

1 UNITED STATES DISTRICT COURT FOR THE DISTRICT OF RHODE ISLAND

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4 U.S. ATTORNEY
DISTRICT OF RI

5
6 JUL 29 1992

7 IN THE MATTER OF - HAROLD F. CHORNEY
8 CASE NO. - 90-R0133
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12
13 Testimony of John Truslow, heard
14 before the October 1991 Term Federal Grand Jury, on Tuesday, July
15 14, 1992, in Room #110, Federal Building, Providence, Rhode
16 Island.
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22

PRESENTED BY: SEYMOUR POSNER, ESQUIRE, ASST. U.S. ATTORNEY

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1 JOHN TRUSLOW, having been called as a
2 witness, duly sworn, testified as follows:

3 EXAMINATION BY MR. POSNER

4 Q Would you give us your full name, please?

5 A John Truslow, T-R-U-S-L-O-W.

6 Q Mr. Truslow, you appeared before this Grand Jury on at least
7 two occasions prior to this, I believe, in connection with
8 this investigation into Mr. Chorney and Cumberland Investment
9 Corporation, is that correct?

10 A That's correct.

11 Q Today, I'd like to go into some of the other aspects of this
12 case, that we have not covered yet.

13 You are one of the two Case Agents
14 who have investigated this case?

15 A Yes.

16 Q From the very beginning?

17 A There was another Agent, Kevin Eaton, from our office, that
18 initially had the case until I assumed the case when I was
19 transferred into Providence, and I've been the Case Agent
20 since July of '91.

21 Q During the year that you have been investigating this case,
22 you have examined records?

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1 A Yes.

2 Q Documents obtained through Grand Jury Subpoenas?

3 A Yes.

4 Q Were any of the records that you examined CIC's records?

5 A Yes.

6 Q Where were those obtained?

7 A I located them in the U.S. Attorney's Office.

8 Q And how were they obtained, if you know?

9 A By Subpoena.

10 Q From?

11 A From the Trustee.

12 Q The Trustee for CIC?

13 A Trustee in Bankruptcy.

14 Q All right, and for Cumberland Investment Corporation?

15 A That's correct.

16 Q And did you also obtain records, as part of your
17 investigation, from Eastland Bank?

18 A Yes.

19 Q And various other sources, involved with Cumberland
20 Investment, sources of supply for coins?

21 A Yes.

22

MR. POSNER: Okay.

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1 Q Now, in looking through your records, were you able to
2 determine who the suppliers of silver dollars were to
3 Cumberland over the last seven or eight years?

4 A Yes.

5 Q How far back does your investigation, in time, go relative to
6 suppliers, starting in what year, at what point?

7 A Well, we tried to focus on the suppliers since 1984, end of
8 '84, and in some cases, when we located a supplier, if he had
9 supplied coins prior to '84, we went back as far as we could
10 with the records for that particular supplier.

11 We identified five major suppliers.

12 MR. POSNER: Okay.

13 Q Would you go through them one by one, please, and tell us
14 what your investigation has indicated?

15 A Okay. The first supplier is Leonard Leitner, Lennie Leitner.
16 He had a company called Temple Coin.

17 What we were able to do with that is
18 we pulled all the checks for Temple Coin, that was issued by
19 CIC, to Temple Coin or Leonard Leitner. We started by just
20 looking at the checks from '85 to present, and then we found
21 that it was such a substantial amount, that we decided to go
22 back as far as we could, and as best as we could, of the

1 records that we had, that were available, and the total
2 amount of checks payable from CIC to Temple was \$1,700,000.

3 Q What's the earliest, in date, of those checks?

4 A June 5, 1981.

5 Q And the last payment date?

6 A October 3, '89.

7 Q I don't know if you've counted up the number of checks, you
8 said it's \$1,700,000, in terms of total dollars, but roughly,
9 any idea how many checks are there?

10 A I haven't counted them. No.

11 MR. POSNER: Okay.

12 Q Mr. Leitner testified previously before the Grand Jury,
13 you're aware of that?

14 A Yes.

15 MR. POSNER: Okay.

16 Q I believe he testified he sold pretty much nothing but silver
17 dollars to Mr. Chorney at Cumberland, is that correct?

18 A That's correct, U.S. silver dollars.

19 Q Without reiterating his testimony, which the ladies and
20 gentlemen of the Grand Jury can get, I can bring it in at our
21 next session, if need be, why don't we go on to the next
22 supplier?

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Leitner
at 1st C.S.

- 1 A The next supplier was Ray Rose of Ray's Coin from Nebraska.
- 2 Q I believe Mr. Rose also testified, did he not?
- 3 A Yes. He has.
- 4 Q And are you aware of how much he sold in dollars to CIC?
- 5 A We came up with a total of \$293,400 representing 3,200 coins,
- 6 U.S. silver dollars.
- 7 Q What period of time, over what period of time, if you know,
- 8 did Mr. Rose sell coins to CIC?
- 9 A The sales are from February of '83 through January of '87,
- 10 with the lion's share between April of '84 and January --
- 11 excuse me -- February of '85.
- 12 Q All right, and what was the next supplier?
- 13 A It's a company called Thunderbird Coins from Phoenix,
- 14 Arizona, Scottsdale.
- 15 Q Did you contact anybody from Thunderbird?
- 16 A Yes. I spoke with the owners, Don Bessell and George
- 17 Weingard.
- 18 Q And what were you told?
- 19 A They made one sale to CIC. It was a total of \$216,200.
- 20 Q Were those all for silver dollars?
- 21 A Yes, and I have the invoice here. It was faxed to me, and
- 22 this is a copy of that fax.

