UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

UNITED STATES OF AMERICA, Plaintiff, v. THOMAS JOSEPH PETTERS, et al.; Defendants.	)))))))))	Civil No. 08-CV-5348 (ADM/JSM)

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:	**Jointly Administered under Case No. 08-45257**
Petters Company, Inc., et al.,	Court File No. 08-45257
Debtors.	
	Court Files No.'s:
(includes:	
Petters Group Worldwide, LLC;	08-45258 (GFK)
PC Funding, LLC;	08-45326 (GFK)
Thousand Lakes, LLC;	08-45327 (GFK)
SPF Funding, LLC;	08-45328 (GFK)
PL Ltd., Inc.;	08-45329 (GFK)
Edge One LLC;	08-45330 (GFK)
MGC Finance, Inc.;	08-45331 (GFK)
PAC Funding, LLC;	08-45371 (GFK)
Palm Beach Finance Holdings, Inc.)	08-45392 (GFK)
	Chapter 11 Cases Judge Gregory F. Kishel

PwC INTERIM REPORT
DECEMBER 15, 2010

CONFIDENTIAL

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1 PwC Engagement

1. PricewaterhouseCoopers LLP ("PwC") was retained by Douglas A. Kelley,[1] of the law firm Kelley, Wolter & Scott, P.A. ("KW&S") in November 2008, to assist in his role as the court-appointed Receiver (the "Petters Receiver") of the Thomas J. Petters ("T. Petters") entities.[2] PwC was engaged to perform various forensic accounting and tax-related services in connection with the Ponzi scheme designed and orchestrated principally by T. Petters and business organizations that he controlled ("Petters Ponzi Scheme" or the "Ponzi Scheme"). PwC's services were performed in accordance with an engagement letter dated November 11, 2008, and amendments dated March 10, 2009 and April 8, 2009.

2. PwC was hired by John R. Stoebner, of Lapp, Libra, Thomson, Stoebner & Pusch Chtd. ("Lapp Libra"), in his role as court-appointed Chapter 7 Trustee of *In re Polaroid Corp., et al.,* jointly administered under Case No. 08-46617 (the "Polaroid Trustee").

3. On September 24, 2010, PwC was hired by Douglas A. Kelley in his role as court-appointed Trustee of *In re Petters Company, Inc., et al.*, jointly administered under Case No. 08-45257 (the "Petters Trustee"). The services to be provided to the Petters Trustee were a continuation of those provided to the Petters Receiver. The services were performed in accordance with an engagement letter dated September 24, 2010.

4. PwC's services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, PwC is providing no attestation with respect to its work and did not audit any information provided. PwC's work was limited to the procedures and analyses described herein and was based only on the information made available and findings reported through September 30, 2010. Accordingly, changes in circumstances after this date could affect the findings outlined in this report or contained in the attached exhibits. This information has been prepared solely

[1] As described below, Douglas A. Kelley engaged PwC in his role as court appointed Trustee of *In re Petters Company, Inc., et al.,* in September 2010; therefore, for purposes of this report he is referred to as "Petters Receiver and/or Trustee."
[2] Entities and individuals for which Douglas A. Kelley is the Receiver include: any affiliates, subsidiaries, divisions, successors, or entities assigned, owned, or controlled 100% by Thomas J. Petters (collectively, the "Petters Entities"); T. Petters; Deanna Coleman; Robert White; James Wehmhoff; Larry Reynolds, and/or dba Nationwide International Resources aka NIR; and Michael Catain, and/or dba Enchanted Family Buying Company.

for the use and benefit of, and pursuant to client relationships with the Petters Receiver, the Petters Trustee, or the Polaroid Trustee (collectively the "PwC Clients"). PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than the PwC Clients. This information has been prepared solely in connection with the following matters:

- *In re USA v. Thomas J. Petters, et al.,* (Civil No. 08-5348 ADM/JSM) (Receivership Proceeding); and
- *In re Petters Company, Inc., et al.,* jointly administered (Case No. 08-45257) (Bankruptcy Proceeding);

and is not intended for reliance in any other context.

1.1 Scope of Services

5. PwC was hired on November 11, 2008, to perform various forensic accounting and tax-related services, including:

- collect and preserve certain hard copy data, electronically stored information ("ESI"), accounting data, bank data[3], credit card data, and payroll data;
- preserve additional informational technology ("IT") assets;
- provide support for the processing, review, and production of data collected;
- perform investigative work on certain individuals and entities;
- trace investor note activity to the bank account transaction data and notes payable documents for certain investors in Petters Entities[4];
- review certain personal bank accounts of T. Petters;

[3] "Bank Data" is defined as bank statements, cancelled checks, deposit slips, intra-bank account transfers, and/or wire transfer details.
[4] "Petters Entities" include entities under T. Petters, including Petters Company, Inc. ("PCI"), Petters Group Worldwide ("PGW"), and Thomas Petters, Inc. ("TPI"). For the purposes of this report, "Petters Entities" does not include Polaroid Holding Corporation or its subsidiaries ("Polaroid").

- analyze the flow of funds to, from, and between the various entities under the ownership of T. Petters, primarily those included in the organizational chart included as Exhibit 1;
- analyze T. Petters' personal investment accounts;
- analyze the funding and subsequent repayment related to the acquisition of Polaroid;
- analyze the two T. Petters related foundations (the John T. Petters Foundation ("JTP Foundation") and the Thomas J. Petters Family Foundation ("Family Foundation"));
- analyze political and charitable contributions;
- analyze employee bonuses and strategic partner payments;
- prepare and file IRS Form 1099s for Petters investors and federal and state tax returns for various Petters Entities; and
- perform various ad hoc analyses for the PwC Clients.

The summary of our observations from the analyses conducted through September 30, 2010 are described below, and the services noted above provide a high level outline of topics covered.

6. PwC has been engaged and working on this matter for approximately two years as of the date of this Interim Report. In this report, PwC provides a summary of the numerous analyses performed at the request of, and for the benefit of, PwC Clients. The Interim Report does not set forth all of the facts or analyses known to PwC arising from the engagement. As such, the exhibits accompanying this report may reference additional analyses, schedules or appendices that are not included as exhibits to this report.

2 Introduction

7. Between December 1999 and September 2008, a combined $82 billion flowed in and out of the primary bank account[5] (i.e., $41 billion in, $41 billion out) of Petters

[5] PCI Marshall & Ilsley Bank ("M&I") Account ("PCI M&I Account").

Company, Inc. (previously defined as “PCI”), a Minnesota corporation 100% owned and controlled by T. Petters. The majority of the incoming and outgoing funds have been linked to investments received from and payments made to investors in the Petters Ponzi Scheme. This bank account was the primary bank account used to facilitate the Petters Ponzi Scheme; however, the Ponzi Scheme employed by T. Petters and his associates was complicated and involved many other bank accounts.

8. PCI and T. Petters formed eight special purpose entities (“SPEs”),[6] seven of which were owned 100% by PCI,[7] to better orchestrate and control investors’ funds. These SPEs generally served as pass-through entities for the financing activities of large investment funds.

9. A primary focus of PwC’s work was to analyze and quantify investor activity within the Petters Entities to the extent the documents available allowed. Most of the investment activity by third parties was documented by promissory notes executed by T. Petters on behalf of the Petters Entities in favor of investors. As such, a key element of PwC’s analysis was to match the investor notes to cash transactions in the Bank Data and vice versa.

10. PwC identified and analyzed documentation including accounting records, email and user files, third party records, and bank transaction data to trace investor notes payable activity. In connection with the investor activity, PwC analyzed a total of 87 accounts from 21 banks. For these accounts, there were a total of approximately 46,000 “In” transactions totaling over $102 billion and approximately 98,000 “Out” transactions totaling over $102 billion from 1996 to 2009.[8]

11. PwC summarized the amount of funds received from and principal and interest paid to (1) SPEs, (2) Metro Gem, Inc. (“MGI”) and Fidelis Foundation (“Fidelis”)

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[6] The eight SPEs include MGC Finance, Inc; PL Ltd., Inc.; SPF Funding, LLC; PC Funding, LLC; Edge One, LLC; PAC Funding, LLC; Thousand Lakes, LLC; and Palm Beach Finance Holdings, Inc.

[7] One of the SPEs, Palm Beach Finance Holdings, Inc. was owned 100% by T. Petters.

[8] For some transactions, Bank Data for accounts held by the originating party (“Payor”) and the beneficiary (“Payee”) were both available. As such, the transaction counts and dollar amounts referenced above include both the “In” transaction and the “Out” transaction for the same transfer of funds. In addition, for certain accounts, Bank Data may not be available/complete for this time period.

(collectively, the "Vennes Entities"),[9] and (3) individuals, entities, or investment funds (i.e., non-SPE investors) (collectively, "Private Investors"), by year, to determine the investors' net cash flow positions and outstanding notes payable and accrued interest balances, where applicable. Exhibit 2 provides a summary of notes payable transactions for each of the SPEs and the Vennes Entities. Exhibit 3 provides a summary of notes payable activity for the Private Investors.

12. Through September 30, 2010, PwC identified the following with respect to the SPEs, the Vennes Entities, and the Private Investors:

- In excess of 5,800 SPE promissory notes. For these notes, there were approximately 6,100 bank transactions representing $29.5 billion in principal investments, and approximately 12,400 bank transactions representing over $28.4 billion in net payments.
- Approximately 1,165 promissory notes with the Vennes Entities. PwC verified investment and payment activity for approximately 850 of the notes. For the 850 notes, there were approximately 700 bank transactions representing nearly $2.5 billion in principal investments from the Vennes Entities, and approximately 800 bank transactions representing $2.6 billion in net payments to the Vennes Entities. In addition, PwC identified approximately $113 million in commission payments to MGI for raising funds from investors.
- Approximately 3,800 promissory notes with Private Investors. For these notes, there were over $1.1 billion in principal investments from the Private Investors and approximately $996 million in net payments to the Private Investors.

13. Based on PwC's analyses to date, the estimated net accounting basis[10] losses (including accrued and unpaid interest) attributable to the Petters Ponzi Scheme total

[9] MGI was owned by Frank E. Vennes ("F. Vennes") and should not be confused with MGC Finance or Arrowhead Capital Management Entities. F. Vennes also managed and controlled Fidelis.

[10] For the purposes of this report and PwC's analyses, a distinction exists between accounting basis gains/losses and cash basis gains/losses. Accounting basis gains/losses are derived by determining the outstanding principal and accrued interest balance for each investor as of September 30, 2008. Cash basis gains/losses are derived by comparing the cash invested, in the form of principal, with the amount of cash returned, in the form of principal and interest (i.e., cash in versus cash out).

approximately $3.8 billion. The top five investors with the highest calculated losses on an accounting basis are as follows:

- Lancelot Investment Management, LLC: $1.5 billion;
- Palm Beach Capital Management, LP: $1.1 billion;
- Ritchie Capital Management, LLC: $267.9 million[11];
- Acorn Capital Group, LLC: $267.9 million[12]; and
- Metro Gem, Inc.: $138.9 million.

14. While the estimated net accounting basis losses attributable to the Petters Ponzi Scheme total approximately $3.8 billion, PwC identified approximately $1 billion in false profits and other cash payments from investors who achieved net gains on their investments and other individuals who received cash or other proceeds from various Petters Entities.

15. PwC identified a total of $949.5 million in false profits and other cash payments related to the SPEs ($558.6 million), the Vennes Entities ($221.7 million), and the Private Investors ($169.2 million) who received more cash than their total principal investment as confirmed through Bank Data and/or evidenced by Petters Entities company records ("Company Records").[13] The investors with false profits and other cash payments totaling over $10 million are as follows:

- Epsilon Investment Management, LLC: $323.3 million;
- Metro Gem, Inc. (commissions): $113.2 million;
- Vennes Entities[14]: $108.5 million;
- Metro Gem I/II, Arrowhead Capital Finance: $105.4 million;
- Opportunity Finance, LLC: $90.5 million;

[11] Ritchie Capital Management, LLC's actual accounting loss totals $267,889,941.
[12] Acorn Capital Group, LLC's actual accounting loss, related to PCI/PAC Funding, LLC investments only, totals $267,887,980.
[13] Company Records include any or all of the following: hard copy data and ESI, including email correspondence and attachments; QuickBooks and Epicor accounting data; payroll data; credit card data; and Bank Data (as defined above).
[14] For the Vennes Entities, Fidelis had a gain of $5.2 million and MGI had a gain of $103.3 million.

- Minneapolis Foundation/Opportunity Finance, LLC/Sabes Family Foundation: $39.4 million[15];
- Dean/Michelle Vlahos and affiliated entities: $24.4 million;
- Paul Taunton and affiliated entities: $17.2 million; and
- Michael Hofer affiliated entities: $11.9 million.

16. In addition, PwC identified a total of $95.3 million in cash payments related to the following:

- Donations to various educational institutions[16]: $10.5 million;
- Charitable contributions (excluding donations to educational institutions): $6.3 million;
- Political contributions: $293,215;
- Employee bonuses: $28.9 million; and
- Strategic partners payments: $49.4 million.

17. In addition, PwC assisted the Petters Receiver and/or Trustee in filing over 380 federal and state tax returns relating to the Petters Entities.

3 The Petters Ponzi Scheme

18. A Ponzi scheme is an investment fraud in which returns to existing investors are paid with money contributed by new investors. Typically, investors are enticed with promises of abnormally high or fast returns with little or no risk. In such a scheme, the perpetrators of the fraud generally focus on obtaining new investments to make required payments to earlier stage investors and to fund their personal expenses. Other common attributes of entities engaged in a Ponzi scheme include: legitimate business activity generating operating losses and negative cash flows; failure to prepare financial statements; economically interdependent operations evidenced by significant intercompany cash transfers; and sustained activities that are highly dependent on an increasing supply of funds.

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[15] Opportunity Finance invested with both PC Funding, LLC and SPF Funding, LLC. Refer to Sections 5.4.3 “SPF Funding, LLC” and 5.4.4 “PC Funding, LLC” for further information.
[16] Includes high schools, colleges, universities, and/or other educational institutions.

19. In analyzing the Petters Entities and transactions with investors, PwC noted these and other indicators of a Ponzi scheme including unreasonably high interest rates on notes, falsified or altered purchase orders and bank statements, the rolling of notes,[17] and testimony provided by individuals implicated in the Ponzi Scheme.

20. T. Petters and others conducted the Ponzi Scheme by soliciting investors for loans purported to enable Petters Entities to purchase electronics inventory at liquidation prices. The loans were to be used as capital to purchase the merchandise with the promise of later repayment (with interest) from the proceeds generated by selling the goods to "big box" retailers, such as Sam's Club or Costco Wholesale Corporation ("Costco"); however, such merchandise did not exist. Based on our investigation, it is apparent that T. Petters controlled and directed all material aspects of the Petters Entities.

21. Typically, only one investor wholly or partially financed the alleged purchase of inventory for any specific deal. Most financing arrangements involved executed promissory notes supported with additional information, including purchase orders. On paper, the sales price was greater than the purchase price resulting in a "profit." The net proceeds from the alleged sales were then used to repay investors for their original investments plus accrued interest. Investors were lured by high interest rates and often continued to invest after their original investments were repaid. Company Records demonstrate and firsthand witnesses have testified that the Ponzi Scheme originated in the early to mid 1990s and continued into 2008.

3.1 Purported Vendors Funneled Investments to PCI

22. A large portion of the money raised and invested went directly to two "vendors" who purported to supply the merchandise: Nationwide International Resources ("NIR") and Enchanted Family Buying Company ("Enchanted"). Through transactional bank activity and Company Records, PwC traced approximately $11.9 billion of funds to NIR and approximately $12.7 billion of funds to Enchanted, representing principal investments.

[17] A note is defined as "rolled" when instead of paying the investor for principal and interest upon maturity of the note, a new note of similar value is opened and a certain portion of the principal and interest due on the closed note is carried over as (or "rolled" into) the principal for the newly created note.

Neither of these entities ever actually bought or sold electronics inventory in the amounts indicated on the alleged invoices and purchase orders; rather the principals (Larry Reynolds ("L. Reynolds") and Michael Catain ("M. Catain"), respectively) deducted commissions and routed substantially all of the money to PCI, as confirmed through bank transactional activity. Both individuals have pled guilty arising from their involvement in the Ponzi Scheme.

23. For example, SPF Funding, LLC[18] (vehicle for investments made by or on behalf of Opportunity Finance, LLC ("Opportunity Finance"), the Sabes Family Foundation, and the Minneapolis Foundation) wired $2,826,362 to NIR on July 9, 2002, for Note SFF-C-6 (see Exhibit 4). On July 10, 2002, NIR wired $2,821,600 to PCI (initial funding less its commission of $4,762). For this transaction, NIR received a commission of 0.17% of the initial investment for its role in receiving and transferring the funds to PCI.

24. PwC also observed similar examples in the Enchanted transactional banking activity. For example, on February 11, 2002, PC Funding, LLC (vehicle for investments made by or on behalf of Opportunity Finance) wired $1,567,772, $2,512,000, and $2,731,274 to Enchanted for Notes 021102-01, 021102-02, and 021102-03 respectively (see Exhibit 4). On February 12, 2002, Enchanted wired $6,805,046 to PCI (initial funding less its commission of $6,000). For these transactions, Enchanted received a commission of 0.09% of the initial investment for its role in receiving and transferring the funds to PCI.

25. PwC observed similar examples throughout the population of NIR and Enchanted transactional bank activity. PwC linked the vast majority of the incoming amounts from NIR and Enchanted with investments from investors in the Petters Ponzi Scheme, and the funds were subsequently sent to PCI as confirmed by the following:

- From June 2002 through August 2008, NIR Bank Data indicated $11.8 billion in incoming transactions. Of this $11.8 billion, PwC linked $11.7 billion (99.7%) to funds received from investors in the Petters Ponzi Scheme.

[18] Petters Finance changed its name to SPF Funding on October 6, 2004. For purposes of this report the entity is called "SPF Funding."

- From January 2002 through August 2008, Enchanted Bank Data indicated $12.8 billion in incoming transactions. Of this $12.8 billion, PwC linked $12.7 billion (99.5%) to funds received from investors in the Petters Ponzi Scheme.
- From January 2002 through September 2008, PCI received $12.7 billion from Enchanted and $12.2 billion from NIR.[19] As such, the vast majority of the investment funds sent to NIR and Enchanted were subsequently sent to PCI.

26. PwC also identified email exchanges between PCI employees and L. Reynolds and/or M. Catain specifying the amount of money NIR or Enchanted could expect to receive as well as the amount to be returned to PCI. For example, an October 22, 2002 email from Deanna Coleman ("D. Coleman") to L. Reynolds discussed a wire of $3,358,669.65 that NIR received a few days prior, and indicated that he had wired the incorrect amount to PCI (see Exhibit 5). Further, a March 30, 2007 email from Debbie Lindstrom ("D. Lindstrom") to M. Catain indicated Enchanted would receive $2,919,150 and instructed him to wire the funds to PCI (see Exhibit 6). These transactions illustrate that investor funds were not used for the purchase of inventory as stipulated in promissory notes.

3.2 Absence of Payments from Retailers

27. As further evidence that NIR and Enchanted acted as conduits for the investments, PwC observed no payments to NIR or Enchanted from the "big-box" retailers and minimal or no payments from NIR or Enchanted to manufacturers or other suppliers of merchandise, and minimal, if any, payments to PCI from the "big-box" retailers.

28. Of the $41.0 billion deposited into the primary PCI bank account (previously defined as the "PCI M&I Account"), approximately 89% (totaling $36.3 billion) originated from Enchanted ($12.7 billion), NIR ($12.4 billion), SPEs ($7.3 billion), other investors ($3.0 billion), and other "vendors" ($0.8 billion). The other "vendors" functioned in a similar role as NIR and Enchanted and sent the $0.8 billion to PCI include After the Second Millennium, Inc. ("After the Second Millennium"); Apex Digital, Inc. ("Apex Digital"); DEP Marketing LLC.; Nationwide

[19] Transactional activity for NIR's account was not available until June 2002; however, PwC observed transactions from the NIR account to PCI (through the PCI M&I Account) in early 2002. As a result, the aggregate NIR to PCI number is greater than the aggregate amount of incoming transactions to NIR.

Gig, Inc. ("Nationwide Gig"); and Quetico, LLC. Supporting documentation has not been identified to date indicating that the funds received from any of these entities originated from "big-box" or other retailers in connection with the sale of merchandise.

3.3 New Investments Used to Satisfy Existing Claims

29. Investments were either sent directly to PCI or funneled to PCI through the purported vendors, such as NIR and Enchanted. The pattern of paying old investment notes with funds coming in from new notes existed throughout the timeframe transactional bank activity was available (2001 - 2008). Exhibit 7 presents monthly evidence at different points in time (April 2002, February 2005, and August 2008) indicating that funds from new investments were used to satisfy debts owed to existing investors, regardless of the method through which money was received (i.e., through vendors or directly to PCI). Additionally, Exhibit 8 provides representative examples in the PCI M&I Account of daily activity for 2003 through 2007 (three days per year) and the first business day of each month in 2008. This activity demonstrates that new investments were continuously used to pay off existing investors.

30. The investment activities for two investors, Ritchie Capital Management, LLC and Interlachen Harriet Investments Ltd. ("Interlachen"), illustrate examples of how PCI utilized investments to pay off existing investors.

31. Ritchie Capital Management, LLC made investments through five of its entities: Ritchie Capital Management, Ltd.; Ritchie Special Credit Investments, Ltd.; Rhone Holdings II, Ltd.; Yorkville Investment I, LLC; and Ritchie Capital Structure Arbitrage Trading, Ltd. In aggregate, Ritchie Capital Management, LLC invested $189 million in the Ponzi Scheme starting in February 2008, with only one note paid in full as of September 30, 2008.

32. PwC performed an analysis evidencing that PCI used the Ritchie Capital Management, LLC funds to satisfy debts owed to existing investors, as shown in Exhibit 9.

33. Interlachen entered into one promissory note with PCI and T. Petters for $60 million on April 18, 2008, with an annual interest rate of 40%. Interlachen sent $50 million to PCI on April 18, 2008, and the remaining $10 million on April 22, 2008. Interlachen did not

receive any payments on its note. Similar to the Ritchie Capital Management, LLC investments, PCI primarily used the proceeds from Interlachen to repay existing investors as illustrated in Exhibit 10.

3.4 Lack of Substantive Documentation to Support Legitimate Business

34. Within the Petters Entities, one subsidiary, Petters Consumer Brands, LLC ("PCB"), appears to have conducted some legitimate business transactions whereby investments were used to purchase inventory that was subsequently sold to retailers. For these deals, PwC identified supporting documentation indicative of legitimate business, such as web-based business-to-business purchase orders, invoices, shipment order details from third party transportation/logistics providers, and copies of checks from retailers.

35. In contrast to PCB, the documentation identified for PCI and SPE investments lacked substance. For PCI deals, PwC identified manual purchase orders (no business-to-business e-commerce software) during a time period when it was common practice for retailers to use electronic data interchange ("EDI") to execute purchase orders.

36. Scott Benedict ("S. Benedict") of Sam's Club discussed the use of EDI for transactions between Sam's Club and their vendors. He testified[20] that Sam's Club utilizes EDI for its purchase orders and that high volume vendors who are selling goods to Sam's Club use EDI as well, as it is the most efficient method for transmitting data and processing purchase order information, order confirmations and payments. Further, Timothy Bisswurm ("T. Bisswurm"), Special Agent with the FBI, stated in his September 19, 2008 affidavit[21] that Sam's Club has a requirement that vendors doing business with them use EDI to exchange purchase orders, invoices, and all other transactional documents electronically. In discussing the Petters Entities, T. Bisswurm states that the Petters Entities purchase orders are not consistent with EDI documents, but appear to be manually prepared purchase orders.

[20] S. Benedict trial transcript dated November 9, 2009, page 1414, lines 1-13.
[21] T. Bisswurm affidavit dated September 19, 2008, page 4 - 5.

3.5 High Returns Promised and Paid to Investors

37. As discussed above, another factor evidenced in the Petters Ponzi Scheme, which is consistent with that of other Ponzi schemes, is unreasonably high rates of return promised to investors. Exhibit 11 illustrates the rates of interest promised/paid to specific investors (SPEs and Vennes Entities) as compared to three benchmark rates (average prime rate, AAA corporate bond rates, and 10-year constant maturities Treasury Security rates), and clearly depicts the disparity between the benchmark rates and the rates offered to investors. Overall, interest rates for notes identified relating to the SPEs ranged from 11% to 48% (per annum) during the Ponzi Scheme.[22]

38. The interest rates on the notes with respect to a particular investor were typically higher in the earlier years of the Petters Ponzi Scheme and slowly declined over time. Exhibit 12 is illustrative of how the interest rates decreased over time for an investor.

39. This is consistent with the theory that high interest rates are needed to lure initial investors but over time, as returns are generated, the investor gains confidence in the investment scheme and is willing to accept a lower rate of return. PCI's goal of lowering rates of return reduced the cash flow stress of the Ponzi Scheme and prolonging it.

40. Interest rates varied between Private Investors and timeframe, with the lowest annual interest rate for a note at 4% and the highest at over 360%. For example, Ritchie Capital Management, LLC's aggregate investments of $189 million was comprised of 14 promissory notes bearing annual interest rates of 67% (two notes), 80% (ten notes), and 362.1% (two notes). The two notes with annual interest rates of 362.1% were executed on May 9, 2008, representing Ritchie Capital Management, LLC's final investments in the Ponzi Scheme. These high interest rates offered to Ritchie Capital Management, LLC in 2008, evidence T. Petters' immediate need for additional funding in order to perpetuate the Ponzi Scheme.

[22] One MGC Finance note (unsigned), maturing six days after execution, bore a calculated annual interest rate of 180% is not included in this range.

3.6 Concealment of PCI Activities

41. Personnel within the Petters Entities took steps to conceal the Ponzi Scheme both inside and outside the company. For example, D. Coleman attempted to conceal the substance of the transactions within the PCI M&I Account from other Petters Entities employees. Because D. Coleman usually did not provide bank statements to the PCI accountant, PCI personnel did not typically perform monthly cash reconciliations to identify discrepancies between the cash balances on the books and in the bank statements. Through discussions with PCI personnel, PwC learned the cash balances on the accounting books were increased through the recognition of profit on each deal. In reality, the money from investors was not used to generate additional income (as was represented to the investors), but PCI paid interest on these investments. As a result, the books maintained by PCI personnel often had cash balances that were much greater than the balances on the bank statements.

