



**United States Department of Justice  
United States Attorney's Office  
District of Minnesota**



# News Release

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FOR IMMEDIATE RELEASE  
Friday, April 8, 2011  
[WWW.JUSTICE.GOV/USAO/MN](http://WWW.JUSTICE.GOV/USAO/MN)

## **Hedge Fund Manager Pleads Guilty to Securities Fraud, Lying to SEC in Petters Investigation**

*U.S. Attorney Asserts that Financial Fraudsters Will be Held Accountable*

Earlier today in federal court in St. Paul, a 43-year-old Edina woman pleaded guilty to providing false information to investors and making false statements to the U.S. Securities and Exchange Commission regarding a hedge fund that invested primarily in promissory notes from Petters Company, Inc. ("PCI"). Michelle Webster Palm specifically pleaded guilty to one count of securities fraud and one count of providing false statements to a government agent. She entered her plea before United States District Court Judge Richard H. Kyle. She was charged on April 5, 2011.

Following today's plea, United States Attorney B. Todd Jones said, "Some people have lamented that executives in the financial industry are immune from prosecution. That is not true here in Minnesota. There is no second set of rules. Over the past several years, this office and our investigative partners have worked diligently to ensure the citizens of Minnesota that those who financially defraud others are held criminally responsible. This case is another example of those efforts, which continue."

In her plea agreement, Palm admitted that from September of 2007 through September 24, 2008, she aided and abetted criminal activity by concealing information from investors regarding the purchase and sale of securities. During that time, she was the Vice President of Special Operations and then the Managing Director of Finance at Arrowhead Management, which operated three hedge funds that almost exclusively invested in PCI promissory notes.

PCI was owned and operated by Thomas J. Petters, who represented that funds invested in PCI notes were used to finance the purchase of electronics and other consumer merchandise.

Purportedly, PCI then resold that merchandise at a profit to certain “big box” retailers, including Sam’s Club and Costco. However, no merchandise was bought or resold. Instead, Petters diverted for his own personal benefit hundreds of millions of dollars. His \$3.65 billion Ponzi scheme unraveled in 2008, when federal agents executed search warrants at his business offices and other locations. He was subsequently prosecuted and, in April of 2010, sentenced to 50 years in federal prison.

Palm was not aware that the PCI investment was a multi-billion-dollar Ponzi scheme, but she nevertheless aided and abetted misrepresentations to investors about the structure of the PCI investment and its performance, which had the effect of making Petters’ fraud more difficult for investors to detect. Palm was one of the Arrowhead employees responsible for investor communications. In that capacity, she and others at Arrowhead Management, both verbally and in written materials provided to investors and potential investors, made material misrepresentations and concealed material information about the investments with PCI to induce investors to purchase securities.

For example, Palm represented that when a retailer purchased consumer electronics or other goods from PCI, those goods were paid for by the retailer with funds directly deposited into a bank account under the control of Arrowhead Management. As a result, investors and potential investors were ensured that all PCI transaction were, in fact, occurring. However, Palm admitted in her plea agreement that she knew payments received by Arrowhead Management relative to PCI came from PCI alone and not from any retailers. She also admitted that by concealing that fact, she prevented investors and potential investors from seeing that Petters was able to recycle his own funds and falsely make it appear that payments were being received from retailers.

In addition, Palm admitted that she and others hid from investors the fact that, beginning in February of 2008, millions of dollars in PCI notes held by the Arrowhead funds were on the verge of going into default, and that payment due dates had been extended by Arrowhead Management. In fact, she continued to communicate to investors that the notes were being paid on time. At the same time, Palm also sought new investors and additional money from existing investors, all of which was for investment into PCI promissory notes. From February of 2008 to September 24, 2008, between \$20 and \$50 million was raised. Moreover, during the life of the hedge fund, from 1999 and September 2008, investors contributed a total of \$387,227,064. During that same period, Arrowhead Management obtained approximately \$35 million in fees from the fund.

Finally, in entering her plea, Palm admitted that on December 14, 2010, she made false statements regarding the PCI investment during sworn testimony to lawyers for the U.S. Securities and Exchange Commission (“SEC”). She falsely testified that she believed the payments to the hedge fund were coming directly from the retailers. On January 26, 2011, she corrected her testimony.

U.S. Attorney Jones added, “The SEC has a tough job. Lying to the SEC is a crime and will not be tolerated. I wish to thank the SEC for its efforts in the Petters’ investigations.”

For her crimes, Palm faces a potential maximum penalty of five years in prison for each charge. Judge Kyle will determine her sentence at a future hearing, yet to be scheduled. This case is the result of an investigation by the Federal Bureau of Investigation, the Internal Revenue

Service–Criminal Investigations Division, and the U.S. Postal Inspection Service. It is being prosecuted by Assistant U.S. Attorneys Timothy C. Rank and John F. Docherty.

This law enforcement action is in part sponsored by the interagency Financial Fraud Enforcement Task Force. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. It includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch and, with state and local partners, investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

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