1 MR. POSNER: Number?

2 GRAND JURY FOREPERSON: Well, that's

3 10. I don't know if you want to make the checks --

4 MR. POSNER: Well, I don't know. Why
5 don't we make the checks of Mr. Leitner's -- I don't know if
6 you saw these before, when Mr. Leitner was in. Did not,
7 okay.

8 We'll make that #10.

9 GRAND JURY FOREPERSON: Then that
10 will be #11.

11 MR. POSNER: And this will be #11.

12 Q Now, this is what?

13 A This is Thunderbird Rare Coin invoice to Cumberland Coin.
14 It's dated August 28 of 1984 for silver dollars.

15 There were, let's see, thirty-one
16 rolls of coins. There'd be twenty to a roll, and then there
17 were two bags and there's 1,000 coins per bag.

18 The total of the invoice was

19 \$216,200.

20 Q And numerically, that's what, about 2,600 coins?

21 A 2,620 coins.

22 Q For which Mr. Chorney paid?

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1 A 2,000.

2 Q 200 --

3 A Excuse me, 216,200.

4 Q What does that come out to per coin?

5 A Approximately, \$90 a coin.

6 MR. POSNER: Okay.

7 Q Was there a check paid by Cumberland to Thunderbird?

8 A There were two checks. The first check was August 28 of '84
9 for \$100,000, and at the bottom, there is an indication on
10 the memo, "Silver dollars."

11 The second check, made out to
12 Thunderbird, was September '80 -- excuse me, September 28 of
13 '84 for \$116,200, and that also indicates, "Silver dollars."

14 MR. POSNER: So these two checks, 12
15 and 13.

16 GRAND JURY FOREPERSON: 12 and 13.

17 Q These two checks are a month apart?

18 A Yes.

19 Q Approximately, half each time?

20 A Yes.

21 Q In other words, he broke down the payments into two payments?

22 A That's correct.

MR. POSNER: All right.

Q Did the people you spoke to at Thunderbird tell you anything relative to the grade or grades of these some 2600 coins?

A Yes. Mr. Weingard was familiar with the bags of the coins. There were two bags. He described the bags as being half 63s, half 64s, MS-63, MS-64, and a handful of MS-65s in each bag.

Mr. Bessell, who did the work with the rolls of coins, that would be the thirty-one rolls, he said that they averaged anywhere from 63 to 65. He said there may have been a few 65s.

Q Is it fair to say that in connection with the rolls, most of them were 63s and 64s?

A With the rolls?

Q For the rolls.

A With the rolls, most were 63s, 64s.

Q Did he tell you anything else in connection with that purchase, was there anything else?

A No.

MR. POSNER: Okay.

Q Who was the next supplier?

A Next supplier is Howard Sluyter, S-L-U-Y-T-E-R, who is

deceased. He lived in Texas. We weren't able, obviously, able to talk to Mr. Sluyter.

However, we did speak to Robert Filippone, who is his certified public accountant, in Dallas, Texas, and he provided us with records of Mr. Sluyter.

Q And this gentleman, the accountant, his name was?

A Mr. Filippone.

Q Filippone?

A Robert Filippone.

Q How do you spell that?

A F-I-L-I-P-P-O-N-E.

Q Now, what did Mr. Filippone tell you about Mr. Sluyter's dealings with CIC?

A That Mr. Sluyter sold 3,700 silver dollars to Cumberland Coin Investment Corporation on December 13 of 1982 for \$129,500, and we have the check from Cumberland's records showing the payment to Howard Sluyter.

MR. POSNER: Number?

GRAND JURY FOREPERSON: 14.

MR. POSNER: 14.

Q This is made out to Mr. Sluyter, you have the date, signed by?

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1 A Harold Chorney.

2 Q And what does it say on the left bottom of the check?

3 A It says, "3,700 MS60-63 dollars."

4 Q Now, do you know where Mr. Sluyter acquired these 3700 silver
5 dollars?

6 A Yes.

7 Q From where?

8 A He purchased them from a company in New Orleans called
9 Blanchard & Company.

10 Q And do you have any records of Mr. Sluyter's reflecting that
11 acquisition by him?

12 A Yes. We have the invoice, dated October 29 of 1980,
13 reflecting a purchase of 1700 coins, and we have another
14 invoice, dated 10/28/80, for 2,000 coins, which would,
15 combined, would be 3,700 coins.

16 Q Now, how can we know that the coins sold by Mr. Sluyter to
17 CIC are the same ones he acquired in two -- by two invoices
18 from Blanchard?

19 A Okay. The first thing, obviously, is that the two invoices
20 totaled 3,700 coins, which the check indicates is for 3,700
21 coins.

22 The next thing we have is the tax

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1 return.

2 Q Of?

3 A Of Mr. Sluyter. Mr. Filippone indicates in his tax return
4 the purchase of these 3,700 coins in 1980, and the sale in
5 1982, and has to show the capital gain or capital loss, and
6 he shows a capital loss of \$36,000.

7 Q So you're saying Mr. Filippone, who is the accountant for Mr.
8 Sluyter, prepared a tax return reflecting the acquisition and
9 the sale of those 3700 coins?

10 A Yes. The acquisition cost was \$165,500. The sale price is
11 129,500, as shown by the check, for a difference of 36,000,
12 the loss.

