

Peregrine founder cops to stealing \$100M from clients

Russell Wasendorf Sr. faces up to 50 years for part in commodity brokerage's collapse

September 18, 2012 10:30 am ET

Russell Wasendorf Sr., founder of the bankrupt commodities firm Peregrine Financial Group Inc., pleaded guilty to stealing more than \$100 million from its customers.

Wasendorf, 64, today admitted to embezzlement, mail fraud and two counts of lying to federal regulators in an appearance before U.S. Magistrate Judge Jon Scoles in Cedar Rapids, Iowa.



Wasendorf, dressed in a prison-issue orange jumpsuit, was handcuffed and wearing leg shackles during the hearing. He was taken into custody after U.S. District Judge Linda Reade earlier today stayed Scoles's ruling that Wasendorf could be released from custody until sentencing.

In response to the judge's direct questions, Wasendorf replied "guilty" to each of the four counts. He made no other comment.

The plea agreement calls for a prison sentence of as long as 50 years. Scoles said he would recommend to Reade to accept the plea. Reade will also set a sentencing date.

Assistant U.S. Attorney Peter Deegan told Scoles that Wasendorf could serve a life sentence under federal sentencing guidelines.

Jill Johnston, Wasendorf's lawyer, said her client could serve 25 to 30 years if he receives reductions under the guidelines.

Customer Funds

Wasendorf's crimes came to light on July 9 when the founder of Peregrine, who was also the company's chairman and chief executive officer, tried to kill himself by piping auto exhaust into the passenger compartment of his car parked outside the firm's Cedar Falls, Iowa, headquarters.

In a written statement found with him then, Wasendorf said he'd been stealing from the company for almost 20 years.

The National Futures Association, an industry self-regulator, announced the same day that about \$200 million in customer funds the firm reported was on deposit at its bank were unaccounted for.

Federal criminal charges were filed against him under seal two days later. He was arrested July 13.

"I have committed fraud. For this I feel constant and intense guilt," Wasendorf said in the confession, which he confirmed he had written, according to an affidavit by FBI agent William F. Langdon filed with the criminal complaint.

False Statements

"Through a scheme of using false bank statements I have been able to embezzle millions of dollars from customer accounts at Peregrine Financial Group Inc.," Wasendorf said.

His 17-page plea agreement with prosecutors was signed on Sept. 7 and made public at a bail hearing on Sept. 11.

Wasendorf was indicted last month on 31 counts of lying to the U.S. Commodity Futures Trading Commission about how much money the firm had in client accounts from 2010 through June of 2012. He pleaded not guilty on Aug. 17.

On Sept. 13 Scoles granted the CEO's request to be freed on bail after the entry of his guilty plea today. Rejecting prosecutors' claims he might still try to commit suicide or flee, the judge said Wasendorf could be released into the custody of friend and pastor Linda Livingston, who had vouched for him at the Sept. 11 hearing. Livingston was in the courtroom today for the plea.

Wasendorf also would have been required to wear an electronic monitoring device.

'Serious Risk'

Deegan filed a motion hours before the plea hearing today requesting Wasendorf remain in custody, and Reade agreed. "There is at least a 'serious risk' defendant might choose to flee rather than face the consequences of his offenses," Deegan wrote in his motion.

"The court is faced with the perpetrator of one of the most lengthy and egregious frauds in the history of this district," Deegan wrote.

According to the plea agreement, Wasendorf started stealing from Peregrine in the early 1990s, covering his theft by altering statements received from the firm's bank, then passing them to the company's chief financial officer and accountants.

"Defendant used the stolen money to unlawfully bolster the apparent financial position of PGF, fund defendant's outside business interests and for defendant's own personal use and purposes," according to the plea document.

Among those businesses were an Italian restaurant, a publishing company and a construction firm.

Peregrine filed for liquidation in U.S. Bankruptcy Court in Chicago on July 10, hours after the firm and Wasendorf were accused of stealing from customers in a lawsuit filed by the CFTC.

Interim Payment

Liquidating trustee Ira Bodenstein has asked U.S. Bankruptcy Judge Carol Doyle to approve a plan to make an

interim payment of \$123 million to holders of the firm's 17,000 futures accounts.

“There will not be a 100 percent return of anybody's investment in Peregrine,” Bodenstein said at a Sept. 10 meeting of creditors. “That is a certainty.”

A receiver for Wasendorf's assets has been appointed in the CFTC-filed suit.

Preparing for his suicide attempt, which was interrupted when passersby spotted him in his car, Wasendorf typed separate notes to his son, Peregrine president Russell Wasendorf Jr., and his wife of nine days then, Nancy Paladino.

“To my wonderful son, Russ,” he wrote, “by the time you read this I will have taken my own life. I beg for your forgiveness. I have written my final confession that will be discovered with my body.”

'Subtle Signs'

“I know you'll start second-guessing yourself, thinking back on some of the subtle signals I may be up to something,” he told his son. “Your mistake was that you trusted your father, nothing more.”

To Paladino he said in part, “I love you so much and I so wanted to spend my final years growing old with you. I am so sorry that this will not happen.”

Citing the concealment of his crimes, Paladino has asked a Nevada state court in Las Vegas to annul the June 30 marriage. Livingston told Scoles Sept. 11 that Paladino's filing was motivated by the need to insulate herself from financial liability and that she is still committed to Wasendorf.

--Bloomberg News--