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14
15 SUPERIOR COURT OF THE STATE OF CALIFORNIA
16 COUNTY OF LOS ANGELES

17 DOUGLAS HALL, as Co-Trustee of the)
VIVIAN H. HALL IRA and Derivatively on)
18 Behalf of CRESCENT SECURITIES,)

19 Plaintiff,)

20 vs.)

21 PAMELA CHAIS as executor of the estate of)
STANLEY CHAIS, individually and as)
22 General Partner of Defendant The Lambeth)
Co., and as trustee for The 1994 Trust for the)
23 Children of Stanley and Pamela Chais, the)
1996 Trust for the Children of Pamela Chais)
24 and Stanley Chais, the 1999 Trust for the)
Children of Stanley and Pamela Chais, the)
25 1999 Trust for the Grandchildren of Stanley)
and Pamela Chais, the Chais 1991 Family)
26 Trust, the Emily Chais 1983 Trust, the Emily)
Chais Trust, the Emily Chais Issue Trust, the)
27 Mark Hugh Chais Trust, the Mark Chais Issue)
Trust, the Mark Hugh Chais 1983 Trust, the)
28 William Frederick Chais Trust, the William F.)

Lead Case No. BC413820
Consolidated with: BC413821

[Related to Case Nos. BC404557, BC404557;
BC407721, BC407967, BC408661, BC409658,
BC422257 and BC422258]

THIRD AMENDED LIMITED PARTNERS'
DERIVATIVE COMPLAINT

JURY TRIAL DEMANDED FOR ANY AND
ALL ISSUES SO TRIABLE

DEPT: 48
JUDGE: Hon. Elizabeth A. White

1 Chais Issue Trust, the William Frederick Chais)
 1983 Trust, the Ari Chais 1999 Trust, the Ari)
 2 Chais Transferee #1 Trust, the Benjamin Paul)
 Chasalow 1999 Trust, the Benjamin Paul)
 3 Chasalow Transferee #1 Trust, the Chloe)
 Francis Chais 1994 Trust, the Chloe Francis)
 4 Chais Transferee #1 Trust, the Jonathan Wolf)
 Chais Trust, the Jonathan Chais Transferee #1)
 5 Trust, the Justin Robert Chasalow 1999 Trust,)
 the Justin Robert Chasalow Transferee #1)
 6 Trust, the Madeline Celia Chais 1992 Trust, the)
 Madeline Chais Transferee #1 Trust, the)
 7 Rachel Allison Chasalow 1999 Trust, the)
 Rachel Allison Chasalow Transferee #1 Trust,)
 8 the Tali Chais 1997 Trust, the Tali Chais)
 Transferee #1 Trust, the Onondaga, Inc.)
 9 Defined Benefit Plan, and the Unicycle)
 Corporation Money Purchase Plan;)
 10)
 PAMELA CHAIS, individually and as trustee)
 11 for the Chais 1991 Family Trust, the Appleby)
 Productions Ltd., Defined Contribution Plan,)
 12 the Appleby Productions Ltd. Money Purchase)
 Plan, and the Appleby Productions Ltd. Profit)
 13 Sharing Plan;)
)
 14 EMILY CHASALOW, individually and as)
 trustee for the 1994 Trust for the Children of)
 15 Stanley and Pamela Chais, the 1996 Trust for)
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 16 Chais, the 1999 Trust for the Children of)
 Stanley and Pamela Chais, the 1999 Trust for)
 17 the Grandchildren of Stanley and Pamela)
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 18 Chais 1983 Trust, the Emily Chais Trust, the)
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 19 Trust, the Mark Chais Issue Trust, the Mark)
 Hugh Chais 1983 Trust, the William Frederick)
 20 Chais Trust, the William F. Chais Issue Trust,)
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 21 Ari Chais 1999 Trust, the Ari Chais Transferee)
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 22 Trust, the Benjamin Paul Chasalow Transferee)
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 23 the Chloe Francis Chais Transferee #1 Trust,)
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 1997 Trust, and the Tali Chais Transferee #1)
 28 Trust;)

