



to freeze and recover millions of dollars derived from the scheme before the money disappears overseas.

2. The Defendants are Thomas J. Petters (“Petters”), Gregory M. Bell (“Bell”), and Bell’s investment advisory firm Lancelot Investment Management LLC (“Lancelot Management”).

3. During the final months before the Ponzi scheme collapsed, Bell and Lancelot Management siphoned over \$40 million out of three hedge funds that they managed for members of the investing public. Bell and Lancelot Management transferred \$5.6 million to an account Bell holds jointly with his wife, \$11.7 million to a revocable trust in Bell’s name, \$11.7 million to a revocable trust in his wife’s name, and \$11.4 million to an account of Lancelot Management. Bell also transferred \$15 million to an account in Switzerland for the benefit of a third trust.

4. From as early as 1995 through September 2008, Petters perpetrated a massive Ponzi scheme through the sale of notes to investors. Petters, a prominent Minnesota businessman who controlled an empire of companies including Polaroid Corporation, Fingerhut Direct Marketing, and Sun Country Airlines, promised investors that proceeds from the notes would be used to finance the purchase of vast amounts of consumer electronics by vendors who then resold the merchandise to “Big Box” retailers including such well-known chains as Wal-Mart and Costco.

5. Over the years, Petters raised billions through his scheme. In reality, however, there were no purchases and resales of consumer electronics. The vendors were mere shell companies acting in concert with Petters; and no retailers participated in the purported business. Instead, Petters diverted billions of dollars to his own purposes and repaid purported profits with money raised from new note sales. Petters's purported finance operation was nothing but a Ponzi scheme. At the present, the victims face billions of dollars in losses.

6. Petters raised much of his money by selling notes to several feeder funds. Among the feeder funds that bought notes from Petters were three funds controlled by Bell and Lancelot Management. Those funds were Lancelot Investors Fund, LP, Lancelot Investors Fund II, LP and Lancelot Investors Fund, Ltd., ("the Lancelot Funds" or "the Funds").

7. Bell and Petters came to know each other sometime prior to 2001, while Bell was employed by another hedge fund that had invested in Petters notes. With encouragement from Petters, Bell organized Lancelot Management and the first of the Lancelot Funds in 2001.

8. From 2002 through August 2008, Bell and Lancelot Management raised approximately \$2.62 billion dollars by selling interests in the Funds 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. Bell

and Lancelot Funds used almost all the money they raised to invest in Petters Co. notes.

9. During the same time period, Bell and Lancelot Management earned approximately \$245 million in fees under their management contracts with the Funds. Bell and Lancelot Management withdrew at least \$92 million of those fees in cash.

10. Bell and Lancelot Management defrauded their investors. Bell falsely promised investors that he was taking several steps to protect their money and to verify the legitimacy of Petters's financing business. Bell in fact did not perform those protective acts. His promises to do so were deliberate lies.

11. Among other things, Bell represented that he would monitor and control the flow of investor funds through a lockbox bank account. Bell represented that he would use the lockbox account to pay money directly to vendors and that payments into the lockbox would come directly from the retailers. This arrangement protected investors in that their money was not paid to Petters and the role of the retailers ostensibly was verified by the direct, transparent receipt of their payments. In fact, however, many of the payments into the lockbox account came from Petters, not from any retailers. And, later in the scheme, Bell ceased sending money to vendors and instead transferred the investors' funds directly to Petters. Bell did not disclose these material facts to investors in the Funds and instead continued to disseminate his false representations about the lockbox account.

12. Bell also took virtually no steps to verify the truth of the representations that Petters made to him. Instead, blinded by the huge fees he was receiving, Bell simply repeated Petters's story to investors and potential investors in the Funds. In doing so, Bell, and through him Lancelot Management, acted with a reckless disregard for the truth of their representations to investors and potential investors.

13. Bell's recklessness became even more egregious after he learned, at least as early as June 2004, that Petters had previously been convicted of multiple crimes involving fraud and deception. These facts should have led Bell to question everything Petters was telling him. But instead, Bell deliberately concealed Petters's prior convictions from the Funds' investors and continued to invest the Funds' money in Petters notes.

14. Then, beginning in or about February 2008, after Petters had been delinquent for months in repaying over \$130 million of notes, Bell and Petters acted together to concoct a series of bogus "roundtrip" payments to conceal Petters's delinquencies. Pursuant to the scheme, Bell and Lancelot Management, on multiple occasions, sent money directly to Petters's company under the pretense that the money was for investment in a new note. Petters, through his employees, then returned the money to Bell and Lancelot Management, typically on the same day, packaged as the repayment of one of the outstanding debts owed to the Funds. From February 2008 through June 2008, Bell and Petters engaged in at least 56 such transactions totaling more than \$1.2 billion. Bell funded these

roundtrip transactions with new investor money that he was raising in the first half of 2008. While engaging in these bogus roundtrip transactions, Bell and Lancelot Management continued to send the Funds' investors monthly statements that reported continuing profits from investments in the Petters notes.

15. From February 2008 until the collapse of Petters's scheme in September 2008, Bell and Lancelot Management withdrew approximately \$40 million from the Lancelot Funds. Bell transferred millions to Relief Defendants Inna Goldman, the Inna Goldman Revocable Trust, Asia Trust Ltd., the Blue Sky Trust and the Gregory Bell Revocable Trust.

16. As a result of the foregoing, Defendant Petters, directly and indirectly, has engaged in and, unless enjoined, will continue to engage in acts, practices, and courses of business that violate Section 17(a) of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. §77(q)(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

17. As a result of the foregoing, Defendants Bell and Lancelot Management, directly and indirectly, have engaged in and, unless enjoined, will continue to engage in transactions, acts, practices and courses of business which violate Section 17(a) of the Securities Act [15 U.S.C. §77(q)(a)], Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5 ] promulgated thereunder, and Sections 206(1), 206(2) and 206(4) of the Investment

Advisers Act of 1940 (the “Advisers Act”) [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206-4(8) [17 C.F.R. § 275.206-4(8)] thereunder.

18. As a result of the foregoing, Defendant Bell, directly or indirectly, has aided and abetted violations by Lancelot Management of Sections 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2), and 80b-6(4)] and Rule 206-4(8) [17 C.F.R. § 275.206-4(8)] thereunder.

19. The Commission brings this lawsuit to hold the Defendants accountable for their flagrant and repeated violations of the federal securities laws; to freeze the assets of Bell, Lancelot Management, and the Relief Defendants; to recover the millions that Bell and Lancelot Management have transferred to the Relief Defendants and to offshore accounts; and to prevent further harm to investors.

### **JURISDICTION AND VENUE**

20. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. §77t(b)], Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§78u(d) and 78u(e)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)].

21. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v], Section 27 of the Exchange Act [15 U.S.C. § 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. § 1331.

22. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

23. Acts, practices and courses of business constituting violations alleged herein have occurred within the jurisdiction of the United States District Court for the District of Minnesota and elsewhere.

24. Petters, Bell and Lancelot Management, directly and indirectly, made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein.

25. Petters, Bell and Lancelot Management will, unless enjoined, continue to engage in the acts, practices and courses of business set forth in this complaint, and acts, practices and courses of business of similar purport and object.

### **DEFENDANTS**

26. **Thomas J. Petters** is 51 years old and resides in Minnesota. In 1988, he founded what became Petters Co., Inc. Petters bought Fingerhut Direct Marketing in 2002, uBid in 2003, Polaroid Corporation in 2005, and Sun Country Airlines in 2006. He managed all of these businesses under the umbrella company Petters Group Worldwide, LLC. Petters has multiple felony convictions. Petters was charged in Colorado in 1989 with forgery, larceny and fraud. In February 1990 he was extradited from Minnesota to Colorado, where he reported to prison on May 31, 1990 to serve a prison sentence for these charges. In 1990, a Minnesota state court charged Petters with two counts of theft by check in the

amount of \$500-\$2,500. Petters pled guilty to one count and the other was dismissed.

27. **Gregory M. Bell** is 44 years old and resides in Highland Park, Illinois. Bell emigrated from the former Soviet Union to the United States in the 1980s. Bell holds and/or controls bank accounts in foreign countries. He frequently travels overseas. Bell is the founder of the unregistered funds Lancelot Investors Fund, L.P. (“Lancelot I”), Lancelot Investors Fund II, L.P. (“Lancelot II”) and Lancelot Investors Fund, Ltd. (“Lancelot Ltd.”), all of which Bell manages through Lancelot Management.

28. **Lancelot Investment Management, LLC** is a Delaware Limited Liability Company with offices in Northbrook, Illinois. Lancelot Management was organized by Bell in 2001. Lancelot Management, an unregistered investment adviser, served as the General Partner of Lancelot I and Lancelot II and as investment manager of the Lancelot Funds. Lancelot Management is controlled and managed by Bell, Lancelot Management’s sole principal. Bell owns 99% of a holding company which owns Lancelot Management.

#### **RELIEF DEFENDANTS**

29. **Inna Goldman** is Bell’s wife. She is 43 years old and a resident of Highland Park, Illinois. She emigrated from the former Soviet Union to the United States in the early 1980s. During 2008 Bell, directly and through Lancelot Management, transferred at least \$5.6 million of investor funds derived from the Lancelot Funds to an account he holds jointly with Goldman.

30. **Inna Goldman Revocable Trust**, on information and belief, is a trust organized and controlled by Bell and Goldman. During 2008 Bell, directly and through Lancelot Management, transferred at least \$11.7 million derived from the Lancelot Funds to the Inna Goldman Revocable Trust.

31. **Blue Sky Trust**, upon information and belief, is a Cook Islands trust organized by Bell in 2007. Upon information and belief, **Asia Trust Ltd.** is the trustee of the Blue Sky Trust. During 2008 Bell, directly and through Lancelot Management, transferred at least \$15 million derived from the Lancelot Funds to a Swiss bank account for the benefit of Asia Trust Ltd. as trustee of the Blue Sky Trust.

32. **Gregory Bell Revocable Trust**, on information and belief, is a trust organized and controlled by Bell and Goldman. During 2008 Bell, directly and through Lancelot Management, transferred at least \$11.7 million derived from the Lancelot Funds to the Gregory Bell Revocable Trust.

#### **OTHER RELATED ENTITIES AND INDIVIDUALS**

33. **Petters Co., Inc.** (“Petters Co.”) is a Minnesota corporation founded by Petters. Petters used Petters Co. to sell the promissory notes that were at the core of his Ponzi scheme.

34. **Petters Group Worldwide, LLC**, headquartered in Minnetonka, Minnesota, is the umbrella company through which Petters oversaw the diversified group of approximately 60 companies in which he invested funds derived from his Ponzi scheme.

35. **Lancelot Investors Fund, L.P.**, (“Lancelot I”), formerly known as Granite Investors Fund, L.P., is a Delaware Limited Partnership, which maintained its principal place of business in Northbrook, Illinois. Lancelot I was organized by Bell in September, 2001. Lancelot I filed for bankruptcy protection in October 2008 in a jointly administered bankruptcy proceeding entitled In re Lancelot Investors Fund, L.P., et al., Case No. 08-28225 (Bankr. N.D. Ill.). At that time, Lancelot I had approximately 91 investors. Lancelot Management was the General Partner and Investment Manager of Lancelot I.

36. **Lancelot Investors Fund II, L.P.**, (“Lancelot II”) is a Delaware limited partnership organized by Bell in February 2003. Lancelot II maintained its principal place of business in Northbrook, Illinois. Lancelot II filed for bankruptcy protection in October 2008 in a jointly administered bankruptcy proceeding entitled In re Lancelot Investors Fund, L.P., et al., Case No. 08-28225 (Bankr. N.D. Ill.). At that time, Lancelot II had approximately 80 investors. Lancelot Management was the General Partner and Investment Manager of Lancelot II.

37. **Lancelot Investors Fund, Ltd.**, (“Lancelot Ltd.”) is a hedge fund incorporated in 2002 in the Cayman Islands. Lancelot Ltd. maintained its principal place of business in Northbrook, Illinois. Lancelot Ltd. filed for bankruptcy protection in October 2008 in a jointly administered bankruptcy proceeding entitled In re Lancelot Investors Fund, L.P., et al., Case No. 08-28225

(Bankr. N.D. Ill.). Lancelot Management was the Investment Manager of Lancelot Ltd.

**PETTERS RAN A MULTI-BILLION DOLLAR PONZI SCHEME  
THROUGH THE PUBLIC OFFER AND SALE OF NOTES**

38. Beginning in approximately 1995, Petters began raising money by offering and selling promissory notes issued by Petters Co. to members of the public.

39. Petters offered and sold the Petters Co. notes to members of the public, including several feeder funds which in turn raised their investment capital from hundreds of private investors located throughout the United States and numerous foreign countries. The Lancelot Funds were among the funds to which Petters offered and sold Petters Co. notes.

40. In offering and selling Petters Co. notes, Petters represented to investors and potential investors that the proceeds from the sale of the notes would be used to finance what he described as “purchase order inventory financing” conducted by Petters Co.

41. Petters represented to investors and potential investors that purchase order inventory financing consisted of transactions in which Petters Co. arranged for the sale and delivery of end runs or overstock merchandise, primarily consumer electronics, from manufacturers to “Big Box” retailers, including well known firms such as Wal-Mart and Costco (“Retailers”).

