

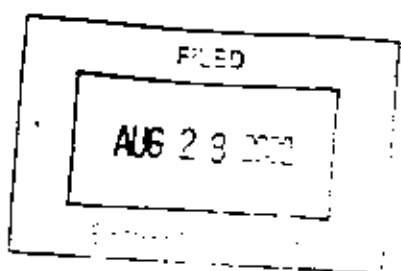
COPY

JOHN P. REITMAN (Bar No. 80579)
ANDREW S. ROTTER (Bar No. 86725)
GUMPORT, REITMAN & MONTGOMERY
550 South Hope Street, Suite 825
Los Angeles, California 90071-2627
Telephone: (213) 452-4900
Facsimile: (213) 623-3302

Attorneys for R. Todd Neilson,
Chapter 11 Trustee

RICHARD L. WYNNE (Bar No. 120349)
R. ALEXANDER PILMER (Bar No. 166196)
TIMOTHY B. JAFEK (Bar No. 214066)
Kirkland & Ellis
777 S. Figueroa Street
Los Angeles, California 90017
Telephone: (213) 680-8400
Facsimile: (213) 680-8500

Special Litigation Counsel for R. Todd Neilson,
Chapter 11 Trustee



UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
NORTHERN DIVISION

In re
REED E. SLATKIN,

Debtor.

CASE NO. ND 01-11549-RR/
AD 02-01111

CHAPTER 11

R. TODD NEILSON, Trustee of the
Chapter 11 Bankruptcy Estate of Reed E.
Slatkin,

Plaintiff,

DECLARATION OF REED E.
SLATKIN IN SUPPORT OF THE
TRUSTEE'S EX PARTE
APPLICATION FOR A RIGHT TO
ATTACH ORDER AND ORDER FOR
ISSUANCE OF WRIT OF
ATTACHMENT

v.

ANTHONY and MARGARET
HITCHMAN, individuals; and Does 1-50,

Defendants.

Date: [To be set by Court on
emergency basis]
Time:
Place: 1415 State Street
Courtroom 201
Santa Barbara, CA 93101
[Judge Riblet]

Exhibit 1
3

DECL. OF R. SLATKIN IN SUPP. OF TRUSTEE'S EX PARTE APPLICATION FOR A RTAO

1 I, Reed E. Slatkin, hereby declare:

2 1. I make this declaration in support of the Trustee's ex parte application for
3 a right to attach order. I have personal knowledge of the facts set forth in this
4 declaration and, if called as a witness, I could and would competently testify thereto.

5 **Mr. Hitchman's Early Involvement with Slatkin's Ponzi Scheme**

6 2. I have known Anthony Hitchman since the mid-1970s. I met him in the
7 Los Angeles area when we were both involved in the Church of Scientology
8 ("Church").

9 3. In about 1984, I began soliciting money from others ostensibly to invest
10 for them. I intended to run this "investment" scheme so that fellow members of the
11 Church could have funds available to purchase services from the Church. I planned to
12 take money from people, invest it, and have money available for withdrawal for
13 Scientologists who needed money for Church services.

14 4. When I knew that my investments would not cover the withdrawals which
15 were requested, I began to cover the withdrawal requests with funds from new
16 "investors."

17 5. From the very beginning, I depended on Mr. Hitchman to ensure the
18 viability of my scheme. He, along with a few others, was to bring other "investors" to
19 me, thus providing a flow of new money which could be used to pay withdrawal
20 requests made by other "investors."

21 6. Mr. Hitchman was aware of my Ponzi scheme from the beginning and
22 helped me plan and execute it. In about 1985, we discussed my scheme. We discussed
23 that I would need to cover withdrawals of old "investors" with the deposits of new
24 "investors."

25 7. We discussed the fact that I falsified records. I told "investors" that funds
26 were invested in certain securities when that was not true. I told Mr. Hitchman that the
27 statements I sent to my "investors" were false.

1 I, Reed E. Slatkin, hereby declare:

2 1. I make this declaration in support of the Trustee's ex parte application for
3 a right to attach order. I have personal knowledge of the facts set forth in this
4 declaration and, if called as a witness, I could and would competently testify thereto.