1 MARK CHAIS, individually and as trustee for)
2 the 1994 Trust for the Children of Stanley and)
3 Pamela Chais, the 1996 Trust for the Children)
4 of Pamela Chais and Stanley Chais, the 1999)
5 Trust for the Children of Stanley and Pamela)
6 Chais, the 1999 Trust for the Grandchildren of)
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13 William F. Chais Issue Trust, the William)
14 Frederick Chais 1983 Trust, the Ari Chais 1999)
15 Trust, the Ari Chais Transferee #1 Trust, the)
16 Benjamin Paul Chasalow 1999 Trust, the)
17 Benjamin Paul Chasalow Transferee #1 Trust,)
18 the Chloe Francis Chais 1994 Trust, the Chloe)
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20 Jonathan Wolf Chais Trust, the Jonathan Chais)
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 2 Rachel Allison Chasalow 1999 Trust, the)
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 Transferee #1 Trust, and the Onondaga, Inc.)
 4 Defined Benefit Plan;)
 5 MICHAEL CHASALOW;)
 6 MIRIE CHAIS;)
 7 WRENN CHAIS, individually and as trustee)
 for the William and Wrenn Chais 1994 Family)
 8 Trust;)
 9 APPLEBY PRODUCTIONS LTD.; THE)
 APPLEBY PRODUCTIONS LTD. DEFINED)
 10 CONTRIBUTION PLAN; THE APPLEBY)
 PRODUCTIONS LTD. MONEY PURCHASE)
 11 PLAN; THE APPLEBY PRODUCTIONS)
 LTD. PROFIT SHARING PLAN; THE)
 12 UNICYCLE TRADING COMPANY;)
 UNICYCLE CORP., individually and as the)
 13 General Partner of The Unicycle Trading)
 Company; THE UNICYCLE CORPORATION)
 14 MONEY PURCHASE PLAN; ONONDAGA,)
 INC., individually and as General Partner of)
 15 Chais Investments Ltd., a Nevada Limited)
 Partnership; THE ONONDAGA, INC.)
 16 MONEY PURCHASE PLAN; THE)
 ONONDAGA, INC. DEFINED BENEFIT)
 17 PENSION PLAN; CHAIS INVESTMENTS,)
 LTD.; CHAIS FAMILY FOUNDATION;)
 18 CHAIS MANAGEMENT, INC., individually)
 and as General Partner of Chais Management)
 19 Ltd.; CHAIS MANAGEMENT, LTD.; CHAIS)
 VENTURE HOLDINGS;)
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 21 THE 1994 TRUST FOR THE CHILDREN OF)
 STANLEY AND PAMELA CHAIS; THE)
 22 1996 TRUST FOR THE CHILDREN OF)
 PAMELA CHAIS AND STANLEY CHAIS;)
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 24 1999 TRUST FOR THE GRANDCHILDREN)
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 11 ALLISON CHASALOW TRANSFEREE #1)
 TRUST; THE TALI CHAIS 1997 TRUST;)
 12 THE TALI CHAIS TRANSFEREE #1)
 TRUST;)
 13 FRANCIS X. MANTOVANI;)
 14 HALPERN & MANTOVANI (An)
 15 Accountancy Corporation); and)
 16 DOES 1-100,)
 Defendants,)
 17 and)
 18 THE POPHAM COMPANY,)
 19 First Nominal Defendant,)
 20 and)
 21 MARLOMA SECURITIES,)
 22 Second Nominal Defendant.)
 23
 24 **AND**
 25 STEVEN HEIMOFF, as Trustee of the)
 26 STEVEN HEIMOFF IRA and Derivatively on)
 behalf of MARLOMA SECURITIES,)
 27 Plaintiff,)
 28 vs.

1 PAMELA CHAIS as executor of the estate of)
2 STANLEY CHAIS, individually and as)
3 General Partner of Defendant The Popham)
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the Tali Chais 1997 Trust, the Tali Chais)
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Corporation Money Purchase Plan;

PAMELA CHAIS, individually and as trustee)
for the Chais 1991 Family Trust, the Appleby)
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1 THE 1994 TRUST FOR THE CHILDREN OF)
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 28 First Nominal Defendant,)

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and)
MARLOMA SECURITIES,)
Second Nominal Defendant.)

