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1 Volume 1, Pages 1-70
2 IN THE UNITED STATES BANKRUPTCY COURT
3 FOR THE CENTRAL DISTRICT OF CALIFORNIA
4 Case No. 01-11549-RR
5 Adversary Proceeding No. AD-02-01178

6

7 In Re:

8 REED E. SLATKIN

9 Debtor

10 R. TODD NEILSON

11 as Chapter 11 Trustee

12 v.

13 GEORGE W. MURGATROYD III,

14 an individual, et al.,

15 Defendants

16

17 DEPOSITION of EDWARD SANDFORD PEGRAM IV
Monday, April 7, 2003, 10:13 a.m.

18 HQ Global Workplaces - Cambridge

124 Mount Auburn Street, Suite 200 North

19 Cambridge, Massachusetts 02138

20

21 ATKINSON-BAKER, INC.

COURT REPORTERS

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24 REPORTED BY: JONATHAN H. YOUNG, RDR, CRR

25 FILE NO.: 9D01F2B

0026

- 1 Q. And did you ever provide him any services, 10:41:36
2 other than your personal services, like a ticker-tape 10:41:50
3 machine or... 10:41:53
4 A. No. 10:41:55
5 Q. Do you believe he had all that stuff? 10:41:55
6 A. Yes. 10:41:56
7 Q. Did you ever go to California and visit him, 10:41:57
8 at where he actually operated his business? 10:41:59
9 A. Yes. 10:42:02
10 Q. And do you recall that as being in Santa 10:42:03
11 Barbara? 10:42:06
12 A. Yes. 10:42:07
13 Q. How many times did you go there? 10:42:07
14 A. I don't know. More than once. 10:42:10
15 Q. And did you actually go to where he had his 10:42:13
16 trading business? 10:42:15
17 A. Yes. 10:42:16
18 Q. And what did you observe there? 10:42:16
19 A. Trading activity. 10:42:20
20 Q. I never saw it. How would you describe it so 10:42:24
21 somebody who hadn't been there? 10:42:28
22 A. It was an office with several computer screens 10:42:30
23 and terminals, that he was using to make decisions on 10:42:34
24 what to buy and what to sell. 10:42:41
25 Q. And did he have people working for him, that 10:42:44

0027

- 1 were helping him buy and sell shares of stock? 10:42:46
2 A. Yes. 10:42:49
3 Q. And did you get a chance to meet some of those 10:42:50
4 people? 10:42:52
5 A. Yes. 10:42:53
6 Q. And did you ever see Mr. Slatkin actually 10:42:55
7 making trades at that location? 10:42:57
8 A. Yes. 10:43:06
9 Q. And I take it, because you were there, it was 10:43:06
10 through other brokers? 10:43:06
11 A. He actually called my office sometimes and 10:43:07
12 would buy something or sell something in his account 10:43:09
13 with a registered assistant; so I saw him buy things 10:43:13
14 with me while I was there. 10:43:18
15 Q. Did he ever talk to you about a trading 10:43:23
16 program that he developed? 10:43:24
17 A. Yes. 10:43:26
18 Q. And did you get to see that in operation? 10:43:27
19 A. I don't know. 10:43:38
20 Q. Did he tell you that he had a program that he 10:43:40
21 was relying upon? 10:43:42
22 A. Yes. 10:43:43
23 Q. And was it your understanding that when he was 10:43:44
24 making trades with you he was using this program? 10:43:46
25 A. On occasion, yes. 10:43:49

0029

- 1 Q. Did he seem to be actively involved in 10:45:02*
2 tracking his investments? 10:45:07
- 3 A. Yes. 10:45:10
- 4 Q. Did he ever tell you what his computer program 10:45:24
5 was based upon; what the premise of that program was? 10:45:25
- 6 A. I'm trying to remember. Not in great detail, 10:45:34
7 that I can remember. That's my point. 10:45:40
8 It was about volume, and price movement. 10:45:47
9 I never really got it. There was a lot more. 10:45:51
- 10 Q. That he was tracking those? 10:45:55
- 11 A. Yes. I never quite understood it, actually. 10:46:00
- 12 Q. Do you know how he developed that program? 10:46:12
- 13 A. No. 10:46:14
- 14 Q. Do you know how many years it took to develop 10:46:16
15 that program? 10:46:18
- 16 A. He talked about it for quite a few years. 10:46:24
- 17 Q. Do you know what it cost him to develop that 10:46:28
18 program? 10:46:31
- 19 A. No. 10:46:31
- 20 Q. Now, when you visited him in California, 10:46:33
21 you said it was on more than one occasion; is that 10:46:39
22 correct? 10:46:41
- 23 Just so I get an idea, was it less than ten? 10:46:42
- 24 A. Yes. 10:46:46
- 25 Q. Somewhere between one and five? 10:46:48