5 **Mr. Hitchman's Early Involvement with Slatkin's Ponzi Scheme**

6 2. I have known Anthony Hitchman since the mid-1970s. I met him in the
7 Los Angeles area when we were both involved in the Church of Scientology
8 ("Church").

9 3. In about 1984, I began soliciting money from others ostensibly to invest
10 for them. I intended to run this "investment" scheme so that fellow members of the
11 Church could have funds available to purchase services from the Church. I planned to
12 take money from people, invest it, and have money available for withdrawal for
13 Scientologists who needed money for Church services.

14 4. When I knew that my investments would not cover the withdrawals which
15 were requested, I began to cover the withdrawal requests with funds from new
16 "investors."

17 5. From the very beginning, I depended on Mr. Hitchman to ensure the
18 viability of my scheme. He, along with a few others, was to bring other "investors" to
19 me, thus providing a flow of new money which could be used to pay withdrawal
20 requests made by other "investors."

21 6. Mr. Hitchman was aware of my Ponzi scheme from the beginning and
22 helped me plan and execute it. In about 1985, we discussed my scheme. We discussed
23 that I would need to cover withdrawals of old "investors" with the deposits of new
24 "investors."

25 7. We discussed the fact that I falsified records. I told "investors" that funds
26 were invested in certain securities when that was not true. I told Mr. Hitchman that the
27 statements I sent to my "investors" were false.

28 ///

1 8. We also discussed how Mr. Hitchman would bring new "investors" to me.
2 We agreed that he would promote me to others as an effective investor. We also
3 agreed that if Mr. Hitchman had his own money with me, it would make it easier for
4 him to convince other people to "invest" with me. That way, he could assure people
5 that he also had money "at risk" with me.

6 9. In exchange for Mr. Hitchman's assistance to establish and ensure the
7 continued viability of my Ponzi scheme, I agreed to pay him on a regular basis. I
8 usually paid him on a monthly basis. In 1986, I paid Mr. Hitchman about \$6000 a
9 month. By 1988, I was paying Mr. Hitchman about \$10,000 a month. My payments to
10 him quickly exceeded the money he "deposited" into my scheme. By no later than
11 mid-1988, I had paid out to him more than he had "deposited." By 1993, I paid Mr.
12 Hitchman about \$15,000 a month. By 1999, I paid Mr. Hitchman about \$20,000 a
13 month.

14 10. Attached as Exhibit 1 are accurate copies of requests by Mr. Hitchman to
15 me for monthly payments during 1999, 2000, and 2001. Most of the requests are for
16 amounts over and above the normal monthly payments. Each of the documents was
17 received from Mr. Hitchman or his wife, Margaret (aka Peggy). I recognize their
18 handwriting because I have received many handwritten and/or signed documents from
19 them over a period of more than twenty years. I received the requests by fax from the
20 fax number Mr. Hitchman uses to send faxes.

21 11. Mr. Hitchman reported to me on a regular basis as to what he was doing
22 to try to get new "investors" into my scheme and also what he was doing to get old
23 "investors" to contribute new money.

24 12. Mr. Hitchman acted as an ambassador for me in connection with those
25 people he helped convince to give money to me. For example, he helped deal with
26 people who had concerns about investing with me. Mr. Hitchman also spoke with
27 persons who were upset with me because of delays in receiving a withdrawal or if a
28 person needed some extra money for the Church. On several occasions, I asked Mr.

1 Hitchman to talk people out of attempting to withdraw money. Mr. Hitchman reported
2 back to me that he successfully achieved that goal.

3 **Mr. Hitchman's Assistance in Dealing with Falsified Brokerage Statements in**
4 **1987**

5 13. Mr. Hitchman also helped me with problems created when I was caught
6 falsifying investment records in 1987. In order to join with an investment firm,
7 Statistical Sciences, Inc. ("SSI"), I created false brokerage records to document a
8 "successful" history of trading securities. The principals of SSI discovered that I had
9 falsified the records and we had a falling out. I consulted with Mr. Hitchman about
10 how to handle the issue and I told him that I had falsified the brokerage records.

