

Chapter 1

Beginning of the End

As the economy worsened in 2008, Bernie Madoff was in desperate straits.

Calls from panicked clients had started coming in to his virtually impenetrable 17th-floor private office in the Lipstick Building on Manhattan's Third Avenue—the office later identified by authorities as Ponzi Central, the epicenter of history's most massive fraud—where his billions of dollars in personal investment accounts were handled in strictest secrecy.

With the stock market crashing, with credit tighter than anyone could remember, with unemployment hitting record highs, with the housing market in free fall, with big banks and investment houses failing or pleading for government bailouts (and getting them), and with automaker giants like General Motors and Chrysler teetering on the verge of bankruptcy, Bernie was facing his own private hell, his own private demons.

Big and small investors in his very exclusive club—a privileged circle of financial institutions, charities, billionaires, celebrities, and some

few favored Joe Six-Packs and Wal-Mart Moms—who were receiving steady and huge returns on their investments in good times and in bad, had begun requesting, and then demanding, that their money be returned.

In the past, when they needed money from their accounts, they'd get a check within days. Suddenly, they were getting the stall. Now Bernie was facing redemption demands to the tune of a whopping \$7 billion. Bernie realized that if he couldn't cover those requests, his decades-long charade as a self-styled financial wizard and investment messiah was nearing a horrific end.

Still, the man who was “considered a statesman in our industry” by a head of a firm that guaranteed the sanctity of stock trades thought he could elude getting caught, that in a last-ditch blitz of raking in more new big-money investors—unknowing lambs being led to slaughter—he could make good on the funds his earlier investors now wanted returned.

His desperation heightened in early summer when he went on a marathon cash-hunting expedition.

“It was around the end of June when he went to France *really* trying to get more money from wealthy Europeans, or anyone else he could find,” says a longtime close associate of Bernard L. Madoff Investment Securities LLC (BLMIS). In the south of France, he had a gated villa in exclusive Cap d'Antibes, and one of several yachts, all named *Bull*. There were those who later observed that the *Bull* designation did not represent a high-flying bull market as most thought, but rather was an ironic insider joke for the bullshit he was throwing at those he was bilking.

Bernie usually had a very calm demeanor, but now he was clearly in panic mode.

He came back from France in order to attend the very fancy annual company summer party bash on the expensive sand at Montauk in the chic Hamptons, where his posh beachfront home was located. Says the close associate, “Bernie was putting on a happy face for everyone. Then, he left right away again to try to recoup, to try to get more investors to hand him more money as more requests came in from those wanting to cash out.”

They were people and entities that suddenly were becoming cash poor, many of them good friends of Bernie's who knew how bad things were as Wall Street seemed to be laying another egg just like in 1929.

Before the Great Madoff Panic of 2008 was ignited by the worst economic debacle that the United States and the world had faced since the Great Depression, people had begged Bernie to take their money because of the steady and relatively high promised returns. They virtually threw cash at him. They sent envelopes filled with moolah. They made wire transfers in the tens and hundreds of millions of dollars.

If Bernie personally turned them down because they asked too many questions, or because they seemed to be doing their due diligence (which too few did), or because he just felt paranoid about them, they begged their friends who were Madoff insiders to get them in.

Bernie was the Studio 54 of money managers. He and only he could raise the velvet rope and let those hungry for big returns into his private, exclusive club. For a long time the minimum cost of admission was at least \$5 million, unless he offered a special dispensation. And he often did. After all, to Bernie money was money.

Just a glance at the web site of Bernard L. Madoff Investment Securities LLC elicited gold-standard trust. The company was described as:

... a leading international market maker. The firm has been providing quality executions for broker-dealers, banks, and financial institutions since its inception in 1960... With more than \$700 million in firm capital, Madoff currently ranks among the top 1% of U.S. securities firms... Clients know that Bernard Madoff has a personal interest in maintaining an unblemished record of value, fair dealing, and high ethical standards that has always been the firm's hallmark.

His slogan, "The owner's name is on the door," engendered trust. After all, this was a guy who once was chairman of the National Association of Securities Dealers Automated Quotations (Nasdaq) system. Gimme a break!

