

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
PALM BEACH DIVISION
www.flsb.uscourts.gov

In re:

Palm Beach Finance Partners, L.P. and
Palm Beach Finance II, L.P.,

Case No. 09-36379-BKC-PGH

Debtors.

Barry E. Mukamal, in his capacity as
Liquidating Trustee of the Palm Beach
Finance Partners Liquidating Trust,

Adv. Case No.

Plaintiff,

v.

KBC Financial Products (Cayman Islands)
Ltd. and Palm Beach Diversified Income,
LP,

Defendants.

COMPLAINT TO RECOVER TRANSFERS

Barry E. Mukamal, in his capacity as liquidating trustee (“*Plaintiff*”) of the Palm Beach Finance Partners Liquidating Trust (“*Liquidating Trust*”), sues KBC Financial Products (Cayman Islands) Ltd. (“*KBC*”) and Palm Beach Diversified Income, LP (“*PBDI*”; and together with KBC, the “*Defendants*”) and alleges as follows:

PARTIES, JURISDICTION AND VENUE

1. Palm Beach Finance Partners, L.P. (“**PBF I**”) was a Delaware limited partnership whose principal place of business was located in Palm Beach County, Florida. PBF I was formed in 2002 to make the investments described in *Section I* below.

2. The general partner for PBF I was Palm Beach Capital Management, L.P. (“**PBCMLP**”). PBCMLP’s general partner was Palm Beach Capital Corp. The investment manager for PBF I was Palm Beach Capital Management, LLC. These entities are collectively referred to as the “**Palm Beach Managing Entities.**”

3. Historically, the principals who directed the activities of PBF I and the Palm Beach Managing Entities were David Harrold and Bruce Prevost (respectively, “**Harrold**” and “**Prevost**”). However, beginning in October 2008, following the discovery of the Petters fraud (as described in *Section II* below), this management structure was replaced with independent management. In particular:

a) On or about October 29, 2008, agreements were entered into among PBF I, Palm Beach Finance II, L.P. (together with PBF I, the “**Palm Beach Funds**”), Harrold, Prevost, the Palm Beach Management Entities and certain limited partners of the Palm Beach Funds that delegated day-to-day control to appointees of the limited partners. Pursuant to these agreements, “steering committees” for each of the Palm Beach Funds were created and authorized to act on behalf of the Palm Beach Funds;

b) In December 2008, each steering committee retained the law firm of Thomas, Alexander & Forrester, LLP (“**TAF**”) to investigate and pursue claims against third parties arising from losses resulting from the Petters fraud. In March 2009, each

steering committee retained the law firm of Berger Singerman (“**BS**”), to serve as special bankruptcy counsel and co-counsel with TAF.

c) In June 2009, the steering committees authorized the retention of Lewis B. Freeman to serve as the Chief Restructuring Officer (“**CRO**”) for each of the Palm Beach Funds. The CRO was authorized to (1) manage the Palm Beach Funds day-to-day affairs; (2) make payments and disbursements as appropriate; (3) retain counsel and professionals to pursue and resolve any claims belonging to the Palm Beach Funds; (4) file voluntary bankruptcy petitions on behalf of the Palm Beach Funds and (5) report the material developments regarding the Palm Beach Funds to the steering committees.

d) In October 2009, Kenneth Welt (“**Welt**”) and Trustee Asset Recovery, Inc. replaced Mr. Freeman as CRO, with substantially similar reporting requirements and powers.

4. On November 30, 2009 (“**Petition Date**”), Welt authorized the filing of voluntary petitions under Chapter 11 of the United States Bankruptcy Code for the Palm Beach Funds. Orders for relief were entered and Plaintiff was subsequently appointed Chapter 11 trustee for the Palm Beach Funds.

5. Thereafter, pursuant to a confirmed joint plan of liquidation, Plaintiff was appointed Liquidating Trustee for the Liquidating Trust.

6. Pursuant to the confirmed joint plan of liquidation, all claims and causes of action held by PBF I are reserved, preserved and retained by the Liquidating Trust.

7. KBC is, upon information and belief, an entity organized under the laws of the Cayman Islands.

8. PBDI is a Delaware limited partnership.

9. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A), (H) and (O).

