Sleazy doings on Wall Street.(clearing firm owned by Bear, Stearns & Co. involved in failure of bucket shop stock brokerage A.R. Baron & Co.)(Cover Story)

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AN OBSCURE New York City brokerage firm, A.R. Baron & Co., slipped into bankruptcy last July. Brokerage is not the right word. It was a bucket shop. Baron was in trouble with regulators from the moment it opened its doors four years earlier. When it closed, its customers were on the hook for roughly $22 million. Its owner, a 31-year-old egomaniacal fellow named Andrew Bressman, has filed for bankruptcy. The N.Y. County district attorney's office has convened a grand jury on the A.R.Baron affair.

Just another boiler-room blowup? These outfits come and go, and not much has changed since the days when Robert Brennan and Denver-based Meyer Blinder ravaged and raped small investors. But this debacle was different. In failing, Baron laid bare a corner of the securities industry that is rarely seen but is hugely profitable: processing trades for other firms.

This involves clearing customer trades, processing securities transactions and other paperwork, and providing capital necessary for smaller broker/dealers to conduct their business. A major player in the clearing business is the prestigious, publicly traded brokerage giant Bear, Stearns &Co. Inc. Guess who cleared for Baron? Bear, Stearns Securities Corp., its clearing subsidiary. And guess who figures prominently in the story? Randolph Pace, a notorious bucket-shop operator of the past, who has been the subject of numerous regulatory actions during his short career in the securities business. Pace co-owned Rooney, Pace Inc. in the 1980s.

Processing of securities transactions was little noticed until 1968, when, amid growing trading, stock exchanges began closing down on Wednesdays so clerks could sort out the mountains of tickets representing customer orders. Volume had simply grown too fast for the then-primitive systems to handle. A number of famous old firms went under-Goodbody & Co., among others. Computers and vast infusions of capital eventually solved the problem.

Because expensive computer systems are required, the clearing business has become concentrated in fewer hands. Most large brokerage firms and banks, such as Merrill Lynch,Smith Barney, Chase and J.P. Morgan, still clear their own customers' trades, but many others do not. Since 1983 the number of clearing firms has declined-from 1,200 to 780-while the number of broker/dealers (also called introducing brokers) has risen from 3,500 to 5,000. Big names in clearing are Pershing, a division of Donaldson, Lufkin & Jenrette; Correspondent Services Corp., a subsidiary of PaineWebber Inc.; and Prudential Securities.

Bear, Stearns' clearing subsidiary is a big player, with 2,100 customers, up from 725 in 1987. It is so big in this business that it claims to handle 12% of the New York Stock Exchange's volume. Its clearing customers generate more than 100,000 trades every day. A decade ago its daily trades averaged 33,000. Most of Bear's clearing clients are small OTC marketmaker firms, hedge funds and money managers-good customers, solvent and well respected. But then there was Baron. As it turns out, Bear, Stearns clears for other outfits like Baron.

Officials at Bear, Stearns declined to be interviewed for this story. Company spokesperson Hannah Burns says: "Clearing is a very, very proprietary business for us, and we don't want the public knowing about it."

A strange comment. Doesn't the public have a right to know how its trades are handled? Clearing is much more than a routine process of matching the seller of a security with the corresponding buyer. A clearing firm also ponies up significant capital to each of its introducing brokers, allowing them to do business on a relatively small deposit, usually a minimum of $250,000. However, if a customer fails to pay, it is the introducing broker who gets stuck, not the clearing firm. Nor is the clearing firm on the hook if brokers at one of the introducing firms engage in unauthorized trading or other securities' laws violations. In short, the clearing firm shares in the profits but takes none of the regulatory heat.

A clearing firm's chief vulnerability is if one of its broker/dealers fails and winds up owed more by customers than what it has in cash. In most cases that risk is modest if the clearing firm keeps a watchful eye on its customers' dealings.

One veteran of the clearing business says:"A clearing firm looks at its customers' numbers every day. The first time trouble shows its head, you stop it immediately." Clearing firms can terminate their agreements with customers at any time, but they usually give the firm a grace period of a month or two to find a new home.

The risk of a firm's failing is, how-ever, far outweighed by the financial rewards of the clearing business. First there's the introducing broker's deposit paid to the clearing firm, which can use the money interest-free. Then there are the fees a clearing firm levies on every transaction an introducing firm makes-called a "ticket charge"-of anywhere from $10 to $30 per trade. The clearing firm also charges interest-typically 1% a month-of customer debit balances carried on the clearing firm's books. The interest meter starts ticking the day a trade is done. This is where the real money in clearing is made. Clearing firms like Bear,Stearns also have free use of customers' credit balances.

