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U.S. $3.50 CANADA $4.50
08831 10
0 754784 9
OCTOBER 2001
www.talkmagazine.com

It may have been one of the biggest scams in Hollywood history. EarthLink cofounder and L. Ron Hubbard disciple **REED SLATKIN** is accused of duping show business luminaries and scores of fellow Scientologists out of hundreds of millions of dollars—all from an office in a Santa Barbara garage. **TIMOTHY L. O'BRIEN INVESTIGATES**

HOUSE OF GAMES

THAT MR. ROGERS TOUCH Reed Slatkin, July 2000. Left: The Scientology Celebrity Center in Hollywood.

SEATED IN A CONFERENCE ROOM IN A LOS Angeles high-rise a year and a half ago, Reed Slatkin, investment guru to some of the nation's wealthiest people and cofounder of former Internet darling EarthLink, held forth on the finer points of Scientology.

"Just to quote this from Mr. Hubbard: 'The aims of Scientology are civilization without insanity, without criminals, and without war, where the able can prosper and honest beings can have rights, and where man is free to rise to greater heights,'" said Slatkin. "I've dedicated my life to those aims, and I feel that the world, you know, is not a pretty place."

Slatkin, a Scientology minister, might have been addressing just another gathering of adherents of the controversial religion founded by the late L. Ron Hubbard. But on that particular morning Slatkin was speaking to a very different audience: three Securities and Exchange Commission attorneys investigating whether he was breaking the law. And, like Verbal Kint, the artful dissembler portrayed by Kevin Spacey in the film *The Usual Suspects*, Slatkin ran circles around his interrogators.

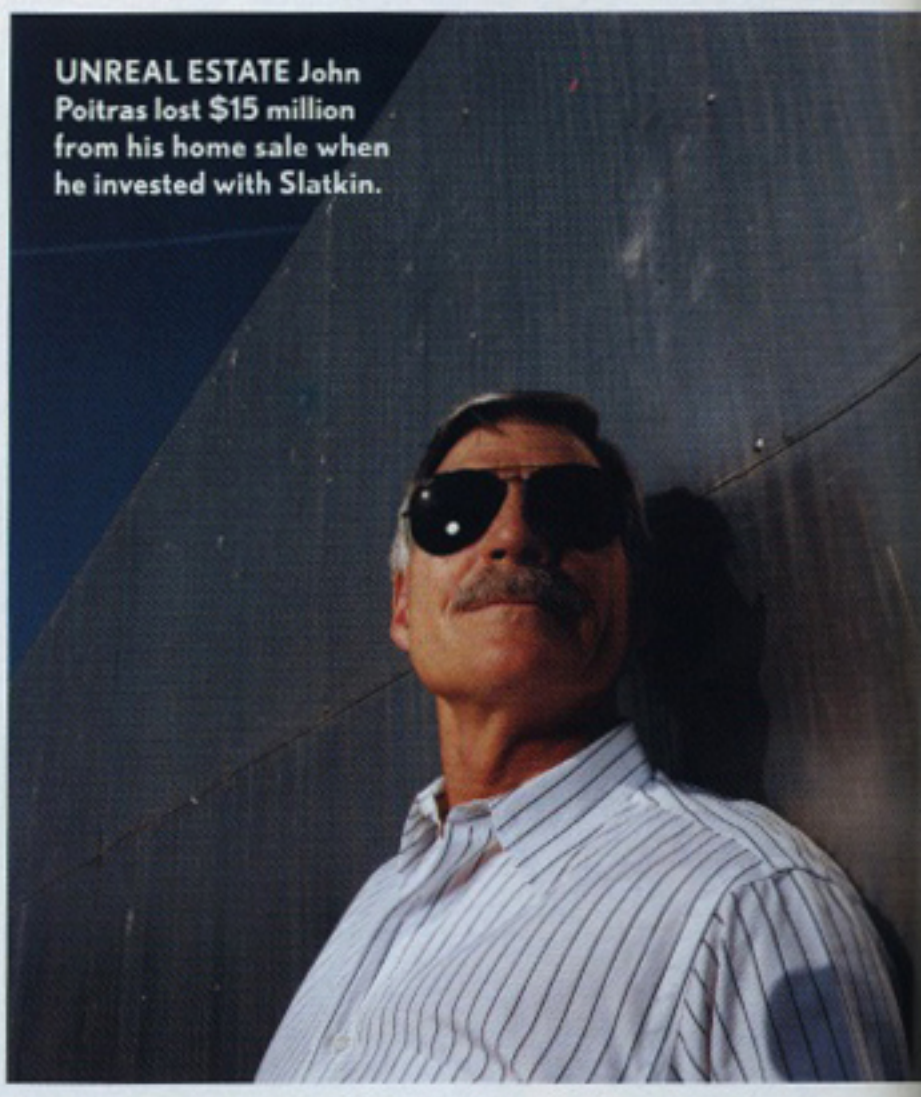
By way of explaining how he ran his business and where hundreds of millions of dollars in his clients' funds were located, Slatkin spun convoluted tales about Swiss bank accounts and murky financial transactions, repeatedly wandering into lengthy digressions about Scientology. "People in businesses that are motivated only by money are wobbly people," Slatkin said at one point, quoting a Scientology text. "The primary cause of failure is money motivation."

