million just to keep its doors open short term and $5-10 million to continue its business; and (8) without the infusion of additional capital, the company will not be able to sustain its business operations. The Trustee has declined to assist Fortress Technologies' efforts to raise capital and has requested that its management attempt to

find a purchaser for the Estate's debt and equity interest. Based on the current economic picture for the company, the Trustee does not anticipate any significant return on Slatkin's investment.

4. Infinity Acceptance Corporation

Infinity Acceptance Corporation ("Infinity") is a California corporation. Slatkin and his business partner, Richard Levine, each own 25% of Infinity. In November 2000, they commenced a receivership and liquidation action (the "Receivership Action") for Infinity, Slatkin and Levine v. Infinity Acceptance Corporation, Case No. LC 054204, now pending in the Los Angeles County Superior Court, Northwest District. Infinity's business was financing automobile insurance premiums for persons purchasing such insurance through Survival Insurance Company.

Slatkin's net investment in Infinity (including capital and loans) is approximately $1.123 million. In the Receivership Action, there are disputes among the parties over payment priorities and Infinity's assets. If the Trustee prevails on the payment priorities issue, the Estate should receive repayment in full of the outstanding loan. The amount of money, if any, that the Estate will recover on Slatkin's 25% equity investment cannot be ascertained with any reasonable degree of certainty at this time.

In the Receivership Action, Slatkin and Levine were represented by the law firm of Hamburg, Hanover, Edwards & Martin, LLP ("HHEM"). After the Trustee was appointed, he arranged for Slatkin and Levine to waive conflicts of interest and for Levine to find new counsel so that the Trustee could retain HHEM to represent the Estate in the Receivership Action. The Trustee retained HHEM to represent the Estate because of its familiarity with the facts and to reduce the Estate's costs in the Receivership Action. The retention of HHEM was approved by Bankruptcy Court order entered September 14, 2001.

5. Physicians Data Corporation (Intellego Corporation)

Slatkin invested a total of $5.982 million in Physicians Data Corporation, now called Intellego Corporation ("Intellego"). As a result of these investments, the Estate owns approximately 16% of Intellego. In March 2001, Intellego filed a chapter 7 petition for relief in In re Intellego Corporations, Case No. 01-62760, in the United States Bankruptcy Court for the Northern District of Georgia. Based on a review of pleadings filed in the bankruptcy case and discussions withe the trustee appointed in that case, there are no assets available for distribution to creditors, much less owners. Accordingly, the Trustee anticipates that there will be no recovery from this asset.

6. Skinmarket, Inc.

Skinmarket, Inc. was incorporated in California in 1997 and is the successor to Skinmarket Delaware, Inc. The company is a privately held national cosmetics and beauty products retailer.

According to Slatkin's records, between August and December 1999, Slatkin invested $1,715,696.19 in this company. On October 1, 2001, the Trustee served a Rule 2004 subpoena on Skinmarket. The documents produced reflect that Slatkin invested only $1,566,056.19 (having missed one of Slatkin's payments that is reflected in Skinmarket's bank records) and that Slatkin (and now the Estate) owns 1,000,584 shares of Skinmarket common stock and 12,500 shares of its preferred stock. Based on recent financial information produced by Skinmarket, the company has been operating at a substantial loss and has an eight-figure deficit. Because Skinmarket is not publicly traded and is not profitable, the Trustee is not at this time able to determine if the Estate's interest in Skinmarket has realizable value. The Trustee will further investigate this investment and the ability to liquidate the Estate's position.

7. Strand Energy, L.C.

The Estate owns a 3.7533% interest in Strand Energy L.C., which is in the oil and gas production business. Recently, the company offered to purchase the Estate's interest for $121,000. The Trustee, following consultation with the Committee, has agreed to accept that offer, subject to Bankruptcy Court approval.

8. Streamingrock.com, LLC

Streamingrock.com was formed in January 2000. It was in the internet communications business. In September 2000, Slatkin agreed to make a convertible note investment in Streamingrock.com. He made this $500,000 investment by a wire transfer on February 21, 2001. By the time Slatkin filed bankruptcy, Streamingrock was in serious financial trouble and was not able to repay the convertible note.

