

John MAA ←

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Knowledge Report

This is a knowledge report regarding my business dealings with Reed Slotkin as requested. Last March 1988 myself and Reed concluded a deal in which we went into the money-management business with another partner John Gottfurcht (not a scientologist). Reed and myself each own 25% of the company and John owns 50%.

Several years prior Reed developed a computer software program that identified stocks to buy based on certain criteria. The program was to identify stocks that should perform pretty well then getting specific signals identified by the program. I was very impressed when I saw the program and had developed and thought it would be very effective in managing money in the stock market. I had also heard very favorable reports about the results Reed was achieving managing money for some friends of mine that were scientologists in particular Brian Raso who introduced me to Reed. I was very enthusiastic about the results Reed had been achieving managing money for him. Reed was managing money in an investment pool for Brian and a bunch of scientologists using this program. I had gotten word that the pool was making in excess of

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Based on Reed's impressive statistics, and my enthusiasm over the program he developed, I encouraged Reed to go into the money-management business with me. At the time (August 1987) I was a stockbroker with Prudential-Bache Securities. I began to introduce Reed to some of my contacts in the brokerage industry who I thought might be interested in raising money for us to manage. The responses we were getting were uniformly favorable. I introduced Reed to an associate of mine, Tom Sakai from Hawaii. Tom was so ~~favorably~~ favorably impressed with the strategy that he said he could probably raise 100-200 million for us to manage. Tom is a consultant to several hundred million dollars of pension money for labor unions and large corporate funds. Tom invited Reed to Hawaii to make presentations to dozen or so of his clients. He also requested that Reed give him his past performance results that he achieved in his private investment pools. These performance results are an important factor in the choosing of an investment advisor. Tom used the results that Reed had provided to him to create a report to give to prospective clients. Based on the presentations and the past performance results Tom got commitments of in excess of \$30 million for us to manage. Without going into all details following that in a business transaction Reed and myself went into business with John Gottfrucht who had an investment advisory firm managing \$100,000,000 and became partners.

In the course of business it became necessary to audit the investment results Reed obtained in stocks in his "pool". We needed the audited results in order to raise additional money for a certain type of investment fund that we were planning on doing. We started on this in April, 1988. Reed was supposed to produce the brokerage statements and confirmations to back-up the results that he stated he achieved. After several months of delays Reed had failed to produce the documentation. Myself and our partners had become suspicious. I confronted Reed on this matter by asking him if there were any problems on his stats. He told me that there were no problems and that he just wanted to make sure the results were right. After a lot of pressure Reed finally produced the brokerage statements that were requested. I drove up to Santa Barbara to get them and brought them down to LA with me. I gave them to our partners and our internal accounting people. Shortly after starting the verification it came to light that brokerage statements were made-up by Reed and not actual and were grossly misrepresentative. Reed was confronted by Amy and John and got the withhold off that he had falsified his results and really didn't achieve them and that he made up the statements to fit the false stats he had stated he achieved. Reed then got the withhold off to me. I had a substantial amount of my personal funds invested in Reed's pool outside the company. I had been given reports

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by Reed that my money invested in the pool had nearly doubled. Naturally I had my own concern about my personal funds since this information regarding the results came to light. I discussed this with Reed. He told me that the money had been invested in a few people. In the pool was actual. He told me that it was a scam and that profits I made he would gladly manage. That, if I was uncontactable. He said that he had misrepresented to me what the pool actually was. He had represented that his results were in stocks and options using the program. He said that the pool was actually comprised of different kinds of investments aside from stocks. He said that he had actually made the returns he reported to the investors in his pool and results were true although not attained by investing only in stocks.

Because of the situation I had lost a lot of my confidence in Reed. Therefore, we agreed that Reed to handle my doubt, would we give me back the money I invested in the pool and the profits that I made. We further agreed that Reed would keep me on the books in the pool and continue to manage my money until such a time that I decided to officially withdraw or remain in. The fact that Reed had reported false results that we used to raise money put the company in grave danger. We had used those results to procure accounts and had published promotional material in the form of graphs brochures etc. We were confronted with serious legal and

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public relations problems as a result of this. And consulted our legal counsel to guide us in our handling. Our lawyers informed us that we had to make disclosures to every client who hired us that the past performance results achieved using Reed's program were unverifiable. Every client was contacted by letter or most of the clients were seen in person. We were very concerned that this situation could potentially put us out of business. Fortunately it worked out that after making this disclosure we lost very little business because of the misrepresentations. The company is currently in a precarious position because of mediocre performance results.

I helped Reed by working with him on handling the ethics of situation and the consequent problems he had with the Gottfurchts. Reed put himself in a lower condition and wrote up his overts and withholds. Tony Hirschman also helped Reed handle his ethics on this matter. Reed also had major situation with the Gottfurchts. They were demanding some form of monetary settlement from him because of misrepresentations. Reed made a legal settlement with ~~them~~ them following some very turbulent negotiations of which I helped resolve. Additionally parts of the original deal Reed & I had with Gottfurchts had to be reversed.

I have subsequently made attempts to examine the statistics and activities of the investment pool that Reed runs. Reed has given me

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a general idea of what he does and different types of activities of investment The pool is involved in. I have seen some documentation of some of the investments in the pool. Reed has also ~~shown~~<sup>shown</sup> me a cursory breakdown of how he invests the pool's funds. Reed has made a lot of money for several Scientists who subsequently ~~flowed~~<sup>flowed</sup> that money onto the bridge.

Reed is currently finishing up some family matters and following that he has told me he will be routing back onto auditing lines at AOLA within the next few weeks. I'm writing this report to inform the proper terminals of this situation so that Reed can be completely cleaned-up on this matter. If there are any further questions about the details of this matter please phone me at (818) 905-1675.

Richard Lewin.