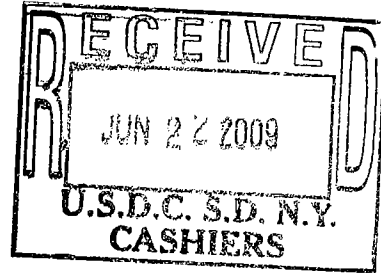


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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-against-

STANLEY CHAIS,

Defendant.

09 Civ. ____

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (the "Commission"), alleges the following against defendant Stanley Chais:

SUMMARY

1. This case concerns a California-based investment adviser, who, for the last forty years has held himself out as an investing wizard, purporting to execute a complex trading strategy on behalf of hundreds of investors, despite in actuality being an unsophisticated investor who did nothing more than turn all of those investors' assets over to Bernard Madoff. Since the early 1970s, Stanley Chais served as one of the largest feeders into Madoff through three funds,

each of which invested all or substantially all of its assets with Madoff: the Lambeth Company (“Lambeth”), the Brighton Company (“Brighton”), and the Popham Company (“Popham”) (collectively, the “Funds”). Despite having clear indications that Madoff was conducting a fraud, Chais persisted in distributing account statements to the Funds’ investors based on Madoff’s purported returns, while charging the Funds well over \$250 million in fees for his purported “services.” As of November 2008, Madoff was representing that the Funds collectively held over \$900 million, all of which was wiped out with the collapse of the Madoff Ponzi scheme.

2. Unlike the thousands of other investors who lost money in the Madoff scheme, Madoff’s enterprise ultimately proved to be extremely profitable for Chais. Thus, through his personal interests in the Funds, as well as his interests and the interests of his family members in over 50 other accounts that Chais held with Madoff, for the period 1995 through 2008, Chais and his family members withdrew approximately a half a billion dollars more than they invested with Madoff.

3. Through his conduct, Chais violated Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77o(a)]; Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; and Section 206(4) of the Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

4. By this action, the Commission seeks, among other things, an order providing for: permanent injunctive relief against Chais enjoining future violations of the above-referenced provisions, disgorgement of all profits realized from the unlawful activity set forth herein, and civil monetary penalties.

JURISDICTION AND VENUE

5. This Court has jurisdiction pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t, 77t(d), and 77v(a)], Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. § 1331.

6. Venue lies in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. §§ 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14]. Chais currently resides in this District. Certain of the acts, practices and courses of business constituting the violations alleged herein occurred within this District. For example, Madoff and his firm, Bernard L. Madoff Securities LLC (“BMIS”), were located in this District, and Chais’ communications and transactions with BMIS took place in this District.

7. Chais, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged herein.

DEFENDANT

8. Chais owns residences in Beverly Hills, California and New York, New York. From the early 1970s through the collapse of the Madoff Ponzi scheme in December 2008 (the “Relevant Period”) Chais was a well-known money manager in the California community and the general partner of, and advisor to, each of the Funds, each of which was a limited partnership that invested all or substantially all of its assets with Madoff.

OTHER RELEVANT ENTITIES AND INDIVIDUALS

I. The Funds

9. Lambeth is a California limited partnership formed in 1970 for the purported purpose of “carrying on an arbitrage business.” Chais has served as Lambeth’s general partner since its inception, in his individual capacity until 2004, and thereafter through the Chais 1991 Family Trust, a trust under Chais’ control. At the time of its formation, Lambeth had two limited partners, both of whom were natural persons. Additional limited partners, several of which were limited partnerships that were formed for the purpose of investing in Lambeth, were gradually added and/or replaced over the years. As of 2008, there were approximately twelve limited partners in Lambeth, most of which were general partnerships or informal “nominee groups.” All, or substantially all, of Lambeth’s assets were invested with Madoff. As of November 2008, Madoff represented that Lambeth’s account balance was approximately \$400 million.

10. Brighton is a California limited partnership formed in 1973 for the purported purpose of “conducting the business of arbitrage and related transactions.” Chais has served as Brighton’s general partner since its inception, in his individual capacity until 2004, and thereafter through the Chais 1991 Family Trust. At the time of its formation, Brighton had five limited partners, all of whom were natural persons. Additional limited partners, several of which were limited partnerships that were formed for the purpose of investing in Brighton, were gradually added and/or replaced over the years. As of 2008, there were approximately nine limited partners in Brighton, most of which were general partnerships or informal “nominee groups.” All, or substantially all, of Brighton’s assets were invested with Madoff. As of November 2008, Madoff represented that Lambeth’s account balance was approximately \$380 million.