42. Petters further represented that these transactions usually took up to

180 days to complete and that the manufacturers demanded payment up front while the Retailers did not pay until the merchandise was delivered. Petters represented to investors that Petters Co. needed the investors' money to finance these transactions for the 180-day periods between the Retailers' orders of merchandise and the Retailers' payments for the goods.

43. Petters represented to investors and potential investors that they would receive high rates of return on the Petters Co. notes, typically at least 11% per year.

44. Petters represented to investors and potential investors that the Petters Co. notes entailed minimal risk, because each note was secured by the underlying merchandise being financed by the note.

45. Petters did not disclose his prior criminal convictions to investors or potential investors in Petters Co. notes.

46. Petters represented that he worked with two companies, Enchanted Family Buying Co. ("Enchanted") and Nationwide International Resources, Inc. ("Nationwide") (collectively "the Vendors"), that bought the consumer electronics from manufacturers and then resold the merchandise to Retailers.

47. For each transaction Petters, or others at his direction, provided a series of documents to investors, including a funding request from Petters Co., executed note documents reflecting the investment and a guaranteed rate of return within 180 days, 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.

48. These documents provided investors with a level of comfort that the transactions were genuine.

49. Numerous individuals and entities invested with Petters Co. in order to obtain the high rates of return Petters promised them, together with the safety provided by the security interest in the electronic merchandise being financed with the investors' money.

50. As of September 2008, the combined balance sheet for Petters Co. and its affiliates reflected total current liabilities, which included outstanding notes to approximately twenty entities and individuals, of \$3.5 billion.

51. In fact, however, Petters's purported "purchase order inventory financing" business was a complete sham.

52. There were no Retailers, "Big Box" or otherwise.

53. No one ordered any merchandise through Petters Co. All of the underlying documentation—purchase orders, bills of sales and assignments of security interests—had been fabricated by Petters and others acting at his direction.

54. The two Vendors—Enchanted and Nationwide—were shell companies with no real operations.

55. The principals of the Vendors were associates of Petters. They knew there were no Retailers and no real orders to buy merchandise. Each Vendor had

opened a bank account at the request of Petters. They deposited monies wired to them from investors of Petters Co., took a percentage of that money as compensation for their role in the scheme, and returned the rest to Petters. The principals of both Enchanted and Nationwide pleaded guilty in October 2008 to charges of conspiracy to commit money laundering.

56. The truth was that Petters's operation was nothing but a multi-billion-dollar Ponzi scheme. Petters raised money from investors and directed the transfer of that money to the Vendors. The Vendors secretly returned most of the investors' money back to Petters. Between 2002 and September 2008 approximately \$12 billion was routed through the bank account of Enchanted back to Petters Co while over \$10 billion was routed through the bank account of Nationwide back to Petters Co. Petters then, directly and through others, diverted much of the investors' money to his own purposes, while using the rest to pay purported returns to investors.

57. When Petters's scheme collapsed in September 2008, investors were left holding \$3.5 billion in worthless notes.

#### **PETTERS AND BELL BEGIN THEIR RELATIONSHIP**

58. Until 2002, Bell worked for a hedge fund located in Florida. That hedge fund invested in Petters's scheme.

59. While Bell was employed by the Florida hedge fund, Petters and Bell discussed the idea of Bell striking out on his own and raising money to invest with Petters.

60. Bell decided to pursue the idea and, while still employed by the Florida hedge fund, he found seed financing, organized the predecessors to Lancelot Management, Lancelot I and Lancelot Ltd. and made his first investments in Petters Co. notes.

61. In January 2003, Bell organized the predecessor to Lancelot II and continued making investments in Petters Co. notes.

62. Bell used the three Lancelot Funds as vehicles for raising money to invest in Petters Co. notes. Each of the Lancelot Funds was a pooled investment vehicle that was privately organized, administered by professional investment managers and not widely available to the public.

**BELL AND LANCELOT MANAGEMENT OFFER AND SELL  
INTERESTS IN THE LANCELOT FUNDS**

63. Between October 2002 and August 2008, Bell and Lancelot Management raised a total of approximately \$2.62 billion through the sale of interests in the three Lancelot Funds. Bell and Lancelot Management invested virtually all these monies in notes issued by Petters Co.

64. Bell and Lancelot Management sold interests in the Lancelot Funds to hundreds of investors, including individuals, pension plans and hedge funds.

65. The monies of persons who invested in each of the Lancelot Funds were pooled with monies supplied by the other investors in that fund.

66. Moreover, on numerous occasions Bell and Lancelot Management commingled monies from the three Lancelot Funds in order to purchase notes from Petters Co.

67. As presented by Bell and Lancelot Management, orally and in writing, the investors' profits were to come solely from the efforts of Bell and Lancelot Management. The investors' only required action was to invest money.

**BELL AND LANCELOT MANAGEMENT'S  
CONTROL OF THE LANCELOT FUNDS**

68. Lancelot Management was, and held itself out as, the Investment Manager of the Lancelot Funds and the General Partner of Lancelot I and Lancelot II. The various confidential information memoranda used by Bell and Lancelot Management to solicit investments in each Fund stated that Lancelot Management "has complete responsibility and authority for all aspects of the [Fund's] business and operations, and has full discretionary investment management authority over the Fund."

69. According to the various confidential information memoranda used by Bell and Lancelot Management to solicit investments in the Lancelot Funds, Bell managed and controlled Lancelot Management.

70. Bell incorporated Lancelot Management for the purpose of operating the Lancelot Funds. Bell owns 99% of a holding company which owns Lancelot Management. Inna Goldman owns approximately 1% of the holding company that owns Lancelot Management.

71. Bell possessed complete control over Lancelot Management, and, through Lancelot Management, Bell controlled the Lancelot Funds.

72. Bell and Lancelot Management were investment advisers to the Lancelot Funds and owed the Funds a fiduciary duty.

73. The directors of the Lancelot Funds had no material input as to how Bell, through Lancelot Management, directed the investments of the three Funds.

74. Bell did not maintain an arm's length relationships among the three Funds and frequently transferred monies among them.

75. From October 2002 through August 2008, Bell and Lancelot Management raised approximately \$2.62 billion through the sale of interests in the three Lancelot Funds.

76. The various confidential information memoranda used by Bell and Lancelot Management to solicit investments in the Funds represented that the principal objective of the Funds was "to seek consistent and reliable investment returns while minimizing the risk of permanent impairment to capital" and that Lancelot Management would "seek to achieve the Fund's investment objective by investing the Fund's assets in short-term trade finance notes. . ."