In November 2001, Streamingrock.com merged with ChainCast, Inc., which also is in the internet communications business. As a result of this merger, and after consultation with the Committee, the Trustee exchanged the Estate's convertible note for 376,000 restricted shares of common stock in ChainCast. The Trustee is not currently able to determine if the Estate's investment in ChainCast will have any significant economic value.

9. Telsoft Solutions, Inc.

Telsoft Solutions, Inc. ("Telsoft") is located in Southern California and is in the business of developing and marketing telephone billing and accounting software. The Estate owns 70% of Telsoft's common stock, and Donald Simons owns the remaining 30%. The Estate also owns all of Telsoft's outstanding 5% cumulative

preferred stock.

Slatkin's involvement with the predecessor of Telsoft, Stryker Systems, goes back over a decade. In 1995, Stryker merged with its subsidiary to form Telsoft. Over time, Slatkin invested approximately $2.6 million in the company, which has not been recouped. The Trustee's accountants have inspected Telsoft's books and records, and the Trustee and his accountants and attorneys have met with Simons to discuss Telsoft's business, financial condition, and prospects. Based on the Trustee's investigation, it appears that, except for 1998 when it made a very modest taxable profit, Telsoft has consistently operated at a loss. In addition, the company has a substantial retained deficit and its gross revenues are declining. In short, the company has no equity.

In October, Simon's offered to purchase the Estate's entire interest in Telsoft for $50,000, to be paid over time. The Trustee has indicated that he is willing to accept that offer, subject to overbid and Bankruptcy Court approval. Recently, the Trustee received a draft agreement for the sale of the Estate's interest in Telsoft to Simon.

10. Thomas Weisel Partners LLC (TWP CEO Founders' Circle (AI), L.P. ("TWP")

Slatkin invested $180,000 in TWP. TWP is a privately owned, long term investment limited partnership that invests in high technology businesses. There was a capital call requirement for two additional payments of $60,000 each, resulting in a total investment of $300,000. The Trustee has informed Thomas Weisel Partners of his interest in selling the Estate's interest in TWP and has received one tentative offer for $54,000. After consultation with the Committee, the Trustee determined that the offer was insufficient. The Trustee has chosen to fulfill the remaining capital call and will then discuss a possible sale of the Estate's interest.

11. Topsight Oregon, Inc.

This entity was wholly owned by Slatkin and was formed in March 1999. On September 13, 2001, the Trustee caused Topsight Oregon to file a voluntary chapter 7 bankruptcy petition in In re Topsight Oregon, Inc., BK. No. ND 01-12990-RR, in the United States Bankruptcy Court for the Central District of California, Northern District. There were four assets held by Topsight Oregon: **(1)** a contract to purchase a Cessna Citation Excel jet airplane (the "Cessna Contract"), **(2)** a contract to purchase a Learjet Bombardier Continental jet airplane (the "Bombardier Contract"), **(3)** a 2001 Porsche Turbo (the "Porsche"), and (4) a lease (the "Cessna Lease") for an additional Cessna Citation. Each of these assets is described in greater detail below.

Based on the Trustee's investigations to date, it appears that, in fact, Topsight Oregon had no assets separate and apart from Slatkin's assets. In each instance, the money used to acquire assets in the name of

Topsight Oregon came directly from Slatkin accounts, and the assets were acquired for Slatkin's personal benefit and use. It appears that Slatkin's only reason for using Topsight Oregon to purchase and hold title to assets was to avoid California sales taxes. Finally, with respect to these assets, other than the Porsche (which Slatkin purchased for cash), it appears that the other party to the contracts relied on Slatkin and not Topsight Oregon to complete performance. For these reasons and to avoid potential prejudice to the Estate and insure the equitable treatment of all creditors, the Trustee intends to seek the retroactive substantive consolidation of the Topsight Oregon estate (and the estates of other Slatkin affiliates which the Trustee may place in bankruptcy) with this Estate.

