

UNITED STATES DISTRICT COURT  
DISTRICT OF MINNESOTA  
Criminal No. 08-320 (RHK)

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	GOVERNMENT'S POSITION
v.	)	REGARDING SENTENCING
	)	
LARRY REYNOLDS,	)	
	)	
Defendant.	)	

The United States of America, by and through its attorneys, B. Todd Jones, United States Attorney for the District of Minnesota, and Joseph T. Dixon III, John R. Marti, and Timothy C. Rank, Assistant United States Attorneys, hereby submits this Position Regarding Sentencing.

Larry Reynolds is a professional fraudster. For over 40 years, Reynolds has been involved in a multitude of fraud schemes. The sad reality is that lying, cheating and stealing seem to be his chosen vocation. Reynolds would not act alone, but routinely acted with other professional criminals, including members of organized crime and, at the end of his criminal career, Thomas Joseph Petters. On numerous occasions, Reynolds, collaborating with other criminals, abused and took advantage of innocent victims, co-conspirators, the legal system, and the U.S. government.

Reynolds' complicity in Thomas Petters' fraud was essential to the devastating success of that scheme. Day in and day out for over ten years, Reynolds aided Petters by laundering proceeds of

fraud, by directly lying to investors, and by creating a sham warehouse system designed to trick investors and insurance companies into believing Petters actually sold vast amounts of electronic goods. The result of this scheme was that individuals and institutional investors were devastated. The harms inflicted by Thomas Petters, with Reynolds' help, defy belief.

Reynolds' conduct, based solely on his role in the Petters' fraud scheme alone, warrants severe punishment. Considering Reynolds' criminal livelihood, it is clear that Reynolds is a continuing threat to public safety. If or when released, Reynolds past conduct clearly establishes that he poses a significant risk of engaging in future criminal conduct.

But for the Reynolds' cooperation in this matter (as more fully described below), the United States would be seeking a sentence within the 210-262 months guideline range, a sentence that would likely incarcerate Reynolds for the remainder of his life. However, shortly after his arrest in October 2008, Reynolds agreed to assist the government in this prosecution and began fully disclosing his role in the offense conduct (including disclosing information not yet known to the government). The Court should consider Reynolds' assistance when fashioning an appropriate sentence.

I. Larry Reynolds' participation in Thomas Petters' fraud scheme.

In April 1998, Thomas Joseph Petters approached Reynolds and asked for a simple favor.<sup>1</sup> Petters asked Reynolds to generate a fake invoice that falsely represented Petters was selling \$1.7 million worth of goods. Petters would then use that fake invoice to fraudulently obtain financing. (Tr. at 1480-81). When that fraud succeeded, Petters asked for more invoices, which Reynolds readily provided. (Tr. at 1482). Significantly, Reynolds generated these fake invoices for no compensation, and thus took his first steps in joining Petters as an "instrument of darkness."

In about 2000, Petters asked Reynolds for a different type of favor. Petters needed Reynolds to falsely certify to Frank Vennes that Petters was doing real merchandise deals. Reynolds, not surprisingly, was successful. (Tr. at 1482-83). Between 1998 and 2000, Reynolds again aided Petters by engaging in a scheme to trick GE Capital Corporation (GECC). Petters had falsely represented to GECC that he was buying and selling 10,000 leather jackets, when the deal was actually for 3,000 jackets. Petters turned to Reynolds for help. Reynolds tricked the GECC employee responsible for counting the jackets into believing that Petters had 10,000 jackets. (Tr. at 1486-90).

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<sup>1</sup>We can only speculate why Petters "cold called" Reynolds for this fraudulent favor.

