UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
Criminal No.: 09-273

UNITED STATES OF AMERICA, Plaintiff, v. GREGORY MALCOLM BELL, Defendant.	)	PLEA AGREEMENT

The United States of America, by and through its attorneys, B. Todd Jones, United States Attorney for the District of Minnesota, and Assistant United States Attorneys John Docherty and Timothy C. Rank, and Gregory Malcolm Bell (hereinafter referred to as the "defendant") agree to resolve this case on the terms and conditions that follow.

1. **Charges**. The defendant agrees to plead guilty to the sole count of an Information charging the defendant with one count of wire fraud, in violation of Title 18, United States Code, Section 1343.

2. **Factual Basis**.

The Scheme and Artifice to Defraud

The defendant, between on or about February 26, 2008 and on or about September 24, 2008, knowingly and intentionally created, devised, executed, and attempted to execute a scheme and artifice to defraud, and to obtain money and other things of value, by means of materially false and misleading statements and representations.

Background on the Defendant and the Lancelot Funds

The defendant earned a Master of Business Administration degree with a concentration in finance from the University of Chicago's Graduate School of Business. He has worked in the hedge fund business continuously since 1998. In approximately December of 2001, the defendant started his own hedge fund. Shortly after that hedge fund was founded, the defendant organized Lancelot Investment Management (hereinafter referred to as "Lancelot Management") which became the investment advisor to, and general partner in, three other hedge funds which were organized as limited partnerships: Lancelot Investors Fund, LP (hereinafter referred to as "Lancelot I"), Lancelot Investors Fund, II, LP (hereinafter referred to as "Lancelot II"), and Lancelot Investors Fund, Ltd. (hereinafter referred to as "Lancelot Limited")(the three Lancelot funds plus Lancelot Management are referred to collectively as "Lancelot"). The defendant owned 99% of a holding company that in turn owned Lancelot. The defendant made all significant decisions for Lancelot, including, but not limited to, all investment decisions, all investment allocation decisions, and all significant operational and personnel decisions. The defendant also routinely met with and provided information about the Lancelot Funds to both existing and potential Lancelot investors, and he was the primary

point-of-contact for Lancelot investors with respect to the operation of the Lancelot Funds.

Lancelot's investment portfolio was highly concentrated in short term, trade finance, promissory notes issued by Petters Company, Incorporated (hereinafter referred to as "PCI"). Allegedly, PCI used the money raised through the sale of those notes to finance the acquisition and resale at a profit of large quantities of consumer goods. Three PCI executives, and two individuals outside PCI, have pled guilty in the United States District Court for the District of Minnesota to fraud offenses in connection with the business activities of PCI. At their guilty plea hearings, those individuals admitted facts sufficient to prove that PCI was in fact operated as a Ponzi scheme, and that the claims that PCI was engaged in the buying and reselling of consumer goods were false, and supported by fabricated documents.

On September 24, 2008, the PCI fraud collapsed when multiple federal search warrants were executed on locations related to PCI. As of September 24, 2008, Lancelot held approximately $1.5 billion worth of PCI's notes. This was substantially all of the money that Lancelot had.

The defendant, and others acting at his direction, both verbally and in written materials provided to investors and potential investors, made material misrepresentations and concealed

material information about the Lancelot Funds' investments with PCI from investors and potential investors.

The Extension of the Term of the PCI Notes

Beginning in late 2007, PCI became delinquent in paying the notes held by Lancelot. The delinquent payments from PCI were not reported to Lancelot investors by Bell. Instead, on December 18, 2007, Bell executed an agreement with Thomas Petters that extended the repayment term of all the PCI notes held by Lancelot from 180 to 270 days. The effects of this extension were that those notes that had been delinquent on a 180-day maturity schedule were no longer delinquent, and that the day on which any other note would have to be acknowledged as delinquent was pushed back by 90 days. Bell concealed the extension from Lancelot investors, disclosing the note extension only if questioned specifically about it by an investor, but he did not disclose to investors that the extension was prompted by delinquent payment by PCI. Bell's failure to disclose information regarding the extension of the payment terms of the PCI notes was material.

