

Dear Mr. Dorsett:

I have reviewed your November 6, 2003 letter, as well as your subsequent e-mails, and I can understand your frustration. If I were presented with a similar set of circumstances and the Internal Revenue Service was “banging on my door,” I would probably be angry as well and might choose to strike out at those I perceived responsible for my situation. Unfortunately, I believe that you are not aware of all of the facts underlying this alleged “offer of settlement” that was discussed; nor are you fully aware of all of the facts concerning the administration of this case, including the income tax issues. In this letter, I will provide you with sufficient information that hopefully will cause you to rethink the positions you have taken or, at the very least, to permit us to draw different conclusions and respectfully disagree, as professionals often do.

Oversight of My Activities by the Creditors Committee (and Its Successor, the Liquidating Trust Board), the Bankruptcy Court, and the Office of the United States Trustee

This bankruptcy case was filed in May 2001, amidst allegations of fraud against Reed Slatkin. Citing Mr. Slatkin’s fraud and malfeasance and his obvious inability to act in the interests of all creditors, the Bankruptcy Court appointed me as his bankruptcy trustee on May 16, 2001. Almost concurrent with my appointment, the Office of the United States Trustee, a division of the United States Department of Justice, appointed a group of six creditors to be the members of the Creditors Committee to represent the interests of all creditors of this estate. These six creditors, who like you invested money with Mr. Slatkin, presently hold in excess of 51% of all of the valid creditor claims against this estate.

In June 2003, after notice to all creditors (including yourself) and a lengthy hearing, during which persons who were beneficiaries of Mr. Slatkin’s fraudulent scheme were the primary objectors, the Bankruptcy Court approved a plan of reorganization. As a consequence of that Bankruptcy Court approved plan, all of the assets, claims, and rights of the bankruptcy estate were transferred to “The Estate of Reed E. Slatkin and Substantively Consolidated Affiliates Topsight Oregon, Inc. and Reed E. Slatkin Investment Club, LP., Liquidating Trust.” Under the approved plan of reorganization, the Committee members were appointed the members of the liquidating trust’s “Trust Board.”

The members of the Creditors Committee/Trust Board have been extremely active in their role as representatives of the creditors. Because of the nature and size of their individual claims, they have every incentive to further the interests of all creditors and have absolutely no reason to pursue an agenda separate and apart from those legitimate interests. They have served ably, spending hours and hours in learning the complexities of this case without receiving any compensation whatsoever. During my 20-year career in bankruptcy administration, I have never seen a situation where creditor representatives have been more actively involved in the administration of a case.

I communicate with the Committee/Trust Board almost on a weekly basis and have done so since the commencement of this case. In fact, I review all of my proposed significant activities and decisions with them. In some cases, I have modified my proposed activities and decisions after consultation with them and based on their recommendations. In any event, if in any instance the Committee/Trust Board members disagree with my proposed activities or decisions, they are able to make their concerns known to the Bankruptcy Court. To date, this has not happened because at all stages of this case I have been able to reach agreement with them as to the course this case should take for the benefit of the creditor body as a whole.

For these reasons, any assertion that I have been administrating this case without creditor involvement is simply not correct.

In addition to the involvement of the very active Creditors Committee/Trust Board, my activities in administering the estate are subject to the supervision of the Office of the United States Trustee, which has direct supervisory control of trustees of bankruptcy estates. All substantial actions that I take as the trustee of this estate, involving the administration of this estate, to sell assets, to settle litigation, to resolve claim disputes, and to pay professional fees, must be approved, after notice and hearing, by the United States Bankruptcy Court.

Investigation of Estate Assets

Shortly after my appointment, my professionals and I did an inventory of available assets in Mr. Slatkin's bankruptcy estate pursuant to my responsibilities under the United States Bankruptcy Code. In order to more fully understand Mr. Slatkin's financial condition and also to establish the legal foundation for the return of all unearned, fictitious profits, it was necessary to do a costly and extensive accounting and legal analysis of Mr. Slatkin's dealings with all investors. As a result of that investigation, my professionals obtained irrefutable evidence that Slatkin had operated a Ponzi scheme; and, in fact, in March 2002, Mr. Slatkin finally signed a criminal plea agreement with the United States government in which he admitted that he had engaged in a Ponzi scheme for many years. He was recently sentenced to a lengthy prison term for his criminal conduct.

