

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA**

CASE NO.

SECURITIES AND EXCHANGE COMMISSION,)	
)	
Plaintiff,)	
)	
v.)	
)	
PETER KRIEGER,)	
SHELDON KRIEGER,)	
and JOHN MADEY,)	
)	
Defendants.)	
)	

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff Securities and Exchange Commission alleges and states as follows:

I. INTRODUCTION

1. The Commission brings this action to enjoin the Defendants from violating the federal securities laws. Defendants Peter Krieger and Sheldon Krieger and John Madey, principals of KFSI Equity Fund, L.P. (“KFSI Fund” or “Fund”), a defunct hedge fund, misappropriated more than \$3.7 million of investor funds.

2. From approximately June 1999 through December 2000, the KFSI Fund raised more than \$7.5 million from approximately 45 investors through the sale of limited partnership interests. During this period, the Kriegers and Madey also operated a registered broker-dealer, Krieger Financial Services, Inc. (“Krieger Financial”), through which the KFSI Fund placed its trades.

3. The KFSI Fund, both Kriegers and Madey told investors they would generate returns by trading in securities. In the second quarter of 2000, however, the Defendants began diverting KFSI Fund investor funds to run Krieger Financial and pay their own personal expenses.

4. To conceal their illicit activities, the Kriegers and Madey issued false KFSI Fund investor statements throughout 2000 that materially overstated the value of customer accounts. Numerous investors invested additional money in the KFSI Fund after receiving these inflated account statements.

5. When these fraudulently obtained cash infusions failed to cover the Defendants' personal expenses and the operating expenses for the KFSI Fund and Krieger Financial, the Kriegers and Madey defrauded investors again by promoting fictitious bonds and promissory notes. Ultimately, these investments could not sustain the Fund or Krieger Financial, and both ceased operating in January 2001.

6. Given the seriousness of the violations alleged, the degree of scienter, and the willful and wanton disregard for the federal securities laws that all Defendants displayed, the Defendants have shown they will continue to violate the federal securities laws unless the Court enjoins them.

II. DEFENDANTS

7. **Peter Krieger** resides in West Palm Beach, Florida. At all relevant times, he was the president, director and control person of Krieger Financial and directed most of the trading activity in the KFSI Fund.

8. **Sheldon Krieger** is Peter Krieger's father and resides in Jupiter, Florida. From at least May 1999 to December 2000, Sheldon Krieger was a shareholder and control person of Krieger Financial and participated in the day-to-day operations of the KFSI Fund.

9. **John Madey** resides in Jupiter, Florida. From May 1999 to December 2000, Madey was chief financial officer and a shareholder of Krieger Financial and the Fund.

III. JURISDICTION AND VENUE

10. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d), and 77v(a); Sections 21(d), 21(e), and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d), 78u(e) and 78aa; and Section 214 of the Investment Advisers Act of 1940 ("Advisers Act"), 15 U.S.C. § 80b-14.

11. This Court has personal jurisdiction over the Defendants, and venue is proper in the Southern District of Florida, as all Defendants reside in the Southern District of Florida, and Krieger Financial and the KFSI Fund had their principal place of business and conducted business in the Southern District of Florida during the relevant time period. Additionally, almost all of the conduct constituting violations of the securities laws occurred in the Southern District of Florida.

IV. FACTUAL ALLEGATIONS

A. The Formation of the KFSI Fund

12. The Kriegers formed the KFSI Fund on May 24, 1999 to implement Peter Krieger's aggressive trading strategy. Krieger Financial was the Fund's initial general partner, manager, and executing broker for its trades.

13. The KFSI Fund raised money from accredited investors who were also clients of Krieger Financial through three separate private placement offerings between June 1999 and September 2000. The Defendants raised approximately \$7.5 million from 45 clients for the KFSI Fund before the Fund ceased operations in January 2001. While convincing KFSI Fund clients to

invest and maintain their money in the Fund, the defendants never disclosed the extent of the Fund's losses, or their misappropriation of substantial portions of that money for their own personal use and for operating Krieger Financial.

B. Misappropriation of Investor Funds

14. Although the KFSI Fund's trading strategy was initially profitable, it began to fail during the third quarter of 2000. This market decline, combined with the Defendants' misappropriation of money from the Fund, depleted almost all of the Fund's assets by late 2000. The KFSI Fund was worth approximately \$5 million during the first and second quarters of 2000, but its value plunged to less than \$14 by December 2000. On January 2, 2001, the Fund ceased operating.