77. Bell, through Lancelot Management, used almost all of the money raised through the Funds to invest in notes issued by Petters Co.

78. Lancelot Management charged the Funds fees for its investment advisory services, consisting primarily of a Performance Fee and a Management Fee. As defined in the confidential information memoranda, the Performance Fee

was equal to 20% of New Investment Profits and the Management Fee was equal to 0.5% of the quarter-end Share Net Asset Value.

79. According to Lancelot Management's internal records, between 2002 and the collapse of the funds, Lancelot Management was purportedly entitled to approximately \$245 million in fees.

80. Bell and Lancelot Management "deferred" approximately \$152 million of these fees.

81. From 2002 through August 2008, Bell, directly and through Lancelot Management, withdrew the remaining approximately \$92 million in fees from the Lancelot Funds.

#### **BELL'S SOLICITATION OF INVESTORS**

82. From in or about 2002 through 2008, Bell solicited investors to invest in the Lancelot Funds.

83. Bell described Lancelot Funds' primary business as investment in promissory notes to provide financing for the acquisition of merchandise for sale to large Big Box retailers. Among other things, Bell emailed confidential information memoranda and other written information about the Funds to prospective clients, met with prospective clients, and conducted due diligence meetings with representatives of investors and prospective investors to discuss the Lancelot Funds.

84. Bell also provided updates to the Funds' investors regarding the performance of the Funds by, among other things, providing investors with Fund performance charts and monthly statements.

#### **THE LANCELOT FUNDS' PURCHASE OF NOTES**

85. Petters and Bell utilized an entity named Thousand Lakes LLC ("Thousand Lakes"), to facilitate the transactions between Petters Co. and the Lancelot Funds. Thousand Lakes, a wholly owned subsidiary of Petters Co., would supposedly enter into contracts with the Vendors, Enchanted and Nationwide, who purportedly provided the goods to be sold to the Retailers.

86. The Lancelot Funds's confidential information memoranda stated that the Funds would enter into notes only if Thousand Lakes had a "pre-existing" binding purchase order to sell merchandise to a Retailer. They also stated that "[p]rior to entering into a note" Lancelot Management would examine this purchase order. In fact, Lancelot Management employees usually emailed Petters Co. to ask if Petters Co. had any "deals" or notes for that day. If it did, the parties would agree to a sum of money and only thereafter would Petters Co. forward a purported purchase order from a Retailer to Lancelot Management. Employees of Lancelot Management then would prepare a note, along with other necessary documents including bills of sale from the Vendors and purchase orders from the Retailers.

87. Lancelot Management would then send the agreed amount of money to Thousand Lakes, which in turn would transfer the money to the Vendors, who

would then purportedly ship the merchandise directly to the Retailers. The Retailers then were supposed to pay Thousand Lakes directly for the items.

88. Between late 2001 and early 2008, the Lancelot Funds invested in approximately 495 notes issued by Petters Co.

## **BELL'S MISREPRESENTATIONS TO INVESTORS**

### **The Lockbox Account**

89. In confidential information memoranda, other written materials, and emails, as well as in discussions and meetings, Bell, and through him Lancelot Management, made representations to investors and prospective investors regarding investments in the Lancelot Funds and the Funds' investments in Petters Co. notes.

90. Bell promised to potential and actual investors that he would protect their interests by taking a number of steps to monitor and maintain their investments.

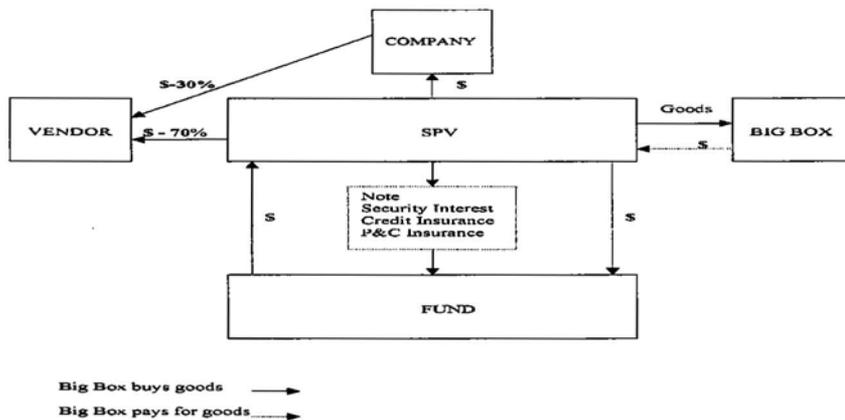
91. The confidential information memoranda distributed to investors by Bell and Lancelot Management between 2002 and 2008 state that the Lancelot Funds would have a "lock-box" bank account arrangement with Thousand Lakes, which account Bell alone would control and into which the Retailers would pay.

92. Specifically, the various versions of the confidential information memoranda all state, with some non-material word differences:

In general the fund will have a "lock-box" arrangement with [Thousand Lakes] pursuant to which the Fund will have control over the [Thousand

Lakes] bank account into which the Retailer will pay the purchase price for the Underlying Goods, which is designed to protect the fund from [Thousand Lakes] using such proceeds for any other purpose prior to satisfying [Thousand Lakes's] obligations under the notes....

93. Bell also described the purported cash flow of the Petters transactions, and he created and sent to investors a flow chart, pictured below, that purported to depict that cash flow ("Flow Chart").



Confidential Treatment Requested by Lancelot Investment Management, LP

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94. In the Flow Chart, Bell showed the Lancelot investors' money flowing into the lockbox account, which was controlled by Bell, and from the lockbox account directly to the Vendors. The Flow Chart further showed repayments for the merchandise coming into the lockbox account directly from the Retailers.

95. Consistent with the Flow Chart, Bell, and through him Lancelot Management, represented to investors and prospective investors that the lockbox account allowed Bell to monitor and control the flow of cash and thereby to ensure

that the transactions were working exactly as Petters represented they would: the investors' money was transferred directly to the Vendors, repayments were received directly from the Retailers, and no money would flow through Petters Co. until the transaction was completed.

96. Bell knew that the lockbox account and flow of the money through it were important elements of the transaction to investors, because he received due diligence questions from investors related to the topic.

97. In reality, however, the lockbox account did not function as Bell, and through him Lancelot Management, represented it would. In particular, the money that was repaid into the lockbox account did not come from Retailers and instead always came directly from Petters Co. This was a critical problem. Since the payments never came from Retailers, Bell could not independently determine that there were actually any transactions between the Vendors and the Retailers, as promised by Petters.

98. Bell admitted in investigative testimony before the Commission staff that he learned as early as 2004 that the repayments were being made by Petters Co. and not by any Retailers. Bell asked Petters about the matter and received a feeble explanation.