42. At various points throughout the Petters Ponzi Scheme, D. Coleman communicated the actual cash balances from the bank statements to PCI personnel. PCI personnel subsequently reduced the cash balances recorded on the books in order to reconcile the cash balance to the bank statements. As representative of the types of cash adjustments, PCI personnel recorded entries to reduce the cash balance by $49.5 million in January 2005, $28.4 million in August 2006, $53.7 million in March 2007, and $14.1 million in September 2007.

43. The Ponzi Scheme was further concealed through materially false financial statements. According to the PCI Plea Agreement and Sentencing Stipulations, dated October 2010, James Wehmhoff ("J. Wehmhoff") prepared materially false financial statements pertaining to PCI's and PGW's financial status. The statements were used to defraud investors regarding the true financial status of the Petters Entities. As a result, PCI secured funding used for other illicit purposes.

3.7 Use of Funds: Repayment of Debt and Economically Interdependent Operations

44. The proceeds from investors were used to repay existing debt obligations to other investors, cover operating expenses for other Petters Entities, and fund T. Petters' lifestyle.

45. The PCI M&I Account served as the primary account for the movement of funds between various entities involved in the Ponzi Scheme. PwC analyzed Bank Data to determine the flow of funds to and from the PCI M&I Account. As previously noted, between December 1999 and September 2008, approximately $82 billion flowed in and out of the primary PCI M&I Account (i.e., approximately $41 billion in, $41 billion out).

46. The majority of the $41.0 billion of total deposits into the PCI M&I Account originated from entities funding the Petters Ponzi Scheme.[23] Similarly, the vast majority of the $41.0 billion withdrawn from this account was traced to entities funding the Ponzi Scheme. Exhibit 13 provides a summary of the flow of funds analysis:

- Approximately $31.5 billion (77%) of the total funds transferred out of the PCI M&I Account were to the SPEs and $3.0 billion (7%) were to other investors;
- An additional $1.2 billion (3%) involved funds transferred to other, non-Petters Entities including employees, family, vendors (other than NIR/Enchanted), investment funds, government entities, law firms, and recipients of charitable donations;
- $3.4 billion (8%) was transferred to other PCI bank accounts[24];
- There was a net outflow of $36.6 million to T. Petters' personal bank accounts ($25.5 million in deposits; $62.1 million in withdrawals); and
- The majority of the remaining funds were intercompany transfers to other Petters Entities to cover operating expenses. For example, on August 2, 2007, $665,000 was transferred from PCI to PGW and subsequently $25,000

[23] See Section 3.2 "Absence of Payments from Retailers" for details.
[24] Includes same day and/or overnight PCI intra-bank account money transfers to generate higher interest. Funds were typically returned the next day.

and $260,766.30 was transferred to Symmorphix and ADP, respectively, to cover operating expenses, including payroll.[25]

47. The interdependent operations of the Petters Entities is further evidenced through the Ritchie Capital Management, LLC investments discussed above. Specifically, borrowers on the Ritchie Capital Management, LLC notes included PGW, T. Petters, and/or PCI, as detailed in the following manner: ten notes in the name of PGW and T. Petters; two notes in the name of PCI, PGW, and T. Petters; and two notes in the name of PCI and T. Petters.

48. Regardless of the borrower, however, Ritchie Capital Management, LLC advanced the $189 million in aggregate investments directly to PCI in 13 transactions beginning on February 1, 2008 and ending on May 9, 2008, and not to a PGW or T. Petters account, who were borrowers pursuant to the terms of the executed notes.

3.8 Altered Purchase Orders and Bank Statements

49. PwC identified altered bank statements for PCI accounts at Bank of America, Highland Bank ("Highland"), Associated Bank ("Associated"),[26] and M&I. PwC considered various factors to assess the legitimacy of bank statements, including: (1) whether the total debits and credits section equaled the sum of debits and credits within the statement; (2) whether the ending balance was the same as the beginning balance for the subsequent month; (3) the layout of statements (e.g., placement of page numbers; use of "AVE" rather than "AVG"; format of numbers; alignment of text, dates, and numbers); and (4) the absence of bank disclosure language. The earliest altered bank statement identified, as evidenced by Exhibit 14, was for January 1998 for the PCI Highland bank account. Altered bank statements were identified for multiple accounts from 1998 through 2001.

50. Additionally, PwC identified comments on some of the altered bank statements indicating falsified deposits from retailers. Exhibit 15 provides an example of an altered bank statement with falsified payments from retailers. PwC understands that certain

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[25] ADP is a payroll service provider utilized by the Petters Entities.
[26] Bank Windsor merged with Riverside Bank and became Associated Bank Minnesota in late 2002/early 2003. For purposes of this report, it is called "Associated."

investors requested evidence supporting retailer payments. Presumably, PCI used such altered bank statements to demonstrate to investors that PCI actually received payments for merchandise from retailers.

51. R. White testified to assisting D. Coleman with the creation of falsified bank statements during 1999. He discussed that T. Petters requested his assistance in creating "phony bank statements"[27] in order to delude investors into thinking they were financing purchases of electronic goods, as stipulated in their promissory notes.

52. In addition to bank statements, purchase orders were also altered and portrayed false information. During her testimony on November 2, 2009, D. Coleman discussed that she provided investors with false purchase orders from "day one."[28]

53. Additionally, L. Reynolds testified that as early as April 1998, T. Petters requested that he prepare false invoices showing that approximately $1.7 million of goods from Eurostar were purchased. Based on the request, L. Reynolds understood that T. Petters wanted to use these invoices to borrow money from an investor. He also indicated other instances occurred between 1998 and 2000, whereby T. Petters requested he validate certain deals, including one with Eurostar, on a call with Frank E. Vennes, Jr. (previously defined as "F. Vennes").[29]

3.9 Rolling Notes

54. PwC identified multiple instances in which investors rolled their investments into new notes with PCI, rather than receiving payments of principal and interest upon maturity of notes. This enabled PCI to substantially reduce the amount of money needed to pay off existing notes, and enabled the continuation of the Petters Ponzi Scheme.

[27] R. White trial transcript dated November 5, 2009, page 1141, lines 1 - 3.

[28] D. Coleman testified that "day one" relates to the start of PCI in 1994 (Deanna Coleman trial transcript dated November 2, 2009, page 532, lines 6 - 10). She additionally testified that she started with T. Petters in 1993 (Deanna Coleman trial transcript dated November 2, 2009, page 641 lines 4 - 5).

[29] L. Reynolds trial transcript dated November 9, 2009, page 1479, lines 22 - 25; page 1480, lines 1 - 7; and page 1482, lines 4-15.

55. D. Coleman testified that either T. Petters, or herself, typically called investors to ask if they would roll their notes. She additionally stated that she told investors their funds were used to purchase merchandise, which in fact, did not exist.[30]

56. PwC identified promissory notes starting in 1996. Table 1 below illustrates 16 notes (with 11 individuals) where investors elected to roll their investment with PCI. Annualized interest rates on the 16 notes ranged from 37.9% to 60.7%, as listed in Table 1 below. At maturity, these investors rolled their investment into new notes with PCI rather than being paid out in cash.

[30] Deanna Coleman trial transcript dated November 2, 2009, page 648, lines 4 - 23.

Table 1.

#	Investor Name	Investment Start Date	Maturity Date of Note	Note Amount	Annualized Interest Rate[31]	Total Amount Rolled[32]
1	Eddie Alexander	12/26/1996	3/25/1997	$50,000.00	60.67%	$50,000.00
2	Tim Anding	12/18/1996	1/18/1997	100,000.00	58.06%	100,000.00
3	Tim Anding	12/22/1996	1/22/1997	200,000.00	38.67%	200,000.00
4	Timothy Brennan	11/26/1996	2/28/1997	115,000.00	38.30%	126,500.00
5	Brad Dennis	11/20/1996	2/23/1997	150,000.00	37.89%	150,000.00
6	Brad Dennis	11/25/1996	2/28/1997	100,000.00	37.89%	100,000.00
7	Dean Dovolis	11/19/1996	2/22/1997	177,000.00	37.89%	197,000.00
8	Dan & Patricia Feneis	12/30/1996	1/30/1997	100,000.00	46.45%	100,000.00
9	Brian R. Johnson	12/21/1996	3/23/1997	50,000.00	39.13%	50,000.00
10	Larsen Agribusiness	10/23/1996	1/23/1997	100,000.00	39.09%	100,000.00
11	John & Julie Ruggieri	12/21/1996	3/23/1997	66,000.00	35.57%	66,000.00
12	Wendell Timmer	11/27/1996	2/27/1997	171,000.00	39.13%	171,000.00
13	Wendell Timmer	11/27/1996	2/27/1997	171,000.00	39.13%	171,000.00
14	Wendell Timmer	12/18/1996	1/18/1997	80,000.00	58.06%	80,000.00
15	Wendell Timmer	12/21/1996	3/21/1997	100,000.00	40.00%	100,000.00
16	Nancy Wright	11/26/1996	1/27/1997	250,000.00	38.67%	250,000.00

57. The rolling of notes continued throughout the duration of the Petters Ponzi Scheme. PwC observed rolled notes activity through the duration of the Ponzi Scheme and as late as September 2008 as illustrated in Exhibit 16. The rolling of notes was indicative of the cash flow problems at PCI from the 1990s until the Petters Ponzi Scheme collapsed in 2008.

[31] During this time period the average prime rate was 8.25%.
[32] Some investors were paid the applicable interest amount in cash and rolled their principal investments into new notes while others rolled their initial principal and the applicable interest into new notes (e.g., Timothy Brennan and Dean Dovolis).

3.10 Inception of the Ponzi Scheme

58. Based on the information analyzed to date, there are indications that the Petters Ponzi Scheme started primarily with Private Investors in the early to mid 1990s. As noted above, D. Coleman testified that she provided investors with false purchase orders from "day one."[33] D. Coleman also mentions in her deposition dated July 29, 2009,[34] that she first created a fake purchase order in the mid to late 1990s. While PwC noted these activities as early as 1996, there are indications that the Petters Ponzi Scheme started sometime earlier.

59. The paucity of legitimate business transactions by PCI supports the conclusion that money from later investors was used to fund payments to earlier investors because no other source of payment to investors existed. Based on the above and in light of the absence of documentation or support for legitimate transactions with Costco, Boscov's, or other retailers, it appears that the Petters Ponzi Scheme existed in the early to mid 1990s.

4 Information Gathering

60. At the outset of our engagement, PwC endeavored to collect and preserve information that would allow various interested parties to have access to information relevant to their efforts in: (a) understanding the operations and financial activity conducted within the Petters Entities, and (b) evaluating, defending, or prosecuting various claims in the criminal, civil, and bankruptcy proceedings involving the Petters Entities, individuals involved in the Ponzi Scheme, investors, and other third parties. In addition, PwC was focused upon obtaining and preserving financial, accounting, and other records that would allow PwC to identify those entities or individuals investing in the Petters Entities and ultimate investment returns associated with such investments. Sources of information gathered by PwC include, but are not limited to, hard copy documents maintained by the Petters Entities onsite and offsite; documents gathered by the US Government; ESI maintained within the Petters Entities and on other electronic storage devices, such as personal computers and mobile

[33] D. Coleman testified that "day one" relates to the start of PCI in 1994 (Deanna Coleman trial transcript dated November 2, 2009, page 532, lines 6 - 10). She additionally testified that she started with T. Petters in 1993 (Deanna Coleman trial transcript dated November 2, 2009, page 641 lines 4 - 5).
[34] D. Coleman deposition transcript - Volume II, dated July 29, 2010, page 307, lines 19 - 25.

devices; and records gathered and produced by other parties, including banking institutions, Polaroid, investors, and others involved in various proceedings emanating from the criminal, civil, and bankruptcy proceedings. Details regarding PwC's collection and preservation efforts are presented below. This data was made available to the US Government; the T. Petters defense team; the Petters Receiver and/or Trustee; Polaroid Trustee; law firms retained by the Petters Receiver and/or Trustee, such as Lindquist & Vennum, PLLP ("L&V" or "Counsel"), counsel to the Petters Receiver and/or Trustee; and other relevant parties.

4.1 Collection and Preservation of Hard Copy Data and ESI

61. PwC collected hard copy data, third party produced documents, and ESI from the Department of Justice ("DOJ" or the "US Government"), Petters Entities, Polaroid, and other third parties totaling over 68.4 terabytes, which is equivalent to approximately 560,332 bankers boxes of data, over 68,400 copies of the Encyclopedia Britannica, and over six times the size of the printed collections of the US Library of Congress.[35] A subset of this data supported the various analyses described in this interim report, and was made available to the relevant parties assisting the Petters Receiver and/or Trustee, as requested. PwC assisted with preserving additional IT assets for potential future discovery requests and provided ongoing IT support to the remaining Petters Group Worldwide, LLC (previously defined as "PGW") and Polaroid employees, as well as the Petters Receiver and/or Trustee and supporting parties. PwC's procedures and collection efforts are detailed in the sections below.

4.1.1 Hard Copy and Third Party Produced Documents

62. As it relates to hard copy documents retained at the Petters Entities, PwC initially gained an understanding of potential sources of documents before determining what to collect and review. For the third party provided documents, PwC organized incoming productions and shared the information with the Petters Receiver and/or Trustee and related parties. A list of the hard copy and third party produced documents that were collected is

[35] Conversion factors utilized are as follows: 1 terabyte = 1024 gigabytes; 1 gigabyte = 8 bankers boxes; 1 terabyte = 1,000 copies of Encyclopedia Britannica; 10 terabytes = Printed collection of the US Library of Congress.

presented in Exhibit 17, and additional information about the document sets is included below.

63. PwC held meetings with the DOJ to understand the hard copy collection efforts of the government agents during the September 24, 2008 and October 23, 2008 raids at the Petters Entities offices in Minnetonka, MN and West Palm Beach, FL, respectively. The DOJ collected 164 boxes of hard copy documents containing a total of 66,737 documents and 429,591 pages. The documents were scanned by the DOJ into an electronic and searchable format.

64. In addition to the boxes seized by the US Government, several hundred boxes remained at the Petters Entities' Minnetonka office in both the storage facility in the basement and various employees' offices. PwC worked closely with the remaining Petters Entities employees to understand and review the available records remaining in the current files and the inventory of boxes stored onsite at the Petters Entities offices in Minnetonka, MN. PwC examined the contents of approximately 861 boxes in order to identify bank statements, notes payable documentation, and other documents relevant to the investigation. The identified subset of 58,549 documents, spanning 64,675 pages, were organized and scanned into an electronic and searchable format.

65. PwC worked closely with the Petters Entities employees to understand and review the available records for PCB. PwC examined the contents of approximately 73 boxes in order to identify bank statements, notes payable documentation, and other information relevant to the investigation. The identified subset of 10,315 documents, spanning 12,105 pages, were organized and scanned into an electronic and searchable format.

66. PwC also coordinated with Polaroid personnel to understand the population and organization of Polaroid related hard copy documents.

67. PwC met with the DOJ and F. Vennes' Receiver (Gary Hansen of Oppenheimer Wolff & Donnelly LLP ("Vennes Receiver")) to understand the hard copy collection efforts of the government agents during the raid at the home and offices of F. Vennes. The DOJ collected 106 boxes of hard copies containing 182,347 documents, spanning 237,713 pages ("Vennes Documents"). The documents were provided by the DOJ

in an electronic and searchable format to the Vennes Receiver. The scanned data was then provided to PwC in TIFF image format with accompanying OCR text.

68. PwC received a production of financial documents from KW&S specific to JP Morgan Chase & Co. (“JP Morgan”). The 1,736 documents that spanned 25,972 pages were provided to PwC in TIFF image format with accompanying OCR text.

69. PwC received two productions of financial documents from KW&S specific to Crown Bank (“Crown”). The 415 documents were provided to PwC in PDF and Microsoft Word formats.

70. PwC received five productions of documents from Susman Godfrey LLP (“Susman”) specific to the law firm Fredrikson & Byron P.A. (“Fredrikson”). The 51,520 documents were provided to PwC in Microsoft Excel workbooks and TIFF images with accompanying OCR text. In addition, Susman requested that PwC review hard copy data to identify relevant documents to the services performed by Fredrikson. These efforts were to assist Susman in its assessment of the legal services performed by Fredrikson on behalf of Petters Entities.

4.1.2 Electronically Stored Information

71. As it relates to electronically stored information (previously defined as “ESI”) at Petters Entities, PwC first worked with Petters Entities employees to understand potential sources of relevant ESI within the various Petters Entities. Because of the tremendous volume of ESI held by the Petters Entities, PwC recommended that some sources of ESI simply be preserved in case of future analytical needs and that only a subset of ESI be collected and analyzed. Some of the ESI sources identified included such items as corporate desktop/laptop computers, email servers, file servers, back-up tapes, external media devices, enterprise resource planning systems and other operational systems. The determination of what should be collected and analyzed was driven by a focus on: (1) specific Petters Entities such as PCI, PCB, and Petters Capital, Inc.; (2) operational systems that would contain relevant information, such as email, user files, and accounting transactions for these entities; and (3) the employees supporting these entities. To provide an illustrative example around

the decision of what to preserve versus collect, PwC recommended that the web servers running the PGW web site simply be preserved, while the PGW email server was collected. This approach limited the financial burden on the Petters Receiver and/or Trustee associated with collecting and analyzing massive volumes of ESI that would likely provide little to no value in return. The actions taken on preserved and collected ESI can be summarized as follows[36]:

- Preserved - PwC inventoried and documented the source of the electronic data. The data remains in the custody of the Petters Receiver and/or Trustee and the Polaroid Trustee in a controlled environment.
- Collected - PwC or a third party forensically imaged the data, and PwC took possession of the data for further analysis and stored such data at one of PwC's forensics labs.

72. The scope of ESI to be preserved and collected (as defined above) evolved over time as the needs of the various interested parties were considered and as new information became available. An exhibit summarizing the scope of ESI that was collected is presented in Exhibit 18.

73. PwC met with the DOJ to understand the ESI collection efforts of the government agents during the raid at the Petters Entities offices in both Minnetonka, MN and West Palm Beach, FL. PwC collected the following ESI from the DOJ (see Exhibit 19):

- 28 forensic images of corporate laptop computers, desktop computers, and external storage devices for certain employees; and
- 3 forensic images of email and file servers.

74. PwC conducted interviews with IT employees from both the Petters Entities and Polaroid to determine the availability of various sources of ESI relevant to the investigation. PwC collected the following ESI from the Petters Entities and Polaroid IT:

[36] The definitions of "preserved" and "collected" in this paragraph, apply to all uses of these terms in Section 4.1.2 "Electronically Stored Information"; Section 4.1.3 "IT Preservation"; and Section 4.6 "Management of Data/Records."

- 20 forensic images of corporate laptop computers, desktop computers, and external storage specific to 13 employees;
- Forensic image of the FTP server in Minnetonka, MN (see Exhibit 20);
- Forensic images of three servers for WSS Media Inc. in Minnetonka, MN (see Exhibit 20);
- Logical copies of Microsoft Exchange email .PST files located in Minnetonka, MN and Waltham, MA for 18 employees (see Exhibit 21); and
- 80 backup tapes of servers located in Minnetonka, MN and Waltham, MA (see Exhibit 22).

75. Through interviews with Petters Entities and Polaroid IT personnel, PwC also learned that the Petters Entities/Polaroid maintained an email archiving system, Symantec Enterprise Vault ("Vault"), at the Polaroid offices in Waltham, MA. The Vault was implemented in September 2007 and archived email and common user files for both the Petters Entities and Polaroid. The Vault also contains emails and common user files from various backup tapes prior to 2007, and the total size of items contained in the Vault is approximately 5.2 terabytes. PwC worked with Polaroid IT to extract approximately 1.0 terabyte of email and common user files from the Vault. The items extracted from the Vault were those relating to selected employees and files (see Exhibit 23).

76. A backup file of the Inter-Tel telecommunications system in use at the Petters Entities offices in Minnetonka, MN was collected by PwC. PwC analyzed the backup from April 15, 2005 to identify employee office phone extensions and to recover 3,951 employee saved voicemail messages and personal greetings having a total duration of 37.4 hours. This was the most recent backup available at the time the telecommunications system was considered in scope for collection. The backup was ultimately sent to a third party specialist to recover additional voicemail metadata for certain employee phone extensions.

77. PwC identified SMS text messages contained on the BlackBerry devices specific to T. Petters. Because PwC did not have direct access to any T. Petters BlackBerry

mobile devices, PwC instead searched for backups of BlackBerry devices within the ESI collected by PwC. PwC isolated the backups of BlackBerry devices identified with T. Petters and then utilized forensic processing tools to extract SMS text messages. The BlackBerry Enterprise Server was also analyzed by PwC to determine the administrative settings and to review historic logging files. However, PwC determined that SMS text message logging was not enabled on the BlackBerry Enterprise Server. As such, SMS text messages could not be recovered from the BlackBerry Enterprise Server, and the only available sources of SMS text messages were from the identified backups of BlackBerry devices.

78. PwC examined the data collected from the Petters Entities and Polaroid servers and backup tapes to identify Ghost images.[37] Based on the Petters Entities and Polaroid IT teams, PwC learned that the contents of employee laptop and desktop computers were backed up to the Ghost image format when an employee transitioned from an old computer to a new computer. The Ghost images provided a snapshot at a point in time of the contents on an employee computer. PwC identified and recovered files from Ghost images for select employees for analysis and review.

4.1.3 IT Preservation

79. PwC assisted in the preservation efforts of IT assets at both the Petters Entities and Polaroid to support the following efforts: (1) preserve data so that it is accessible for potential future discovery requests; and (2) provide ongoing IT support to the remaining Petters Entities and Polaroid employees, as well as the Petters Receiver and/or Trustee and the parties supporting him. Our procedures and findings are described below.

80. PwC leveraged existing IT asset tracking documentation created by Petters Entities and Polaroid employees during the normal course of business to understand the population of IT assets to be collected and preserved. This inventory included current employee laptops, desktops, email servers, application servers, backup tapes, as well as

[37] The Ghost software utility performs back-ups of hard drives and other electronic media, among other things (source: http://us.norton.com/ghost). Based on discussions with Petters Entities IT personnel, PwC learned that IT would create a Ghost backup of an employee's hard drive when the employee's hard drive was being replaced or for other troubleshooting reasons.

historical employee laptops, desktop, and servers not currently in use and stored at local and offsite storage locations.

81. PwC worked with the Petters Entities and Polaroid employees to preserve 343 Polaroid computers and servers, 156 Petters Entities computers and servers, and 80 PGW/Polaroid backup tapes during this process.

82. As mentioned in the Section 4.1.2 “Electronically Stored Information,” the Vault was implemented in September 2007 to manage the archival of email and common user files across the Petters Entities and Polaroid. PwC performed an assessment of the system to determine the completeness of data contained within the Vault, and determine if any additional data should be loaded into the Vault. PwC worked with Petters Entities and Polaroid IT to identify additional data sources to be loaded into the Vault. From this analysis, email was identified on backups specific to Fingerhut Direct Marketing, Inc. and PCB that were archived on hard disk drives and tapes. Polaroid IT employees loaded these sources of historic email into the Vault.

83. In 2009, both the Petters Entities and Polaroid moved their office locations. PwC was consulted during these moves regarding the continuity of IT support for the remaining Petters Entities and Polaroid employees, as well as the Petters Receiver and/or Trustee and supporting parties. PGW and Polaroid had few remaining employees to support technology needs for both the PGW and Polaroid estates. As such, PwC contributed to developing the plan that required some IT assets to remain locally supported and others to be hosted by third party vendors. This plan allowed for business continuity for the current Petters Entities and Polaroid employees, as well as access to IT systems and information as needed for the Petters Receiver and/or Trustee and supporting parties. Ultimately, the IT systems for both Petters Entities and Polaroid were moved to third party hosting facilities in their respective areas. Remaining employees at PGW and Polaroid can still access the IT systems that have not been decommissioned.

4.2 Accounting Data

84. Based on interviews with various Petters Entities employees,[38] PwC learned that several business accounting software systems, including QuickBooks, Epicor, and SAP, were in use at Petters Entities and Polaroid. PwC collected data from various business accounting software systems, including QuickBooks, Epicor, and SAP.[39]

85. In total, PwC identified 133 QuickBooks files on the PGW file server, which corresponded to approximately 46 Petters Entities and individuals. Refer to Exhibit 24 for a listing of the QuickBooks files collected. For 33 Petters Entities for which accounting data was stored in Epicor or other systems, Petters Entities employees provided data exports upon request. Refer to Exhibit 25 for a listing of these entities.

86. PwC utilized accounting records in conjunction with bank account data to calculate and report the net cash position of investors ("Net Cash Positions") in Petters Entities, and to perform other forensic accounting analyses.

4.3 Bank Data

87. Petters Entities personnel advised PwC that that the Petters Entities did not maintain a master list of bank accounts used by Petters Entities. PwC therefore created a list of bank accounts to evaluate which accounts included transactions relevant to the scope of the anticipated forensic accounting procedures. In summary, as of September 30, 2010, as detailed in Exhibit 26, PwC identified 648 bank accounts described further below and created a centralized database with transaction level activity for 87 of the accounts.

4.3.1 Inventory of Bank Accounts

88. The creation of the master list of bank accounts was a highly iterative and multi-faceted process. The primary means by which PwC gathered bank account information were: (1) meeting with the DOJ and Petters Entities/Polaroid employees; (2) searching hard copy data and ESI; and (3) reviewing Payors/Payees listed in bank account activity for

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[38] As described in Section 4.8 "Information from Petters Entities Personnel" below.

[39] Please refer to Section 14.2 "Acorn Litigation" for a description of the procedures performed related to collecting the Polaroid SAP data.

references to other, previously unknown bank accounts for Petters Entities. The master list of bank accounts may continue to expand as additional bank accounts are identified.