10. This Court has jurisdiction pursuant to 28 U.S.C. § 1334(b) and may enter any order or final judgment.

11. Venue is proper in this District pursuant to 28 U.S.C. § 1409.

12. The Transfers (as defined below) that are the subject of this Complaint were all effectuated using bank accounts located in the United States of America.

ALLEGATIONS

I. The Petters Investment

13. Beginning in approximately 1995, Thomas Petters (“*Petters*”) began raising money by offering and selling unregistered promissory notes to members of the public.

14. Petters offered and sold the notes to various feeder fund lenders, which in turn, typically raised their capital from private investors.

15. In offering and selling the notes, Petters represented to lenders that the proceeds from the sale of the notes would be used to finance so-called “purchase order financing.”

16. Under Petters’s version of purchase order financing, he arranged for the sale and delivery of overstock consumer electronics from manufacturers or suppliers to certain “big box” retailers such as Costco, Sam’s Club and B.J.’s Wholesale Club. The financing provided by the lenders was necessary to bridge the period between when the suppliers demanded payment and when the retailers paid for the merchandise.

17. The main Petters entity which arranged these purchase and financing transactions was Petters Company, Inc. (“*PCI*”).

18. The main suppliers that were allegedly selling the merchandise that formed the basis of the purchase order financing transactions were Nationwide International Resources, Inc.

(“*Nationwide*”) and Enchanted Family Buying Company (“*Enchanted*”) (Enchanted and Nationwide are sometimes referred to as a “*Petters Supplier*”).

19. Generally, the investment strategy was supposed to work in the following, sequential manner:

- a) Petters or PCI would allegedly broker the sale of merchandise between one of the Petters Suppliers and a big box retailer;
- b) Once a deal was brokered, a lender (*e.g.*, PBF I) would wire the funds necessary to purchase the merchandise from the Petters Supplier directly to such supplier’s bank account;
- c) The Petters Supplier would ship the merchandise to the big box retailer;
- d) Upon receiving the merchandise, the big box retailer would directly send funds to the lender; and
- e) The funds remitted by the big box retailer would then be used to pay (i) first, the lender and (ii) second, a commission to Petters or entities controlled by him.

20. To evidence the steps outlined above, Petters or persons working on his behalf, typically provided a series of documents to the lenders including executed note documents, purported purchase orders from a retailer, purported bills of sale from the vendors, collateral and credit insurance and documents assigning a security interest in the underlying merchandise to the financing lender.

21. Upon being repaid, lenders to PCI would typically advance their monies into new PCI purchase financing transactions.

22. PBF I was an investment vehicle specifically formed to invest in the Petters purchase financing transactions described above.

23. PBF I raised monies by selling limited partnership equity interests to investors. These investor funds were then used by PBF I to enter into Petters purchase financing transactions.

II. The Petters Fraud

24. For nearly six years, PBF I invested nearly all of its funds in PCI purchase financing transactions.

25. The reality though was that PCI was a *ponzi* scheme.

26. Namely, there was never any (i) merchandise or (ii) contracts to purchase or sell such merchandise with a particular big box retailer. Instead, Petters, conspiring with others, operated a multi-billion dollar fraud. In likely every instance that monies were sent to Nationwide or Enchanted by PBF I and other lenders to finance the purchase of merchandise, Nationwide and Enchanted deducted a small commission for their benefit and then remitted the remaining funds to PCI. Thereafter, these funds were used to repay lenders on earlier PCI purchase financing transactions or fund the lavish lifestyle of Mr. Petters and that of his criminal co-conspirators.

27. Because PCI was a *ponzi* scheme, the fictitious purchase financing transactions entered into between it (or its affiliates) and PBF I were at all times worthless.

28. In September 2008, agents for the Federal Bureau of Investigation raided PCI's offices. Thereafter, Petters was arrested by federal agents on October 3, 2008 and then indicted on charges of mail and wire fraud, conspiracy to commit mail and wire fraud, conspiracy to

commit money laundering and money laundering, all in connection with the PCI purchase financing transactions.

29. A receiver was appointed for PCI and other affiliated entities, along with Mr. Petters and his criminal co-conspirators. Thereafter, PCI and other Petters related companies filed voluntary bankruptcy petitions.

