UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:	)	Chapter 7
	)	
LANCELOT INVESTORS FUND, L.P., *et al.*	)	Case No. 08-28225, *et al.*
	)	(Jointly Administered)
Debtor.	)	
	)	Hon. Jacqueline P. Cox Presiding
_____	)	
	)	
RONALD R. PETERSON, as Chapter 7 Trustee for Lancelot Investors Fund, L.P., *et al.*,	)	
	)	
Plaintiff,	)	
	)	
v.	)	Adv. No. _____
	)	
RITCHIE CAPITAL MANAGEMENT, LLC, RTL OPTIONS, LTD., and THANE RITCHIE,	)	
	)	
Defendants.	)	

COMPLAINT

Ronald R. Peterson (the "Trustee"), not individually, but as the chapter 7 Trustee for the estate of Lancelot Investors Fund, L.P., *et al.*, hereby complains as follows:

NATURE OF THE ACTION

1. This is an adversary proceeding by the Trustee against Ritchie Capital Management, LLC, RTL Options, Ltd., and Thane Ritchie (the "Defendants"), on behalf of Lancelot Investors Fund, L.P. ("Lancelot I"); Lancelot Investors Fund II, L.P. ("Lancelot II"); Lancelot Investors Fund, Ltd. ("Lancelot Ltd."); Colossus Capital Fund, L.P. ("Colossus LP"); and Colossus Capital Fund, Ltd. ("Colossus Ltd." and collectively, the "Debtors" or the "Funds") to avoid $12,532,973.00 in constructive fraudulent pre-petition transfers, unjust enrichment, and money had and received relating to transfers made by the Debtors to Defendants.

JURISDICTION AND VENUE

2. This Court has jurisdiction pursuant to 28 U.S.C. § 1334(b) because this adversary proceeding arises in, arises under, and is related to a Title 11 case, *In re Lancelot Investors Fund, L.P., et al.*, pending in the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division, jointly administered as Case No. 08-28225.

3. This Court has personal jurisdiction over Defendants pursuant to Federal Rule of Bankruptcy Procedure 7004(f).

4. The Granite Investment Management, L.L.C. (later known as Lancelot Investment Management, L.P. or "LIM") letter agreement (the "Lancelot Letter Agreement") executed by the Defendant Ritchie Capital Management, LLC for Defendant RTL Options, Ltd. provides that it is governed by the laws of the State of Illinois. The Colossus Capital Management, L.L.C. ("CCM," and together with LIM, the "Management Companies") letter agreement (the "Colossus Letter Agreement," and together with the Lancelot Letter Agreement, the "Letter Agreements") executed by the Defendant Ritchie Capital Management, LLC provides that it is governed by the laws of the State of Illinois and that the parties thereto submit to the exclusive jurisdiction of the courts of the State of Illinois with respect to any dispute arising out of or relating to the Colossus Letter Agreement. The principal place of business of the Debtors and the Management Companies was Illinois. The Debtors and the Management Companies were operated entirely from Illinois by Gregory Bell ("Bell"), an Illinois resident. All bank accounts were maintained in the United States and all transfers to and from the Debtors and the Management Companies were made via United States bank accounts.

5. Venue is proper is this District pursuant to 28 U.S.C. § 1409(a).

6. This Complaint is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(H).

THE PARTIES AND RELATED ENTITIES

7. Plaintiff Ronald R. Peterson is the chapter 7 case Trustee for the Debtors, duly qualified and appointed under 11 U.S.C. § 701(a)(1) of the United States Bankruptcy Code (the "Bankruptcy Code") by the Office of the United States Trustee.

8. The Debtors consist of 19 related entities engaged in the operation of related hedge funds or special purpose vehicles. As of October 20, 2008, the date on which the Debtors filed for Chapter 7 protection in this Court, (the "Petition Date"), the Debtors collectively held assets for which the book value was listed on the Debtors' books and records as approximately $1.8 billion. Those assets were comprised predominantly of notes (the "Notes") purchased from a special purpose vehicle, Thousand Lakes, LLC ("Thousand Lakes"), which was controlled by and affiliated with Thomas J. Petters ("Petters") and Petters Company, Inc. ("PCI"). The Notes were purportedly secured by certain goods and merchandise owned by Thousand Lakes and/or certain affiliated vendors, Enchanted Family Buying Company ("Enchanted") or Nationwide International Resources ("NIR" and together with Enchanted, the "Vendors") and/or certain receivables purportedly due from major retail chains.