1. Diversion of KFSI Fund Assets to Krieger Financial

15. Between January and December 2000, the Kriegers and Madey misappropriated approximately \$1.8 million of the KFSI Fund's assets to pay for Krieger Financial's expenses as well as their own personal expenses. The Kriegers and Madey exercised total discretion over bank and brokerage accounts for Krieger Financial and the Fund, and they regularly moved money back and forth between the various accounts.

16. Most of the money the Defendants misappropriated from the KFSI Fund went into Krieger Financial's operating account. The terms of the limited partnership agreement governing the KFSI Fund (which the Kriegers and Madey distributed to potential investors) permitted Krieger Financial, as the Fund's general partner, to receive a fee equal to 20% of the aggregate net profit distributed annually to the limited partners of the Fund together with a management fee of .25 percent of the fair market value of the Fund's assets. During 2000, Krieger Financial therefore was entitled to receive a total of \$644,000 from the Fund. The Defendants, however, transferred more

than \$1.8 million in Fund assets to Krieger Financial – almost three times the fees the limited partnership agreement allowed. The Kriegers and Madey then used these funds to pay for Krieger Financial’s business expenses and their own personal expenses. The Kriegers and Madey never disclosed to potential investors that they were diverting almost three times as many Fund assets to Krieger Financial as the limited partnership agreement allowed.

2. Improper Use of KFSI Fund Assets

17. The Kriegers and Madey also used money misappropriated from the KFSI Fund to pay their own personal expenses. For example, they used at least \$527,446 from the KFSI Fund to pay the balance on a Krieger Financial corporate credit card account the Kriegers and Madey used. Peter Krieger alone used this corporate credit card for more than \$160,000 for personal items such as dental visits, taking his pets to the veterinarian, designer clothing, jewelry, and high-end home entertainment systems. Sheldon Krieger charged more than \$140,000 for items such as automobiles, home mortgage payments, jewelry, golf outings, cruises and trips. Madey had charges exceeding \$200,000 for items such as boating supplies, high-end home entertainment systems, and veterinary bills. The Defendants also paid for a boat, jewelry, and construction of a swimming pool using money misappropriated from the KFSI Fund. The Defendants never disclosed to potential investors they were, in fact, using money raised for the Fund to fund their lavish lifestyle.

C. Misrepresentations Concerning the Fund’s Performance and Profitability

18. To conceal KFSI Fund’s investment losses and their misappropriation of investor assets, the Kriegers and Madey created and sent investors quarterly fund account statements misrepresenting the Fund’s performance and profitability. These false quarterly statements substantially overstated the value of the KFSI Fund’s holdings and contained inflated rates of return.

Through these false statements the Defendants lied about the Fund's profits and caused some investors to send additional money to the Fund.

1. Inflation of the KFSI Fund's Assets

19. From March 2000 to the end of 2000, the KFSI Fund sent investors false quarterly account statements that falsely over-represented the value of the Fund's assets by as much as 109 percent. Madey created the financial portion of the quarterly statements based on Peter Krieger's false valuation of the KFSI Fund's total assets. Peter Krieger invented a formula to inflate the value of the Fund so the statements would show phony returns far in excess of actual returns, as documented by account statements from Krieger Financial's clearing firm. Although Madey had seen the clearing firm's brokerage statements and maintained easy access to them, he did nothing to confirm Krieger's valuations and simply disregarded the clearing firm statements when he created the quarterly statements.

20. The quarterly statements also included a performance summary Sheldon Krieger prepared. Those summaries falsely portrayed the KFSI Fund as outperforming major indices.

21. The Defendants created and supplied this false information to investors to hide their misappropriation of KFSI Funds and mislead investors into maintaining their KFSI Fund accounts and investing more. The Defendants did not inform investors that these statements contained falsified information.

2. Overstatement of the KFSI Fund Rate of Return

22. The Defendants' quarterly account statements for the KFSI Fund also misrepresented the Fund's gross returns. The account statements boasted that the Fund generated capital investment returns of 48%, 9.8%, and -7.69% for the first, second, and third quarters of 2000, respectively. The Fund's actual gross capital investment returns for 2000, however, were 38% during the first

quarter, -12% in the second quarter, and -14% for the third quarter. The Defendants did not disclose the true returns to the Fund's investors.