89. PwC included the bank accounts from the following entities/individuals: (1) PCI; (2) certain other Petters Entities; (3) Individual Defendants[40]; (4) Enchanted; (5) NIR; (6) SPEs; and (7) other third parties, including but not limited to certain investors. PwC also received a listing of bank account information from Polaroid, but as of the date of this report, has not performed procedures to assess the completeness of the listing since the Polaroid bank accounts have not been included in the scope of analysis.

4.3.2 Collection of Bank Data

90. As noted above, PwC identified 648 bank accounts. Of the 648 accounts, PwC collected available bank statements, cancelled checks, deposit slips, intra-bank account transfers (i.e., transfers between different bank accounts at the same banking institution), and/or wire transfer details (previously defined as collectively, "Bank Data") for 376 accounts. Refer to Exhibit 26 for a listing of these bank accounts. This data was collected from the DOJ, banks, ESI and the hard copy data (e.g., boxes contained in Petters Entities storage), Polaroid, as well as other third parties. A description of procedures performed to collect Bank Data is detailed below.

91. PwC met with the DOJ and obtained Bank Data for accounts relating to a number of financial institutions. PwC understands that this data was provided by the banks to the DOJ in response to a subpoena. In many instances, the Bank Data was available for only a period dating back approximately seven years, due to the banks' data retention policies. PwC received Bank Data from the DOJ for 56 bank accounts related to Petters Entities, Individual Defendants, NIR, and Enchanted in TIFF image format. Additionally, the DOJ input key data for each bank transaction, such as date, amount, and Payor/Payee, for a subset of 35 accounts in a Microsoft Excel spreadsheet.

[40] Individual Defendants include: T. Petters, D. Coleman, R. White, J. Wehmhoff, M. Catain, and L. Reynolds.

92. Once the master list of bank accounts was compiled, PwC selected ten banks[41] and requested copies of all Bank Data for the known accounts from those banks. The ten banks were selected because each maintained one or more accounts deemed relevant to various analyses. In addition, PwC requested the banks to note any additional accounts for entities under the Petters Receiver and/or Trustee that had not been identified to date. PwC received Bank Data for 143 accounts from seven of the ten banks. PwC continues to follow up with four of the ten institutions.

93. PwC searched the hard copy data and ESI and identified Bank Data for 115 accounts. Additionally, while reviewing the boxes remaining onsite at the Petters Entities office in Minnetonka, MN and Iron Mountain, Bank Data was identified for 198 accounts.

94. To avoid duplication of collection efforts, PwC coordinated with Mesirow Financial (consultant to the Trustee of Lancelot Investment Management, LLC) to obtain Bank Data for five accounts related to one of the SPEs, Thousand Lakes, LLC.

95. After refining the collection of Bank Data across all of the above listed sources, PwC had obtained Bank Data for 376 separate bank accounts.

4.3.3 Selection of Accounts for Forensic Accounting Analysis

96. After collecting Bank Data for the 376 separate accounts from various sources listed above, PwC identified a total of 87 accounts from 21 banks that likely contained activity related to notes payable transactions and other forensic accounting analyses. For these accounts, there were a total of approximately 46,000 "In" transactions totaling over $102 billion and approximately 98,000 "Out" transactions totaling over $102 billion from 1996 to 2009. From the perspective of a single bank account, "In" transactions refer to money coming into the account (e.g., deposits) and "Out" transactions refer to money going out of the account (e.g., withdrawals or payments by check or wire transfer). The figures above considered the "In" and "Out" sides of a transaction separately, meaning a transaction was counted twice in instances when Bank Data for both the originating and beneficiary accounts was available.

[41] The banks included Associated, M&I, Bank of America, Crown, Highland, JP Morgan, Northern Trust, RBS Citizens, US Bank NA ("US Bank"), and Wells Fargo Bank ("Wells Fargo").

4.3.4 Organization of Bank Data

97. PwC organized the activity for these 87 accounts into a centralized database. Detailed below are some of the issues addressed when creating the centralized database of bank transactions:

- The type of Bank Data available varied by account; for example, PwC received wire detail confirmations for only certain accounts;
- The format and organization of Bank Data differed across banks; for example, certain bank accounts contained Payor/Payee information within the bank statements, while others did not. For statements that did not contain Payor/Payee detail, PwC identified, where available, the Payor/Payee of the transaction based upon cancelled checks, deposit slips, intra-bank account transfers, and/or wire transfer details. Should additional bank statement support become available, the identification of Payors/Payees for the bank transactions may change;
- Bank Data was typically provided in an image format (with the exception of the DOJ that provided Bank Data in Excel). A third party vendor transformed the Bank Data from image format into a format that could be imported into the central database;
- On multiple occasions Bank Data for a given account was received from multiple sources (e.g., the bank, the DOJ, Petters Entities storage, etc.) for the same time periods. PwC compared transactions between sources within the overlapping time periods to confirm that the most detailed and accurate information was being used as well as to identify and remove Bank Data sourced from potentially erroneous bank statements; and
- Transfers between bank accounts occurred frequently within the 87 accounts analyzed. It was important to identify these transfers as duplicates to avoid double counting. For example, the following transaction was listed as two line items in the database, but was in fact the same transaction shown from the perspective of the originating and beneficiary bank accounts involved in the transaction:

Figure 2.

BANK	ACCOUNT	CLEAR DATE	PAYOR	PAYEE	IN AMOUNT	OUT AMOUNT
M&I	1959018	7/20/2005	PCI	PAC FUNDING, LLC (LOCKBOX)		$ 4,844,400.00
CROWN BANK	1107531	7/20/2005	PCI	PAC FUNDING, LLC (LOCKBOX)	$ 4,844,400.00	

4.3.5 Validation Procedures Performed on Bank Data

98. In order to assess the accuracy and completeness of the Bank Data in the database, PwC performed the following procedures:

- For inter-account transfers, confirmed that the transaction detail in both the receiving and paying bank accounts matched; and
- Validated that the beginning balance, plus the net monthly activity, equaled the ending balance and that the ending balance equaled the beginning balance for the next month.[42]

99. In order to standardize the Bank Data into one common format for enhanced reporting and tracking of transactions, PwC performed the following procedures:

- Worked with Petters Entities employees including Sandy Indahl ("S. Indahl"), Lois Kruse ("L. Kruse"), Mark Laumann ("M. Laumann"), and D. Lindstrom to standardize Payors and Payees; for example "PETTERS CO INC" and "PETTERS CO, INC" were standardized to "PETTERS COMPANY INC"; this was necessary to accurately report on bank activity for certain individuals/entities as well as identify transactions for notes payable and other analyses performed using Bank Data;
- Created standardized bank names; for example "WINDSOR/ASSOCIATED" and "ASSOCIATED" were standardized to "ASSOCIATED BANK";
- Standardized account holder names across all Bank Data;
- Identified transactions with dates listed outside the date range of the originating bank statement, as these were most likely the result of third party keying errors;
- Ensured incoming amounts had the account holder as the Payee and outgoing amounts had the account holder as the Payor; and

[42] PwC completed this analysis on certain accounts, as deemed necessary.

- Updated unknown Payor and Payee information by utilizing other documentation identified through a targeted review of the hard copy data or ESI.

100. Detailed below are some of the procedures performed through September 30, 2010, to support a majority of the analyses and reporting:

- Summarized bank account activity by bank account, time period, or certain individuals/entities;
- Created standardized summary and detail notes payable reports for each of the SPEs and Private Investors;
- Searched for incoming/outgoing payments by date, amount, and/or to/from certain individuals/entities; and
- Tracked the use of bank transactions in notes payable or ad hoc reporting to confirm that no transactions were utilized in multiple reports in an inconsistent fashion and to assess which transactions were not being included in any reports.

4.4 Credit Card Data

101. PwC performed searches for credit card statements within the collected hard copy data and ESI, and obtained copies of statements that the DOJ and KW&S had previously collected. PwC created an inventory of identified credit card accounts issued by Petters entities and personal accounts for the Individual Defendants. PwC identified 219 credit card accounts (each account might have multiple cards/account holders) at 24 issuing institutions.

102. PwC determined that 124 of the 219 credit cards identified were potentially relevant to various analyses, as they were the main personal credit card accounts used by T. Petters or corporate credit cards issued by Petters Entities.[43] In order to obtain the population of available statements for the 124 relevant credit card accounts, PwC contacted 14 institutions to obtain copies of statements and to inquire about any additional accounts not yet identified for the Individual Defendants.

[43] Credit card accounts identified also include those issued to Onka Funding & Management, LLC, which was created and owned by R. White and D. Coleman.

103. PwC received credit card account statements from four of the 14 institutions (American Express, Bank of America, Citibank, and US Bank), which included an additional 21 accounts previously unidentified, bringing the total of identified credit card accounts to 240. For two of the other institutions (Crown, Northern Trust), the credit card accounts identified were debit cards associated with accounts for which Bank Data had already been collected. As such, no additional information from these institutions was obtained. PwC continues to follow up with the eight other institutions.

104. In total, statements for 131 of the 240 identified credit card accounts were collected from the DOJ, KW&S, hard copy data and ESI, as well as the various banking institutions for the time period 1999 to 2010. This data may potentially be used for future ad-hoc analyses as requested by Counsel.

4.5 Payroll Data

105. PwC identified compensation to employees in addition to their base salaries. PwC performed this analysis by reviewing disbursements recorded in the ADP payroll system,[44] as well as identifying payments to employees through targeted searches of Bank Data.

106. The Petters Entities IT department maintained a server for the ADP payroll application that the HR department accessed for payroll activities. PwC analyzed the latest available backup of this application to extract key payment information.

107. The historic payroll payments were filtered for the categories of stock options, bonus incentives, commissions, severance, and payments to strategic partners. Refer to Section11 “Employee Bonus and Strategic Partner Analysis” for results of this analysis.

4.6 Management of Data/Records

108. The Petters Receiver and/or Trustee selected Stratify Legal Discovery Service (“Stratify”) for the processing, review and production of collected emails, common user files, and hard copy documents.

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[44] ADP is a payroll service provider utilized by the Petters Entities.

109. The Petters Receiver and/or Trustee sought an electronic discovery solution that would enable access to a master repository of documents in a web hosted environment. PwC worked with Stratify to design a solution to minimize the overall cost for the Petters Receivership. This was done through a custom architecture of master and satellite databases, as the documents were first processed into a master database and shared through satellite databases.

110. The Petters Receiver and/or Trustee determined the subset of collected ESI to be loaded into Stratify. The ESI loaded into Stratify consists of two categories of information: (1) employee-specific data sources and (2) general categories of documents (e.g., documents produced by JP Morgan).

111. PwC extracted the common user files and emails from the various data sources collected by utilizing forensic extraction tools such as EnCase. The sources of extracted data included corporate laptop/desktop computers, file servers, email servers, backup tapes, and the Vault. Petters Entities hard copy documents, third party provided documents, and documents specific to discovery keywords were also included in the population of data provided to Stratify.

112. For certain employees selected for processing into Stratify, PwC performed additional procedures on the ESI recovered from the forensic images to remove personal and/or information deemed confidential by Counsel and/or not related to the Petters Entities prior to providing it to Stratify.

113. Stratify processed a total of 1.3 terabytes of ESI and hard copy data, consisting of approximately 13.6 million documents. Stratify de-duplicated this data set, resulting in 3.5 million separate documents that are hosted and available for review within Stratify. Stratify also converted and branded for production 317,106 pages from this document population for ongoing civil litigation.

114. Throughout the engagement, PwC has supported the Petters Receiver and/or Trustee and relevant parties by managing the Stratify database and their document search requests. PwC provided the following Stratify support services: (1) scoping and

engagement planning; (2) preparing the Stratify environment to review specifications; (3) technical support for reviewers; and (4) production of reviewed documents out of Stratify.

4.7 Independent Petters Investigative Work

115. At the beginning of the engagement in November 2008, PwC conducted extensive independent background checks and research of public records related to various key individuals including T. Petters, D. Coleman, James Wehmhoff (previously defined as "J. Wehmhoff"), R. White, M. Catain, L. Reynolds, F. Vennes, and Gregory Bell ("G. Bell").

116. Research efforts uncovered the following information: address history and phone listing; real property ownership and deed transfers; property owners listed at each related address; vehicle and watercraft registration information; potential relatives; possible fictitious business names; Uniform Commercial Code (UCC) filings; potential bankruptcies, liens, and judgments; and company affiliations.

117. A review of this data was conducted and further research was performed specific to company affiliations, personal property and civil litigation. This information was summarized by individual and organized with the associated supporting documentation.

118. In addition, PwC performed targeted research related to other companies, individuals, or assets of interest including, but not limited to: Ronald Musich; Blue Marlin Capital, LLC; BLS Sales, Inc.; Enable Holdings, Inc.; uBid.com Holdings, Inc.; RWB Services, LLC ("RWB Services"); Wideblue Limited; Stafford Towne, Ltd. ("Stafford Towne"); Epsilon Investment Management, LLC ("Epsilon"); Paul G. Mouttet; Camille Chee-Awai ("C. Chee-Awai"); Family Foundation; JTP Foundation; Petters Group Worldwide Employee Care Fund; Steve Stevanovich ("S. Stevanovich"); Petters Aviation, LLC ("Petters Aviation") Boeing 727-35 Aircraft; Allen Munson; Calvin Records; Barry Smith; Helen Dang; Northwestern Foundation; Steve Young; After the Second Millennium; PFG Alders Property, LLC; and International Investment Opportunities, LLC ("IIO").

4.8 Information from Petters Entities Personnel

119. Throughout the course of the engagement, PwC worked closely with the various Petters Entities and Polaroid employees, including, but not limited to the following

individuals: Jared Danielson, Bill Dumont, Patricia Hamm, Thomas Hay, Joseph E. Schmit, Richard Gross, Neil Johnson ("N. Johnson"), C. Chee-Awai, S. Indahl, L. Kruse, M. Laumann, and D. Lindstrom.

120. In addition, PwC conducted interviews of the following individuals: T. Petters, D. Coleman, R. White, J. Wehmhoff, and G. Bell.[45]

121. These sessions allowed PwC to gain insight into the Ponzi Scheme beyond what had been gleaned from analyzing the documentation gathered to date. More specifically, interview questions were designed to achieve the following: (1) gain additional understanding of certain transactions; (2) understand the method by which individual investors were introduced to the Ponzi Scheme; (3) learn the history of specific individuals or entities; (4) discover the reasoning behind acquisitions and funding strategies; (5) clarify inconsistencies noted in the data; and (6) learn the 'story' behind each SPE, including how the investment funds were introduced to T. Petters, who determined the interest rates on their notes, and if PwC's preliminary analyses seemed reasonable based on the interviewee's recollection of the activity.

5 Determination of Net Cash Positions for Investors Involved in the Petters Ponzi Scheme

122. The below sections describe the procedures performed to determine the Net Cash Position for the Private Investors, SPEs, and the Vennes Entities' investments with PCI, as well as Acorn Capital Group, LLC's ("Acorn") investments with other Petters Entities.

5.1 Original Investors - Small/Private Individuals or Entities

5.1.1 Overview

123. PCI originally engaged in financing activities substantiated by promissory notes (both secured and unsecured) with individuals, entities, or investment funds (previously defined as "Private Investors"). The earliest promissory note found in Company Records was dated October 23, 1996, between PCI and Larsen Agribusiness.

[45] G. Bell is the founder of Lancelot and was not employed by any Petters Entities.

124. An analysis of Company Records, including promissory notes (some unsigned), purchase orders, security agreements, guaranty agreements, and tracking spreadsheets, identified over 3,800 notes between PCI and 153 Private Investors. While the Vennes Entities are classified as Private Investors, this investment activity is discussed in greater detail in Section 5.5 "Vennes Entities."

125. Although the level of promissory note documentation varied among the Private Investors, the substance of the notes was in large part the same. Promissory notes typically contained information including the following: note number, start date, amount, borrower, holder, interest/profit sharing amount or rate, and maturity date. The amount of documentation varied by promissory note as (1) some notes were personally guaranteed by T. Petters; (2) some notes were documented as secured with the underlying inventory allegedly purchased with the borrowed funds; and (3) some notes had purchase orders from PCI to vendor (e.g., NIR or Enchanted) and customer (e.g., Costco) to PCI attached as additional documentation.

5.1.2 Procedures to Identify Private Investors

126. PwC conducted searches of data to identify and compile a list of Private Investors based on the information identified and gathered to date. The following information was used to compile the list of Private Investors:

- QuickBooks accounting software provided journal entries where investments, accrued interest, and payments to investors were recorded. QuickBooks was utilized by PCI starting in February 2003.
- Excel spreadsheets created and maintained by PCI personnel, which identified investors, notes, and payments. The spreadsheets were created beginning in 2003, and maintained through October 2008. Exhibit 27 is an example of an investor tracking sheet maintained by PCI personnel.
- Excel spreadsheets identified within Stratify that were created and maintained by D. Coleman for individual investors. The spreadsheets identified the notes payable history for each individual/entity and included the following information: name,

address, note number, date, principal amount, interest rolled/paid, date rolled/paid, and principal rolled/paid. Tracking spreadsheets were identified for the majority of Private Investors; however, they were maintained less frequently upon implementation of the QuickBooks accounting software. An example of a D. Coleman tracking spreadsheet is included as Exhibit 28.

- Form 1099s identified within Stratify, electronic 1099 information saved within 1099 ETC (the PCI tax software), and hard copies of Form 1099s provided by Petters Entities personnel.
- 1099 files maintained by D. Coleman on her file share drive. D. Coleman created and maintained tracking spreadsheets that identified interest paid to individuals/entities in a given year. Spreadsheets were prepared for the period 1997 to 2006. An example 1099 file maintained by D. Coleman is included as Exhibit 29.
- "Active investor listing" documents identified within Stratify. An example is included as Exhibit 30.
- A CD containing 2,755 files provided by D. Lindstrom. The majority of the files were Microsoft Word (i.e., unsigned) copies of promissory notes.
- Tracking files created and maintained by N. Johnson, specific to the activity for Ritchie Special Credit Investments, Ltd.; Rhone Holdings II, Ltd.; Yorkville Investment I, LLC; Ritchie Capital Structure Arbitrage Trading, Ltd.; Ritchie Capital Management (collectively, "Ritchie"); and Ark Discovery II, LP ("Ark Discovery").
- The beneficiary party (i.e., Payee) of outgoing transactions from the PCI M&I and PCI Associated accounts that were unaccounted for in any of the PwC analyses were reviewed by D. Coleman in order to understand the purpose of the transactions; she identified certain Payees as investors. Utilizing D. Coleman's feedback/observations, additional research was performed to confirm the existence of the Payees as Private Investors.

127. PwC used the Private Investor information gathered from the sources listed above to create a timeline of investment activity for the Private Investors. The timeline illustrates the time period during which each Private Investor invested in PCI based on

promissory note start and maturity dates. It also displays the total number of notes, number of new principal funded notes (as opposed to rolled principal investments), and the amount of principal invested for each Private Investor. Exhibit 31 is the Investor Timeline as of September 30, 2010.

5.1.3 Procedures to Identify Net Cash Position of Private Investors

128. PwC conducted searches in Stratify to compile the note documents for all identified Private Investors through the procedures described above. In the instances where signed, executed promissory notes and unsigned Microsoft Word versions of the same note were found, PwC relied on the signed version which was assumed to have been fully executed and that funds were transferred. If a signed copy of a promissory note could not be found, PwC relied on the unsigned Microsoft Word version and other supporting documentation.

129. A working file was created for each investor in order to capture key data points for each note, such as (1) start/maturity dates, note amount, interest rate; (2) potential bank transactions related to the investments/payments of notes; and (3) assumptions of the activity related to each note. In order to identify potential bank transactions, a query of the available Bank Data was run based on the name of the investor and/or their affiliated entities (if applicable), the start date of the note (for the principal investment), the maturity date of the note (for the payments), and the investment/payment amount. Additional research was conducted on transactions where the Payor or Payee was unavailable due to missing bank information to better link these transactions to specific notes.

130. PwC created reports titled "Note Summary" for each investor that included the notes for a specific investor and the following information, at a minimum: note number, start date, maturity date, note amount, and annual interest rate. Exhibit 32 is an example of a Notes Summary report for Private Investors. During this process, PwC also categorized notes for each investor that appeared to "roll" into new notes based on (1) handwritten comments on hard copy note documents identified in Stratify; (2) the maturity date of the "old" note related to the start date of the "new" note; (3) the note amount of the "new" note related

to the “old” note; and (4) the absence of payment of the “old” note and investment for the “new” note. PwC evaluated rollovers on a case by case basis for each investor and utilized a flexible approach in applying the aforementioned criteria when classifying rollovers. For example, a note that started a couple of days after another note ended and had an increase in principal amount may have been classified as a rollover since interest and/or additional principal could have been rolled into the subsequent note’s principal funded amount. For instances in which it appears that notes have rolled, the Note Summary Report contains additional information to support the treatment of the note.

131. In some cases, notes were identified in the aforementioned tracking spreadsheets; however, neither signed nor Microsoft Word copies of the notes were found. These notes were included in the Note Summary reports for tracking and completeness purposes.

132. PwC also created “Transaction History” reports for Private Investors to provide further detail of the transactions supporting each note. Exhibit 33 is an example of a Transaction History report for Private Investors. PwC utilized promissory notes, bank transaction data, company tracking spreadsheets, and company accounting records to quantify the investments and payments for each investor, including non-note related transactions (e.g., commission payments). While Private Investor activity has been documented as early as 1996 (in fact, as noted above, D. Coleman and R. White testified that the fraudulent investments were taking place since at least 1994[46]), bank transaction data was not always available to confirm that an investment or payment took place. To the extent bank transaction data was not available, PwC’s analyses assumed that the transactions (either investments or payments) occurred based on other supporting documentation identified to date. Transactions that were supported by Company Records or other documentation were footnoted as such in each investor’s report.

133. Exhibit 3 provides a summary of the Net Cash Position for the Private Investors.

[46] D. Coleman trial transcript dated November 2, 2009, page 532, lines 6 - 10. R. White deposition transcript - Volume II, dated July 27, 2010, page 276, lines 16 - 25, and page 277, lines 1 - 7.

5.2 Shift to Large Investment Funds

134. In 2001, the PCI financing model shifted toward large, investment funds. Petters formed eight special purpose entities (previously defined as "SPEs") to serve as pass-through entities for the financing activities of these large investment funds, seven of which were structured as subsidiaries of PCI: (1) MGC Finance, Inc.; (2) PL Ltd., Inc.[47]; (3) SPF Funding, LLC; (4) PC Funding, LLC; (5) Edge One, LLC; (6) PAC Funding, LLC; (7) Thousand Lakes, LLC; and (8) Palm Beach Finance Holdings, Inc.[48] The SPEs were formed at various points in time and served as the vehicle through which each investment fund provided financing and received corresponding payments. The timeline of activity for each SPE ranged between 2001 through 2008, as illustrated in Exhibit 31. All SPEs/investors had open notes as of September 30, 2008, with the exception of PL Ltd., Inc. (Epsilon) and SPF Funding, LLC. As described in the respective sections below, the names of four SPEs changed in 2004 and/or 2005. The table below illustrates current (and where applicable, former) SPE names, underlying investors, and approximate number of notes:

[47] PL Ltd., Inc. was used twice throughout the duration of the Ponzi Scheme. For the period 2001 - 2007, it was utilized for the investments of Epsilon Investment Management, LLC; during 2008, it was utilized for the investments of the Elistone Fund.
[48] Palm Beach Finance Holdings, Inc. was owned 100% by T. Petters.

Figure 3.