11 14. Mr. Hitchman helped me deal with the fallout of falsifying the brokerage
12 records in two ways. First, he communicated with Richard Levine, who joined SSI
13 together with me. Mr. Hitchman calmed Mr. Levine down for me. Second, Mr.
14 Hitchman used his high status in the Church to mollify Church officials and convince
15 them not to investigate me despite reports to them that I falsified the brokerage
16 records.

17 **Mr. Hitchman's Knowledge of Falsification of Financial Records**

18 15. Over the years of my investing scheme, I constantly falsified records I
19 sent to my "investors." I discussed this with Mr. Hitchman indirectly dozens of times
20 and directly between five and ten times. For example, Mr. Hitchman asked me "how
21 are we doing this month" or "how are we doing this quarter." Then he asked if I was
22 making up the numbers I was sending out to "investors." I told him I was.

23 16. Following such conversations, Mr. Hitchman often asked for an extra
24 \$20,000 or \$30,000 to his monthly payoff.

25 17. I also gave Mr. Hitchman a check for a new car.

26 **Mr. Hitchman's Requests for False Financial Records**

27 18. Mr. Hitchman regularly requested that I provide for him false financial
28 records. He told me that he was taking false deductions for the purposes of his tax

-4-

DECL. OF R. SLATKIN IN SUPP. OF TRUSTEE'S EX PARTE APPLICATION FOR A RTAO

F:\Slatkin\Printing\Net_Order_Components\Attachments\DECL for Hitchman RTAO.doc

Exhibit 1

1 returns. He requested that I provide false financial records to back up those deductions
2 and I did so.

3 19. Attached as Exhibit 2 are accurate copies of "interest expense" statements
4 I made at the request of Mr. Hitchman. These false financial statements supposedly
5 reflect interest on a margin account Mr. Hitchman supposedly had with me. In fact,
6 Mr. Hitchman never had any such margin account with me. Instead, Mr. Hitchman
7 and I created the idea of a margin account as a methodology for generating false
8 interest expenses that Mr. Hitchman could claim as a deduction on his tax returns. Mr.
9 Hitchman told me that he would use, and did use, these false financial statements for
10 his tax returns.

11 20. Mr. Hitchman also told me that he did not report all of his income on his
12 income tax returns. The last time he told me that was the last time I worked with him
13 on his taxes, which was 1999 or 2000.

14 **Mr. Hitchman's Actions During the SEC Investigations**

15 21. I also told Mr. Hitchman about the Security and Exchange Commission
16 ("SEC") investigations of me in 1997 and 1999.

17 22. When I received notice in 1997 of the SEC investigation, I immediately
18 went to Mr. Hitchman and told him of concerns that the SEC might find out that I was
19 falsifying records. Mr. Hitchman worked with me to respond to that investigation to
20 make sure nothing came of the investigation.

21 23. When I received notice of the SEC investigation in 1999, I also
22 immediately informed Mr. Hitchman. I told him that I was concerned that the SEC
23 would discover that I was running a Ponzi scheme. Mr. Hitchman was very alarmed.
24 He said that it sounded bad and that we had to handle the situation. He also implied
25 that he might get caught up in the SEC investigation.

26 24. I discussed with Mr. Hitchman the progress of the SEC investigation from
27 October 1999 until May 2001, when I filed for bankruptcy.

28 ///

1 25. In the late spring or summer of 2000, I discussed with Mr. Hitchman the
2 false account statements from "NAA Financial" ("NAA") that I presented to the SEC
3 and the attorney who represented me to the SEC as supposed proof of overseas assets.
4 NAA was supposedly a Swiss financial institution that held hundreds of millions of
5 dollars of assets I held for my "investors." But I made up the NAA story and
6 supported it with false account statements, persons posing as NAA officials, etc.

7 26. I discussed the fabricated NAA statements with Mr. Hitchman. I told him
8 the NAA story was false and that I did not have any money in Europe. When I told
9 Mr. Hitchman about the NAA story, he laughed and said "Are you kidding me?
10 They're not going to buy that."