D. Fraudulent Solicitation of Additional Capital from Fund Investors

23. To misappropriate more investor money, replenish losses in the KFSI Fund account, and cover margin calls resulting from trading losses, the Kriegers and Madey fraudulently raised additional capital from Fund investors. Beginning in March 2000, the Kriegers and Madey solicited KFSI Fund investors to invest in "special" opportunities, such as interest-bearing bonds and short-term notes. The bonds were fictitious and the notes were never repaid.

1. Interest Bearing Bonds

24. In March 2000, both Sheldon and Peter Krieger falsely told one Fund investor that Krieger Financial could invest money in secure, interest-bearing bonds that paid 12 percent annually. The Kriegers lied and said the bonds would mature in September 2000, with interest paid monthly. Based on these misrepresentations, the investor transferred \$900,000 to Krieger Financial on April 3, 2000.

25. The Defendants never invested this money in bonds. Instead, upon receiving the \$900,000, the Kriegers and Madey transferred \$225,000 to their personal joint securities trading account. They also transferred \$500,000 to the KFSI Fund's brokerage account, using that money to purchase speculative stocks and options. The Defendants used the remaining \$175,000 to trade securities for Krieger Financial's account. The investor received only five monthly interest payments totaling \$45,000, and never received his principal back.

2. Short-term Notes

26. In October and November 2000, as the KFSI Fund was rapidly losing money, the Kriegers lured several KFSI Fund investors into purchasing notes from Krieger Financial. The

Kriegers told investors that the investment returns were guaranteed and Krieger Financial would repay the principal balance within two weeks. They also told investors they were participating in a special investment opportunity available to only a few select Krieger Financial clients. The Kriegers promised investors a minimum return of 10% of the total loan amount.

27. The Kriegers used these misrepresentations to raise at least \$977,000 from eight investors. In all but two instances, the Defendants deposited this money into the KFSI Fund's brokerage account at Krieger Financial. Contrary to the Kriegers' representations, the notes were not guaranteed and the Kriegers used most of the money to reduce the KFSI Fund's enormous margin debt. Investors in these short term notes lost all of their money.

V. VIOLATIONS ALLEGED

COUNT I

FRAUD IN VIOLATION OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 10b-5

(Against All Defendants)

28. The Commission incorporates and realleges its allegations set forth in Paragraphs 1-27 of this Complaint as if fully restated herein.

29. From at least 1999 through 2000, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly and indirectly, by use of the means or instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of the securities, as described herein, knowingly, willfully or recklessly: (i) employed devices, schemes or artifices to defraud; (ii) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (iii) engaged

in acts, practices, or courses of business which operated as a fraud or deceit upon the purchasers of such securities.

30. By reason of the foregoing acts, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly or indirectly, 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, 17 C.F.R. § 240.10b-5.

COUNT II

FRAUD IN VIOLATION OF SECTION 17(a)(1) OF THE SECURITIES ACT OF 1933

(Against All Defendants)

31. The Commission incorporates and realleges its allegations set forth in Paragraphs 1-27 of this Complaint as if fully restated herein.

32. From at least 1999 through 2000, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, in the offer or sale of securities, as described herein, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

33. By reason of the foregoing acts, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly and indirectly, violated and, unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a)(1).

COUNT III

FRAUD IN VIOLATION OF SECTIONS 17(a)(2) AND 17(a)(3) OF THE SECURITIES ACT OF 1933

(Against All Defendants)

34. The Commission incorporates and realleges its allegations set forth in Paragraphs 1-27 of this Complaint as if fully restated herein.

35. From at least 1999 through 2000, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, in the offer or sale of securities, as described herein: (i) obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; or (ii) engaged in transactions, practices or courses of business which operated as a fraud or deceit upon purchasers and prospective purchasers of such securities.

36. By reason of the foregoing acts, Defendants Peter Krieger, Sheldon Krieger and John Madey, directly and indirectly, have 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(q)(a)(2) and 77(q)(a)(3).