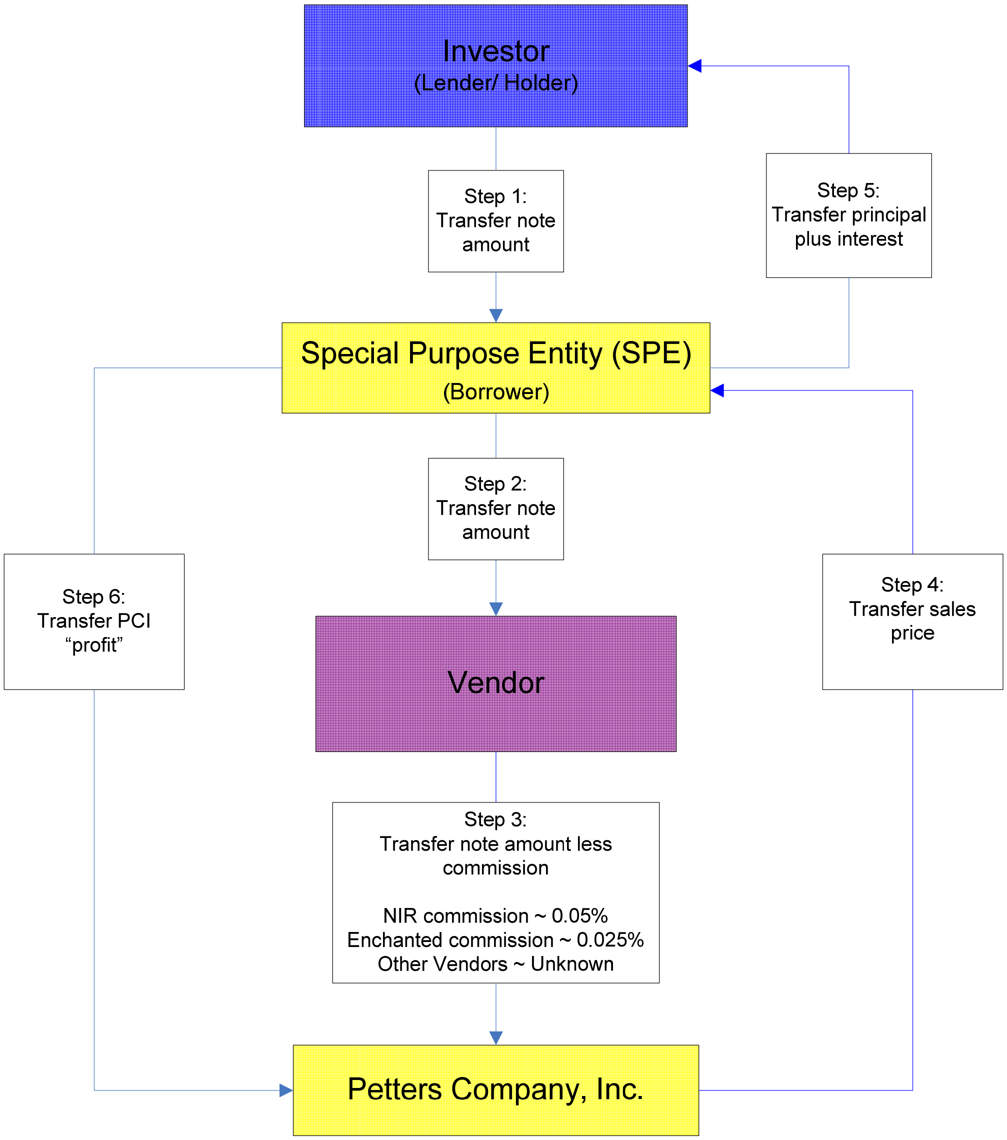
SPE Name	Investor Name(s)	Approximate Number of Notes
MGC Finance, Inc. (F/K/A Petters I, Inc.)	Arrowhead Capital Finance Ltd; Arrowhead Capital Management Corp.; Arrowhead Capital Partners II, LP; Metro Gem Capital, LLC; Metro Gem Capital II, LLC; Metro I, LLC; Metro II, LLC	1,240
PL Ltd., Inc. (F/K/A Petters Limited, Inc.)	Epsilon Investment Management, LLC; Epsilon Global Master Fund, LP; Epsilon Global Master Fund II, LP; Capital Strategies Fund, Ltd.; Westford Special Situations Fund, Ltd.; Westford Special Situations Fund, LP; Westford Special Situations Master Fund, LP; Epsilon Global Active Value Fund III, Ltd.; Epsilon Global Master Fund III - Structured Strategies, LP	151
SPF Funding, LLC (F/K/A Petters Finance, LLC)	Opportunity Finance, LLC; The Sabes Family Foundation; Minneapolis Foundation	167
PC Funding, LLC	Opportunity Finance, LLC	546
Edge One, LLC	Edge One Capital, LP; Ark Discovery II, LP; AtoZ Investors Funds, LP	29
PAC Funding, LLC	Acorn Capital Group, LLC; Stewardship Credit Arbitrage Fund, LLC; Stewardship Credit Arbitrage Fund, Ltd.	708
PL Ltd., Inc. (F/K/A Petters Limited, Inc.)	Elistone Fund; Integrated Alternative Investments Limited	21
Thousand Lakes, LLC	Lancelot Investment Management, LLC; Granite Investors Fund, LP; Lancelot Investors Fund, LP; Lancelot Investors Fund II, LP; Lancelot Investors Fund, Ltd.	496
Palm Beach Finance Holdings, Inc. (F/K/A Petters Capital, Inc.)	PBFP Holdings, LLC; Palm Beach Finance Partners, LP; Palm Beach Capital Management, LP; Palm Beach Capital Corp.; Palm Beach Finance II, LP	2,449
	Total Notes	**5,807**

135. Investment funds financed a percentage of up to 100% of the alleged inventory transaction. PCI financed the remaining portion, if any, of the alleged transaction. An alleged transaction typically included a purchase order from PCI to a vendor, and then another purchase order from a "big box" retailer to PCI. Promissory notes detailed the financing amount, start date, maturity date, borrower (i.e., SPE), and lender/holder (i.e., investor). Similar to some Private Investors, the promissory notes were documented to be secured with the underlying electronics inventory purportedly purchased with the financing proceeds.

136. The purchase orders for the alleged transaction often contained identical information. As such, the electronics inventory allegedly purchased from NIR, Enchanted and other vendors was the same inventory allegedly sold to a retailer. Exhibit 34 provides examples of two purchase orders - one from PCI to the vendor, and one from the customer to PCI. A review of SPE promissory notes, Company Records, and bank transaction activity indicated that potential vendors included, but were not limited to: (1) NIR; (2) Enchanted; (3) After the Second Millennium; (4) Apex Digital; (5) Universal Capital, Inc. ("Universal Capital"); (6) International Buying Service, Inc.; (7) Lectronix; (8) Nationwide Gig; (9) PAR Group/DRP; (10) Universal Assets, LLC; and (11) Chicago Buying Company.

137. While preparing the notes payable analyses for each SPE, PwC gained an understanding of the SPE's scheme, which helped identify the flow of funds, as well as the specific bank accounts involved. The schemes varied in level of complexity among the SPEs and oftentimes different schemes were utilized for the same SPE over the years. Although there were variations, the diagram below depicts the general scheme utilized by the SPEs:

Figure 4.



138. While the financing arrangements varied among the SPEs, typically the investor sent funds to a SPE bank account (refer to Step 1 in Figure 4 above). Each of the SPEs had a bank account(s) ("Restricted Account") that was used for cash receipts and disbursements. These Restricted Accounts were most often controlled by the investors, not T. Petters. Typically, Deposit Account Control Agreements were executed by and among the investor (i.e., creditor), the SPE and/or PCI (i.e., customer), and the banking institution (i.e.,

custodian) that stipulated controls, limitations, and agreements among the parties regarding the Restricted Account. These agreements set forth the general procedures by which deposits could be made into, and funds withdrawn from, the respective Restricted Accounts. In general, these Deposit Account Control Agreements stipulated that the investor had full control of the account and that funds deposited into the Restricted Account could only be disbursed to, at the direction of, or with the approval of, the investor.

139. Typically, funds were subsequently transferred by the investor from the Restricted Account to the vendor (most commonly NIR and Enchanted) (refer to Step 2 in Figure 4 above). NIR and Enchanted received a commission as a percentage of each principal investment amount it received. NIR and Enchanted often commingled funding for several inventory transactions and sent the aggregate amount (funding less commission) to PCI (refer to Step 3 in Figure 4 above).

140. When the promissory note matured, PCI made payment(s) to the investor controlled Restricted Account for the sales amount (the amount allegedly paid by the "big box" retailer for the electronics inventory) (refer to Step 4 in Figure 4 above). This amount was usually greater than the principal and accrued interest due on the note, and did not originate from the intended retailer source as contemplated by the transaction structure. As a result, the investor withdrew funds from the Restricted Account in the amount of the principal and accrued interest on the note (refer to Step 5 in Figure 4 above) and the difference between the amount transferred by PCI to the Restricted Account and the amount withdrawn by the investor as repayment of principal and interest was returned to PCI as the purported "profit" (refer to Step 6 in Figure 4 above). Because the Restricted Accounts were controlled by the investors, the transfer from PCI to the SPE's Restricted Account was a transfer made by PCI to the investor.

5.3 Special Purpose Entity Analysis Overview

141. PwC performed detailed analyses for each investment fund and associated SPE in order to quantify the Net Cash Position of each investor. Net Cash Position is defined as cash in (principal amounts invested) less cash out (payments, including principal, interest,

and commissions, if applicable). When calculating the outstanding balance for those investors with unpaid notes, PwC accrued interest through September 30, 2008, consistent with the process used to schedule the disputed claim amounts in the various Petters Entities bankruptcy filings.

5.3.1 Procedures Performed for Each SPE (PCI Notes)

142. The following procedures were performed for each SPE in order to analyze and report on each SPE's Net Cash Position:

- Conducted informational interviews with Petters Entities personnel to better understand the SPE process and available documents.
- Analyzed notes tracking spreadsheets created and updated by PCI personnel for each SPE. Exhibit 35 provides an example of a spreadsheet created and updated by PCI personnel for a SPE.
- Analyzed PCI QuickBooks accounting data, specifically cash, notes payable, accrued interest, accounts receivable, sales, and cost of goods sold. Though the accounting data provided useful information, PwC did not rely solely on accounting records as the information was often incomplete, inaccurate, and aggregated by account rather than by SPE.
- Performed targeted searches in Stratify to identify promissory notes not tracked by PCI personnel.
- Analyzed investor records received from Lancelot Investment Management, LLC ("Lancelot") and Epsilon, which tracked notes payable activity with PCI. PCI personnel provided the records that were received from the investors.
- Reviewed spreadsheets created and updated by D. Coleman to track activity for the PCI M&I Account. Exhibit 36 provides an example of a spreadsheet created and updated by D. Coleman.
- PwC developed a semi-automated process to trace the notes payable information identified above to the available bank transaction data (see Section 4.3 "Bank Data" for additional details about Bank Data). The methodology relied on a

number of factors including dates, amounts, Payors, and Payees. The results of this process were further analyzed to determine the reliability of the matched transactions.

- In tracing investments and payments, PwC identified Payor and Payee combinations and then searched the Bank Data to identify transactions with the same Payor/Payee combinations not previously captured in another SPE analysis. PwC conducted targeted searches within Stratify to identify the purposes of these transactions.
- Reviewed the promissory notes to confirm the start date, maturity date, amount, and interest rate for each note identified.
- Additional procedures as described in the respective section for each SPE below.

143. Exhibit 37 provides a general overview of the process utilized to achieve the objective described in the preceding paragraph. The information contained within Company Records was traced to bank transaction activity to the extent available in order to report the volume and amounts of financing and payments for each investor.

5.3.2 Summary of Findings

144. Through September 30, 2010, PwC identified the following with respect to the SPEs:

- Over 5,800 SPE promissory notes. For these notes, there were approximately 6,100 bank transactions, representing $29.5 billion in principal investments from the SPEs, and approximately 12,400 bank transactions representing $28.4 billion in net payments to the SPEs from 2001 to 2008.
- Over 3,500 intra-entity/intercompany[49] transactions representing $4.7 billion related to the notes payable transactions for certain SPEs.

[49] Intra-entity transactions are defined as transfers between different bank accounts of the same Petters Entities (e.g., PCI M&I to PCI Associated or PAC Funding, LLC (Blocked) to PAC Funding, LLC (Operating)). Intercompany transactions are defined as transfers between different Petters Entities (e.g., PCI M&I to PGW Crown).

145. PwC's analyses determined that four of the investment funds had a net cash gain[50] while five had a net cash loss.[51] As of September 30, 2008, 411 SPE-related promissory notes issued were outstanding and unpaid.

146. Certain SPEs also presented a pattern of "rolling" notes, similar to Private Investors. In summary, the general criteria used to determine if notes were rolled are as follows: (1) the maturity date of the "old" note was the same as, or close to, the start date of the "new" note[52]; (2) the note amount was the same for the "old" and "new" notes[53]; (3) investments for the "new" note or payments for the "old" note were not identified in Bank Data during periods for which Bank Data was available; and (4) Company Records contained notations indicating that funds were rolled. Additional details and procedures are described in the relevant SPE sections below.

147. As part of these analyses, PwC also categorized approximately $1.4 billion bank transactions as "unexplained cash transfers," as these bank transactions netted to zero and were transfers amongst Petters Entities (intercompany), or transfers to third parties. These transactions did not appear to be supported by underlying note arrangements, and often were paid and returned on the same day.

148. In addition, PwC performed an analysis to quantify the commission payments received by MGI for (1) MGC Finance, Inc., (2) Palm Beach Finance Holdings, Inc., and (3) Paul Taunton ("P. Taunton") [54] notes. MGI received various percentages of the face value of promissory notes between investors and SPEs or PCI. PwC identified approximately $113 million in commission payments to MGI (owned by F. Vennes) from 2001 to 2008. The analysis further linked specific notes to each commission payment made to MGI. See Section 5.5.1. "Metro Gem, Inc." for further detail on MGI commissions.

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[50] MGC Finance, Inc. (Arrowhead Capital Finance Ltd., et al.); PL Ltd., Inc. (Epsilon); SPF Funding, LLC (Opportunity Finance, et al.); and PC Funding, LLC (Opportunity Finance) had a net cash gain.
[51] Edge One, LLC (Edge One Capital, LP, et al.); PAC Funding, LLC (Acorn Capital Group, LLC, et al.); PL Ltd., Inc. (Elistone); Thousand Lakes, LLC (Lancelot, et al.); and Palm Beach Finance Holdings, Inc. (PBFP Holdings, LLC) had a net cash loss.
[52] Some rolled notes occurred a few days after the original note matured.
[53] In certain instances, the interest from the "old" note was included with the principal to form the "new" note principal amount.
[54] P. Taunton was a Private Investor.

149. Exhibit 2 summarizes the results of PwC's work performed as of September 30, 2010, with respect to the SPEs and the Vennes Entities and summarizes the Net Cash Position for each investor. The sections below further describe the work performed for each SPE.

5.4 Detailed Special Purpose Entity Analysis

5.4.1 MGC Finance, Inc.

5.4.1.1 Overview

150. Petters I, Inc. ("Petters I") was formed on June 29, 2001, as the vehicle through which Arrowhead Capital Management Corp. ("Arrowhead Capital Management") invested in PCI. Company Records indicated that Petters I changed its name to MGC Finance, Inc. ("MGC Finance") on February 7, 2005. A Collateral Account Agreement dated July 18, 2001 ("Petters I Collateral Agreement"), was identified between Wells Fargo, Petters I, Metro Gem Capital, Arrowhead Capital Management, and Arrowhead Capital Partners II, LP; Company Records indicated investment activity originally began on March 10, 2001, between Metro Gem Capital, LLC and PCI. Promissory notes specified MGC Finance or Petters I as the "borrower" and one of the following as the "holder": (1) Metro Gem Capital, LLC; (2) Metro Gem Capital II, LLC; (3) Metro I, LLC; (4) Metro II, LLC; or (5) Arrowhead Capital Finance Ltd. (collectively "Arrowhead Capital Management Entities"). Based on the start dates of notes, it appears that Metro Gem Capital, LLC changed to Metro I, LLC and Metro Gem Capital II, LLC changed to Metro II, LLC in June 2004. In total, 1,240 promissory notes were executed, with 1,212 paid in full and 28 open as of September 30, 2008. Investments ranged from $162,000 to approximately $6.0 million, and annual interest rates on these notes typically ranged from 13% to 24%.

151. The notes were secured with allegedly purchased merchandise from suppliers including NIR, Enchanted, Nationwide Gig, International Buying Services, Inc., PAR Group, Universal Capital, and After the Second Millennium.

5.4.1.2 Flow of Funds

152. Exhibit 38 provides an overview for an entire note transaction related to MGC Finance, and depicts the scheme employed for the majority of its notes. Approximately 11 notes deviated from the pattern depicted in this diagram, whereby investments were transferred directly from the investor to PCI. Furthermore, PCI paid principal and interest rather than the sales price (i.e., in Step 3 of Exhibit 38) for several notes. In these instances there was no repayment of alleged "profit" to PCI for these transactions.

153. Pursuant to the Petters I Collateral Agreement, PwC identified four Wells Fargo bank accounts utilized by MGC Finance and Arrowhead Capital Management Entities in the scheme (collectively, the "MGC Finance Accounts"). Bank Data was not available for each of the MGC Finance Accounts. Therefore, PwC relied on the accounts of the alleged vendors, such as NIR and Enchanted, for transactions involving MGC Finance. It was assumed that transactions from MGC Finance to the alleged vendors were initially funded by corresponding investments from one of the investors of the fund, based in part upon corresponding promissory notes issued to investor. Where other vendors were identified in Company Records, cash transactions were assumed to have taken place, based upon corresponding promissory notes issued to the source of the funds. PwC additionally assumed payments from PCI to MGC Finance were ultimately transferred to the underlying investor(s).

154. For certain notes, PwC determined that cash transactions did not occur. Instead, principal and/or interest was rolled from the closing of one note in order to open another note. As discussed in Section 5.3 "Special Purpose Entity Analysis Overview" above, several factors were considered to determine if a note was rolled. As such, PwC compiled a history of rolled note activity (see Exhibit 39). This exhibit further illustrates that the first identified investment noted above on March 10, 2001, was the result of such activity.

5.4.1.3 Summary of Findings

155. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $4.6 billion in investments and

approximately $4.7 billion in payments of principal and interest were identified resulting in a Net Cash Position of $105.4 million in cash basis gains for Arrowhead Capital Management Entities. Exhibit 40 provides a summary of activity by year.

156. As shown in Exhibit 41, PwC analyzed the investment and payment activity by note. In addition, Company Records indicated that certain payments by PCI were applied to multiple notes upon maturity. As such, PwC developed a system to group such transactions. Group numbers were assigned to individual notes that were closed with a single payment ("Note Group") in the "Summary of Notes Payable by Note" report (see Exhibit 41). In each instance, both notes had the same start date, maturity date and annual interest rate.[55]

157. Upon maturity of notes entered into between MGC Finance and Arrowhead Capital Management Entities, a payment of commission was made from PCI to MGI, as illustrated in Step 5 of Exhibit 38. MGI was controlled by Frank Vennes and should not be confused with MGC Finance or Arrowhead Capital Management Entities. Further details of the commissions paid to MGI are discussed in Section 5.5.1 "Metro Gem, Inc."

5.4.2 PL Ltd., Inc. (Epsilon)

5.4.2.1 Overview

158. Petters Limited, Inc. was formed January 27, 1995, and did not function as a SPE until Epsilon Investment Management, LLC (previously defined as "Epsilon") began its financing relationship with PCI on April 30, 2001. Petters Limited, Inc. changed its name to PL Ltd., Inc. ("PL Ltd.") on November 2, 2004. PL Ltd. was used twice throughout the duration of the Petters Ponzi Scheme. For the period 2001 to 2007, it was utilized for the investments of Epsilon; during 2008, it was utilized for the investments of Elistone Fund.

159. Epsilon served as the investment manager for multiple underlying funds including: (1) Epsilon Global Master Fund, LP; (2) Epsilon Global Master Fund II, LP; (3) Epsilon Global Master Fund III - Structured Strategies; (4) Epsilon Global Active Value Fund III, Ltd.; (5) Capital Strategies Fund, Ltd.; (6) Westford Special Situations Fund, LP; (7) Westford Special Situations Fund, Ltd.; and (8) Westford Special Situations Master Fund, LP.

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[55] With the exception of five note groups, as shown in Exhibit 41.

These funds were identified as the “lender” on the promissory notes with PL Ltd. as “borrower.”

160. Although the first note between Epsilon Global Master Fund, LP and Petters Ltd. was dated April 30, 2001, the Master Loan Agreement (“PL Ltd. (Epsilon) MLA”) between PL Ltd., the above noted lenders, and Stafford Towne, as Administrative Agent, was executed on October 31, 2001. As stated in the Defined Terms of section 1.1, the PL Ltd. (Epsilon) MLA applied to future notes and prior notes:

> *“Note”: (i) Any Promissory Note or Zero Coupon Promissory Note of the Borrower, issued to a Lender substantially in the form attached hereto as Exhibit A-1 or Exhibit A-2, respectively, and accepted by Lender, as such promissory note may be amended, modified or supplemented from time to time, and such term shall include any substitutions for, or renewals of, such promissory note; and (ii) all Prior Notes.*

161. In total, 151 notes were executed until investing activity ceased in 2007. As a result, Epsilon and its funds were paid in full for all notes. Individual investments ranged from $1.2 million to $30 million, and annual interest rates varied across notes and time periods ranging from 12% to 48%.

5.4.2.2 Flow of Funds

162. Refer to Figure 4 for the scheme/flow of funds used by PL Ltd. (Epsilon) for its investments. Exhibit 42 further illustrates an example of a note transaction specifically for PL Ltd.

163. PwC identified two collateral accounts at Highland beginning at different points in time: (1) the first collateral account opened in May 2001, and (2) the second account opened in October 2001. These accounts were typically controlled by the underlying investor(s); however, these accounts did not provide Payor/Payee information. Based upon promissory notes corresponding to the transactions verified in Bank Data[56], the following was concluded: principal investments originated as transfers from investors to PL Ltd., and payments from PCI to PL Ltd. were subsequently transferred to the underlying investor (i.e., Epsilon).

[56] Transactions verified in Bank Data refer to principal investments observed in accounts of the purported vendors (e.g., NIR and Enchanted) and payments observed from PCI to SPEs.

5.4.2.3 *Observations*

164. Notes were titled as either a "promissory note," "receivable participation note," or "zero coupon promissory note." A promissory/receivable participation note stated the principal amount and interest rate whereas a zero coupon promissory note specified the amount due at maturity (i.e., principal and interest due as a lump sum). As zero coupon promissory notes did not specify the investment amount, PwC utilized PCI Company Records and Epsilon files provided by PCI personnel to determine the investment amount. PwC calculated the interest rates for zero coupon notes based on the amount due at maturity, original investment amount, and start and maturity dates.

165. As mentioned above, 151 notes were executed between PL Ltd. and the investors. However, in certain instances one note (i.e., one note number included in Exhibit 43) was comprised of multiple notes ("Multi-Notes"). For example, Note Number 9 was comprised of the following: (1) a zero coupon promissory note between PL Ltd., Inc. and Epsilon Global Master Fund II, LP, and (2) an interest bearing promissory note between PL Ltd., Inc. and Epsilon Global Master Fund, LP. In total, once the 151 Multi-Notes are disaggregated, there were 344 executed notes. PCI records captured and tracked each group of Multi-Notes as one note since each individual note in the group often had the same start and maturity dates. Exhibit 44 provides a summary of all notes, identifies Multi-Notes, and indicates whether each note was interest bearing or zero coupon.

5.4.2.4 *Summary of Findings*

166. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $2.5 billion in investments and approximately $2.8 billion in payments of principal and interest were identified resulting in a Net Cash Position of $323.3 million in cash basis gains for Epsilon. Of the $2.8 billion in payments, approximately $2.5 billion was for principal and $323.3 million was for interest.

Exhibit 45 provides a summary of activity by year. Further, as shown in Exhibit 43, PwC analyzed the investment and payment activity by note.

167. PwC also identified $1.0 billion of transactions (i.e., $500 million into PCI and $500 million out of PCI) between PCI and PL Ltd. that netted to nearly zero dollars. The transactions started in April 2002, and continued through March 2007. These transactions did not appear to be supported by underlying note arrangements, and often were paid and returned on the same day.

5.4.3 SPF Funding, LLC

5.4.3.1 Overview

168. As mentioned in Figure 3 above, Opportunity Finance[57] invested in PCI through both SPF Funding, LLC ("SPF Funding")[58] and PC Funding, LLC. SPF Funding served as the vehicle for investments made by or on behalf of, Opportunity Finance, the Sabes Family Foundation, and the Minneapolis Foundation.

169. The Sabes Family also invested in PCI through several other vehicles including[59]:

- Investments through MGI: International Investment Opportunities, LLC (previously defined as "IIO"),[60] R. Sabes, J. Sabes, and Sabes Minnesota LP (another Sabes entity) entered into individual promissory notes with MGI in 1998. MGI in turn invested funds with PCI. Paid returns were often returned as "profit sharing" or interest.
- Investments through Metro Gem, LLC ("MGLLC"): MGLLC was a Minnesota entity for which F. Vennes served as Chief Manager, President, Treasurer, and Assistant Secretary. MGI held a minority ownership in MGLLC, with IIO as the majority owner. PCI and MGI Company Records reviewed by PwC indicated that

[57] Robert Sabes ("R. Sabes"), Janet Sabes ("J. Sabes"), Steven Sabes, and Jon Sabes (collectively, the "Sabes Family") ran the operations of Opportunity Finance.
[58] SPF Funding was called Petters Finance, LLC until October 6, 2004.
[59] Unless otherwise noted, PwC did not perform detailed analyses around the investment activities listed.
[60] R. Sabes formed IIO and served as a principal of the organization. IIO was later merged into the operations of Opportunity Finance in the late 1990's or early 2000's.

MGLLC lent money to PCI starting in 1998. Section 5.5.1 "Metro Gem, Inc." provides additional details regarding the investment activity of MGLLC.

- Direct investments between PCI and IIO: PCI and MGI Company Records reviewed by PwC indicated that IIO lent money to PCI starting in 1999.
- Direct investments between the Sabes Family/entities and PCI: PCI Company Records reviewed by PwC indicated that Sabes Family/entities lent money to PCI starting in 1999.

170. PwC identified details regarding IIO's investment relationship with MGLLC through an analysis of the Vennes Documents provided by the Vennes Receiver. The relationship was detailed in a Confidentiality and Non-Circumvention Agreement dated September 28, 1998, by and between R. Sabes, IIO, F. Vennes, and MGI. The members of MGLLC are MGI and IIO, with IIO holding a 99.9% interest and MGI a 0.01% interest in MGLLC. In summary, it appears that IIO placed funds with MGLLC, which in turn invested those funds with PCI.

171. The Sabes Family and its entities (including Opportunity Finance) eventually moved towards an investment model whereby all investments were directly made with PCI. Petters Finance, LLC ("Petters Finance") was formed on March 14, 2001, as the entity through which Opportunity Finance, the Sabes Family Foundation, and the Minneapolis Foundation invested in PCI. Petters Finance changed its name to SPF Funding on October 6, 2004.[61]

172. Opportunity Finance's initial investment in PCI through SPF Funding was on May 11, 2001, and continued through March 14, 2005. Annual interest rates on these notes were as high as 42% in 2001, and declined over time to 14%, with individual investments ranging from $900,000 to $6 million.

173. The Sabes Family Foundation began its investing activity through SPF Funding on August 13, 2001, continuing until May 9, 2007; these notes bore the same range of interest rates as Opportunity Finance notes, and had individual investments ranging from $1.9 million to $4.8 million.

[61] For purposes of this report the entity is called "SPF Funding."

174. The Minneapolis Foundation began its financial activity through SPF Funding on September 12, 2001, continuing until March 11, 2003; these notes bore interest rates as high as 42%, and declined over time to 18%, with individual investments ranging from $2.9 million to $4.5 million.

175. In total, 167 notes were executed between the various parties and SPF Funding, until investing ceased in 2007. Opportunity Finance, the Sabes Family Foundation and the Minneapolis Foundation were paid in full for all SPF Funding notes PwC identified.

5.4.3.2 Additional Information Relied Upon

176. PwC identified one US Bank account utilized by SPF Funding in its investment scheme (the "SPF Funding Account"). Bank transaction data for the SPF Funding Account provided visibility into investments sent to the SPE bank account and payments returned to the underlying investors from the SPE bank account. Additionally, PwC utilized the SPF Funding Account to understand the volume of notes that were rolled, as Company Records indicated that investment funds were rolling between notes. The SPF Funding Account statements confirmed the rolling activity through the absence of cash transfers (i.e., lack of payments on "old" notes and investments for "new" notes).