30. On December 2, 2009, a jury in the United States District Court of the District of Minnesota found Petters guilty of all counts charged. On April 8, 2010, District Court Judge Richard H. Kyle sentenced Petters to 50 years in prison for his crimes. Petters' co-conspirators were also sentenced to varying prison sentences.

31. On September 29, 2010, PCI and Petters Group Worldwide, LLC pled guilty to wire fraud, conspiracy to commit wire fraud, and conspiracy to commit money laundering relating to their roles in the *ponzi* scheme.

32. As a result of the collapse of PCI, PBF I suffered hundreds of millions of dollars in losses.

III. Transfers Made to the Defendants

33. Schedule 1 sets forth transfers made by PBF I to, or for the benefit of, the Defendants ("***Transfers***").

34. The Transfers were made to the Defendants in connection with a limited partnership investment in PBF I.

35. At no time during the duration of this investment were the Defendants creditors of PBF I.

36. PBF I was insolvent at all relevant times to the claims asserted in this complaint against the Defendants by virtue of its worthless investments in PCI.

37. Because PBF I was insolvent at the time that it made the Transfers to the Defendants, the transfers were unlawful and void.

Count 1 – 11 U.S.C. §§ 548(a)(1)(B) and 550

38. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

39. As set forth on Schedule 1, some of the Transfers made to or for the benefit of the Defendants were made within two years of the Petition Date (“*Two Year Transfers*”).

40. PBF I made the Two Year Transfers to or for the benefit of the Defendants without receiving reasonably equivalent value in exchange for such transfers.

41. At the time PBF I made each of the Two Year Transfers, it was insolvent.

42. At the time PBF I made each of the Two Year Transfers, it was engaged in a business or a transaction, or was about to engage in a business or transaction, for which any property remaining with it was an unreasonably small amount of capital.

Count 2 – 11 U.S.C. § 544, Fla. Stat. §§ 726.105(1)(b) and 726.108 or other applicable law¹
PBDI

43. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

44. As set forth on Schedule 1, some of the Transfers made to or for the benefit of PBDI were made within four years of the Petition Date (“*Four Year Transfers*”).

45. PBF I made the Four Year Transfers to or for the benefit of PBDI without receiving reasonably equivalent value in exchange for such transfers.

¹ To the extent the Court determines that another state’s law applies to a cause of action and such state’s law provides for a greater look back period than is provided for under Florida law, the Liquidating Trustee gives notice that he will amend this Complaint to avoid and recover all Fraudulent Transfers made during this greater look back period. *See, e.g.*, Minn Stat. § 541.05. The Plaintiff expressly reserves the right to seek such a determination.

46. At the time PBF I made each of the Four Year Transfers, it was insolvent.

47. The net assets of PBF I were unreasonably small in relation to the Four Year Transfers and by virtue of its worthless investments in Petters' *ponzi* scheme.

48. At the time each of the Four Year Transfers were made, PBF I was insolvent and would not be able to satisfy its liabilities as they came due.

49. At the time each of the Four Year Transfers were made, PBF I was engaged in, or was about to engage in, a business or a transaction for which the remaining assets were unreasonably small in relation to its business or transaction.

Count 3 – 11 U.S.C. § 544 and Fla. Stat. §§ 726.106(1) and 726.108 or other applicable law²
PBDI

50. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

51. PBF I made the Four Year Transfers to or for the benefit of PBDI.

52. PBF I did not receive reasonably equivalent value in exchange for the Four Year Transfers.

53. At the time PBF I made each of the Four Year Transfers, it was insolvent.

Count 4 – 11 U.S.C. § 544, Fla. Stat. §§ 726.105(1)(b) and 726.108 or other applicable law
KBC

54. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

55. As set forth on Schedule 1, some of the Transfers made to or for the benefit of the KBC were made during the period of March, 2007 to March, 2008 ("*Deleveraging Transfers*").

² See footnote 1, *supra*.

56. PBF I made the Deleveraging Transfers to or for the benefit of KBC without receiving reasonably equivalent value in exchange for such transfers.

57. At the time PBF I made each of the Deleveraging Transfers, it was insolvent.

58. The net assets of PBF I were unreasonably small in relation to the Deleveraging Transfers by virtue of its worthless investments in Petters' *ponzi* scheme.