Those who couldn't deal directly with Bernie dealt with trusted middlemen, later called feeder funds, who were sending the cash to Bernie in return for hefty commissions, hundreds of millions of dollars in several cases. As it turned out, those investors who placed their money and trust in feeder funds had never even heard of Bernard Madoff—until the end came, and then it was too late.

But now as the frightful economic year 2008 was coming to a close there was little if any big money like that floating around to throw at Bernie. Now a number of Madoff investors wanted their money back. They needed cash flow, even if it meant losing the promised return.



As P. T. Barnum once famously declared, “There’s a sucker born every minute.” It was an anthem Bernie frequently used with certain people close to him when old and new investors showered him with money, says a pal.

The old in late 2008 was one Carl Shapiro, who had begun putting his money with Bernie when he was just a little *pisher* in his early 20s. With a promise from Bernie to reportedly repay with interest or a gain, the elderly Boston entrepreneur and philanthropist who had made a fortune in the garment industry now sent him \$250 million.

Still, it was not enough to cover all of the redemptions Bernie was facing.

With the proverbial noose beginning to tighten around his neck, Bernie was overjoyed in early December 2008 when some new millions suddenly came his way—a mere bag of shells compared with the billions he needed to snag, but still nothing to sneeze at.

That infusion of money was the beginning of the end for Madoff, the first in a chain of fast-moving events leading up to his arrest, guilty plea, and imprisonment for running the biggest and slickest Ponzi scheme ever, and getting away with it for decades.

The last person known to be taken to the cleaners was a hugely wealthy businessman by the name of Martin Rosenman, who was president of the heating oil distributor Stuyvesant Fuel Service Corporation, located next to the Cathedral of Deliverance, a graffiti-covered storefront church, in a bleak section of the Bronx, one of New York City’s five boroughs.

As one of America’s grimmest Christmases in decades approached with hundreds of thousands without jobs, with thousands facing foreclosure on their homes, with the luckier ones desperately holding on to whatever money they didn’t lose in their 401(k)s, and with retailers

starving for customers, Rosenman appeared to be Bernie's Santa Claus when he called the Madoff offices on December 3.

Rosenman was making a surprise year-end investment—a \$10 million offering on which he wanted to start earning a nice Madoff return—now 7 or 8 percent in a time when a measly 2 to 4 percent was available elsewhere.

A friend who had invested with Madoff and done well with him over the years had advised Rosenman to do the same. You can't miss putting your money in Madoff, new investors were being told, Madoff's a sure thing. So, Rosenman decided to give him a try.

Rosenman was from Great Neck, one of the many affluent, predominately Jewish Long Island communities whose wealthy residents, fabled country clubs, and prestigious institutions would soon see their fortunes in Madoff evaporate. From Long Island to Palm Beach, from Europe to South America, there would be many, many other Rosenmans when all became known, thousands of them.

Playing his exclusivity con game to the hilt, Bernie told Rosenman that "the fund was closed"—closed, that is, until New Year's Day 2009. But if Rosenman, managing member of Rosenman Family LLC, wanted to move his money quickly, he could wire the funds to an account that BLMIS had with a popular and trusted bank, JPMorgan Chase & Company. Bernie promised that Chase would hold the money until the New Year, when it would be transferred into the very elite Madoff fund.

Rosenman wired the money on December 5. Four days later the Madoff firm that Rosenman had entrusted with his millions did what any supposedly ethical company would do—Madoff, or a representative, notified Rosenman that his money was in safe hands, and had been invested in the short sale of \$10 million in U.S. Treasury bills, or so it was claimed.

With Rosenman's money in the bank, one could envision 70-year-old Bernie Madoff, once a poor boy from Queens who now owned a couple of yachts, fancy cars, elegant homes, and a 50 percent interest in a \$24 million 12-passenger sleek Embraer Legacy jet—a tanned and coiffed dandy of sorts who wore \$7,000 suits and sported \$700 sweaters and \$80,000 watches—gleefully and greedily rubbing his hands

together. With his sphinxlike smirk, his chipmunk cheeks, and his beady eyes, he was the anti-*mensch*.

