Thelma L. Rosenkrantz, Pro Per
4101 San Fernando Road
Glendale, California
Creditor

UNITED STATES BANKRUPTCY COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

NORTHERN DIVISION

In re: REED E. SLATKIN, Debtor.	CASE NO.: ND 01-11549-RR (CHAPTER 11) **ATTORNEY FEE OBJECTIONS** Date: December 8, 2003 Time: 10:00 a.m.

I hereby object to the excessive attorney's fees that have been incurred in this case – purportedly on behalf of myself and other creditors.

I was a small investor in Slatkin's scheme. I, like many others, was victimized by him.

While the Trustee and his lawyers, and the Creditors Committee and their lawyers have racked up $19 million in fees, what have I gotten in return? I have

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gotten just over four cents on the dollar, and an extensive IRS audit covering several years that threatened me with penalties for negligence because I filed a theft loss deduction.

I filed my claim with this court, hoping to recover some portion of my loss, and carry on with my life. Now, I could still be dealing with Slatkin issues for several years to come.

I have been told that the Trustee and the Creditors' Committee are supposed to be looking out for my interests, and the interests of the other creditors.

Your Honor, I have not seen that done. Instead, I feel as if I have now been victimized a second time.

This case has been going on for two years and the expenses are increasing at an alarming rate with little return. Thus far, I've received less than 4 ½ cents for every dollar of my original "investment" with Slatkin. The problem is that I can forsee that this case will go on for years, with greater and greater legal fees, and to top it off, another massive IRS audit covering over a decade of returns to once again prove that I had a loss.

So far the expenses in this case have been roughly $19 million and the creditors have only received about $11 million. I was shocked when I saw that the expenses are nearly twice what was listed in the plan earlier this year, and believe the ratio's of expenses to creditor recovery will increase significantly – meaning more money to attorneys and less to the victims. This is not acceptable.

When I found out that I had been "had" by Slatkin, I had my accountant file a tax deduction for my theft loss. That seemed right based on tax law and

what I had read in one of the trustee reports, but that did not work out. The IRS had me prove the loss by going over 8 years of returns and supporting documentation and yet denied the loss, demanding amendment of the later year returns claiming theft loss or face negligence, interest and 20% penalties.

The problem is that this case is not over. The IRS won't let anyone who still has even a potential return in this case take the deduction until the whole case is completely closed. What am I supposed to do now? Cancel my claim against Slatkin?

(Please also see the attached letter from Kendall Dorsett. He is also a victim of this same thing, and he has expressed this very well. I am not the only one in this position.)

I know that you, as the judge in this case, have the power to cancel these legal fees. You need to do this, as there is no one else who can stop the bleeding.

These fees should be cut by at least a flat 25%, to send a message that the lawyers should not be getting rich at our expense. This will also send a message to the Trustee and the Creditors' Committee that they need to answer up to the average creditor. Their actions are reprehensible. I know they have a duty to the creditors, but they have not lived up to it.

I respectfully request that justice be done, and these outrageous legal fees be cut.

Thelma L. Rosenfrantz, Pro Per
4101 San Fernando Road
Glendale, California
Creditor

November 6, 2003

Dear Trustee Neilson,

As a creditor of Slatkin I am really upset by three things:

1. This case is taking too much time
2. This case is costing us too much money
3. Your recent actions are putting us at risk with the IRS.

I haven't done anything thus far, but now, I have no choice. It was bad enough when, after 26 months, I received my 4% check, and found out that this pittance cost $20 million in legal and trustee fees. But then when I learned that I was facing an IRS audit in addition (along with all the other creditors), that was the last straw. Hence this letter to you. Bluntly, what are you as the Trustee of our Trust going to do about our latest risk?

As you know, I personally was an investor with Reed Slatkin with whom I invested over seven figures. In 2001 there was a clear statement from you, Mr. Neilson, and from Slatkin himself that the entire operation was a fraudulent scam.

Based on this statement, I informed my accountant and we took a theft loss deduction. Although the amount of the tax savings that I realized could have been bigger, it was still very helpful. By deducting the theft loss, I was able to offset any taxes that I owed in 2000 and 2001.

Now I hear from my accountant that the IRS is going to audit those of us who took a theft deduction in 2001 and disallow it. To add insult to injury, I am told that I might have to now pay what I didn't pay in taxes because of the theft loss deduction plus interest.

When I demanded to know how the IRS could do this since it was clear that my money was lost, my accountant explained that the IRS was saying that since the loss is not quantified it is, therefore, not deductible. The IRS is treating your **estimation** of approximately 20% as a **possible** recovery. Therefore the loss may not be deductible until the estate has collected substantially all of the money. (Which you indicate may be at least 3 to 5 years from now.)

My accountant explained to me that if I contest this action by the IRS, I will almost certainly lose and it will likely result in my paying not only interest on the taxes that I didn't pay but also penalties. This has gone on too far and I am simply not willing to accept this.