Last but not least, clearing firms such as Bear demand that an introducing broker's listed equity business-trades in NYSE and Amex stocks-all be funneled to its trading desks. Other firms would pay 2 cents or 3 cents a share for this order flow; Bear gets it for free.

The man running this gold mine at Bear, Stearns is Richard Harriton, 61, an imposing and imperious man who came to the firm in 1979. Reportedly the son of a Brooklyn bakery- supply salesman, Harriton has become a wealthy man as a Bear, Stearns senior managing director. He

sits on the firm's Management and Compensation Committee, which decides how many millions of dollars will be parceled out to the company's executives in bonuses each year.

Bear is known for its largesse to top employees. Last year, for example, Bear, Stearns President and Chief Executive James Cayne made $20.4 million in compensation; Chairman Alan (Ace) Greenberg got $18.9 million; Executive Vice President Warren Spector received $19.5 million. Harriton's compensation was unspecified in the proxy and the annual report, but it was no doubt hefty.

Bear, Stearns' financials don't specify how much its clearing business brings in.

With reason:Why let outsiders in on how lucrative its clearing is? In 1996 Bear produced revenues of $5 billion, on which it earned $496 million. Clearing almost certainly contributed to Bear's extraordinary results-up 68% in its most recent quarter, ended December. The firm's stock surged to an alltime high of $31.75.

All Wall Street firms have personalities; Bear's is scrappy and entrepreneurial. Bear executives are encouraged to behave as aggressive and enterprising sole proprietors.If they do so successfully, they will get their reward in the form of a bigger bonus.

Running one of Bear's biggest profit centers makes Harriton a towering figure there. His contributions to the firm's bottom line make it likely that he is autonomous, left alone to manage his fiefdom. He reportedly has introduced himself to prospective clearing customers by saying: "I run the most profitable division of Bear, Stearns and I'm the most powerful man on Wall Street in clearing." It is widely assumed that he runs his show without much input from the top boss, Alan Greenberg.

What is so special about Bear, Stearns' clearing work? Harriton knows that what he is selling is not just his firm's back-office processing: All clearing firms have sophisticated systems and most charge less to perform these services than Bear. What Harriton is selling-especially to the small and dubious firms-is respectability. If Bear's famous name appears on the trade confirmation or monthly statement as the clearing firm, who can doubt that his money is in safe hands?

Even before the Baron debacle, some of the biggest Wall Street flameouts had been clearing customers of Bear, Stearns Securities Corp.

One of Bear, Stearns' first clearing customers was Rooney, Pace Inc., a notorious stock manipulator firm shuttered by regulators in 1987. Former co-owner, Randolph Pace, is a close friend of Harriton and regularly brings new clearing customers to Bear.

Another clearing customer in Bear, Stearns' recent past was D. Blech &Co., the investment firm run by David Blech that specialized in biotechnology stock underwritings. D. Blech's failure in 1994 reportedly left $200 million in investor losses and clearing firm Bear on the hook for $10 million.

Bear,Stearns also cleared for Stratton Oakmont from 1990 until early 1994, when Bear bounced the firm amid bad press about its boiler-room tactics. Stratton was effectively shut down by regulators last month.

Right now Bear, Stearns is the clearing firm for at least 15 brokerages that are, if not full-fledged bucket shops, close to it. (See chart, p. 118.) These include Sterling Foster, charged last September in a $53 million fraud complaint by the NASD for manipulating stock prices of newly issued stocks; Lew Lieberbaum & Co., of Garden City, N.Y.; Josephthal Lyon & Ross Inc. of New York City.

Does having Bear as a clearing firm give cachet to smaller firms? Just ask Ian Barry, investment manager of Fiduciary Management Services, developers of Grand Bahama Island. In July 1995, Barry learned that the broker handling his client's $2 million account was moving its back-office business from Denver-based Hanifen, Imhoff to industry giant Bear, Stearns. "I felt we were in excellent hands," says Barry, from his office in Bermuda. "Bear, Stearns was a household name."

A global reputation was important to Barry because Fiduciary Management's broker, Richard Simone, had recently left Alex Brown & Sons for a brokerage firm Barry did not know-A.R. Baron &Co. Although Barry trusted Simone, he also says he felt comfortable with Simone's shift to Baron because of the Bear, Stearns connection.