Round Trips

By February 2008, even with the 90-day extension of time Bell gave to PCI to pay the notes, PCI failed to make payments and the PCI notes again became delinquent. To conceal this information from Lancelot investors, the defendant, between February 26, 2008

and September 24, 2008, aided and abetted by officers and employees of PCI, including Thomas Petters, and by the defendant's subordinate employees at Lancelot, engineered approximately 86 "round-trip" banking transactions that gave investors and potential investors the false impression that PCI was paying its promissory notes in a timely manner.

In these transactions, money was wired from a Lancelot-controlled account at a Chicago bank to a PCI account at a Milwaukee bank. Shortly afterwards, the money was wired back to the Lancelot-controlled account. The transactions were structured to make it look like PCI was paying off an outstanding PCI promissory note or a number of invoices contained within a particular PCI promissory note. Bell intentionally concealed from Lancelot investors information about these "round-trip" transactions, thereby concealing PCI's delinquent payments from Lancelot investors.

Lancelot had a $50 million line of credit at the Chicago bank that was used in the round-trip transactions. Money advanced to Lancelot on this line of credit was also used to invest in PCI notes. The line of credit came up for renewal during the period of time that the round-trip transactions were being conducted. By making the same false representations to the bank that were being made to other Lancelot investors, Lancelot was able to retain its

line of credit at the bank. As of September 24, 2008, Lancelot owed $49 million on this line of credit. This bank was a "financial institution" within the meaning of USSG §2B1.1(b)(14)(A).

In early September, the defendant was asked by an institutional investor for a note-by-note accounting of the pay off status of a number of PCI promissory notes. Defendant directed his subordinates at Lancelot to create a spreadsheet he knew was going to be provided to this investor which purported to show that a number of the notes about which the investor was inquiring had been paid in full; one had been partially paid; and the balance were notes that were not yet due. All of the notes characterized as either fully or partially paid had been paid through round-trip transactions, but this information was not disclosed to the investor.

Round-trip transactions were preceded by telephone calls or an exchange of e-mails between Lancelot personnel in Illinois and PCI personnel in Minnesota about the amounts of money that would be involved in the upcoming transaction. The defendant acknowledges that these telephone call and e-mails were interstate wire communications; that they were in furtherance of the scheme and artifice to defraud; and that by his role in devising and

implementing the round-trip transactions the defendant caused these interstate wire communications to be made.

The misrepresentations to investors that PCI was paying its notes when due, when in fact PCI was only paying notes when Lancelot self-funded those payments, were made during the time the scheme and artifice to defraud was in operation. These misrepresentations were material.

Amount

After the "round trip" transactions commenced, on or about February 26, 2008, until on or about September 24, 2008, Lancelot raised over $200 million, but less than $400 million. in new investor money from approximately 43 investors. Lancelot was also able to retain its $50 million line of credit at the Chicago bank referred to above.

3. **Waiver of Indictment**. The defendant agrees to waive indictment by a grand jury on these charges and to consent to the filing of a criminal information. The defendant further agrees to execute a written waiver of his right to be indicted by a grand jury on these offenses.

4. **Waiver of Pretrial Motions**. The defendant understands and agrees that he has certain rights to file pre-trial motions in this case. As part of this plea agreement, and based upon the concessions of the United States within this plea agreement, the

defendant knowingly, willingly, and voluntarily gives up the right to file pre-trial motions in this case.

5. **Statutory Penalties**.

The parties agree that Count 1 of the Information carries statutory penalties of:

a. a term of imprisonment of up to 20 years;

b. a criminal fine of up to the greater of $250,000.00 or twice the amount of gain or loss;

c. a term of supervised release of up to three years;

d. a special assessment of $100.00, which is payable to the Clerk of Court prior to sentencing; and

e. the costs of prosecution (as defined in 28 U.S.C. §§ 1918(b) and 1920).