99. In late February 2008, Bell abandoned all pretense and began sending the Funds' money directly to Petters Co. From that point forward, instead of a lockbox arrangement, Bell created a black box arrangement: The Lancelot Funds

sent their money directly to Petters and lost all ability to monitor or exercise control over it.

100. The fact that the repayments came from Petters Co. and not the Retailers, and Bell's transfer of the Funds' money directly to Petters, wholly contradicted the representations Bell and Lancelot Management made in the confidential information memoranda, the Flow Chart, and other written communications, as well as statements Bell made in meeting with investors.

101. Nevertheless, from 2004 through 2008 Bell concealed the truth about the lockbox cash flow. Throughout that period, Bell continued to represent to investors and prospective investors that the repayments were deposited into the lockbox account from the Retailers. And, from February 2008 forward, Bell continued to represent that the Funds' money was transferred out of the lockbox directly to the Vendors.

102. As late as August 2008 Bell and Lancelot Management continued to raise new money for the Lancelot Funds. From January 2008 through August 2008, they took in \$243,027,971 in new investor funds.

**Bell Lied to Investors about Other Steps  
He Would Take to Protect Their Funds**

103. The confidential information memoranda disseminated by Bell and Lancelot Management detailed other safeguards that would be performed to protect investor funds and ensure the integrity of the transactions with Petters. The various confidential information memoranda stated, with non-material word

differences, that the Funds or Lancelot Management would “monitor [Thousand Lakes] and the Retailer during the duration of the Note. In particular, [Thousand Lakes] w[ould] be monitored to confirm that [Thousand Lakes] satisfied its obligations under the Purchase Order including, without limitation, the delivery of the underlying goods to the Retailer, and the payment by the Retailer to [Thousand Lakes] of the purchase price of the underlying goods.”

104. The foregoing representations were deliberate falsehoods.

105. Bell and Lancelot Management did not, and could not, confirm that Thousand Lakes satisfied its obligations under Purchase Orders, because the purchase orders were all phony. There were no real transactions.

106. Bell and Lancelot Management did not, and could not, confirm that goods were delivered to a Retailer, because no goods were ever delivered to any Retailers.

107. Bell and Lancelot Management did not, and could not, confirm that Retailers paid Thousand Lakes the purchase price of underlying goods, because no Retailers ever engaged in any transactions with Thousand Lakes, the Vendors, or Petters Co., and no Retailers ever paid Thousand Lakes the price of any goods.

108. Bell also told at least one investor that he had personally driven by the Vendors’ warehouses to confirm their existence.

109. However, Bell later admitted during a meeting with investors that he in fact had not driven by any warehouses to confirm their existence.

## **BELL RECKLESSLY PASSED PETTERS'S LIES ON TO INVESTORS**

110. From 2002 through 2008, in confidential information memoranda, emails, and other written materials, as well as in Bell's oral statements, Bell and Lancelot Management provided investors and prospective investors with descriptions of Petters Co.'s purported business of "purchase order inventory financing."

111. From 2002 through 2008, Bell and Lancelot Management raised approximately \$2.62 billion by means of the representations they made to investors about Petters Co.'s supposed business of purchase order inventory financing.

112. Among the material facts that Bell and Lancelot Management communicated to investors and prospective investors about Petters's purported business were: that Thousand Lakes engaged in the business of acquiring goods and selling such goods to retailers and that it will use the proceeds from the notes to finance the acquisition of goods.

113. All of the foregoing factual representations were false.

114. Bell obtained the foregoing factual representations from Petters and others acting on Petters's behalf.

115. Bell took no meaningful steps to verify the truth of what he learned from Petters and Petters's agents. Instead, blinded by the hundreds of millions of dollars in fees he was receiving, from 2002 through 2008 Bell merely repeated

what Petters and Petters's agents told him about Petters Co.'s supposed business of purchase order inventory financing.

116. Bell, and through him Lancelot Management, acted with a reckless disregard for the truth.

### **BELL CONCEALED PETERS'S CRIMINAL HISTORY**

117. Even as Bell was assuring investors about the legitimacy of Petters's business, he learned that Petters was a convicted felon who had served time in prison.

118. On or about June 23, 2004, Bell learned of Petters's prior criminal history. Bell learned that in 1990 Petters had been charged in Minnesota with two counts of theft by check in the amount of \$500-\$2,500, that Petters had pled guilty to one count while the other was dismissed, and that Petters had been ordered to serve one year of incarceration and fined \$700. Bell also learned that in February 1990 there was an order from a Minnesota court to extradite Petters to El Paso County, Colorado to serve a prison sentence for felony forgery and Petters had reported to prison in Colorado on May 31, 1990. Finally, Bell learned that in 1983 Petters had been charged in Colorado with issuing a bad check, which charge was dismissed after Petters made restitution.

119. These facts should have led Bell to question everything Petters was telling him. But, even after learning of Petters's criminal history, Bell still made no meaningful effort to verify Petters's claims about his inventory finance

business. Instead, Bell continued to solicit investors and to invest the Funds' money in Petters Co. notes.

120. Indeed, Bell, and through him Lancelot Management, deliberately concealed Petters's prior convictions from investors and prospective investors.

**BELL AND PETTERS SECRETLY DIVERTED \$225 MILLION TO FACILITATE PETTERS'S PURCHASE OF POLAROID CORPORATION**

121. In a letter to the Directors of the Polaroid Corporation ("Polaroid"), Bell referred to Petters's plan to buy Polaroid and stated: "Based on our knowledge and long-term relationship with Petters and its affiliates, and our experience in financing transactions of this size and scope for such affiliates, we are of the opinion that the Lancelot Funds would be able to finance a significant portion of the proposed transaction. In the event that you and Petters enter into an agreement, we are confident that the Lancelot Funds can provide a minimum amount of \$360 million of the financing deemed necessary by the parties for Petters to fully perform its obligations, and to exploit the economic opportunity available to the parties, subject to customary conditions including completion of due diligence and the negotiation and execution of definitive agreements."

122. Bell's agreement differed materially from the terms stated in the Confidential Information Memoranda and the Lancelot Funds's operating agreements.

123. Bell and Petters planned to conceal the \$100 million advance by spreading the \$100 million in increments among the notes that were already held

by the Lancelot Funds. In January 2005, they prepared an omnibus amendment to the outstanding notes which indicated the incremental amounts by which the face value of each outstanding note would be increased. The incremental increases added up to \$100 million.