As it later would be revealed in various news accounts, JPMorgan Chase and BLMIS had a business relationship. As part of his massive fraud, Bernie was placing hundreds of millions of dollars through his account at the bank—investors' funds that hadn't been invested by him for years. Moreover, the bank reportedly withdrew its own \$250 million from one of Bernie's major feeder funds.

And as it would turn out, Marty Rosenman became the very last investor to give money to Madoff in the days before his enormous criminal scheme would come crashing down.

Not surprisingly, there was no record of the Rosenman-Madoff transaction. Moreover, the Treasury bill sale was "never authorized" by Rosenman, bogus or not.

As Rosenman's attorney, Howard Kleinhendler, later stated, "We don't think any securities were bought or sold. To the contrary, we think he [Madoff] was deliberately collecting money. He was trying to get more money in the door for this final distribution he wanted to make."

On December 9, the same day that Madoff let Rosenman know that his \$10 million had been invested, Bernie made a surprise revelation regarding the distribution referenced by Kleinhendler. Bernie declared that he planned to dispense fat bonuses to his employees, friends, and family members amounting to as much as a startling \$300 million, according to investigators. About a hundred signed checks totaling \$173 million were never sent and were later discovered in his desk drawer after his arrest.

Like others among some 14,000 present and former Madoff investors, many of whom were bilked with catastrophic losses, Rosenman sued to get back his money—and seemingly caught a break. Irving Picard, who was subsequently named trustee after the scandal broke to oversee the dismantling of Bernie's evil Ponzi empire, agreed to set aside the \$10 million and not put it in the pot that would eventually—it was hoped—be generally distributed to Madoff victims. But a bankruptcy judge later ruled there would be no special treatment for Rosenman, a decision that was then appealed.

Whichever way it turned out, Bernie's fraud didn't leave Rosenman and his family destitute. Far from it. The Rosenman company had been acquired by the Hess Corporation in 2008; the Rosenmans were extremely wealthy. As Kleinhendler noted, the \$10 million was not the Rosenman family "nest egg . . . not something that will dramatically affect their life." Many of Bernie's investors fit that profile, a demographic in which \$10 million didn't mean the end of the world to them, but that still didn't excuse Bernie's crime.



If the Rosenman family wanted its \$10 million back, Bernie's wife—the well-coiffed, well-preserved, shop-until-she-dropped Bergdorf blonde who would soon become known to the world and in tabloid headlines as Ruthie—also wanted some millions for herself.

Two days before Thanksgiving 2008, and a few days before she and Bernie celebrated their 49th wedding anniversary, the petite 68-year-old self-styled socialite gave herself a \$5.5 million cash present in the form of a whopping withdrawal from her account at a company called Cohmad Securities Corporation, a Madoff tentacle and feeder fund that would come under intense scrutiny by authorities.

Cohmad was the merger of the names Madoff and Cohn—the latter for Maurice "Sonny" Cohn, an old friend of Bernie's. Cohmad, along with Cohn and his daughter, Cohmad president Marcia Cohn, would later be sued by the Securities and Exchange Commission (SEC) for bringing investors to Bernie and ignoring and even participating "in many suspicious practices that clearly indicated Madoff was engaged in fraud."

An SEC official stated that Bernie "cultivated an air of exclusivity by pretending that he was too successful to trouble himself with marketing to new investors. In fact he needed a constant in-flow of funds to sustain his fraud, and used his secret control of Cohmad to obtain them."

Then, on December 10, with the clock ticking like a time bomb on Bernie's fraudulent operation, Ruth withdrew another \$10 million. When

her greed was disclosed some weeks later in a court action, the tabloid *New York Post's* headline blared: "Shocking Withdrawals on Eve of Bust."

By making those withdrawals, many wondered, did Ruth Madoff know the roof was about to cave in?

Up to the end, she had maintained an office at Madoff headquarters where Cohmad also had its office. And in her 50th high school reunion book—an event that Ruth and Bernie attended on November 7, 2008, just a month before his house of cards collapsed—she proudly boasted: "Bernie and I worked together in the investment business that he founded."