11. Popham is a California limited partnership formed in 1975 for the purported purpose of “conducting the business of arbitrage and related transactions.” Chais has served as Popham’s general partner since its inception, in his individual capacity until 2004, and thereafter through the Chais 1991 Family Trust. At the time of its formation, Popham had six limited partners, consisting of natural persons, some of whom were trustees. Additional limited partners, several of which were limited partnerships that were formed for the purpose of investing in Popham, were gradually added and/or replaced over the years. As of 2008, there were approximately ten limited partners in Popham, most of which were general partnerships or informal “nominee groups.” All, or substantially all, of Popham’s assets were invested with Madoff. As of November 2008, Madoff represented that Popham’s account balance was approximately \$130 million.

II. Other Chais Accounts With Madoff

12. In addition to the Funds, Chais exercised direct or indirect control over a number of other entities, which collectively held approximately eleven direct accounts with Madoff (the “Chais Entity Accounts”).

13. The Chais family (“Chais Family”) includes Chais and his wife, their three children and spouses, and their eight grandchildren.

14. Chais opened and exercised control over more than forty direct accounts at Madoff on behalf of the Chais Family members and related entities, such as trusts established for the benefit of the Chais Family members (the “Family Member Accounts”).

15. Collectively, Chais exercised direct or indirect control over more than sixty accounts at Madoff.

FACTUAL ALLEGATIONS

I. BACKGROUND

A. Madoff's Ponzi Scheme

16. Madoff, through BMIS, purportedly managed brokerage and advisory accounts for decades. According to its Form ADV on file with the Commission, BMIS managed over \$17 billion of client assets as of January 2008. On December 10, 2008, Madoff confessed to his sons, who both worked in BMIS' broker-dealer operations, that the investment advisory business was a Ponzi scheme and had been for years, and that the losses to customers approximated \$50 billion. Madoff represented to customers that he invested in securities on their behalf, and that he obtained consistent returns through these transactions. On March 12, 2009, Madoff pled guilty in a parallel criminal proceeding, U.S. v. Madoff, Case No. 09-CR-213(DC) (S.D.N.Y.), to an 11-count criminal information. During his plea allocution, Madoff stated that "for many years up and until I was arrested on December 11, 2008, I never invested [clients'] funds in the securities, as I had promised." Madoff is currently awaiting sentencing.

B. The Funds

1. Formation and Investors

17. Chais has known and been a close friend of Madoff since at least the 1960s. Chais formed the Funds in the 1970s for the purpose of investing money with Madoff.

18. Chais created Lambeth in 1970, Brighton in 1973 and Popham in 1975. Each of the Funds was created as a general partnership, with Chais serving as the general partner. Chais continued to serve as the general partner in each of the Funds, in his individual capacity until 2004, and thereafter through the Chais 1991 Family Trust.

19. At the time of their formation, each of the Funds had a small number of limited partners, most of whom were associates and/or relatives of Chais. The number of investors with exposure to the Funds grew significantly throughout the Relevant Period. However, because Chais sought to limit the number of direct investors in the Funds, subsequent individuals who were interested in investing in the Funds often joined together to form limited partnerships (in some instances S corporations or even informal “nominee groups”) which themselves either became new investors in the Funds, or replaced previous investors. In this way, although the number of direct investors in the Funds remained low, the number of individuals with exposure (albeit indirect) to the Funds, and thus to Madoff, increased exponentially throughout the Relevant Period.

20. As of 2008, there were approximately twelve limited partners in Lambeth, most of which were general partnerships or informal “nominee groups,” encompassing over 260 “sub partners.”

21. As of 2008, there were approximately nine limited partners in Brighton, most of which were general partnerships or informal “nominee groups,” encompassing over 90 “sub partners.”

22. As of 2008, there were approximately ten limited partners in Popham, most of which were general partnerships or informal “nominee groups,” encompassing over 110 “sub partners.”

2. Fund Investments, Returns and Withdrawals

23. Each of the Funds’ partnership agreements indicated that the relevant Fund was formed for the purpose of conducting an “arbitrage business.” Chais, acting as the general partner for each of the Funds, placed all or substantially all of the Funds’ assets with Madoff.