124. Petters Co. employees sent the omnibus amendment to outside lawyers for Petters Co., who rejected the proposal. Specifically, in an email, one of Petters Co.'s lawyers stated, "The Amendment that was forwarded doesn't really work because it loaned the money by tacking it on t[o] the Thousand Lakes notes that are already outstanding for inventory purchases. That meant that the \$100,000,000 would be due as Thousand Lakes received payment on the underlying Thousand Lakes inventory sales. Perhaps that was intended, but because the money is not being used for inventory purchases, Thousand Lakes would be in default under its Master Loan Agreement if we tacked the money onto the outstanding loans."

125. Petters Co. personnel forwarded the lawyer's email to Bell.

126. Petters and Bell deliberately ignored the lawyer's advice and proceeded anyway.

127. On January 3, 2005, Bell, or Lancelot Management employees working at his direction, transferred a total of \$100M from the three Lancelot Funds to an escrow account for the benefit of Polaroid.

128. On the same day, Bell and Petters entered into the omnibus amendment pursuant to which the face amounts of outstanding notes held by the

Lancelot Funds were increased to absorb the \$100 million Bell had wired to Polaroid.

129. By adding the \$100 million advance to outstanding inventory financing notes, Bell and Petters obscured the truth about the transaction and created a false appearance that the money was protected by the safeguards purportedly in place for inventory financing transactions, including the lockbox account.

130. Two months later, on March 1, 2005, Bell transferred an additional \$125 million from the Lancelot Funds to an escrow account for the benefit of Polaroid.

131. Bell and Lancelot Management did not disclose the Polaroid transactions to the Lancelot Fund investors.

### **BELL AND PETTERS'S FRAUDULENT ROUND TRIP TRANSACTIONS**

132. At or about the middle of 2007, Petters began to experience difficulties obtaining sufficient cash to sustain his Ponzi scheme.

133. At this time, Petters's notes constituted almost the entirety of the Lancelot Funds' investments. In addition, Lancelot Management had deferred approximately \$152 million of compensation. The collapse of Petters's scheme would have led to the collapse of the Lancelot Funds. And the collapse of the Funds would have caused Bell to lose all the deferred fees.

134. On December 18, 2007, in an attempt to avoid declaring Petters in default, Bell and Petters agreed to extend every Petters Co. note held by the Lancelot Funds for an additional 90 days.

135. Bell and Lancelot Management concealed this modification of the notes from the Funds' investors.

136. Even with this undisclosed extension of time, however, Petters remained unable to pay, and by February 2008 Petters was delinquent in paying over \$130 million owed to the Lancelot Funds.

137. Instead of disclosing Petters's inability to repay investors, Bell and Petters entered into a scheme to conceal Petters's failure to repay the notes by engaging in bogus transactions which created the false appearance that the Lancelot Funds were buying new notes as old notes were simultaneously being repaid.

138. Each of these bogus transactions consisted of a pair of multi-million dollar transfers. First, Bell's employees would wire a large amount to Petters Co., purportedly to purchase one more new note. Shortly thereafter—sometimes within the hour—Petters Co. employees would send a return wire, usually in an almost identical amount, purportedly in repayment of several overdue notes. When the transaction was completed, the cash had made a round trip from Bell to Petters and back to Bell.

139. The round trip transactions were completely devoid of economic substance.

140. To disguise the illicit purpose of the round trip transactions, Bell and Petters, directly or through their respective employees, executed sham promissory notes that were supposedly collateralized by new inventory. In fact, however, no such inventory existed.

141. On March 25, 2008, a Petters employee sent an email to Bell, with a copy to Petters, transmitting a payment plan that detailed how, between April 3 and April 25, 2008, Petters Co. would pay over \$133 million that had been owed to the Lancelot Funds since October, 2007 (“the March 25 Plan”).

142. Consistent with the March 25 Plan, for example, on April 7, 2008, Lancelot Management agreed to invest in a “new” Petters Co. note for \$20.2 million. At 12:55 p.m. Eastern Time, Lancelot Management wired \$20.2 million directly to Petters Co. Barely more than an hour later, at 2:09 p.m. Eastern Time, Petters Co. initiated a series of five wire transfers that, by 2:18 p.m. Eastern Time, returned a total of \$20,291,182.25 to the Lancelot Funds (via Thousand Lakes), purportedly as delinquent payments that had been due since July 2007. At 2:13 p.m. Eastern Time, a Petters Co. employee emailed Bell that she had wired a total of \$20,291,182.25 to Lancelot Management, purportedly as delinquent payments that had been due since July 2007. The money Lancelot Management transferred to Petters Co. on April 7, 2008 was investor money that had been raised through the Lancelot Funds and aggregated by Bell and Lancelot Management.

143. The next day, on April 8, 2008, Lancelot Management and Petters Co. entered into a “new” \$14.2 million note, and Lancelot Management wired \$14.2

million directly to Petters Co. at 1:49 p.m. Eastern time. Within less than thirty minutes, Petters Co. sent three wire transfers back to the Lancelot Funds (via Thousand Lakes) which totaled \$14,162,604.25. Within an hour of Lancelot Management's transfer, a Petters Co. employee emailed Bell that Petters Co. had wired \$14,162,604.25, purportedly as delinquent payments that had been due in July 2007. The money Lancelot Management transferred to Petters Co. on April 8, 2008 was investor money that had been raised through the Lancelot Funds and aggregated by Bell and Lancelot Management.

144. Two days later on April 10, 2008, Lancelot Management and Petters Co. agreed to enter into a \$10.7 million note. At 11:59 a.m. Eastern Time, Lancelot Management wired \$10,700,000 to Petters Co. About thirty minutes later, between 12:31:13 p.m. Eastern Time and 12:31:59 p.m. Eastern Time, Petters Co. made three wire transfers back to Lancelot Management, in the total amount of \$10,686,337.50. Within an hour of Lancelot Management's transfer, a Petters Co. employee emailed Bell that Petters Co. had wired \$10,686,337.50 to Lancelot Management, purportedly as delinquent payments that had been due since June and July 2007. The money Lancelot Management transferred to Petters Co. on April 10, 2008 was investor money that had been raised through the Lancelot Funds and aggregated by Bell and Lancelot Management.

Bell and Petters effected at least 56 such round trip payments from February 2008 through June 2008. The dollar amounts of these transactions totaled \$1,222,385,702.75.

145. In or about May 2008, in an apparent effort to make the round trip payments less obvious, Bell and Petters began delaying a small amount of the return payment until the next day or two, so that the return payment did not appear to exactly match the amount that Bell had first sent to Petters.

146. For example, on June 2, 2008, at 9:23 AM, the Lancelot Funds agreed to invest in a “new” Petters Co. note for \$22.8 million. Five minutes later a Petters Co. employee emailed a Lancelot Management employee, stating that she would pay five outstanding invoices from September 2007 that totaled \$22,847,100.75. Thirty-six minutes later, the Lancelot Management employee replied and instructed the Petters Co. employee to pay only the first four invoices and to pay the fifth invoice “tomorrow.”

