

This is Google's cache of <http://online.wsj.com/article/SB124261271530929129.html>. It is a snapshot of the page as it appeared on Jul 29, 2009 21:08:05 GMT. The [current page](#) could have changed in the meantime. [Learn more](#)

These search terms are highlighted: **madoff victims investigated**

[Text-only version](#)



MAY 18, 2009

Madoff Victims Investigated

Criminal Probe Expands to High-Profile Investors Who Say They Were Stung

By AMIR EFRATI

The criminal investigation into who knew about Bernard L. Madoff's massive fraud has expanded to include some of his highest-profile investors, according to people familiar with the matter.

Jeffrey Picower and Stanley Chais, two philanthropists who invested heavily with Mr. **Madoff**, and Carl Shapiro, one of the money manager's oldest friends, are among at least eight **Madoff** investors and associates being scrutinized by the U.S. attorney's office in Manhattan, these people said.

Federal investigators have gathered evidence they think will show that Messrs. Picower and Chais told Mr. **Madoff** how much in returns they wanted. Their accounts soon would reflect those amounts, people familiar with the investigation said.

Prosecutors are continuing to probe **Madoff** family members and employees, but the investigation now includes investors who have claimed to be among the hardest-hit **victims** of the fraud, both directly and through their foundations. Mr. **Madoff** pleaded guilty in March and is set to be sentenced in June.

Aiding investigators is their discovery that Mr. **Madoff** was a "meticulous" record keeper who kept correspondence between some clients and the firm, said people familiar with the probe.

Prosecutors haven't charged any **Madoff** investors with criminal wrongdoing. A lawyer for Mr. Picower, 67 years old, said his client wasn't complicit in the fraud and suffered losses in the billions. A lawyer for Mr. Chais, 82, a money manager who channeled West Coast clients to Mr. Madoff's firm, said he was unaware of a criminal probe of Mr. Chais and his client didn't have knowledge of Mr. Madoff's Ponzi scheme. Mr. Chais "has cooperated fully" with investigators, the lawyer said. A representative for Mr. Shapiro, 96, said Mr. Shapiro had no knowledge of the fraud.

Messrs. Picower and Chais already have been accused of seeking fictitious gains in civil lawsuits brought against them by Irving Picard, an attorney at Baker & Hostetler LLP who is trustee in the bankruptcy liquidation of Mr. Madoff's firm, Bernard L. **Madoff** Investment Securities LLC. As part of his effort to recover assets for Mr. Madoff's **victims**, Mr. Picard alleged that Messrs. Picower and Chais sought -- and then received -- better returns than thousands of other **Madoff** investors.

In some cases, their returns reached 300% or 950% a year, Mr. Picard has alleged. The two men made withdrawals from Mr. Madoff's firm of more than \$6 billion in supposed profits above and beyond the principal they deposited for themselves, family members and foundations, the lawsuits allege.

Messrs. Picower and Chais have denied the claims, either directly or through their lawyers. A lawyer for Mr. **Madoff** declined to comment on Mr. Picard's allegations or the criminal probe of investors.

Prosecutors are now weighing whether the actions and evidence cited in the civil lawsuits rise to the level of criminality, according to people familiar with the matter. More broadly, they are reviewing records to see if certain longtime investors had special access to Mr. **Madoff**, as well as whether they got specific returns in a manner that suggests they knew the returns were a fraud.

Among the other **Madoff** investors and associates whose account records and other information kept by the **Madoff** firm are being scrutinized by the government for signs of complicity, according to people familiar with the matter: Frank Avellino, a Florida accountant who ran an investment fund that channeled client money to Mr. **Madoff**; Noel Levine, a real-estate investor who works out of a two-room office located next door to where Mr. **Madoff** ran his fraudulent investment operation, on the 17th floor of the Lipstick Building in Manhattan; and Palm Beach investor Robert Jaffe, a son-in-law of Mr. Shapiro who referred potential investors to Mr. **Madoff**.

