

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Interlachen Harriet Investments
Limited,

Plaintiff,

Civil File No. 08CV 5312
ADM/SPN

COMPLAINT

v.

Petters Group Worldwide, LLC,
Petters Company, Inc., Nationwide
International Resources, Inc., XYZ
Company, and John and Jane Does
1 through 10,

Defendants.

Plaintiff Interlachen Harriet Investments Limited ("Interlachen"), for its
Complaint against Defendants Petters Group Worldwide, LLC ("PGW"), Petters
Company, Inc. ("PCI"), Nationwide International Resources, Inc. ("NIR"), XYZ
Company, John Doe, and Jane Doe, states and alleges as follows:

PARTIES, JURISDICTION AND VENUE

1. Interlachen is an exempted company duly organized and existing under the
laws of the Cayman Islands. It maintains its principal place of business at c/o Paget-
Brown Trust Company Limited, Boundary Hall, Cricket Square, P.O. Box 1111, George
Town, Grand Cayman KY1-1102.

2. Interlachen is managed by Interlachen Capital Group LP ("Interlachen
Capital" or "managing agent"), a limited partnership duly organized and existing under

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the laws of the State of Delaware. Interlachen Capital maintains its principal place of business at 800 Nicollet Mall, Suite 2500, Minneapolis, Minnesota.

3. Defendant PGW is a limited liability company duly organized and existing under the laws of the State of Delaware. PGW maintains its principal place of business at 4400 Baker Road, Minnetonka, Minnesota.

4. Defendant PCI is a corporation duly organized and existing under the laws of the State of Minnesota. PCI maintains its principal place of business at 4400 Baker Road, Minnetonka, Minnesota.

5. Defendant NIR is a corporation duly organized and existing under the laws of the State of California. NIR maintains its principle place of business 2346 Westwood Blvd, #6, Los Angeles, California.

6. Defendants John Doe, Jane Doe, and XYZ Company, together with the named Defendants, participated in a conspiracy to defraud Interlachen and convert its investment. They were active participants and beneficiaries of the fraud and other illegal actions. None of them are organized under or are residents of the Cayman Islands.

7. This cause of action includes claims for securities fraud under 15 U.S.C. § 78(j) and 17 C.F.R. § 240.10(b)-5, as well as claims for violation of 18 U.S.C. § 1962 (c), and various state law claims. In this action, Interlachen seeks to enforce its rights under a Note Purchase Agreement—as well as other related agreements—that it invested in and entered into primarily based on the intentional fraudulent statements and misrepresentations of PGW, PCI, NIR and their respective owners and agents. With these fraudulent statements and misrepresentations, PGW, PCI and NIR induced

Interlachen to invest \$60,000,000 to finance the purported purchase of electronic merchandise by PCI with the understanding that this investment would be protected by a first priority, perfected security interest in the subject merchandise. As it turned out, PCI offered imaginary televisions as collateral to induce Interlachen to invest \$60,000,000, and PGW and NIR assisted PCI in perpetrating this fraud. Although the Note Purchase Agreement required PCI to use Interlachen's investment solely to purchase the merchandise, PCI never purchased any merchandise. Instead, PCI used Interlachen's investment to fund Thomas J. Petters' ("Petters") other business ventures, retire other debt, and personally enrich the owners and executives of PGW, PCI and NIR. This left Interlachen with no security or other protection for its investment, other than unsecured claims against PCI and Petters.

8. This Court has subject matter jurisdiction over Interlachen's claims under 28 U.S.C. § 1331.

9. This Court also has diversity jurisdiction over this action pursuant to 28 U.S.C. § 1332 because there is complete diversity between Interlachen and all of the named Defendants. The amount of each of Interlachen's claims against Defendants exceeds \$75,000, exclusive of interests and costs.

10. Venue is proper in this district under 28 U.S.C. § 1391 because both PGW and PCI reside in this district and because PGW, PCI, and NIR are all subject to personal jurisdiction in this district.

FACTUAL BACKGROUND

A. The Overall Scheme to Defraud.

11. Petters is an individual residing in Minnesota. At all relevant times for purposes of this Complaint, Petters was the sole or principal Owner and Chief Executive Officer of PGW, Petters' global holding company. In addition, Petters was directly or indirectly the sole or principal Owner of PCI, which is one of numerous business enterprises owned by Petters.

12. Upon information and belief, PGW, PCI, NIR, Petters, certain employees of PGW, PCI and NIR, and other entities owned by Petters, have created and executed a scheme to fraudulently induce investors to provide funds for, and financing to, PCI. Based on the fraudulent scheme, PGW, PCI, NIR, and others induced Interlachen and other investors to invest well over \$100,000,000 in PCI and related entities.

13. Upon information and belief, the primary method of effectuating this fraudulent scheme involved Petters and his employees and associates creating fictitious documents and then providing these documents to current and potential investors as evidence that PCI was buying substantial goods and merchandise that PCI would then resell. In many instances, funds from investors were sent directly to the purported suppliers of the merchandise, including NIR. In turn, the suppliers directed the funds to PCI (less a commission) without any merchandise changing hands. PCI then fraudulently pledged the non-existent goods and merchandise as security for the investments.

