

Scott Rothstein

FBI widens probe: 'Wasn't one-man show'

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An investment fraud allegedly orchestrated by disgraced Fort Lauderdale attorney Scott Rothstein could have taken in \$1 billion before sending his firm into bankruptcy.

The FBI, which seized records in a raid at Rothstein Rosenfeldt Adler last week, came up with the first official fraud estimate Thursday, placing the potential value at more than double the \$400 million to \$500 million figure pegged by investors.

John Gillies, the FBI's Miami chief, called an unusual news conference for an investigation that has not produced criminal charges, asking anyone who knows about Rothstein's operations to come forward by phone, e-mail or mail.

"This wasn't a one-man show," Gillies said, without elaborating.

Investors have said they met with the firm's general counsel, David Boden, and invested money through feeder groups without meeting personally with Rothstein. The firm's executive vice president and chief operating officer, Debra Villegas was put on leave as soon as the scandal erupted. She worked closely with Rothstein in a secure area with controlled access. He also transferred a home to Villegas after her ex-husband was accused of killing another RRA attorney.

Asked about the \$1 billion figure, Rothstein's attorney, Marc Nurik, said: "I do not know where that number comes from. I doubt that that number refers to the amount of money currently claimed by investors to be owed."

Rothstein has "clearly acknowledged that he owes people money. And that is all he has acknowledged at this point in time. He has not confirmed any of the allegations or circumstances that alleged how things happened," Nurik said.

No criminal charges have been filed in the case.

In a civil forfeiture filing this week, federal prosecutors accused Rothstein of orchestrating a massive Ponzi scheme utilizing purported investments in structured settlements. The filing said the alleged scheme began in 2005. The federal government grabbed luxury cars, yachts and eight properties owned by or on behalf of Rothstein.

The Ponzi scheme allegations against Rothstein left his former law firm teetering on the brink of dissolution.

An involuntary bankruptcy petition was filed Tuesday against the firm by four creditors, and the firm consented to the filing at the first hearing in the case Thursday.

Attorney Jordi Guso of Berger Singerman, representing the firm's court-appointed receiver, said the firm was on the verge of a bankruptcy filing anyway.

The firm has been operating on a shoestring budget after a review of its accounts found there was too little to pay employees at the one-time 70-lawyer operation.

The firm, which was led by 50-50 equity partners Rothstein and Stuart Rosenfeldt, maintains it had no knowledge of the structured-settlement side business Rothstein ran out of his high-security lair at the firm's Fort Lauderdale office. Rothstein was ousted as chairman last week, and Rosenfeldt stepped down Wednesday night as the firm's chief executive officer but remains with the firm.

That leaves the receiver, Senior Miami-Dade Circuit Judge Herbert Stettin, in charge at the firm.

The once burgeoning firm "really is not a law-firm operation anymore," he told U.S. Bankruptcy Judge Raymond Ray,



saying many attorneys have left, and others are on their way out the door.

Rothstein Rosenfeldt Alder wants Stettin to coordinate its bankruptcy case rather than have an outside trustee appointed, Guso said.

Investors alleging they lost more than \$1.1 million in Rothstein's Ponzi scheme asked in Tuesday's petition for the immediate appointment of a trustee, claiming the firm improperly diverted \$1.4 million from its trust accounts into the firm's operating accounts and spent it.

The late October transfer was made while Rothstein was in Morocco and investors were starting to complain about missed payments.

"That obviously implicates firm management or staff working in the accounting area of the firm," John Genovese of Genovese Joblove & Battista in Miami, one of the attorneys who filed the bankruptcy petition, told the judge. But he also said he would withdraw the trustee request after talking with Guso. A hearing on that issue is set for Nov. 20.

Attorney Steven D. Schneiderman with the Office of the U.S. Trustee told Ray that his office plans to investigate the transfers.

"Because of the need for transparency and guarding against any appearance of impropriety, the Chapter 11 trustee may be the better route to go, the appropriate route to go and the required route to go," Schneiderman said, adding Stettin could be considered for that role.

Investor attorney Mark Raymond, Miami managing partner of Broad and Cassel, said he supports Stettin's involvement.

Attorney William Scherer of Conrad & Scherer in Fort Lauderdale is representing clients who claim they lost nearly \$98 million in investments. Auto magnate Ed Morse, represented by Tripp Scott, claims more than \$57 million in losses. William Salim of Moskowitz Mandell Salim & Simowitz in Fort Lauderdale said he is representing Renato Watch on \$15 million to \$20 million in investments. Any of them could seek the appointment of a trustee.

Rothstein Rosenfeldt Adler was rocked by news of Rothstein's alleged impropriety. Stettin said after the bankruptcy hearing that he does not have numbers for attorneys remaining with the firm, its operating budget or remaining clients.

Stettin said he knew going in that the firm would be a "huge mess."

"I'm still discovering how bad it is," he said. As for the law firm's books, "Were they pristine? Perfect? Up to date? No."

The firm's chief financial officer, Irene Stay, and attorney Grant Smith are helping sort out the finances.

Russell S. Adler, a name partner who did not hold equity in the firm, has left, Stettin said. Chief operating officer Villegas and Boden are no longer with the firm.

Boden's attorney, David Vinikoor of Fort Lauderdale, said his client is a witness and had no comment on the FBI statement that others are involved.

The receiver said he is meeting with the firm's landlord to discuss the future of its ocean-view office in a Las Olas Boulevard tower.

Stettin was appointed last week by Broward Circuit Judge Jeffrey Streitfeld to oversee the firm's finances after the firm filed for receivership. Guso said Rosenfeldt retains the power to remove Stettin as the chief restructuring officer.

Rosenfeldt attorney Bruce Lehr of Lehr Fischer & Feldman in Miami said his client is "doing everything that is in the best interest of the clients and the lawyers that he works with." He said his client "has no intention of exercising any such right" to wrest control back from Stettin. Rosenfeldt could not be reached for comment by deadline.

The law firm's attorney, Kendall Coffey of Coffey Burlington in Miami, did not return a call for comment by deadline.

Guso said Stettin contacted the firm Monday for assistance in filing a bankruptcy petition. He said he plans to ask

permission to continue paying the firm's malpractice insurance and employee health insurance premiums.

The Florida Bar is considering an emergency suspension of Rothstein's law license, said a bar spokeswoman, who asked that her name not be used. She did not know when the investigation was expected to conclude.

Gillies said there is no rush to arrest Rothstein. He declined to say whether Rothstein would be stopped if he tried to leave the country.

Investigators want to take their time getting as much information as possible to build a solid case for prosecution, Gillies said.

"This case is going to take time," he said.

While the FBI is asking investors to come forward, the agency is not offering any protection or guarantees to anyone who is reluctant about opening up his or her finances to the agency.

"We can't give assurances to anybody," Gillies said.

He said the FBI has records identifying investors who received payouts, and "it is in their best interest to come forward."

The FBI news conference was unusual. The agency normally brings in news media to announce major arrests and major cases.

Federal agencies took weeks to charge Bernard Madoff after he admitted swindling investors in a Ponzi scheme. The same was true for Texas financier R. Allen Stanford, who faced civil charges while prosecutors developed a criminal case charging him with selling \$7 billion in fraudulent certificates of deposit to clients through his offshore bank in Antigua.

Explaining the news conference itself, FBI spokeswoman Judy Orihuela said,

"I believe they used it in Houston for the Stanford case."

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