Was Ruth Madoff helping her desperate husband in his last-ditch efforts to bring in more money? Or was she just socking away cash to cover herself in the future? In the coming months there would be much speculation about that money, and what Ruth knew and when she knew it.

According to a veteran Madoff executive with close ties to the family, it appears that Ruth may have been one of her hubby's long-time family partners and participants bringing in investors.

The executive tells the following story:

In late April 2008, a well-to-do elderly couple decided to move from New York City to Palm Beach. As they were beginning to settle in, the husband suddenly died of a heart attack. In September 2008 the widow, a member of the Palm Beach Country Club, many of whose wealthy members would lose fortunes to Bernie, "got into a foursome on the golf course with Ruth and some other ladies," states the Madoff insider. "The widow had never met Bernie Madoff. But by the end of September she had all her money with Bernie. So, it seems Ruth was working for him. I was shocked."

So much was happening, and only a close-knit circle was aware.

On December 8, for instance, an anxious and stressed Bernie blew his top in a telephone conversation with Jeffrey H. Tucker, co-founder, with high roller Walter Noel, of the Fairfield Greenwich Group, soon to be identified as the Madoff firm's largest feeder fund. Beginning in 1989 Fairfield Greenwich began spoon-feeding Madoff billions of dollars in investor money and received hundreds of millions of dollars in fees simply for being the intermediary. Bernie was furious with

Tucker because many of Fairfield's investors, frightened by the worsening economy, were pulling out enormous amounts of money, known as redemptions. Bernie wanted the growing outflow of funds halted ASAP, and he strong-armed Tucker.

"Just got off the phone with a very angry Bernie who said if we can't replace the redemptions for 12/31 he is going to close the account," Tucker, a former Securities and Exchange Commission official, wrote in a letter to Fairfield's executive committee. "His traders are 'tired of dealing with all these hedge funds' and there are plenty of institutions who can replace the money. They have been offered this all along 'but remained loyal to us.' . . . Not sure of our next step but we best talk. I believe he is sincere."

The epitome of the con artist, Bernie the bully had successfully intimidated Tucker. Tucker was clearly worried about losing Fairfield's long connection with Madoff. As soon would be disclosed, however, there was no one waiting in the wings, as Bernie threatened, willing to pump much-needed money into Madoff's now relatively empty coffers. Tucker quickly followed up with an apologetic letter to Bernie. "Our firm is very dependent on its relationship with your firm. . . . You are our most important business partner and an immensely respected friend. . . . Our mission is to remain in business with you and keep your trust."

The Fairfield Greenwich Group, like a number of other such Madoff-connected entities, would soon be the subject of a lawsuit for its "complete disregard of its fiduciary duties . . . its flagrant misrepresentations to investors [that] rise to the level of fraud," all of which the firm adamantly denied.



On the evening of December 9, 2008, a day before Ruth's \$10 million money grab, a highly revelatory meeting took place between Bernie and his top lieutenant and younger brother, Peter Madoff, the senior managing director and chief compliance officer of BLMIS. Bernie is said to have confessed to Peter, who had worked virtually side by side with him for some 40 years, that he had been operating a monster Ponzi scheme

on the side. If such a confession was actually made, Peter, as head of compliance, had an obligation to immediately report his brother's criminal activities to the proper authorities, such as the SEC. He did not.

The next day, December 10, Bernie supposedly made a similar confession to his sons, Mark and Andrew, who also had worked closely with their father, and were the recipients in recent years of a whopping \$31.5 million in what were claimed as loans from their parents, money that later would become part of the case. Mark was in charge of the legitimate stock-trading arm of his father's firm, while Andy was now heading up a relatively new entity called Madoff Energy, which involved the buying, restoring, and selling of abandoned oil rigs to small oil companies and wildcatters. The Madoff scions were said to have been as shocked as their Uncle Peter when the patriarch of the dynasty told them what he had been up to. After he made his so-called confession to his sons, the brothers contacted a lawyer friend, Martin Flumenbaum, and then filed a report with the authorities.

