FEATURES CRIME

Barry Minkow: All-American con man

by Roger Parloff @rparloff JANUARY 5, 2012, 10:00 AM EDT

PHOTO: MACKENZIE STROH

His many lives: entrepreneur, fraud fighter, pastor, movie actor – and serial swindler.

In 2009 a writer named Jon Meyers was hired to furnish a screenplay for what soon became the strangest movie project of his life. The film was to star a number of well-known actors — James Caan, Talia Shire, Mark Hamill, Ving Rhames — and it would chronicle the life of Barry Minkow.

Minkow (rhymes with Kinko) was the boy-wonder business phenom of the 1980s. In 1982, at age 16, he started ZZZZ Best, a carpet-cleaning company, from his parents' garage in Reseda, Calif., in the San Fernando Valley. The business expanded rapidly and went public in 1986, making Minkow, at age 20, worth more than $100 million on paper. But it was a giant Ponzi scheme and collapsed in May 1987. Minkow was convicted of 57 federal felonies, sentenced to 25 years, and ordered to pay $26 million in restitution.

Though raised as a Jew, Minkow then became an evangelical Christian. In prison he also began giving seminars and shooting videos designed to help detectives and accountants catch fraudsters of the type he had been. Paroled in 1995, he became the pastor of a San Diego church, where membership would more than quintuple under his charismatic leadership. In 2001 he founded the Fraud Discovery Institute (FDI), which assisted the Federal Bureau of Investigation, the Securities and Exchange Commission, and others in shutting down at least 20 serious Ponzi schemes, including one that had swept up $500 million in investor money, and another whose ringleader was sentenced to 30 years.

Asked to write a script based on this material, screenwriter Meyers jumped at the chance. But he soon encountered dismaying surprises. To begin with, Minkow was insisting on playing himself. Though Minkow still had the bodybuilder's physique he had acquired through weightlifting and steroid abuse as a teenager, he had never been blessed with a screen idol's good looks. And how could he, then 43, play himself in his early twenties? Furthermore, wouldn't it be thematically undermining for someone to star in a movie about his own redemption from narcissistic criminal to humble servant of Jesus?

Then things got stranger. Rather than receiving paychecks from a production company, Meyers and others working on the film got paid in irregular dribs and drabs over PayPal, with sums that came from Minkow, Minkow's wife, or two companies Meyers had never heard of before, including a trucking company. Sometimes Minkow just gave people $100 bills he peeled off a wad he kept in his pocket.

Finally, one day in September 2009, recounts Meyers, he was in the production booth with headphones on when Minkow and James Caan were schmoozing between takes. Perhaps forgetting about the open mike in his lapel, Minkow leaned over to Caan and whispered, "I financed this movie by clipping companies," Minkow said.

"Clipping," of course, is a slang word for "swindling." Minkow says the incident "never happened." "Not ever," he wrote *Fortune* in an e-mail in September. "And have him produce the tape."

The film's director, Bruce Caulk, did produce the tape. Scene 71, take 1. Minkow said it.

The movie has since been completed, but it now needs a new ending. That's because in March, Minkow pleaded guilty to conspiring to manipulate the stock of a then-Fortune 500 company, Miami-based homebuilder Lennar Corp. (LEN ▲ 1.64%), which he caused to tank 26% in one day by making false accusations about it and its top executives. He did this, according to his plea agreement, to make money by short-selling (i.e., betting on Lennar's stock price to fall) and to assist a paying client who was attempting to extort money from Lennar that the client claimed to be owed.

In September, Minkow returned to federal prison, where he is beginning a five-year term and facing a new restitution order for $583 million — the amount Lennar stockholders lost due to manipulation. Meanwhile, a church audit committee has been sifting through its records, where it is now clear that Minkow commingled personal and church funds for years. The movie's main backer, a former congregant, has sued Minkow for the return of more than $4.3 million he sank into the film and other Minkow ventures, alleging that Minkow raided the funds for personal purposes. Another church member — a retired grandmother with health issues — says Minkow left her with about $300,000 in unpaid loans; a third says Minkow forged his name on a $100,000 loan guarantee; a fourth alleges that Minkow opened credit cards in his name without his knowledge; a business associate says he is owed $47,000 for supplies; and another says the state's coming after him for $50,000 in taxes that he claims are Minkow's responsibility.

Minkow, meanwhile, is planning his next comeback.

The story of Minkow's life is comic, tragic, and psychologically perplexing. Minkow is blessed with intelligence, courage, indomitable drive, rhetorical gifts, an apparent desire to do good, and a record of documented beneficent deeds. Yet he also keeps doing ghastly things. His story is hard to read without pondering the question, Is character destiny? More narrowly, can a con man ever be redeemed?

Minkow's greatest gift is his ability to inspire others. His greatest failing is his inability to responsibly exercise his greatest gift. His business career is an astonishing morality yarn about that most titillating of subjects: intractable human failing.

"It's freedom I struggle with"

In his only extended interview since his rearrest, Minkow spoke with me for nearly three hours in August, after he was sentenced but before he reported to prison in Lexington, Ky. We met at his house in rural Crossville, Tenn., where he hastily moved his family after resigning his pastorship and pleading guilty in March. It's an unpretentious brick rambler on more than two acres of unwooded land he shares with his beautiful wife, Lisa; his twin 8-year-old adopted sons; two Siberian huskies; and a rambunctious Australian shepherd named Macho.

Minkow was bronzed, toned, and buff in his jogging shorts and a tank top emblazoned MUSCLE BEACH, VENICE, CALIFORNIA. In humid 90° heat he was building a handsome wooden fence. With a friendly hand resting on my shoulder, he explained that he had promised his wife that by the time he went to prison he'd have the fence completed, allowing her to let their boys and dogs roam in the yard with peace of mind. "I've never done anything like this in my life," he said. "I was a cowardly weasel who never liked physical labor. And now I love it."

Fine, but how did his life fall apart? Why is he headed back to prison?

"This is a drug case," Minkow says. "That's all it is." He started taking Vicodin in 2005 to relieve pain from a shoulder injury, he explains, then switched to OxyContin in 2006, gradually working his way up to 1,400 milligrams a day. "You think differently about things when you're on 1,400 milligrams a day," he adds. "And that is the story behind the story. That has kind of been glossed over."

