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

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# News Release

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## Tom Petters sentenced to 50 years in federal prison for orchestrating $3.7 billion Ponzi scheme

MINNEAPOLIS – Thomas Joseph Petters, age 52, of Wayzata, has been sentenced to 50 years in federal prison for orchestrating a $3.7 billion Ponzi scheme. The sentence, imposed by U.S. District Court Judge Richard H. Kyle earlier this morning in St. Paul, represents the longest term of imprisonment ever ordered in a financial fraud case in Minnesota history. In ordering the prison term, Judge Kyle said, "I'm not satisfied that if he were released early, he wouldn't re-offend."

Following a month-long trial, Petters was convicted on December 2, 2009, of ten counts of wire fraud, three counts of mail fraud, one count of conspiracy to commit mail and wire fraud, one count of conspiracy to commit money laundering, and five counts of money laundering. Today, while referring to the lack of believability in Petters's trial testimony, Judge Kyle said, "It just didn't pass the smell test."

After the sentencing, U.S. Attorney B. Todd Jones said, "For years Tom Petters built his life on the shattered dreams of others. Minnesotans need to be reminded there are thousands of entrepreneurs in our state who are grounded in community values, give generously to charity, act as true mentors to other business people, are ethical stewards of investors, and grow good jobs. They are not Tom Petters. Tom Petters is a fraud, and now he will pay a huge price for his self-enrichment and his deceit. The sentence imposed today by the court and the tremendous efforts made by an outstanding prosecution team in presenting this case to a jury should send a strong message to others that we in the Department of Justice are committed to investigating and vigorously prosecuting those who commit financial crimes, particularly during these tough economic times."

Ralph S. Boelter, Special agent in Charge of the Minneapolis field office of the Federal

Bureau of Investigation, added, “It is my hope that this day will mark the start of a recovery process of sorts for all those victimized by Tom Petters, and that his sentence, appropriate for the crimes committed, will serve an an effective deterrent to those similarly inclined.”

According to the evidence presented at trial, Petters, assisted by others, defrauded and obtained billions of dollars in money and property by inducing investors to provide Petters Company, Inc., (“PCI”) funds to purchase merchandise that was to be resold to retailers at a profit. However, no such purchases were made. Instead, the defendants and co-conspirators diverted the funds for other purposes, such as making lulling payments to investors, paying off those who assisted in the fraud scheme, funding businesses owned or controlled by the defendants, and financing Tom Petters’s extravagant lifestyle.

“In simplest terms, promoters of Ponzi schemes prey upon trusting investors and then steal their hared-earned money,” said Julio LaRosa, Special Agent in Charge of the Internal Revenue Service–Criminal Investigation Divsion. “This case was a blatant example of this type of fraud, and the IRS–Criminal Investigation Division, along with its law enforcement partners, worked diligently to get to the facts behind the facade and ensure that those responsible face the punishment they brought on themselves for the devastation they caused in the lives of so many.”

The investigation of this case began on September 8, 2008, when co-conspirator Deanna Coleman and her attorney reported to authorities that she had been assisting Petters in executing a multi-billion-dollar Ponzi scheme over the previous ten years. Coleman claimed she, Petters, and co-conspirator Robert White had fabricated business documents to entice investors into lending Petters money purportedly to buy electronic goods to be sold to big-box retailers, such as Costco and Sam’s Club.

Coleman subsequently agreed to work with law enforcement. She wore a recording device to tape conversations with Petters and others to substantiate her claims as well as White and Petters’s involvement in the fraud. Within the first few hours of Coleman’s recorded conversations, Petters was heard admitting that purchase orders were “fake” and claiming “divine intervention” was the only explanation for how he and his co-conspirators “could of got away with this for so long.” Those recorded conversations chronicled the history of the scheme as well as the conspirators’ efforts to maintain it by obtaining new investor funds and lulling long-term investors. The recordings also detailed how the conspirators planned to avoid responsibility if the fraud was discovered.

On September 24, 2008, agents from the Federal Bureau of Investigation; the Internal Revenue Service, Criminal Investigation Division; and the U.S. Postal Inspection Service executed search warrants at Petters’s headquarters, Petters’s home, and other locations. They recovered numerous documents and evidence. Within days, PCI filed for bankruptcy. On October 3, Petters was arrested and detained after authorities learned he had been discussing fleeing the jurisdiction. He has been in custody since that time. His indictment on these charges occurred in December of 2008.

Shawn S. Tiller, Postal Inspector in Charge of the Denver Division, which includes the Twin Cities, said, “The sentencing today of Tom Petters in this $3.7 billion Ponzi scheme is reassurance that the United States Attorney’s Office and the United States Postal Inspection Service will remain at the forefront of investigating cases like these, where the trust and confidence of the American public has been violated through the criminal misuse of the U.S. mail. As long as there are individuals such as Petters and those associated with his company, PCI, who continue to misuse the U.S. mail to steal the hard-earned money of investors and ruin their hopes and dreams of a secure financial future, postal inspectors will be there to ensure that justice is served."