9. The Trustee brings this adversary action on behalf of the Debtors.

10. Upon information and belief, Defendant Ritchie Capital Management, LLC is a U.S. limited liability company with its principal place of business in Illinois.

11. Upon information and belief, Defendant RTL Options, Ltd is a Cayman Islands company with its principal place of business in Illinois.

12. Upon information and belief, Defendant Thane Ritchie is a resident of Illinois.

13. Lancelot I was formerly known as Granite Investors Fund, L.P., and is a Delaware Limited Partnership with its principal place of business in Northbrook, Illinois. Lancelot I was organized in September 2001. Lancelot II is a Delaware Limited Partnership with

its principal place of business in Northbrook, Illinois. Lancelot II was organized in February 2003. Lancelot Ltd. is a Cayman Islands registered exempt company incorporated in 2002 with its principal place of business in Northbrook, Illinois. Colossus LP is a Delaware Limited Partnership with its principal place of business in Northbrook, Illinois. Colossus Ltd. is a Cayman Islands registered exempt company incorporated in 2004 with its principal place of business in Northbrook, Illinois.

14. Prior to the Petition Date, each of the Debtors was substantially controlled by Bell, through the Management Companies set up by Bell. Under applicable limited partnership and other agreements, the authority to make day-to-day decisions on behalf of the Debtors was delegated to Bell, through the Management Companies controlled by Bell. Lancelot I and Lancelot II were managed by Bell through LIM which was the General Partner and/or Investment Manager of those Funds. Colossus LP was managed by Bell through CCM, which was the General Partner and/or Investment Manager of that Fund. Lancelot Ltd., which ostensibly had a board of directors, was managed by Bell through LIM. Colossus Ltd., which also ostensibly had a board of directors, was managed by Bell through CCM. From 2002 through 2008, Bell and the management companies raised hundreds of millions of dollars by selling interests in the Funds to hundreds of investors throughout the United States and in several foreign countries.

15. The investors in the Funds included individuals, retirement plans, individual retirement accounts, trusts, corporations, partnerships, and other hedge funds. The investors in the Funds at all times possessed claims against the Funds, including contractual rights to redemption, breach of contract and tort claims based on negligence, and, after February 26, 2008,

tort claims based upon fraud. The investors of the Funds are creditors and their claims are liabilities.

16. The liabilities of the Funds at all times exceeded the value of their assets. The bulk of the assets of the Funds consisted of Notes from the Petters Ponzi scheme, Notes which were and are virtually worthless. Accordingly, the book value of the assets of the Funds far exceeded their fair valuation. The Funds were insolvent, unable to pay their debts as they became due, and had unreasonably small capital at all times due to the amount of their liabilities, including those resulting from investor claims, and the significant difference between the book value and a fair valuation of its assets.

17. Petters is a citizen of Minnesota. Petters, through various entities, held a substantial ownership interest in numerous businesses (collectively with Petters, the "Petters Entities"). Included among the Petters Entities were PCI, a Minnesota corporation with its principal place of business in Minnetonka, Minnesota, Petters Group Worldwide, LLC ("PGW") and Thousand Lakes.

18. Enchanted was a shell company with no real operations. Petters represented to his investors, including the Funds, that the Petters Entities financed Enchanted in its acquisition of consumer electronics from manufacturers and its resale of the goods to certain major retailers such as Costco, Sam's Club, Boscov's, and BJ's (the "Retailers").

19. Like Enchanted, NIR was a shell company with no real operations. Petters represented to his investors, including the Funds, that the Petters Entities financed NIR in its acquisition of consumer electronics from manufacturers and its resale of the goods to Retailers.

BACKGROUND

The Petters Scheme

20. Beginning in approximately 1995, Petters and certain of the Petters Entities began raising money by offering and selling Notes.