Just prior to his bankruptcy, Slatkin caused Topsight Oregon to enter into the Cessna Lease with Hi-Fli Aviation Too, LLC to lease a Cessna Citation for six months. The lease payments were $38,000 per month, and the lessee was required to pay all operating and maintenance costs. Shortly after Slatkin filed bankruptcy, the Cessna Lease was terminated, that aircraft was returned to the lessor, and Hi-Fli agreed to give up its claim for damages in the approximate amount of $250,000.

In February 2000, Slatkin caused Topsight Oregon to enter into the Cessna Contract to purchase a Citation Excel for $8.595 million, with the aircraft to be delivered in April 2002. Slatkin made a $400,000 down payment on the aircraft. On June 19, 2001, after Slatkin filed bankruptcy, but before the Trustee placed Topsight Oregon in bankruptcy, Cessna purported to declare a default on the Cessna Contract and to forfeit Slatkin's deposit as liquidated damages. Cessna has offered to return $200,000 of that deposit. The Trustee has not accepted that offer and intends to pursue the Estate's claims against Cessna.

Slatkin purchased the Porsche from a dealer in Florida through one of his investors. The Porsche was titled in Oregon in the name of Topsight Oregon but was delivered to Slatkin in Santa Barbara, California. On October 24, 2001, the Court approved the Trustee's motion to sell the Porsche for the best all-cash offer in excess of $81,000. The Porsche is now in the hands of the Estate's Court-approved automobile broker and is being marketed for sale.

In March 1999, Slatkin signed a Letter of Intent to purchase a Learjet Bombardier Continental business jet for $13.9 million. At that time, Slatkin made a $250,000 deposit on the aircraft. On January 20, 2000, Slatkin executed the Bombardier Contract. Although the contract was in the name of Topsight Oregon, Slatkin signed the contact in his own name, and the financing contingence was approved based on Slatkin's credit and not that of the company. On November 16, 2001, after Topsight Oregon filed bankruptcy and did not move to

assume the Bombardier Contract, Learjet, Inc. filed a Notice of Termination of Aircraft Purchase Agreement in the Topsight Oregon bankruptcy case and purported to forfeit Slatkin's deposit as liquidated damages. The Trustee immediately notified Learjet that this Estate owns rights in the Bombardier Contract. The Trustee intends to pursue those rights if he determines that the Bombardier Contract has significant value.

In addition to the above-described assets, in April, Slatkin transferred approximately $500,000 from his personal account to the Topsight Oregon bank account. On April 20, 2001, he transferred $200,000 of that money from Topsight Oregon to his bankruptcy attorneys Pachulski Stang, Ziehl, Young & Jones, PC; on April 23 and 25, 2001, he transferred a total of $200,000 of that money from Topsight Oregon to his criminal counsel O'Neill, Lysaght & Sun LLP; and he returned the remaining funds to his personal account.

E. Other Securities Owned by the Estate

The Estate presently owns securities (in the form of stocks) in hundreds of companies. Many of these securities are not publicly traded and do not have a readily determinable value. Therefore, the Trustee is not presently capable of offering an estimate as to the ultimate value of these interests. The investigation concerning these securities will be included in a supplemental asset report to be provided to the Court at a later date.

F. Other Assets

1. Automobiles

The Trustee has recovered several automobiles (including the Porsche owned by Topsight Oregon, Inc.) from Slatkin and members of his family. Those automobiles are all being marketed for sale.

2. La Cumbra Country Club Membership

Slatkin owned a membership in the exclusive La Cumbra Country Club, which he purchased for $67,500. Pursuant to Bankruptcy Court order entered August 28, 2001, this asset was sold to the highest bidder for $140,000 and the Estate received net proceeds of $90,779.33, after paying outstanding charges against the membership and a one-third sale price transfer fee to the Country Club.