24. While Madoff initially purported to invest the Funds in “riskless arbitrage,” by the 1990s, Madoff purported to be investing the Funds in the “split strike conversion” strategy similar to the one he purportedly employed for other large hedge fund investors. Chais never modified the Funds’ partnership agreements to account for this new purported trading strategy.

25. Madoff generally represented the “split strike conversion” strategy to entail use of a proprietary algorithmic model to generate a basket of stocks intended to correlate with the Standard & Poor’s 100 Index, a collection of the 100 largest publicly traded companies in terms of their market capitalization. Madoff further represented that he would hedge the investments in the basket of common stocks by using client funds to buy and sell option contracts related to those stocks, thereby purportedly limiting potential client losses caused by unpredictable changes in stock prices. Pursuant to this strategy, Madoff would purportedly go in and out of the market several times a year, generally not remaining in the market for more than two to three weeks at a time. Madoff, however, purported to place the Funds in a different version of the “split strike conversion” strategy, as discussed further in paragraph 42 below.

26. While Madoff reported different investments for each of the Funds in the 1990s, by 2000, all three Funds were purportedly investing in the same positions. Chais, with the assistance of his accountant, prepared and distributed periodic reports to the Fund investors, representing each investor’s purported balance and returns based upon the reports that Madoff provided Chais purporting to reflect the Funds’ returns at BMIS. According to the account statements Madoff provided Chais and the account statements Chais provided to the Funds’ investors, the Funds consistently yielded annual returns between 20-25%, and purportedly did not have any returns less than 10% since at least 1995.

27. The Funds withdrew more money from Madoff than they contributed during the period 1995 through 2008. Thus, for these years, excluding Chais, the Funds' investors made the following contributions and received the following distributions:

- Lambeth's limited partners made total contributions of approximately \$105,761,000 into the Fund and made total withdrawals of approximately \$326,439,000 from the Fund, for total net profits of approximately \$220,678,000;
- Brighton's limited partners made total contributions of approximately \$45,729,000 into the Fund and made total withdrawals of approximately \$148,877,000 from the Fund, for total net profits of approximately \$103,148,000; and
- Popham's limited partners made total contributions of approximately \$9,541,000 into the Fund and made total withdrawals of approximately \$95,978,000 from the Fund, for total net profits of approximately \$86,436,000.

28. Madoff reported that as of November 2008, Lambeth's account balance was approximately \$402,400,000, Brighton's was approximately \$383,600,000 and Popham's was approximately \$130,500,000. These purported balances were wiped out with the collapse of Madoff's Ponzi scheme.

3. Chais' Fees

29. Each of the Funds' partnership agreements provides that Chais, as the general partner, has "exclusive control over the business of the partnership . . . [and] shall render his personal services to the partnership, and shall devote thereto such time as he may deem necessary." Since 1973, each of the Funds' partnership agreements has contained a provision for Chais, as general partner, to receive a fee for his "services" such that:

Should the net profit accruing to a Limited Partner be more than ten percent of the Limited Partner's investment computed on an annualized basis, then the General Partner shall receive a sum equal to twenty-five percent of the Limited Partner's profit but in no event shall the amount accruing to the

Limited Partner be less than ten percent of the Limited Partner's invested capital, computed on an annualized basis.

30. Pursuant to this provision, during the years 1995-2008, Chais charged the Funds approximately \$269,600,000 in fees.

C. The Chais Entity and Family Member Accounts

31. Madoff represented that, with the exception of two of the Chais Entity Accounts (which Madoff represented were invested in the same "split strike conversion" strategy as the Funds' accounts), all of the Chais Entity and Family Member Accounts were invested in a strategy that consisted of holding long positions in large cap stocks in order to participate in capital appreciation (the "long strategy"). Unlike the "split strike conversion" strategy, the long strategy did not purport to hedge the equity positions with options.

D. Chais Withdrawals

32. From 1995 through 2008, Chais, on his own behalf (and on behalf of the Chais 1991 Family Trust from 2004 on) made approximately \$12,087,000 in contributions to the Funds and took total withdrawals of approximately \$355,779,000 from the Funds for total net profits of approximately \$343,692,000.

