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United States Attorney's Office
District of Minnesota**



News Release

**B. Todd Jones,
United States Attorney**

**Jeanne F. Cooney
Director of Community Relations
(612) 664-5611
email: jeanne.cooney@usdoj.gov**

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Hedge fund managers plead guilty to lying to investors about investments with Petters

MINNEAPOLIS – Earlier today in federal court in St. Paul, two Florida hedge fund managers pleaded guilty to committing fraud by making material misrepresentations to investors in their hedge funds concerning investments in Petters Company, Inc. (“PCI”). David William Harrold, age 51, of Del Ray Beach, Florida, and Bruce Francis Prevost, age 51, of Palm Beach Gardens, Florida, pleaded guilty to four counts of securities fraud in relation to this crime. Both men, who were indicted yesterday, along with Frank E. Vennes, Jr., entered their pleas before United States District Court Judge Richard H. Kyle.

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. In their plea agreements, Harrold and Prevost, who owned and managed the Palm Beach Funds, headquartered in southern Florida, admitted that from February 20 through September 24, 2008, they defrauded their hedge fund investors by making false representations to them and not disclosing material facts regarding their investments,

specifically, the source from which funds were obtained to repay the PCI promissory notes and the financial performance of the Palm Beach funds invested in PCI.

Harrold and Prevost co-founded Palm Beach Capital Management, which served as the investment adviser for the four Palm Beach hedge funds. Harold and Prevost admitted in their plea agreements that in 2002, they began investing the money of their hedge fund investors in PCI, and as of September 24, 2008, the hedge funds held PCI investments totaling approximately \$1 billion. Between 2002 and 2008, Harrold and Prevost admitted that their companies grossed more than \$58 million in management fees.

In addition, the Harrold and Prevost admitted that they 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 “big box” retailer purchased consumer electronics or other goods from PCI, the retailer paid the Palm Beach Funds directly rather than having the money pass through PCI. As a result, investors were falsely assured that all PCI transactions were, in fact, occurring. However, Harrold and Prevost knew the hedge funds received payments from PCI alone and never from retailers. Harrold and Prevost admitted their misrepresentations regarding the method of receiving payment were material to investors.

Moreover, by February of 2008, millions of dollars of PCI notes were on the verge of default. Between February and September of 2008, Harrold and Prevost, along with others, 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. During that same time period, however, the two men continued to report to investors that the hedge funds were generating steady profits and continued to solicit new investors and additional money from existing investors, raising more than \$75 million in new money from more than 30 investors.

For their crimes, the Harrold and Prevost face a potential maximum penalty of 20 years, five years on each securities fraud count. Judge Kyle will determine their sentences 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 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 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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