14. As part of this fraudulent scheme, Petters solicited substantial investments in PCI. Upon information and belief, to induce Interlachen and other investors, PGW and

PCI representatives advised the investors, including Interlachen, that their investments would be secured by transactions (which were fictitious) in commercial goods (here, televisions). Investors, including Interlachen, were then provided with false documents relating to the purchase and resale of these goods. The fraudulent documents purported to evidence PCI's purchase of the goods from vendors such as NIR, located in Los Angeles, California. Additional invoices falsely detailed PCI's resale of the same goods to various retail stores that were later identified to Interlachen.

15. Upon information and belief, the purchase orders, invoices, and other documents in support of the transactions were entirely fabricated. PCI did not buy merchandise from NIR. Nor did PCI sell merchandise as described in the purchase orders to the retailers named in the invoices. PGW and PCI and their respective employees and agents simply used these false documents to induce investors to invest money, which PGW, PCI, Petters, and others used for their own purposes.

16. Upon information and belief, on occasion, investors wanted to wire funds directly to the purported supplier of the merchandise as payment for the fictitious purchase orders that had been provided by Petters and others to the investors. Larry Reynolds ("Reynolds"), the President of NIR, entered into agreements with Petters to receive these funds from investors and then forwarded the money to Petters, minus a small percentage that Reynolds kept as compensation for his role in the scheme. As a result, investors were tricked into believing that PCI was actually buying the merchandise.

17. In addition to acting as a conduit for funds provided by investors directly to NIR, at Petters' request, Reynolds also had contact with PCI's investors, falsely representing that NIR was selling to PCI large amounts of merchandise as depicted in the fictitious purchase orders. Reynolds further arranged for representatives of insurance companies to tour warehouses containing electronic goods owned by other companies, while representing that the goods were those sold to PCI. The insurance companies were thereby fraudulently induced to issue insurance documents, as required by the investment documents. These insurance documents were used by PGW, PCI and their respective representatives to further the fraudulent scheme against the investors. Reynolds refused to provide access for investor audits of the warehouses, with the excuse that the warehouses were not accessible.

18. Upon information and belief, in order to perpetrate this fraud, agents and employees of PCI created false purchase orders, and NIR created false invoices related to the purchase of merchandise from NIR. Similarly, employees and agents of PCI created false invoices related to the fictitious sale of merchandise to three particular retailers later identified by Petters.

19. PGW, PCI, NIR, Petters, and the employees and agents of PGW, PCI, and NIR used the mail, Federal Express, and interstate wire communications in furtherance of the scheme, by sending fraudulent documents via mail and interstate commercial carriers, and communicating in interstate commerce via wire transfer, email and telephone.

B. The Particulars of the Fraud Against Interlachen.

20. One of the victims of the fraudulent scheme outlined above was Interlachen. On April 18, 2008, Interlachen, PCI and Petters entered into a Note Purchase Agreement and a Security Agreement to facilitate a \$60,000,000 investment from Interlachen to PCI. Under the Note Purchase Agreement, PCI and Petters entered into an interest-bearing Promissory Note in favor of Interlachen for its \$60,000,000 investment.

21. Because of the statements and representations that had been made by the agents of PGW and PCI prior to the April 18, 2008 deal, Interlachen had been led to believe that its \$60,000,000 investment was going to be used by PCI to purchase merchandise at a discounted price. PCI was then going to sell the merchandise to various retailers for a substantial profit. Interlachen was also to receive a perfected, first priority security interest in the merchandise that was purchased in order to provide further protection for its investment.

22. It now clearly appears that this entire transaction was a fraud. As described in further detail below, in order to induce Interlachen to move forward with the transaction, agents and employees of PGW, PCI, and NIR created documents and agreements that were entirely fictitious. Later, these employees and agents created additional fake documentation in order to trick Interlachen into believing that merchandise had been re-sold to major retailers and that the transaction was moving forward as planned. In reality, no merchandise was ever purchased with Interlachen's money. Instead, PCI took Interlachen's investment and used it to fund Petters' other

business ventures, retire other debt, and personally enrich the owners and executives of PGW, PCI and NIR.

23. The April 18, 2008 transaction was the result of a series of interactions between Interlachen, Petters, and representatives of PGW. In 2005, the Partner/Head of Special Investments and Partner/General Counsel (together, "Partners") of Interlachen's managing agent first met to discuss potential investment deals with PGW and Petters.

24. Representatives of PGW and Petters then brought several potential deals to the attention of Interlachen's Partners after the initial meeting in 2005. At least two of these potential deals (in addition to the deal ultimately executed by the parties in April 2008) involved substantial due diligence by Interlachen on the businesses of Petters. However, Interlachen declined to invest in these other potential deals.

25. The due diligence Interlachen previously had conducted in connection with the earlier potential deals gave Interlachen comfort when entering into the April 18, 2008 investment agreement.

26. Interlachen's managing agent agreed to the April 18, 2008 investment transaction and relied on the representations made by Defendants' agents because, unlike the other potential investments the parties had discussed, the April 18 arrangement provided for a specific transaction, which Interlachen's managing agent understood and believed could successfully be completed so that all involved parties could profit. Based on representations of PGW, PCI, and Petters, Interlachen's managing agent was also relying on the discrete and liquid collateral offered through this transaction.