PHOTO: MACKENZIE STROH

Minkow says he weaned himself off his drug addiction — secret even from his wife, he maintains — by using a methadone-like substitute and then seeking outside help. By Thanksgiving 2010, he says, "I was clean and loving it." But by then he was under criminal investigation.

Did he commit securities fraud? "I was privy to insider information and that is a crime," he says. He didn't realize that what he was doing was illegal, he says, but later learned that there is a legal precedent establishing that it was. "Have you ever read it?" he asks. "It'll blow your mind. Everything going on on Wall Street is a crime. But big deal, I still did it. Please don't make it seem like I'm making an excuse."

Did he leave people with debts? Sure. He hadn't expected to get arrested, so he left some business associates in the lurch. Plus, some worshipers at his church invested in the movie, which may never be associates in the farce. Plus, some worshipers at his church invested in the movie, which may never be released, he says. “But it’s not investment fraud,” he adds. “We took [the] money, spent it as we said we would. It didn’t work out great, I agree.”

Did he commingle church funds? Yes, but he claims the church came out far ahead, especially considering that he hadn’t accepted a salary there for several years. “I did a lot of things wrong,” he says, “but trying to financially support that church was not one of them.”

Minkow’s lawyer submitted canceled checks in court showing deposits of about $1.6 million from Minkow’s side businesses into church accounts over a three-year period. It’s not known how much he took out. The church’s board of elders declined to cooperate for this article. Current and former church members say the elders have told members to shun Minkow — not communicate with him in any fashion — because they don’t think he has come clean with them.

The elders’ perspective, Minkow says, is clouded by a conflict of interest. Over the years at least three of them shorted stocks on Minkow’s recommendations. (Again, the elders declined to comment.) “They didn’t do anything wrong in my view,” continues Minkow, “and I take responsibility, but I do think it’s a different story.” He predicts that the FBI will not pursue the church’s gripes against him because he was the church’s biggest giver. He was “the Jew who laid the golden tithe,” he quips.

“The point is, I’m back,” says Minkow. “You know when I perform best? In custody. I work good under structure. It’s freedom I struggle with. The Bureau of Prisons saved my life, and I hate to bother them again, but it looks like they’re going to do it twice.”

Barry Jay Minkow have been born with more energy than anyone could dissipate legally. He was diagnosed with attention-deficit/hyperactivity disorder as a child, took Ritalin from ages 6 to 15, and has taken Adderall since 2002. TV clips of Minkow during his ZZZZ Best days — capped by a bravura performance on *Oprah* — show a brash young man who keeps disappearing from view due to the violence with which he jerks his body to punctuate his sentences. Cameramen can’t keep him in the picture.

The talented Mr. Minkow: A life of con

Frenetic energy was the signature feature of the ZZZZ Best (pronounced Zee Best) crimes. To launch the business, Minkow borrowed money from a loan shark. To expand it he stole jewelry from his the business, Minkow borrowed money from a loan shark. To expand it he stole jewelry from his grandmother; stole and forged checks and money orders; kited checks; altered customers' credit card receipts and forged their names on new charges; staged burglaries at his own offices and filed bogus insurance claims; fabricated invoices, financial statements, and tax returns; led lenders on a tour of a phony work project; defrauded banks; and, finally, hoodwinked a Big Eight accounting firm and a Wall Street law firm into helping him pull off a public stock offering. While doing all this he starred in the company's funny TV commercials, which played off the notion that most carpet cleaners were scam artists.

After the company collapsed, but before his arrest, his mother suggested he see her Christian spiritual counselor. (She had converted earlier.) Calculating that a quicky conversion might help him with his looming legal problems, Minkow agreed.

"But God took my wrong motives and accepted me despite my manipulative personality," he later explained in the second of his four autobiographical books. (Minkow disavows the first, *Making It in America*, which was published during his ZZZZ Best crime spree.)

At first, Minkow's conversion did not crimp his penchant for rococo lying. In a *60 Minutes* segment that aired in early 1988 he told Diane Sawyer that all the ZZZZ Best crimes were committed without his knowledge by his top lieutenants. Later, he switched defenses, testifying at trial that, yes, he had committed the crimes, but had done so under duress from mobsters. "Thus," writes Minkow in his second autobiography, "I put my relationship with Jesus (now well over a year old) on the back burner and lied under oath to avoid prison and impress the public."

But Minkow's faith grew stronger, he has written, at the federal prison in Englewood, Colo., where he took correspondence courses in divinity from Jerry Falwell's Liberty University in Lynchburg, Va. While in custody he also gave seminars and even produced a video designed to help accountants and police detect white-collar fraud.

Minkow was released in 1995, obtained his master's in divinity, married, and then landed the head pastorship of the San Diego Community Bible Church in 1997. From Minkow's writings and recorded sermons there is no questioning his mastery of the tenets of evangelical Christianity, where his forte is "apologetics" — defending the faith against doubters.

In some respects, Minkow appears to have considered his criminal background an asset for his new position, since it gave him an unusually deep appreciation for the miraculousness of Jesus's mercy.

“Some of you don’t have the advantage of being evil enough. I am uniquely qualified in that category for me to realize my need [for forgiveness],” he said in one sermon. “Good people don’t go to heaven,” Minkow often told his flock. “Forgiven people go to heaven.” “The Christian life is not hard; it’s impossible.”

Luke 18: 9-14 was critical for Minkow. There Jesus stuns the crowd, as Minkow recounted in one sermon, by revealing that it is the reviled but humble tax collector — Minkow calls him “a white-collar criminal” — who will be saved, rather than the observant but proud Pharisee. When the tax collector cries out, “… be merciful to me, a sinner,” Minkow explained, “it really means, ‘I understand the standard. I’m nowhere near it’ … And yet, He says, ‘I forgive you.'”

Minkow never regarded his own redemption as a done deal. Early in his pastorship, he wrote in his third autobiography, he recognized that he was taking an egotistical pride in his church’s growing membership that was much like the one he had taken in ZZZZ Best’s soaring stock price. “These points of similarity … unlocked something inside me that I thought had been dead and buried,” he wrote. He became a “manipulative” and “self-centered jerk” at elder board meetings, though when he walked out the door he became “the loving caring person I was hired to be. It was too bad I couldn’t see out of one compartment into another to assess who I really was.”

Minkow’s first wife left him in 1999. He was in debt, which alimony exacerbated. “I never was too good at handling money,” he wrote.

