

[REDACTED]
20120626,0,4310002.story

South Florida [REDACTED]

Ponzi schemer Scott Rothstein knew fraud was collapsing

By [Jon Burstein](#), Sun Sentinel

Sun Sentinel

11:36 PM EDT, June 26, 2012

The letter sent Scott Rothstein into a panic — he feared his colossal crimes were about to be exposed.

It was February 2009, eight months before his \$1.4 billion Ponzi scheme collapsed. A family of investors had sent him the letter demanding their \$4.25 million back immediately, and Rothstein was certain they had uncovered his secret.

"Holy s***, this is going to explode," Rothstein recalled thinking. "They figured out the Ponzi scheme. They know there's no money in the accounts. We are all going to jail."

The imprisoned Rothstein offered fresh details into his final, paranoid-filled months of freedom in more transcripts released this week from his three weeks of closed-door testimony earlier this month. In addition to testifying how he kept the largest financial fraud in South Florida history alive, Rothstein explained how he hooked a group of investors by using real civil cases accusing billionaire money-manager Jeffrey Epstein of having sex with underage girls.

Rothstein, 50, told his prospective investors they were buying confidential legal settlements in whistleblower and sexual harassment cases from plaintiffs who preferred quick lump-sum payments rather than waiting for all the money. All of the settlements were phony, with Rothstein and his office staff making up the backup paperwork.

The fraud unraveled in October 2009 with Rothstein, a now-disbarred Fort Lauderdale attorney, briefly fleeing to Morocco, then returning to secretly cooperate with the FBI until his arrest a month later. He is currently serving a 50-year prison sentence, his whereabouts unknown because he's in a witness protection program behind bars.

While he may be in hiding, he still has a lot to say, giving a two-week deposition in December followed by the 15-day session this month. So far more than 5,000 pages of Rothstein's testimony have been made public with at least 1,000 pages more set to be released in the next few weeks.

Testifying via videoconferencing in the most recent deposition, Rothstein said he believed his Ponzi

advertisement



scheme was at risk of being exposed when Gerald Brauser and his family demanded back \$4.25 million they had invested with him.

Rothstein said the Brausers' attorney, Frank Graziadei, claimed he had obtained a banking report showing the Rothstein Rosenfeldt Adler law firm's trust accounts didn't have nearly as much money in them as Rothstein was claiming. Rothstein said he acted quickly to reimburse the Brausers with other investors' money and to have them sign a confidential settlement.

"We didn't want them to go to authorities," Rothstein said.

The bankruptcy trustee for Rothstein's law firm has since sued the Brausers to recover the \$4.25 million.

A lawyer for the Brausers told the Sun Sentinel that Rothstein's allegation he bought the Brausers' silence is "nonsense."

"They asked for their principal back because they were led to believe they could withdraw the money at any time and one of the Brausers had the need for the investment back to pay off the mortgage on a completely unrelated property," said Allan Joseph, another attorney for the Brausers. "My clients are victims and now they have to defend against a lawsuit solely on Scott Rothstein's testimony."

Joseph said that it makes no sense that if the Brausers had believed Rothstein was a crook why one of them retained him as an attorney in another matter. In addition, another family member put \$900,000 of his own money into a different Rothstein investment vehicle two days before the letter was sent, Joseph said.

Joseph said Graziadei, the attorney who wrote the letter, has testified that he never mentioned anything about a banking report to Rothstein.

In other testimony given by Rothstein, he acknowledged that he allowed a group of investors go through files involving sex abuse lawsuits against billionaire Jeffrey Epstein. One of Rothstein's law partners, Bradley Edwards, had sued Epstein on behalf of three underage girls who alleged they had sex with him while he was staying at his Palm Beach mansion.

In 2008, Epstein reached a plea deal with state prosecutors on two sex-related charges and spent about a year in the [Palm Beach County](#) Jail.

Rothstein said he lied to the investors about being able to buy hefty confidential legal settlements in the Epstein cases. He said Edwards knew nothing about the Ponzi scheme and had no idea the files were being shared with investors.

"I took advantage of some good, innocent people for my own and my co-conspirator's illegal purposes," Rothstein said. "Mr. Edwards is one of them, and for that I am sorry, Brad."

Epstein is suing Edwards in [Palm Beach County](#) Circuit Court, alleging the attorney knew Rothstein was using the cases to solicit investors. Edwards has filed a countersuit accusing Epstein of malicious prosecution and abuse of the legal process.

One of Epstein's attorneys, Tonja Haddad, said Tuesday that it's clear her client's cases were used to solicit investors.

"There's more than the word of Scott Rothstein to figure out the truth," she said.

Jack Scarola, Edwards' attorney, said there are no facts to back up Epstein's allegations.

"To the contrary, his lawsuit was merely a desperate measure by a serial pedophile to prevent being held accountable for repeatedly sexually abusing minor females," wrote Scarola in court filings.

[REDACTED], 954-356-4491 or Twitter @jkburstein

Copyright © 2012, [South Florida Sun-Sentinel](#)