Barry didn't rest easy for long. Immediately after Baron announced its new clearing arrangement with Bear, Stearns, Barry began receiving confirmations of trades in Fiduciary's account that he had never authorized Simone to do, stocks that bore no relation to the conservative securities Barry generally dealt in.

Unable to get these $2 million trades reversed by Simone, or A.R.Baron's owner, Andrew Bressman, Barry went to Bear, Stearns for help in canceling the unauthorized trades. Even though Barry notified Bear of the unauthorized trading within ten days, as required by New York State law, Bear, Stearns moved not one inch to rescind the trades. Bear advised Barry to take it up with Baron, claiming to be "just the clearing firm."

Barry never got satisfaction from Baron. As it turned out, Barry was one of many Baron customers victimized by the unauthorized trading. According to the Securities &Exchange Commission, since its very first days A.R. Baron had engaged in egregious sales practice abuses, including rampant unauthorized trading in customer accounts, and abusive sales practices involving stocks that it underwrote.

In industry parlance, Baron was a firm that employed a "no net sales" policy. That meant Baron's brokers would allow their clients to sell a position in one of their so-called house stocks only if another of the firm's clients placed orders to buy the shares. In short, a Baron stock couldn't drop because the broker wouldn't permit trades at lower prices. This had the effect of propping up Baron's special stocks, for a while at least.

As Barry discovered, Fiduciary's $2 million was used to buy shares in a Baron house stock-Cypros Pharmaceutical-that somebody else was likely selling. When the firm went bankrupt months later, Fiduciary Management was left with around $2.6 million in losses.

Fiduciary Management, in suing Bear, is represented by Lewis Lowenfels, a highly respected securities lawyer in New York City whose writings have been cited by the U.S. Supreme Court. Says Lowenfels: "The Fiduciary Management case goes to the heart of the legal responsibilities of clearing firms in relation to introducing brokers." In other words, in keeping Baron alive for almost a year, Bear, Stearns enabled the firm to harm investors with its fraudulent sales practices. As a result, Bear was perhaps more than just a clearing firm.

Bear, Stearns disavows responsibility for Fiduciary's losses, even though the firm was notified of the unauthorized trades almost immediately after they were placed.

Bear itself lost money in the Baron mess; it is identified in Baron filings as a creditor of the firm in the amount of $2.3 million. Oddly, Bear has not filed a claim with the bankruptcy court, perhaps trying to minimize its link to the disaster.

Why would Bear, Stearns risk its reputation by dealing for a firm like Baron? On July 17, 1995, for example, A.R. Baron settled a case with the NASD, agreeing to pay the regulator $1.5 million in fines and restitution; Baron's principal, Bressman, paid $35,000 to settle charges that he and the firm executed trades for customers at unfair and unreasonable prices. Three days after this public shaming, Bear, Stearns agreed to begin clearing for Baron.

Until the firm finally failed in July 1996, Baron's capital position several times fell below the minimum required by regulators. This means Baron could not conduct business until it put up more capital. On several occasions Baron simply closed its doors. But Bressman & Company would always manage to rustle up the necessary capital somewhere. At a crucial point in the fall of 1995, Bear put up $1.1 million of its own capital to float Baron back up to minimum levels.

All the while, Bear was receiving customer complaints from folks like Ian Barry. Bear continued to clear for Baron as SEC and NASD regulators were at Baron auditing and investigating continually throughout 1995. Finally, Baron was bleeding money: During the month of October 1995, for example, Baron had $5 million in losses and unpaid-for trades. Bear continued to clear.

The question of why Bear was involved with Baron gets even more curious when you discover that Bear had cleared for Baron once before, in 1992. Bear ended its clearing relationship with Baron that summer during an underwriting that Baron had in the works-Cypros Pharmaceutical. Harriton told Baron to look around for another clearing firm because Bear was afraid the Cypros deal would unwind and end up with a stock trading below the offering price. In short, Bear was worried Baron could not support the shares in the aftermarket. Baron found another clearing firm, Adler Coleman.

Unfortunately for Baron, Adler Coleman went bankrupt in 1995, so once again Baron needed a clearing firm. It landed at Hanifen, Imhoff for roughly three months, but was kicked out.

Why did Bear now open its doors to Baron?The question is especially compelling when you realize that because of the nature of Baron's business, Bear wasn't really making all that much money on its clearing business.

Remember the variety of ways a clearing firm makes money.The most profitable is charging interest on the firm's customer debits-typically a result of stocks bought on margin. But Baron had no customer debits-it was a firm, as many bucket shops are, that specialized in stocks that are not marginable. Baron's customers had no margin positions.