177. The rolling of notes occurred with such frequency that PwC compiled a schedule and analyzed the activity to identify "old" notes rolled into "new" notes. PwC assigned each rolled transaction a note group to provide links between all of its reports for SPF Funding. Upon the maturity of some notes, PCI made payments to the SPF Funding Account; however, subsequent payments were not always sent from the SPF Funding Account to the investors. Instead, the funds were reinvested for new notes and sent to a vendor. Exhibit 46 provides the "Schedule of Rolled Notes" for SPF Funding to illustrate "old" notes, "new" notes, and investment and payment activity. There are instances of notes in the exhibit where notes were rolled across investors (e.g., Opportunity Finance to the Sabes Family Foundation).

178. For all but one of the 80 Opportunity Finance notes,[62] principal investments were observed as transfers from the investor to the SPF Funding Account. In contrast, all but three of the Sabes Family Foundation's 77 notes and all 10 of the Minneapolis Foundation's notes were opened by rolled principal from the closing of earlier notes.

5.4.3.3 Flow of Funds

179. The investment scheme utilized by SPF Funding differed from the general scheme depicted above in Figure 4 as principal investments from the investor to the SPE and payments from the SPE to the investor were confirmed through a review of company Bank Data. Refer to Exhibit 47 for the scheme/flow of funds generally used by SPF Funding. The total cost transferred in step 2 was comprised of two components: (1) investment from the investor and (2) PCI's portion of the cost. PCI's contribution towards the total cost was not a consistent percentage across all notes. PwC traced the following transfers: (1) the investor to SPF Funding (for notes not rolled), representing principal investments; (2) PCI to SPF Funding, representing PCI's cost contribution for each note; (3) SPF Funding to vendors, representing the purchase order costs; (4) PCI to SPF Funding, representing the sales price payment; (5) SPF Funding to PCI, representing PCI's profit on the deal; and (6) SPF Funding to the investor, representing the ultimate payment to the underlying investor(s).

180. For the rolled notes, step 1A (as referenced on Exhibit 47) did not occur, and the "payment" from PCI to SPF Funding on an "old" note was used to fund the "new" note.

5.4.3.4 Summary of Findings

181. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, Opportunity Finance, the Sabes Family Foundation, and the Minneapolis Foundation invested approximately $247.5 million through SPF Funding and were paid approximately $286.9 million in principal and interest, resulting in a Net Cash Position of $39.4 million in cash basis gains. Exhibit 48 provides a summary of activity by

[62] Note 40902 was opened with rolled principal.

year. Further, as shown in Exhibit 49, PwC analyzed the investment and payment activity by note.

182. Exhibit 48 also provides a summary of supplemental information identified indicating that specific entities received additional interest. Email, faxes, and Company Records confirmed that the Sabes Family Limited Partnership received $2,000 of interest, IIO received $42.9 million of interest, the Sabes Family Foundation received an additional $4.6 million of interest, and the Minneapolis Foundation received an additional $1.2 million of interest.

183. Counsel requested PwC to perform further analysis of the transactions related to notes designated to the Minneapolis Foundation.   Further searches were conducted in Stratify to identify wire transfer receipts related to the potential investments from and payments to the Minneapolis Foundation. PwC uncovered the following: (1) the first note, opened on September 12, 2001, was the result of the closing of a J. Sabes and R. Sabes individual note with PCI (i.e., rolled principal); (2) all principal invested by the Minneapolis Foundation reflected funds donated by the Sabes Family (i.e., the Minneapolis Foundation never invested any of its own funds with SPF Funding, or for that matter, with any other SPE); and (3) certain payments on the Minneapolis Foundation notes were made to the Sabes Family Foundation, and vice versa. Of the $39.4 million cash basis gain mentioned above, PwC determined that the Minneapolis Foundation had $11.0 million in cash basis gains from its investments. As noted above, the Minneapolis Foundation contributed nothing towards its investments as the principal for their initial promissory note was sourced to the note gifted by R. and J. Sabes, and all subsequent principal investments were from rolled notes. Thus all funds returned to the Minneapolis Foundation were net cash gains.

5.4.4 PC Funding, LLC

5.4.4.1 Overview

184. PC Funding, LLC (“PC Funding”) was formed on December 17, 2001, as a SPE through which Opportunity Finance invested in PCI. Opportunity Finance’s initial investment in PCI through PC Funding was on January 7, 2002. Annual interest rates on

these notes ranged from 14% to 30%, with investment amounts ranging from $1.2 million to $5.9 million. In total, 546 notes were executed between the parties, with 542 paid in full and 4 open as of September 30, 2008.

5.4.4.2 Flow of Funds

185. The investment scheme utilized by PC Funding focused on the total cost of goods transferred from PC Funding to the vendors. Similar to SPF Funding, the total cost was comprised of the investment from the investor and PCI's portion of the cost. PwC did not detect any pattern in the amount of PCI's contribution towards the total cost for each of the notes.

186. The following transactions were confirmed using Bank Data for PC Funding notes: (1) transfers from PCI to PC Funding, representing PCI's cost contribution for each note; and (2) transfers from PC Funding to vendors, representing the full purchase order costs. As a result, PwC calculated the presumed investment for each note by reducing the total cost paid to the vendor by the amount of PCI's contribution. Refer to <u>Exhibit 50</u> for the scheme/flow of funds typically used by PC Funding.

187. By way of example, the amount for Note 091405-02 was $4,955,000. PCI was allegedly going to use this money as funding for its purchase of $5,057,500 of electronic goods. To ensure there was sufficient funds in the PC Funding account to allegedly purchase the goods, PCI was required to send $102,500. In analyzing this note, PwC performed two steps: (1) traced the $102,500 (as part of a larger payment) through the bank records, and (2) traced the total cost ($5,057,500) as a payment to NIR. As a result, PwC concluded that Opportunity Finance's investment in this note totaled $4,955,000.

188. PwC identified one US Bank account utilized by PC Funding in its scheme ("PC Funding Account"). As information was only available for a limited period for the PC Funding Account, PwC presumed transactions from PC Funding to vendors, such as NIR and Enchanted, were initially funded by investments from Opportunity Finance, based in part upon the issuance of corresponding promissory notes to Opportunity Finance. PwC confirmed funding transactions to NIR and Enchanted (from the PC Funding Account) through a review

of the NIR and Enchanted bank accounts, and to other vendors to the extent documentation was available. Similarly, PwC assumed that payments from PCI to PC Funding ultimately were sent to Opportunity Finance, in part based upon the fact that the PC Funding Account was controlled by Opportunity Finance principals.

5.4.4.3 Observations

189. Investing activity was generally consistent through July 2004 and then investments resumed in March 2005; however, payment activity continued through October 2004. As a result, Opportunity Finance was fully paid through October 2004. Once funding was initiated again in March 2005, it remained generally constant until December 3, 2007, when PC Funding entered into its final promissory note. From the period starting in February 2008 thru September 2008, $165.5 million was paid to close outstanding promissory notes. Refer to Exhibit 51 for a summary of note amounts and payments by month.

190. Payments stopped in May 2008, with five notes remaining outstanding at the time. As a result, a Forbearance Agreement was entered into on June 19, 2008, between PC Funding, Opportunity Finance and T. Petters that outlined continuing liens for failure to promptly pay the outstanding notes. Subsequent to this agreement, PCI made a series of payments to PC Funding. PGW also granted to Opportunity Finance a security interest in the proceeds of Fingerhut stock to secure PCI's debt. A payment of $4,238,419 was made for Note 120307-01 on August 1, 2008; this payment actually resulted in a credit balance of $86,112 for this particular note. In its analysis, PwC applied the credit as a reduction of interest due on other notes open as of August 1, 2008.

191. Additionally, payments were made from PCI to PC Funding on August 5, 2008, September 5, 2008, and September 12, 2008, totaling $5 million. These payments were not assigned to specific notes in the notes payable tracking spreadsheet maintained by PCI personnel; therefore, PwC allocated these payments across the four remaining notes open as of August 1, 2008.[63]

[63] Notes open as of August 1, 2008, were Note Numbers 111607-03, 112007-02, 112707-01 and 112807-01.

5.4.4.4 Summary of Findings

192. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, Opportunity Finance invested approximately $1.95 billion through PC Funding and was paid approximately $2.04 billion in principal and interest, resulting in a Net Cash Position of $90.49 million in cash basis gains. Of the $2.04 billion in payments, $1.93 billion was for principal and $105.3 million was for interest. Exhibit 52 provides a summary of activity by year. Further, as shown in Exhibit 53, PwC analyzed the investment and payment activity by note.

5.4.4.5 Other investments

193. Opportunity Finance also invested in PCB. PwC's analysis of the note activity with PCB is continuing as of September 30, 2010.

5.4.5 Edge One, LLC

5.4.5.1 Overview

194. Edge One, LLC ("Edge One") was formed on May 7, 2007, as the vehicle through which AtoZ Investors Fund, LP ("AtoZ"); Edge One Capital, LP ("Edge One Capital"); and Ark Discovery II, LP (previously defined as "Ark Discovery") invested in PCI. A Master Loan Agreement ("Edge One MLA") was entered into on July 5, 2007, among Edge One, AtoZ, and AWB Services, LLC, and was subsequently amended on February 25, 2008, for the following:

> *Change of Name. The parties acknowledge that AtoZ Investors Fund LP, on or about September 17, 2007 changed its name to Edge One Capital LP, and on or about February 7, 2008 changed its name to Ark Discovery II LP.*[64]

195. Investment activity began on October 1, 2007. Throughout the investment period promissory notes specify Edge One as the "borrower" and either Edge One Capital or Ark Discovery II, LP as the "lender." In total, 29 notes were executed between the parties, with 6 paid in full and 23 open as of September 30, 2008. Interest rates on the notes were

[64] The analysis of Ark Discovery II, LP's investment activity with PGW and T. Petters individually is included in Section 5.1 "Original Investors - Small/Private Individuals or Entities."

typically 16.8% on an annual basis, with several bearing a rate of 24.0%; and investment amounts ranged from $500,000 to $15 million.

5.4.5.2 *Flow of Funds*

196. Edge One followed the general scheme depicted in Figure 4 above for its investments, with a slight difference in the flow for the transfer of sales price (see Exhibit 54). Instead of sales price being transferred from PCI to the Edge One account for the transfer of principal and interest to the underlying investor, PCI transferred the full sales price to the investors directly. PCI's profit on the deal was subsequently transferred from the investor to PCI via the Edge One account.

197. Edge One bank account statements were not available for this analysis as the account was controlled by the investor. As a result, PwC assumed transactions from Edge One to alleged vendors, such as NIR and Enchanted, were initially funded by corresponding investments from AtoZ, Edge One Capital, or Ark Discovery. PwC confirmed funding transactions to NIR and Enchanted through a review of the NIR and Enchanted bank accounts. Similarly, PwC assumed transfers of profit from Edge One to PCI originated from AtoZ, Edge One Capital, or Ark Discovery.

5.4.5.3 *Summary of Findings*

198. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $159.0 million in investments and $36.3 million in payments of principal and interest were identified resulting in a Net Cash Position of $122.7 million in cash basis losses. Of the $36.3 million in payments, $32.9 million was applied to principal and $3.4 million was applied to interest. Exhibit 55 provides a summary of activity by year. Further, as shown in Exhibit 56, PwC analyzed the investment and payment activity by note.

5.4.5.4 Other Investments

199. PwC also identified additional investments from other entities that were affiliated with the Ark Discovery/Edge One Capital entities/funds:

- Two promissory notes, each for $3 million, between Ark Discovery and PGW and T. Petters in February 2008. No payments were identified on either note.
- One promissory note for $1,025,000 between Ark Royal Capital, LLC and PCI in August 2008. No payments were identified on the note.
- One 7-day promissory note (unsigned) for $5 million between Ark Royal Capital, LLC and PGW Holdings, LLC[65] in September 2008 in which the funds were transferred directly from Ark Royal Capital, LLC[66] to PGW and not PGW Holdings, LLC. PGW made one payment of $1.2 million on the note.

5.4.6 PAC Funding, LLC (PCI Investments)

5.4.6.1 Overview

200. Acorn Capital Group, LLC (previously defined as "Acorn") began investing in Petters Entities on June 21, 2001, with investments in RedtagBiz, Inc. ("RedtagBiz") (see Section 5.6.5 "RedtagBiz, Inc." below for further details). On May 10, 2001, Acorn provided an open line of credit in the amount of $75 million to RedtagBiz, and then on March 1, 2003, the line of credit was made available to other Petters Entities, including: PCI; Petters Group, LLC[67]; Petters Company, LLC; Petters International, LLC; PCB; RedtagBiz; and such other affiliates and subsidiaries of PCI (per the credit agreement).

201. Acorn started directly investing with PCI on August 29, 2002. PAC Funding, LLC ("PAC Funding") was formed on November 3, 2004, as the vehicle through which Acorn invested in PCI. Bank accounts for PAC Funding were not opened until early December 2004, as such, notes between Acorn and PAC Funding started on February 8, 2005, and all notes prior to this time were directly with PCI.

[65] PGW owned 100% of PGW Holdings, LLC.
[66] Although Bank Data is not available to confirm this Payor name, "Ark Royal Capital, LLC" is assumed based in part upon the issuance of the corresponding promissory note.
[67] PGW was formerly known as Petters Group, LLC.

202. On November 1, 2004, Acorn provided an open line of credit in the amount of $200 million to PAC Funding. Over the next several years, Acorn extended the term and increased the amount of the line of credit to $300 million through multiple amendments. The line of credit was secured by liens on the merchandise allegedly purchased from suppliers, including NIR and Enchanted, and T. Petters' personal guaranty. PAC Funding was purportedly using the loan proceeds to purchase and resell merchandise purchased from the vendors. The notes were often assigned to Stewardship Credit Arbitrage Fund, LLC (located in the United States) or Stewardship Credit Arbitrage Fund, Ltd (located in Bermuda). Both of these funds invested in Acorn. In total, 169 notes were executed between Acorn and PCI (all are closed), and 539 notes were executed between Acorn and PAC Funding, one of which was open as of September 30, 2008 (see Section 5.4.6.5 "Fifth Amendment to the Credit Agreement" below for further information). Annual interest rates on these notes ranged from 11% to 18% with most notes bearing a rate of 11% or 16%, and investments ranged from approximately $1.7 million to $9.2 million.

5.4.6.2 Additional Information Relied Upon

203. In addition to reviewing transactions from PCI's bank account at M&I Bank, PwC also reviewed numerous bank accounts used for PCI and PAC Funding notes with Acorn. For each of the note transactions with Acorn, the following three types of bank accounts were used. Refer to Section 5.4.6.3 "Flow of Funds" below for additional information.

- Blocked Account: Per the various credit agreements and notes documents between Acorn and PCI/PAC Funding, 5%, 10%, or 20% of the note amount was required to be deposited by PCI into a "blocked" account controlled by Acorn as collateral for the transaction. After the note was paid off, the collateral was then returned to PCI/PAC Funding.
- Lockbox Account: Account controlled by Acorn and was used to collect the purported "sales price" of the goods, which came from the PCI M&I Account, as

well as to transfer the note amount plus interest to Acorn and PCI's "profit" for each note transaction.

- Operating Account: Account controlled by PCI/PAC Funding and used as a pass-through account to transfer initial investments (for notes prior to September 2004, see Section 5.4.6.3 "Flow of Funds" below for more information), "PCI profit," and collateral to the PCI M&I Account.

204. The following bank accounts were analyzed to trace the flow of funds for PCI/PAC Funding notes with Acorn: RedTagBiz Associated,[68] PCI Associated, and PAC Funding Crown. Each of the three entities had a blocked, lockbox, and operating account.

205. Refer to Exhibit 57, which reflects the Bank Data available for the above listed accounts.[69]

206. The Payor/Payee of each transaction was not always included in the RedtagBiz Associated bank statements or the PAC Funding Crown bank statements, and all of the supporting wire, cancelled checks, and/or deposit slips detail were not available. The transaction Payor/Payee was determined based on the following methodology:

- If both sides of the transaction were identified in the available Bank Data (i.e., "in" on one bank statement is on the same date and for the same amount as the "out" on another bank statement) and the transaction followed the flow of funds, the Payor/Payee was updated to reflect the source of the transaction.
- If only one side of the transaction was identified in the available Bank Data and the other side of the transaction was unavailable (i.e., the relevant bank date was missing), the Payor/Payee was updated to reflect the assumed transaction based on the flow of funds. For example, based on the flow of funds, PwC noted that the PAC Funding Lockbox account reflected a payment to the investor in the note amount plus interest. For this situation PwC's analyses reflect that the Payor was listed as PAC

[68] Prior to PCI opening accounts at Associated, some transactions for PCI notes with Acorn were from RedtagBiz bank accounts.
[69] This exhibit also refers to Bank Data for Petters Company, LLC and Petters Aviation, LLC. Refer to the Sections 5.6.2 "Petters Company, LLC" and 5.6.8 "Petters Aviation, LLC/Elite Landings, LLC" below for a description of the Acorn investments with these entities.

Funding Lockbox and the Payee was listed as “UNKNOWN/UNAVAILABLE” (as the investor could not be determined).

- If the transaction did not follow the flow of funds and was determined to be an unmatched bank transaction, then additional research was performed (e.g., searched email and user files within Stratify or conducted interviews with PCI personnel) to identify Payors and Payees.

5.4.6.3 Flow of Funds

207. Refer to Exhibit 58 for the flow of funds generally used by PCI and PAC Funding. This flow of funds is different than the general scheme depicted in Figure 4 above, as it involves transfers between the three different SPE accounts listed above (Blocked, Lockbox, and Operating),[70] as well as the PCI M&I Account. In addition, unlike the other SPEs, initial investments did not flow through NIR and Enchanted bank accounts. This flow of funds was similar for all Acorn notes with PCI and PAC Funding, with one exception. Acorn’s initial investment was usually transferred directly to the relevant Operating Account (depending on the time period) up until mid September 2004, and then it was transferred to the PCI M&I Account.

5.4.6.4 Forbearance Agreement

208. As of late February 2008, PAC Funding was in default with Acorn, and PAC Funding requested that Acorn forbear from exercising remedies under their credit agreement and the other loan documents in respect of such default. As such, PAC Funding (as the Borrower), T. Petters (as the Guarantor) and Acorn (as the Lender) entered into a forbearance agreement, dated February 29, 2008 (the “Forbearance Agreement”). Some key terms agreed upon by PAC Funding and Acorn per the Forbearance Agreement were as follows:

- Execution of a promissory note between Acorn and Polaroid/Polaroid Consumer Electronics, LLC (“PCE”) in the amount of $15 million;

[70] The different entity name on the bank accounts used for the scheme (i.e., RedtagBiz, PCI, PAC Funding) was dependent on the date of the note. For certain notes, a combination of different entity accounts were used. For example, the initial collateral for Note 200 was transferred into the PCI Blocked account, but the payment to Acorn was made from the PAC Funding Lockbox account.

- Exchange of approximately $112 million of promissory notes. Collateral (i.e., allegedly high end electronics inventory) was used as security for the promissory notes, and PCI allegedly used the investments to purchase consumer electronics. The collateral for the "old" promissory notes was inventory allegedly purchased by BJ's or Costco. The collateral for the "new" notes was inventory allegedly purchased by Boscov's or Sam's Club[71];
- Acorn withdrew $6,695,070 from the PAC Funding Blocked Account, which was comprised of the accrued and unpaid interest on the PAC Funding outstanding notes as of February 26, 2008; and
- Acorn transferred $20,061,275 from the PAC Funding Blocked Account to the PCI M&I Account, which represented the remaining PCI funds set aside as collateral for prior PAC Funding notes.

5.4.6.5 Fifth Amendment to the Credit Agreement

209. Per the Fifth Amendment to the Credit Agreement dated May 12, 2008, between PAC Funding and Acorn, the principal of certain outstanding PAC Funding notes was rolled into a note totaling $15,227,246 ("Scheduled Note"), with a maturity date of July 8, 2008. An interest rate for the Scheduled Note was not stated in the Amendment. Interest totaling $574,629 and principal of $15,227,246 on the Scheduled Note was paid in multiple transactions from May 13, 2008 through July 8, 2008.

210. In addition, the outstanding principal and accrued interest for certain PAC Funding, Aaron Chang International, LLC ("ACI"), and Polaroid notes was combined to form a new note totaling $273,892,276 (named "New Note") with an annual interest rate of 14.25%. Figure 5 below displays the balance by entity that was combined to form the New Note:

[71] BJ's and Costco were late in paying for the alleged purchases (i.e., PCI receivables), and as a result, the "old" notes were past due and then switched for "new" notes where the purchaser of the inventory was Boscov's and Sam's Club.

Figure 5.

Entity	Outstanding Principal Balance	Accrued Interest	Notes Balance Outstanding
PAC Funding	$255,494,273.00	$6,565,265.40	$262,059,538.40
ACI	1,634,576.67	101,493.77	1,736,070.44
Polaroid	10,000,000.00	96,666.67	10,096,666.67
Total	**$267,128,849.67**	**$6,763,425.84**	**$273,892,275.51**

211. Refer to Exhibit 59 for a summary of the notes rolled into the Scheduled Note and New Note.

5.4.6.6 Summary of Findings

212. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, Acorn invested approximately $2.5 billion and was paid approximately $2.4 billion in principal and interest, resulting in a Net Cash Position of $138.3 million in cash basis losses. Exhibit 60 provides a summary of activity by year. Further, as shown in Exhibit 61, PwC analyzed the investment and payment activity by note.

213. Beginning in March 2008, Acorn and PCI engaged in a series of "roundtrip" transactions, whereby payments made to Acorn upon maturity of notes were reinvested in notes with PCI of similar value. Refer to Exhibit 62 for a summary of these "roundtrip" transactions.

5.4.6.7 Other Investments

214. See Section 5.6 "Other Acorn Investments" below for further information on Acorn's investments in various other Petters Entities.

5.4.7 PL Ltd., Inc. (Elistone Fund)

5.4.7.1 Overview

215. PL Ltd. was formed on January 27, 1995, and did not function as a SPE until Epsilon (described in Section 5.4.2 "PL Ltd., Inc. (Epsilon)" above) began its financing relationship with PCI on April 30, 2001. Epsilon's investments were fully paid in March 2007. Subsequently, Elistone Fund ("Elistone"), a Cayman Islands company, utilized PL Ltd. as an investment vehicle starting in March 2008.

216. The Collateral Account Agreement dated February 26, 2008, between Wells Fargo, PL Ltd., and Elistone, outlined terms and conditions for the collateral bank accounts and indicated that Integrated Alternative Investments Limited was the investment manager for Elistone.

217. Investment activity began on March 6, 2008. Throughout the investment period, promissory notes specify PL Ltd. as the "borrower" and Elistone as the "holder." In total, 21 notes were executed between the parties, with nine paid in full and 12 open as of September 30, 2008. The annual interest rate for all notes was 13%, and investments ranged from $1 million to $4.5 million.

5.4.7.2 Flow of Funds

218. Elistone followed the general scheme depicted in Figure 4 above for its investments. Exhibit 63 provides a specific example of one note transaction's flow of funds. Notes 050108-EL 1007 and 050108-EL 1008 were the only exceptions. The net payments for Note 050108-EL 1008 resulted in a credit owed to PCI. In its analyses, PwC applied this overpayment/credit to Note 050108-EL 1007.

219. PwC identified two Wells Fargo bank accounts utilized by Elistone in the scheme ("Elistone Accounts"). A third account was identified in the Collateral Account Agreement; however, PwC did not identify any Elistone associated transactions linked to the account. PwC did not receive all of the bank transaction activity for the Elistone Accounts, as these accounts were typically controlled by the underlying investor(s). As a result, PwC assumed transactions from PL Ltd. to alleged vendors, such as NIR and Enchanted, were initially funded by corresponding investments from Elistone, based in part upon the issuance

of corresponding promissory notes to Elistone. PwC confirmed funding transactions to NIR and Enchanted through a review of the NIR and Enchanted bank accounts. Similarly, PwC assumed payments from PCI to PL Ltd., Inc. ultimately were sent to Elistone, in that the PL Ltd. account was controlled by Elistone's principals.

5.4.7.3 Summary of Findings

220. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $60.4 million in investments and approximately $26.7 million in payments of principal and interest were identified resulting in a Net Cash Position of $33.7 million in cash basis losses. Of the $26.7 million in payments, $25.9 million was applied to principal and $800,000 was applied to interest. Exhibit 64 provides a summary of activity by year. Further, as shown in Exhibit 65, PwC analyzed the investment and payment activity by note.

5.4.8 Thousand Lakes, LLC

5.4.8.1 Overview

221. Thousand Lakes, LLC ("Thousand Lakes") was formed on October 2, 2002, as the SPE through which Lancelot Investment Management, LLC (previously defined as "Lancelot") invested in PCI. G. Bell, founder of Lancelot, was previously a managing director at Epsilon, which was under the direction of S. Stevanovich.

222. Lancelot served as the investment manager for Granite Investors Fund, LP ("Granite"); Lancelot Investors Fund, LP; Lancelot Investors Fund II, LP; and Lancelot Investors Fund, Ltd. Investment activity between Granite and PCI began on November 28, 2001.

223. Three promissory notes were entered into between Granite and PCI prior to the execution of a Master Loan Agreement ("Thousand Lakes MLA"), dated October 11, 2002, between Thousand Lakes (as the Borrower), RWB Services (as the Administrative Agent) and Lancelot Investors Fund LP, Lancelot Investors Fund II LP, Lancelot Investors Fund Ltd. and Granite (as the Initial Lenders). For notes executed under the Thousand Lakes

MLA, Thousand Lakes was the borrower. Assignment of notes was permitted to other individuals/entities pursuant to the terms of this agreement. Annual interest rates on these notes ranged from 18% to 42%, with most notes bearing a rate of 18%; investments ranged from $500,000 to $37 million. In total, 496 notes were executed between the parties, with 423 paid in full and 73 open as of September 30, 2008.