21. Petters offered and sold the Notes to various feeder funds, which, in turn, raised investment capital from hundreds of private investors located throughout the United States and numerous foreign countries. The Funds were among the many hedge funds to which the Petters Entities offered and sold Notes over the years.

22. The Debtors, through a special purpose entity, RWB Services LLC ("RWB"), served as commercial lenders to PCI by purchasing Notes from Thousand Lakes.

23. The Notes were issued by Thousand Lakes ostensibly to finance the purchase of consumer electronics and other so-called "brown goods" by Enchanted and NIR for resale to the Retailers.

24. In fact, the Notes were issued in connection with a multi-billion dollar Ponzi scheme orchestrated by Petters and his co-conspirators.

25. In offering and selling Notes, Petters represented to investors and potential investors that the proceeds from the sale of the Notes would be used to finance so-called "purchase order financing" transactions.

26. Purchase order financing allows manufacturers or vendors of goods to obtain immediate payment for goods that have been pre-sold to creditworthy retailers. Under Petters' version of purchase order financing, the Petters Entities arranged for the sale and delivery of end runs or overstocked consumer electronics from manufacturers or suppliers to the "big box" Retailers.

27. Specifically, Petters represented that he worked with two companies, Enchanted and NIR, which bought the consumer electronics from manufacturers and then resold the goods to Retailers.

28. On information and belief, Petters represented that these transactions usually took up to 180 days to complete. According to Petters, while the manufacturers demanded payment in advance, the Retailers would not pay until the merchandise was delivered. Thus, financing was necessary to bridge the period between when the manufacturers demanded payment and when the Retailers paid for the merchandise.

29. For each transaction, Petters and his co-conspirators provided a series of documents to their investors. These documents included a funding request from PCI or its affiliates, executed note documents reflecting the investment and a guaranteed rate of return, purported purchase orders from a Retailer, purported bills of sale from manufacturers to the Vendors, and documents assigning a security interest in the underlying merchandise to the financing investors.

30. In fact, Petters' entire "purchase order financing" business was nothing but a multi-billion dollar Ponzi scheme. There were no goods, no real bills of sale, and no real purchase orders.

31. Instead, Petters and his affiliates created fictitious invoices, purchase orders, and other documents, and used the money they received from investors to (a) make disbursements and other payments to earlier investors, and (b) enrich themselves.

32. The two Vendors – Enchanted and NIR – were shell companies with no real operations. Indeed, the principals of the Vendors were associates of Petters. They knew there were no Retailer orders and no merchandise.

33. Each Vendor opened a bank account at the request of Petters. The Vendors deposited monies wired to them from investors of Petters (including the Funds), took a percentage of that money as compensation for their role in the scheme, and returned the rest to Petters, who also took a cut and used the remainder to pay off earlier investor Notes.

34. As a result of the scheme orchestrated by Petters and his co-conspirators, the goods and merchandise in which the Funds purportedly held a perfected security interest never existed and the purchase orders provided to Bell and the Funds were forgeries. Accordingly, the Notes held by the Funds were and are virtually worthless.

The Petters Scheme Is Exposed

35. On September 8, 2008, Deanna Coleman ("Coleman"), Vice President of Operations at PCI, went to the authorities to discuss the Ponzi scheme that Petters had been operating for years. Coleman agreed to wear a wire to monitor her conversations with Petters and Robert White ("White"), a former PCI officer and PCI consultant.

36. On September 24, 2008, two weeks after Coleman first went to the authorities, FBI agents raided Petters' home and a number of his businesses. Shortly thereafter, Petters was arrested.

37. On December 1, 2008, a Federal Grand Jury in the District of Minnesota indicted Petters in connection with his perpetration of and PCI's participation in the Ponzi scheme. On December 2, 2009, a jury found Petters guilty of all 20 counts charged in the indictment. On April 8, 2010, Judge Richard H. Kyle sentenced Petters to 50 years in prison for his crimes.

38. In October 2008, the principals of both Enchanted and NIR pled guilty to charges of conspiracy to commit money laundering.