147. The Lancelot Management employee repeated this same instruction to the Petters Co. employee in numerous subsequent emails, always requesting that she pay the final portion of the return payment the following business day. In May and June 2008, Bell and Petters executed nine round trip transactions with delayed repayments.

148. Bell and Lancelot Management funded the round trip transactions by continuing to raise new money from members of the investing public. From January 2008 through June 2008, the time when the Defendants were effecting the round trip transactions, Bell and Lancelot Management raised \$243,027,971 in new money for the Lancelot Funds. Bell and Lancelot Management raised this new money by means of the same false and misleading representations discussed

above, together with a misleading failure to disclose the truth about the round trip transactions.

149. Petters, Bell, and Lancelot Management acted with a deliberate intent to deceive with regard to the bogus round trip transactions.

### **FALSE MONTHLY STATEMENTS**

150. As part of the fictitious roundtrip scheme, Bell and Lancelot Management also deliberately made affirmative misstatements to investors in the Lancelot Funds. Since the inception of the Funds, Bell had sent monthly statements to the investors.

151. The monthly statements included a section entitled “monthly rate of return.” As part of the scheme, Bell recorded the return payments of the round trip transactions as investment returns to the Lancelot Funds, as though Petters Co. had really paid back money that was owed to the Funds. In fact, it was the Lancelot Funds’ own money that Petters Co. paid back to the Funds. Thus, the rates of return reflected in monthly statements sent to investors after February 2008 were materially inflated by the \$1.22 billion of round trip transactions.

152. In addition, the monthly statements Bell and Lancelot Management sent to investors after October 2007 were materially false and misleading, because they did not disclose either Petters Co.’s default on various notes or its continued inability to pay those notes.

153. The monthly statements also overstated the net asset value of the Funds by including the fictitious note receivables as assets.

154. In addition, upon request of certain investors, Bell, or others at Bell's direction, would send spreadsheets of outstanding or new notes to the requesting investors. Each spreadsheet sent after February 2008 was misleading because it contained the fake new notes that were actually disguised overdue debts that Bell had purportedly paid via the round trip payments.

155. Bell, and through him Lancelot Management, deliberately deceived investors by means of the monthly statements and spreadsheets discussed above.

**AS THE LANCELOT FUNDS COLLAPSED, BELL MOVED MILLIONS OF DOLLARS FROM THE LANCELOT FUNDS TO HIS SWISS BANK ACCOUNT AND TO THE ACCOUNTS OF OTHERS**

156. At least by February 2008, it became apparent to insiders that the round trip scheme and, indeed the Funds themselves, were unsustainable.

157. On February 13, 2008, Bell made two identical transfers, of approximately \$11.7 million each, out of one of his domestic bank accounts to the Relief Defendants Gregory Bell Revocable Trust and Inna Goldman Revocable Trust, respectively. The approximately \$23 million Bell transferred on February 13, 2008 had previously been transferred into Bell's account from a Lancelot Management account and had been originally obtained from the Lancelot Funds.

158. In April, 2008, Bell transferred a total of approximately \$5.6 million from the Lancelot Funds to a personal bank account he held jointly with Relief Defendant Inna Goldman. This withdrawal purportedly consisted of fees which had been earned by Lancelot Management under its agreements with the Lancelot Funds.

159. In June 2008, Bell transferred \$11.4 million out of a bank account of the Lancelot Funds and into a bank account in the name of Lancelot Management.

160. On August 6, 2008 Bell transferred \$15 million from a domestic bank account in the name of Relief Defendant Gregory Bell Revocable Trust to a bank account at a private bank in Switzerland.

161. The \$15 million was then almost instantaneously transferred to an account at another Swiss bank for the benefit of Relief Defendant Asia Trust Ltd. as Trustee of Relief Defendant Blue Sky Trust.

### **THE PONZI SCHEME COLLAPSES**

162. On September 24, 2008, the FBI and the criminal division of the IRS executed search warrants and searched the corporate headquarters of Petters Group Worldwide, the offices of Petters Co., and the homes of several top company executives including Petters, seizing hundreds of thousands of documents.

163. At the time of the raids, Bell was in Switzerland. He delayed his return to the United States for several days, according to Bell, on the advice of his attorney.

164. On September 26, 2008, two days after the Petters raid, Bell emailed Lancelot Fund investors, advising them of the raid and stating that “[a]t this time, we are unable to determine whether the investigation of Petters Co., Inc. will have any material adverse impact on the creditworthiness of [Thousand Lakes] or the value or collectability of the collateral notes.”

165. On September 28, 2008 Bell emailed investors, stating that “it is clear that we will have no choice but to terminate the funds and commence an orderly liquidation of the funds’ assets. Therefore, we will be ceasing all redemptions, effective immediately.”

166. On October 3, 2008, Petters was arrested and the U.S. Attorney filed charges against Petters for mail fraud, wire fraud, money laundering and obstruction of justice. On October 6, 2008, the District Court froze the assets of Petters Group, Petters Co. and Petters and appointed a receiver.

167. In early October 2008, several investors in the Lancelot Funds met with Bell. At that time, Bell admitted that he had never driven by the Vendors’ warehouses to check for the existence of inventory and may never have adhered to the lockbox arrangements.

168. The Lancelot Funds filed for bankruptcy protection on October 20, 2008.

## **COUNT I**

### **Violations of Section 17(a)(1) of the Securities Act (Against All Defendants)**

169. Paragraphs 1 through 168 are realleged and incorporated by reference as though fully set forth herein.

170. By engaging in the conduct described above, Petters, Bell, and Lancelot Management, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by

use of the mails, directly or indirectly, have employed devices, schemes and artifices to defraud.

171. Petters, Bell, and Lancelot Management acted with scienter.

172. By reason of the foregoing, Petters, Bell, and Lancelot Management violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

## **COUNT II**

### **Violations of Sections 17(a)(2) and (3) of the Securities Act (Against All Defendants)**

173. Paragraphs 1 through 168 are realleged and incorporated by reference as though fully set forth herein.

174. By engaging in the conduct described above, Petters, Bell, and Lancelot Management, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have:

- a. obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

175. By reason of the foregoing, Bell and Lancelot Management have violated Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2)-(3)].

### **COUNT III**

#### **Violations of Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5 (Against All Defendants)**

176. Paragraphs 1 through 168 are realleged and incorporated by reference.

177. As more fully described in paragraphs 1 through 168 above, Petters, Bell, and Lancelot Management, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of securities.