11 27. Mr. Hitchman asked me for an update every week or every two weeks
12 through the latter part of 2000 on how the SEC investigation was progressing. In
13 answer to his inquiries, I showed him false account statements from UBS, which was
14 supposedly receiving my NAA assets, and fabricated correspondence from UBS,
15 NAA, and RIT, another fictional European financial institution that supposedly held
16 my assets. When I showed him these false documents, he laughed and said "This is
17 amazing."

18 28. During the time the SEC was investigating me from 1999 to 2001, I often
19 had conversations with Mr. Hitchman about my payments to him. Countless times he
20 said to me "You're going to take care of me. You're making sure money's set aside
21 for me."

22 29. In March and April 2001, Mr. Hitchman even demanded that I sign a
23 letter stating that I held 200,000 Earthlink shares at a cost basis of \$0.53 a share in trust
24 for Mr. Hitchman, his wife, Peggy, and his children. He also asked me to confirm their
25 ownership and sell the shares "since I would not want my shares to be incorrectly
26 included in your assets should you declare bankruptcy." (Ex. 4 at 2803-2015959) I
27 have attached as Exhibit 3 accurate copies of the faxes Mr. Hitchman sent me
28 regarding the Earthlink stock. I recognize Mr. Hitchman's handwriting because of the

-6-

DECL. OF R. SLATKIN IN SUPP. OF TRUSTEE'S EX PARTE APPLICATION FOR A RTAO

I:\Slatkin\Filing\Net Debtors\Computer\Attachments\Documents\MES Decl for Hitchman RTAO.doc

Exhibit 1

1 many times I have seen his handwriting over the course of our relationship of over
2 twenty years. Futhermore, the faxes were sent from the fax number he used at the
3 time.

4 30. I never had any agreement with Mr. Hitchman that I was holding
5 Earthlink stock for him. I did sign page 2803-2015928 of Exhibit 3. I did this under
6 duress when I was locked in a room in Mr. Hitchman's house on March 31, 2001. Mr.
7 Hitchman, along with Jack Dirmann, another high-ranking member of the Church,
8 physically restrained me and demanded that I sign the page. They threatened that they
9 would not let me leave until I had signed that piece of paper. Mr. Hitchman told Mr.
10 Dirmann in my presence that I had been engaged in a fraud, and both Mr. Hitchman
11 and Mr. Dirmann were demanding that I give them money.

12 31. By April 23, 2001, when Mr. Hitchman sent me the letter about the
13 200,000 Earthlink shares (Ex. 4 at 2803-2015919), I had told him that I would
14 probably file for bankruptcy.

15 Indictment and Plea Agreement

16 32. In 2002, I was indicted for activities in furtherance of my Ponzi scheme.
17 On March 26, 2002, I signed a plea agreement in which I agreed to plead guilty to 15
18 felony counts. I admitted to having operated a Ponzi scheme since 1986. A copy of
19 that plea agreement is attached as Exhibit 4.

20 Authenticity of Financial Documents

21 33. I have reviewed the documents attached as Exhibit 4 to the declaration of
22 Grant Newton in support of the Trustee's motion for an ex parte application for a right
23 to attach order. All of the documents in that exhibit are records used in the normal
24 course of my scheme and are accurate copies.

25 34. The following documents are accurate copies of checks, or records of
26 checks, payable to Mr. Hitchman and/or his wife or on their behalf: 1-7, 10, 11, 13, 15-
27 24, 26-40, 42-55, 74, 76-130, 132-139, 157, 161, 172, 189-202, 204-214, 216-230, and
28 232-248. The checks, or records of checks, were issued to Mr. Hitchman as part of the

-7-

DECL. OF R. SLATKIN IN SUPP. OF TRUSTEE'S EX PARTE APPLICATION FOR A RTAO

Slatkin-Pleading Not Defend Complaints Attachment Documents RES doc for Hiramco RTAO.doc

Exhibit 1

1 Ponzi scheme, were in my possession as part of the records I kept to document my
2 financial activities, and were completed and signed by me or were completed and
3 signed by someone in my office acting at my direction.