13 Q And did you talk with Mr. Filippone about this transaction?

14 A Yes.

15 Q Did he indicate whether or not the coins sold to CIC were, in
16 fact, the same coins acquired by Mr. Sluyter from Blanchard?

17 A Yes.

18 Q He indicated they were?

19 A That's correct.

20 MR. POSNER: Okay.

21 Q As far as the condition of the coins, excuse me, the grading
22 of the coins, the check indicates "60-63"?

1 A Yes. 60, I believe, yes, 60 to 63.

2 Q 60-63?

3 A Yes.

4 Q MS?

5 A Correct.

6 Q Any other suppliers of Mr. Chorney or CIC?

7 A Another supplier was Silver Towne, which is a coin dealer in
8 Winchester, Indiana, and I spoke with the owner, Leon
9 Hendrickson, and his son, David Hendrickson.

10 Q What did they tell you?

11 A They purchase silver dollars in large bulk amount, in bags,
12 1,000 coins to a bag, and they sold eight bags to Harold
13 Chorney on 10/9/84.

14 These eight bags were sold at \$6,500.

15 Q 6,500 or 65,000?

16 A Excuse me, \$6,500 per bag. Hold on just a second, yes.

17 Q That would only be six and a half dollars a coin?

18 A No. That's wrong. It should be 65,000.

19 MR. POSNER: Thank you.

20 A It's 65,000 per bag.

21 Q At the time he purchased those eight bags from Silver Towne,
22 did Mr. Chorney take delivery of those bags?

1 A No. He did not.

2 Q What happened?

3 A Mr. Chorney did not have enough money to cover all those
4 eight bags. So what Mr. Hendrickson decided to do was to
5 release a bag every time Mr. Chorney came in with 65,000 to
6 cover one bag.

7 Q In other words, Mr. Chorney would get delivery of a bag of
8 1,000 silver dollars when he paid for it?

9 A That's correct.

10 Q At \$65,000 per bag?

11 A Right. So 65,000 per bag times eight bags, the bill was
12 \$520,000.

13 Q And what actually happened?

14 A On October of '84, he starts paying down on the 250,000 --
15 the \$520,000 bill. He cuts a check for 16,000 in October of
16 '84, bringing it down to 504. Another check in November of
17 '84 for 8,000, another check in January of '85 for 16,000,
18 and then a bag is released in February of '86.

19 Another bag is released in June of
20 '85. Excuse me, there's one prior bag. So June of '85,
21 there's one bag released, and in February of '86, there was a
22 second bag, and by the time of February of '86, the balance

1 stood at \$384,000.

2 Mr. Hendrickson was tired of waiting
3 for his money, because he expected this to be a short-term
4 type of transaction, not a long-term, and so he decided to
5 see if the bank, People's Bank in Indiana, would take over as
6 a long-term loan to CIC.

7 They agreed. They took over the
8 note. Mr. Hendrickson turned over the coins to the bank.

9 Q How many bags did he turn over to the bank?

10 A Six bags, and the bank now had the note with CIC.

11 Q Did Mr. Chorney, on behalf of CIC, ever pay off any other
12 bags and take delivery of any of the bags, any additional
13 bags of coins after those first two?

14 A Yes. There was another release of one bag, and that was in
15 September of '86.

16 Q So you're saying of the eight bags he agreed to purchase, he
17 only actually paid for and received delivery on three bags of
18 1,000 each?

19 A That's correct.

20 MR. POSNER: Okay.

21 Q Did you talk to the people at Silver Towne about the grades
22 or the grading of these coins in these eight bags?

1 A Yes.

2 Q What did they tell you?

3 A Mr. Hendrickson and his son both went through the bags and
4 independently, they both told me that there was less than 10%
5 MS-65s in each of the bags.

6 Q Less than 10% MS-65s?

7 A That's correct.

8 Q What would the rest have been, did they tell you what the
9 rest were?

10 A Well, they believed them to be good coins, 64s. They were
11 all between 60 and 64s, with the average probably being
12 around a 63.

13 MR. POSNER: Ladies and gentlemen,
14 this concludes the supplier aspect of the Agent's
15 presentation.

16 I'd like to go into the appraisals,
17 that were done by various people in this connection, but
18 before we do that, so it doesn't get too confusing, and
19 because he has a lot of records to contend with, I'd invite
20 your questions as to this aspect of it, and then when we
21 finish, we'll go on to the next segment.

22 Does anybody have any questions on

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1 the suppliers?

2 GRAND JUROR: The gentleman in Texas,
3 Shuster, I think his name is?

4 A Howard Sluyter.

5 GRAND JUROR: Sluyter, was there any
6 check found showing the \$129,000 payment, I guess, to New
7 Orleans for the coins or just the invoice?

8 A That would have been -- the 129,000 is the check from Chorney
9 to Sluyter to buy the coins from him.

10 GRAND JUROR: Prior to that, when you
11 checked, were you able to come across records that would show
12 --

13 A From Mr. Sluyter buying the coins from --

14 MR. POSNER: Blanchard.

15 A (Continued) -- Blanchard?

16 GRAND JUROR: Right.

17 A Hold on, I'll check. On this letter, dated October 28 of
18 1980, it says, "That when wiring funds, be sure to include
19 contract number."

20 So I believe that we won't find a
21 check. It will just be wiring funds from one account to the
22 other. They wired 76,500 on this occasion. They wired them

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1 on both occasions, 76,500, plus 89,000. So we wouldn't have
2 a check on that.