39. Petters Entities and Petters associates who were involved in the Ponzi scheme have pled guilty to criminal acts in connection with the Petters Ponzi scheme. PGW and PCI each pled guilty to wire fraud, conspiracy to commit mail and wire fraud, and conspiracy to commit money laundering. Coleman pled guilty to a single count of conspiracy and was sentenced to one year and a day in prison for her involvement in the fraud. Michael Catain, who owned Enchanted, pled guilty to a single count of conspiracy to commit money laundering and was sentenced to 90 months (7 years and 6 months) in prison for his involvement in the fraud. Robert White pled guilty to one count of mail fraud and one count of illegal monetary transactions and was sentenced to five years in prison for his involvement in the fraud. Larry Reynolds, who owned NIR, pled guilty to a single count of conspiracy to commit money laundering and was sentenced to 130 months (10 years and 10 months) for his involvement in the fraud. James Wehmhoff ("Welmhoff") pled guilty to conspiracy to defraud the United States, conspiracy to commit tax evasion, and one count of aiding and assisting in the filing of a false tax return and was sentenced to one year of home detention and two years of probation.

Bell's Round-Trip Transactions

40. From 2001 to September 2008, the Funds raised over a billion dollars by selling interests to hundreds of investors located throughout the United States and in several foreign countries. The investors included individuals, retirement plans, individual retirement accounts, trusts, corporations, partnerships, and other hedge funds.

41. The bulk of the money was unknowingly funneled into Petters' Ponzi scheme by virtue of the purchase of Notes issued by Thousand Lakes.

42. In December of 2007, Petters told Bell that Costco was late in paying its outstanding invoices, and an agreement was reached between Petters and Bell to extend the term on the Notes from 180 days to 270 days.

43. In January of 2008, Petters told Bell that Costco would be very late in paying the outstanding invoices. Petters suggested that Bell exchange collateral with Petters and replace the Costco invoices with "good collateral" in the form of invoices from other Retailers that would be paid in 90 days.

44. Beginning on or about February 26, 2008, Bell and Petters created a series of "round-trip" transactions in which Bell wired money to Petters to invest in new Notes secured by purported "good collateral." Petters then wired the money back to Bell to pay off the delinquent Notes secured by "bad collateral." These transactions typically occurred within 24 hours and the purpose and effect was to conceal from the Funds' investors the fact that Thousand Lakes was delinquent in payments to the Funds, and to give investors the false impression that Thousand Lakes was paying off its Notes in a timely manner.

45. From February 26, 2008 through September 17, 2008, the Funds wired money to PCI through a Thousand Lakes depository account, relating to at least 67 Note transactions. The amounts wired by the Funds for these 67 Note transactions and the amounts of the return payments are detailed on the chart attached hereto as Exhibit A. For a majority of these 67 Notes, a return payment on an old Note held by the Funds was made by PCI within 24 hours, the new Note was funded by the Funds, and the total return payment was in an amount similar to that of the new Note.

46. From February 26, 2008 to September 17, 2008, the total amount of cash that originated from Lancelot I to PCI (directly and/or via Thousand Lakes) on new Notes was

$1,377,050,000.00. The total amount of cash received by the Funds originating from PCI was $1,391,708,410.65.

47. Beginning on February 26, 2008, the date upon which Bell and Petters began their systematic manufacturing of the "round-trip" transactions, the Funds became a Ponzi scheme, and continued as such until the Petition Date. During this time, the Lancelot Funds operated at a loss and were not a legitimate operation. There were no real earnings or profits; the only sources of funding were either the "round-trip" transactions or the investments of new investors. Each of the Funds held separate operating accounts. The investors' funds, however, were commingled in each of the Funds' operating accounts. The interest and principal payments made to investors were made on account of later investments. Effectively, around the time that the Petters Ponzi scheme began to unravel, Bell responded by converting his own Funds into a second level Ponzi scheme in an attempt to keep the Funds afloat as long as possible.

48. On July 10, 2009, FBI agents took Bell into custody after obtaining a warrant for his arrest to answer a criminal complaint, alleging that Bell engaged in a series of round-trip transactions in an effort to defraud his investors by concealing Thousand Lakes' delinquencies.