59. At the time each of the Deleveraging Transfers were made, PBF I was insolvent and would not be able to satisfy its liabilities as they came due.

60. At the time each of the Deleveraging Transfers were made, PBF I was engaged in, or was about to engage in, a business or a transaction for which the remaining assets were unreasonably small in relation to its business or transaction.

Count 5 – 11 U.S.C. § 544 and Fla. Stat. §§ 726.106(1) and 726.108 or other applicable law
KBC

61. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

62. PBF I made the Deleveraging Transfers to or for the benefit of KBC.

63. PBF I did not receive reasonably equivalent value in exchange for the Deleveraging Transfers.

64. At the time PBF I made each of the Deleveraging Transfers, it was insolvent.

Count 6 - Unjust Enrichment

65. Plaintiff reasserts the allegations set forth in paragraphs 1 through 37 as if fully set forth herein.

66. PBDI received a benefit by virtue of the Four Year Transfers made to it.

67. KBC received a benefit by virtue of the Deleveraging Transfers made to it.

68. The Defendants have knowledge of the benefits conferred upon them.

69. The Defendants voluntarily accepted and retained the benefit conferred upon them by PBF I.

70. PBDI's receipt of the benefit of the Four Year Transfers unjustly enriched it to the detriment of PBF I.

71. KBC's receipt of the benefit of the Deleveraging Transfers unjustly enriched it to the detriment of PBF I.

72. Under the circumstances set forth herein, it would be inequitable for the Defendants to retain the benefits conferred upon them.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests that this Court:

- (a) With respect to Count 1, enter judgment against the Defendants in the total amount of the Two Year Transfers received by them or made for their benefit, along with all other transfers made to them or for their benefit which are avoidable under Count 1 that are later discovered, and all other relief provided for under 11 U.S.C. § 550;
- (b) With respect to Counts 2 and 3, enter judgment against PBDI in the total amount of the Four Year Transfers received by it or made for its benefit,³ along with all other transfers made to it or for its benefit which are avoidable under Counts 2 and 3 that are later discovered, and all other relief provided for under § 726.108 (or other applicable law);
- (c) With respect to Counts 4 and 5, enter judgment against PBDI in the total amount of the Deleveraging Transfers received by it or made for its benefit, along with all

³See footnote 1, *supra*.

other transfers made to it or for its benefit which are avoidable under Counts 4 and 5 that are later discovered, and all other relief provided for under § 726.108 (or other applicable law);

- (d) With respect to Count 6, enter judgment against (i) PBDI in the total amount of the Four Year Transfers made to or for its benefit and (ii) KBC in the total amount of the Deleveraging Transfers made to or for its benefit;
- (e) With respect to all Counts, award Plaintiff's reasonable attorney's fees and costs to the extent allowed under applicable law or statute;
- (f) With respect to all Counts, award prejudgment interest to the extent allowed under applicable law or statute; and
- (g) Grant such further relief this Court deems just and proper.

s/ Michael S. Budwick
Michael S. Budwick, Esquire
Florida Bar No. 938777
mbudwick@melandrussin.com
Jessica L. Wasserstrom, Esquire
Florida Bar No. 985820
jwasserstrom@melandrussin.com
Jonathan S. Feldman, Esquire
Florida Bar No. 12682
jfeldman@melandrussin.com
MELAND RUSSIN & BUDWICK, P.A.
3000 Southeast Financial Center
200 South Biscayne Boulevard
Miami, Florida 33131
Telephone: (305) 358-6363
Telecopy: (305) 358-1221

Attorneys for Plaintiff

SCHEDULE 1

Date	Contributions	Withdrawals
11/8/2004	10,000,000.00	-
12/1/2004	-	(5,000,000.00)
12/31/2004	-	(3,000,000.00)
9/30/2005	500,000.00	-
2/1/2006	3,000,000.00	-
4/14/2006	2,000,000.00	-
6/30/2006	-	(2,000,000.00)
3/1/2007	-	(1,000,000.00)
7/27/2007	-	(5,000,000.00)
2/4/2008	-	(500,000.00)
3/4/2008	-	(970,000.00)
Total	\$ 15,500,000.00	\$ (17,470,000.00)