Through Petters's scam, potential investors were provided fabricated documents that listed goods purportedly purchased by PCI from various vendors and then sold to retailers. In some instances, investors also were provided false records indicating that PCI had wired its own funds to vendors, thus giving the appearance that PCI had money invested in the deals too. In addition, investors frequently received false PCI financial statements showing the company was owed billions of dollars from retailers. To induce investors further, Petters often signed promissory notes and provided his personal guarantee for the funds received. Those who invested, however, were not paid through profits from actual transactions. Rather, they were paid with money obtained from subsequent investors and, sometimes, even their own money.

PCI, which was formed in 1994, was solely owned by Petters and was used for fraudulent purposes from the start. Petters inflated and falsified purchase orders in an effort to obtain more money from investors, which, in turn, he used to pay other investors as well as his increasingly lavish personal lifestyle. When Petters could not pay an investor on time, he employed delay and evasion tactics, such as promising payment in the near future, making up excuses about slow payments from retailers, or providing checks that bounced. As the scheme progressed, Coleman, who was hired by Petters as an office manager in 1993, began fabricating PCI purchase orders and transferring funds between investors.

In 1999, Petters wanted to give investors false bank statements to "verify" PCI's purported bank transactions with retailers. Therefore, Petters turned to White, his friend, who agreed to prepare the fraudulent documents. Afterward, Petters hired White and gave him the title of chief financial officer of PCI. Among other things, White was responsible for fabricating retailer purchase orders and PCI financial records.

To further his scheme, Petters recruited purported vendors to assist him. In 2001, he asked business associates Larry Reynolds and Michael Catain to launder billions of dollars of investor funds through their business accounts and back to Petters and PCI. Reynolds operated Nationwide International Resources, Inc. ("NIR") and previously had conducted deals involving shoes and clothing with retailers, including Petters. In 2001, Petters asked Reynolds to allow him to wire money through Reynolds's bank accounts in exchange for a percentage of the funds in "commission."

Petters made a similar agreement with Catain. As a result, in early 2002, Catain created a sham company, Enchanted Family Buying Co. ("EFBC"), and opened a business bank account. He then directed funds from Petters through that business account and back to Petters and PCI, less a commission. EFBC did no real business. In fact, its headquarters was above Catain's car wash, just a few miles from Petters's headquarters.

Between January 2003 and September 2008, approximately $12 billion flowed through the NIR account into the PCI account. During that same time period, roughly the same amount flowed through the EFBC account into PCI. Although each company was purportedly a vendor, selling hundreds of millions of dollars in merchandise, bank records revealed no vendor income from those transactions. Instead, money only flowed one way – from the companies to PCI.

In April of 2001, PCI opened a new bank account that only Petters and Coleman were authorized to use. From January 2003 to September 2008, approximately $35 billion was wired into that account from investors, NIR, and EFBC. Although PCI supposedly was selling merchandise to retailers, none of the deposits into the account came from retailers. Moreover, while some funds in the account went to pay investors, other money from the account was used for bonuses for Petters's employees, most of whom did not even work for PCI. In addition, hundreds of millions of dollars went to fund Petters's companies, including Petters Warehouse Direct and RedTag. Petters also used PCI funds to employ family members, purchase real estate for family members, and fund businesses for them. Finally, millions went to Coleman and White, while Petters himself received tens of millions in account dollars.

Petters continued to purchase and operate companies in an effort to maintain the facade of a successful businessman and create a false air of legitimacy that would lure new investors. The companies he bought were purchased with proceeds of the PCI fraud, and they included Fingerhut, Polaroid, and Sun Country Airlines, which, collectively, became known as Petters Group Worldwide, or PGW. Each year PCI wrote off millions of dollars in losses based on the losses it incurred from funding these other companies. However, the companies provided Petters the appearance he needed to keep the scam going.

By the end of 2007, the conspirators were struggling to find new investors, and PCI was slow to pay hundreds of millions of dollars in promissory notes held by Lancelot Investment Management, which was operated by Greg Bell. Petters told Bell the slow payments were due to his retailers, who were late in paying him. As a result, Bell agreed to an extension on the payments so the notes would not go into default. In February 2008, Bell and Petters agreed Bell would receive replacement purchase orders from other retailers for the purported purchase orders held by Lancelot. Bell suggested they also exchange money so it would appear that PCI was paying its notes. Between late February 2008 and the date of the search warrants, Bell and Petters engaged in more than 80 "round trip" financial transactions intended to give the false impression that PCI was paying its obligations when due.

Petters continued to lull investors even after law enforcement executed search warrants on September 24, 2008. Furthermore, on October 1, 2008, Petters suggested to White and Reynolds that they flee prior to prosecution. Coleman, White, Reynolds, Catain, and Bell already have pleaded guilty for their roles in the scheme. Sentencing dates for them, however, have not been scheduled. James Wemhoff, Petters's personal and business accountant, has pled guilty to criminal charges not related to the PCI Ponzi scheme. He has not been sentenced either.

This case was the result of an investigation by the Federal Bureau of Investigation, the IRS-Criminal Investigation Division, and the U.S. Postal Inspection Service. It was prosecuted by Assistant U.S. Attorneys Joseph T. Dixon, John R. Marti, Timothy C. Rank, and John F. Docherty.

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