27. The terms of the documents associated with the investment agreement were primarily negotiated between PGW's Chief Legal Officer and representatives of Interlachen. Under the specific terms of these documents, PCI and Petters were obligated to use the investment proceeds from Interlachen's \$60,000,000 investment solely for the purpose of funding the purchase of high-end televisions, which would have created a first priority perfected security interest in those goods under the Uniform Commercial Code. In fact, the terms of the documents associated with the investment *required* PCI to grant to Interlachen a perfected first priority security interest in the high-end televisions in order to protect Interlachen's \$60,000,000 investment.

28. To this end, Interlachen wired these funds to PCI, and PCI then confirmed that it had wired the funds to NIR.

29. The terms of the documents associated with the investment also required that PCI set up a bank account for the deposits of all proceeds associated with the sale, transfer, or other disposition of the televisions that were supposed to be purchased with Interlachen's \$60,000,000 investment. Under the terms of the documents associated with the investment, PCI was required to direct the purchasers of the televisions to pay the purchase price for the televisions directly into this bank account. In connection with opening this bank account, PCI, Interlachen and the bank at which the account was maintained entered into a Deposit Account Control Agreement, under which Interlachen was granted a perfected first priority security interest in this bank account as further protection for Interlachen's investment.

30. The terms of the other documents associated with the investment required PCI to insure the merchandise that was allegedly purchased in connection with Interlachen's investment. As additional security, PCI was also required to assign to Interlachen any and all moneys, including proceeds from insurance that was due or to become due to PCI with respect to any insurance policy covering the merchandise.

31. In the documents associated with the investment, PCI represented that all instruments, documents, chattel papers, and other agreements constituting or evidencing the merchandise were valid, genuine, and legally enforceable.

32. In the documents associated with the investment, PCI and Petters represented that the information and materials provided by PCI did not contain any untrue statements of material fact or omit any material facts.

33. These promises and representations were false. Contrary to the promises and representations of PCI and Petters outlined above, Interlachen's investment was merely part of PGW and PCI's fraudulent scheme to obtain money to fund Petters' other business ventures, to repay debt, and for the personal enrichment of Petters and others. In reality, the merchandise that was supposed to secure Interlachen's investment and the documents and transactions related to that merchandise were entirely fictitious.

34. PGW, PCI, Petters, NIR, John Doe, Jane Doe, and XYZ Company intentionally and knowingly participated in this fraudulent scheme. They formulated, executed, and directed the creation of false documents, and falsely represented facts material to the investment transactions as a part of this scheme.

35. The lies of PGW and PCI were not confined to the documents associated with Interlachen's \$60,000,000 investment. In order to convince Interlachen to agree to invest \$60,000,000 for the purchase of merchandise that did not exist, PGW, PCI, Petters, NIR, John Doe, Jane Doe, and XYZ Company, through their officers and agents, made various misrepresentations and false statements about the facts and circumstances surrounding Interlachen's investment. Sometimes these statements were oral, and sometimes they were in writing. All of these statements were false at the time they were made, or made in reckless disregard to their truth of falsity. Among other things, in order to initially entice Interlachen to invest \$60,000,000, and subsequently to convince Interlachen not to pursue its rights and remedies under applicable law, PGW, PCI, Petters, NIR, John Doe, Jane Doe, and XYZ Company, through its officers, employees, and agents, made the following representations with respect to the April 18, 2008 deal:

- CalibraX Fund LP ("CalibraX"), operating for PWG and PCI, sent a Term Sheet for the April 18 deal to Interlachen's Partner/Head of Special Investments. CalibraX stated that the high-end televisions had a wholesale value of \$116 million, would be sold to top 5 retailers, and that Interlachen had the opportunity to pay \$60 million for the purchase, which included UCC filings and a personal guarantee.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, Petters, individually and as an agent of PWG and PCI, told Interlachen's Partner/Head of Special Investments that the retailer that previously owned the underlying high-end televisions had defaulted on its agreement and Petters was stepping into its shoes to take over the high-end televisions.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, Petters, individually and as an agent of PWG and PCI, told Interlachen's Partner/Head of Special Investments that he planned to sell the televisions to top 5 retailers. Petters

further stated that his strong relationships with retailers were the key to making this transaction succeed and that it would indeed succeed.

- In anticipation of the April 18 investment agreement and upon Interlachen's inquiry, agents of PGW and PCI informed Interlachen's Partners that the warehouses containing the televisions were secured facilities and that Interlachen would therefore not have the opportunity to inspect the merchandise that was supposedly purchased with the proceeds from Interlachen's investment. As an alternative to physical inspection, PGW agreed to provide a certificate of insurance relating to the televisions at those specific warehouses, naming Interlachen as an additional insured.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, Deanna Coleman, PCI's Vice President of Operations ("Coleman") provided more details to Interlachen's Partners regarding the proposed transaction in a telephone conversation. Coleman stated that PCI would purchase the merchandise from NIR. Coleman further stated that Petters had been doing business with NIR's President, Reynolds, for between 15 and 17 years and that Petters had successfully completed many deals similar to the proposed transaction. Coleman also stated that Petters was in negotiations with at least one top 5 retailer to "pre-sell" the merchandise, which falsely led the Partners to believe there was reduced risk involved in the resale of the goods.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, PGW's Chief Legal Officer and agent sent an email to Interlachen's Partners, along with an attached purchase order and invoice, and purported that the documents were the "PO and Invoice relating to" the merchandise that PCI was obligated to purchase with the funds from Interlachen's investment. This invoice was generated by NIR's Reynolds prior to funding. Upon information and belief, these representations by PGW's Chief Legal Officer and Reynolds were false at the time they were made because PCI never purchased any merchandise with Interlachen's investment, as required by the governing documents. Instead, PCI created a fraudulent purchase order and NIR created a fraudulent invoice in order to deceive Interlachen into believing that the purchase had in fact been made.
- PGW's Chief Legal Officer was not only responsible for negotiating on behalf of PCI and Petters the documents associated with Interlachen's \$60 million investment, he was also responsible for managing the transaction on behalf of Petters. Before the April 18 closing of the investment and