3. Life Insurance Policies

a. Jackson National Life Insurance Policy

Slatkin was the owner of a life insurance policy issued by Jackson National Life Insurance Company. Following discussions between GRM, in-house counsel for Jackson National, and Slatkin's counsel, Slatkin consented to the turnover by Jackson National of the cash surrender value of that policy. In November 2001, Jackson National turned over to the Trustee the cash surrender value of this policy, i.e., $136,981.78.

b. New York Life Insurance Policies

Slatkin also owned seven life insurance policies issued by New York Life Insurance Company, two of which are term policies with no cash surrender value. Following discussions between GRM, in-house counsel for New York Life, and Slatkin's counsel, Slatkin consented to the turnover by New York Life of the cash surrender value of the five non-term policies. In November 2001, New York Life turned over to the Trustee the aggregate sum of $264,545.56.

c. New York Life Insurance Policies Owned by Mary Jo Slatkin

Slatkin's wife Mary Jo Slatkin is the record owner of three life insurance policies (the "MJ Policies") issued by New York Life. According to information provided by New York Life to the Trustee's counsel, as of October 11, 2001, the aggregate maximum loan value of the MJ Policies was $78,085.00.[8] Ms. Slatkin contends that the MJ Policies are her separate property and therefore not property of the Estate; but on at least two occasions, her counsel (which also represents Slatkin) has declined to voluntarily provide evidentiary substantiation for that position. Exs. 40, 41. Accordingly, the Trustee's counsel filed a Rule 2004 motion for the production of documents by and oral examination of Ms. Slatkin concerning these and other separate property claims that she has asserted. Following review of the documents to be produced pursuant to that order and the examination of Ms. Slatkin, if the Trustee believes that the MJ Policies are assets of the Estate and Ms. Slatkin continues to refuse to turnover their cash surrender values to the Trustee, the Trustee will commence litigation against Ms. Slatkin for a determination that the MJ Policies are property of the Estate.

4. Seized Cash

On or about June 25, 2001, the government seized $386,885 in cash (the "Cash") from the residence of Rakow and Del Bianco in connection with a court authorized search of that residence. The search was made in connection with the government's criminal investigation of Slatkin's activities. The government subsequently offered to turn over the Cash to the Estate if the Trustee obtained a Bankruptcy Court order for that turn over. Because the Trustee believes that Rakow and Del Bianco are net debtors of the Estate (because they received millions of dollars more than the records show that they invested through Slatkin), the Trustee filed such a motion. The substance of that motion was unopposed. By order entered September 21, 2001, the Bankruptcy Court ordered the turnover of the Cash, which the Trustee now holds in a segregated account pending a determination of who owns the Cash.

5. Wine

When the Trustee was appointed, Slatkin had an inventory of collectible wine. The Trustee had the wine inventoried and valued. Pursuant to Bankruptcy Court order entered October 24, 2001, the Trustee retained a wine broker to sell the wine. Substantially all of the valuable wine has been sold, and the Estate has received net proceeds, after paying Bankruptcy Court approved commissions, of approximately $30,000.

G. The Estate's Claims for Relief

The Trustee and the Committee expect that the most substantial assets of the Estate are claims which the Trustee may assert on behalf of the Estate or creditors. The Trustee and the Committee do not intend in this section to describe specific claims which will or may be asserted against third parties. Indeed, it will not be possible to provide a definitive list of all such claims or to identify all potential defendants until their investigations are more complete. Instead, the following subsections of this report briefly outline the types of claims which may be asserted. Those sections are not intended to be an exhaustive analysis of these types of claims or to discuss qualifications or possible defenses to them.

1. Recovery of Property of the Estate

Section 541(a) of the Bankruptcy Code (11 U.S.C. § 541(a)) generally defines property of a bankruptcy estate, which includes, among other things: **(a)** subject to certain exceptions, "all legal or equitable interests of the debtor in property as of the commencement of the case" (§ 541(a)(1)); **(b)** "[a]ll interests of the debtor and the debtor's spouse in community property as of the commencement of the case that is" "under the sole, equal, or joint management and control of the debtor" or "liable for an allowable claim against the debtor, or for both an allowable claim against the debtor and an allowable claim against the debtor's spouse, to the extent that such interest is so liable" (§ 541(a)(2)); and **(c)** "[a]ny interest in property that the estate acquires after the commencement of the case" (§ 541(a)(7)).