178. Petters, Bell, and Lancelot Management acted with scienter.

179. By reason of the foregoing, Petters, Bell, and Lancelot Management violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

#### **COUNT IV**

##### **Violations of Advisers Act Section 206(1) (Against Bell and Lancelot Management)**

180. Paragraphs 1 through 168 are realleged and incorporated by reference.

181. At all times relevant to this Complaint, Bell and Lancelot Management acted as investment advisers to the Funds.

182. As more fully described in paragraphs 1 through 168 above, at all times alleged in this Complaint, Bell and Lancelot Management, while acting as investment advisers, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: (i) employed devices, schemes or artifices to defraud its clients or prospective clients; and (ii) engaged in transactions, practices and courses of business which have operated as a fraud or deceit upon its clients or prospective clients.

183. Bell and Lancelot Management acted with scienter.

184. By reason of the foregoing, Bell and Lancelot Management have violated Section 206(1) of the Advisers Act. [15 U.S.C. § 80b-6(1)].

#### **COUNT V**

##### **Violations of Advisers Act Section 206(2) (Against Bell and Lancelot Management)**

185. Paragraphs 1 through 168 are realleged and incorporated by reference.

186. At all times relevant to this Complaint, Bell and Lancelot Management acted as investment advisers to the Funds.

187. As more fully described in paragraphs 1 through 168 above, at all times alleged in this Complaint, Bell and Lancelot Management, while acting as investment advisers, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: (i) employed devices, schemes or artifices to defraud its clients or prospective clients; and (ii) engaged in transactions, practices and courses of business which have operated as a fraud or deceit upon its clients or prospective clients.

188. By reason of the foregoing, Bell and Lancelot Management have violated Section 206(2) of the Advisers Act. [15 U.S.C. § 80b-6(2)].

**COUNT VI**  
**Violation of Advisers Act**  
**Section 206(4) and Rule 206(4)-8 Thereunder**  
**(Against Bell and Lancelot Management)**

189. Paragraphs 1 through 168 are realleged and incorporated by reference.

190. At all times relevant to this Complaint, Bell and Lancelot Management acted as investment advisers as defined under the Advisers Act. Bell and Lancelot Management managed the investments of the Funds in exchange for compensation in the form of performance and management fees.

191. As more fully described in paragraphs 1 through 168 above, at all times alleged in this Complaint, Bell and Lancelot Management, while acting as investment advisers, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: engaged in acts, practices or courses of business which are fraudulent, deceptive, or manipulative. Bell and Lancelot

made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that was fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

192. By reason of the foregoing, Bell and Lancelot Management have violated Section 206(4) of the Advisers Act. [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. 275.206(4)-8] thereunder.

**COUNT VII**  
**Aiding and Abetting Violations of the Advisers Act**  
**(Against Bell)**

193. Paragraphs 1 through 168 are realleged and incorporated by reference.

194. At all times relevant to this Complaint, Lancelot Management acted as an investment adviser as defined under the Advisers Act.

195. As more fully described in paragraphs 1 through 168 above, at all times alleged in this Complaint, Lancelot Management, while acting as an investment adviser, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: engaged in transactions, acts, practices or courses of business which are fraudulent, deceptive, or manipulative. Lancelot Management also employed devices, schemes or artifices to defraud its clients or prospective clients. Lancelot Management made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in

the light of the circumstances under which they were made, not misleading, to any investor or prospective in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that was fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle. Through its conduct, Lancelot Management violated Sections 206(1), 206(2) and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2) and 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

196. Bell was the sole principal of Lancelot Management. Bell owned and controlled Lancelot Management and was generally aware of all of its activities.

197. Bell knowingly provided substantial assistance to Lancelot Management in connection with the violations described in Paragraphs 1 through 168 above, and summarized in Paragraph 195 above.

198. By reason of the foregoing, Bell aided and abetted Lancelot Management's violations of Sections 206(1), 206(2) and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), 80b-6(2) and 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8] as described in Paragraphs 1 to 168 above and as summarized in Paragraph 195 above.

**COUNT VIII**  
**(Relief Defendants)**

199. Paragraphs 1 through 168 are realleged and incorporated by reference.

200. Defendants Bell and Lancelot Management transferred millions of dollars derived from the Lancelot Funds to the Relief Defendants.

201. Bell transferred at least approximately \$11.7 million, derived from the Lancelot Funds, to the Gregory Bell Revocable Trust.

202. Bell transferred at least approximately \$11.7 million, derived from the Lancelot Funds, to Inna Goldman's Inna Goldman Revocable Trust.

203. Bell transferred at least \$5.6 million, derived from the Lancelot Funds, to a personal account he held jointly held with Inna Goldman.

204. Bell transferred \$15 million, derived from the Lancelot Funds, to a Swiss account for the benefit of Asia Trust Ltd. as Trustee for the Blue Sky Trust.

205. The monies received by the Relief Defendants from Defendants Bell and Lancelot Management constituted ill-gotten gains from the fraud of Defendants Bell and Lancelot Management as alleged in this Complaint.

206. The Relief Defendants have no legitimate claim to the ill-gotten funds they received from Defendants Bell and Lancelot Management or to any assets that the Relief Defendants acquired with those ill-gotten funds.

### **RELIEF REQUESTED**

**WHEREFORE**, the Commission respectfully requests that this Court:

#### **I.**

Issue findings of fact and conclusions of law that Defendants Bell, Lancelot Management and Petters committed the violations charged and alleged herein.

#### **II.**

Grant an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently restraining and

enjoining Defendant Petters, his agents, servants, employees, attorneys and those persons in active concert or participation with him who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder;

### **III.**

Grant Temporary Restraining Orders and Orders of Preliminary and Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendants Bell, and Lancelot Management, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder.

### **IV.**

Grant Temporary Restraining Orders and Orders of Preliminary and Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendants Bell and Lancelot

Management, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, that violate, or aid and abet violations of, Sections 206(1), 206(2) and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

#### V.

Grant a temporary restraining order and orders of preliminary and permanent injunction in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendant Bell, his officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, aiding and abetting violations of Sections 206(1), 206(2) and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

#### VI.

Issue an Order requiring the Defendants and the Relief Defendants to disgorge the ill-gotten gains that they received as a result of the violations alleged in this Complaint, including prejudgment interest.

## **VII.**

With regard to Defendants Petters's, Bell's, and Lancelot Management's violative acts, practices and courses of business set forth herein, issue an Order imposing upon Petters, Bell and Lancelot Management appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

## **VIII.**

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

## **IX.**

Grant appropriate emergency relief to prevent further secretion or dissipation of assets purchased with investor funds.

## **X.**

Grant an Order for any other relief this Court deems appropriate.

Plaintiff demands a trial by jury.

Dated: July 7, 2009

Respectfully submitted,



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