with the intent to induce Interlachen to enter the agreement , PGW's Chief Legal Officer sent an email to Interlachen's Partners stating the merchandise that was to be purchased with Interlachen's \$60 million investment was located in three warehouses: (1) 1335 Willow St., Los Angeles, CA 90013; (2) 830 Traction Avenue, Los Angeles; and (3) 15339 S. 169 Hwy, Olathe, KS 66062. Upon information and belief, this representation by PGW's Chief Legal Officer was false at the time it was made because PCI never purchased any merchandise with Interlachen's investment, as required by the governing documents.

- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, Interlachen's Partner/Head of Special Investments sent PGW's Chief Legal Officer an email requesting "[e]vidence that the collateral is currently insured at the locations you indicated." In response, PGW's Chief Legal Officer provided Interlachen with a document entitled "Evidence of Property Insurance" via email. This "Evidence of Property Insurance" indicated that insurance coverage had been obtained from for "business personal property" that was located at the three warehouses that purportedly contained the merchandise that was to be purchased with Interlachen's \$60 million investment. Interlachen's managing agent was named as having an additional interest in the policy described in this "Evidence of Property Insurance." Upon information and belief, this representation by PGW's Chief Legal Officer was false at the time it was made because PCI never purchased any merchandise with Interlachen's investment, as required by the governing documents, and instead created fraudulent insurance documentation in order to deceive Interlachen into believing that the purchase had in fact been made.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, PGW's Chief Legal Officer told Interlachen's Partner/General Counsel that the merchandise would be purchased by NIR in an arms-length transaction and would be stored in the warehouses described in the earlier email from PGW's Chief Legal Officer. Upon information and belief, these representations by PGW's Chief Legal Officer were false at the time they were made because PCI never purchased any merchandise with Interlachen's investment, as required by the governing documents, and instead deceived Interlachen into believing that the purchase had in fact been made.
- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, PGW's Chief Legal Officer sent an email to Interlachen's Partners, along with an attached "Funds Transfer Notification" in response to one Partner's request for "evidence that a wire

has been sent from PCI to the seller” to evidence PCI’s equity investment in the merchandise. Upon information and belief, this representation was false at the time it was made because PCI had failed to make a wire transfer and had instead produced a fraudulent “Funds Transfer Notification” or omitted a material fact that funds would revert back to PCI in order to deceive Interlachen into believing that a legitimate transfer had in fact been made.

- Before the April 18 closing of the investment and with the intent to induce Interlachen to enter into the agreement, PGW’s Chief Legal Officer provided Interlachen with an itemized invoice of all merchandise allegedly purchased pursuant to their agreement. This itemized invoice was plainly false because PCI never actually purchased any merchandise with Interlachen’s investment proceeds.
- On April 22, Coleman sent Interlachen’s managing agent a “Bill of Sale” which purported to transfer title—from NIR to PCI—in the merchandise that was allegedly obtained with the funds from Interlachen’s investment. Upon information and belief, this representation was knowingly false at the time it was made because PCI never purchased any merchandise with Interlachen’s investment, as required by the governing documents, and NIR had created the fictitious “Bill of Sale” in order to deceive Interlachen into believing that the purchase had in fact been made.
- On April 28, Reynolds told Interlachen’s Partners by telephone the merchandise was being stored in warehouses in Los Angeles, California and Kansas, as described in the transaction documents. Reynolds said he would be “spot checking” the merchandise later that week. Upon information and belief, this representation was materially false and misleading because PCI never purchased any merchandise with Interlachen’s investment, as required by the governing documents, and therefore there was no merchandise that was being stored in the identified warehouses, and Reynolds did not intend to “spot check” any such merchandise.
- On May 6, Coleman sent Interlachen’s managing agent’s Partner/Head of Special Investments an email stating that “the merchandise is still in the 3 warehouses that were given to you before.” Upon information and belief, this representation was knowingly false at the time that it was made because PCI never purchased any merchandise with Interlachen’s investment, as required by the governing documents, and therefore there was no merchandise that was being stored in the identified warehouses.

