

# Post-Bulletin

## Petters's star rose quickly, fell faster

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Associated Press

MINNEAPOLIS -- With million-dollar homes in three states, yachts, luxury cars and a friends list teeming with celebrities and athletes, Tom Petters seemed to have it all.

Over two decades, Petters used his charisma and salesmanship to turn a small liquidation company into a diversified, billion-dollar business with stakes in companies including Polaroid and Sun Country Airlines. He wrote big checks to politicians and pledged millions to universities that named programs and buildings after him.

"I thought that everything he touched turned to gold," said George Wozniak, a Minneapolis travel agency owner who once considered a business deal with Petters. "That's what it looked like."

What Wozniak and others saw was an illusion, federal prosecutors say -- little more than a Ponzi scheme that somehow endured for at least 14 years and bilked investors of some \$3 billion before a troubled insider blew the whistle in September.

The demise of a man once hailed as a Minnesota success story has been stunning in its speed and totality. Petters, 51, the alleged mastermind of the scheme, is in jail on felony charges. Petters Group Worldwide faces more than 30 lawsuits and has been plunged into bankruptcy.

Fraud experts say the Petters case is "in a standalone class" not just for the money but for how long it lasted and how far it reached.

If it weren't for the current mess on Wall Street, said Jacob Frenkel, a former Securities and Exchange Commission enforcement lawyer, "this would be one of the highest-profile, highly scrutinized criminal cases of this decade."

Though four of Petters' associates, including the whistleblower, have pleaded guilty, Petters maintains he is innocent.

"He intends to fight the charges against him," said his attorney, Jon Hopeman.

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Petters founded what would become Petters Group Worldwide in 1988 as a one-man operation. By 2007, the Minnetonka-based holding company had interests in dozens of businesses, reporting 2007 revenue of \$2.3 billion. At the start of 2008, about 2,400 people worked for Petters Group or one of its entities.

The man with this golden touch showed his entrepreneurial spirit early.

The middle child of seven, Petters grew up in St. Cloud and worked at the tailor, fur and fabric shop started by his great-grandfather. He attended Catholic school, and started his first business at age 15, selling electronics out of a rented office. The enterprise had an 18-month run -- until his mother found out.

In the 1980s, Petters worked as regional manager for a consumer electronics chain in Colorado, and bought five of the chain's stores when it fell into bankruptcy.

The business failed, but by 1988, Petters had made a fresh start -- launching a company to buy goods from bankrupt or troubled retailers and then resell them. In 1995, he started Petters Warehouse Direct to sell goods directly to

consumers.

Wozniak, the travel agency owner, first met Petters around this time. He said Petters approached him about opening travel agencies within Petters' stores. Wozniak didn't do the deal, but says he regarded Petters as a visionary who made things happen.

"He had a hundred ideas about how things were going to work all the time," said Wozniak, president of Hobbit Travel. "If you weren't a good listener, you didn't talk to Tom very long."

As Petters' businesses grew, his profile did, too.

In 2002, he teamed with former Fingerhut Cos. CEO Ted Deikel to buy various assets of the distressed catalog retailer. In 2005, he acquired his best-known company -- Polaroid Holding Co.

In 2006, it was time to buy an airline: Sun Country, the former charter carrier that had struggled to become a scheduled-service airline. Bob Daly, Sun Country's co-founder, remembers Petters from negotiations as "the consummate sales person."

"He was friendly, always smiling," Daly said. "He was very engaging. He was quick-witted, and he was just the kind of person that when you would meet him, it would be hard to dislike him."

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Court records trace Petters' rising fortunes. Divorce documents show he was making about \$30,000 a year in 1990. By the end of 2007, court documents put his personal assets at more than \$1 billion.

Public records list a \$5.3 million lake home in Wayzata, Minn.; a \$9.6 million oceanside getaway in Manalapan, Fla.; and a \$1.4 million home on a golf course in the Colorado resort town of Keystone.

But Petters knew tragedy, too. In 2004, his son John, 21, was murdered while vacationing in Italy. That spurred Petters to start a foundation in his son's name to raise money for scholarships for students studying abroad.

When Petters was vilified after his arrest by readers of one online forum, his daughter Jennifer jumped in to defend him.

Later, in an e-mail interview with The Associated Press, she described her father as a hard worker who had a lot of stress, especially after the death of her brother. But he always took time for family, and loved giving to charity, she wrote.

"He loves reading about the charities he donated to, and seeing how all the non-profits are slowly but surely making the world a better place. He has so much passion for that," she wrote.

The summer issue of Petters Group's glossy internal magazine offers a glimpse of the glitz that came with the foundation work. Petters is pictured smiling alongside pro football players Michael Strahan, Justin Tuck, and Steve Hutchinson at a polo match and fundraiser in Florida attended by stars including Tommy Lee Jones and Wil Shriner.

In a letter to employees elsewhere in the magazine, Petters writes of giving back to the community and caring for others. He also mentions the company's core values -- including integrity.

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The first public hint anything was amiss in the Petters empire came Sept. 24, when police raided its headquarters and carted away boxes of documents.

That came just 16 days after Deanna Coleman, a Petters executive, contacted authorities. She outlined a scheme to lure investors by promising big returns in exchange for financing retail transactions that were actually fictitious.

Authorities say investors were given phony papers to document the purchase of merchandise from small vendors, then

more phony paperwork showing resale at a profit to big-box retailers like BJ's Wholesale Club and Sam's Club.