COUNT IV

VIOLATION OF SECTIONS 206(1) AND 206(2) OF THE INVESTMENT ADVISERS ACT OF 1940

(Against Defendant Peter Krieger)

37. The Commission incorporates and realleges its allegations set forth in Paragraphs 1-27 of this Complaint as if fully restated herein.

38. From at least 1999 through 2000, Defendant Peter Krieger acted as an investment adviser to the limited partners in the KFSI Fund by representing to the limited partners that he would trade their money in securities, in fact selecting all investments for the Fund, receiving a salary from Krieger Financial for his services, and diverting invested funds to himself.

39. During the same time period, Defendant Peter Krieger, directly or indirectly, by use of the mails, or a means or instrumentality of interstate commerce, directly or indirectly, knowingly, willfully or recklessly: (i) employed devices, schemes or artifices to defraud his

clients or prospective clients; and (ii) engaged in transactions, practices and courses of business which operated as a fraud or deceit upon his clients or prospective clients.

40. By reason of the foregoing acts, Defendant Peter Krieger, directly and indirectly, violated and, unless enjoined, will continue to violate Sections 206(1) and 206(2) of the Investment Advisers Act of 1940, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

COUNT V

AIDING AND ABETTING VIOLATIONS OF SECTIONS 206(1) AND 206(2) OF THE INVESTMENT ADVISERS ACT OF 1940

(Against Defendants Sheldon Krieger and Madey)

41. The Commission incorporates and realleges its allegations set forth in Paragraphs 1-27 of this Complaint as if fully restated herein.

42. From at least 1999 through 2000, Peter Krieger, directly or indirectly, by use of the mails, or a means or instrumentality of interstate commerce, directly or indirectly, knowingly, willfully or recklessly: (i) employed devices, schemes or artifices to defraud his clients or prospective clients; and (ii) engaged in transactions, practices and courses of business which operated as a fraud or deceit upon his clients or prospective clients.

43. During this same time period, Defendants Sheldon Krieger and John Madey knowingly or recklessly substantially participated in Peter Krieger's violations of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

44. By reason of the foregoing, Defendants Sheldon Krieger and John Madey aided and abetted Peter Krieger's violations of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Declaratory Relief

Declare, determine and find that Defendants Peter Krieger, Sheldon Krieger and John Madey committed the violations of the federal securities laws this complaint alleges.

II.

Accounting

Issue an Order requiring Defendants Peter Krieger, Sheldon Krieger and John Madey to provide an accounting of all proceeds received, directly or indirectly, as a result of the acts and/or courses of conduct this complaint alleges.

III.

Permanent Injunctive Relief

Issue a Permanent Injunction, permanently enjoining Defendants Peter Krieger, Sheldon Krieger and John Madey, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from directly or indirectly violating 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 Sections 206(1) and 206(2) of the Investment Advisers Act of 1940, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

IV.

Disgorgement

Issue an Order requiring Defendants Peter Krieger, Sheldon Krieger and John Madey to disgorge all ill-gotten profits or proceeds that they received, directly or indirectly, as a result of the acts or courses of conduct this complaint alleges.

V.

Penalties

Issue an Order directing Defendants Peter Krieger, Sheldon Krieger and John Madey to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), Section 21(d) of the Exchange Act, 15 U.S.C. § 78(d)(3), and Section 209(e) of the Investment Advisors Act, 15 U.S.C. § 80b-9(e).

VI.

Further Relief

Grant such other and further relief, as the Court may deem just and appropriate.

VII.

Retention of Jurisdiction

The Commission respectfully requests that the Court retain jurisdiction over this action to implement and carry out the terms of all orders and decrees entered, or to entertain any suitable application or motion by the Commission for additional relief within the Court's jurisdiction.

Respectfully submitted,

Date:

By:

Scott A. Masel
Senior Trial Counsel
Florida Bar No. 0007110

Telephone: (305) 982-6398
E-mail: masels@sec.gov

Ivan Harris
Assistant Regional Director
Florida Bar No. 0085405

Margarete Bronhard
Senior Counsel
New York Bar No. 2474419

Attorneys for Plaintiff
**SECURITIES AND EXCHANGE
COMMISSION**
801 Brickell Avenue, Suite 1800
Miami, Florida 33131
Telephone: (305) 982-6300
Facsimile: (305) 536-4154