3 GRAND JUROR: Okay, fine.

4 MR. POSNER: Does that answer your
5 question?

6 GRAND JUROR: Yes.

7 MR. POSNER: Anybody else have any
8 questions for the Agent, at this point? No, all right.

9 Q Let's go on to the appraisals investigation that you have
10 investigated in this case.

11 You're aware that Mr. Tebbetts
12 performed an appraisal in the name -- under the name of
13 Mayflower Coin, is that correct?

14 A Yes.

15 Q That was the first appraisal, and I believe the Jury has
16 heard Mr. Tebbetts' testimony.

17 There was another gentleman, by the
18 name of Richard August, who performed several appraisals, is
19 that correct?

20 A Yes.

21 Q Now, who else, in addition to those two people, performed
22 appraisals?

1 A On October 2 through October 5 of 1989, Sotheby's was
2 contracted by Eastland Bank to perform an appraisal of the
3 collateral that was held in Eastland Bank.

4 There were two individuals that
5 Sotheby sent to Eastland, Eastland Bank at Woonsocket. That
6 would have been Mitch Tworowski and David Tripp, and they
7 set up a system where they graded each of the coins.

8 There was approximately 8,000 coins
9 that they graded at Eastland Bank, but they -- they coded the
10 coins, so that Chorney, who was present in the room, would
11 not know what they were grading the coins to be, and I have a
12 copy of that.

13 Q Coding?

14 A Grading code that they used.

15 Q The coding related to grade, for grading?

16 A Yes.

17 MR. POSNER: Okay.

18 Q Now, since you have a copy of the code, and you're able to
19 determine how or what they graded these coins, these some
20 8,000 coins at?

21 A That's correct.

22 MR. POSNER: All right.

1 Q Did they make a list of the appraisal or actually write out
2 the appraisal?

3 A Yes. They did.

4 Q And based on that, what did they come up with? Well, did
5 they come up with evaluation or just a grading?

6 A Well, the first thing they had to do was to grade each of the
7 coins.

8 MR. POSNER: Okay.

9 Q You have that?

10 A I have them right here. The originals are still in New York,
11 at Sotheby's. This is the code that they came up with.

12 If they graded it a plus 2, it was an
13 MS-65. If it was a 2, it was a 64. If it was 2 minus, it
14 was a 64. If it was a 3 plus, it would be a 63. If it was a
15 3, it would be a 62. If it was a 3 minus, it was a 61. If
16 it was a 3 double minus, it was a 60, and if they graded it a
17 4, it was considered AU, which would have been less than mint
18 state.

19 So then what they did was they took
20 each coin, and they listed them out by the safe deposit box,
21 and they would put down each tube containing twenty coins,
22 and they would grade each coin in every tube, and they'd put

1 the grade down next to every coin, 1 through 20, and they'd
2 move on through every tube, and this is the result of one of
3 the appraiser's, and here's the result of the other
4 appraiser.

5 Q Now, have you analyzed their grading?

6 A Yes. What I did was I converted it, based on their code
7 system, to an MS grade.

8 They -- they knew that they were
9 going to put these coins on the market for auction at
10 somewhere between \$400,000 and \$600,000 for the entire lot of
11 about 8,000 coins, but rather than just take an approximate,
12 what I did was, after I converted it to an MS grade, I
13 totaled up how many were MS -- how many were MS-65s, how many
14 were 64s, and how many were less than 64.

15 Q Could you tell us the results, the totals of 65s, 4s, 3s, 2s,
16 et cetera?

17 A Sotheby's appraisers found eight-tenths of 1% being an MS-65.

18 Q How many actual coins is that?

19 A Sixty-two.

20 Q Out of 8,000?

21 A Out of 7,819 coins.

22 MR. POSNER: Okay.

1 Q 64s?

2 A 2,369 were MS-64s or 30%, approximately, and almost 69% were
3 less than 64s.

4 So it would be 63 or less were at 69%
5 or 5,388 coins.

6 Q All right, and now, after having done this, did you proceed
7 to try to place a valuation on this grading?

8 A Yes.

9 Q How did you do that?

10 A Well, each coin, I broke it into three categories, MS-65, 64
11 or less than 64, which would be 63 or under.

12 Q Why did you not break out the coins into 63, 2, 1, zero, why
13 did you group 63 and below?

14 A The difference between a 63 and a 61 was immaterial to me.

15 Q Difference in what respect, you mean value difference?

16 A That's correct.

17 Q Or the grade difference?

18 A The value difference.

19 MR. POSNER: Okay.

20 A In fact, it's beneficial, because -- to Mr. Chorney --
21 because I'm grading -- when I value them, I'll value them all
22 as MS-63. I won't value them as 61, 62, 63. They'll all be

1 graded as a 63.

2 So, in effect, he's getting the
3 benefit of the doubt here on those.

4 MR. POSNER: Okay.

5 A Now, I know what particular year, and I know the mint mark to
6 each one of the coins, and then I totaled them all up.

7 I totaled up all the years and the
8 grades by multiplying them out by the bid price in the Gray
9 Sheets.

10 Q As of what date?

11 A As of 1/31/86.

12 Q Why did you choose that date?

13 A Oh, wait, excuse me, let me -- let me change that to
14 10/13/89. The appraisal was done 10/2 to 10/5/89, and I used
15 the gray sheet of 10/13/89.

16 MR. POSNER: Okay.

17 A In multiplying them out, the total for the 7,819 coins was
18 \$990,612. So this was collateralizing the 2.5 million dollar
19 loan.