33. For the period December 1995 through 2008, the Family Member and Chais Entity Accounts received total distributions of approximately \$202,300,000 from Madoff in excess of total contributions.

34. Since all or substantially all of the Funds' assets were placed with Madoff, during the period 1995 through 2008, Chais, on his own behalf, as well as on behalf of his family members and entities related to him and his family members, withdrew at least \$545,992,000 more than they invested with Madoff.

II. CHAIS' FRAUDULENT CONDUCT

A. Chais Made Misstatements and Omissions Concerning His Management of the Funds' Assets

35. Chais made oral and written representations to Fund investors that he was managing the Funds' investments and formulating and executing the Funds' trading strategy. Chais was generally tight lipped about the Funds' investment strategies and frequently refused to provide details about the Funds' investments to his investors. When pressed for details, Chais would often say that he did not want to divulge his trading techniques and told investors that if they were uncomfortable with this lack of information, they could withdraw their investment and give up on the great returns they had been receiving.

36. Chais made a number of explicit misrepresentations to Fund investors. Thus:
- a. In approximately August 1994, Chais told a general partner of Leghorn (a Brighton limited partner) and a California resident, that Chais was personally trading stocks and bonds. Chais refused to tell the general partner the exact nature of the investments, but explained the high profits Brighton received by stating that Chais had a very fast computer, had access to commission free trades, and that his investments were highly leveraged (specifically, that a bank would match his investments by a multiple of ten). Chais gave this investor a general example of buying convertible debentures and protecting the upside and downside of the investments;
 - b. Another investor, a California resident who was the president of Southridge Corp., an S corporation that served as the general partner of CMG (a Brighton limited partner), believed that "arbitrage transactions" consisted of some combination of buying convertible bonds and then shorting stock of the company. When the investor approached Chais in the spring of 2001 to discuss this strategy, Chais told him that Chais no longer invested in those types of transactions and explained that over the past couple of years, Chais had switched to a strategy that consisted primarily of purchasing stocks of large companies and purchasing and selling options that limited profits, but reduced potential losses. Chais also told this investor that Chais always hedged the Fund investments and that the investor's investment was not risky because it was not leveraged, and that the returns under the new strategy had been similar to the Funds' returns in the former strategy. After hearing Chais' explanation, the

investor sent a letter to all of CMG's limited partners explaining this purported new strategy;

- c. In approximately August 1994 Chais told the Leghorn general partner referenced in paragraph 36.a. above, and in approximately 1992 Chais told the general partner of a Popham limited partner, that their investments could only fail if the economy were to collapse or if Chais were to steal the Funds' money; and
- d. In June 2008, Chais sent a letter to investors telling them he was seriously ill and that he may not be able to continue serving as a general partner for the Funds. In this letter, and in subsequent telephone calls regarding this letter, Chais continued to mislead investors into thinking that Chais was actually managing their money. Chais stated in the letter that he wanted his son, to replace him as general partner of the Funds in the event Chais were to die or become incapacitated. Chais even touted his son's qualifications to take over his role, including his experience as a manager of a venture capital fund.

37. Chais knew, or was reckless in not knowing, that these representations were false.

38. As a result of these and other similar misrepresentations, most investors, including at least one of Chais' own family members, believed that Chais was a financial wizard, who managed the Funds' assets and formulated and executed the Funds' trading strategy himself. In fact, Chais had little experience trading and did nothing more than hand over all or substantially all of the Funds' assets to Madoff.

39. Despite the fact that Chais gave all or substantially all of the Funds' assets over to Madoff, many of the Funds' investors had never heard of Madoff prior to December 11, 2008 and had not known that Chais invested with Madoff until Chais informed them of that fact after Madoff's arrest. In fact, Chais made clear to his accountant that both Chais and Madoff did not want Madoff's name disclosed to investors.

40. Despite his failure to make any investment decisions on behalf of the Funds, as noted above, Chais charged the Funds over \$269,600,000 in fees during the period 1995 to 2008.

B. Chais Provided False Returns to Investors

41. In or about the mid-1990s after Madoff purported to switch the Funds from the “riskless arbitrage” strategy to the “split strike conversion” strategy, Chais became alarmed at the prospect that there could be individual trades that generated losses (despite Madoff’s assurances that overall there would be net gains). Chais told Madoff that he did not want there to be any losses in any of the Funds’ trades.