5.4.8.2 Additional Information Relied Upon

224. In addition to reviewing the hard copy data and ESI, PwC also reviewed PCI notes schedules created and maintained by Harold Katz ("H. Katz"), Vice President at Lancelot. H. Katz periodically provided PCI personnel with his schedules to ensure Lancelot's records agreed with PCI's records. PwC noted the following differences between H. Katz's schedules and PCI records: (1) note numbers (Lancelot and PCI each had their own numbering systems); (2) application of payments (payment amounts were applied differently to each note); (3) start date; and (4) maturity dates. The application of payments resulted in the same net payment for each note. As a result, the calculated interest paid was the same for H. Katz's schedules and Petters Entities Company Records.

5.4.8.3 Flow of Funds

225. Refer to Exhibit 66 for the scheme/flow of funds generally used by Thousand Lakes. Thousand Lakes followed the general scheme depicted in Figure 4 above for the majority of its investments, with the exception of the following two time periods: (1) initial investments from November 28, 2001 through June 28, 2002, prior to the Thousand Lakes MLA, and (2) investments beginning on February 26, 2008 through September 17, 2008. In both instances, investments and payments were transferred directly to/from PCI and the investor.

226. PwC identified six bank accounts utilized by Thousand Lakes and RWB Services in the scheme.[72] PwC did not receive all of the bank transaction activity for each of the Thousand Lakes Accounts, as these accounts were typically controlled by the underlying

[72] The six accounts identified for this scheme were with Bank One; LaSalle Bank (two accounts); Banco Popular; Charter One; and RBS Citizens (collectively, the "Thousand Lakes Accounts").

investor(s). As a result, PwC assumed transactions from Thousand Lakes and RWB Services accounts to alleged vendors such as NIR and Enchanted were initially funded by corresponding investments from Lancelot or related funds. PwC confirmed funding transactions to NIR and Enchanted through a review of the NIR and Enchanted bank accounts. Similarly, PwC assumed payments from PCI to Thousand Lakes or RWB Services ultimately were sent to the underlying investor(s).

5.4.8.4 Observations

227. During the period June 2004 through July 2007, PwC identified a large volume of transactions where payments were sent and subsequently returned the same or next day. Specifically, an analysis of bank transactions in which Thousand Lakes was the Payor or Payee without an affiliated note identified 22 sets of reversals (44 transactions) where an amount transferred to PCI was returned to Thousand Lakes on the same or next day. The incoming/outgoing amounts were approximately $94.3 million in aggregate.

228. Beginning in February 2008, Thousand Lakes and PCI engaged in a series of roundtrip transactions, whereby payments made to Thousand Lakes upon maturity of notes were reinvested shortly thereafter in notes with PCI of similar value.[73]

229. Additionally, PwC determined that Lancelot played a key role with respect to the financing of the Polaroid purchase as described in Section 7 "Polaroid Transaction Funding and Pay Down of Debt Analysis" of this report. Specifically, two Omnibus Agreements were executed between Thousand Lakes and RWB Services on January 3, 2005, and April 27, 2005, for $100 million and $50 million, respectively. Both agreements include an allocation schedule detailing how each loan amount should be allocated among the outstanding promissory notes on the books of PCI dating back to August 2004. Refer to Section 7 “Polaroid Transaction Funding and Pay Down of Debt Analysis” for further discussion/information.

[73] H. Katz and G. Bell both pled guilty as a result of their involvement with these transactions.

5.4.8.5 Summary of Findings

230. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, Thousand Lakes investors invested approximately $8.8 billion and were paid approximately $8.0 billion in principal and interest, resulting in a Net Cash Position of $764.6 million in cash basis losses. Exhibit 67 provides a summary of activity by year. Further, as shown in Exhibit 68, PwC analyzed the investment and payment activity by note.

5.4.8.6 Other investments

231. Thousand Lakes also invested in PCB. PwC's analysis of the note activity with PCB is continuing as of September 30, 2010.

5.4.9 Palm Beach Finance Holdings, Inc.

5.4.9.1 Overview

232. Petters Capital, Inc. was formed on March 4, 1998. As described in Section 14.1 "General Electric Capital Corporation" below, this entity entered into a $50 million credit facility with General Electric Capital Corporation ("GECC") on March 26, 1998, and did not function as a SPE until Palm Beach Finance Partners Holdings, LLC ("PBFP Holdings") began its financing relationship with PCI on November 27, 2002. Petters Capital, Inc. changed its name to Palm Beach Finance Holdings, Inc. ("Palm Beach") on February 7, 2005.

233. PBFP Holdings was the entity created for purposes of recording investments from Palm Beach Finance Partners, LP, the fund managed by Palm Beach Capital Management, LP. Exhibit 69 provides an illustrative diagram of the structure and relationships between the above entities.

234. The lenders that invested through the SPEs often had Deposit Account Management Agreements in place to outline terms and conditions of the lockbox accounts. As a Master Loan Agreement was not identified for Palm Beach, PwC relied on the Deposit Account Management Agreement to identify the lenders. The Deposit Account Management

Agreement for Palm Beach referenced the following as "protected parties": PBFP Holdings; Palm Beach Capital Corp.; and Palm Beach Finance Partners, LP.

235. The promissory notes were between Petters Capital, Inc./Palm Beach as the "borrower" and PBFP Holdings as the "holder."[74] Annual interest rates started at 18% and then changed to 15% in April 2004, with investments ranging from $1 million to approximately $5.9 million. In total, 2,449 notes were executed between the parties, with 2,179 paid in full and 270 open as of September 30, 2008.

5.4.9.2 Flow of Funds

236. Palm Beach notes generally followed one of three schemes, one of which is depicted in Exhibit 70. The second scheme followed the pattern of the general scheme depicted in Figure 4 above with one exception - the PCI "profit" or repayment was paid from an underlying investor trust account rather than the SPE account. The third scheme applied to notes involved in "collateral exchanges" as described below.

237. PwC identified at least two bank accounts in addition to many trust accounts utilized by PBFP Holdings and the underlying investors to facilitate the scheme. PwC did not receive all of the Bank Data for each account, as these accounts were typically controlled by the underlying investor(s). As a result, PwC assumed transactions from PBFP Holdings to vendors such as NIR and Enchanted were initially funded by corresponding investments from Palm Beach Capital Management or related funds. PwC confirmed funding transactions to NIR and Enchanted through a review of the NIR and Enchanted bank accounts and to other vendors to the extent documentation was available. Similarly, PwC assumed payments from PCI to PBFP Holdings ultimately were sent to the underlying investor(s).

5.4.9.3 Collateral Exchange Agreements

238. PwC identified 40 Collateral Exchange Agreements entered into between Palm Beach, PBFP Holdings, Palm Beach Capital Corp., and Palm Beach Finance II, LP

[74] There were 12 promissory notes (112702-1000, 120402-1001, 120602-1002, 121202-1003, 022103-1004, 022503-1005, 022803-1006, 031103-1007, 040303-1007, 082203-1016, 082603-1017, 082703-1018) with PBFB Holdings listed as the "holder;" however, it appears the names were spelled incorrectly.

during the period February 20, 2008 through September 17, 2008. These agreements detailed the exchange of notes with nearing maturity dates for new notes with secured collateral, essentially extending the terms of each note. The aggregate principal and most or all of the accrued interest on the "old" notes was exchanged for the "new" notes. In the instances where the aggregate principal of the new notes was less than the aggregate principal and interest of the "old" notes, PCI paid the difference to the investor. In some instances, the aggregate principal amount of the "new" notes was greater than the aggregate principal and accrued interest of the "old" notes. As a result, the investor was required to contribute additional principal.

239. In many instances, Denley Vennes, son of F. Vennes, sent PCI the collateral exchange agreements and supporting schedules. The agreement detailed the sale of the "old" notes:

> *Whereas, the Company [Palm Beach Finance Holdings, Inc.] wishes to sell to Holdings [PBFP Holdings] certain promissory notes identified on Exhibit A ("Notes")…*

240. The agreement further detailed the acquisition of the "new" notes:

> *Whereas, Holdings will, acquire the Notes from the Company and will transfer and assign to the Company, without recourse, all right title and interest in and to certain outstanding promissory notes issued by the Company identified on Exhibit B (the "Promissory Notes") together with a payment of plus $24,469.00.*

241. The collateral exchange agreements provided PCI with an opportunity to delay making payments on notes nearing maturity. While collateral exchanges accounted for the majority of notes starting in February 2008, there were some notes during this time period where Palm Beach Capital Management contributed new investments for the notes.

242. Each agreement was comprised of Multi-Note exchanges (i.e., multiple "old" notes for multiple "new" notes). For example, in the first collateral exchange dated February 20, 2008, 17 "old" notes with an aggregate principal value of $70,896,000 and accrued interest of $5,236,531 were exchanged for 19 "new" notes with an aggregate principal value of $76,157,000. As a result, Palm Beach Capital Corp. sent an additional $24,469 in principal to PCI. In total, 271 "old" notes with principal of $1.07 billion and accrued interest of $79.9

million were exchanged for 290 “new” notes with principal of $1.15 billion. Exhibit 71 provides a summary of the collateral exchange agreements.

5.4.9.4 Summary of Findings

243. The documentation utilized and the process through which PwC analyzed the investor’s Net Cash Position is outlined in Section 5.3 “Special Purpose Entity Analysis Overview” and Exhibit 37. In aggregate, approximately $8.7 billion in investments and approximately $8.0 billion in payments were identified resulting in a Net Cash Position of $642.0 million in cash basis losses. Of the $8.0 billion in payments, $7.7 billion was for principal and $315.0 million was for interest. Exhibit 72 provides a summary of activity by year. Further, as shown in Exhibit 73, PwC analyzed the investment and payment activity by note.

244. Upon maturity of notes entered into between PCI and Palm Beach, a commission payment was made from PCI to MGI. Further details of the commissions paid to MGI are discussed in Section 5.5.1 "Metro Gem, Inc."

5.5 Vennes Entities

245. PwC also analyzed the notes payable activity of the Vennes Entities (previously defined to include MGI and Fidelis). PwC performed similar procedures to determine the Net Cash Position for both the SPEs and Vennes Entities; however, the transactional flow for the Vennes Entities was more similar to Private Investors.

246. PwC identified approximately 850 promissory notes with the Vennes Entities. For these notes, there were approximately 700 bank transactions representing nearly $2.5 billion in principal investments from the Vennes Entities, and approximately 800 bank transactions representing $2.6 billion in net payments to the Vennes Entities.

247. PwC concluded that both MGI and Fidelis had positive Net Cash Positions. As of September 30, 2008, there were 46 Vennes Entities’ promissory notes that were outstanding and unpaid.

248. Exhibit 2 summarizes the results of PwC's work performed as of September 30, 2010, with respect to the Vennes Entities and summarizes the cash in/cash out figures for each investor. The below sections further describe the work performed for MGI and Fidelis.

5.5.1 Metro Gem, Inc.

5.5.1.1 Overview

249. Metro Gem, Inc. (previously defined as "MGI") was operated by F. Vennes and had a long term lending relationship with PCI. MGI functioned in a manner similar to a SPE in two primary aspects: (1) notes were typically supported with purchase orders from PCI to the vendor and the customer to PCI that illustrated the cost, sales price, and alleged profit for each deal, and (2) the higher volume of notes and transactions. Unlike the SPE lending relationships, MGI sent its investments directly to PCI, as opposed to being routed through NIR or Enchanted, and PCI in return sent payments directly to MGI. The payments from PCI consisted of a repayment of principal plus "profit sharing" or interest. Throughout MGI's notes the term "profit sharing" was used rather than interest.

5.5.1.2 Available Information Identified

250. PwC identified tracking spreadsheets in Company Records as well as promissory notes to identify what appears to be a comprehensive listing of MGI's promissory notes. The first note identified was listed in a company tracking spreadsheet as Note 1235 and dated June 17, 1997. In the instances where notes were not assigned note numbers, PwC assigned a note number as the start date of the note (e.g., start date of August 1, 1998 would be "19980801"). Additionally, there were some instances where two notes had the same note number. PwC added the start date to the note number for each note to differentiate the two notes. As an example, two notes were both referred to as "1450," one had a start date of June 30, 1997, and the other one July 5, 1997. The note numbers were modified as 1450_19970630 and 1450_19970705.

5.5.1.3 Rolled Notes

251. PwC discovered a pattern of rolling MGI notes whereby "old" notes were closed by paying all or a portion of the interest/profit sharing amount, and rolling the principal

(and if applicable, interest) into a “new” note. In fact, the rolling of notes occurred with such frequency that PwC compiled a schedule and analyzed the activity to identify “old” notes rolled into “new” notes. PwC assigned each rolled transaction a note group to provide links between all of its reports for MGI. Exhibit 74 provides the “Schedule of Rolled Notes” for MGI to illustrate “old” notes, “new” notes, and investment/payment activity.

252. Oftentimes, a new note that opened as a result of a rolled note was then rolled to another note. For example, in Note Group 5, Note 1451 was rolled to Note 1457_19970816, and then Note 1457_19970816 was rolled to Note 1463 (Note Group 8). PwC created a diagram to illustrate the web of rolling created with the MGI notes (see Exhibit 75).

253. Some or all of the following factors were typically present to determine whether or not a note was rolled: (1) the maturity date of the “old” note was the same as the start date of the “new” note, or a few days apart; (2) the note amount was the same between the “old” and “new” notes; (3) investments for the “new” note or payments for the “old” notes were not identified in Bank Data during periods for which Bank Data was available; and (4) Company Records contained notations to the effect that funds were rolled.

254. PwC identified several instances where PCI Private Investors also had a financing/lending relationship with MGI. Specifically, PwC identified notes between MGI and Frank Farrar, Beresford Bancorporation, Samuel Phillip Mansour, Joseph Mansour, Philip Mansour, Jr., and P. Taunton.[75] There were a number of instances where MGI notes were rolled to MGLLC notes. As discussed in Section 5.4.3 "SPF Funding, LLC" above, MGLLC was a Minnesota entity for which F. Vennes served as Chief Manager, President, Treasurer, and Assistant Secretary. MGI held a minority ownership in MGLLC, with IIO as the majority owner. For example, as depicted in Exhibit 74, in Note Group 75 the principal and interest from an MGI note rolled to the principal investment for an MGLLC note, for the benefit of MGI (F. Vennes) and IIO (Sabes).

[75] PwC did not analyze the funds invested by Private Investors with MGI or link the funding with investments between PCI and MGI.

255. PwC also identified several instances where MGI rolled notes to outside individuals/entities, including F. Vennes (as an individual), Harvest Foundation, MGC Finance, and P. Taunton. PwC assumed that these individuals/entities invested in MGI, and therefore, MGI rolled its notes to these individuals as a medium through which they could invest in PCI.

256. PwC observed a pattern from inception of investment activity where the majority of the notes were part of a rolled transaction. There were 24 MGI and 5 MGLLC notes that did not fit the pattern of rolled notes. For purposes of the analyses, PwC excluded these notes from all analyses since complete and comprehensive data was not available to provide additional information regarding these notes.

5.5.1.4 Notes Transactions not Verified through Bank Data

257. There were a significant number of MGI investments during periods for which PwC relied upon Company Records to confirm the investments and corresponding payments. As a result, PwC separated its analyses into activity confirmed through Bank Data ("verified" transactions) and transactions presumed and confirmed through Company Records ("not verified" transactions). The figures discussed in the "Summary of Findings" section below differentiate "verified" and "not verified" activity.

5.5.1.5 Flow of Funds

258. MGI investments with PCI followed one of three patterns: (1) rolled note activity (see Exhibit 76); (2) investments by MGI and payments to Palm Beach Capital Holdings, Inc.[76] (see Exhibit 77); and (3) direct investments and payments with PCI (see Exhibit 78).

5.5.1.6 Commission Payments

259. In addition to investing in the Ponzi Scheme, MGI also solicited other investors to enter into promissory notes with PCI. For its services, MGI received a

[76] PwC identified 12 MGI notes where the investment was made by MGI, however, the payment was made to Palm Beach Finance Holdings, Inc. PwC did not identify documentation to confirm the reason(s) for this flow.

commission payment for each investment made by those solicited investors. Specifically, MGI received commission payments as a percentage of the investment amount for notes entered into between PCI and MGC Finance, Palm Beach, and P. Taunton. Excluding P. Taunton notes, for which MGI received a 2% annual commission rate, the annual commission percentages ranged from 1.7% to 12% over the time period, with 4.2% most commonly paid for MGC Finance notes, and from 2.4% to 10% over the time period, with 3% most commonly paid for Palm Beach notes.

260. To identify the MGI commission amounts, PwC analyzed notes payable documentation, internal tracking sheets, and bank transaction data, and identified approximately 1,200 bank transactions totaling approximately $113.2 million, related to 3,144 Palm Beach, MGC Finance, and P. Taunton notes. Exhibit 79 summarizes the commission payments made to MGI by year and entity, from July 31, 2001 through September 12, 2008.

5.5.1.7 Summary of Findings

261. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $2.1 billion in investments and approximately $2.2 billion in payments of principal and interest were identified resulting in a Net Cash Position of $90.4 million in cash basis gains. Of the $2.2 billion in payments, approximately $2.0 billion was for principal and $172.7 million for interest. These figures were verified through the available bank transaction activity.

262. Additionally, there was $12.9 million of net activity (investments and payments) not verified in the available bank transaction activity.

263. Exhibit 80 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 81 provides a summary of the activity for each note.

264. Between 1999 and 2008, the effective annual interest rates on the MGI notes typically ranged from 21% to 68%. These rates of return were substantial and significantly

higher than benchmark rates, such as the prime rate, AAA corporate bond rates, and Treasury Bill rates over this period of time as depicted in Exhibit 82.

5.5.2 Fidelis Foundation

5.5.2.1 Overview

265. The Harvest Foundation ("Harvest"), a non-profit organization, began its lending relationship with PCI on December 31, 2001. On April 10, 2003, Harvest changed its name to Fidelis Foundation (previously defined as "Fidelis"). As such, from this date forward, all notes represent PCI as the "Payor" and Fidelis as the "Payee." Additionally, there were several notes in the name of F. Vennes (personally) that were assigned to Harvest or Fidelis. In total, 108 notes were executed between Harvest (10 notes) or Fidelis (98 notes) and PCI, with rates of interest ranging from 19% to 40% on an annualized basis, with investments ranging from $1.5 million to approximately $5.3 million.

5.5.2.2 Flow of Funds

266. Unlike the scheme depicted above in Figure 4 for the SPEs, Fidelis sent its investments directly to PCI, and PCI in turn sent payments directly to Fidelis (see Exhibit 83). The payments from PCI consisted of a repayment of principal plus interest.

267. For entities such as Palm Beach and MGC Finance, F. Vennes required a commission upon maturity of the notes for soliciting the investors on behalf of PCI (as described in Section 5.5.1 "Metro Gem, Inc." above). This was not the case with Fidelis; a letter dated August 16, 2002, from F. Vennes to T. Petters indicated that PCI did not owe commission payments to MGI on these notes.

5.5.2.3 Summary of Findings

268. The documentation utilized and the process through which PwC analyzed the investor's Net Cash Position is outlined in Section 5.3 "Special Purpose Entity Analysis Overview" and Exhibit 37. In aggregate, approximately $401.8 million in investments and approximately $406.9 million in payments of principal and interest were identified resulting in a Net Cash Position of $5.2 million in cash basis gains. Of the $406.9 million in payments,

$382.4 million was applied to principal and $24.5 million was applied to interest. Exhibit 84 provides a summary of activity by year. Further, as shown in Exhibit 85, PwC analyzed the investment and payment activity by note.

5.6 Other Acorn Investments

269. In addition to investments with PCI and PAC Funding, Acorn also invested in various other Petters Entities. Each investment was different and required various procedures to be performed to summarize Acorn's Net Cash Position. In addition, different people within the Petters Entities were responsible for tracking the investment activity; as such, the documentation was not organized in a central location.

5.6.1 Fingerhut Direct Marketing, Inc.

270. On November 24, 2003, Acorn provided FDM-AR1, Inc. ("FDM-AR1"), a wholly owned subsidiary of Fingerhut Direct Marketing, Inc. ("Fingerhut")[77], with a $35 million line of credit. The Fingerhut consolidated financial statements for the period from June 11, 2002 to January 31, 2003, indicated the line of credit was used to pay off existing loan obligations with the CIT Group.

271. PCI provided an additional $15 million to FDM-AR1 through Acorn. Bank transaction details indicate that PCI provided the $15 million to Acorn, and Acorn subsequently paid PCI principal and interest directly. As Fingerhut and Acorn bank transaction detail was unavailable, PwC assumed that FDM-AR1 received the initial total funding of $50 million from Acorn and subsequently made payments to Acorn.

272. PCI Bank Data indicated that PCI received a total of $863,594 from Acorn in interest for the $15 million in funding it provided to FDM-AR1. Documentation indicated that PCI provided 29% and Acorn provided 71% of the total funding provided to FDM-AR1. Given that PCI received $863,594 for its share of the funding, PwC calculated aggregate total interest on the funding ($35 million from Acorn and $15 million from PCI) was $2,977,912.

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[77] T. Petters had 100% ownership of PGW, and PGW had an 18% ownership interest in Fingerhut.

Therefore, it appears that Acorn received at least $2,114,317 for the $35 million in funding it provided to FDM-AR1. Exhibit 86 provides a summary of the FDM-AR1 financing activity.

5.6.2 Petters Company, LLC

273. On June 5, 2003, Petters Company, LLC entered into a credit agreement with Acorn for a maximum aggregate original principal amount of $27.5 million. The purpose of this line of credit was to purchase and resell Apex televisions. In total, six notes were executed between Petters Company, LLC and Acorn from June 5, 2003 to June 9, 2003. Refer to Exhibit 87 for a summary of the notes. PwC relied upon an internal tracking spreadsheet identified in Stratify as well as Petters Company, LLC general journal account detail provided by M. Laumann to trace investments from and payments to Acorn.

274. As the Apex televisions were purported to be sold, payments were made to either (1) Acorn; (2) the RedtagBiz Lockbox at Associated; or (3) the Petters Company, LLC Lockbox at Associated. Any payments made to/from the RedtagBiz and Petters Company, LLC Lockboxes were considered paid to/from Acorn, as Acorn maintained control over these accounts.

275. Please refer to Exhibit 88 for a summary of the Petters Company, LLC financing activity. In summary, Acorn invested $27.5 million and was paid approximately $1.8 million in interest and $378,000 in closing fees, in addition to the repayment of the $27.5 million of principal, resulting in a Net Cash Position of $2.2 million in cash basis gains.

5.6.3 Petters Consumer Brands, LLC (PCB1)

5.6.3.1 Overview

276. The first Petters Consumer Brands, LLC (previously defined as "PCB") was created on January 17, 2003, and later was referred to as PCB1 by the Petters Entities employees. PCB1 ultimately merged into and with Polaroid, pursuant to the merger agreement, dated April 27, 2005. Throughout the subsequent years, PCB was rebranded and

ultimately became MLO Appliance Company, LLC ("MLO").[78] Please refer to Exhibit 89 for a flow chart summarizing the history of PCB.

277. Acorn started investing in PCB1 on December 23, 2003. The notes with PCB1 were used to purchase electronics goods from vendors including Apex, Polaroid, and Sichuan Chang Hong Electric Co., Ltd. and resell them to companies including Costco, Sam's Club, and Target. Supporting documentation for these notes was more voluminous and substantial than the supporting documentation for the PCI/PAC Funding notes, as they included documents such as bills of lading with handwritten notes and the driver's delivery confirmations. Acorn often assigned the notes to Stewardship Credit Arbitrage Fund, Ltd.

278. In order to analyze the Net Cash Position of Acorn's investments in PCB1, PwC relied upon the available notes payable documentation (promissory notes, security agreements, guaranty agreements, and internal tracking spreadsheets) and some bank transaction details. In total, 18 notes were executed and paid in full with annual interest rates ranging from 11.5% to 16%, and investments ranging from $280,966 to $5,341,440.

5.6.3.2 Flow of Funds

279. Please refer to Exhibit 90 for the flow of funds used by PCB1. For purposes of this analysis, PwC traced the principal investment from Acorn and the payment of principal and interest to Acorn. This flow is similar to the PCI/PAC Funding scheme; however, collateral was not required to be set aside. In addition, a PCB bank account was used to purchase the goods from the vendor; however, the initial investment and payment of principal and interest were transferred from the PCI Operating and PCI Lockbox Associated accounts, respectively. These PCI accounts were also used for PCI and PAC Funding notes with Acorn.

5.6.3.3 Summary of Findings

280. Acorn invested approximately $37.0 million in PCB1 and was paid approximately $37.4 million in principal and interest, resulting in a Net Cash Position of

[78] As of May 1, 2008, T. Petters had 9.9% ownership and Michael O'Shaughnessy (M. O'Shaughnessy) had 90.1% ownership of MLO. MLO has since filed a Chapter 7 Bankruptcy petition in Delaware.

approximately $419,000 in cash basis gains. Exhibit 91 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 92 provides a summary of the activity for each note.

5.6.4 Petters Consumer Brands, LLC (PCB3)[79]

5.6.4.1 Overview

281. The last PCB entity was created on May 18, 2006, and was later referred to as PCB3. On November 2, 2007, PCB3 changed its name to MLO. Please refer to Exhibit 89 for a flow chart summarizing the history of PCB.

282. Acorn started investing in PCB3 on March 6, 2007. The note agreements were between PAC Funding and Acorn, and then an assignment agreement was executed where PCB was listed as the "Assignor" and PAC Funding was listed as the "Assignee." Per discussions with M. Laumann, PCB3 was too small to receive financing from Acorn, so PAC Funding used its line of credit with Acorn in order to provide PCB3 with funding.

283. The notes with PCB3 were used to purchase white goods such as air conditioners, dehumidifiers, and wine coolers from companies including Circuit City Stores, Inc.; GD Midea Air Conditioning Equipment, Co., Ltd.; and Guangdong Fuxin Electronic Technology Ltd. and resell them to companies including A&A Feder's Inc.; Adir International LLC; Best Buy Purchasing LLC; Dynamic Marketing, Inc.; Intercounty Appliance Corporation; and Target.com. Supporting documentation for these notes was more voluminous and substantial than the supporting documentation for the PCI/PAC Funding notes, and included documents such as email between PCB3 personnel and the vendor as well as shipment records. While assigned agreements were not identified within the available notes payable documentation, all payments on these notes were transferred to Stewardship Credit Arbitrage Fund, Ltd.