During the course of the accounting and legal analysis of Mr. Slatkin's dealings, it quickly became clear that there were two classes of investors – the “winners” who received back all of the capital that they gave Mr. Slatkin for investment plus fictitious profits (I refer to these persons as “net debtors” of the estate), and the “losers” who did not get back their invested capital from (I refer to these persons as “net creditors” of the estate). I determined that, if the “losers” were to obtain any significant return of their lost investment, the “winners” were going to have to return the unearned, fictitious profits which they received and which they are not entitled to keep under applicable law. I think it important that you note that we are not asking the “winners” to return all of the money they received from Mr. Slatkin. Instead, we are only asking that they return the funds they received in excess of their investment. For example, if an investor gave Mr. Slatkin \$100,000 and received back \$150,000, we were simply asking for the return of \$50,000 not the entire \$150,000. Thus, the “winner” would never enter into the “loser”

category, but need only return the unearned, fictitious profits which he or she received from Mr. Slatkin.

To help creditors of the estate fully understand the significant financial effect that would result if the net debtors (the “winners”) returned all of their excess profits, I prepared an asset and accounting analysis that was presented at the meeting of creditors, which all creditors (including you) were invited to attend, held in Santa Barbara in February, 2003. That analysis demonstrated, in very graphic terms, that if we liquidated the known assets of the estate, including real estate, stocks and other assets, for a reasonable but optimistic sum, and if the net debtors (the “winners”) simply returned all of the unearned, fictitious profits they had received, all creditors, including yourself, would receive 100% of their claims – paid in full, even after the payment of projected professional fees. That point is well worth repeating. Despite the fact that the net debtor “winners” have caused us to spend millions of dollars trying to recover the unearned, fictitious profits they received, if the net debtors would simply return those bogus profits you would be made substantially whole. Please keep that in mind as we discuss the remaining elements in this letter.

Asset Recovery and Liquidation Efforts

During the course of this bankruptcy case, we have sold or otherwise liquidated a significant amount of assets that have generated more than \$65 million. Those assets include real properties, automobiles, precious metals, art, other collectibles, securities, and interests in closely held businesses. There are still significant assets remaining to be sold that will generate additional money for creditors.

I also have filed approximately 430 actions to recover from Mr. Slatkin’s “winners” the unearned, fictitious profits that Mr. Slatkin paid to them from the money he stole from his real creditors such as you. The extensive analysis described in the preceding section was completed under the highest standards of professional care in order to withstand what has proven to be an intensive and expensive defense by the “winners” in Mr. Slatkin’s Ponzi scheme as we sought to recover those funds for the benefit of Mr. Slatkin’s rightful creditors.

So far, we have settled 144 of those actions for a total of \$31.8 million (as well as \$9.2 million of claim reductions). Not all of these settlement funds have been received, as a number of the net debtors needed to pay these amounts over a period of time, generally not more than three years. In fact, approximately \$17.5 million of the \$31.8 million will be paid over that three-year period. The great preponderance of these settlements were achieved by the payment (or an agreement to pay) 80% of the amounts sought. By way of example, to settle litigation to recover \$100,000 in fictitious profits, the “winner” must return \$80,000 (80% of the \$100,000) to the estate.

There are presently 286 outstanding lawsuits against net debtors which seek the recovery of \$138 million in principal, plus interest. As I stated previously, if those net debtors voluntarily repaid the amounts which they owe to the estate, you and all other creditors would be repaid

almost all of your allowed claims. Because many of the “winners” have refused to settle, we have now begun filing summary judgment motions.

We have also sought to recover a number of preferential transfers that creditors received during the 90 days prior to Mr. Slatkin’s bankruptcy. As a result of those actions we have recovered \$3.6 million in settlements (\$3.2 million of which has already been received) and a reduction of \$11.3 million in claims, allowing for a greater participation in recoveries by creditors, such as you, who have allowed claims.

This litigation has clearly been expensive, as most high stakes legal battles are, but it was done with both the input and scrutiny of the Creditors Committee. We have spent many hours discussing the necessity of taking certain actions to preserve the estate’s legal remedies for the benefit of its creditors and, after insisting on budgetary and other constraints, the Committee approved the expenditures for these actions.

The Purported “Offer of Settlement”

I will now discuss for a moment the alleged “offer of settlement” that you reference in your letter. In layman terms, we have been compelled to “lay siege to the castle” housing the net debtors and their assets. We have not conducted this “siege” gleefully. We were forced to do so by the intense litigation strategies of the remaining net debtors. We have been successful in litigation against these persons, primarily because the facts and law clearly support our position. After less than two years of litigation, we are now, at the proverbial “door.” As a result, the remaining net debtors have concocted this “offer of settlement” as a “last ditch” attempt to extricate themselves from the summary judgment motions which will be directed against them in the coming months. Unfortunately, this “offer of settlement” is simply a craftily devised illusion that falsely claims to resolve the ongoing litigation and other expenses in this estate as well as creditors’ tax difficulties. Unfortunately, neither issue will be solved by this “offer of settlement.”