Like so much in the Madoff saga, though, one has to question the veracity of the confession scenarios that were spun. Many inside and outside the company—investors, investigators, longtime family friends and associates, and the public at large—found it hard to swallow that none of the family members knew about Bernie's nefarious activities, and that Bernie had acted alone. The family seemed too close-knit and too involved with the company that was founded a half-century earlier to be unaware of the patriarch's activities. And there was speculation that the alleged admissions made by Bernie to his sons and brother were a way to protect them from possible prosecution. In other words, they didn't know anything about any of the bad stuff until Bernie told them—just hours before he was busted.



On the night of December 10, the employees of BLMIS gathered for the company's annual Christmas party thrown for the second year in a row at festive Rosa Mexicano, an upscale Upper East Side Manhattan

restaurant, a short walk from the Madoff offices. Little did the merry partygoers know that this would be their last joyous time together.

Earlier in the day Andy Madoff, the chief executive of Madoff Energy, had told his assistant, Toniann Astuto, an eight-year Madoff veteran, that he would see her later at the party. But neither Andy nor his brother Mark made an appearance, which surprised Astuto and others. The boys were usually at the Madoff employee bashes, having a grand old time.

But the revelers had no idea of the Madoff drama that was unfolding behind closed doors, or of the dynamite about to be ignited.

Neither presumably did J. Ezra Merkin, a close associate of Bernie's who was holding a benefit for the Israel Museum that same night in his Park Avenue apartment, surrounded by his priceless collection of Rothkos and some of New York's wealthiest Jews and patrons of the arts, many of them Madoff investors (most unknowingly). As president of Manhattan's exclusive Fifth Avenue Synagogue and a world-class investor, Merkin headed several huge private investment funds that were feeding billions into Madoff. Merkin would soon become enmeshed in the Madoff scandal, accused of fraud and deception in a civil suit. The clock was ticking on Merkin, too, that night.

Although the Madoff scions failed to make an appearance at the Christmas bash, Bernie, Ruth, and Peter were in attendance. Bernie needed to keep up appearances, even as the end neared.

One longtime employee, William Nasi, who had been Bernie's personal errand boy and messenger beginning in the late 1960s, perceived a change in "the boss's mood" compared to Christmas parties past.

Bernie always acted like a politician—squeezing the flesh, kissing babies, playing the crowd, going from table to table, playing the role of the boss.

This time when he showed up, Ruth was acting out that role. Bernie just stood there silently. There was total dead silence from Bernie. He never said a word that night. He had that thousand-yard stare, that combat stress stare. He walked like an ambulatory zombie.

Another veteran Madoff employee, Amy Joel, whose late father, Martin J. Joel, had been a trusted friend and colleague of Bernie's and

whose surviving family would be one of those financially wiped out, notes that Bernie always rented fabulous places for the Christmas party. “He always did it great, and it cost him a pretty penny,” she says. Like Nasi, Joel agrees that Bernie’s mood was far more somber at the 2008 party.

I thought it was odd because Bernie and Ruth sat at a corner table by themselves in the front of the restaurant looking out. I guess they thought the feds were going to come and get him that night. I went over to say something to Bernie. He seemed very tense. Peter circulated and said hello to everyone and wished us a happy holiday.

Meanwhile, the Madoff employees—the traders, the secretaries, the computer guys, everyone—were all having a festive time, though a bit less joyful than in past years.

“The mood was a little bit more somber because obviously the economy was going down the toilet,” observes Astuto, who had joined the Madoff organization as the secretary and personal assistant to Peter’s glamorous fashionista daughter, Shana Madoff, a lawyer, the company’s compliance officer, and a divorcee who had recently married a former SEC official. Shana, who was pregnant, had arrived at the party late and looking unnerved.

“We all knew that things were not going well in the world. And the Madoffs, Bernie and Ruth, weren’t around as much at the party as they usually were,” continues Astuto. “Bernie, Ruth, and Peter didn’t seem quite in a party mood. Normally, especially Peter, you’d see him circulating. He’d come around to everybody, laughing and joking, but not this time. He usually had his wife, Marion, with him. But she didn’t come because he said she had a headache.

“I saw Bernie and Ruth in the food line and I wished them a happy holiday and I asked them where Mark and Andy were. Ruth said Mark’s wife, who was pregnant at the time, wasn’t feeling good, so she wasn’t sure they were going to make it, and Andy was running late because of his girlfriend. I said, ‘Oh, okay,’ but they never showed up, which was a little odd.”