49. On September 23, 2009, Bell pled guilty to a single count of wire fraud, in violation of 18 U.S.C § 1343. Bell's plea agreement reveals that between February 26, 2008, and September 24, 2008, Bell used the Funds to engage in the round-trip transactions to defraud the Funds' investors.

50. On September 30, 2010, Bell was sentenced to 72 months (6 years) for his fraudulent activity.

The Management Fees

51. Pursuant to the Letter Agreements, Defendants and Equitec Group, LLC and/or an affiliate thereof ("Equitec") were seed investors (the "Seed Investors") in the Funds. Unlike other limited partners, the terms of the Seed Investor's investments were outlined in the Letter Agreements.

52. Pursuant to the Lancelot Letter Agreement, Defendants agreed to subscribe for $10,000,000.00 of Interests in Lancelot Ltd. LIM agreed to pay Defendants 12.5% of the net revenues ("Net Revenues") earned by LIM. The Net Revenues include management fees ("Management Fees") and performance compensation ("Performance Compensation") distributed to LIM from the Funds. Pursuant to the Letter Agreement, Management Fees were to be paid quarterly and equal to 0.5% (2% per annum) of each investor's capital account as of the end of each calendar quarter. Performance Compensation was to be paid quarterly and was to be equal to 20% of any New Profits experienced with respect to each investor's Interest during the quarter.

53. Pursuant to the Colossus Letter Agreement, Defendants agreed to subscribe for $10,000,000.00 of Interests in Colossus LP and/or Colossus Ltd (together, the "Colossus Funds"). CCM agreed to pay Defendants 10% of all gross fees and revenues ("Gross Fees and Revenues") received by CCM from or in connection with the Colossus Funds. Gross Fees and Revenues included whether such fees and revenues were fixed or contingent, including, but not limited to, fees for management and investment advisory services rendered by CCM to the Colossus Funds and performance-based fees or profit allocations and other compensation paid by CCM to the Colossus Funds. Gross Fees and Revenues specifically excluded such fees and

revenues, directly or indirectly, received by CCM from the principals of CCM, and the reimbursement of expenses by the Colossus Funds to CCM.

54. The Seed Investors were not involved in the management of the Funds. The seed investment of the Defendants was a limited partnership subscription into a Fund. All Management Fees received on account of the Letter Agreements were based upon a calculation of the "net revenues" of the Funds, a calculation that turned out to be grossly overvalued and based upon manufactured Notes and fictitious profits. Indeed, the Management Fees were paid on account of the investments of other investors, and, therefore, should be disgorged.

COUNT ONE

Avoidance and Recovery of Constructive Fraudulent Transfer Pursuant to §§ 548(a)(1)(B) and 550 of the Bankruptcy Code

55. The Trustee repeats, realleges, and incorporates, as though fully set forth herein, paragraphs 1 through 54.

56. Within the two years prior to the Petition Date, the Debtors transferred to Defendants $123,176.00 ("the Constructive Fraudulent Transfers"). A schedule of the Constructive Fraudulent Transfers for the Defendants is attached as Exhibit B.

57. The Constructive Fraudulent Transfers constituted transfers of the Debtors' property.

58. The Constructive Fraudulent Transfers were made, mediately or immediately, to or for the benefit of Defendants.

59. The Debtors were insolvent on the dates that the Constructive Fraudulent Transfers were made or became insolvent as a result of the Constructive Fraudulent Transfers.

60. The Debtors were engaged in business or transactions, or were about to engage in business or transactions, for which the property remaining with the Debtors after the Constructive Fraudulent Transfers constituted unreasonably small capital.

61. At the time of the Constructive Fraudulent Transfers, the Debtors intended to incur, or believed that they would incur, debts that would be beyond their ability to pay as the debts matured.

62. The Debtors received less than a reasonably equivalent value in exchange for the Constructive Fraudulent Transfers.

63. Defendants may also have received additional constructive fraudulent transfers which may be discovered during the discovery process.