284. In order to analyze the Net Cash Position of Acorn's investments in PCB3, PwC relied upon the available notes payable documentation (e.g., promissory notes, security agreements, guaranty agreements, and internal tracking spreadsheets) and some bank

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[79] After the merger of PCB1 and Polaroid on April 27, 2005, PCB2 was formed as a subsidiary of Polaroid on the same day. On March 14, 2006, PCB2 changed its name to Polaroid Consumer Electronics LLC ("PCE").

transaction data. In total, 11 notes were executed and paid in full with annual interest rates of 11% and 16%, and investments ranging from $66,286 to $2,610,824.

5.6.4.2 Flow of Funds

285. Please refer to Exhibit 93 for the scheme/flow of funds used by PCB3. For purposes of this analysis, PwC traced the principal investment from Acorn and the payment of principal and interest to Acorn. This flow is somewhat similar to the PAC Funding scheme; however, a PCB bank account was used to receive the transfer of the initial investment, purchase the goods from the vendor and receive the transfer of sales price from the retailer.

5.6.4.3 Summary of Findings

286. Acorn invested approximately $12.2 million in PCB3 and was paid approximately $12.6 million in principal and interest, resulting in a Net Cash Position of approximately $384,000 in cash basis gains. Exhibit 94 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 95 provides a summary of the activity for each note.

5.6.5 RedtagBiz, Inc.

5.6.5.1 Overview

287. As mentioned above in the PAC Funding section above, Acorn started investing in Petters Entities on June 21, 2001, with investments in RedtagBiz, Inc. (previously defined as "RedtagBiz").[80] On May 10, 2001, Acorn provided an open line of credit in the amount of $75 million to RedtagBiz. The line of credit was secured by liens on the merchandise purportedly purchased from suppliers including, but not limited to NIR and PAR Group. RedtagBiz was purportedly using the loan proceeds to purchase and resell these goods. Acorn often assigned notes to Stewardship Credit Arbitrage Fund, Ltd. Supporting documentation for these notes was often more voluminous and substantial than the supporting documentation for the PCI/PAC Funding notes, and included documents such as proof of liability insurance, open ocean cargo policy, handwritten vendor purchase orders, bills

[80] RedtagBiz merged into PGW in January 2006.

of lading with handwritten notes and driver delivery confirmations. In total, 33 notes were executed and paid in full with an annual interest rate of 18%, and investments ranged from $226,500 to $4,861,998.

5.6.5.2 Flow of Funds

288. RedtagBiz followed a similar scheme to PCI/PAC Funding. Please refer to Exhibit 96 for the flow of funds generally used by RedtagBiz. The exceptions to the flow of funds include the following: (1) collateral and RedtagBiz profit was not returned to RedtagBiz and was used to pay unused commitment fees to Acorn (refer to Section 5.6.10 "Unused Commitment Fees" for a further description of these fees), for the later notes; and (2) other RedtagBiz Operating bank accounts were often used to transfer money throughout the flow of funds.

289. Similar to PCI/PAC Funding, RedtagBiz also used three different accounts for a majority of each note transaction: Blocked, Lockbox, and Operating. Refer to Section 5.4.6 "PAC Funding, LLC (PCI Investments)" for a description of these accounts. For RedtagBiz notes, 20% of the note amount was required to be deposited by RedtagBiz into the Blocked account as collateral. For most of the notes, collateral was borrowed from PCI at an annual rate of 10% or 18% (through a separate promissory note).

290. The following three RedtagBiz bank accounts at Associated were analyzed to trace the flow of funds for RedtagBiz notes with Acorn: blocked account; lockbox account; and operating account.

291. Please refer to Exhibit 57 for the Bank Data available for the above listed accounts.[81] Bank Data was not available for the RedtagBiz Lockbox account from May 2001 through November 2001. As such, the Payor/Payee of certain transactions during this time frame was assumed to be from the RedtagBiz Lockbox if the transaction followed the flow of funds.

[81] This exhibit also refers to Bank Data for Petters Company, LLC and Petters Aviation, LLC. Please refer to the Sections 5.6.2 "Petters Company, LLC" and 5.6.8 "Petters Aviation, LLC/Elite Landings, LLC" for a description of the Acorn investments with these entities.

5.6.5.3 Summary of Findings

292. PwC performed the analyses as described in Section 5.3 "Special Purpose Entity Analysis Overview" above to analyze the Net Cash Position of Acorn's investments in RedtagBiz. In aggregate, Acorn invested approximately $88.7 million and was paid approximately $93.6 million in principal and interest, resulting in a Net Cash Position of $4.9 million in cash basis gains. <u>Exhibit 97</u> provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. <u>Exhibit 98</u> provides a summary of the activity for each note.

5.6.6 Aaron Chang International, LLC

5.6.6.1 Overview

293. Acorn started investing in Aaron Chang International, LLC (previously defined as "ACI") on August 10, 2006. The note agreements were between PAC Funding and Acorn, and for a majority of the notes, an assignment agreement was executed where ACI was listed as the "Assignor" and PAC Funding was listed as the "Assignee." For one note, an email to Domenic Miele (of Acorn) states, "the last loan request….should have been documented as a loan to Aaron Chang Lifestyle Brands, LLC…please let me know if this is acceptable to Acorn (to not have PCB listed on the loan)." For this note, an assignment agreement was executed where PCB was listed as the "Assignor" and PAC Funding was listed as the "Assignee." In addition, Acorn often assigned the notes to Stewardship Credit Arbitrage Fund, LLC. Per discussions with S. Indahl and M. Laumann, ACI was too small to receive financing from Acorn, so PAC Funding used its line of credit with Acorn in order to provide ACI with funding.

294. The notes provided ACI with funding to produce goods such as swimwear and sportswear and resell them to companies including Target, Lavender Tale, and Victoria's Secret. Supporting documentation for these notes included invoices, purchase orders (both handwritten and system generated) as well as ACI inventory/sales order reports.

295. In order to analyze the Net Cash Position of Acorn's investments in ACI, PwC relied upon the available notes payable documentation (promissory notes, security agreements, guaranty agreements, and internal tracking spreadsheets) and some bank transaction details. In total, six notes were executed between the parties, with two paid in full

and one open as of September 30, 2008, with annual interest rates of 11% and 16% and individual investments ranging from $66,286 to $1,180,606 (excludes the "new" note). The remaining three notes were rolled into the "new" note bearing an interest rate of 14.25% on May 12, 2008. See Section 5.4.6.5 "Fifth Amendment to the Credit Agreement" for further information.

5.6.6.2 Flow of Funds

296. For purposes of this analysis, PwC traced the payment of principal and interest to Acorn. These payments were transferred from the PAC Funding Lockbox. As Bank Data was not available for ACI, PwC relied upon Company Records to confirm the initial principal investment occurred. Per notes payable documentation, ACI also put aside 10% of the note amount into the PAC Funding Blocked account as collateral.

5.6.6.3 Summary of Findings

297. Acorn invested approximately $2.9 million in ACI and was paid approximately $1.4 million in principal and interest, resulting in a Net Cash Position of $1.5 million in cash basis losses. Exhibit 99 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 100 provides a summary of the activity for each note.

5.6.7 Petters Aircraft Leasing, LLC

5.6.7.1 Overview

298. On July 18, 2007, Acorn entered into a credit agreement totaling $10.75 million with Petters Aircraft Leasing, LLC ("PAL"), PCI, PAC Funding, Petters Aviation, where PAL was the borrower and PCI, PAC Funding, and Petters Aviation were the guarantors. The $10.75 million was used to finance a Boeing 737-800 aircraft owned by Sun Country Airlines. On August 20, 2007, another credit agreement was executed whereby Acorn provided an additional $10.75 million towards the financing of another Boeing 737-800 aircraft owned by Sun Country Airlines. The annual interest rate on these notes was 14%; however, the interest

rate increased by 2% once each loan went into default. Both notes were open as of September 30, 2008.

299. In order to analyze the Net Cash Position of Acorn's investments in PAL, PwC relied upon the available notes payable documentation (credit agreements, including amendments, promissory notes, security agreements, guaranty agreements, invoices generated by Acorn, and internal tracking spreadsheets), general ledger data, and bank transaction detail for PAL, Petters Aviation, and PCI. In addition, PwC held numerous discussions with S. Indahl and M. Laumann.

5.6.7.2 Flow of Funds

300. The principal investment for the financing of the first 737-800 aircraft was transferred to Petters Aviation, while the principal investment for the second 737-800 was transferred to PAL. All of the interest payments to Acorn were made by PAL, with the exception of a $2 million payment made by PCI on June 12, 2008, of which approximately $300,000 was for interest and approximately $1.7 million was for principal towards the financing of the first 737-800 aircraft. Per Company Records, PAL received the funding for the interest payments from Sun Country Airlines.

5.6.7.3 Summary of Findings

301. Acorn invested $21.5 million in PAL and was paid approximately $4.6 million in principal and interest, resulting in a Net Cash Position of $16.9 million in cash basis losses. Exhibit 101 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 102 provides a summary of the activity for each note.

5.6.8 Petters Aviation, LLC/Elite Landings, LLC

5.6.8.1 Overview

302. On March 30, 2007, Acorn entered into a credit agreement with Petters Aviation, LLC (previously defined as "Petters Aviation") totaling $10 million to finance the initial deposit for five Airbus A318 Elite aircraft ($2 million for each aircraft). While the

agreement with Airbus S.A.S. ("Airbus") was between Airbus and Elite Landings, LLC ("Elite"), all financing agreements were between Petters Aviation and Acorn.

303. On April 17, 2007, the credit agreement was amended to increase the note amount to $10,175,000 to include $175,000 for the cost of the legal fees and points on the loan. Actual cash received by Petters Aviation for this note was $10 million on March 30, 2007. While the credit agreement and notes documents did not specify a note name, the invoices referred to this loan as "Airbus Contract Advances." The annual interest on this note was 12.5%.

304. On April 17, 2007, the credit agreement was also amended to increase the overall amount borrowed to $12,810,590 (this number includes the $10,175,000 mentioned above). Following is a description of the two additional notes totaling $2,635,590 entered into on or after the credit agreement was signed:

- *"Airbus Cabin Outfitting"*[82]

    305. This note, totaling $1,522,500, was entered into on April 17, 2007, and was used to finance the first cabin outfitting payment for another Airbus.[83] The annual interest on this note was 12.5%. Notwithstanding the fact that face value of the note was $1,522,500, the actual cash received by Petters Aviation was $1,500,000 (principal of $1,522,500 less the amount covering legal fees of $22,500) on April 18, 2007. The annual interest on this note was 12.5%.

- *"Debt Service Fund"*[84]

    306. This note, totaling $1,113,090, was entered into on April 25, 2007. The note served as the monthly interest payment due to Acorn for the Airbus Contract Advances and Airbus Cabin Outfitting notes, as well as the monthly interest due on the Debt Service Fund note. The annual interest on this

[82] The term "Airbus Cabin Outfitting" was used to describe this note on all invoices received by Petters Aviation from Acorn. The related credit agreement and note documents did not specify the note name.
[83] This aircraft was originally financed by PCI.
[84] The term "Debt Service Fund" was used to describe this note on all invoices received by Petters Aviation from Acorn. The related credit agreement and note documents did not specify the note name.

note was 12.5%. The total amount to be set aside (as requested by Acorn) was to be $2 million; however, the full amount was not needed at the onset of the agreement and the note was split into two amounts: $1,113,090 (note dated April 25, 2007) and $886,910 (note dated January 17, 2008 (see below for further information).

307. The initial principal investment of $1,113,090 was received on April 25, 2007; while the remaining $886,910 was received on January 18, 2008 (see below for further information). Both of these amounts were deposited into a Blocked account. In addition, the agreement stated that Petters Aviation was responsible for the legal fees incurred of $16,450 (legal fee amount was not included in note principal) related to the note dated April 25, 2007. The legal fee amount of $16,450 was sent to Acorn on April 26, 2007.

308. The credit agreement with Acorn was amended again to include the increase in principal for the note Debt Service Fund. The increase was in the amount of $886,910; raising the total note amount to $2 million. In addition, the agreement stated that Petters Aviation was responsible to cover the legal fees incurred of $13,550. Actual cash received by Petters Aviation related to this note was $873,359 (principal of $886,910 less the legal fee amount of $13,550) on January 18, 2008.

309. The Airbus Cabin Outfitting note is closed, while the Airbus Contract Advances and Debit Service Fund notes were open as of September 30, 2008.

5.6.8.2 Flow of Funds

310. In order to analyze the Net Cash Position of Acorn's investments in Petters Aviation/Elite, PwC relied upon the available notes payable documentation (credit agreements, including amendments, promissory notes, security agreements, invoices generated by Acorn, and internal tracking spreadsheets), general ledger data, and bank transaction detail for Petters Aviation, PGW, and T. Petters. In addition, PwC held numerous discussions with M. Laumann.

311. A separate bank account was not created for Elite. Throughout its operations, Elite used the Petters Aviation bank accounts to process transactions.

312. Per discussions with M. Laumann, financing arrangements through credit agreements and promissory notes were typically agreed to verbally, prior to formal contract execution. Therefore, incoming funds (i.e., principal investments related to these agreements) were oftentimes received in advance of the date of its corresponding contract.

5.6.8.3 Summary of Findings

313. Acorn invested approximately $13.5 million in Petters Aviation/Elite and was paid approximately $5.9 million in principal, interest, and legal fees resulting in a Net Cash Position of $7.5 million in cash basis losses. Exhibit 103 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 104 provides a summary of the activity for each note.

5.6.9 Polaroid

314. Per the Forbearance agreement dated February 29, 2008, between Acorn, PAC Funding, and T. Petters, Acorn agreed to make a cash advance of $15 million to PAC Funding and the proceeds were used to make an advance to Polaroid/PCE. The note was split into seven notes (six notes for $2 million and one note for $3 million) at an annual interest rate of 14.5%. The notes were secured by Polaroid's inventory located in the United States. The principal investment was transferred from Acorn to PCE on March 4, 2008, and the notes were paid and closed on April 9, 2008. The payment of principal and interest was transferred from PCE to PCI, to PAC Funding Lockbox, and then to Acorn.

315. On April 18, 2008, Acorn advanced an additional $10 million to PAC Funding and the proceeds were used to make an advance to Polaroid/PCE. The note was split into five notes at $2 million each at an annual interest rate of 14.5%. The notes were secured by Polaroid's inventory located in the United States. The principal investment was transferred from Acorn to PCE on April 18, 2008. The security agreement was amended on May 12,

2008 to also include the following collateral from Polaroid: the US trademark, the Mexican trademark, and the Canadian trademark.

316. Per the Fifth Amendment to the Credit Agreement dated May 12, 2008 between PAC Funding and Acorn, outstanding principal and accrued interest for the open notes was combined to form a "new" note totaling $273,892,276 with an annual interest rate of 14.25%. The note amount of $10 million and accrued interest totaling approximately $97,000 as of May 12, 2008, was rolled into the "new" note. See Section 5.4.5 "Fifth Amendment to the Credit Agreement," for further information. The "new" note is open as of September 30, 2008, although PAC Funding made partial principal and interest payments on this note.

5.6.9.1 Summary of Findings

317. Acorn invested $25 million in PAC Funding, which in turn loaned $25 million to Polaroid. Polaroid paid PAC Funding approximately $15.6 million in principal and interest, who in turn paid these funds to Acorn, resulting in a Net Cash Position of $9.4 million in cash basis losses. Exhibit 105 provides a summary of activity by year. PwC further analyzed the investment and payment activity by note. Exhibit 106 provides a summary of the activity for each note.

5.6.10 Unused Commitment Fees

318. Per the credit agreement dated May 10, 2001, between RedtagBiz and Acorn, and the credit agreement dated March 1, 2003, between PCI; Petters Group, LLC; Petters Company, LLC; Petters International, LLC; PCB; RedtagBiz; and such other affiliates and subsidiaries of PCI and Acorn, unused fees represent amounts due to Acorn for the unused portion of the commitment amount of $75 million. Essentially, the unused fees were paid to Acorn for access to funds; however, some of the funds were not needed in a given month. Monthly unused commitment fee invoices from Acorn indicated that the fees were calculated based on the following formula: Unused Amount x (Interest Rate - (Federal Funds Rate - 50 basis points)) x (Days Outstanding / 360). PwC identified invoices from Acorn to

Richard Menczynski ("R. Menczynski"), an employee of RedtagBiz, internal tracking spreadsheets, and correspondence within Stratify related to unused commitment fees and reconciled the amounts cited within Company Records to available Bank Data.

319. Company Records indicated the first unused commitment fee was paid in July 2001, for the June 2001 period and the last unused commitment fee was paid in April 2004, for the February 2004 period. Exhibit 107 indicates that a total of $7.7 million of unused commitment fees were paid to Acorn from RedtagBiz and PCI. There was an additional unused commitment fee payment of $207,200 that was commingled with a payment on an Acorn/RedtagBiz note. As a result, PwC identified a total of $7.9 million in unused commitment fee payments.

5.6.11 Overall Summary of Acorn Investments

320. From 2001 to 2008, Acorn invested approximately $2.8 billion in principal in 11[85] entities. Please refer to Exhibit 108 for a summary timeline of the investment activity. For five entities, Acorn invested approximately $165.4 million and received $182.7 million in payments of principal, interest, and unused commitment fees resulting in a Net Cash Position totaling approximately $17.3 million in cash basis gains. For the remaining six entities, Acorn invested approximately $2.6 billion and received $2.4 billion in payments of principal and interest resulting in a Net Cash Position of $173.7 million in cash basis losses. In total, Acorn's Net Cash Position for all investment activity is $156.4 million in cash basis losses (see Exhibit 109).

6 Thomas J. Petters' Personal Investment Accounts and the Sun Country Airlines Acquisition

321. PwC analyzed the sources of deposits and recipients of withdrawals related to Thomas J. Petters' (previously defined as "T. Petters") six JP Morgan personal investment accounts ("Personal Investment Accounts"). Procedures and observations are outlined in the following sections.

[85] PCI and PAC Funding are counted as separate entities, although they are reported in aggregate.

6.1 Procedures Performed

322. Documentation and information were gathered from various sources, including the accounting records from Thomas Petters, Inc. (previously defined as "TPI"), PCI, PGW, the Family Foundation, Petters Aviation, documents provided by company employees, and other hard copy data and ESI.

323. The JP Morgan statements were available for the period January 2002 through December 2008. Each statement consisted of multiple "transaction types." PwC determined that the following transaction types were most useful in performing the analysis: deposits denoted as "Misc. Receipts" and "Check Deposits," and withdrawals denoted "Misc. Disbursements" and "Check Paid."

324. The transaction detail for the abovementioned types for the entire period was transformed in an electronic format to facilitate the analysis. An analysis of available Bank Data was conducted to determine the Payor of each deposit and the Payee of each withdrawal. Where appropriate bank support was unavailable, an analysis of accounting records was conducted to further clarify the parties to each transaction. Further research and conversations were conducted with M. Laumann to determine the purpose of a transaction, as well as the relationship of the party with T. Petters.

6.2 Observations

325. PwC summarized $83.9 million in deposits and $76.9 million in withdrawals from the Personal Investment Accounts from 2002 to 2008. The top three contributing entities to the deposits, based on percentages of the total, are as follows: (1) PCI - 72%, (2) T. Petters (personally) - 10%, and (3) Enchanted - 9%. The top two receiving entities of the withdrawals based on percentages of the total are listed as follows: (1) PGW - JP Morgan Revolving Credit - 43%, and (2) PCI - 29%.

326. At the beginning of September 2008, the total balance of the Personal Investment Accounts was $24.4 million. After the raid of PGW on September 24, 2008, a total of $18.1 million was transferred out of the Personal Investment Accounts in four separate

transactions to pay down PGW's loan obligation with JP Morgan. These four payments were made between September 30, 2008 and October 6, 2008.

327. Through the analysis described above, PwC identified certain evidence that funds flowing through the Personal Investment Accounts were used in the purchase of Sun Country Airlines. See Exhibit 110) for a summary of the Sun Country Airlines Acquisition.

328. From October 5, 2006 through October 27, 2006, PCI transferred a total of $17.5 million into the Personal Investment Accounts representing the only deposits during this time period.

329. To fund the Sun Country Airlines Acquisition, T. Petters transferred a total of $16.2 million through the following transactions: $15 million was transferred from the Personal Investment Accounts to the PGW JP Morgan Revolving Credit line on November 2, 2006, and ultimately passed through TPI to Petters Aviation. An additional $1.2 million[86] was loaned to MN Airlines, LLC ("MN Airlines")[87] on October 30, 2006. Of these funds, $13.5 million was used to purchase T. Petters' 50% ownership of Sun Country Airlines in 2006, and $2.7 million was used to payoff Sun Country Airline's line of credit with Alliance Bank.

330. T. Petters purchased the remaining 50% (totaling $13.5 million) of Sun Country Airlines in 2007 by paying Sun Minnesota Domestic Holdings, LLC and Sun Minnesota Foreign Holdings, LLC (collectively, "Sun Minnesota")[88] $1 million at the closing and issuing a nonrecourse promissory note dated November 16, 2007, for the remaining $12.5 million.[89]

331. An additional promissory note dated November 16, 2007, for $25.9 million between Sun Minnesota and Sun Credit, LLC (collectively, the holders) and MN Airlines (the maker) was issued to repay funds loaned to Sun Country Airlines by Sun Minnesota. Along with the $12.5 million note described above, this note remains unpaid and outstanding.

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[86] According to the Petters Aviation accounting records.
[87] MN Airlines is wholly owned by MN Airlines Holdings, Inc., which is 100% owned by T. Petters.
[88] Sun Minnesota owned 50% of MN Airlines Holding, Inc. until November 2007 when it was fully acquired by T. Petters.
[89] Per Petters Entities personnel, this note remains open and was never paid.

7 Polaroid Transaction Funding and Pay Down of Debt Analysis

332. PwC was requested by the Petters Receiver and/or Trustee to develop an understanding of the financing activities related to PCB's April 2005 purchase of Polaroid for $425 million as well as the subsequent pay down of the $125 million term loan with JP Morgan. The procedures performed and observations from the analysis are described below.

7.1 Procedures Performed

333. PwC gathered documentation from various sources including: PCI M&I Account Bank Data; PCI and Petters Capital, LLC QuickBooks accounting records; PCB Epicor accounting records; and documents provided by company employees. Additional information was gathered from the following data sources: hard copy data and ESI; PCB records; and the JP Morgan documents provided by KW&S (refer to Section 4.1.1 "Hard Copy and Third Party Produced Documents" for further information). Additionally, discussions were held with various Petters Entities and Polaroid employees throughout the course of the analysis.

334. PwC compiled and analyzed a large volume of Company Records in order to identify the ultimate sources of funding for the Polaroid acquisition and to construct a flow of funds analysis based on the timeline of events. Examples of support utilized by PwC include the following: (1) summary files created by Petters Entities personnel detailing the acquisition; (2) relevant Bank Data for various related entities; and (3) accounting data, which was used to further substantiate transactions identified, as well as not identified, in Bank Data.

7.2 Observations

335. PwC searched for all sources of funds in support of the $425 million purchase price of Polaroid. The underlying details were summarized (see Exhibit 111), highlighting the significant role ($275 million) that G. Bell, of Lancelot, played in the financing of the transaction.

336. A custody account was established at Wells Fargo in the name of Petters Capital, LLC ("Petters Capital, LLC Custody Account") to be used prior to the opening of the two Escrow Accounts required under the Merger Agreement. Initial funds totaling $241 million were deposited into this account and then transferred to the Escrow Accounts on January 7, 2005. Subsequent to January 7, 2005, all funds were deposited from the various lenders into an Escrow Account. The following paragraphs describe all funds deposited into the Petters Capital, LLC Custody Account and the two Escrow Accounts for use in the $425 million purchase of Polaroid.

337. PCI sourced the following three transactions for a total of $125 million towards the purchase price: $40 million in December 2004, $66 million in January 2005, and $19 million in April 2005. For each of the payments, PwC identified funds deposited from investors (either directly or through NIR or Enchanted) for the financing of alleged merchandise, into the PCI M&I Account exceeding the respective outgoing amount listed above.

338. Lancelot Investors Fund, LP contributed $225 million towards the purchase price, which was comprised of two main transactions. One transaction of $100 million was supported by an Omnibus Agreement dated January 3, 2005, between Thousand Lakes and RWB Services, Lancelot's Administrative Agent, which included an allocation schedule of how the loan amount should be distributed among their promissory notes open on the books of PCI dating back to August 2004 (see Exhibit 112). The "spreading" among certain open promissory notes was done in a manner to strip the alleged PCI "profit" in advance of the ultimate sale of the merchandise to the "big box" retailer and the pay off of the related note. The additional $125 million was supported by a loan agreement between PCB and Lancelot Investors Fund, LP. Although not verified by Bank Data, Company Records indicate that JP Morgan repaid Lancelot Investors Fund, LP $75 million on behalf of Polaroid after the acquisition. For many of the Thousand Lakes notes, multiple payments were made for each note. The remaining $100 million was repaid by PCI through the payments of notes specified in the Omnibus Agreement dated January 3, 2005.

339. On the day of the acquisition, April 27, 2005, Polaroid transferred $50 million to RWB Services, which then transferred the $50 million to PCB. The transfer from RWB Services to PCB was supported by another Omnibus Agreement dated April 27, 2005, which included a similar schedule detailing the allocation of the additional principal among their notes currently open on the books of PCI, dating back to January 2005 (see Exhibit 113). As noted above, a similar stripping of alleged "profit" from pending transactions was performed.

340. MGI contributed $35 million towards the purchase price. Company Records indicate that JP Morgan repaid MGI a total of $37.6 million ($35 million principal and approximately $2.6 million interest) on behalf of PCB after the acquisition, although Bank Data is currently unavailable to verify this transaction.

341. Stafford Towne, Epsilon's Administrative Agent, contributed $50 million towards the purchase price. Supporting documentation consists of Receivable Participation Notes totaling $96.9 million. This amount was initially transferred to a PCB bank account; however, only $50 million was subsequently transferred to the Escrow Account for use in the Polaroid acquisition. Although not verified through Bank Data, Company Records indicate that JP Morgan repaid Stafford Towne $50 million on behalf of Polaroid after the acquisition. See Exhibit 114 for a summary of the post-merger paydown.