Bernie’s personal secretary of a some 20 years, Eleanor Squillari, a good-looking, tough-talking, 50-something Staten Islander with a

snarky manner, was enjoying the party, but she had been seeing changes in Bernie's physical and emotional makeup as the end drew near. In the office he seemed in a trance. Once strong and dominating, his voice had become "almost inaudible. . . . If he wasn't staring into space, he was looking down, working on figures." She told some of her confidantes in the office that he appeared at times to be "in a coma." Under intense stress and anxiety, Bernie was taking medication for high blood pressure, and sometimes had such intense back pain that he was forced to lie on his back on the floor of his office.

When others in the office asked if the boss was okay, Squillari would tell them no, quickly adding, "But he's not dead," at least that's what she told *Vanity Fair*.

Squillari was to Bernie what Rose Mary Woods was to President Richard "Tricky Dick" Nixon: She was the secretary and gatekeeper who also was the keeper of the flame and the keeper of the boss's personal, intimate secrets. Once a Madoff investor, she had taken her money out some years before, or she would have lost it all.

Still, everyone except for the grim-appearing Madoffs were having a fun time at the party, and better yet the annual bonuses were due soon.

Rosa Mexicano was jumping that night.

"It was a great blast," Bill Nasi thought at the time. But looking back several months later, he compares those hours of fun to the hours before another immense and historic tragedy.

"It was like dancing on the foredeck of the *Titanic* before it hit the iceberg. For us, it hit the iceberg the next day."



Around 8:30 A.M. on Thursday, December 11, Theodore Cacioppi, an FBI agent, along with a partner, arrived at the chic and exclusive pre-war cooperative apartment building at 133 East 64th Street, a short stroll from Central Park, showed his identification to the doorman, walked through the conservative lobby with its leather chairs and an orchid in a vase—the orchid was Ruth's idea (the Madoff offices always

had fresh orchids on display)—and took the elevator up to the two-level penthouse, the Madoffs' 4,000-square-foot, \$7 million aerie filled with great art and priceless antiques.

With just two apartments on each floor—it was that elegant a building—the feds easily found the Madoffs' door. More visible tenants inhabited the co-op, such as *Today* show co-host Matt Lauer, who would later complain about his loss of privacy in having to weave his way through the small army of reporters staking out the Madoffs in order to get to his apartment.

Cacioppi, who had been with the Bureau for six and a half years and had been “personally involved” in looking into allegations against Bernie, knocked on the door, but the doorman had already telephoned up, alerting the Madoffs to their early-morning visitors. Bernie, wearing a pale blue bathrobe and slippers, had told him they were expected.

At the moment the FBI agents walked into the foyer of the Madoff apartment they already knew that Bernie had admitted his crimes to several close associates, according to Agent Capiocci's sworn complaint and deposition that was filed with the U.S. Magistrate Judge for the Southern District of New York, Thomas F. Eaton, on the day Bernie was booked for fraud. The close associates, listed as three “senior employees,” were known to be his sons and his brother. Peter was told first, and then Mark and Andy—purportedly on the day of the Christmas party at which they were no-shows. Their attorney, Flumenbaum, of the prestigious Paul, Weiss, Rifkind, Wharton & Garrison firm, asserted that the brothers had no knowledge of their father's criminal activity before he informed them the day of the party.

Beginning in early December, according to Capiocci, Bernie had revealed that he had been running a “separate” investment advisory business for clients that was not part of the Madoff firm's trading and market-making activities, and that he had kept the financial statements for that operation “under lock and key.” Bernie, who appeared “to have been under great stress,” disclosed “he was struggling to obtain the liquidity necessary to meet requests for approximately \$7 billion in redemptions.” Bernie said he “wasn't sure he would be able to hold it together.”

At a subsequent meeting at his apartment he informed his associates—his sons—that his investment advisory business was “a fraud,” that he was “finished,” that he had “absolutely nothing,” that “it's all just

one big lie,” and that he was running “basically, a giant Ponzi scheme,” and “had for years been paying returns to certain investors out of the principal received from other, different investors,” according to the FBI agent’s report.