But he was beloved at the church. According to every current or former member who spoke to me — including those who say they “got stung” in the end — Minkow was amazing at helping congregants through personal and family crises. “From a Christian point of view, he was fabulous,” says one.

The elders let him pursue side businesses to try to make ends meet.

It takes a thief

In 2001, Minkow met his current wife, Lisa, and took his fraud fighting to a new level. People sometimes sought Minkow’s advice about investments they were considering. Over time he heard about some very fishy propositions, where congregants were being offered impossibly high returns. In those instances he posed as a potential investor himself, gathered evidence, and then wrote detailed reports about these dubious operators to his contacts at the FBI and SEC.

Minkow's nose for fraud was good, and his reports led to arrests and convictions of serious bad guys. His contacts in law enforcement were grateful and wrote letters attesting to the valuable work he had performed.

He founded the Fraud Discovery Institute in 2001. It was a for-profit company, though at first its only revenue came from private speaking engagements. He also continued giving free seminars to law enforcement, making regular appearances at the FBI academy in Quantico, Va.

PHOTO: MACKENZIE STROH

With proof of Minkow's good deeds multiplying, Minkow's sentencing judge, Dickran Tevrizian, released Minkow from probation in 2002.

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By late 2005, Minkow had uncovered at least 13 Ponzi schemes. In a commendation letter, the FBI acknowledged, “You identified millions of dollars of fraud and prevented further potential economic loss to hundreds of victims.”

That year Minkow published his third autobiography, *Cleaning Up*, which rose to No. 25 on the *New York Times* bestseller list. One of Minkow’s former prosecutors wrote a promotional blurb for its book jacket. Minkow spoke on CNN, NPR, CNBC, and Fox News. In May, *60 Minutes* told his story in a segment in which Judge Tevrizian vouched for Minkow’s turnaround. The following March, Sen. Patrick Leahy invited him to testify before a U.S. Senate subcommittee studying elder fraud.

But that year, 2006, Minkow’s fraud fighting took a fateful turn. A hedge fund manager asked him a tantalizing question, Minkow told me in our August interview: “He said, ‘You’ve had tremendous success uncovering private investment fraud. Do you think it translates to public companies?’”

Minkow had, in fact, been entertaining suspicions about corporations that employed “multilevel marketing” (MLM) strategies, where businesses enlist consumers to become distributors of their products, offering them commissions for signing up still more distributors, in a pyramidal pattern. Though many permutations of MLM are lawful — Amway is a famous example — others are outlawed in certain states, and some consumer advocates say MLM is potentially fraught with Ponzi-like peril.

Minkow began targeting several public companies pursuing MLM strategies. As he had in the past, he gathered evidence he alleged inculpated these targets and then sent confidential “fraud reports” to his contacts at the FBI and SEC. But now he also sent the reports to select short-sellers, who he hoped would pay him for the tips. The idea, he explained to me in our interview, was to eventually publicize the report, cause the targeted company’s stock to take a well-deserved hit, and reward the short-sellers he’d tipped off in advance. He’d also short the target stock himself.

Is that business model legal? No one’s sure. (This isn’t what Minkow later pleaded guilty to.) In 1984, when *Wall Street Journal* columnist R. Foster Winans was caught trading the stocks of companies that he was about to tout or pan in his own newspaper column, he was arrested for securities fraud. It wasn’t classic insider trading, though, because Winans wasn’t a corporate insider, nor had he been leaked information by one. In 1987, Winans’s conviction was upheld on the theory that he had misappropriated nonpublic information from his employer, the *Wall Street Journal*, and had traded on that.

But someone who works for himself can’t be misappropriating information from an employer, observes

Columbia law professor Jack Coffee in an interview. Now if he intentionally publishes false information about target companies, Coffee continues, that would be illegal stock manipulation. But if the information is true, or the person believes it is, it probably can't be stock manipulation.

On March 15, 2007, the *Wall Street Journal* reported that Barry Minkow, the fraudster-turned-private-investigator who "has won praise from the FBI," sent a report attacking the nutritional supplement company USANA Health Sciences (USNA ▲ 1.50%) to the SEC and the FBI. That same morning Minkow posted the report on his FDI website. Its text, which launched a blunderbuss attack on USANA's products and business model, was dense and confusing. But the gist was that USANA's multilevel marketing practices resembled a "pyramid scheme." (Minkow disclosed on his website that he typically shorts the stocks of companies he investigates.)

USANA's stock dropped 15% that day.

The company denied Minkow's accusations, denounced him as a convicted con man, and sued him. But Minkow kept denouncing USANA, and its share price kept sinking — 42% by July. He posted anti-USANA videos on YouTube and released new reports alleging — accurately — that a USANA spokesman and a medical advisory board member had embellished their résumés, claiming degrees or licenses they didn't have. The SEC began an informal inquiry into USANA, and the company was hit with several class-action suits.

Though some short-sellers did pay Minkow for his tips, they weren't very generous. "It was hard to get the business model to work," he told me in August.

But it was thrilling. "It was kind of like a narcotic effect," Minkow said. "Wall Street liked me again. I underestimated the allure of being accepted by the hedge funds, and people calling me. You saw a stock at 60-something, and then it went down to 18 or something. Not all because of me, but [still]."

Through persistence, Minkow did eventually stumble on a business model of sorts. Though the SEC dropped its inquiry into USANA in January 2008, Minkow kept dogging the company. Most of USANA's lawsuit against Minkow was thrown out in March 2008, since most of Minkow's allegations were constitutionally protected, a federal judge ruled. In May, USANA's CEO tried to take the company private to escape Minkow, but his plan failed on a shareholder vote.

Finally, in July 2008, USANA struck a settlement with Minkow. USANA paid him an undisclosed sum, and Minkow pulled down his Internet diatribes and targeted the company no more.

A month later a second Minkow target, Herbalife (HLF ▲ 3.86%), struck a similar bargain. The very next month a third target, Nu Skin, reached a similar deal with Minkow.

In all, Minkow estimates, he made more than $1 million in 2008 from all his trades and tirades. Not a bad year for someone who was also, by now, an OxyContin addict, according to what Minkow told me this past August.

That fall, a new prospective client came to see Minkow. He was San Diego real estate entrepreneur Nicolas Marsch III, and he claimed that the big homebuilder and developer Lennar Corp. was defrauding him.