342. On March 7, 2005, $47.7 million was transferred from the Escrow Account to Harbert Distressed Investment Master Fund ($46.8 million) and Alpha US Sub Fund ($900,000), completing an 11% purchase of Polaroid stock on March 7, 2005. Per the Stock Purchase and Sale Agreement, these shares were purchased at $12 per share.

343. On April 27, 2005, PCB merged into and with Polaroid. A total of $377.4 million was transferred from the Escrow Accounts to the American Stock Transfer & Trust Company. Per the Paying Agent Agreement dated April 26, 2005, the purchase was completed by transferring $369.5 million to a Trust Fund Clearing account at Wells Fargo and transferring the remaining $7.9 million to "an account designated by purchaser [PCB]." This account has not yet been verified.

344. JP Morgan provided financing after the close of the acquisition on April 27, 2005, in two forms; a term loan totaling $125 million and a revolving credit facility. As

referenced above and per Company Records, JP Morgan repaid Stafford Towne $50 million and Lancelot Investors Fund, LP $75 million on behalf of Polaroid, and MGI a total of $37.6 million ($35 million principal and $2.6 million interest) on behalf of PCB. Further, JP Morgan paid TPI $10 million in connection with the financing agreement, and $12.1 million in financing and closing costs.

345. Polaroid repaid the $125 million Term Loan with JP Morgan through the following transactions: (1) four scheduled loan payments of $312,500 each, totaling $1.25 million; (2) funds from the sale of Intellectual Property to LG Electronics totaling $1.2 million; (3) funds secured by the value of the Waltham, MA site real estate sale, totaling $64.3 million; (4) funds from the sale of New Bedford, MA real estate, buildings, and equipment totaling $4.5 million; (5) funds from the sale of land and buildings in Enschede, the Netherlands totaling $18.2 million; (6) funds from the sale of patents totaling $8.1 million; and (7) funds from the sale of Eyewear totaling $26.8 million.

8 Analysis of John T. Petters Foundation

346. PwC was requested by the Petters Receiver and/or Trustee to perform certain forensic procedures on the books and records of the John T. Petters Foundation (previously defined as "JTP Foundation"). PwC analyzed revenue (contributions from donors) and expenses (including fundraising, scholarship, and grant activities), as well as the funding of the JTP Foundation's JP Morgan and Merrill Lynch accounts (the "Investment Accounts"). PwC's analysis was focused on Bank Data and Company Records for the time period January 1, 2008 through December 31, 2008.

8.1.1.1 Information Relied Upon

347. PwC received the JTP Foundation's Crown checking account and savings account statements from January 1, 2008 through October 31, 2009, the JTP Foundation

QuickBooks calendar year 2008 accounting data and other documentation.[90] Dates and amounts from the Bank Data were used in the analyses; however, since complete Payor/Payee information was not available in the Bank Data, the accounting data Payor/Payee information was used in the analyses.[91]

8.1.1.2 Procedures Performed

348. The primary procedures performed included analyzing Bank Data and Company Records, aggregating contributions by donor[92]; analyzing the funding of the investment accounts (prior to 2008); analyzing monthly balance and expenditure activity; reviewing and aggregating fundraising related activity (including payments to third party vendors); and analyzing scholarships awarded. JTP Foundation personnel were also interviewed.[93]

8.1.1.3 Summary of Findings

349. *Contributions*: Total contributions recorded for 2008 in the accounting data was $1,159,613. Contributions were the result of individual donations, proceeds from selling tickets to two fundraising events (a polo charity event and a gala), and proceeds from items auctioned at events. The largest contributors in 2008 were Auction Harmony[94] ($221,105); G. Bell ($102,000); and Denny Hecker Cad/Pont/GMC ($100,000).

350. *Analysis of Funding of the JTP Foundation's Investment Accounts*. As of September 30, 2009, the total balance in the Investment Accounts was $2.4 million. The

[90] Other documentation includes: check stubs, deposit slips, wire transfer detail, confirmation of sale of securities, expenditure receipts, invoices, check requests, vendor contracts, email receipts of credit card contributions, Board of Director minutes, email, and other correspondence.

[91] PwC was able to compare check copies included in the Crown bank statements for a portion of 2008 to assess the accuracy of the Payees identified in the accounting data.

[92] Based on the accounting data.

[93] Foundation personnel interviewed: Joseph E. Schmit (President), M. Laumann (Treasurer) and Richard Gross (Program Manager).

[94] Auction Harmony is a third party that facilitated an auction at each of the two fundraising events. The Auction Harmony amount listed represents the proceeds from the fundraising events less commission earned. This amount includes payments from the following top contributors: G. Bell ($9,085), Deanna Munson (aka D. Coleman) ($940), and L. Reynolds ($200). The Auction Harmony amount also includes payments from Steve Ratliff ($34,225) and William Dunlap ($28,500). The Winning Items Report from Auction Harmony lists payments from M. O'Shaughnessy ($27,000), Gigi Stetler ($4,000), Michael Wood ($450), and Kevin Diepholz ($50) for auction items. These payments were not included in the support for payments to Auction Harmony, and they were also not recorded as payments received in the accounting data. The Auction Harmony supporting documentation lists only individual's names without reference to entity or affiliation.

largest donations that funded this amount were received from G. Bell ($800,000); the Sabes Family Foundation ($250,000); Airbus[95] ($250,000); receipts from the gala ($236,841); S. Stevanovich ($150,000); and T. Petters ($150,000).

351. *Analysis of Monthly Balances.* Based on the accounting data, expenditures for 2008 are summarized as follows:

Figure 6.

Expense Account	**Amount**	**Percentage of Total**
Fundraising	$640,544	45%
Scholarships	300,595	21%
PGW	237,433	16%
Other	254,231	18%
Total	**$1,432,803**	**100%**

352. *Scholarship & Grant Activity*. The JTP Foundation historically provided scholarships to students for study abroad programs. In late 2008, the JTP Foundation's Board of Directors decided to begin awarding volunteer abroad scholarships, as well. The JTP Foundation partnered with Global Volunteers, a not-for-profit organization that funds volunteer abroad opportunities. In 2008, the JTP Foundation recorded funding $300,595 in study/volunteer abroad opportunities.

353. *Payments Made to PGW and PCI.* According to the accounting data, PGW received payments from the JTP Foundation totaling $237,433 relating to expenses including management fees, marketing, rent, and payroll. In addition, the JTP Foundation made six payments to PCI totaling $3,513 for reimbursement for payments it made on its American Express card relating to travel expenses for JTP Foundation employees and courier fees.

8.1.1.4 Other Observations

354. As noted above, the amount of contributions received was $1,159,613 in 2008. When comparing this contribution amount to JTP Foundation expenditures, PwC noted that 26% was distributed for scholarships ($300,595) and 56% was incurred in fundraising activities ($653,671).

[95] The 2008 Form 990 lists the Airbus contribution amount as $126,835.

355. Form 990-PFs (return of private foundation) were filed for the JTP Foundation from 2004 through 2007. In 2008, the JTP Foundation filed a Form 990 (return of publicly supported charity).

9 Analysis of Thomas J. Petters Family Foundation and Charitable Contributions

356. PwC was requested by the Petters Receiver and/or Trustee to determine the source of funding for donations from T. Petters to various educational institutions, including Miami University of Ohio, College of St. Benedict, St. John's University (St. John's Abbey), and Rollins College. Additionally, PwC was requested to review all funds sent to and from the Thomas J. Petters Family Foundation (previously defined as the "Family Foundation").

357. Documentation and information was gathered from various sources including Bank Data[96]; accounting data[97]; Company Records; discussions with M. Laumann and Patricia Hamm; and targeted searches of the documents seized on September 24, 2008, by the DOJ, which are maintained in Stratify.

9.1 Procedures Performed

358. PwC analyzed Bank Data for the Family Foundation and other entities including PCI and T. Petters' personal Bank Data. In addition, PwC performed searches to identify additional potential contributions to universities across all accounts reflected in the Bank Data. Accounting data for the Family Foundation, TPI, and the JTP Foundation was also analyzed. In addition, PwC analyzed documents provided by PCI/PGW employees including those stored and maintained onsite at PGW offices.

[96] The Family Foundation Crown account; Thomas J. Petters Crown account; Thomas J. Petters Northern Trust account; Thomas J. Petters JP Morgan account; Thomas J. Petters Highland account; PCI M&I account; PCI Associated account; Petters Consumer Brands US Bank account; PGW Crown account; Petters Hospitality & Entertainment Group Crown account; Redtag US Bank Data account; and Redtagoutlet.com Highland account.

[97] QuickBooks: The Family Foundation; Thomas J. Petters; TPI; PCI; the JTP Foundation. Epicor: PCB; PGW; Petters Hospitality & Entertainment Group; and Redtag.

9.2 Observations

359. T. Petters donated a total of approximately $10.5 million to certain educational institutions through various Petters Entities. Total amounts by recipient are as follows:

Figure 7:

Educational Institution	Amount
Miami University of Ohio	$5,315,000
St. John's University (St. John's Abbey)	2,000,000
College of St. Benedict	2,000,000
Rollins College	946,250
Cathedral High School	252,900
Total	**$10,514,150**

360. In addition to the above educational institutions, the Petters Entities donated at least $6.3 million to charitable organizations. The largest recipients are as follows (in millions):

Figure 8:

Charitable Organization	Amount
Minnesota Teen Challenge	$1,790,780
The Retreat	1,025,000
John T. Petters Foundation	299,491
Juvenile Diabetes Research Foundation	263,070
Trent Tucker Non Profit Organization	235,000
Big Brothers Big Sisters	212,500
Cercle Sportif Fola, Luxembourg	200,000
Hope Academy	150,000
The Stewardship Foundation	150,000
Howard Pulley Basketball Tournament	125,000
Breast Cancer Research Foundation	110,150
Sisters of the Order of St. Benedict	100,000
Total	**$4,660,991**

361. During the period 2003 through 2008, $12.3 million was deposited into the Family Foundation (with $8.1 million originating from T. Petters or TPI bank accounts). The remaining $4.2 million did not have sufficient Bank Data to determine the originating party.

However, both the accounting records and the Family Foundation's Form 990-PFs indicate that T. Petters was the sole contributor, with the exception of Metro Gem listed on the 2006 Form 990-PF as contributing $60,000 to the Family Foundation.

10 Political Contributions Analysis

362. PwC was requested to identify all political donations made by T. Petters and the Petters Entities.

363. Documentation and information were gathered from various sources, including Bank Data[98]; T. Petters' credit cards[99]; PCI and T. Petters QuickBooks accounting data; discussions with Petters Entities personnel; and targeted searches of the ESI and hard copy data collected and maintained in Stratify.

364. PwC followed the steps outlined below to determine the source of funding and total amounts donated to political campaigns, candidates, and other parties:

- Analyzed the accounting records of the various entities to isolate entries listed as political contributions;
- Confirmed political donations in the Bank Data or credit card data of each respective entity;
- Analyzed the accounting records and information identified within Stratify to identify the beneficiary (i.e., politician or party) of each contribution; and
- Searched for additional contributions and contact information in Stratify.

365. Based on information available, a total of $293,215 of political contributions were identified as being made by PCI and T. Petters to numerous individuals and organizations.

[98] Thomas J. Petters Crown account; Northern Trust account; and PCI M&I Account.
[99] Discover Platinum; US Bank WorldPerks Visa Signature; and American Express.

11 Employee Bonus and Strategic Partner Analysis

366. PwC analyzed bonus payments to all employees of Petters Entities. In addition, PwC identified all payments made to strategic partners. PwC's procedures and findings are outlined in the following section.

367. Documentation and information were gathered from various sources including Bank Data,[100] accounting records,[101] bonus spreadsheets maintained by D. Coleman, an extract of the Petters Entities ADP payroll database, ADP year end reports, Form 1099s,[102] discussions with Petters Entities personnel, and targeted searches for additional Bank Data in the documents seized on September 24, 2008, by the DOJ, which are maintained in Stratify.

368. PwC followed the steps outlined below to summarize bonus payments to employees and strategic partners:

- Analyzed the accounting records of the various Petters Entities to isolate bonus payment entries;
- Analyzed the available Bank Data for transactions in which the memo field indicated that it was a bonus payment;
- Analyzed D. Coleman's bonus tracking spreadsheets to identify additional bonus payments;
- Analyzed Form 1099-MISCs to identify payments made to individuals;
- Analyzed data extracted from ADP to identify additional bonus payments. Compared data extract from ADP to hard copy ADP year end reports, when available, to determine reliability of the data extracted;

[100] Thomas J. Petters Northern Trust (two accounts), and Crown account; TPI Crown (2 accounts); PCI Crown account, M&I account, Associated account, and Highland account; Petters Capital, LLC M&I account, and Northern Trust account; PCB US Bank (two accounts) and; PGW Crown account; Petters International LLC M&I account; Redtagbiz, Inc. US Bank account; Redtagoutlet.com Highland account; and Petters Company LLC M&I account.
[101] QuickBooks data: Thomas J. Petters; TPI, PCI; and EBP Select Holdings. Epicor data: PGW; PCB; Redtag; Integrity Marketing & Sales; Petters International LLC and InterActive Development. Both QuickBooks and Epicor: Petters Capital LLC and Innovative Campus.
[102] Identified within Stratify, PCI's tax software (1099 ETC) and copies provided by PGW and PCI personnel.

- Compiled all bonus payments and reconciled between the various sources; and
- Compiled all payments to and from Lorence Harmer ("L. Harmer") and Michael O'Shaughnessy (previously defined as "M. O'Shaughnessy"), including their related entities.[103]

369. In addition to the steps above, PwC followed the steps outlined below for the strategic partner analysis:

- Searched Stratify for documents referencing the names of the strategic partners;
- Reviewed all sources mentioned above for all payments and shares given to the strategic partners; and
- Categorized each payment based on journal entry or check memo.

370. PwC identified 534 bonus payments made to 115 employees between 1997 and 2008, totaling approximately $28.9 million. See Exhibit 115 for a summary of bonus payments for employees receiving more than $30,000.

371. In aggregate, the strategic partners received a net total of $49.4 million (between 1998 and 2010). The chart below lists the net payments and company shares given to each strategic partner:

[103] This analysis was not limited to bonus payments.

Figure 9.

Strategic Partner	Net Total	Fingerhut Direct Marketing Shares[1]	uBid Shares[2]
Thomas Hay	$ 7,362,088	2,598,900	42,088
William Dunlap	7,343,753	1,559,338	25,253
Camille Chee-Awai	6,686,402	13,520,625	168,350
Mary Jeffries	5,972,164	5,197,813	84,175
Stephen Ratliff	4,262,391		
Stuart Romenesko	4,148,345		
Stewart Cohen	3,457,649		
Paul Traub	2,544,181	519,775	8,418
Larry Raymond	2,536,935		
Roger Jenkins	2,229,831		Unknown[3]
Scott Hardy	1,385,821		
Stephen Barrett Morgan	812,936		
Daniel Perkins	327,530		
Andrew Levin	203,656		
Scott Meyer	133,293		
Total	**$49,406,975**	**23,396,451**	**328,284**

[1] EBP Select Holdings, LLC received 53,687,483 shares of Fingerhut Direct Marketing stock recorded at $4,294,998.64 on April 13, 2007; therefore, the book value is calculated as $0.08 per share.
[2] EBP Select Holdings, LLC received 1,111,111 shares of uBid stock recorded at $1,111,111 on April 13, 2007; therefore, the book value is calculated as $1 per share.
[3] Roger Jenkins received $99,990 worth of uBid shares. However, the exact number of shares is unknown.

12 Accounting Firms Hired by the Petters Entities

372. PwC identified accounting firms which provided professional services to Petters Entities, the type of services provided, and the time frame.

373. Documentation and information were gathered from various sources including accounting records from PCI, TPI, the JTP Foundation, the Family Foundation, T. Petters, and PGW[104]; discussions with Petters Entities personnel; and targeted searches for additional information in the ESI and hard copy data collected and maintained in Stratify.

374. PwC reviewed the accounting records of various Petters Entities to identify entries referencing accounting firms or accounting services in the name or memo of the journal entry. In addition, PwC conducted targeted searches in Stratify to identify firms not

[104] All of the accounting data was in QuickBooks with the exception of PGW which was in Epicor.

identified in the accounting records and to search for formal work product including audit reports.

375. Based on information available to date, the following details PwC's findings[105]:

- 12 accounting firms provided attestation or review services for Petters Entities from 1998 to 2008;
- 18 accounting firms provided other services, including bookkeeping, consulting, tax, due diligence, and valuation; and
- 9 accounting firms provided services that could not be identified.

13 Tax Services

376. PwC analyzed the filing status and prepared tax filings on behalf of various Petters Entities and individuals under the Petters Receivership for years 2008 and 2009.

377. Included in this effort, PwC assessed the inventory of historical tax filings and other information to determine the necessary filings for tax years 2008 and forward. During the review, PwC analyzed approximately 150 legal entities including those of PCI, TPI, Petters Aviation, PGW and subsidiaries, Polaroid and related entities, and those entities in which T. Petters individually owned a majority interest. Resulting from this analysis, PwC prepared and filed over 380 federal, state, foreign, and other income and reporting returns with the appropriate jurisdiction.

378. PwC prepared a total of 114 informational returns, including Form 1099s for the SPEs and individuals who received interest payments from the SPEs.

379. PwC also prepared federal and state tax returns for the Petters Employee Care Foundation and the Family Foundation. In addition, PwC prepared the necessary filings related to the individuals under the Petters Receivership including T. Petters, D. Coleman, J. Wehmhoff, R. White, L. Reynolds, and M. Catain. PwC prepared the appropriate federal and state tax income tax returns and related extensions, as well as informational reports required by the IRS.

[105] See Exhibit 116 for a detailed listing of firms and services performed; 28 firms were identified in total.

14 Other Analyses

380. PwC performed additional analyses described in the following sections.

14.1 General Electric Capital Corporation

14.1.1 Overview

381. General Electric Capital Corporation (previously defined as "GECC") extended lines of credit to two Petters Entities - Petters Capital, Inc. and redtagoutlet.com, inc. ("redtagoutlet.com"). The first, a $50 million line of credit with Petters Capital, Inc. ("Petters Capital, Inc. LoC"), was executed through an agreement dated March 26, 1998 ("Petters Capital, Inc. Agreement"); and the second, a $55 million line of credit with redtagoutlet.com, was executed through an agreement dated on or around December 17, 1999.

382. PwC utilized internal tracking spreadsheets, documents from GECC (e.g., summary letters, monthly statements, etc.), and Bank Data in its analysis of the GECC credit facilities.

14.1.2 Petters Capital, Inc.

383. PwC identified five bank accounts utilized by Petters Capital, Inc.[106] for funds transferred to and from GECC.[107] Payment activity was identified as early as November 4, 1998, with the final payment on December 8, 2000 ("Investment Period").

384. Petters Capital, Inc. used the line of credit to finance a percentage of inventory costs for alleged deals. In accordance with the Petters Capital, Inc. Agreement, Petters Capital, Inc. provided GECC with an "Inventory Loan Proposal," which detailed the proposed deal and provided support for the total cost and selling price for the inventory. In general, the Inventory Loan Proposal included a copy of the Petters purchase order for the final sale of the goods. Following the Inventory Loan Proposal, GECC would then transfer

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[106] Although five accounts were identified for this analysis, three were in the name of PCI, which were primarily used for the credit line payoff from October - December 2000.

[107] Highland (two accounts); Wells Fargo account; and Associated (two accounts).

85% of the cost of the inventory for a deal ("Inventory Advance") to Petters Capital, Inc., which financed the remaining 15% of the inventory cost. After the sale of the goods, Petters Capital, Inc. would transfer the full sales price of the goods to GECC, and GECC would return Petters' equity and profit to Petters Capital, Inc. At the end of a deal (i.e., when the sales price and Petters' equity and profit was transferred), GECC would send a letter to Petters Capital, Inc. summarizing the cost of the deal,[108] which included information regarding fees,[109] interest, and profit share. See Exhibit 117 for an example of a letter sent from GECC for one of the deals.

385. The Petters Capital, Inc. LoC was terminated in October 2000. GECC provided a letter to Petters Capital, Inc. describing the termination, including a schedule detailing the payoff amount required to fulfill all financial responsibilities due to GECC under the Petters Capital, Inc. Agreement. Over $48 million was transferred to GECC from PCI, rather than Petters Capital, Inc., to complete the required payoff amount.

386. In aggregate, approximately $229.0 million was transferred to Petters Capital, Inc., in the form of Inventory Advances or payments of equity and profit, throughout the Investment Period. Approximately $233.5 million was transferred to GECC, resulting in a $4.5 million net cash basis gain for GECC. The calculated annualized interest rate on the 49 deals financed during the Investment Period ranged between 5% and 10%. Refer to Exhibit 118 for a summary by year of the Petters Capital, Inc. LoC.

14.1.3 redtagoutlet.com

387. Supporting documentation for the redtagout.com line of credit was limited to "Monthly Statements" sent from GECC to redtagoutlet.com. The Monthly Statements provided detail around advances, collections, and fees transferred between GECC and redtagoutlet.com. PwC confirmed the amounts listed on the Monthly Statements to available Bank Data, but could not trace each payment to an alleged deal, similar to the Petters Capital,

[108] Summary letters were not available for all deals.
[109] Fees for each deal included (1) Inventory Advance Fee, (2) Interest, (3) Other Charges, and (4) GECC's share of the deal's profit (10% of total profit).

Inc. analysis described above. PwC identified five accounts[110] utilized by redtagoutlet.com for this line of credit, with payments from October 15, 1999 to April 18, 2001. The final advance to redtagoutlet.com occurred in January 2001.

388. Through analysis of the available Company Records, PwC identified that redtagoutlet.com received $53.6 million in advances from GECC and transferred $61.0 million to GECC in repayments, interest, and fees; resulting in an approximately $7.3 million cash basis gain for GECC.

14.2 Acorn Litigation

389. PwC assisted L&V in responding to the discovery request of Acorn in the Polaroid civil litigation.

14.2.1 Enterprise Vault Searches

390. PwC searched the Vault to identify email and user files. The data was exported from the Vault and provided to Stratify for de-duplication and processing into the review database. PwC supported the L&V team in the review and production of the documents.

14.2.2 Polaroid SAP Data

391. PwC assisted in the production of financial transactional data contained within Polaroid's SAP system. PwC assisted in responding to the interrogatories issued by Acorn's counsel, Winthrop & Weinstine ("Winthrop"). PwC proposed several technical approaches to accommodate Winthrop's request and provided estimates of effort.

392. PwC participated in a series of meetings at the Polaroid offices in Concord, MA, with Polaroid employees, L&V, and Winthrop with their experts to discuss the discovery request and develop a mutually acceptable plan for production of SAP data to Winthrop's expert.

393. In coordination with Polaroid IT employees, PwC extracted a total of 29 tables with a volume of approximately 10 gigabytes from the Oracle database backend of

[110] Harris Bank (two accounts); Associated account; Highland (two accounts).

SAP. PwC staffed the data extraction exercise given the lack of IT employees available from the Polaroid estate to assist in fulfilling this request. PwC imported and validated the tables within its own database environment prior to providing the data to L&V for eventual production to Winthrop.

394. PwC continued to provide support after the data production to Winthrop as their experts performed validation and analysis of the SAP data. PwC assisted L&V in responding to multiple requests for information to clarify the data set that was produced.

14.3 Ritchie Litigation

395. PwC assisted L&V in responding to the discovery request of Ritchie in the Polaroid civil litigation.

14.3.1 Enterprise Vault Searches

396. PwC searched the Vault to identify email and user files. The data was exported from the Vault and provided to Stratify for de-duplication and processing into the review database. PwC supported the L&V team in the review and production of the documents.

14.3.2 Polaroid SAP Data

397. PwC worked with Polaroid IT employees to extract underlying SAP tables specific to the general ledger. In coordination with Polaroid, PwC extracted a total of seven tables with a volume of approximately 2 gigabytes from the Oracle database backend of SAP. PwC staffed the data extraction process given the lack of IT employees available from the Polaroid estate to assist in fulfilling this request. PwC imported and validated the tables within its own database environment prior to providing the data to L&V for eventual production to Ritchie's counsel.

14.4 Initial Transferee Analysis - SPF Funding, LLC and PC Funding, LLC

398. PwC does not, in this report, further cite to or quote data contained in these documents based in part upon the existence of a confidentiality agreement between the Petters Receiver and/or Trustee and principals of Opportunity Finance.

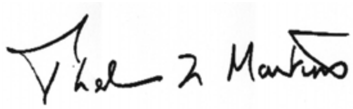
15 Conclusion

399. The Petters Ponzi Scheme is one of the largest investment schemes in the history of the United States. The sheer complexity of the Petters Ponzi Scheme is staggering, involving dozens of Petters Entities (including two charitable foundations), hundreds of bank accounts, and spanning more than 10 years.

400. The information gathered by PwC to date includes the equivalent of approximately 560,332 banker boxes of data and documentation. PwC identified a total of 87 accounts from 21 banks that contained activity related to notes payable transactions and other forensic accounting analyses. For these accounts, there were a total of approximately 46,000 “In” transactions totaling over $102 billion and approximately 98,000 “Out” transactions totaling over $102 billion from 1996 to 2009.

401. T. Petters, through PCI, SPEs, PGW, and other Petters Entities obtained more than $36 billion from numerous investors primarily to fund an electronics merchandising business that did not exist. The Ponzi Scheme began in the early to mid 1990s. Funds received from investors were ultimately funneled to a single PCI bank account and T. Petters and other PCI personnel used such invested funds, not for their intended purpose, but to repay earlier investors. As a result, investors were repaid solely with funds obtained from other investors. The Ponzi Scheme has resulted in net accounting losses (including accrued and unpaid interest) totaling approximately $3.8 billion. There were many investors, both SPE-investors and Private Investors, that were repaid their initial investments plus false profits, commissions, and other non-principal cash payments, which aggregate approximately $1 billion.

402. Our analysis continues and we anticipate providing a final report on our procedures and findings at a later date (as directed by the court). The information contained in this report is based on analyses completed through September 30, 2010. These observations may change based on our continuing analysis and/or the receipt of additional information or documentation.



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Theodore F. Martens
Partner, PwC

December 15, 2010