- On June 11, the parties participated in their first status telephone conference to discuss the status of the resale of the purported merchandise. Reynolds and Coleman spoke with Interlachen's managing agent. During this conversation, Reynolds and Coleman stated that: (1) \$2 million worth of merchandise had been shipped to retailers during the previous few days; and (2) once the merchandise was received by a retailer, payment from the retailer was required to be made within 60 days. Upon information and belief, these representations were knowingly false at the time that they were made because PCI had failed to purchase any merchandise with Interlachen's investment, and therefore no merchandise was ever subsequently distributed to retailers.
- On June 11, Interlachen's Partners also spoke to Petters by telephone, who informed them the deal was "going okay" and "moving along." Upon information and belief, these representations were knowingly false at the time that they were made because PCI had failed to purchase any merchandise with Interlachen's investment, and therefore the deal was not progressing as agreed.
- On July 2, Reynolds and Coleman held a telephone conversation with Interlachen's managing agent. During this conversation, Reynolds and Coleman stated that \$4 million worth of merchandise had been shipped during the month of June 2008. Upon information and belief, this representation was knowingly false at the time that it was made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise was ever subsequently distributed to retailers.
- On July 18, Reynolds and Coleman held a telephone conversation with Interlachen's managing agent. During this conversation, Reynolds and Coleman stated that an additional \$67 million worth of merchandise either had been or would be shipped during the month of July 2008. Reynolds and Coleman also stated that \$3 million worth of merchandise had been shipped to retailers during the week of July 7, \$28.5 million worth of merchandise had been shipped to retailers during the week of July 14, \$20 million worth of merchandise would be shipped to retailers during the week of July 21, and \$15.5 million worth of merchandise would be shipped to retailers during the week of July 28. Upon information and belief, these representations were knowingly false at the time that they were made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise was subsequently distributed to retailers, nor were any distributions to retailers ever planned or expected.

- On July 30, Reynolds and Coleman held a telephone conversation with Interlachen's managing agent. During this conversation, Reynolds and Coleman confirmed the shipment schedule that had been discussed during the telephone conversation between Reynolds, Coleman and Interlachen's Partners on July 18. Upon information and belief, this representation was knowingly false at the time that it was made because PCI had not purchased any merchandise with Interlachen's investment, and therefore no merchandise was ever subsequently distributed to retailers, nor were any distributions to retailers ever planned or expected.
- On August 13, Reynolds and Coleman held a telephone conversation with Interlachen's Partners. During this conversation, Reynolds and Coleman stated that several retailers were about 15 days late on their payments for the merchandise that had been procured with Interlachen's investment proceeds. Upon information and belief, this representation was knowingly false at the time that it was made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise was subsequently distributed to retailers, nor were any distributions to retailers ever planned or expected.
- On August 14, Coleman sent an email to Interlachen's managing agent summarizing the transaction and shipments made to date. In her email, Coleman stated that the merchandise obtained with Interlachen's investment proceeds had been shipped to retailers on June 11, 2008, July 2, 2008, July 14, 2008, July 22, 2008, July 30, 2008, and July 31, 2008. Upon information and belief, this representation was knowingly false at the time that it was made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise was subsequently distributed to retailers.
- On August 20, Petters informed Interlachen's managing agent by telephone of the identity of the three retailers that had purchased the merchandise allegedly obtained with Interlachen's investment proceeds. Petters also stated that retailers were generally stretching their accounts payable as a way to manage cash. Petters said he had recently spoken with the head of merchandising of a major retailer (although not one of the three retailers to which the merchandise was sold) that was pushing its accounts payable out four to six weeks past their due date. Petters stated that, as a result, payments from the three retailers would likely be delayed well past their due date. Upon information and belief, this representation was knowingly false at the time that it was made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise

was subsequently distributed to retailers, nor were any payments from retailers ever expected.

- On August 21, Interlachen's managing agent met in person with Coleman and PGW representatives, Michael Phelps, James Wehmhoff, and Mark Lanmann to discuss Interlachen's investment and another potential investment for PGW. At that time, Coleman stated the merchandise had been sold to the three retailers identified by Petters for about \$95 million, and Coleman showed Interlachen's managing agent the invoices that confirmed the sales to the three retailers. Coleman refused to provide Interlachen's managing agent with copies of the invoices, however. Upon a quick review, Interlachen's Partner/Head of Special Investments believed the invoices added up to the stated purchase price, and that the wire instructions reflected accurate account information for the bank account in which Interlachen had a security interest. Upon information and belief, these representations were knowingly false at the time that they were made because PCI never purchased any merchandise with Interlachen's money, as required by the governing documents.
- On September 12, Reynolds, Coleman and Bob White, who was introduced to Interlachen's Partners as a long-time consultant to PGW, held a telephone conversation with Interlachen's managing agent. During this conversation, Reynolds stated that the retailers to which the merchandise had been sold were reporting a higher than normal percentage of customer returns with respect to one of the television models included in the merchandise. Reynolds stated these retailers were reporting about a 14% return rate with respect to this model. Reynolds said the manufacturer of this model had agreed to "stand behind" these returns and that this higher return rate would not impact the retailers' obligations to pay for the merchandise or Interlachen's investment. Upon information and belief, these statements were knowingly false at the time that they were made because PCI never purchased any merchandise with Interlachen's investment, and therefore no merchandise was subsequently distributed to retailers.
- On September 25, in furtherance of the fraudulent scheme, Petters contacted Interlachen's Partner/Head of Special Investments and specifically requested that representatives of Interlachen refrain from contacting any retailers that may have received the merchandise that was purportedly purchased with Interlachen's investment proceeds. Petters stated that these retailers should not be contacted and told Interlachen's Partner/Head of Special Investments, "I don't think you're going to get the satisfaction that you need to get" with those contacts. Upon information

and belief, Petters' representation was knowingly false at the time it was made because there was no legitimate reason for PCI not to contact retailers; instead, Petters made this request solely for the purpose of concealing the fact that PCI never purchased any merchandise with the funds obtained from Interlachen's investment, and PCI never re-sold any merchandise to the retailers.