Lennar was a different breed of prey from Minkow's earlier targets. Lennar was then No. 256 on the Fortune 500 list, with revenue of more than $10 billion. It was being represented in its litigation against Marsch by O'Melveny & Myers, an 800-lawyer corporate law firm. Its lead attorney was Dan Petrocelli (pronounced Pet-ro-CHELL-i), who had handled the civil suit by Ron Goldman's family against O.J. Simpson and had defended Enron CEO Jeff Skilling in his criminal case.

Marsch alleged that Lennar had defrauded him in connection with two ritzy San Diego development projects, including the posh golf-course community known as the Bridges at Rancho Santa Fe. Lennar had misappropriated his $39 million investment, Marsch claimed, and then it cheated him of his share in the proceeds, which Marsch pegged in the hundreds of millions of dollars.

Lennar's legal filings asserted a very different story. The company argued that it owed Marsch nothing, that Marsch was a manipulative, litigious snake who had cheated Lennar of millions, and that Marsch was now trying to extort from the company money he knew no court would ever grant him.

The extortion charge stemmed from a very raw letter Marsch had FedExed to Lennar's seven outside directors in July 2008. In it Marsch asserted that he knew of some "dirty laundry" that Lennar CEO Stuart Miller and COO Jonathan Jaffe would not want "exposed," warned that Lennar might soon be known as "Lenn-ron" if the directors did not listen, and said he was prepared "to air Messrs. Miller and Jaffe's dirty little secrets in public" unless all his litigation was "completely resolved to my satisfaction prior to August 31, 2008."

Lennar's directors rebuffed the overture, and Lennar filed a new suit against Marsch in Miami state court leveling extortion-related charges.

Then Marsch hired Minkow.

Minkow: The Movie

By this point Minkow had substantial experience launching short-selling attacks on public companies. He had set up a side business that combed through databases looking for inflated educational credentials on the part of corporate officers. When he found a discrepancy he would short the stock, leak the story to a reporter, and hope for a price dip when the news hit. He eventually exposed résumé embellishments at more than a dozen companies, including MGM Mirage (MGM ▼ -1.18%), Broadcom (BRCM ▲ 0.00%), and EchoStar (SATS ▲ 1.31%).

Though none of these attacks resulted in arrests or SEC actions, Minkow's reputation remained untarnished in the media, for whom he was a source of both tips and expert commentary. He became a regular guest of Neil Cavuto's on Fox Business Network, and after Bernie Madoff was arrested in December 2008 — creating a demand for media-savvy Ponzi scheme experts — he was invited to share his insights with *Nightline*, the *Washington Post*, the *Los Angeles Times*, and *USA Today*.

For Minkow, each media exposure seemed to trigger a need for more. For several years now he had wanted to star in a dramatic television series about himself. In 2008 he had a half-hour pilot shot. Then he decided that if he first starred in a full-length movie about his life, it might be easier to sell the TV show afterward, he explained to me in August. So he asked a prosperous congregant, Jeff Sachs (no relation to the economist-environmentalist), if he would fund the movie. Minkow told Sachs the movie would "inspire others and glorify God," according to a lawsuit Sachs later filed against Minkow. Sachs spotted him $1 million, and Minkow hired a production company to shoot his life story.

