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Where's The Money?

Behind the Scenes of the Petters Scam: Part 8

Since Tom Petters' financial house of cards collapsed last year, his hundreds of millions of dollars worth of assets seem to have fallen into a black hole. Where is the money going?

Doug Kelley, the court-appointed receiver and trustee in the Petters bankruptcy cases—who also was an attorney for Petters' companies right before he was appointed receiver and trustee—pledged that he would operate "in the most transparent way." Kelley has also said his law firm is "using employment lawyers, we've used bankruptcy lawyers, obviously, litigators, intellectual property lawyers-- you name it." Kelley is employing multiple entities—no fewer than 41 at last count—to provide professional services to the various Petters companies in bankruptcy and receivership. So far, we know that lawyers and financial pros have collected at least $18 million in fees.

But we don't know much more, because the bills are submitted to Judge Ann Montgomery *in camera*—a legal term that means "in secret." With the court's approval, Kelley submits, to Judge Montgomery only, bills for himself and for other law firms, accountants and consultants, and after the judge reviews the bills, the court releases only a bare-bones summary. Many of these *in camera* bills are submitted months after the charges are already incurred.

So far, Kelley's own law firm has billed only for their work through last February. Meanwhile, his law partner, Steven Wolter, holds an irrevocable proxy over the voting rights in all of Petters' companies. Which means Wolter controls nearly all of Petters' corporate assets. Kelley—by his own admission, not a business person—has taken actions to date aiming at a quick sale of the Petters assets, often at fire-sale prices that mystify longtime business observers and valuation experts. For instance, Petters' residence in Manalapan, Florida, was sold for $9.5 million. But after mortgages, taxes, and costs were paid, only $107,000 was left.

At least Kelley and the various law firms are required to track their hours and fees. Houlihan Lokey, an investment bank based in Los Angeles, is working on the Petters bankruptcy on a flat-fee-with-no-time-sheet arrangement. The company had billed for $1.7 million through May 9th. Houlihan Lokey was hired by Mary Jeffries, the CEO of Polaroid, by far the most valuable piece in Petters' business portfolio. And how did Mary Jeffries become CEO of Polaroid? Doug Kelley put her in the job.

Tomorrow: How Kelley and Jeffries took over Polaroid.

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