All of the representations set forth above were false, were known to be false by the person or persons making the representations (or by the entities on whose behalf these representations were made), and were made by them with the intent to deceive, to induce Interlachen's investment, and to lull Interlachen into believing the investment transaction had occurred as represented. These lulling misrepresentations were a part of the overall fraudulent scheme arrived at and entered into by PGW, PCI, NIR, and those acting for, on behalf or, and in concert with them.

C. PCI's Fraud Comes to Light.

36. On September 25, 2008, federal authorities executed search warrants on several individuals and businesses in an attempt to uncover evidence regarding the fraudulent scheme described above.

37. After several media outlets publicized the execution of the search warrant, in order to confirm that its collateral position was still stable, representatives of Interlachen attempted to contact representatives of PGW, PCI and NIR on several occasions to obtain information about the status of the merchandise that had allegedly been obtained with its investment proceeds. PGW, PCI and NIR failed to provide any specific responses to these requests.

38. To date, no proceeds of the alleged sales of merchandise have been deposited into the bank account in which Interlachen has a security interest. Upon information and belief, no such proceeds have been deposited because contrary to PGW, PCI, and NIR's representations, PCI never used Interlachen's money to purchase any electronic goods. Instead, PCI fraudulently used these funds to further the personal and financial interests of PGW, PCI, NIR, Petters, Reynolds, Jane Doe, John Doe, and XYZ Company.

CLAIMS FOR RELIEF

Count 1 - 15 U.S.C. § 78(j) and 17 C.F.R. § 240.10(b)-5

39. Interlachen repeats and realleges paragraphs 1-38 herein.

40. As described more fully above, Defendants engaged in a scheme to defraud Interlachen.

41. Defendants' scheme involved and induced Interlachen's purchase of a security — its investment in PCI.

42. Defendants and their agents knowingly made untrue statements of material fact to Interlachen's managing agent in order to persuade Interlachen to invest \$60,000,000 in PCI in exchange for granting Interlachen a security interest in merchandise that was personally guaranteed.

43. Defendants' actions constitute a fraud or deceit upon Interlachen because Interlachen did not receive any security interest in the merchandise. A first priority, perfected security interest in the underlying merchandise constituted the crux of the agreement; therefore, it was a material part of the deal that PCI had no intention of

fulfilling. Had Interlachen known that its investment was not secured by a security interest in the merchandise that was supposed to be purchased with the proceeds of its investment, it would have never entered into the deal.

44. Instead, the funds paid to NIR were directed back to PCI (less a commission) without any merchandise changing hands. PCI then fraudulently pledged the non-existent goods and merchandise as security for Interlachen's investments.

45. Based on the misrepresentations made by Defendants' agents both before and after the April 18, 2008 deal was consummated, Defendants intended to deceive, manipulate, or defraud Interlachen in order to secure and maintain the deal.

46. Interlachen suffered a complete loss of its investment as a direct result of Defendants' fraudulent misrepresentations and fraudulent scheme.

Count 2 - 18 U.S.C. § 1962 (c)

47. Interlachen repeats and realleges paragraphs 1-46 herein.

48. Individual agents of Defendant companies participated in the scheme to defraud creditors, including Interlachen, by making repeated misrepresentations in order to induce Interlachen to invest \$60,000,000 to finance the sham purchase of electronic equipment by PCI with the understanding that this investment would be protected by a security interest in the subject goods.

49. Individual agents of Defendant companies, as named herein, devised a scheme to defraud creditors, including Interlachen, by engaging in a pattern of racketeering activity.

50. The “enterprise” consisted of individual agents named herein that worked for Defendant companies and associated with one another in order to further their fraudulent scheme by making misrepresentations to investors to entice them to invest money in PCI so that the agents would recoup these funds rather than using them to secure assets, which they contractually agreed to do.

51. The Defendant companies had a common purpose to make money by inducing investors to give them substantial funds, through PCI, under the façade of an investment involving a legitimate security interest in tangible goods.

52. As described more fully above, PWG and PCI’s agents, as listed above, consistently provided Interlachen’s Partners with false information before, during, and after consummation of the April 18, 2008 deal.

53. The misrepresentations made by these individuals are set forth on pages 11-18, *supra*.

54. There exists an ascertainable structure distinct from that inherent in the racketeering pattern because all Defendants are separate legal entities that exist distinctly from the acts of racketeering.

55. NIR is a distinct legal entity, though in reality it functioned merely as sham to facilitate the fraudulent conduct of Defendants.

56. The dealings between Interlachen and Defendants over the course of April through September 2008 establish a series of related communications intended to continue the fraud perpetrated by Defendants. These communications are detailed on pages 11-18, *supra*.