Shortly thereafter, in about 2001, Petters asked Reynolds to launder proceeds from the Petters' scheme in what grew to become one of the largest money laundering conspiracies in the history of the United States. Petters laundered more than twelve billion dollars through Reynolds' business bank accounts. Although Petters had been engaged in fraud since the early 1990s, it was not until Reynolds, as well as Michael Catain, began to launder funds for Petters while being held out to investors as Petters' "wholesaler" that Petters' Ponzi scheme went from a million dollar fraud to a billion dollar fraud. In exchange for what became simple administrative tasks, wiring the billions of dollars of investors' money out of his bank account and into Petters' account, Reynolds kept almost \$10 million in "commission payments" for himself.

The inescapable truth is that without Reynolds' daily assistance, the Petters fraud scheme would have quickly collapsed, and fewer victims would have been defrauded of less money.

As with any Ponzi scheme, the ultimate victims who suffer the financial impact are those who invest at the end. Among these victims are at least 10 pastors, 3 missionaries and dozens of retired, elderly individuals who invested their respective life savings based on the false promises made by Petters. In addition, at least half-a-dozen nursing home victims have lost the funds they had saved to provide for their long-term care. Churches, non-profit groups and family trusts are also among the victims.

These organizations have suffered the loss of funds needed for building projects and organizational emergencies as well as the provision for handicapped individuals. The harms suffered by the victims are real, grievous, and permanent.

II. Reynolds' life of crime and risk to the community.

Reynolds participation in the Petters' fraud represents the end of a life of crime that began over 40 years ago. In 1968, as a newly admitted attorney practicing law in his father's law firm, Reynolds defrauded insurance companies by submitting false claims for phony automobile accidents. When he became aware of a criminal investigation into his fraud scheme, he fled to Europe to avoid prosecution. He was later captured and extradited from England. He pleaded guilty and was disbarred. After serving his sentence, Reynolds quickly returned to his criminal ways.

In 1983, he was convicted for conspiring to distribute over 1,000 pounds of marijuana. In 1984 he pleaded guilty during trial to participating in a fraudulent check scheme targeting financial institutions. During this time Reynolds was also involved in a scheme to defraud the State of Massachusetts related to the rehabilitation of a school.

With his freedom firmly in the cross-hairs of a federal prosecution, Reynolds began cooperating with federal agents investigating members of organized crime in the Boston area. As a result of this successful cooperation, Reynolds received a

substantial reduction in his sentence and a violent organized crime member was convicted. It was during this prosecution that an organized crime member sought to kill Reynolds, and Reynolds entered into the federal Witness Security Program. (Tr. at 1466-70). This was an opportunity for Reynolds to break away from his criminal livelihood and start life anew, to build a law abiding life. It was an opportunity that Reynolds squandered.

While hiding from his past cohorts under a new identity, Reynolds began committing new crimes. In about 1994, while living in Los Angeles, Reynolds aided others in committing insurance fraud by inflating the value of goods destroyed during the Rodney King riots. (Tr. at 1474). And then Reynolds met Petters - a lifetime criminal partnering with a sham tycoon. The result was devastating, billions of dollars of losses and thousands of lives destroyed.

This chronology of crime clearly establishes that Reynolds is a dangerous criminal with limited capacity for rehabilitation.

## II. Sentencing Guidelines

The pre-sentence investigation's offense level of 37 for the defendant's conduct - a level agreed to by both parties - fairly and accurately represents the gravity and magnitude of the defendant's conduct during the execution of the Petters' scheme. This guideline range gives rise to a guideline sentence of 210 to 262 months in prison. But for Reynolds' assistance in this

prosecution (discussed later), a sentence within that range would be fair and just.

The losses in this case are staggering. Moreover, for purposes of the Guideline calculation, the Court calculates loss based only on the pecuniary harm that resulted from the offense, both "monetary" harm as well as harm that "otherwise is readily measurable in money," U.S.S.G. § 2B1.1, app. notes 3(A)(i), 3(A)(iii) & 3(c). The loss calculation does not include intangible losses and losses that are not otherwise sufficiently concrete. Notably, these harms - such as the reputational harm suffered by victims and the individuals, institutions and businesses associated with the defendant - may be, and should be, considered in terms of an appropriate sentence pursuant to 18 U.S.C. § 3553(a).