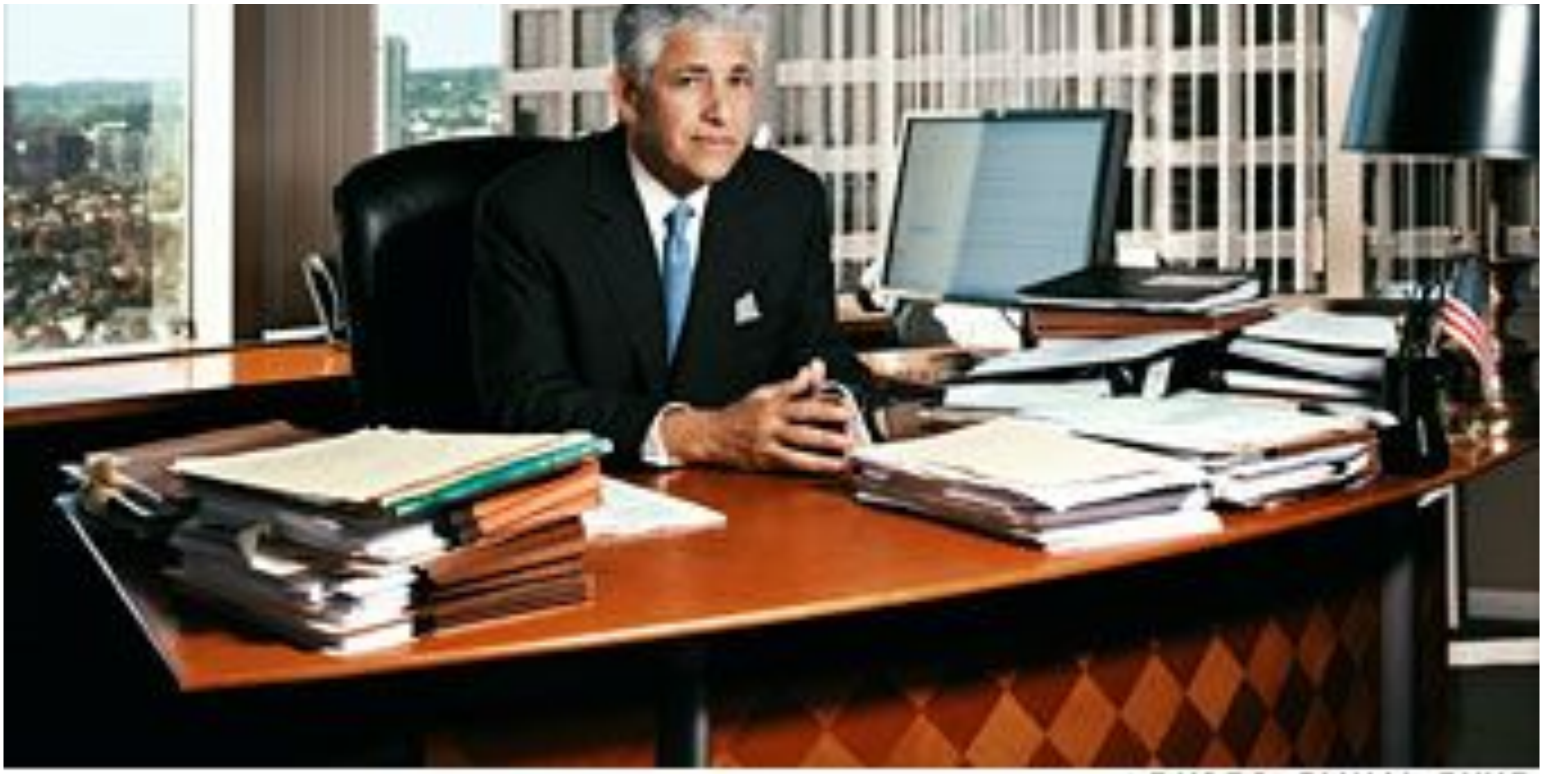


PHOTO: EMILY SHUR

On Nov. 30, 2008, after a two-hour meeting with Marsch, Minkow e-mailed him an engagement letter, to which he attached a six-page "confidential proposal." In Phase I of the campaign, he proposed, he would investigate Marsch's fraud claims against Lennar and make videos of other Lennar "victims" (i.e., others with lawsuits or gripes against Lennar). They'd take this "case foundation" to Lennar, maybe in "early January," to see if Lennar would settle. If Lennar refused, they'd launch Phase II. That would involve going live with a website unleashing a "blitzkrieg" of attacks at Lennar with the "primary, measurable, deliverable" goal of "getting [it] back to the 'settlement' table." The proposal emphasized: "The media is the key [because Lennar CEO Miller] must become convinced that his reputation is at stake if he does not silence the 'squeakiest' of wheels."

Marsch was to pay Minkow $125,000 on the front end, plus a kicker of $1 million to $2 million on the back end "when settlement occurs or trial victory."

Marsch replied the next morning: "Let's proceed." (Marsch's current lawyer, Todd Macaluso, says Marsch hired Minkow solely to track down someone who had anonymously written Marsch claiming to be a Lennar insider who knew of wrongdoing at the company. "That and only that was the purpose of hiring Mr. Minkow," Macaluso says. "Marsch had nothing whatsoever to do with any other aspects of Minkow's investigations.")

In December, Minkow began gum-shoeing his hypothesis (never substantiated) that a $5 million personal loan Lennar COO Jonathan Jaffe had taken out in 2007, secured by his Laguna Beach home, was actually a disguised kickback of some kind. To try to prove this theory, Minkow made a "pretexting" call to the bank of Jaffe's mortgage broker, pretending to be the broker and asking for records. ("Hey, I saw it on *The Rockford Files*," Minkow told me. "[Rockford] never got in trouble.") The bank officer saw through the ploy and Minkow hung up.

At about the same time, Lennar's general counsel, Mark Sustana, was contacted by a Miami real estate broker, who asked for a private meeting. When they met, the broker said that Marsch had hired Minkow, who was looking closely at Jaffe's personal loan, and that the broker might be able to act as an intermediary if Lennar wanted to settle.

Word of both incidents got back to Petrocelli, who considered them a continuation of what he saw as Marsch's extortion attempt. He subpoenaed the bank officer and broker for depositions. But as Petrocelli was driving to the broker's deposition on the morning of Jan. 9, Lennar CEO Stuart Miller called to tell him that Lennar's stock was "nose-diving." Minkow had just publicized a fraud report on Lennar.

The report — addressed to Minkow's contacts at the SEC, the FBI, and the IRS — was posted on a website called http://www.Lenn-ron.com, along with a YouTube video in which Minkow summarized his findings. Minkow said, among other things, that he believed Lennar "to be a financial crime in progress" and that Lennar treated "their joint ventures exactly like a Ponzi scheme." He also propounded his unsubstantiated hypothesis that the personal loan Lennar COO Jaffe had received might be a "disguised kickback" and an "undisclosed related-party transaction." While the report itself was convoluted and hard to follow, it used the term "Ponzi scheme" four times and made three allusions to Madoff.

Marsch had met with Minkow to review a draft of his fraud report the day before Minkow released it, according to e-mail traffic, and Marsch later admitted in a deposition that he had edited drafts of it. Nevertheless, in an interview, Marsch's current attorney, Macaluso, asserts that Marsch never gave Minkow the final green light to release the report. Marsch and his then-attorney Fred Gordon "were as surprised as anyone when Mr. Minkow elected to proceed on his own to publish," says Macaluso.

The day the report came out, Lennar's stock — already battered from the burst housing bubble of 2007 and the credit crisis of 2008 — fell 26%, before recovering some ground after CEO Miller appeared on CNBC to rebut it.

A few days later Minkow expanded his attack with a second website, http://www.Lie-nnar.com. Lennar added Minkow as a co-defendant in its extortion suit against Marsch.

About a week after the campaign began, Marsch's then-lawyer Gordon contacted Petrocelli about the possibility of Lennar settling its disputes with Marsch and Minkow in one package deal. In e-mails Gordon explained that Lennar "finds itself in the same position as did Nu Skin, Herbalife, and … USANA," which had all been represented by Denver attorney P.J. Poyfair, who "now represents Mr. Minkow." Gordon explained that after Minkow's previous settlements the stocks of his target companies "witnessed substantial recoveries." He also invited Lennar to pay Minkow and Marsch in Lennar stock, rather than cash, if it preferred. ("These statements are taken out of context," says Marsch's current lawyer, Macaluso. "Marsch did not participate in or approve any settlement or discussions.")

In responses to Gordon, Petrocelli demanded a retraction and apology from Minkow, and ruled out any package settlement. In an interview, Petrocelli says Lennar never considered paying Minkow a dime. That Marsch and Minkow were willing to be paid in Lennar stock — notwithstanding having just accused Lennar of being a Ponzi scheme — was "proof positive of extortionate behavior," he says.

Law enforcement authorities, prompted by Minkow's false accusations, initiated a criminal inquiry into Lennar. Minkow's FBI sources tipped him to the confidential probe. In an e-mail Minkow assured his sources that he wouldn't trade on that nonpublic information. Three days later he did anyway, using an account opened in his secretary's name. That constituted unambiguous insider trading.

Minkow fell further off his temperance wagon in April, when Petrocelli forced him to sit for three depositions. Minkow committed perjury at these, he admitted to me. Among other things, he claimed to have never traded Lennar stock, and he offered an array of implausible excuses for not being able to produce e-mails related to the case, including that he "lost [the] ability to receive and send e-mails for some reason," his "files were destroyed in a computer crash," that two of his laptops had been stolen in separate incidents, and that a hacker infiltrated both his personal e-mail and his FDI website, deleting items in both.