Neither did Baron's clients typically have credits in their accounts-cash resulting from a liquidated stock position.

Another interesting fact: Harriton's number-two man on the operations side at Bear, Stearns Securities Corp., Peter Murphy, wanted to throw Baron out. Murphy was overruled by Harriton.

Why would Harriton deal with a clearly disreputable bucket shop?

Was it as a favor to Morris and Abraham Wolfson, sons of New York real estate magnate Zev Wolfson-developer of One State Street Plaza? Morris Wolfson has sizable accounts at Bear, Stearns. He was also a big player in Baron's house stocks. And Wolfson Investment had bought $400,000 worth of A.R. Baron's privately issued convertible preferred stock. As a special client of Baron he would be entitled to allotments of hot issues before the suckers were invited in.

Bressman told people that the Wolfsons asked Harriton to take on Baron as a clearing firm again. Bressman told people that Harriton asked the Wolfsons if the family would guarantee the firm. The family declined, but Harriton took Baron back anyway.

Morris Wolfson, 38, is infamous as co-owner of a Harlem apartment building that collapsed in 1994, killing three people. Wolfson was not found liable for the deaths.

But Wolfson was not Harriton's only tie to the Baron firm. After taking Baron back into the Bear, Stearns fold, Harriton introduced Bressman to Harriton's pal, barred manipulator Randolph Pace. Bear, recall, cleared for Rooney, Pace before it went out of business in 1987. Pace didn't return a reporter's phone call seeking comment.

Harriton apparently isn't discriminating when it comes to picking friends. Baron's president, Andrew Bressman, has also been chummy with Harriton. Bressman has dined often with the Bear managing director, taking him to New York Knicks basketball games, where Bressman's front row seats let him and his guests rub shoulders with celebrities like film director Spike Lee.

A person intimately familiar with the clearing business at Bear, Stearns tells FORBES that more than favors were involved. The source insisted on strict anonymity but is clearly knowledgeable about the situation.

Here, according to the source, is what happens: A bucket shop that clears through Bear has a hot underwriting in the works. On the day the stock begins trading, as many units or shares as are

needed to generate a $100,000 profit are placed in a so-called nominee account at another brokerage firm. A nominee account is an account that carries a fictitious name. Our source charges that Harriton was the beneficiary of trades of this sort.

A. R. Baron was not the only sleazy outfit to clear through Bear, Stearns. Another Bear, Stearns clearing customer is Sterling Foster, the penny-stock outfit that the NASD sued for $53 million in a fraud case last fall. A company that Sterling Foster brought public last year, called Embryo Development Corp., lists Matthew L. Harriton, 31, as its chief financial officer. He is said to be Richard's son.

The last hot stock underwriting sponsored by A.R. Baron came on Aug. 9, 1995: 1.8 million shares at $5 in a company called PaperClip Imaging Software, Inc. Like most hot Baron issues, PaperClip rose on its first day of trading, to almost $8. Those in on the offering who sold before the close of trading reaped handsome gains.

Normally, with this kind of offering, the first allotments go to favored customers and insiders. But with PaperClip, large numbers of the shares were assigned not to the clients who had been promised them, but to overseas entities-suspected to be nominee accounts.

The presumption is that Baron insiders and their friends were the real owners. An obvious manipulation, PaperClip is now trading at less than 50 cents.

FORBES gave Bear, Stearns plenty of time to respond to our allegations. Bear, Stearns' only comment was: "Pending litigation prevents us from commenting."

The whole situation stinks.

illustration photograph chart

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Paying the PIPER at SulphCo
By Bill Alpert
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The collapse of Sulphco stock in the past year shouldn't merit much attention. After all, lots of hyped tech stocks bomb out. But this little Reno gamble shows the risks of betting on unorthodox science claims -- especially when Wall Street's smart-money investors have gotten there first in private placements.

SulphCo was just a money-losing stock promotion that claimed it could turn sulfurous crude into higher-priced, clean-burning oil. About a year ago, those claims helped boost its shares to $19.70, giving the company a stock-market value of $1 billion. But with just a bit of research, anyone could have figured out that SulphCo's founder, Rudolf W. Gunnerman, had faked his academic background and that his previous tech ventures had cost investors millions of dollars (as Barron's reported in "A Crank Case?" Jan. 23, 2006). Some who'd worked closely with the 78-year-old German emigre say that he'd even claimed to have invented the laser and talked of being "the bastard son of Hitler."

