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*Attorneys for Defendant  
Stanley Chais*

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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SECURITIES AND EXCHANGE  
COMMISSION, :  
:  
Plaintiff, : **09 CV 05681 (LLS) (KNF)**  
:  
-against- : **ANSWER OF DEFENDANT**  
: **STANLEY CHAIS**  
STANLEY CHAIS, : **JURY TRIAL DEMANDED**  
:  
Defendant. :  
:  
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Defendant Stanley Chais (“Chais”), by his attorneys, Loeb & Loeb LLP, for his answer to the complaint in the above-captioned action (the “Complaint”), states as follows:

**SUMMARY**

1. Denies each and every allegation set forth in the first sentence of paragraph 1 the Complaint; admits the allegations set forth in the second sentence of paragraph 1 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that Chais served as one of the largest feeders into Madoff; denies the allegations set forth in the third sentence of paragraph 1 of the Complaint excepts admits that he sent account statements to the Funds’ investors based on Madoff’s purported returns and admits

that he charged the Funds fees for his services; and admits the allegations set forth in the fourth sentence of paragraph 1 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that, as of November 2008, Madoff was representing that Chais' funds collectively held over \$900 million.

2. Denies each and every allegation set forth in paragraph 2 of the Complaint.

3. Denies each and every allegation set forth in paragraph 3 of the Complaint.

4. Admits that the Commission purports to seek the relief set forth in paragraph 4 of the Complaint.

#### **JURISDICTION AND VENUE**

5. Neither admits nor denies the allegations set forth in paragraph 5 of the Complaint which purport to state conclusions of law as to which no response is required.

6. Neither admits nor denies the allegations set forth in the first sentence of paragraph 6 of the Complaint which purport to state conclusions of law as to which no response is required; denies the remainder of the allegations set forth in paragraph 6 of the Complaint except admits that Chais currently resides in this District, that Madoff and his firm, BMIS, were located in this District, and that Chais communicated with BMIS in this District and that transactions took place in this District.

7. Admits the allegations set forth in paragraph 7 of the Complaint.

**DEFENDANT**

8. Admits the allegations set forth in paragraph 8 of the Complaint except denies that Chais' California residence is in Beverly Hills, that Chais was a well-known money manager in the California community, and that he was an advisor to each of the Funds.

**OTHER RELEVANT ENTITIES AND INDIVIDUALS**

9. Admits the allegations set forth in paragraph 9 of the Complaint except denies that, after 2004, Chais served as general partner for Lambeth through the Chais 1991 Family Trust and denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners in Lambeth were general partnerships or informal "nominee groups," and that as of November 2008, Madoff represented that Lambeth's account balance was approximately \$400 million.

10. Admits the allegations set forth in paragraph 10 of the Complaint except denies that, after 2004, Chais served as general partner for Brighton through the Chais 1991 Family Trust and denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners in Brighton were general partnerships or informal "nominee group," and that as of November 2008, Madoff represented that Lambeth's [sic]<sup>1</sup> account balance was approximately \$380 million.

11. Admits the allegations set forth in paragraph 11 of the Complaint except denies that, after 2004, Chais served as general partner for Popham through the Chais 1991 Family Trust and denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners in Popham were general partnerships or informal

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<sup>1</sup> It appears as though the Commission meant to refer to Brighton, not Lambeth, in this allegation. In any event, Chais' response would be the same if the allegation had said Brighton instead of Lambeth.

“nominee groups,” and that as of November 2008, Madoff represented that Popham’s account balance was approximately \$130 million.

12. Denies the allegations set forth in paragraph 12 of the Complaint but admits that Chais exercised control over a number of other entities which held accounts with Madoff.

13. Admits that the Commission seeks to define the term “Chais Family” as set forth in paragraph 13 of the Complaint.

14. Admits the allegations set forth in paragraph 14 of the Complaint.

15. Admits the allegations set forth in paragraph 15 of the Complaint except denies that there were “more than sixty accounts at Madoff.”

#### **FACTUAL ALLEGATIONS**

16. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in paragraph 16 of the Complaint except, as to the Madoff Form ADV and the proceedings in US v. Madoff, including the plea allocution, Chais respectfully refers to those documents or official records for the contents thereof.

17. Admits the allegations set forth in paragraph 17 of the Complaint except denies that Chais has been a close friend of Madoff since at least the 1960’s.

18. Admits the allegations set forth in paragraph 18 of the Complaint except denies that each of the Funds was created as a general partnership and that, after 2004, Chais served as general partner in each of the Funds through the Chais 1991 Family Trust.

19. Admits the allegations set forth in paragraph 19 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that

some of the limited partners were “S corporations” and denies that the number of individuals with exposure to the Funds increased “exponentially” throughout the Relevant Period.

20. Admits the allegations set forth in paragraph 20 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners were general partnerships and denies that the limited partners encompassed “sub-partners.”

21. Admits the allegations set forth in paragraph 21 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners were general partnerships and denies that the limited partners encompassed “sub-partners.”

22. Admits the allegations set forth in paragraph 22 of the Complaint except denies knowledge or information sufficient to form a belief as to the truth of the allegation that most of the limited partners were general partnerships and denies that the limited partners encompassed “sub-partners.”

23. Admits the allegations set forth in paragraph 23 of the Complaint except, with respect to the Funds’ partnership agreements, respectfully refer to those documents for the contents thereof.

24. Denies knowledge or information sufficient to form a belief as to the truth of the allegation that the strategy used by Madoff for the Funds was similar to the one he purportedly employed for other large hedge fund investors; admits that Chais did not modify the funds’ partnership agreements to account for a new trading strategy; admits that Madoff purportedly used trading strategies as represented in the statements he provided to Chais; and respectfully refers to those statements for the contents thereof.

25. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in paragraph 25 of the Complaint.

26. Admits the allegations set forth in the second sentence of paragraph 26 of the Complaint. With respect to the remaining allegations, Chais respectfully refers to the account statements referenced for the contents thereof.

27. With respect to the allegations set forth in paragraph 27 of the Complaint, respectfully refers to the Madoff account statements from 1995-2008 for the contents thereof.

28. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in paragraph 28 of the Complaint except admits that the Funds' purported balances with Madoff were wiped out with the collapse of Madoff's Ponzi scheme.

29. With respect to the allegations in paragraph 29 of the Complaint, respectfully refers to the Funds' partnership agreements for the contents thereof.

30. Denies knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 30 of the Complaint, but admits that he received fees from the Funds.

31. With respect to the allegations set forth in paragraph 31 of the Complaint, denies knowledge or information sufficient to form a belief as to the truth of the allegations concerning what Madoff "represented." With respect to what Madoff represented on account statements, Chais respectfully refers to the Madoff account statements for the contents thereof.

32. Denies each and every allegation set forth in paragraph 32 of the Complaint.

33. With respect to the allegations set forth in paragraph 33 of the Complaint, respectfully refers to Madoff's account statements for the period 1995-2008 for the contents thereof.

34. Denies each and every allegation set forth in paragraph 34 of the Complaint.

35. Denies each and every allegation set forth in paragraph 35 of the Complaint except admits that he told investors that, if they were uncomfortable with the lack of information they were receiving, they could withdraw their investments or decline to invest.

36. Denies each and every allegation set forth in paragraph 36 of the Complaint except admits sending a letter to investors in June 2008 informing them of his illness and his intent to have his son replace him as general partner of the Funds in the case of his death or incapacitation and denies knowledge or information sufficient to form a belief as to the truth of the allegations regarding what the general partner of CMG believed and whether he sent a letter to the limited partners of CMG.

37. Denies each and every allegation set forth in paragraph 37 of the Complaint.

38. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in paragraph 38 of the Complaint except admits that he turned over all or substantially all of the Funds' assets to Madoff.

39. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in the first sentence of paragraph 39 of the Complaint except admits that he gave all or substantially all of the Funds' assets over to Madoff and admits the allegations set forth in the second sentence of paragraph 39 of the Complaint.

40. Denies each and every allegation in paragraph 40 of the Complaint except admits that he received fees.

41. Denies each and every allegation in paragraph 41 of the Complaint.

42. Denies knowledge or information sufficient to form a belief as to the truth of the allegations set forth in paragraph 42 of the Complaint except denies that Chais made a request of Madoff or gave Madoff directions. With respect to the allegations regarding securities trades for the Funds, respectfully refers to the Madoff account statements for the period 199-2008 for the contents thereof.

43. Denies each and every allegation set forth in paragraph 43 of the Complaint except admits that he distributed account statements based on Madoff reports to the Funds' investors up to the time of the collapse of Madoff's scheme.

### **CLAIMS FOR RELIEF**

#### **COUNT I**

44. With respect to paragraph 44 of the Complaint, repeats and realleges his responses to paragraphs 1 through 43 of the Complaint as set forth herein.

45. Denies each and every allegation in paragraph 45 of the Complaint.

46. Denies each and every allegation in paragraph 46 of the Complaint.

47. Denies each and every allegation in paragraph 47 of the Complaint.

#### **COUNT II**

48. With respect to paragraph 48 of the Complaint, repeats and realleges his responses to paragraphs 1 through 47 of the Complaint as set forth herein.

49. Denies each and every allegation in paragraph 49 of the Complaint.

50. Denies each and every allegation in paragraph 50 of the Complaint.



51. Denies each and every allegation in paragraph 51 of the Complaint.

**COUNT III**

52. With respect to paragraph 52 of the Complaint, repeats and realleges his responses to paragraphs 1 through 51 of the Complaint as set forth herein.

53. Denies each and every allegation in paragraph 53 of the Complaint.

54. Denies each and every allegation set forth in paragraph 54 of the Complaint.

55. Denies each and every allegation set forth in paragraph 55 of the Complaint.

**COUNT IV**

56. With respect to paragraph 56 of the Complaint, repeats and realleges his responses to paragraphs 1 through 55 of the Complaint as set forth herein.

57. Denies each and every allegation in paragraph 57 of the Complaint.

58. Denies each and every allegation in paragraph 58 of the Complaint.

59. Denies each and every allegation in paragraph 59 of the Complaint.

60. Denies each and every allegation in paragraph 60 of the Complaint.

**AFFIRMATIVE DEFENSES**

**First Affirmative Defense**

61. Plaintiff's claims are barred by virtue of Plaintiff's own conduct, which provided credibility to Madoff.

**Second Affirmative Defense**

62. Plaintiff's claims are barred by the doctrines of waiver, estoppel, and unclean hands.

**Third Affirmative Defense**

63. To the extent that Plaintiff's claims for relief are based on allegations regarding Chais' receipts from Madoff, those receipts are irrelevant to those claims.


**WHEREFORE**, Defendant Chais respectfully requests judgment against Plaintiff as follows:

- i) Denying Plaintiff's prayer for relief in full;
- ii) Dismissing the Complaint in its entirety with prejudice;
- iii) Awarding Defendant the costs and disbursements of this action; and
- iv) Such other and further relief as the Court may find just and proper..

Dated: New York, New York  
October 21, 2009

Loeb & Loeb LLP

By: \_\_\_\_\_

  
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