Today, with anywhere from $230 million to $580 million of his clients' money missing, Slatkin is accused of masterminding one of the biggest investment scams in history. His fall from grace has unraveled the lives of hundreds of people who trusted him with their savings, ranging from Hollywood filmmakers and high-tech entrepreneurs to Santa Barbara socialites and prominent Scientologists. Slatkin's victims also include his own stepfather, the pilot of his private plane, and a quadriplegic who can no longer afford to pay for nursing care or her home.

Where all this money went is still unknown, and there has been much speculation as to its whereabouts. Slatkin's demise has spawned an ongoing U.S. attorney's investigation and has badly embarrassed the SEC, which Slatkin hoodwinked for more than a year while he continued to court investors and apparently steal their money. His actions have also thrown an unwelcome spotlight on the Church of Scientology's practices, with some investors questioning whether some of their money ended up in Scientology's coffers—a claim the organization denies. The church told *Talk* it plans to expel Slatkin from the organization if he is found guilty of any crimes.

Among the roughly 850 people on Slatkin's investor roster are *Sopranos* star Joe Pantoliano, *Fight Club* producer Art Linson, former Capitol Records president Hale Milgrim, Smith & Hawken founder Paul Hawken, EarthLink chairman Sky Dayton, actors Giovanni Ribisi and Anne Archer, Oscar-nominated composer Tom Snow, Grammy-winning musician Mark Isham, several scions of Pennsylvania's Walton family, CNN commentator Greta Van Susteren and her husband John Coale, the tobacco litigator, Los Angeles art gallery owner Izzy Chait, *Dead Poets Society* producer Paul Junger Witt and his wife Susan Harris, creator of *The Golden Girls*, venture capitalist and Hollywood investor Kevin O'Donnell, and even L. Ron Hubbard's own son, Arthur.

Slatkin appears to be anything but a snake oil salesman. A trim 52-year-old with a black toupee and what one acquaintance describes as a Mr. Rogers approach to friends and family, he avoids the limelight, tries to be home by 9 p.m. most nights, and apparently enjoys a postcard marriage. But law enforcement officials and investors say that Slatkin's charming, modest demeanor allowed him to win investors' confidence and then apparently pilfer hundreds of millions of dollars. After dodging clients for months, a bleary-eyed Slatkin appeared at a creditors' meeting in Santa Barbara in late July, offering little to the angry group other than to say,