64. The Constructive Fraudulent Transfers may be avoided under § 548(a)(1)(B) of the Bankruptcy Code.

65. Pursuant to § 550(a) of the Bankruptcy Code, the amount of the Constructive Fraudulent Transfers may be recovered from Defendants.

WHEREFORE, the Trustee respectfully requests pursuant to §§ 548(a)(1)(B) and 550(a) of the Bankruptcy Code that the Court:

A. Enter judgment in favor of the Trustee and against Defendants avoiding the Constructive Fraudulent Transfers;

B. Enter judgment in favor of the Trustee and against Defendants in the amount of the Constructive Fraudulent Transfers, plus pre and post-judgment interest, fees and costs to the extent provided by law; and

C. Grant the Trustee such further and other relief as the Court may deem equitable and just.

COUNT TWO

Avoidance and Recovery of Constructive Fraudulent Transfers Pursuant to 740 ILCS 160/5(a)(2), 160/6(a) and 160/8(a), and §§ 544(b)(1) and 550(a) of the Bankruptcy Code

66. The Trustee repeats, realleges, and incorporates, as though fully set forth herein, paragraphs 1 through 54.

67. Within four years prior to the Petition Date, the Debtors transferred to Defendants $10,137,856.00 ("the UFTA Constructive Fraudulent Transfers"). A schedule of the UFTA Constructive Fraudulent Transfers for the Defendants is attached as Exhibit B.

68. The UFTA Constructive Fraudulent Transfers constituted transfers of the Debtors' property.

69. The UFTA Constructive Fraudulent Transfers were made, mediately, or immediately, to or for the benefit of the Defendants.

70. The Debtors were insolvent on the date that the UFTA Constructive Fraudulent Transfers were made or became insolvent as a result of the UFTA Constructive Fraudulent Transfers.

71. The Debtors were engaged in business or transactions, or were about to engage in business or transactions, for which the assets remaining with the Debtors after the UFTA Constructive Fraudulent Transfers constituted unreasonably small capital in relation to the business or transaction.

72. At the time of the UFTA Constructive Fraudulent Transfers, the Debtors intended to incur, or believed or reasonably should have believed that they would incur, debts that would be beyond their ability to pay as the debts became due.

73. The Debtors received less than a reasonably equivalent value in exchange of the UFTA Constructive Fraudulent Transfers.

74. A creditor exists that could avoid such transfers, and could obtain further relief, pursuant to section 8(a) of the UFTA. Such creditor could obtain a judgment against Defendants for the value of the UFTA Constructive Fraudulent Transfers as described in this Complaint, as either (1) the first transferee of the asset or the person for whose benefit the UFTA Constructive Fraudulent Transfers were made, or (2) a subsequent transferee, pursuant to section 9(b) of the UFTA.

75. Defendants may have also received additional UFTA Constructive Fraudulent Transfers which may be discovered during the discovery process.

76. The Trustee may avoid the UFTA Constructive Fraudulent Transfers pursuant to section 544(b)(1) of the Bankruptcy Code and may recover, for the benefit of the estate, each of the UFTA Constructive Fraudulent Transfers, or their value, from Defendants, as either (1) the first transferee of the asset or the person for whose benefit the UFTA Constructive Fraudulent Transfers were made, or (2) the immediate or mediate transferee of such initial transferee, pursuant to § 550(a) of the Bankruptcy Code.

WHEREFORE, the Trustee respectfully requests pursuant to 740 ILCS 160/5(a)(2), 160/6(a) and 160/8(a), and §§ 544(b)(1) and 550(a) of the Bankruptcy Code that the Court:

A. Enter judgment in favor of the Trustee to avoid the UFTA Constructive Fraudulent Transfers to Defendants;

B. Enter judgment in favor of the Trustee and against Defendants in the amount of the UFTA Constructive Fraudulent Transfers, plus pre- and post-judgment interest, fees and costs to the extent provided by law; and

C. Grant the Trustee such further and other relief as the Court may deem equitable and just.

COUNT THREE

Unjust Enrichment

77. The Trustee restates and realleges Paragraphs 1 through 54 as though fully set forth herein.

78. Defendants received $12,532,973.00 in Management Fees pursuant to the Letter Agreements. A schedule of the Management Fees received by the Defendants is attached as Exhibit B.