6. **Revocation of Supervised Release**. The defendant understands that, if he were to violate any condition of supervised release, he could be sentenced to an additional term of imprisonment of up to the length of the original supervised release term, subject to the statutory maximums set forth in 18 U.S.C. § 3583.

7. **United States Sentencing Guidelines**. The parties agree that the facts set forth in the factual basis section of this plea agreement are sufficient to bring the defendant's sentence as calculated under the United States Sentencing Guidelines to the

statutory maximum in this case, which is 240 months. The parties acknowledge that the defendant will be sentenced in accordance with 18 U.S.C. § 3551, et seq. The parties also acknowledge that the defendant will be sentenced in accordance with federal sentencing law which includes consideration of the Sentencing Guidelines promulgated pursuant to the Sentencing Reform Act of 1984.

8. **Discretion of the Court**. This plea agreement is binding on the parties, but it does not bind the Court. The parties understand that the Sentencing Guidelines are advisory and their application is a matter that falls solely within the Court's discretion. The Court may make its own determination regarding the applicable guideline factors and the applicable criminal history category. The Court may also depart from the applicable guidelines. If the Court determines that the applicable guideline calculations are different from that stated above, neither party may withdraw from this agreement, and the defendant will be sentenced pursuant to the Court’s determinations.

9. **Special Assessments**. The Guidelines require payment of a special assessment in the amount of $100.00 for each felony count of which the defendant is convicted. U.S.S.G. § 5E1.3.

10. **Restitution**. The defendant understands and agrees that the Mandatory Victim Restitution Act, 18 U.S.C. §3663A, applies and

that the Court is required to order the defendant to make restitution to the victims of his crime.

The defendant will fully and completely disclose to the United States Attorney's Office the existence and location of any assets in which he has any right, title, or interest. The defendant agrees to assist the United States in identifying, locating, returning, and transferring assets for use in payment of restitution and fines ordered by the Court. The financial statement to be provided to the United States Attorney's Office will be accurate, truthful and complete.

If requested by the United States, the defendant agrees to submit to a financial deposition and to a polygraph examination to determine whether he has truthfully disclosed the existence of all of his assets.

11. **Forfeiture**. The government reserves its right to proceed against any of the defendant's assets if those assets represent real or personal property involved in violations of the laws of the United States or are proceeds traceable to such property.

12. **Waiver of Appeal**. The defendant understands that 18 U.S.C. Section 3742 affords the defendant the right to appeal the sentence imposed in this case. Acknowledging this right, and in exchange for the concessions made by the United States in this plea agreement, the defendant hereby waives all rights conferred by 18

U.S.C. Section 3742 to appeal the length of his sentence, unless the sentence exceeds 240 months, is the product of a violation of the constitution of the United States, a mis-application of the Sentencing Guidelines, or a misapplication of 18 U.S.C. §3553. The defendant has discussed these rights with his attorney. The defendant understands the rights being waived, and the defendant waives these rights knowingly, intelligently, and voluntarily.

13. **Venue**. The parties agree that venue of this case is proper in the District of Minnesota.

14. **Binding Effect**. The parties agree that under principles of double jeopardy a plea of guilty pursuant to this plea agreement bars further prosecution of the defendant for the same course of conduct.

15. **Complete Agreement**. This is the entire agreement and understanding between the United States and the defendant. There are no other agreements, promises, representations, or understandings.

Date:

B. TODD JONES
United States Attorney

BY:_____
JOHN DOCHERTY
TIMOTHY C. RANK
Assistant U.S. Attorneys

Date:

_____
GREGORY MALCOLM BELL
Defendant

Date:

_____
VINCENT P. SCHMELTZ, III, ESQ.
Counsel for Defendant