20 Q That was almost a million dollars?

21 A Almost a million dollars collateralizing two and a half
22 million.

1 Q But didn't you say that Sotheby's had come up with \$400,000
2 to 600,000?

3 A That's what they would auction it off at.

4 Q Now, how do we know, first of all, you did this as of '89,
5 which is when Sotheby's did their grading?

6 A That's correct.

7 Q How do you know that that was the same collateral that's been
8 with Eastland Bank all this time?

9 A What I did was I compared the year and the mint mark and the
10 total quantity versus the Cumberland Investment Corporation
11 silver dollar inventory appraisal report of 5/31/89, and in
12 opening up the back sheet, it indicates how many coins were
13 in each vault, and by looking at the Sotheby's report, I
14 totaled up the coins in each one of the vaults that they
15 show, and in all, but a couple of the cases, the number of
16 coins in the vaults in here correspond to the number of coins
17 in the vaults in here, in their report.

18 Q So you're saying that CIC's appraisal listing or collateral
19 list, was arranged by vault or groups?

20 A Yes.

21 Q In each vault?

22 A That's correct.

1 Q And Sotheby's, when it entered the appraisal in '89, did it
2 the same way, grouped by vault?

3 A Yes.

4 Q Are you saying they matched up?

5 A They matched up in this fashion: Chorney shows -- let me get
6 my figures here -- okay. Chorney shows 3,500 coins in the
7 vault as of 2/28/86, and this is their -- this is Mr.
8 Chorney's letter to Cumberland showing 3,500 coins.

9 Q Cumberland to Eastland?

10 A Cumberland to Eastland. Sotheby's reflects 3,518 coins for
11 the same vault numbers. There were some additional vaults,
12 but there's a difference of eighteen coins for the same
13 number of vaults.

14 Now, the difference comes from there
15 was one additional roll of coins, that Sotheby's found, that
16 Chorney didn't list for those three vaults, and there were
17 two coins missing in two of the rolls. In other words, they
18 weren't twenty coins. Sotheby's only counted nineteen in two
19 of the rolls. So that would make it a difference of eighteen
20 coins.

21 There is one other change, in that
22 Chorney shows one of the rolls as being 1889S. Sotheby's,

1 the roll was 1888S. So it could have been a typo somewhere.

2 Q Now, you said that Sotheby's did an appraisal of about 7800
3 coins.

4 Are you referring -- that's 89 --
5 you're referring to an '86 list of collateral of 3500 coins
6 by CIC?

7 A Right. I can also --

8 Q Would you explain that?

9 A Okay. What I can say is if you go to the May 1, '89 report,
10 and we just look at the three vaults, which would have been
11 853, that's 1,960 coins; Vault 606, which is 520 coins, and
12 849, which is 1,040 coins.

13 So combine those together, you would
14 have 3,500 coins.

15 Q That 1986 list of -- listing of the collateral, as of 1986
16 January, was that the entire collateral at that time, January
17 of '86?

18 A In January of '86, the collateral -- let me get my notes here
19 -- as of January '86, the collateral comprised 1,040 coins in
20 Vault 849, 520 coins in Vault 606, and 1,960 coins in 853 for
21 a total of 3,520 coins.

22 Q So that was the entire collateral?

1 A That was the entire collateral as of January 23 of '86.

2 Q And how many different vaults?

3 A Three different vaults.

4 Q Now, Sotheby's comes along in '89 and does an appraisal.

5 Do we still have the same number of
6 coins in the same three vaults in '89?

7 A Yes. It's off by only four, six coins.

8 MR. POSNER: All right.

9 Q But Sotheby's does more than the 3500 coins in '89, they're
10 doing, you said, almost 8,000 coins?

11 A Sotheby's is less -- is short by six coins for those same
12 three vaults.

13 MR. POSNER: Okay.

14 Q So the Sotheby's includes the collateral that was with
15 Eastland in '86, but the Sotheby's appraisal in '89 includes
16 more coins?

17 A Yes.

18 Q How many more?

19 A Vault 606 was added for 520, excuse me, Vault 860 was added
20 for 2,396 coins, and Vault 946 was added for 1,905 coins.

21 Q Bringing it up to what, about 7500 or 7800 coins?

22 A 7,819 coins.

MR. POSNER: Okay.

Q Did CIC also provide a list to Eastland of the collateral breaking it down, showing how much -- how many coins were in there as of 7/89, excuse me?

A Could you repeat the question?

Q You have Sotheby's appraisal showing almost 7900 coins?

A Yes.

Q CIC also have a listing of the collateral that it made of a similar number of coins?

A As of May 31 of '89, its records show that the collateral was 7,826 coins.

Q Virtually the same?

A Yes, the difference of seven coins.

Q So what you're really saying is in '89, Sotheby's is looking at an augmented collateral, a larger collateral than was present in January of '86?

A That's correct, by about 3,500 coins.

Q If you looked at the collateral for 1986 January, were you able to price that out according to Sotheby's?

A Yes. I was.

Q The same three vaults?

A That's right. The three vaults that were present at January

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1 of '86, I took their grading and multiplied it by the grade
2 -- the Gray Sheet of that time period.

3 Q For '86?

4 A January 31 of '86.

5 MR. POSNER: Okay.

6 Q What did you come up with, the total Gray Sheet value of the
7 collateral held by Eastland, in January 1986 based on
8 Sotheby's grading?