79. The Management Fees received by Defendants were based upon grossly inflated asset values and fictitious profits.

80. Defendants, as the recipients of a percentage of the net revenues of fraudulently obtained proceeds, have no rightful or legitimate claim to any Management Fees received.

81. Defendants were unjustly enriched through their receipt of the Management Fees, to the detriment of other investors of the Debtors, and in equity and good conscience must be required to repay the proceeds received.

82. Defendants' retention of this benefit violates the fundamental principles of justice, equity, and good conscience.

83. Defendants must, therefore, in equity, be required to disgorge all proceeds received via the Letter Agreements, so as to allow the Trustee to distribute in equity any such ill-gotten gains among all innocent investors and creditors of the Debtors.

WHEREFORE, the Trustee respectfully requests that the Court:

A. Enter judgment in favor of the Trustee and against Defendants;

B. Order Defendants to make restitution to the Trustee, for the benefit of creditors of the Estate, in the amount by which Defendants were unjustly enriched, plus pre- and post-judgment interest, fees and costs to the extent provided by law; and

C. Grant such further and other relief as the Court may deem equitable and just.

COUNT FOUR

Money Had and Received

84. The Trustee restates and realleges Paragraphs 1 through 54 as though fully set forth herein.

85. Defendants received $12,532,973.00 in Management Fees pursuant to the Letter Agreements. A schedule of the Management Fees received by the Defendants is attached as Exhibit B.

86. The Management Fees received by Defendants were based upon grossly inflated asset values and fictitious profits.

87. Defendants, as the recipients of a percentage of the net revenues of fraudulently obtained proceeds, have no rightful or legitimate claim to any Management Fees received.

88. The Management Fees, in equity and good conscience, belong to the Debtors' Estates.

89. Defendants must, therefore, in equity be required to disgorge all proceeds received via the Letter Agreements, so as to allow the Trustee to distribute in equity any such ill-gotten gains among all innocent investors and creditors of the Debtors.

WHEREFORE, the Trustee respectfully requests that the Court:

A. Enter judgment in favor of the Trustee and against Defendants;

B. Order Defendants to make restitution to the Trustee, for the benefit of creditors of the Estate, in the amount of money had and received, plus pre- and post-judgment interest, fees and costs to the extent provided by law; and

C. Grant such further and other relief as the Court may deem equitable and just.

COUNT FIVE

Disallowance of Claims

90. The Trustee repeats, realleges, and incorporates, as though fully set forth herein, paragraphs 1 through 89.

91. Pursuant to § 502(d) of the Bankruptcy Code, the Court shall disallow any claim of any entity from which property is recoverable under §§ 542, 543, 550 or 553 of the Bankruptcy Code or that is a transferee of a transfer avoidable under §§ 552(f), 522(h), 544, 545, 547, 548, 549, or 724(a) of the Bankruptcy Code, unless such entity or transferee has paid the amount, or turned over any such property, for which such entity or transferee is liable under §§ 522(i), 542, 543, 550, or 553 of the Bankruptcy Code.

92. Because Defendants have not turned over to the Trustee the Constructive Fraudulent Transfers, the Unjust Enrichment, or the Money Had and Received the Court must disallow under § 502(d) of the Bankruptcy Code any claims of Defendants against the Debtors until Defendants pay to the Trustee the value of such Constructive Fraudulent Transfers, Unjust Enrichment, and Money Had and Received.

WHEREFORE, the Trustee respectfully requests pursuant to 11 U.S.C. § 502(d) that the Court:

A. Disallow any claims of Defendants against the Debtors pursuant to § 502(d) of the Bankruptcy Code; and

B. Grant the Trustee such further and other relief as the Court may deem equitable and just.

Dated: October 19, 2010

Respectfully submitted,

RONALD R. PETERSON, not individually but as Chapter 7 Trustee for Lancelot Investors Fund, L.P., *et al.*

By: /s/ *Ronald R. Peterson*

One of His Attorneys

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