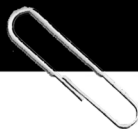


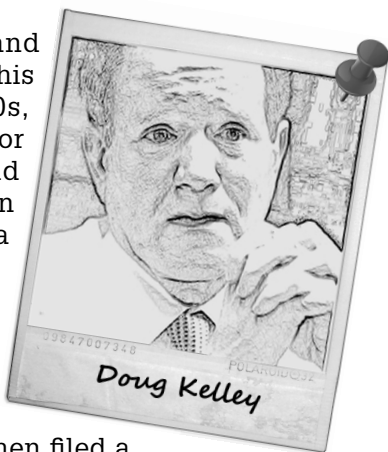
Where's The Money?

Behind the Scenes of the Petters Scam: Part 4



With Tom Petters' financial empire circling the drain, he reached out for his lifeline: attorney Douglas A. Kelley. Kelley was hired by Petters to represent his companies, and it wouldn't be an easy job. Petters was nearly bankrupt, and creditors were suing him in several states. Worse, the feds had raided his offices and were about to charge him with the largest fraud in Minnesota history.

Kelley had plenty of connections and cards of his own to play. In Minnesota, his political ties ran deep. During the 1980s, Kelley was chief of staff for then-Senator David Durenberger. Kelley himself had run unsuccessfully for the Republican nomination in the 1990 Minnesota gubernatorial primary.



Within days, Kelly had arranged for his law partner, Steven Wolter, to receive an irrevocable proxy from Petters, giving Wolter voting control over all of Petters' companies. Kelley then filed a motion in federal court and had himself named receiver of Petters' businesses. (The receiver is the person responsible to the interests of the company, its employees, assets and, most importantly, its creditors.) With himself as the receiver, and his law partner holding voting control over the businesses, Kelley had obtained within a few weeks not only rare and remarkable command over Petters' properties - he had also gained unprecedented legal powers.

Multiple conflicts of interest result from Kelley's overlapping roles. For instance, how could a former corporate counsel for Petters' businesses, engaged by the owner of the companies, also serve as receiver representing the interests of creditors?

Kelley assured U.S. District Judge Ann D. Montgomery, who appointed him receiver, that he could and would remain impartial. She took his word for it. After all, they had known each other since law school.

Tomorrow: Judge Montgomery continues to issue rulings in Doug Kelley's favor.



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