Bernie stated that “the business was insolvent, and that it had been for years,” and he estimated that “the losses from this fraud to be at least approximately \$50 billion.” Bernie claimed he had \$200 million to \$300 million left and he “planned to use that money to make payments to certain selected employees, family, and friends.”

He also stated he was going to give himself up to the authorities.

Earlier in the year he had claimed in a government filing that he managed \$17.1 billion in assets for just 23 clients, which would turn out to be a lie as enormous as his crimes. In fact, as investigators would determine, there were thousands of investors over the years and as much as \$65 billion of their money.

Facing Bernie in his richly appointed apartment, Agent Capiocci said, “We’re here to find out if there’s an innocent explanation” for what had been alleged. Bernie’s response was short and not very sweet. He said, “There is no innocent explanation.” According to Capiocci, “Madoff stated, in substance, that he had personally traded and lost money for institutional clients, and that it was all his fault. Madoff further stated, in substance, that he ‘paid investors with money that wasn’t there’ . . . that he was ‘broke’ and ‘insolvent’ and that he had decided ‘it could not go on’ and that he expected to go to jail.”

Bernie, the one-time power-broker trader, one of the pioneers of modern Wall Street, a “pillar of finance and charity,” as the *New York Times* described him, was then placed under arrest—just hours after he celebrated Christmas with his employees. At the FBI’s office, he called his lawyer, Ira Sorkin. “Hi, it’s Bernie, I’ve just been arrested and I’m handcuffed to a chair.”

At his arraignment that day, wearing a white striped shirt, no tie, and dark gray slacks, he was initially charged with a single count of securities fraud, a charge that would later escalate. For a time he would remain free on \$10 million bail and confined to his fancy apartment—home detention with electronic monitoring—a judge’s decision that infuriated Bernie’s victims and raised questions in the public’s mind about the justice system, a system where common criminals without

money or reputation are immediately incarcerated for far lesser crimes because they can't afford to post bail.

A spokesman for the SEC, which would come under extreme congressional and media criticism for ignoring red flags in the past about Bernie's criminal activities, called his fraud "stunning" and "of epic proportions," and the regulatory agency swiftly filed separate civil charges.

Like a tsunami, the news of the arrest of a Wall Street legend, a former chairman of Nasdaq, a noted Jewish philanthropist, spread quickly. On CNBC, the business channel with the stock crawl that was a daily habit for millions from Wall Street to Main Street, the shocking, mind-boggling news was flashed:

"If you are working on a trading desk, stop what you are doing for one second before you walk out the door and clean your desk out for the day," announced anchor Michelle Caruso-Cabrera.

"Bernie Madoff has been arrested."



By day's end, the Madoff offices had become a crime scene—invaded by FBI agents, federal prosecutors, probers from the SEC, and forensic accountants who got access to everything—the computers, the laptops, the cell phones, the e-mail.

Over the next few months into 2009, accounts of the crimes of Bernie Madoff would quickly unfold, and the tragic stories of his victims would become public.

Desperately seeking to end his controversial house arrest, revoke his \$10 million bail, and put him behind bars, prosecutors went to court with startling evidence that Bernie and Ruth had sent some of the fruits of his crimes in secret packages to relatives and friends over the Christmas 2008 holidays. The booty, which was reportedly worth more than \$1 million, included gifts to his brother Peter, sons Mark and Andrew, and other relatives. These "swag bags," according to investigators, ranged from inexpensive \$25 cuff links and mittens that cost \$200 to eye-popping bling that included diamond-encrusted Cartier and Tiffany watches, diamond brooches, diamond and jade necklaces,

and jewelry fit for royalty or a rapper. Later confiscated by the prosecutors, the gifts had been sent by Bernie after he had pledged to the SEC that he wouldn't dispose of any assets. His lawyers claimed it was all one big mistake, and the judge declined to revoke bail and send him to jail.