It got worse. Later that month Minkow sent Lennar's audit committee chairman an anonymous e-mail that he claimed had been sent to him at his FDI website. The e-mail purported to be from a Lennar insider, who had attached a putative smoking-gun memo revealing a plan to snooker the California Public Employees Retirement System (Calpers) on a land investment.

The attached document was a fabrication. It alluded to a genuine Lennar deal but was way off as to its most basic terms, and it misspelled the name of Lennar's chief investment officer. Though the memo had been redacted to block out both the name of its supposed author and a "cc:" recipient, the redactions had been accomplished electronically, and Lennar's lawyers were easily able to reverse the process. Upon doing so, the writer was revealed to be "abcdefghijklmnowqrstuvwx" and the "cc:" was directed to "abcdefghijklminop." Whether due to unfortunate coincidence or muscle-memory-induced typos, there were two nonalphabetical sequences in those strings of nonsense letters: "min" in the second string, and "ow" in the first. As in Minkow. (In our conversations, Minkow declined to comment on whether he fabricated any documents for his Lennar campaign.)

Meanwhile, USANA's former attorney Poyfair, now representing Minkow, contacted Petrocelli, saying that Minkow wanted to meet. On April 10, Petrocelli and Lennar COO Jaffe met with Minkow and Poyfair at a Las Vegas hotel. Minkow had asked that the meeting be held there because his TV pilot about himself, *Redemption*, was being shown at a Las Vegas film festival.

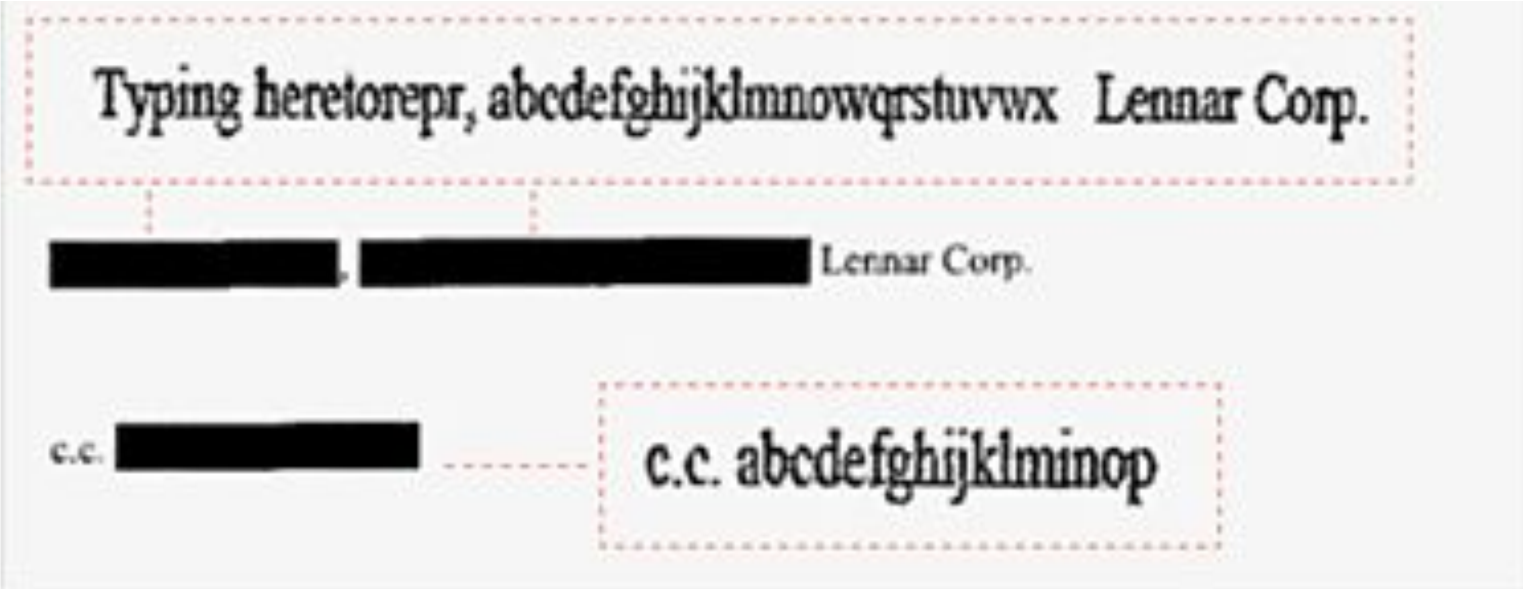
Summary of Meeting: Newhall Ranch Project

In Brief,

As you are aware, Lennar Corp. sold a 68% controlling interest of LandSource Communities Development to the California Public Employees' Retirement System for nearly $1 billion, at the top of the real estate bubble. LandSource, which is developing Newhall Ranch, defaulted on a $1.24-billion debt and filed for bankruptcy protection from its creditors, after that bubble had burst.

We hold the remaining 32% interest in LandSource and rights of first option to purchase land owned by the partnership. Closed-door discussions with CalPERS have resulted in a tentative agreement to buy back the entire stake at vastly discounted rates and once again retain 100% interest in LandSource. When the agreement is official, we are afforded the luxury of continuing the Newhall Ranch project when it is economically feasible to do so.

In summary, Emille Haddad, CIO Lennar Corp. had the foresight to know when to sell and grow our business while chapter 11 protects our LandSource business interest from creditor action. As CalPERS stands ready to absorb the loss in exchange for a short-term windfall, this is a win-win situation for the entire Lennar Corp. organization.



Petrocelli made the case for why Minkow's allegations were false. Minkow responded that he felt he had been misled by Marsch and was willing to drop his campaign, according to Petrocelli. In exchange, though, he wanted $1 million. Jaffe and Petrocelli walked out. (Minkow confirms Petrocelli's account. Poyfair says he agreed to represent Minkow only for the limited purpose of drawing up a settlement document if Minkow were able to negotiate a deal with Lennar on his own.)

During the last weekend of this eventful month, Pastor Barry Minkow departed from his sermon schedule to deliver a special two-weekend homily on "forgiveness." At the second of these, which focused on the concept of confession, he observed: "One of the biggest temptations I have in my other life, investigating fraud, is the very real temptation to become the people and use their tactics that they're using to defraud people … It's an awful, ugly temptation … 'Well they're hurting people, and I'm just trying to unhurt 'em.' No, no, no. It's a slippery slope."