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1 the purpose of transmitting funds to Popham. Heimoff was therefore, at all relevant times, a
2 beneficial owner of Popham.

3 3. Crescent and Marloma are collectively referred to herein as the “Sub-
4 Partnerships.”

5 4. Lambeth and Popham are collectively referred to herein as the “Partnerships.”

6 5. The Sub-Partnerships were intended to be vehicles to act as a conduit to pass
7 through funds from investors like the Plaintiffs to the Partnerships. Plaintiffs are therefore, for
8 all relevant purposes, investors in the Partnerships.

9 6. The general partner of the Partnerships, Defendant Chais, encouraged the
10 formation of the Sub-Partnerships because he believed that the Partnerships were limited in
11 accumulating any further partners at the time of the Sub-Partnerships formation. The Sub-
12 Partnerships were intended to be vehicles to act as a conduit to pass through funds from investors
13 like the Plaintiffs to the Partnerships.

14 7. Plaintiffs bring these derivative actions in the name of the Partnerships, as first
15 nominal defendants, and for the benefit of the Partnerships against defendants Stanley Chais
16 (“Chais”), Chais family members and associates (“Chais-Related Individuals”) and related
17 entities (“Chais Entities”), and Does 1-100, for breaches of fiduciary duty, aiding and abetting
18 breaches of fiduciary duty, an accounting, breach of contract, fraud, aiding and abetting fraud,
19 unjust enrichment and/or fraudulent conveyances.

20 8. Plaintiffs also bring this action as a derivative action in the name of the Sub-
21 Partnerships, as the second nominal defendants, and for the benefit of the Sub-Partnerships,
22 against Mantovani for breach of fiduciary duty, unjust enrichment, an accounting, and breach of
23 contract.

24 **The Partnerships**

25 9. Lambeth is a limited partnership established in accordance with the Corporations
26 Code Sections 1600-1692 (the “Code”). Lambeth was established on or about November 18,
27 1970 pursuant to a partnership agreement (the “Lambeth Partnership Agreement”). Pursuant to
28 the Lambeth Partnership Agreement, Chais was the general partner of Lambeth.

1 10. Popham is a limited partnership established in accordance with the Code.
2 Popham was established on or about November 18, 1970 pursuant to a partnership agreement
3 (the "Popham Partnership Agreement"). Pursuant to the Popham Partnership Agreement, Chais
4 was the general partner of Popham.

5 11. The Lambeth Partnership Agreement and the Popham Partnership Agreement are
6 collectively referred to herein as the "Partnership Agreements."

7 12. Unbeknownst to Plaintiffs, the Partnerships, at the direction of Chais, were
8 "feeder funds" that placed all of the monies invested by its partners with Bernard Madoff
9 ("Madoff") and his firm Bernard L. Madoff Investment Securities, LLC ("BMIS"). A feeder
10 fund is a fund that takes investor money and gives it to another fund to manage and invest. The
11 Sub-Partnerships were feeder funds to the Partnerships. Chais controlled feeder funds like the
12 Partnerships and directed each of these feeder funds to invest all of their assets, totaling billions
13 of dollars, in BMIS.

14 **The Sub-Partnerships**

15 *Crescent*

16 13. Crescent is purportedly a limited partnership established in accordance with the
17 Code. On or about January 1, 1976, Crescent was formed by way of the Crescent Partnership
18 Agreement with Theodor Halpern ("Halpern") as general partner. Halpern was the general
19 partner of Crescent, a purported limited partnership, from January 1, 1976 until his retirement.
20 After Halpern's retirement, Mantovani assumed the role of general partner of Crescent. By
21 amendment to the Crescent Partnership Agreement dated March 13, 2004, Mantovani became
22 the general partner of Crescent and, as a result, was responsible for Crescent's investments.