None of these people have been accused of criminal wrongdoing by the government.

A lawyer for Mr. Avellino declined to comment. Mr. Levine, 89, said he had no knowledge of fraud and that he and his family lost millions of dollars. A spokesman for Mr. Jaffe said he had no knowledge of the fraud.

A spokeswoman for the U.S. Attorney's office, which has brought criminal charges against only Mr. **Madoff**, 71, and his outside auditor, declined to comment. The auditor, David Friebling, who also had investments with Mr. **Madoff**, is out on bail. His lawyer has declined to comment.

It's unclear why Mr. **Madoff** would allegedly have given some investors such high returns and why some investors allegedly made requests for specific gains. Mr. Picard's lawsuit against Messrs. Picower and Chais doesn't speak to possible motive, only alleging that the defendants knew or should have known they were "reaping the benefits" of "manipulated purported returns, false documents and fictitious reports."

Originally from the New York City borough of the Bronx, Mr. Chais for many years lived as a money manager in Beverly Hills, Calif. He invested substantial client funds with Mr. **Madoff**. He now lives in New York.

Accounts of Mr. Chais and his family averaged annual returns of 40% with Mr. **Madoff**, and as much as 300%, Mr. Picard alleged. Mr. Chais also requested fictitious losses from Mr. Madoff's firm, apparently to offset gains he made through other investments in order to avoid taxes, Mr. Picard alleged. Mr. Chais's foundation, wiped out in the scandal, had \$178 million in assets as of 2007.

In a letter to clients about Mr. Picard's suit, Mr. Chais said it was filled with "inaccuracies." Eugene Licker, a lawyer for Mr. Chais, said Mr. Chais is extremely ill, suffering from a blood disorder.

Mr. Picower, who lives in Palm Beach, Fla., and Manhattan, is a lawyer, accountant and investor who led buyouts of health-care and technology companies. Mr. Picower's foundation, heavily invested with Mr. **Madoff**, at one point stated its investment portfolio was valued at nearly \$1 billion.

Mr. Picower and his wife, Barbara, had two dozen accounts with Mr. **Madoff** and received annual returns of more than 100% in 14 instances, reaching as high as 950%, Mr. Picard alleged.

Correspondence between Mr. Picower or one of his employees and the **Madoff** firm suggests complicity, Mr. Picard alleged. In May 2007, for example, a foundation employee named April Freilich requested gains on Mr. Picower's behalf, according to the suit. The **Madoff** firm then recorded purported trades in his account as having occurred in January and February 2006, according to the lawsuit. That and similar moves in May 2007 netted Mr. Picower \$55 million in fictitious gains, the suit alleged.

William Zabel, a lawyer for Mr. Picower, his wife and his foundation, said they were "totally shocked" by Mr. Madoff's fraud and "were in no way complicit in it." He said they and their foundation, now closed, lost billions of dollars. Mr. Zabel, who also represents Ms. Freilich, declined to comment on her behalf.

Federal investigators are reviewing evidence that they think suggests Mr. Shapiro also knew his returns were fraudulent, according to people familiar with the matter. Unlike Messrs. Picower and Chais, Mr. Shapiro, a women's clothing entrepreneur, was never in the finance business. He is one of Mr. Madoff's oldest friends and biggest financial backers and helped Mr. **Madoff** start his investment firm in 1960.

In 1971, Mr. Shapiro sold a clothing brand for about \$20 million. Over the years, that sum grew to hundreds of millions of dollars and some say more than \$1 billion, the vast majority of it from Mr. **Madoff**, according to people close to Mr. Shapiro.

Mr. Shapiro personally lost an estimated \$400 million from the fraud, including \$250 million invested with Mr. **Madoff** 10 days before the fraud collapsed, said people familiar with the matter. His foundation lost more than \$100 million.

—Robert Frank contributed to this article.

Write to Amir Efrati at amir.efrati@wsj.com

Printed in The Wall Street Journal, page A1