Thus, property of the Estate encompasses all property in which Slatkin had a legal or equitable interest when he filed bankruptcy and includes all of Slatkin's separate and community property. It also does not matter that the property may not be in Slatkin's possession. As noted above, assets of the Estate include assets of entities that may in the future be substantively consolidated with the Estate, such as companies owned by Slatkin. Section 542 of the Bankruptcy Code (11 U.S.C. § 542) generally requires that third parties who have possession, custody, or control of property of the Estate are required to turn over that property to the Trustee.

2. Preferences

Subject to certain exceptions, the Bankruptcy Code defines a "preference" as "any transfer of an interest

of the debtor in property" "to or for the benefit of a creditor" "for or on account of antecedent debt owed by the debtor before such transfer was made," which was "made while the debtor was insolvent," and which was made within 90 days of the date on which the debtor filed his petition or within one year before such date if the transferee was an "insider." 11 U.S.C. § 547(b). In the case of an individual debtor such as Slatkin, an "insider" includes (but apparently is not limited to) **(a)** "a relative of the debtor or of a general partner of the debtor"; **(b)** a "partnership in which the debtor is a general partner"; **(c)** a "general partner of the debtor"; and **(d)** a "corporation of which the debtor is a director, officer, or person in control." 11 U.S.C. § 101(31)(A). Section 550 of the Bankruptcy Code authorizes the Trustee to recover preferences for the benefit of the Estate.

3. Slatkin's Pre-Petition Claims Against Third Parties and Other Pre-Petition Assets

As indicated above, property of the Estate includes "all legal or equitable interests of the debtor in property as of the commencement of the case." 11 U.S.C. § 541(a)(1). "The scope of this paragraph is broad. It includes all kinds of property, including . . . causes of action. . . ." Notes [on § 541] of Committee on the Judiciary, Senate Report No. 95-989. Thus, all of Slatkin's causes of action against third parties which existed at the time he filed bankruptcy are property of the Estate which the Trustee may assert. Similarly, generally speaking, the Trustee may recover from third parties any assets held by them in which Slatkin had a legal or equitable interest at the time of his bankruptcy; or in some cases the Trustee may recovery from such third parties the value of the property.

4. Certain Creditors' Claims Against Third Parties: Fraudulent Transfers

Pursuant to the 11 U.S.C. §§ 548 and 550(a), the Trustee may assert claims to set aside and recover "fraudulent transfers" of assets that were made within one year of Slatkin's bankruptcy. Moreover, the Trustee also succeeds to the pre-petition rights which creditors had to set aside and recover fraudulent transfers under state law. See Cal.Civ.Code §§ 3439 et seq. The Trustee may recover the fraudulently transferred asset or the value of that asset. The elements of a fraudulent transfer claim under the California Uniform Fraudulent Transfer Act generally parallel those under the federal statute, except that the limitations period under California law is generally four years and, in some cases, seven years. Cal.Civ.Code § 3439.09.

a. Actually Fraudulent Transfers

A fraudulent transfer includes a transfer of property made by the debtor with the actual intent to hinder, delay, or defraud his or her creditors. See 11 U.S.C. § 548; Cal.Civ.Code § 3439.04(a). There are multiple

"badges of fraud" existing at the time of the transfer that constitute indicia of fraudulent intent. Those badges of fraud include, but are not limited to, actual or threatened litigation against the debtor; a special relationship between the debtor and the transferee; the fact that the debtor is insolvent or has unmanageable debt; and the retention by the debtor of the property involved in the transfer. See In re Acequia, Inc., 34 F.3d 800, 805-06 (9th Cir. 1994) (discussing "badges of fraud"); see also Legislative Committee Comment to Cal.Civ.Code § 3439.04 (West Supp. 1995) (same). The "mere existence of a Ponzi scheme . . . has been found to fulfill the requirement of actual [fraudulent] intent on the part of the debtor." In re Agretech, 916 F.2d 528, 536 (9th Cir. 1990).