9 A \$435,275.

10 Q Are you familiar with the history of the bank loans by
11 Eastland to CIC?

12 A Yes.

13 Q In January, what was the balance on the loan?

14 A 2 million dollars.

15 Q And you're saying that the collateral was worth 400 and what?

16 A \$35,275.

17 Q Based on Sotheby's grading in '89, but the valuation from the
18 Gray Sheets for '86?

19 A That's correct.

20 Q The valuation from the Gray Sheets for the total in '89,
21 which is now the augmented collateral, 30 -- 7800 coins?

22 A Right.

- 1 Q Is over 900,000, almost 1 million dollars?
- 2 A Almost a million.
- 3 Q Well, isn't it true that the collateral's doubled, so the
- 4 value's doubled?
- 5 A That's correct.
- 6 Q Did you value those three vaults, that were the collateral in
- 7 '86, did you do them according to the Gray Sheets for '89; do
- 8 you understand my question?
- 9 A I'm not sure.
- 10 Q Those three vaults, that were the collateral in '86, are
- 11 still part of the collateral in '89?
- 12 A That s correct.
- 13 Q Did you value them using Sotheby's grading according to the
- 14 Gray Sheets for '89, just those three?
- 15 A No. I did not.
- 16 Q So you don t know whether the value of those three went up in
- 17 '89, do you?
- 18 A No. I can get those figures, though, if you want them.
- 19 Q But in '86, when the loan went up to 2 million dollars, or
- 20 was at 2 million dollars with Eastland, the collateral was
- 21 just over -- well, four and a half, \$450,000?
- 22 A 435,000.

1 MR. POSNER: 435,000, okay.

2 A Now, I do have a letter, that was in Eastland's file. It
3 indicates the date at the top of April 21 of '86. Now, this
4 is the letter from Chorney, with his letterhead, to Eastland
5 Bank saying, "Eastland Bank collateral for Cumberland
6 Investment account."

7 It lists the vaults that we are
8 talking about for January of '86, and the total for -- that's
9 indicated on this letter. It says Lots 1 through 4 have a
10 total wholesale bid value of 3,874,000. So Chorney is
11 telling the bank the coins, that Eastland has on collateral,
12 is worth 3.8 million dollars, and we're saying, based on
13 Sotheby's appraisal, adjusted back to January of '86, using
14 their prices, is only worth 435,000.

15 Q Does the April '86 collateral listing, that Chorney provided
16 to Eastland, cover the same number of coins?

17 A Exactly.

18 Q The three, the three vaults?

19 A It covers the same number of coins he reports. He shows them
20 as being 3,500. Sotheby's would show it as 3,520.

21 Q But you also had a listing for January '86, or is this the
22 listing you're using?

1 A This is it. It's just that the bank shows the date it
2 received it in its file, its loan file as of April 21.

3 Q Anything else from Sotheby's or talking to the two gentlemen
4 from Sotheby's?

5 A I believe that's all.

6 Q What other appraisals were done?

7 A In the Bankruptcy Court, the Court hired Cambridge Meridian
8 Group to look into the value of the inventory of CIC,
9 Eastland Bank, to determine whether or not CIC should be in
10 bankruptcy. Was there enough collateral to cover the loans
11 and the creditors?

12 So Cambridge Meridian Group was
13 hired, and they contracted with an appraiser by the name of
14 Russell Augustine. They then did several tests.

15 Do you want me to go through some of
16 these tests?

17 Q Please.

18 A The first test they did was an employee from Cambridge
19 Meridian Group, whose name is Per Baverstam, went to the bank
20 at Eastland and went through the collateral and picked at
21 random 50 coins. He asked Hal Chorney and Louis Chorney to
22 grade these fifty coins.

1 Hal and Lou -- Hal and Lou Chorney
2 graded twenty-six of the fifty coins as MS-65, seventeen of
3 the fifty as MS-64, and the rest less than 64, the other
4 seven.

5 When asked why they weren't all 65s,
6 Hal advised that the grading had become tougher. These same
7 coins were then taken to a third-party purchaser to see if --
8 how they would grade them. The purchaser was Hallmark, and
9 they only graded six of the fifty coins as being MS-65 as
10 opposed to twenty-six.

11 Another independent purchaser, a
12 third-party purchaser was Lee Coin, and they only rated four
13 of the fifty as MS-65.

14 So then Cambridge Meridian Group was
15 going to send the coins out to an independent appraiser.
16 There's several of them in the country. PCGS, NGC and INS
17 were the three that were selected.

18 Hal Chorney told Per Baverstam, of
19 Cambridge Meridian, that he would agree to send them to these
20 independent appraisers as long as he could choose which coins
21 were sent to which appraiser. They agreed to do it.
22 However, they just said that, "Look, as long as you send some

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1 coins to each one, to each appraiser, to an appraiser."

2 So Chorney ended up sending
3 twenty-four of the forty-eight coins, two of them were
4 rejected out of the fifty, as not being able to be appraised.
5 So we now have forty-eight. Twenty-four of them went to a
6 company called INS in Washington, D.C. Twelve went to PCGS
7 and twelve went to NGC. INS rated nineteen -- eighteen of
8 them as either 64 or 65, leaving only six as being below 64.

9 PCGS rated none of the twelve as
10 either 65 or 64. Everything is below.

11 NGC rated three of the twelve coins
12 as 64 and the rest below 64.

13 So they did another test. They asked
14 Hal Chorney, Cumberland -- Cambridge Meridian Group to look
15 at 4,000 of the coins at Eastland Bank that was being held as
16 collateral. They asked him to pull out the MS-65s. There
17 were 575 that were clearly MS-65 or 64 or better.