4 35. Most of the checks were completed and signed by me. The others were
5 completed and signed at my direction by Phyllis Rogers, my bookkeeper.

6 36. The following documents are accurate copies of wire transfer
7 confirmations for wires from me to Mr. Hitchman: 9, 41, 131, 140-156, 158-160, 162-
8 171, 173-188, and 215. The wire transfer confirmations show payments made to Mr.
9 Hitchman as part of the Ponzi scheme, were in my possession as part of the records I
10 kept to document my financial activities, and confirmed wire transfers that I had
11 requested be made to Mr. Hitchman.

12 37. The following document is an accurate copy of a wire transfer
13 confirmation for a wire to Designfame Ltd. made on behalf of Mr. Hitchman: 231.
14 The wire transfer confirmation shows a payment made on behalf of Mr. Hitchman as
15 part of the Ponzi scheme, was in my possession as part of the records I kept to
16 document my financial activities, and confirmed a wire transfer that I had requested be
17 made on behalf of Mr. Hitchman.

18 38. The following documents are accurate copies of checks from Mr.
19 Hitchman payable to me: 8, 25, and 203. The payments were made to me as part of the
20 Ponzi scheme and were in my possession as part of the records I kept to document my
21 financial activities.

22 39. The following documents are accurate copies of account statements and
23 handwritten ledger entries showing payments made to me from Mr. Hitchman: 12 and
24 14. The account statements and handwritten ledger entries document payments made
25 to me as part of the Ponzi scheme and were in my possession as part of the records I
26 kept to document my financial activities.

27 40. The following documents are accurate copies of a ledger showing
28 payments made by me to Mr. Hitchman or to others on behalf of Mr. Hitchman: 56-73

-8-

DECL. OF R. SLATKIN IN SUPP. OF TRUSTEE'S EX PARTE APPLICATION FOR A RTAO

Slatkin/Plending/2nd/Declar/Compliance/Attachment Documents/RES decl. for Hitchman RTAO.doc

Exhibit 1

1 and 75. The ledgers document payments made to me as part of the Ponzi scheme and
2 were in my possession as part of the records I kept to document my financial activities.

3 41. The following document is an accurate copy of a check payable to me for
4 the Hitchman Family Trust: 249. The check documents a payment made to me as part
5 of the Ponzi scheme and was in my possession as part of the records I kept to
6 document my financial activities.

7 Mr. Hitchman's Son in England

8 42. Mr. Hitchman has a son in England, Paul Hitchman. In early 2000, I sent
9 money to Paul Hitchman in England at the urging of Mr. Hitchman.

10 43. Attached as Exhibit 5 are accurate copies of emails and fax messages I
11 received from Paul Hitchman regarding his company in England. The documents were
12 received in the regular course of operating my scheme, were made at or near the time
13 the payment requests were made, and were in my possession as part of the records I
14 kept to document my financial activities.

15
16 I declare under penalty of perjury under the laws of the United States of
17 America and the State of California that the foregoing is true and correct.

18 Executed this 15th day of August, 2002 at Los Angeles, California.

19
20
21 By: 
22 Reed E. Slatkin

ATTACHMENT A

Additional relief requested for temporary protective order *right to certain order*

The defendants shall: (1) within two court days of service of this order produce to plaintiff any documentary evidence in defendants' possession showing where the proceeds from the sale of 625 Via Trepadora are located. This shall include the name(s) and location(s) of the financial institution(s) holding the proceeds from the sale, the name(s) on the account and account number(s), the amount in the account(s), and the amount in the account(s) which came from the sale of 625 Via Trepadora. (2) within two court days of service of this order produce to plaintiff any documentary evidence in defendants' possession of any property owned by defendant described in 3b. If defendants do not have in their possession documents regarding the property described in 3b, then defendants shall obtain such documents and produce them to plaintiffs within four court days of the date of this order. (3) deposit their current passports with the Court within one court day of service of this order. The Court shall retain defendants' passports for the space of thirty days following the deposit of the passports.

Exhibit 2

14

EXHIBIT 2

Exhibit 1