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News Release

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More federal charges filed against Frank Vennes in Petters' Ponzi scheme; another hedge fund manager also indicted

MINNEAPOLIS—Earlier today in federal court, a superseding indictment was filed against Frank Elroy Vennes, Jr., a business associate of and primary fundraiser for Thomas J. Petters, the Minnesota business man who was convicted in 2009 of orchestrating a multi-billion dollar Ponzi scheme. The superseding indictment charges Vennes, age 53, of Stuart, Florida, with fraudulently raising money from individuals and through hedge funds to invest in Petters Company, Inc. ("PCI"). Vennes was specifically charged today with eight counts of securities fraud, two counts of mail fraud, six counts of wire fraud, three counts of money laundering, three counts of bank fraud, and two counts of making false statements on credit applications. He was originally charged with four counts of securities fraud and one count of money laundering, the original indictment returned against him on April 20, 2011.

The superseding indictment also charges James Nathan Fry, age 57, of Orono, Minnesota, with five counts of securities fraud, four counts of wire fraud, and three counts of making a false statement to the United States Securities and Exchange Commission during its investigation of investments in PCI by hedge funds under the management of Fry's company, Arrowhead Capital Management.

PCI was owned and operated by Tom Petters, who, in or before 1993, initiated his Ponzi scheme by representing that funds invested in PCI promissory notes would finance the purchase of electronics and other consumer merchandise. Purportedly, PCI would then resell the 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 as well as 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.

In 1995, Vennes, through his company, Metro Gem, Inc., allegedly began raising money for the purchase of PCI notes. Purportedly, from 1999 through September of 2008, Vennes engaged in approximately 748 transactions involving hundreds of millions of dollars of investors' money to purchase PCI notes. As of September 24, 2008, approximately \$130 million of Metro Gem investors' money was invested in PCI.

In or around 1998, Vennes allegedly began seeking larger sources of financing for PCI, with Petters promising to pay him "commissions" for his work. Vennes previously had been convicted of federal narcotics, firearms, and money laundering charges, which made it difficult for him to obtain institutional financing. For this reason, he worked with others, including Fry, to form hedge funds, such as the Arrowhead Funds, in an effort to solicit institutional investments in PCI notes.

Fry's company, Arrowhead Capital Management LLC, was a Minnesota business that acted as an investment advisor to a number of hedge funds known collectively as the Arrowhead Funds. He also served as president of Blue Point Management, Ltd., a Bermuda company that acted as the investment manager for Arrowhead Funds. As a result, Fry solicited money from investors and arranged all Arrowhead Funds' investments in PCI notes. Between 1999 and September of 2008, Arrowhead Funds engaged in approximately 780 PCI transactions, through which Arrowhead Funds invested more than \$500 million of investor's money in PCI. As of September 24, 2008, approximately \$130 million in Arrowhead Funds' money was invested in PCI notes. All documentation for transactions between Arrowhead Funds and PCI passed through Vennes.

From 2001 through September of 2008, Vennes allegedly made more than \$80 million related to Metro Gem investments in PCI notes. Fry made more than \$41 million in fees from Arrowhead Funds' investments in PCI notes, while Vennes also received "commissions" for all of the money invested in PCI through Arrowhead Funds, which allegedly netted him more than \$48 million between 2001 and 2008. In addition, Vennes purportedly obtained more than \$60 million in "commissions" related to investments in PCI notes by Palm Beach Funds, a group of hedge funds managed by David William Harrold and Bruce Francis Prevost, who were charged in the original indictment and pleaded guilty to committing securities fraud. Again, Vennes acted as the intermediary in transactions involving Palm Beach Funds, which totaled more than one billion dollars in PCI notes as of September of 2008.

Both Vennes and Fry allegedly made material misrepresentations and concealed material information about the PCI investments in order to induce investors. For example, investors were told that whenever 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 a management company. As a result, investors were falsely assured that all

PCI transactions were, in fact, taking place, and all money was secure. However, Vennes and Fry, among others, knew that no payments were ever received from retailers and, instead, came from PCI alone.

Moreover, Fry was allegedly aware of Vennes's criminal history but failed to disclose it to institutional investors, although he knew such information was material to investors.

Fry also allegedly asserted to potential investors that historically PCI notes had been paid in 90 days, even though, after the fall of 2007, he knew that statement to be false. In order to conceal default of the notes, Fry and Vennes allegedly arranged to extend the payment dates for PCI notes without advising investors of those extensions. At the same time, both men purportedly continued to seek new investors, never advising them of PCI's performance problems.

In or about July of 2008, Petters allegedly informed Vennes that there was fraud at PCI, with as many as twenty percent of the PCI notes being compromised. Vennes allegedly concealed that information from investors. He also purportedly continued to take money from investors, even after learning the money in PCI notes was not being used to buy and resell consumer electronics or other merchandise.

If convicted, Vennes faces a potential maximum penalty of 20 years in prison on each mail fraud, wire fraud, bank fraud, and false statement count; ten years on each money laundering count; and five years on each securities fraud count. Fry faces a potential maximum penalty of five years on each count. 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 United States Securities and Exchange Commission. It is being prosecuted by Assistant U.S. Attorneys Timothy C. Rank and Joseph T. Dixon, III.

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.