23 14. According to the Crescent Partnership Agreement, Crescent was formed as a
24 limited partnership for the sole purpose of investing in Lambeth. At all relevant times, Crescent
25 was a limited partner of Lambeth and all of Crescent's assets were invested in Lambeth, which
26 were, in turn, invested in BMIS. Plaintiffs have not seen a properly filed copy of the Crescent
27 Partnership Agreement. Defendant Mantovani testified that he is not aware that the Crescent
28 Partnership Agreement was ever filed with the California Secretary of State. Irrespective of

1 whether or not Crescent was a limited partnership in accordance with the Code, both Halpern and
2 Mantovani, respectively, managed Crescent as general partners and each represented to
3 Crescent's partners (the "Crescent Partners") that he was the general partner of Crescent as if
4 Crescent was a compliant limited partnership.

5 15. In 1978, Vivian H. Hall, for and on behalf of the Vivian H. Hall IRA, became a
6 partner of Crescent. From 1978 through the date of filing, Vivian H. Hall, and then upon her
7 death in October 2008, her estate, retained the partnership interest in Crescent. Vivian H. Hall,
8 as a partner of Crescent, deposited monies into the care and control of Crescent, which passed
9 these monies through to Lambeth.

10 ***Marloma***

11 16. Marloma is purportedly a limited partnership established in accordance with the
12 Code. On or about July 1, 1975, Marloma was formed by way of the Marloma Partnership
13 Agreement with Halpern as general partner. Halpern was the general partner of Marloma, a
14 purported limited partnership, from July 1, 1975 until his retirement. After Halpern's retirement,
15 Mantovani assumed the role of general partner of Marloma. Mantovani became the general
16 partner of Marloma and, as a result, was responsible for Marloma's investments.

17 17. According to the Marloma Partnership Agreement, Marloma was formed as a
18 limited partnership for the sole purpose of investing in Popham. At all relevant times, Marloma
19 was a limited partner of Popham and all of Marloma's assets were invested in Popham, which
20 were, in turn, invested in BMIS. Plaintiffs have not seen a properly filed copy of the Marloma
21 Partnership Agreement. Defendant Mantovani testified that he is not aware that the Marloma
22 Partnership Agreement was ever filed with the California Secretary of State. Irrespective of
23 whether or not Marloma was a limited partnership in accordance with the Code, both Halpern
24 and Mantovani, respectively, managed Marloma as general partners and each represented to
25 Marloma's partners (the "Marloma Partners") that he was the general partner of Marloma as if
26 Marloma was a compliant limited partnership.

27 18. In 1991, Steven Heimoff became a partner of Marloma. From 1991 through the
28 date of filing, Steven Heimoff retained the partnership interest in Marloma. Steven Heimoff, as a

1 partner of Marloma, deposited monies into the care and control of Marloma, which passed these
2 monies through to Popham.

3 19. The Crescent Partners and the Marloma Partners are collectively referred to
4 herein as the "Sub-Partners."

5 **The Investment Loss**

6 20. On December 10, 2008, it was disclosed that Madoff, acting through BMIS, had
7 been running a Ponzi scheme for many years. Assets and profits that had been reported to
8 investors were nonexistent, and payments to earlier investors had been made from the capital of
9 newer investors. The next day, on December 11, 2008, the Federal Bureau of Investigation
10 arrested Madoff who admitted to running a \$50 billion Ponzi scheme and confessed that he
11 "paid investors with money that wasn't there."

12 21. Pursuant to the Sub-Partnership Agreements, all of the Sub-Partnerships'
13 investments were in the Partnerships. Unbeknownst to the Sub-Partners, the Partnerships, in
14 turn, invested all of their capital with BMIS. Accordingly, Plaintiffs believe that all of the Sub-
15 Partnerships' assets have been lost.

16 **The Liability**

17 22. Mantovani and his predecessor Halpern, as the purported general partners of the
18 Sub-Partnerships, were solely responsible for the management of the Sub-Partnerships pursuant
19 to the Sub-Partnership Agreements (as amended). Mantovani, as the purported general partner,
20 owed the Sub-Partnerships and the Sub-Partners both a contractual and fiduciary duty of due
21 care. He also owed the Sub-Partnerships and the Sub-Partners a general duty to exercise due
22 care. In investing the limited partners' contributions in the Partnerships, Mantovani breached his
23 duties to the Sub-Partnerships and the Sub-Partners.