As his campaign continued, Minkow claimed to receive more e-mails from the purported Lennar insider, and a Citibank analyst got one too. Petrocelli's legal team, which had been scrutinizing Minkow's modus operandi for months, noticed that this insider's persona closely resembled that of an anonymous USANA insider from whom Minkow had purportedly received assistance on Internet message boards during his 2007 campaign against that company. Both insiders had a playful, taunting persona; both addressed Minkow as "convict" while according him obvious respect; and both used the phrases "Riddle me this, Batman" and "Happy hunting!"

In early May 2009, Minkow launched a fresh attack on Lennar, accusing CEO Miller and COO Jaffe of holding undisclosed bank accounts in the Cayman Islands and Switzerland. Miller and Jaffe immediately executed affidavits denying the accusation. Privately, they also offered bank-secrecy waivers to the government so it could verify that they held no such accounts.

When Petrocelli later forced Minkow, through litigation, to reveal the basis for this accusation, he identified an investigator he had hired, Terry Gilbeau, as his source. Gilbeau, when deposed, said he got the information orally from another investigator, whose name he could not recall, and said he regarded it as just "preliminary intelligence" that he assumed Minkow would "vet out" if he intended to rely on it.

In May, Petrocelli made a written submission — the first of several — to the criminal division of the U.S. Attorney's Office in Miami presenting evidence that, in his view, showed that Marsch and Minkow were conspiring to commit extortion and securities fraud. He also alerted authorities to another curiosity he had come across during discovery: Two of Minkow's consultants in the Lennar case had been paid via PayPal accounts belonging to the San Diego Community Bible Church.

"If you can't trust the pastor ..."

As the full-length movie about Minkow's redemption was shot in Los Angeles in August and September 2009, litigation nets were constricting around Marsch and Minkow. The trial of Marsch's main allegations against Lennar started in San Diego in June, and over the summer Marsch was cross-examined by Petrocelli for 16 days. At the same time Petrocelli asked the Miami court, which was hearing Lennar's attempted extortion suit against Marsch and Minkow, to sanction Minkow for a wide range of litigation misconduct.

Though Marsch appeared outwardly to be wealthy, the litigations were taking a toll. To fund them he borrowed $3 million from an investor group in exchange for 65% of any potential recovery from Lennar. In May 2009 he borrowed $600,000 from Minkow and his congregant and business partner, Sachs, in exchange for another 5% of his recovery. Marsch also sold the pair a Colorado ski property for $850,000 of Sachs's cash and $500,000 in forgiveness of fees Marsch now owed Minkow, since the Lennar campaign had lasted so much longer than anticipated.

By the close of 2009, Minkow may have been experiencing financial strains of his own. He approached a retired, divorced grandmother in his congregation, whom I'll call Linda. As pastor, Minkow had helped Linda's family through difficult times. Now he asked Linda if she would take $150,000 out of her home-equity line and give it to another member of the congregation, whom I'll call Steve, so that Steve could invest it in Minkow's movie to pay for "post-production" expenses. In exchange, Steve would execute a promissory note to Linda, which Minkow would co-sign as guarantor.

Linda did as asked. “If you can’t trust the pastor,” she says in an interview, “who can you trust?”

A month later Minkow came back to Linda and asked for another $100,000 loan. This one was to expand a business he had set up owning FedEx delivery routes. (FedEx Ground does not directly employ its delivery truck drivers. Instead, it hires contractors to provide drivers for its trucks.) Linda gave Minkow the money, and he gave her another note. He also said he’d give her a piece of the trucking business, which would yield several thousand dollars a month. (In our interviews, Minkow said he had indirectly paid some money back to Linda — maybe $50,000 — by paying Steve to do remodeling work on Linda’s house. But Minkow also admitted, “I kind of knew [Steve] was squandering the money and not doing it.” Steve did not return e-mails.)

As 2010 began, Minkow was hurtling toward disaster. In January, Minkow got a subpoena from the SEC, revealing that he was being investigated for securities fraud. In February, Marsch declared bankruptcy in San Diego and also put his company, Briarwood Capital, into Chapter 11. In April the ski property Marsch sold to Sachs and Minkow also went into bankruptcy. In July, after Marsch gave seemingly inconsistent testimony in the San Diego and Colorado proceedings, the San Diego bankruptcy judge ousted him from control over his own company, saying he had lost confidence in Marsch’s “capacity for candor and honesty.”

On Friday, July 16, the judge who had presided over Marsch’s 11-month trial against Lennar in San Diego, Superior Court Judge William Nevitt Jr., delivered his decision. While Marsch had been a persuasive witness during his direct testimony, Judge Nevitt wrote, his story “did not withstand close scrutiny and cross-examination.” Nevitt concluded that Marsch “repeatedly gave false testimony on material issues.” Lennar owed Marsch nothing, he concluded, and, on the contrary, Marsch owed Lennar $17 million.

Nevitt’s ruling meant that there would most likely be no payoff for Minkow’s long, costly mission for Marsch. Minkow was ruined.

At his sermon that weekend, Pastor Barry alluded to his predicament. “I have a client in the fraud-uncovering world that I live in,” he said, “that I felt was just taken advantage of in a horrible way. And it was a big Goliath-type public company and he was the David … I put my whole heart into it … and after a year and a half” — long pause — “he lost everything. He lost the case.”

But Minkow's sermon was not about accepting failure. It was about bouncing back from it. "Remember all the Rocky movies," he told the congregation. "I liked *Rocky V* the best." He recounted the moment when Tommy Gunn is savaging Rocky in the ring, and Rocky falls backward in slo-mo and all seems lost. But then Rocky has a flashback to what his deceased trainer Mickey — the Burgess Meredith character — would have told him. "Dum dede dum dede dum dum dum. And [Rocky] gets up, and he wipes the floor with Tommy Gunn. All because Mickey said, 'Get up ya bum, because Mickey loves ya' … When you're down, I want you to hear that music. Dum dede dum dede dum dum dum. I want you to think Jesus is saying, 'Get up ya bum, because Jesus loves ya.' " The congregation erupted in applause.

In August, Minkow testified at a hearing on whether he had committed litigation misconduct, as Petrocelli alleged. Though she didn't rule on the spot, Miami judge Gill Freeman commented from the bench, "Mr. Minkow … will lie, plain and simple. He seems to have absolutely no sense of responsibility for telling the truth."