b. Constructively Fraudulent Transfers

A fraudulent transfer also includes a transfer made by a debtor for less than reasonably equivalent value if the debtor (1) was insolvent at the time of the transfer or became insolvent as a result of the transfer, (2) was engaged or was about to engage in business or a transaction for which the property remaining with the debtor was unreasonably small capital, or (3) intended to incur or believed that he/she/it would incur debts that would be beyond the debtor's ability to pay as those debts matured. 11 U.S.C. § 548. See Cal.Civ.Code §§ 3439.04(b), 3439.05. In the case of a Ponzi scheme, any sums which an investor receives from the debtor in excess of the aggregate amount which that person invested is not reasonably equivalent value. In re United Energy Corp., 944 F.2d 595 n.6 (9th Cir. 1991); In re Independent Clearing House Co., 77 B.R. 842, 859 (D. Utah 1987).

c. Parties Liable

11 U.S.C. § 550 specifies the parties from whom recovery may be had when a transfer is voidable. They include an immediate transferee of the transfer or the person for whose benefit the transfer was made. 11 U.S.C. § 550(a). See Cal.Civ.Code § 3439.08(b)(1). Recovery may also be had against a subsequent transferee who did not receive the transfer in good faith. 11 U.S.C. § 550(b); Cal.Civ.Code § 3439.08(b)(2). A transferee does not take in good faith if, among other reasons, that person or entity had notice of badges of fraud surrounding the transfer that would have put a reasonable person on notice that the transfer might be avoidable. In determining "good faith," an objective standard applies. See In re Agricultural Research and Technology Group, 916 F.2d 528, 535-36 (9th Cir. 1990).

5. Post-Petition Transfers

To the extent that Slatkin or another person who had possession, custody, or control of property of the Estate made an unauthorized transfer of that property after Slatkin filed his bankruptcy petition, subject to certain exceptions, the Trustee may avoid that transfer and recover the property or its value. 11 U.S.C. § 549(a).

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IX. CONCLUSION

The Trustee and the Committee hope that this report has been helpful to the Court and other readers.

Dated: December 13, 2001 Respectfully submitted

R. TODD NEILSON

By:_____
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Trustee of the Chapter 11 Bankruptcy Estate of Reed E. Slatkin

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Accountants to the Chapter 11 Trustee

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[1] Exhibits are numbered and filed concurrently herewith in separate volumes. Accounting compilation prepared by the Trustee's accountants, and relationship charts, prepared by the Committee's counsel are lettered, and either incorporated into the report or filed in a separate volume.

[2] In May 2001, the Trustee engaged Neilson Elggren LLP ("NE") to conduct an accounting investigation of Slatkin's financial transactions and business operations. NE has had substantial experiences in similar matters and is well qualified to serve the Estate in this capacity. David H. Judd, a partner in the firm, assumed primary responsibility for supervising this engagement.

[3] It is possible that certain investors knew, or should have known, of Slatkin's investment scheme. What an investor knew or should have known is likely to depend on, among other things, his or her specific relationship with Slatkin and the totality of the facts and circumstances of that relationship.

[4] Based upon the circumstances, even if Slatkin had initially provided extensive cooperation and been completely debriefed concerning his assets and liabilities, the Trustee would have had to independently verify that information.

[5] Among other things, privilege and work-product issues (including the production of the Ernst & Young materials referred to in the text) have not been resolved.

[6] Janu was formerly known as Jean Marie Spencer, then Jean Jansma. She changed her name to Janu in about 1985. Ex. 66 (Janu Depo., p. 8.)

[7] The Harrower and Purzner one-third interests were typically held 32 1/3% by Fresh Pond and 1% by E.M., Inc.

[8] The cash surrender value of a life insurance policy is generally slightly higher than its maximum loan value.