18 Q According to Chorney?

19 A According to Chorney, 65 or better. He didn't describe which
20 were 65s and which were 64s. He just said that these 575 are
21 64 or better. He pulled another 306 as being borderline 64s,
22 and another 588 saying they couldn't really grade them,

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1 because they have to be treated first.

2 So the combined total of them would
3 be about 37% of the coins. The rest, I'm assuming that since
4 they're not 64 or better, and they are not treated, they must
5 be less than 65.

6 So Per Baverstam asked him, "Well,
7 why is it that they're not all MS-65?" His answer then was
8 that he began to assert that he perceived indications of
9 tampering by the bank, by bank officials, that they were
10 switching coins.

11 Q Did he indicate what those indications were --

12 A No.

13 Q (Continued) -- to Mr. Baverstam, to your knowledge?

14 A No. So Cambridge Meridian Group going back, looking at the
15 fifty coins that were randomly picked, looked at twenty of
16 the fifty, and he only found four of those 65.

17 Q Who did this?

18 A Russell Augustine was the independent examiner that Cambridge
19 Meridian Group hired, because he had an expertise in these
20 coins, and he only found four of the twenty as being MS-65s
21 or of those random fifty. He only looked at twenty, though.
22 So it was four of twenty.

1 Now, going back to that group that
2 Chorney looked at, that 4,000 coins, of which Chorney pulls
3 out 575 coins, Augustine looks at those coins, but at this
4 point in time, there only exists 405 of them. Some of them
5 were sold off.

6 Q Was this all out of the 500 or so that Chorney said were 64
7 or 65s?

8 A Yes.

9 Q Augustine didn't look at the whole group?

10 A No. He only looked at the ones that -- 405 of the 575 that
11 Chorney said were 64 or better. Now, of those coins, those
12 405 coins, Augustine said that only six were MS-65. 79 were
13 MS-64, and 80% or the remainder were 63 or less.

14 So then Augustine was asked to look
15 at 200 -- he looked at 202 coins at Cumberland's vault. This
16 would be Cumberland's inventory, and of the 202 coins he
17 looked at there, only thirty-one were MS-65 or 15%.

18 Then he looked at 162 coins at
19 Eastland's vault that was still under the control of Chorney.
20 It was still -- it was Eastland Bank, but it wasn't their
21 collateral. It was Chorney had the key to the vault, and in
22 looking at 162 of those coins, only two of those coins were

1 65s.

2 So in summary, --

3 Q Can I ask you a question, did Augustine ever look at any
4 redemption coins?

5 A Yes. We'll get to that.

6 MR. POSNER: Okay.

7 A In summary, of the prior four tests, Augustine looked at 789
8 coins, 5.4%, or 43 coins, were MS-65, 167 coins were MS-64,
9 and the remainder, or 73%, were below 64.

10 So then Augustine was asked to look
11 at some redemption coins, and he looked at 384 redemption
12 coins. 1.3% were MS-65s, or five. 3.6 were MS-64, or
13 fourteen coins, and the remainder were below 64.

14 Then Cambridge Meridian Group
15 contracted with Christy's of New York to sell off some of
16 Cumberland's inventory. So before the coins, these 3,050
17 coins were sent over to Christy's for auction, they asked
18 Augustine, Russell Augustine to grade these coins, and of the
19 3,050 coins he looked at, between December of '90 and March
20 of '91, only 1.5%, or 47, were MS-65s.

21 Christy's also examined the coins,
22 and in speaking to the examiners there, they believe that

1 only between 1% and 2% were MS-65s.

2 Bowers & Merena was another auction
3 house that was contracted by Cambridge Meridian Group. They
4 were given 3,005 coins. Augustine graded those coins before
5 they were sent up to Bowers Marina in New Hampshire for
6 auction. Only .2% of the coins, of those 3,005, were MS-65,
7 according to Augustine, or six of 3,005.

8 Bowers & Merena looked at the coins,
9 and they said it was below 5% that were MS-65s, below MS-64.
10 They had combined some 64s with 65. So they're in a category
11 of around 5% as being in the MS-64, 65 category, but
12 Augustine said there was .2% that were MS-65s, and that's the
13 testing that was done by Cambridge Meridian Group.

14 Q When were these 3,050 coins sent to Christy's for sale and
15 sent to Bowers & Merena for sale?

16 A Early '91.

17 Q Do you know why those were sent there for sale?

18 A They were trying to liquidate the assets to pay off
19 creditors.

20 Q And were the coins sold?

21 A Yes.

22 MR. POSNER: Ladies and gentlemen, I

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1 invite your questions. Anybody have any questions?

2 GRAND JUROR: How much do they get
3 for the coins?

4 A I can look that up.

5 MR. POSNER: Can I have the last
6 question read back by the Court Reporter.

7 (Whereupon, previous question read back by Court Reporter)

8 A With regard to Bowers & Merena, which received 3,005 coins,
9 they got \$63,645.

10 GRAND JUROR: How much?

11 GRAND JUROR: 63,000.

12 GRAND JUROR: On 3,000 coins?

13 GRAND JUROR: That not much.

14 GRAND JUROR: 3,005.

15 GRAND JUROR: They got 53,000 for
16 3,000 coins?

17 GRAND JUROR: That's like twenty
18 bucks apiece.

19 A That check was made payable to Cambridge Meridian Group on
20 July 26 of '91.

21 GRAND JUROR: Thank you.

22 A And then I'll have to find Christy's.

1 MR. POSNER: Yes?

2 GRAND JUROR: Si, there's been so
3 much testimony, can you tell us when the original coins were
4 put up for collateral for the original loan in '86? It was 2
5 million dollars.