In fact, the “offer of settlement” that was presented to me and the Trust Board would simply have benefited some of Mr. Slatkin’s “winners.” A fair and impartial analysis reveals that its primary intent is to allow a select group of those “winners” who received perhaps the majority of the unearned, fictitious profits that Mr. Slatkin paid out to walk away for a pittance. In this “offer,” those who are most able to repay 100% of what they owe the estate would pay only a small percentage of what they owe in exchange for a full release. At the same time, the estate would be left to litigate against those persons who may be less able to repay all the money that they owe. The end result would be to unreasonably limit the potential (and we believe probable) recoveries for the benefit of the creditor body as a whole.

The other element of this so called “offer of settlement” purports to resolve your tax difficulties. However, this “offer of settlement” will not solve the tax difficulties of individual creditors. In order for the case to be resolved in the manner which the Internal Revenue Service presently requires, all estate assets must be sold, all litigation must be concluded and all claims resolved. Even if this “offer” were accepted and could be implemented, it relates only to some

of the estate's litigation, not all of it. We cannot simply walk away from millions of dollars in existing real property, substantial interests in closely held entities, and the substantial fraudulent transfer and preference recovery litigation that would not be resolved by the offer. It also will not resolve significant litigation against banks which belongs to both the estate and individual creditors and will affect all claims in this estate. It is possible that some individual creditors may receive substantial sums upon resolution of the bank litigation which may result in the reduction or withdrawal of their claims against the liquidating trust. I assure you that neither this estate nor the creditor body as a whole is willing to walk away from these valid claims to solve individual tax problems. Neither I nor the Trust Board will allow that to happen.

As designed, the illusory "offer of settlement" has also been folded into a general complaint concerning the amount of professional costs that have been incurred by this estate. The ironic twist is that this complaint appears to be promoted most vigorously by those most directly responsible for those costs, Mr. Slatkin's "winners" and those that back them for their own, selfish purposes. In simplest terms – the "winners" still have your money and they intend to do everything possible to avoid giving it back to you

In the past we have suggested to those promoting this "offer of settlement," a means of extricating themselves from involvement in this bankruptcy case if that is what they truly wish to do. Creditors could simply sell their allowed claims to Slatkin's "winners" or other persons wishing to purchase them for 20% of the amount of the allowed claim or any other sum that the creditor may choose to negotiate. That would provide a 20% payout (which you seem to find acceptable) and a tax loss (although it may not be a theft loss). No one has responded to this suggestion.

In your November 6, 2003 letter, you state that were "shocked" when your counsel Mr. Hayes, told you that there was a "possible solution to all of this." You also state that you were victimized "a second time" when you "learned that an attorney for certain parties in this case has been attempting to broker a settlement between a group of debtors and [the estate] and that [you] could have joined." However, approximately 30 days before you wrote your letter, members of the Trust Board, who were negotiating with these "attorneys for certain parties," received a list of creditors who supposedly were willing to participate in the "offer of settlement" and your name was on that list. Either they included you without your approval or you were, in fact, aware of the offer and have conveniently chosen to omit that fact.

I also want to point out to you that a number of the net debtors identified over 30 days ago as willing to participate in the "offer of settlement" of approximately 20%, have, in the intervening period, settled for an 80% payment to the estate.

Personal Tax Issues

Let me now address the personal tax issue and resultant audit discussed in your letter. I am afraid that you have conferred upon me an ability that no bankruptcy trustee (or any private citizen) has or will have, and that is the power to control the actions of the Internal Revenue

Service. Were I able to do so, I promise you that in this matter I would have done so; but the position the Service may take in individual tax cases is totally beyond my control.

There are a number of members of the Trust Board that are suffering through the same audits which you are experiencing, and I assure you they share your deep concern. In recognition of that concern, the liquidating trust has retained specialized tax advisors and, with the concurrence of the Trust Board, we are attempting, through all reasonable means, to convince the Internal Revenue Service that it should change its position and allow a theft loss for all claimants. So far, the Service has not been swayed by our entreaties. We have even attempted to secure an audience with Service officials in Washington to press our case - but to no avail. However, we will continue to pursue this issue in the future, and hopefully we can modify their position; but all we can do is suggest, implore and cajole. That is the limit of my power.

Conclusion

I could go through your letter and respond in greater detail to all of your concerns, but I don't believe that would be productive for either of us at this time. Instead, I would encourage you to take the time to carefully review the fee applications that I and the other professionals in this case have filed with the Bankruptcy Court so that you may fully familiarize yourself with our activities on behalf of all creditors. After doing so, I believe you will come to the conclusion that our activities to date have been necessary, appropriate and in the best interests of the creditor body.

In summary, let me say that I am immensely proud of the service that I, the Trust Board, and the professionals engaged by us, have provided to this estate. I believe that the results we have been able to achieve at this time are worthy of praise, not condemnation. I will be happy to submit myself to a reasoned and impartial assessment of our efforts and ultimate results.

Sincerely yours,

R. Todd Neilson,
Trustee