In September the church elders discovered that the church's income was running below projections by $28,000 per month. It would have to surrender office space and lay off staff. They also learned — in part due to evidence emerging from the Lennar case — that Minkow was commingling funds, that he had concealed certain debts from the board, and that he had opened checking accounts in the church's name that the elders hadn't known about. Nevertheless, according to board minutes, the elders concluded that Minkow's "giving exceeded what was reimbursed to him," and retained confidence in him.

In November, Minkow went back to Linda, the retired grandmother. He was now selling his FedEx routes, he explained, and would be buying a gas station instead, and he'd give her a stake in that. To be known as GreenCo, the station would have an environmentalist angle. "People could pay I forget how much more for gas to get their carbon imprinting," Linda says. "It would be the first company of its kind. It was going to be big."

Minkow showed her a photocopy of what purported to be an e-mail from Minkow's accountant at Marcum, an accounting firm, instructing Linda to write Minkow a check for $22,500, which he'd pay back later. This "confusing" transaction, the accountant explained, would protect Linda from adverse tax ramifications from her investment in the gas station. She did as requested. (Linda faxed me the purported accountant's e-mail, which I forwarded to Marcum. A Marcum spokesperson says the e-mail could not possibly have originated from Marcum's servers, as their employees use "@marcumllp.com" addresses, while the one shown to Linda purports to have been sent from an "@marcumllp.net" address. Minkow responds, "If the e-mail to [Linda] is somehow inaccurate, it is in the hands of the address. Minkow responds, "If the e-mail to [Linda] is somehow inaccurate, it is in the hands of the FBI … and I have no clue.")

December brought crisis. First, Minkow learned that he was under federal criminal investigation. Then one of his civil law firms sued him for nonpayment of $34,000 in fees. Finally, two days after Christmas, Judge Freeman ruled on Petrocelli's sanctions motion. She found that Minkow had "withheld key documents," "destroyed or discarded important evidence," "concealed the identity of material witnesses," "willfully violated court orders," "engaged in actions to cloud his misconduct," and "intentionally misrepresented" matters to his own lawyers, to Lennar, and to the judge herself. She ordered the stiffest possible sanction: default. In other words, the only issue left in the case was how much Minkow would owe Lennar in damages. (Lennar wanted $583 million plus attorneys' fees.)

Minkow's GreenCo gas station ("Feeling good about fueling") launched in January 2011. Its manager, Robert Warner, soon noticed something odd. The security camera showed that Minkow was coming in twice a day to clean out the safe.

GreenCo's main gasoline supplier, Eric Dransfield, also noticed puzzling conduct. First Minkow asked to pay him via PayPal. Then, once he set up an account, he began receiving payments from Minkow, Minkow's wife, Minkow's secretary, and, yes, the grandmother I've been calling Linda.

Minkow had asked Linda to set up a PayPal account linked to her Discover card, she explained to me, to which Minkow's secretary would have access. This was, again, supposed to be for tax purposes, she says. Minkow put $21,000 in gasoline charges on her card, she says.

In late January there was a burglary at Minkow's church — never solved — in which $50,000 was stolen from the donation box. In conversations with me, Minkow denied any involvement, emphasizing that, as he would have known, the box contained only a couple thousand in cash, that the rest consisted of checks on which congregants were easily able to stop payment, and that the church had no insurance for burglary, so he had "no motive."

In March, after a series of Minkow's payments bounced, Dransfield says, Minkow owed him $47,000. He went to Minkow's home.

Minkow appeared to have just given himself an injection to relieve migraines, according to Dransfield, who remembers seeing the needle and the mark it had left on Minkow's forehead. (Minkow does have a medical history of severe migraines.) He was "walking in a dazed state" with "his belt undone."

medical history of severe migraines.) He was "walking in a dazed state" with "his belt undone," Dransfield recalls. Minkow admitted owing Dransfield the money and signed over to Dransfield all his rights to GreenCo.

But Minkow never had authority to convey anything he was purporting to convey. GreenCo's lease had never been in Minkow's name in the first place.

A day or two later, on March 16, the church elder board issued a press release announcing that Minkow had resigned the day before and would be pleading guilty to "one criminal count." The board said it was "saddened," that it appreciated "his 14 years of faithful service," and that it would "make no further statements regarding these matters."

By then, Minkow had left town and, by April, he and his family were living in Tennessee.

Minkow's guilty plea was inked on March 22, his 45th birthday. In it Minkow acknowledged having conspired to "artificially depress" Lennar's stock price in order to assist "Conspirator A," who was employing "extortionate means" to induce Lennar to pay him a sum of money. Minkow admitted making "numerous false and misleading statements" on his websites, and "adopting Conspirator A's false assertions with reckless disregard for their truth." He also admitted that he "abused his relationship" with federal law enforcement to get nonpublic information and trade on it.

"We appreciate the good work of the Justice Department in protecting our public securities market," says Lennar CEO Stuart Miller.

Marsch hasn't been charged with any crime. "This case is still open," says a Miami FBI spokesperson. "Therefore, we cannot comment at this time." He also declined to say whether any FBI agents had been punished for sharing confidential information with Minkow.

In my conversations with Minkow, he more than once told me of a joke he recalls his criminal defense lawyer making that, he believed, provided an apt summary of the lessons we should take away from his "relapse." In a sense, I agree.

"We were at this very high-tension meeting, where I'm not allowed to talk," Minkow recounted. He and his lawyers were meeting with federal prosecutor Ryan O'Quinn. Minkow's lead lawyer, Don Re, was participating by phone, while Minkow attorney Alvin Entin was present in person.

According to Minkow, the prosecutor said, " 'Mr. Re, you should be proud of your client. In the ZZZZ Best thing he was running the deal — he was the head guy. Now he's just a small player. He's getting better.'"

In response, according to Minkow, Re quipped, " 'That's how I know he's innocent. Because if this were a fraud, Barry would be running things.' " Everyone laughed, as Minkow remembers it.

Re did not return calls and e-mails seeking confirmation of his joke. Prosecutor O'Quinn, now in private practice, said he has no memory of such an exchange. "Given the role that Mr. Minkow admitted to playing in his attack on Lennar," he wrote in an e-mail, "I doubt anyone would have called him a small player. I certainly do not remember anyone saying that."

Entin, Minkow's longtime friend and lawyer, also could not confirm the story. "That one I don't recall at all," he said.

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