6 Was there a time prior to that when
7 it was like in '84 or '82?

8 MR. POSNER: Oh, yes, all the way
9 through, but my recollection, I'm going on recollection now,
10 --

11 GRAND JUROR: Yup.

12 MR. POSNER: (Continued) -- but I can
13 bring the transcripts in of the bank officials. As the loan
14 got larger, he would be bringing in more coins as collateral.

15 GRAND JUROR: Right.

16 GRAND JUROR: What bothers me is
17 there was a time when the value of silver dollars plummeted,
18 and at that point, --

19 MR. POSNER: '88, '89, I believe.
20 Ask that question next week, when our appraiser comes in, the
21 man I've asked to look at everything.

22 He's been in the field quite awhile.

1 He can tell you when it plummeted.

2 GRAND JUROR: Okay.

3 MR. POSNER: I will tell you this,
4 and I think it's a fair question you ought to ask him, you
5 heard comments about, from different people, Mr. August and
6 through -- directly and through this Agent that, and I think
7 the prior witness, that Mr. Chorney said that the grading
8 standards had tightened up in '88 or '89 or '90, when he
9 talked to him, and you've heard Mr. August say that in '86 or
10 7, he started grading them --

11 GRAND JUROR: Down.

12 MR. POSNER: (Continued) -- lower,
13 because the standards, according to the man, and I don't want
14 to mislead you, but this is what he told us, and I expect
15 he'll testify this way, according to the man that we have as
16 our expert to look at this stuff, the standards changed in
17 '85. Prior to '85, he just threw up his hands and said, "I,
18 you know, the standards were all over the place."

19 In '85 on, because we talked to him
20 about when should we think, in terms of trying to pin down
21 this thing to show the grading, he said, "From '85 onward,
22 they've stayed about the same."

1 Now, I could be misstating this. I
2 don't want to mislead you. He's coming in. Ask him that,
3 but we asked him that, to get a starting point. He said,
4 "Pre '85, '84, '83," he said, "They're all over the place.
5 The standards were very lax, and they were very loose." He
6 said, "From '85 on, they became pretty standardized."

7 That's not to say that Appraiser A
8 will take a coin and call it 65, and Appraiser B might call
9 it 64, but I don't think you're going to get anybody, we
10 haven't so far, who will look at these and be as far off from
11 65 as Mr. Chorney was, when he said these were all 65s.

12 They may vary by one grade, some of
13 these people, but not two, three, four grades, and if you
14 will notice, according to this Agent's testimony, when he
15 talked to the various appraisers, they were pretty close in
16 terms of the numbers.

17 Somebody had a question, yes?

18 GRAND JUROR: I can see why they buy
19 a sack of 1,000 coins and would leave 5% of MS-65s of them in
20 that sack, because by the time the thing had been shaken
21 around a bit, they would no longer be MS-65s, and since
22 there's such a price differential between the fours and the

1 fives, it seems to me a rather stupid thing to do.

2 I can see them coming out of the mint
3 that way in bags, but once they've gotten out of the mint and
4 into circulation, --

5 MR. POSNER: These are not
6 circulated.

7 GRAND JUROR: No, not circulated, but
8 I mean, they're no longer in the U.S. Mint, yup.

9 MR. POSNER: I could -- I could -- I
10 understand your question, but I could phrase it and look at
11 it the other way and say, from being handled in a bag of
12 1,000, they may have all started at 65s and only a handful,
13 according to the testimony.

14 GRAND JUROR: Yah. Well, he said
15 something like 5%.

16 MR. POSNER: 5% or even -- are left
17 at 65. Now, you have to go through every one of them and
18 pick them out.

19 GRAND JUROR: I certainly would do
20 that myself, if I was going to play with that much money.

21 Q Were you able to find that yet?

22 A I found that it was auctioned June 5 of '91, and I'm still

1 trying to locate the invoice to Cambridge Meridian Group.

2 If I got another minute, let me try
3 one more place here.

4 Q Well, we'll be back again next week. If you can't find it
5 for us today, you can find it for us next week,

6 A Very good. I think I'll try again next week on that.

7 MR. POSNER: Okay.

8 Q One other question, before anybody else asks a question, in
9 terms of the suppliers, you mentioned five of them, Leitner,
10 Rose, Thunderbird, Sluyter and Silver Towne.

11 Were all of those suppliers people in
12 the business, in the coin business?

13 A Yes.

14 Q People you would assume had --

15 A Except Mr. Sluyter. Mr. Sluyter was an investor. Silver
16 Towne, in the business. Leitner, Rose, Thunderbird, those
17 are -- those are coin dealers.

18 Mr. Sluyter was a wealthy individual
19 who collected numerous things. So I would say he wasn't
20 really in the business.

21 MR. POSNER: Anyone else? no. Thank
22 you, sir.

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1 A Yes.

2 Q You'll have that dollar figure for us for next week?

3 A Yes.

4
5
6
7 C E R T I F I C A T I O N

8
9
10
11 I do hereby certify that the
12 foregoing pages, 1 through 44, inclusive, are a true and
13 accurate transcript, according to my stenographic notes.
14

15
16
17 *Barbara Cournoyer*
18 COURT REPORTER

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20
21
22
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