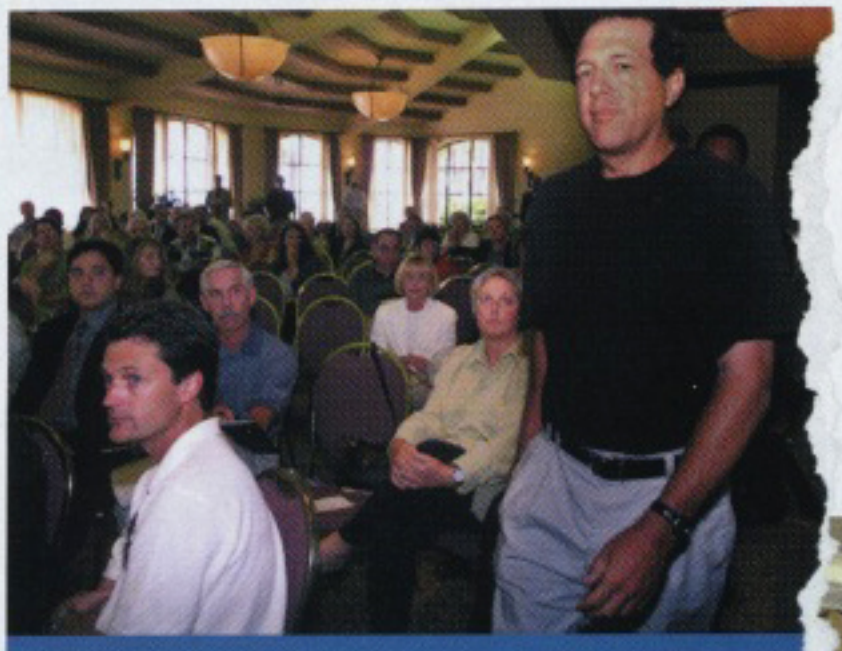
UNREAL ESTATE John Poitras lost $15 million from his home sale when he invested with Slatkin.

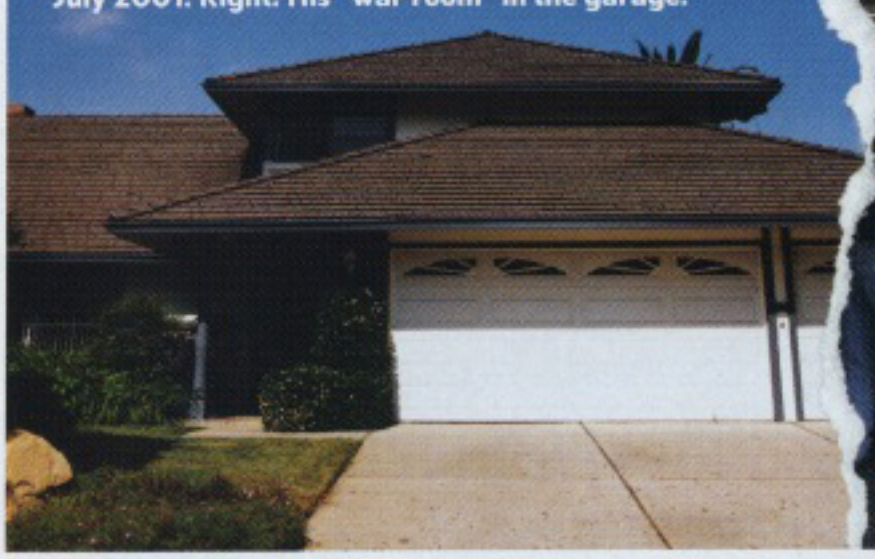
"I'm not hiding and I wanted you to know that." Slatkin declined to comment for this story, but his wife Mary Jo has told friends that her husband will be vindicated. The missing millions, she confides, are in the hands of business associates who cheated her unwitting husband.

Slatkin's friends still can't fathom how he could warmly inquire at cocktail parties about the well-being of their families while simultaneously picking their pockets. Although some believe the genial guru has been stealing from them only over the past few years, new evidence suggests otherwise. A key figure in the alleged scam is a convicted swindler

and fellow Scientologist named Ron Rakow, who has been Slatkin's friend and business associate for at least 15 years—leading many investors to conclude that Slatkin intended to defraud them when he first set up shop in 1986.

One Santa Barbara woman, a victim of Slatkin's purported schemes, has her own opinion. Reed Slatkin, she says, is "the Ted Bundy of the financial world."





3 BR, $$ VIEW Slatkin's trading headquarters, once his family's home. Above: Slatkin in bankruptcy court, July 2001. Right: His "war room" in the garage.

"HE CREATED the impression that it was hard to invest with him, but it wasn't. He was taking whatever money he could get."