42. Madoff complied with Chais’ request. Thus, between 1999 and 2008, despite purportedly executing thousands of trades on behalf of the Funds, Madoff did not report a loss on a single equities trade. In contrast, Madoff reported losing trades to his other “split strike conversion” clients. Furthermore, in order to accommodate Chais’ directions, and to create the impression that the Funds did not engage in any losing trades, Madoff purported to make investments on behalf of the Funds that were different from those he purported to make for his other “split strike conversion” clients. Thus, in addition to trading in different securities, Madoff also purported to only trade individual stocks for the Funds, as opposed to the “baskets” he purported to trade for his other “split strike conversion” clients.

43. Madoff’s compliance with Chais’ desire that the Funds not report a single losing trade was a glaring red flag that should have made clear to Chais that Madoff’s reports to Chais were false, and that the account statements that Chais in turn provided to the Funds’ investors based upon the Madoff reports were similarly false. Chais, however, continued to distribute account statements based upon the Madoff reports to the Funds’ investors up to the time of the collapse of Madoff’s scheme. Chais was at least negligent in distributing these false account statements to the Funds’ investors.

CLAIMS FOR RELIEF

COUNT I

VIOLATIONS OF SECTION 17(a)(1) OF THE SECURITIES ACT

44. The Commission repeats and realleges Paragraphs 1 through 43 of this Complaint as if fully set forth herein.

45. Chais, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails and/or wires, directly or indirectly, has employed devices, schemes and artifices to defraud.

46. Chais knew, or was reckless in not knowing, of the activities described above.

47. By reason of the foregoing, Chais violated, and, unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

VIOLATIONS OF SECTION 17(a)(2) and 17(a)(3) OF THE SECURITIES ACT

48. The Commission repeats and realleges Paragraphs 1 through 43 of this Complaint as if fully set forth herein.

49. Chais, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails and/or wires, directly or indirectly, has obtained money or property by means of untrue statements of material facts or omissions to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading, and has engaged in transactions, practices or courses of business which have operated as a fraud and deceit upon investor.

50. Chais knew, was reckless in not knowing, or should have known of the activities described above.

51. By reason of the foregoing, Chais violated, and, unless enjoined, will continue to violate, Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77(a)(a)(2) and § 77q(a)(3)].

COUNT III

VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 THEREUNDER

52. The Commission repeats and realleges Paragraphs 1 through 43 of this Complaint as if fully set forth herein.

53. Chais, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails and/or wires, directly and indirectly has employed devices, schemes and artifices to defraud; has made untrue statements of material fact and has omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and has engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of securities.

54. Chais knew or was reckless in not knowing of the activities described above.

55. By reason of the foregoing, Chais violated, and, unless enjoined, will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5].

COUNT IV

VIOLATIONS OF SECTION 206(4) OF THE ADVISERS ACT AND RULE 206(4)-8 THEREUNDER

56. The Commission repeats and realleges Paragraphs 1 through 43 of this Complaint as if fully set forth herein.

57. At all times relevant to this Complaint, Chais acted as an investment adviser to the Funds and their investors.

58. Chais, while acting as an investment adviser to a pooled investment vehicle, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, has engaged in transactions, practices, and courses of business which operate as a fraud or deceit upon the Funds' investors. Chais made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the Funds.

59. Chais knew, was reckless in not knowing, or should have known of the activities described above.

60. By reason of the foregoing, Chais violated, and, unless enjoined, will continue to violate Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)], and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

RELIEF SOUGHT

WHEREFORE, the Commission respectfully requests that this Court grant the following relief:

I.

A final judgment in favor of the Commission finding that Chais violated the securities laws and rules promulgated thereunder as alleged herein.

II.

Final Judgments permanently restraining and enjoining Chais, his agents, servants, employees, and attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from committing future violations of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], and Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

III.

An order directing Chais to disgorge his ill-gotten gains, plus prejudgment interest thereon.

IV.

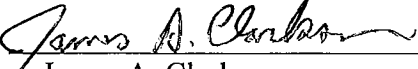
Final Judgments directing Chais to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9].

V.

.Granting such other and further relief as this Court deems just and proper.

Dated: New York, New York
June 22, 2009

SECURITIES AND EXCHANGE COMMISSION

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