On the day of the raid, Petters was interviewed by the FBI at a favorite haunt, the Bellagio Casino in Las Vegas. Court papers filed later in the case described Petters as the casino's "largest comped-room guest," with gambling losses of more than \$10 million.

Petters was arrested nine days later, charged with mail fraud, wire fraud, money laundering and obstruction of justice. Coleman and three others have since pleaded guilty and may testify against Petters.

Daly, the Sun Country co-founder, said that when he first heard of the allegations, "I was shocked. I think most people who knew Petters were."

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For those who troubled to look deeply enough, the warning signs were there.

As recently as 2002, Randy Shain investigated Petters for clients who wanted to make sure they were investing in aboveboard entities.

Shain said he found plenty of red flags: lots of lawsuits against Petters for failing to repay money, criminal cases for allegedly writing bad checks, and a biography that falsely claimed a degree from St. Cloud State University.

In one 1989 lawsuit, Shain said, Petters contacted Hennepin County court officials and told them to remove the case from the calendar because it had been settled -- when it hadn't.

"That gives you an idea about the kind of person you're dealing with," said Shain, now vice president of First Advantage Investigative Services in New York.

Shain's information was enough for one client, Bookbinder Capital Management in New York. Richard Bookbinder, the firm's founder and managing member, said the "inconsistency" in Petters' college education ended any chance they would invest money with him.

But some of Petters' legal problems weren't there for the finding.

In 1989 -- the year after he started his liquidation business -- Petters was charged with theft and forgery in Colorado state court in a case that foreshadowed his current legal jam.

Petters was accused of striking a deal to sell 450 refurbished VCRs. But the alleged supplier told police there was no deal. Petters was also accused of using money from investors to pay off debts.

Petters agreed to pay restitution, and the case was dismissed. The court file was sealed in 1995, removing it from the view of anyone who might have dug into Petters' background. Details came to light in 2008, when some of the sealed documents were introduced as evidence in the federal case.

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Underneath the winning smile, federal authorities say, Petters was a con man who had been running a fraudulent scheme for at least 14 years. Experts say that is an incredible amount of time to conceal a scam.

Petters is reported to have promised investors returns of as much as 22 percent, an improbable number that should have raised questions. Frenkel, the former SEC enforcement attorney, says Ponzi schemes work because people "are always looking for the opportunity to buy into a successful story."

Petters also had credibility that came with his history of success and his ownership of some well-known brands -- like Polaroid. And he had a high and favorable profile in Minnesota, often swooping in and investing in restaurants and other businesses that needed help getting started or staying afloat.

The phony paperwork wasn't the scheme's only cover, court documents allege. If investors asked to see the

merchandise, Petters and his associates planned to simply say the warehouse was empty because the goods had just shipped, the documents say.

Ponzi schemes begin to collapse when investors stop getting returns and start asking hard questions or filing lawsuits. Petters was the target of a handful of lawsuits over the years by companies or people who weren't getting money they were promised.

In August, Acorn Capital Group sued Petters in federal court in New York, alleging he had missed an August payment and owed the company \$273 million.

Within a month, Deanna Coleman had gone to the FBI to tell what she knew.

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The lure of big returns ruined many who trusted Petters.

Some of the biggest losers are hedge funds or other private investment companies, including funds in Switzerland and Canada, with at least two claiming they are out more than \$1 billion.

Charities and nonprofits lost, too.

The Fidelis Foundation of Minneapolis holds \$27.6 million in Petters' notes that might be worthless. Fidelis is a fiscal agent for several charities and ministries, including Minnesota Teen Challenge, a faith-based drug and alcohol treatment program for youth and adults. Teen Challenge may be out its entire \$5.7 million nest egg.

"We had no idea that there ever was an issue with it," said Eric Vagle, director of administration for Minnesota Teen Challenge. "It had paid regularly for seven years now. Up until a couple months ago it was an excellent investment for us."

Other victims include over 100 Minnesota pastors and nonprofits, who claim they lost over \$20 million. Carolyn Anderson, an attorney for the plaintiffs, said around 20 pastors' life savings are wiped out.

"These are people who pretty much had given their lives to the poor and disenfranchised," Anderson said. "Their lives have been devastated. ... We've got 65-year-old pastors who spent their lives living frugally and making \$45,000 a year, and now their savings are gone."

The fallout hasn't been limited to investors.

Petters Group Worldwide, already in the hands of a court-appointed receiver, has laid off 50 people since Petters' arrest and faces an uncertain future, spokeswoman Andrea Miller said. Sun Country has declared bankruptcy and is paying employees only 70 percent of their wages.

Petters has pledged millions to higher education, and held positions on two boards of trustees and another college board. Since he was charged, he has been removed or resigned from those posts, and some universities are removing his name from programs he helped fund.

Many of the political candidates Petters gave money to -- nearly a half-million dollars to candidates or parties in the past decade -- are returning the money or donating it to charity.

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Petters remains in jail after two judges agreed with prosecutors' arguments that he is a flight risk. They had evidence: a recording of an Oct. 1 conversation in which Petters seems to be advising a co-defendant to flee the country.

Jennifer Petters argued unsuccessfully in court for her father's freedom, saying he sounded "loopy" on the recording, perhaps a result of prescription anxiety medication and sleeping pills. She said he would never leave his two young sons, ages 1 and 3.

**"He's extremely devoted to his family," Jennifer Petters testified. "Always puts (us) first. Always. Always. Always."**

**Hopeman, Petters' attorney, has complained of a "rush to judgment" in the case. But even he marvels at what's happened to his client.**

**"It's a spectacular fall from grace," Hopeman said. "One of the most spectacular falls you will ever see."**

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