0041

1 Q. So the only business that you were involved 11:02:14
2 with with Mr. Slatkin, was his trading business? 11:02:16

3 A. Yes. His account; that account with the cash 11:02:19
4 in that account. 11:02:22

5 Q. And I take it the purpose of the account was 11:02:24
6 to effectuate transactions in securities. 11:02:45

7 A. Yes. 11:02:50

8 Q. Now, at some point you said you became aware 11:02:54
9 that Mr. Slatkin was investing money other than his own 11:02:58
10 money; is that correct? 11:03:02

11 A. Yes. 11:03:03

12 Q. And when did you become aware of that? 11:03:04

13 A. He referred some small accounts to me. 11:03:06

14 Q. And were those individual named accounts? 11:03:11

15 A. Yes. 11:03:14

16 Q. And who were those people, if you know? 11:03:15

17 A. I can only remember some of the names. 11:03:20

18 Pia Mann, and her husband Bert Laing. Stina 11:03:32

19 Hans. 11:03:42

20 And a fellow in New Mexico, Peter Gannett. 11:03:45

21 Q. Do you know how to spell his last name? 11:03:51

22 A. G-a-n-n-e-t-t, I believe. 11:03:55

23 Small accounts. Reed referred them to 11:03:59

24 me. I spoke to all the people. He was going to help 11:04:02

25 advise them on what stocks to buy, and they all agreed; 11:04:04

0042

1 and I talked to them, and him, whenever they bought or 11:04:11
2 sold anything. 11:04:14

3 Not very often. They were long-term accounts. 11:04:17
4 They were not trading accounts. 11:04:19

5 Q. You mean they were after long-term gains? 11:04:20

6 A. Yes. 11:04:23

7 Q. Now, were you aware of Mr. Slatkin's other 11:04:27
8 trading businesses that he had, like Avian? 11:04:32

9 A. I minimally heard something about them, that 11:04:37
10 they used to solicit them, or solicit him to do 11:04:40
11 business in them, but I never did. 11:04:45

12 Q. You just were aware that they existed? 11:04:47

13 A. Yes. Or that he said that existed; or that 11:04:49
14 they existed. I don't know. 11:04:53

15 Q. And when you said he worked with lots of other 11:04:55
16 brokers, did you know any of the other brokers that he 11:05:00
17 dealt with in his trading business? 11:05:05

18 A. Yes; but, boy, a lot of the names elude me. 11:05:11

19 One, later, was a fellow named Tischman at 11:05:16
20 Montgomery Securities. 11:05:21

21 Q. Okay. 11:05:27

22 A. There was a team that was with Morgan Stanley 11:05:28
23 in New York at that time. He used to talk about it in 11:05:33
24 the late eighties and early nineties. I can't remember 11:05:36
25 their names. I actually spoke to them once. I don't 11:05:41

1 BY MR. MURGATROYD:

2 Q. Do you know what an investment pool is? Have 11:33:49
3 you ever heard of that term? 11:33:51

4 A. Not really. I've never heard of an investment 11:33:53
5 pool. I guess I've heard the name, but... 11:33:56

6 Q. Are you aware of when people have gotten 11:34:00
7 together and have gotten money together to make 11:34:03
8 investments? 11:34:07

9 A. An investment club, yes. 11:34:09

10 Q. Were you aware that Mr. Slatkin was running an 11:34:10
11 investment club? 11:34:12

12 A. No. 11:34:13

13 Q. Were you aware that he actually had set up a 11:34:13
14 club? 11:34:17

15 A. No. 11:34:17

16 Q. Is there anything wrong with trading stocks in 11:34:26
17 an investment club? 11:34:26

18 A. Not that I know of. 11:34:26

19 I think that there have to be agreed-upon 11:34:29
20 representation, limited powers of attorneys, proper 11:34:34
21 forms filed and paperwork submitted, to maintain an 11:34:40
22 investment-club account; but I've never had one. 11:34:43