24 23. Chais was the general partner of the Partnerships, and Chais was solely
25 responsible for the management and investment strategy of the Partnerships. Chais, as general
26 partner, owed the Sub-Partners, the Sub-Partnerships, and the Partnerships both a contractual and
27 fiduciary duty of due care. He also owed the Sub-Partners, the Sub-Partnerships, and the
28 Partnerships a general duty to exercise due care. In investing the Sub-Partners' contributions in

1 BMIS, Chais breached his duties to the Sub-Partners, the Sub-Partnerships, and the Partnerships.
2 Chais was an unregistered investment advisor.

3 **The Transactions**

4 24. Chais profited from the investments of Lambeth's limited partners, including the
5 Sub-Partnerships, and therefore Chais profited from the Sub-Partners, through the receipt of
6 hundreds of millions of dollars of purported management fees (the "Chais Revenue"). The Chais
7 Revenue consisted of fees subtracted from the purported profits of the Partnerships' limited
8 partners such as the Sub-Partnerships. These fees were a significant proportion of the purported
9 profits.

10 25. Chais distributed part or all of the Chais Revenue to Chais-Related Individuals
11 and Chais Entities. The Chais Related Individuals and Chais Entities were and remained under
12 the control and domination of Chais until his death.

13 26. Chais, the Chais-Related Individuals, and the Chais Entities also held investment
14 accounts with BMIS that were credited with exorbitant returns. Chais knew, or should have
15 known, that he was reaping the benefit of Madoff's Ponzi scheme.

16 **VENUE AND JURISDICTION**

17 27. This Court has subject matter jurisdiction over this action pursuant to Code of
18 Civil Procedure Section 410.10 and Business & Professions Code Section 17204. This Court
19 also has personal jurisdiction over Defendants because a substantial portion of the wrongdoing
20 alleged in this Complaint emanates from this State, and the primary Defendants are believed to
21 be citizens of this State.

22 28. Venue in this Court is proper under Code of Civil Procedure Sections 395 and
23 Section 395.5 and Business & Professions Code Section 17204 because many of the acts and
24 practices described herein occurred within the County of Los Angeles and, additionally, the
25 principal place of business for many Defendants is located in this county.

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28

1 **THE PARTIES**

2 **Plaintiffs**

3 29. Plaintiff Douglas Hall is the co-trustee of the Vivian H. Hall IRA. Vivian H.
4 Hall, or her estate is, and was, a partner of Crescent at all relevant times. In 1978, Vivian H. Hall
5 on behalf of the Vivian H. Hall IRA invested in Lambeth via Crescent. According to the
6 November 1, 2008 account statement received from Mantovani, the balance in Vivian H. Hall's
7 account was \$60,504.73 (before deduction of general partner's share of profit) as of September
8 30, 2008.

9 30. Plaintiff Steven Heimoff, a resident of California, in 1991 invested in Marloma
10 through an IRA account. The Steven Heimoff IRA invested in Popham via Marloma. According
11 to the November 1, 2008 account statement received from Mantovani, the balance in Steven
12 Heimoff's account was \$645,247.73 (before deduction of general partner's share of profit) as of
13 September 30, 2008.

14 **The Nominal Defendants**

15 31. The Partnerships are limited partnerships organized and existing under the laws of
16 the State of California, with the principal place of business of the Partnerships in Los Angeles
17 County, California. As set forth herein, Chais exercised complete domination of the Partnerships
18 in dealing with BMIS. As a result, the Partnerships functioned as the alter egos of Chais.

19 32. The Sub-Partnerships are purportedly limited partnerships organized and existing
20 under the laws of the State of California, with the principal place of business of the Sub-
21 Partnerships in Los Angeles County, California. At all relevant times, Mantovani or his
22 predecessor acted as the purported general partner of the Sub-Partnerships. The Sub-Partnerships
23 were formed with the knowledge and consent of Chais for the sole purpose of acting as a conduit
24 for the transfer of the Sub-Partners' assets to the Partnerships.

25 **Defendants**

26 ***Stanley Chais***

27 33. Stanley Chais ("Chais") was the general partner of the Partnerships. His principal
28 place of business was, at all times relevant to the allegations herein, in Los Angeles County in