I not only lost all the money that was supposed to be for my retirement but now may also be forced to come up with a large sum of money to pay the IRS.

When I asked my accountant what could we do, he said that the simplest and best thing for me would be to establish the total and final loss in 2003. Then I could carry back the loss and the most that I would have to pay the IRS would be the interest on the taxes.

Mr. Neilson, I am a businessman, not a lawyer, and so far I have not commented on your actions in the bankruptcy proceeding. But when I learned of the $20 million plus paid from the estate for fees to yourself and various lawyers, and the types of expenses that were charged to the estate, I was appalled. I realized that the conduct of my estate representatives was not, on its face, appearing to be in the best interest of myself or the majority of the creditors.

I can tell you that if I were performing your duties, I certainly could have resolved this entire estate for much less than $20 million. In fact, a settlement of claims against the debtors for an average of 40% could have given the estate the means to distribute 30 cents on the dollar to the creditors, who could then have taken a theft loss on the remaining 70%.

The magnitude of this situation did not fully hit home until I learned of the IRS disallowances and audits. This may pose a serious financial problem for me personally, and so I consulted with Steve Hayes, my attorney, about this. I learned that there were a considerable number of other Slatkin creditors who were in similar situations. In fact, it is likely that the IRS is going to audit every creditor.

But what shocked me the most, was when Mr. Hayes informed me that there is a possible solution to all of this, but that you and the lawyers and members of the Trust Board were opposing this from happening.

Are you really trying to aid us with the big fees, the years of litigation, the tiny distribution, and now the lack of help with the IRS when we need it? Is this adding up to a violation of our trust? The fact is, Mr. Neilson, that none of the creditors, myself included, ever even received the courtesy of being told that this offer was on the table.

I asked for more details because I could not believe that I was being victimized a second time. I learned that an attorney for certain parties in this case has been attempting to broker a settlement between a group of debtors and you and that I could have joined. In this way I could have reached a final result for my specific situation in the estate - and that would enable me to solve the IRS problems.

I have been informed that the amount of money that you predicted would be received by the estate in 3 to 5 years could be received today. This would allow people like myself to settle our claims for 16 cents on the dollar (plus the 4 cents on the dollar that we recently received) and not only end our current nightmare but also end the coming nightmare with the IRS. Even though it is a small number, it is what you said we would get, the only difference is that we wouldn't be pushed into deeper waters (i.e. a tax audit). This made so much sense that I could not fathom why you opposed this.

If you are now going to justify turning down the "bird in the hand" of 16 cents on the dollar today because you claim that you might get substantially more (i.e., more than the 20 cents on the dollar described in your court papers), then you had better tell me in writing exactly how much of a recovery you will guarantee to the creditors over the next

3 to 5 years. I don't want speculation or ambiguities; I want a guarantee. And I want to know how much exactly we the creditors will be charged for it - another $20 million?

We creditors need to consider what our remedies will be if five years from now we end up with the same twenty cents that we could have gotten in 2003. Even if we were to end up with a few more percentage points, will that be more than we could realize if we have the money available to work with right now? Are you going to get us enough to also offset the interest and penalties that the IRS is threatening to charge us if we took the theft loss deduction already?

Perhaps you will justify your refusal to be reasonable by saying that you need to litigate to get full recoveries from Slatkin's "insiders". Granted there is a certain satisfaction in knowing that the net winners are paying their fair share. But this makes no sense if it costs us our shirt. There must be another solution to make these people pay the price; without making me or those in my position also pay a price. In other words, I don't care if you keep litigating against that handful of people for years. If there are creditors who have the means to go along with you, so be it. But that is no reason to hold up the resolution that would enable me and other creditors to get out of this no-win situation.

I come back to the question, which started this letter: what are you going to do about this? Are you going to speed up our distribution? Are you going to help us get through these difficult times with the IRS? Are you going to continue to keep us in the dark about offers that would end our pain and let us get on with our lives? Are you going to let us get involved in the process so we can have a choice? I think that we creditors are entitled to some consideration from our fiduciary.

I know that there are other creditors, like myself, who are equally disappointed by the inordinate amount of time taken, high legal fees, and your failure to keep the expenses at a reasonable level and on par with the money recovered. These people will be even more outraged when they learn that viable settlements have been thrown away, leaving them no current money, vulnerable to IRS audits, with little left but their own legal and accounting bills. That is why I am copying this letter to every other creditor in this case. I hope they will speak up and we will be able to avoid getting burned a second time.

I did not take full responsibility the first time and got hurt - I will not make the same mistake again.

Sincerely,

Kendall L Dorsett

PROOF OF SERVICE

I am over the age of 18 years, and not a party to this action. My business address is 4101 San Fernando Road Glendale, California, which is located in the county where the mailing described below took place.

On November 21, 2003, in Glendale, CA the following document:

ATTORNEY FEE OBJECTIONS

was placed for deposit in the United States Postal Service in a sealed envelope, with postage fully prepaid to those designated below:

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I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on November 21, 2003 at Glendale, California.