23 Q. But you've heard of them? 11:34:46

24 A. I've heard of investment clubs. 11:34:48

25 Q. And they're not illegal, if they're done 11:34:50

0053

- 1 Q. What's the purpose of a DVP account? 11:22:11
- 2 A. It's an account that can be maintained without 11:22:13
- 3 having cash at the brokerage firm. I don't know how to 11:22:16
- 4 explain it. There is an account with assets in it at a 11:22:23
- 5 bank. It's a common practice with trading 11:22:29
- 6 organizations. 11:22:33
- 7 They can conduct transactions with any 11:22:35
- 8 brokerage firm on the street, so to speak, on Wall 11:22:39
- 9 Street, that's a registered firm, whatever. 11:22:47
- 10 They can deliver the money to pay for the 11:22:50
- 11 transaction and transfer the position, the holding, out 11:22:52
- 12 to the bank in their street name. 11:22:57
- 13 Q. Did you have discretionary authority to make 11:23:02
- 14 trades in Slatkin's account? 11:23:06
- 15 A. No. 11:23:08
- 16 Q. When was the first time you heard of George 11:23:16
- 17 Murgatroyd? 11:23:20
- 18 A. When I received the subpoena. 11:23:21
- 19 Q. Did you have any communications with 11:23:24
- 20 Mr. Murgatroyd besides receiving that subpoena? 11:23:27
- 21 A. No. 11:23:29
- 22 Q. Have you ever had any conversations with 11:23:30
- 23 Mr. Murgatroyd apart from the conversations we've had 11:23:32
- 24 here today? 11:23:35
- 25 A. No. 11:23:36

0052

- 1 account with you? 11:21:07
- 2 A. Yes. 11:21:08
- 3 Q. And his name was on that account? 11:21:09
- 4 A. Yes. 11:21:11
- 5 Q. Did Mary Joe Slatkin ever have an account with 11:21:15
- 6 you? 11:21:19
- 7 A. No. 11:21:19
- 8 Q. Did Brett Slatkin ever have an account with 11:21:20
- 9 you? 11:21:19
- 10 A. No. 11:21:21
- 11 Q. Did Jessica Slatkin ever have an account with 11:21:22
- 12 you? 11:21:19
- 13 A. No. 11:21:24
- 14 Q. Did Slatkin & Associates ever have an account 11:21:24
- 15 with you? 11:21:26
- 16 A. There was a period in 1991 when Slatkin & 11:21:33
- 17 Associates had a DVP account, as I would assume they 11:21:42
- 18 did with all the brokerage firms they worked with for a 11:21:48
- 19 very short of time period of time, with Alex. Brown; 11:21:52
- 20 and when I left Alex Brown they did not transfer 11:21:56
- 21 the account. 11:21:59
- 22 Q. What's a DVP account? 11:22:00
- 23 A. Delivery versus payment. 11:22:01
- 24 Q. What's the purpose of a DVP account? 11:22:03
- 25 A. Excuse me? 11:22:10

0051

1 A. Yes. 11:19:27

2 Q. Now, you said before that Mr. Slatkin had made 11:19:45
3 successful investments in his account with you. What 11:19:48
4 is a successful investment? 11:19:57

5 A. I don't know if I said that. 11:19:57

6 You asked me, and I answered that he had made 11:19:57
7 successful investments, and I said yes? He asked the 11:19:58
8 question and I said yes? 11:20:00

9 Q. I believe that's true, yes. 11:20:01

10 A. Well, I wouldn't mind looking back at that 11:20:04
11 question; because I don't know if I said yes or no to 11:20:09
12 successful investments. 11:20:12

13 He made investments that went up in value. To 11:20:13
14 me, that's a successful investment. If you buy a stock 11:20:16
15 and it goes up and you make a profit, that's a 11:20:18
16 successful investment. 11:20:21

17 Q. Did Mr. Slatkin also make investments with you 11:20:22
18 that were not successful? 11:20:26

19 A. Yes. He bought stocks that went down, and 11:20:27
20 lost money on them. 11:20:29

21 Q. You also said that Mr. Slatkin was an active 11:20:32
22 investor. What's an active investor? 11:20:36

23 A. Any investor who trades more than the value of 11:20:42
24 the account in a year is considered to be active. 11:20:44

25 Q. Is it correct that Mr. Slatkin only had one 11:21:05