57. This series of related communications had the same purpose – to keep the fraud going once the deal had been made; the same results – to pacify Interlachen's Partners and make them believe that PCI was following through on its end of the bargain; the same participants – agents of Defendant companies; and the same victim – Interlachen.

58. In fact, it is very likely that Interlachen was one of Defendants' many victims. Upon information and belief, Defendants have used similar fraudulent transactions and schemes in order to induce other companies to invest in PGW, PCI and/or other entities owned directly or indirectly by Petters, so that these investment funds could surreptitiously be used to fund other business ventures, retire debt, and personally enrich the owners and executives of PGW, PCI, and NIR.

59. Interlachen has suffered an injury due to the racketeering violation committed by Defendants because the entire transaction in which Interlachen invested was a sham, because there were no underlying goods, and because Interlachen has no security interest in goods underlying the April 18 agreement, and, thus, Interlachen cannot receive any future payments based on this security interest because it is nonexistent.

60. This claim is based on predicate acts of mail and wire fraud. Defendants used both the U.S. mail and interstate wires to further their scheme to defraud on the occasions listed above and on the following additional occasions:

- a) 4/17/08 – a CalibraX agent sent via email the original term sheet for the April 18 investment from his office in New York City, New York, to Interlachen's managing agent in Minneapolis, Minnesota.

- b) 4/18/08 – Morgan Stanley, from its New York City office, wired funds of \$50,000,000 on behalf of Interlachen to M & I Bank, in Minneapolis, to recipient, PCI.
- c) 4/22/08 – Morgan Stanley, from its New York City office, wired funds of \$10,000,000 on behalf of Interlachen to M & I Bank, in Minneapolis, to recipient, PCI.
- d) June through September 2008 – Debbie Lindstrom, Coleman’s assistant, arranged interstate conference calls in which Interlachen’s Partners participated from their office in Minneapolis. Reynolds also participated in most or all of these conference calls, and he was located in Las Vegas, Nevada, or Los Angeles, California during those instances.

Count 3 – Breach of Contract

61. Interlachen repeats and realleges paragraphs 1-60 herein.

62. Interlachen, PCI and Petters executed a Note Purchase Agreement on April 18, 2008, for which Interlachen satisfied its condition precedent under the terms of the contract by paying PCI \$60,000,000.

63. As described more fully above, PCI and Petters failed to perform their obligations under the Note Purchase Agreement by, among other things, their failure to use the monies invested by Interlachen to finance the purchase of electronic equipment and protect such equipment with a security interest, and through their use of Interlachen’s monies to fund its other business ventures, to repay debt, and to finance Petters’ extravagant lifestyle.

64. On September 29, 2008, Interlachen sent via hand delivery and certified mail a letter (“acceleration letter”) to PCI and Petters demanding acceleration of the Note Purchase Agreement dated April 18, 2008.

65. In the acceleration letter, Interlachen referenced PCI and Petters' default and demanded immediate payment.

66. No payments have been made from PCI or Petters on the Note Purchase Agreement.

67. As a result of PCI and Petters' material breaches of contract, Interlachen has been damaged in an amount to be proven at trial, but in excess of \$60,000,000, plus interest, costs and attorneys' fees.

Count 4 – Fraudulent Inducement

68. Interlachen repeats and realleges paragraphs 1-67 herein.

69. As described more fully in the preceding paragraphs, agents of Defendant companies, including PGW's Chief Legal Officer, Petters, Reynolds, and Coleman made material misrepresentations to Interlachen.

70. The statements and representations by Defendants were materially false at the time they were made, were made with reckless disregard as to their truth or falsity, or were made without the present intent to perform them. In particular, agents of Defendant companies knew or should have known that, for instance:

- a) There was no inventory worth \$116,000,000 to secure the April 18 deal;
- b) There was not a \$74,000,000 purchase price for the inventory, \$14,000,000 of which had already been paid prior to April 17, 2008;
- c) Time was not of the essence to complete the April 18 deal;
- d) No warehouse that was referred to in the Note Purchase Agreement or any other closing documents held any such inventory;
- e) Since there was no inventory, there was no chance for it to be pre-sold to a top 5 retailer;

- f) The “Bill of Sale,” which purported to transfer title—from NIR to PCI—in the merchandise that was allegedly obtained with the funds from Interlachen’s investment was fraudulent;
- g) The purported retailers identified by Petters had not purchased any of the inventory (because there was no inventory); and
- h) The invoices reflecting the sales to the three retailers were fraudulent.

71. Defendants had secretly used Interlachen’s funds for purposes contrary to the Note Purchase Agreement.

72. The statements and representations made by Defendants were intended so that Interlachen would rely upon them to execute the April 18 transaction and proceed with it after questions arose later.

73. Interlachen reasonably relied on these representations to its detriment. Interlachen would not have entered into the Note Purchase Agreement and other supporting documents without such representations; it would have simply declined the proposal as it had done on other occasions.

74. These fraudulent misrepresentations directly induced Interlachen to execute the Note Purchase Agreement. Accordingly, Interlachen has been damaged in an amount to be proven at trial, but in excess of \$60,000,000, plus interest, costs and attorneys’ fees.