MIMICKING MARILYN MONROE'S BREATHY SERENADE FOR President Kennedy and rising airily from inside an enormous cake at the opulent Biltmore Hotel in January 1999, a scantily clad woman began singing "Happy Birthday" to Reed Slatkin—making Santa Barbara's hottest money manager visibly uncomfortable on his 50th birthday.

Despite reservations about the chanteuse, Slatkin had every reason to consider his birthday fete one of the high points of his life. Other entertainment at the party included a video produced by Armyan Bernstein, a Slatkin investor whose company, Beacon Pictures, had produced such films as *Air Force One* and *Thirteen Days*. Film stars Kevin Costner and Arnold Schwarzenegger appeared in the video, ribbing Slatkin about his athletic abilities. And Slatkin was surrounded by scores of affluent, glamorous guests, many of whom were there not merely out of fondness for him but because they believed he was making them richer by the day.

"The birthday party was like a tribute to Reed, the golden boy," says one party guest who, like many of Slatkin's investors, requested anonymity. "As far as everyone there was concerned, he walked on water."

Membership in the Reed Slatkin Investment Club, the title Slatkin gave his burgeoning investment business, was as coveted as that in any of Santa Barbara's exclusive clubs. Slatkin devotees, their appetites whetted by friends' tales about investments doubling or tripling in value every few years, were anxious to hand over their money to the financial wizard. But Slatkin, they were told, was very selective about whose money he took. To be accepted into the Reed Slatkin Investment Club was not only a path to riches, it was also a privilege.

"Reed would always say, 'Arlo, invite people to invest with me who would help you, because I don't need new investors,'" says Arlo Gordin, a Scientologist who began investing with Slatkin in 1986. "Right up to the end he played out his act just as he had for the last 15 years: the perfect guy, perfect father, ethical decision maker, perfect investor.... And promoting Reed as a scarce resource really made people on the periphery anxious to get in. It was a very carefully crafted scheme."

Most celebrants at Slatkin's 50th birthday party probably didn't know that he had no CONTINUED ON PAGE 148

BOYLE

is smarter, richer, and prettier, and think to yourself, 'Oh my God, she's my worst nightmare'? Does somebody like that exist?"

"I don't think so. There are a lot of beautiful women in this town. Pretty girls are a dime a dozen. But pretty girls that smile? That's harder to find. And pretty girls that smile and laugh? That's even a little bit harder to find. But pretty girls that smile and laugh and have a sense of humor? That's hard. There are those out there, and, I mean, I think there are a lot of great actresses that are all those things, but I've never thought anyone's more than me."

She puts her little Motorola flip phone up to her ear and listens to her messages. For the first time all afternoon, something is tickling Lara Flynn Boyle. She won't say who called, but her laugh, throaty and hoarse, suggests that he or she is saying something bawdy in her ear. She asks a waiter to see that her giant black Mercedes is rolled out to the front of the hotel for her.

Lara Flynn Boyle, self-anointed victor in Hollywood's smiling-beauty-who-can-laugh race, seems ready to collect her trophy, whatever that may be. Some friends are predicting it will come with a permanent pair of sunglasses, a house in the hills, and a brand new gold wedding band. There are some who swear that the world will wake up one Monday morning in the not too distant future to find that Lara Flynn Boyle has become the second Mrs. Jack Nicholson, a position held neither by Anjelica Huston, who had him for 17 years, nor Rebecca Broussard, the mother of his two young children.

Implausible as the relationship may seem, Boyle's friends say she and Nicholson are a good match. She tames him and, more important, he keeps her hands full. "If someone doesn't challenge her she has a very difficult time," says Rocco. "I think that might explain the Jack thing. She hates being bored."

It is difficult to imagine a woman of Boyle's appetites sitting up there in the hills, maybe driving the kids to school in a Volvo, sharing muffin recipes with Annette Bening, playing bocce with Brando. Tickets still need to be punched; buildings need to be scaled.

But not today.

Many say Jack Nicholson would rather eat a windshield than get married again. Lara Flynn Boyle says nothing at all.

"Does marriage frighten you?"

"No, not with divorce," she deadpans. "Nothing's forever.... I don't really believe that we mate for life. I believe you make friends for life, but you don't mate for life."

