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News Release

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Three Florida men indicted for lying to investors about hedge fund's investment with Petters

MINNEAPOLIS – Three Florida men, a business associate of Thomas J. Petters and two hedge fund managers, were indicted today in federal court in Minneapolis for fraudulently marketing a hedge fund's investments in Petters Company, Inc. ("PCI"). Frank E. Vennes, age 53, of Stuart, Florida; David W. Harrold, age 51, of Del Ray Beach, Florida; and Bruce F. Prevost, age 51, of Palm Beach Gardens, Florida, were charged with four counts of securities fraud in relation to this alleged crime. In addition, Vennes was charged with one count of money laundering.

PCI was owned and operated by Petters, who represented that funds invested in PCI promissory notes would be used to finance the purchase of electronics and other consumer merchandise. Purportedly, PCI would then resell that merchandise, for a profit, to certain "big box" retailers, including Sam's Club and Costco. In truth, 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. He is currently serving his sentence in the federal penitentiary in Leavenworth, Kansas.

Petters began the PCI Ponzi scheme in or before 1993. Starting in the late 1990s, he raised most of the proceeds of the fraud by selling PCI notes to large hedge funds, managed and operated by hedge fund managers. Hedge fund managers had a fiduciary duty to their investors.

They made representations to their investors regarding the investments, the due diligence performed on the investments, and the financial mechanisms put in place to protect the hedge fund's investments in PCI. In exchange for their efforts, the hedge fund managers obtained management fees from investor funds.

The indictment returned today charges Harrold and Prevost with defrauding hedge fund investors. The men co-founded Palm Beach Capital Management, which served as the investment adviser for the four Palm Beach hedge funds. According to the indictment, Vennes directed Harold and Prevost to communicate with Petters and PCI only through him. In November of 2002, Harrold and Prevost purportedly first invested hedge fund money in PCI, and as of September 24, 2008, the hedge funds reportedly held PCI investments totaling approximately \$1 billion. Between 2002 and 2008, Harrold and Prevost's companies allegedly grossed more than \$58 million in management fees. For his part, Vennes received more than \$60 million in commissions based on the Palm Beach investments in PCI.

Allegedly, the defendants made material misrepresentations and concealed material information about the PCI investments in order to induce investors to purchase securities. For example, investors were told that when a retailer purchased consumer electronics or other goods from PCI, those products were paid for by the retailer with funds directly deposited into a bank account under the control of Harrold and Prevost's management companies. As a result, investors were falsely assured that all PCI transactions were, in fact, occurring. However, the defendants knew the hedge funds received payments from PCI alone and never from retailers.

Moreover, by February of 2008, millions of dollars of PCI notes were on the verge of default. Between February and September of 2008, the defendants engaged in a scheme to swap more than \$1 billion worth of PCI promissory notes to create the appearance that PCI could repay the notes held by the Palm Beach funds. All note swaps allegedly went through Vennes. During that same time period, Harrold and Prevost allegedly continued to report to investors that the hedge funds were generating steady profits and, encouraged and assisted by Vennes, solicited new investors and additional money from existing investors, raising more than \$75 million in new money from more than 30 investors.

If convicted, the defendants face a potential maximum penalty of five years on each securities fraud count, while Vennes is subject to as much as ten additional years in federal prison for money laundering. All sentences will be determined by a federal district court judge.

This case is the result of an investigation by the Federal Bureau of Investigation, the Internal Revenue Service-Criminal Investigation Division, and the U.S. Postal Inspection Service, with the assistance and support of the Securities and Exchange Commission. It is being prosecuted by Assistant U.S. Attorneys Timothy C. Rank and John 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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An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by a defendant. A defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.