Count 5 – Conspiracy

75. Interlachen repeats and realleges paragraphs 1-74 herein.

76. Defendants were aware of the terms of the Note Purchase Agreement and other documents executed in conjunction with the April 18, 2008 investment by Interlachen.

77. As more fully described above, Defendants jointly developed a secret plan and scheme by which they obtained personal benefits and financial gain through fraud in violation of the terms of the Note Purchase Agreement. Included in this plan were the actions and omissions set forth on pages 11-18, *supra*. In addition, Defendants conspired together to keep their actions secret from Interlachen and other similarly-situated investors.

78. Upon information and belief, Petters told other conspirators from Defendant companies to continue the conspiracy by falsifying records to investors, and Petters' co-conspirators did so.

79. As a result of Defendants' actions, Interlachen has sustained damages in an amount to be determined at trial, but in excess of \$60,000,000, plus interest, costs and attorneys' fees.

Count 6 – Minnesota Uniform Securities Act § 80A.68

80. Interlachen repeats and realleges paragraphs 1-79 herein.

81. Defendants' scheme involved the purchase and sale of a security.

82. Defendants employed a scheme to defraud Interlachen of \$60,000,000 under the guise of a security interest in merchandise that never existed.

83. Defendants made numerous untrue statements of material fact as set forth on pages 11-18, *supra*, in order to execute and proceed with the April 18, 2008 investment agreement with Interlachen.

84. As set forth above, Defendants engaged in acts and a course of business that operated as a fraud or deceit upon Interlachen.

85. As a result of Defendants' fraudulent conduct, Interlachen has suffered actual damages in an amount to be determined at trial, but in excess of \$60,000,000, plus interest, costs and attorneys' fees.

Count 7 - Unjust Enrichment

86. Interlachen repeats and realleges paragraphs 1-85 herein.

87. PCI agreed to use the \$60,000,000 invested by Interlachen solely to purchase goods and obtain a perfected, first priority security interest in those goods.

88. PCI failed to use Interlachen's funds to purchase goods and obtain a security interest in the goods.

89. PCI has been unjustly enriched by its failure to purchase goods, as promised, under the Note Purchase Agreement.

90. As a result, Interlachen has been damaged in the amount to be proved at trial, but in excess of \$60,000,000, plus interest, and attorneys' fees.

Count 8 - Conversion

91. Interlachen repeats and realleges paragraphs 1-90 herein.

92. Interlachen made a business decision to invest in PCI and execute the Note Purchase Agreement on April 18, 2008.

93. PCI, through its intentional fraudulent acts, wrongfully converted Interlachen's \$60,000,000 investment for its own benefit to the detriment of Interlachen.

94. Interlachen never had knowledge of, nor did it consent to this conversion.

95. As a result of the actions of Defendants, Interlachen has sustained damages in an amount to be determined at trial, but in excess of \$60,000,000, plus interest, costs and attorneys' fees.

Count 9 – Rescission

96. Interlachen repeats and realleges paragraphs 1-95 herein.

97. As described fully in the paragraphs above, Defendants have made false representations of material fact knowing such representations to be false.

98. Defendants had the intent to induce Interlachen to rely on their false representations, and Interlachen did in fact rely on those representations.

99. As a result, Interlachen was deceived by Defendants and pecuniarily damaged.

100. In turn, Defendants engaged in deceit against Interlachen, and Interlachen is, therefore, entitled to avoid the April 18 agreement executed with PCI.

Count 10 – Accounting

101. Interlachen repeats and realleges paragraphs 1-100 herein.

102. To protect Interlachen and its clients, it is necessary for PGW and PCI to provide an accounting of all funds transferred from any accounts of PCI sufficient for Interlachen to determine the purpose and recipients of all such transfers.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Interlachen prays that the Court enter a judgment in its favor and against the Defendants as follows:

1. For all direct and consequential damages, including, without limitation, Interlachen's \$60,000,000 investment made to PCI pursuant to the April 18 agreement;
2. For interest on \$60,000,000, pursuant to the terms of the April 18 closing documents;
3. For attorneys' fees and costs;
4. For the equitable remedy of rescission;
5. For punitive damages as permitted under Minnesota law;
6. For an additional award of prejudgment interest as permitted under Minnesota law;
7. For such further relief as the Court deems just.

DEMAND FOR A JURY TRIAL

Interlachen demands a jury trial on all claims so triable.

Dated: September 30, 2008

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September 30, 2008

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SEP 30 2008

CLERK
U.S. DISTRICT COURT
MINNEAPOLIS, MINNESOTA

CK 1131709

VIA MESSENGER

Clerk of Court
U.S. District Court
202 U.S. Courthouse
300 S. 4th Street
Minneapolis, MN 55415

Re: Interlachen Harriet Investments Limited v. Petters Group Worldwide, LLC, et al.

Dear Sir or Madam:

Please find enclosed for filing Plaintiff's Summons and Complaint in the above-referenced matter. Also enclosed is a check in the amount of \$350.00 as payment of the filing fee.

Very truly yours,


Lee Merreot

PLM:trz
Enclosure

cc: Petters Group Worldwide, LLC
Petters Company, Inc.
Nationwide International Resources, Inc.