And then she is gone, off in her Mercedes, sunglasses and seatbelt on, a bottle of Pellegrino perched between the seats. She has friends to see. ■

SLATKIN

CONTINUED FROM PAGE 113

degree in finance and had never held a Wall Street job. Nor would they know, later that year, that the SEC had started investigating Slatkin's activities.

What Slatkin's investors believed was that he was able to routinely beat the stock market, rising each morning at 5 a.m. and using complex, homegrown computer programs to trade stocks and other securities until 1 p.m., after which he went to the La Cumbre Country Club for a couple of sets of tennis. His apparent investing prowess enabled him to rake in more than $29 million in income in 1999 and to pay about $1.5 million for an estate—now worth $5 million—in Hope Ranch, one of Santa Barbara's toniest enclaves. The Spanish-style main house was stocked with hundreds of jazz CDs, as well as paintings by Thomas Hart Benton and Albert Bierstadt, and featured a pool, a guest house, and elaborately sculptured gardens. He owned a Corvette Stingray, a Land Rover, two Volvos, a BMW, and two airplanes. He also lavished gifts on his two sons, one of whom, Justin, had a nascent music career that Slatkin avidly supported.

On most mornings Slatkin drove to nearby Goleta, where he had transformed a $500,000 three-bedroom house his family once occupied into his trading headquarters. Bill Hutchins, a local doctor, traded for his own account in one of the upstairs bedrooms. (Slatkin touted him to investors, falsely, as a specialist in biotechnology stocks.) A secretary worked in the dining room, while a stock trader and an office manager worked in the den alongside other contract workers. And a converted garage—with eight computer monitors and several fax machines and telephones—was where Slatkin traded, in what he dubbed the "war room."

Slatkin, who was gregarious and had the right joke ready for any occasion, was fastidious, even neurotic, about noise. Demanding that the war room remain as silent as possible, he kept his network computer behind a garage wall, apart from the monitors, so he couldn't hear the hum, and he turned off the ringers on the fax machines. He also kept the nitty-gritty of his financial transactions almost entirely to himself, according to two people who worked in Slatkin's office.

"He tended to be very secretive about a lot of his business-oriented stuff," Patrick Siefe, a computer programmer who worked in Slatkin's office for eight years, told *Talk*. "He also was very meticulous about what the public saw, like the financial statements we gave clients. At the time this didn't seem suspicious, but with 20-20 hindsight, given what happened, it does."

Despite the fact that he was managing hundreds of millions of dollars, Slatkin relied on a bookkeeper in Santa Fe, New Mexico—Jean Janu, a soft-spoken former Montessori schoolteacher who didn't have an accounting degree—to oversee the bulk of his operation's trading records. Even though the way Slatkin ran his business was decidedly odd, none of those working with him or investing with him seemed to mind.

"It just grew, kind of like a family or something," Janu told SEC investigators in a February 2000 deposition in which she discussed Slatkin's operation. "[The investors] were all personal friends of his. He knew them all."

Adding that none of the records she kept for Slatkin over a 10-year period ever showed investors suffering any losses, Janu also told SEC investigators that Slatkin's investing was motivated by a higher calling.

"He explained that he was a member of this church, this Scientology church," she said. "And the way that he assists them is to take their concern off of the issue of their money, so that they can provide other kinds of work in the world."

SCIENTOLOGY HAS BEEN AT THE CENTER OF Slatkin's life since he was a teenager. The only son of Milt and Mickey Slatkin, Reed was born in Detroit in 1949; he has two younger sisters. When Slatkin was 14 his father killed himself in their garage. Shortly after Milt Slatkin's suicide, an uncle who was studying Scientology visited the distraught family.

"My uncle helped us through our grief of the loss of my dad, and the way he did that was through the ministering of Scientology spiritual counseling to us," Slatkin told the SEC in a January 2000 deposition. "It offered us a great solace."

Scientology was founded in the early 1950s by an American, Lafayette Ron Hubbard, a former screenwriter and science fiction author who wrote the best-seller *Dianetics: The Modern Science of Mental Health*. The book examined mental health problems and offered methods for combating them. Scientologists believe that