Then came an overwhelming shocker. With as much as an estimated \$65 billion missing, shell-shocked Madoff investors who now had no idea what had been done with their money learned that the stocks and Treasury bills listed in such detail on their account statements had never actually been traded—and Bernie's incredible deception had been going on for at least 13 years. The bombshell was dropped in late February 2009 by Irving Picard. The *New York Times* observed that the revelation “demolishes the theory that Mr. Madoff was an honest man driven into fraud by the relentless market strain of recent years.”

Speculation that there would be a federal grand jury investigation, more admissions of guilt, the naming of co-conspirators, and especially a plea bargain deal in exchange for naming names ended on March 12, 2009, just three months after Bernie's arrest, when he pleaded guilty in open court to a cornucopia of felony charges—securities fraud, investment adviser fraud, mail fraud, wire fraud, money laundering, international money laundering to promote specified unlawful activity, international money laundering to conceal and disguise the proceeds of specified unlawful activity, making false statements, perjury, making a false filing with the SEC, and theft from an employee benefit plan.

Wearing a \$7,000 custom-tailored Savile Row suit—under which was a bulletproof vest to protect him from furious investors—Bernie pleaded guilty to the biggest swindle in history. As he stood before Manhattan Federal Judge Denny Chin, he stated in a low voice:

I am so deeply sorry and ashamed. As I engaged in my fraud, I knew what I was doing was wrong, indeed criminal. . . . I am painfully aware that I have deeply hurt many people.

To the best of my recollection, my fraud began in the early 1990s.

He further admitted that he “never invested” the money entrusted to him by thousands of investors. “Instead, those funds were deposited

in a bank account at Chase Manhattan Bank. When clients wished to receive the profits they believed they had earned with me or to redeem their principal, I used the money in the Chase Manhattan bank account that belonged to them or other clients.”

He said he believed his classic, but monstrous, Ponzi operation “would end shortly, and I would be able to extricate myself and my clients from the scheme. However, this proved impossible, and as the years went by I realized that my arrest and this day would inevitably come.”

But perhaps the most shocking statement of all was his claim that he had acted alone, that he had pulled one of the biggest frauds of all time just by himself.

The judge immediately ordered that Bernie be locked in the Metropolitan Correctional Center near the courthouse to await formal sentencing. Rather than his spectacular penthouse, he would now live in an eight-by-eight-foot maximum security cell, as Prisoner No. 61727-054.

All told, he faced a maximum sentence of a century and a half in prison—at the age of 70.

Bernie Madoff, who used to boast that he was “the most powerful man on Wall Street,” was destined to die behind bars.

Outside the courthouse, victims of his scheme cheered as he was driven off to his new home under tight security.

“Bernie Madoff in Slammer at Last,” screamed a headline in the *New York Daily News*.

His first full day in jail was Friday the 13th of March.

In a lead editorial that day, the *Wall Street Journal* observed: “In a world that seems able to argue about any subject, the Madoff saga isn’t open to argument. . . . The condemnation raining upon his head is universal.”

Still, with Bernie’s guilty plea on record and the swindler behind bars, there were more questions than there were answers.

Nobel Peace Prize laureate Elie Wiesel, who had escaped Hitler’s death camps only to be victimized again, and by a fellow Jew no less, to the tune of \$15.2 million from his Elie Wiesel Foundation for Humanity, plus the entire life savings of Weisel and his wife Marion, thought he had an answer. He publicly termed Bernie a “psychopath,” adding, “It’s

too nice a term for him. . . . ‘Sociopath,’ ‘psychopath,’ it means there is a sickness, a pathology,” observed Wiesel. “This man knew what he was doing. I would simply call him thief, scoundrel, criminal.”

But the scorn leveled upon Bernie by a man of peace like Wiesel and thousands of others publicly and privately didn’t answer the bigger questions:

How did Bernie Madoff become one of history’s biggest, most brazen thieves, a financial titan who led a twisted, bizarre double life like some financial Dr. Jekyll and Mr. Hyde?

Where did he learn his values and ethics, or lack thereof, that fueled his twisted psyche?

Who aided and abetted him along the way?

Why did people trust him?

What made Bernie Madoff tick?

Here, now, is the true story of the Ponzi King, his rise and fall, from those who knew him best, or thought they did.

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