Furthermore, because Reynolds documented criminal history is greater than 10 years old, he receives no criminal history points despite his staggering history of criminal conduct. Reynolds' amply demonstrated proclivity for crime, although not captured in a criminal history score, should also be considered in terms of fashioning an appropriate sentence.

### III. Sentencing Considerations and Reynolds' assistance.

In addition to the guidelines, the Court must consider the factors set forth in 18 U.S.C. § 3553(a), which include "the nature and circumstances of the offense and the history and characteristics of the defendant;" "the need for the sentence

imposed -- (A) to reflect the seriousness of the offense, to promote respect for the law, and to provide just punishment for the offense; (B) to afford adequate deterrence to criminal conduct; (C) to protect the public from further crimes of the defendant; and (D) to provide the defendant with needed educational or vocational training, medical care, or other correctional treatment in the most effective manner;" and "the need to avoid unwarranted sentence disparities among defendants with similar records who have been found guilty of similar conduct . . . ."

On October 3, 2008, Reynolds was arrested pursuant to a criminal complaint charging him and Petters. Although initially uncooperative, less than three weeks later, on October 23, 2008, Reynolds entered his guilty plea, two weeks after the guilty pleas of Coleman, White and Catain. Reynolds' quick guilty plea hastened resolution of the criminal investigation. After Reynolds' plea, Petters' primary "instruments of darkness" had all admitted their guilt, severely damaging any hope Tom Petters might have harbored that there was "honor among thieves," and that he might escape accountability for his crimes.

From October 2008 through trial, Reynolds participated in at least 8 interviews, including testifying before the grand jury. Reynolds repeatedly reviewed bank records, email, and business records, providing the government with valuable insights into the facts of a conspiracy that extended over a decade.



At trial, Reynolds' lengthy testimony was subject to extensive cross examination. His testimony was fully corroborated by recordings, documents, and the testimony of other witnesses. Reynolds' testimony was helpful in illuminating the way in which Petters selected his accomplices and orchestrated the fraud scheme. Furthermore, Reynolds explained in fully corroborated detail Petters' planned end-game for the scheme.

Finally, Reynolds has cooperated with the Receiver in this case. However, the Receiver recently brought a motion seeking to hold Reynolds in contempt for signing over his property interest in real property governed by a restraining order. This motion will be considered by Judge Montgomery and resolved prior to Reynolds' sentencing date.

Where Reynolds was once wealthy, he is now broke as a result of his participation in Petters' fraud scheme. Virtually all of Reynolds' assets have been seized and the government will seek an order of forfeiture so that the assets can be used to compensate Petters' victims. Because the Court has declined to enter a restitution order in this matter, the government will seek forfeitures of personal assets with the intent that those assets be made available to victims through the Department of Justice's forfeiture remission process. In lieu of restitution, the Court may also consider other financial sanctions as well.

III. Conclusion

Reynolds' lavish lifestyle was built on the devastated lives and dreams of innumerable victims. Reynolds' participation in the Petters' scheme, standing alone and without consideration of his extensive criminal history, would warrant severe punishment. The Court may appropriately temper this sentence in light of Reynolds' assistance in the prosecution of Thomas Petters, as permitted under the factors enumerated in 18 U.S.C. § 3553(a).

Respectfully submitted,

Dated: July 28, 2010

B. TODD JONES  
United States Attorney

s/ John R. Marti

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**CERTIFICATE OF SERVICE**

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UNITED STATES OF AMERICA,

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I hereby certify that on July 28, 2010, I served, or caused to be served, the following documents:

Government's Position Regarding Sentencing

I certify, further, that I electronically filed the above-listed documents with the Clerk of the Court by using ECF, which constitutes service on the following ECF participants, pursuant to the ECF Procedures for the District of Minnesota:

**Frederic K Bruno**

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B. TODD JONES  
United States Attorney

s/ Kim Anderson

BY: KIM ANDERSON  
Legal Assistant