SulphCo (ticker: SUF) now trades at $3.91 after recently falling as low as $2.25, and Gunnerman is in a nasty court fight for control of the company. SulphCo's directors fired him as chief executive at a tumultuous Jan. 12 meeting in which he tried to have the police arrest one of them for trespassing. He's battling the board in a Nevada state court case, where the directors allege that Gunnerman traded on insider information and lied in a recent Internet podcast by saying that SulphCo would become profitable this month.

Small investors eager for alternative-energy plays might have been fooled by Gunnerman's illusionist feints -- like his flaunting "honorary" Ph.D.s from overseas diploma mills when he actually never finished college. Yet it's hard to understand how he might have fooled the savvy hedge funds and sophisticated investors who bet big in SulphCo's private placements of its stock. Unless, that is, they assumed Gunnerman could find them greater fools to buy their shares.

Among the most sophisticated SulphCo investors is the family of Zev W. Wolfson, a New York City real-estate magnate renowned for charity and for active investing in hedge funds. For years, the 77-year-old Wolfson and his sons Abraham and Aaron, and stepson Morris, have invested quietly from their family office in a 29th-floor aerie of their skyscraper at the foot of Manhattan. Just last March, the Wolfsons added to their $17 million investment in SulphCo by putting $2.5 million into a private placement.

The Wolfsons invest widely, but eschew publicity. No wonder. For more than a decade, they've been important financiers of public disasters like SulphCo and of the unsavory brokers who

promote such stocks -- underwriting the financial muggings of little old ladies from their glass tower.

Through their lawyer, the Wolfsons declined to discuss with Barron's their involvement with SulphCo or any other investment. The Wolfsons expressed doubts about Barron's journalistic integrity, says Eli Levitin, general counsel and managing director of their investment and real-estate ventures. The Wolfsons are not mere penny-stock investors, says Levitin. "They are really a very substantial family office."

Given their picaresque history on Wall Street's wild side, the Wolfsons might well be concerned about the attentions of a journalist. And that history might make public investors wonder if they want to put their savings into any stock like SulphCo, where private-placement investors like the Wolfsons have shown up first.

Since the early 1990s, the Wolfsons have put tens of millions of dollars into small-cap companies through bridge loans and PIPEs -- private investments in public equities -- a sometimes controversial form of investment that is being scrutinized by the Securities and Exchange Commission.

The typical PIPE deal works out badly for a company's public shareholders, according to most studies. But the deals can produce good returns for the hedge funds and wealthy investors who buy shares in private placements from a public company at a discount that's typically 10% or more from the public market price. That can allow the private PIPE investors to quickly profit through short sales as well as price appreciation. Wolfson family members have been private-placement investors in dozens of companies, including one that federal prosecutors alleged was linked to organized crime.

The Wolfsons may well have been true-believers in stocks like SulphCo, where the promoters hide the truth. Former SulphCo employees tell Barron's that the company secretly doctored crude-oil samples to make its processing seem successful. Through a lawyer, Rudolf Gunnerman denies that his company faked tests or that he ever talked of inventing the laser or being Hitler's son.

For whatever reason, the Wolfsons have repeatedly supplied large amounts of capital to dubious stock promoters. In fact, securities and court filings show that they financed promotions by some of the most notorious boiler-rooms of Wall Street's rapacious 1990s, such as D.H. Blair and A.R. Baron, both brokers that went out of business as the Manhattan district attorney sent their key personnel to prison.

A probe by a federal bankruptcy trustee into the 1996 collapse of A.R. Baron concluded that the Wolfsons were in on the schemes of that brokerage firm, 13 of whose employees ultimately were convicted of defrauding investors.

According to the trustee's 1998 suit in Manhattan's bankruptcy court, the Wolfsons funded A.R. Baron and supplied trading accounts used in the firm's pump-and-dump manipulations, in exchange for a promised share of the illicit spoils. The Wolfsons ended up settling the trustee's

proceeding, without admitting to the allegations. They have never been charged with wrongdoing by government regulators. "The action by A.R. Baron's bankruptcy trustee was settled years ago," says Wolfson attorney Levitin, "with a mutual agreement by both parties to dismiss their claims against each other."

After 10 years of patiently piecing together parcels of property at the southern tip of Manhattan, Zev Wolfson launched his realty empire in 1969 when his real-estate partnership built One State Street Plaza, a 32-story building with unequalled views of the Statue of Liberty.

With his real-estate cash, Wolfson became an early investor in the hedge-fund and private-equity industries. In the 1980s, he was a limited partner of money managers like Carl C. Icahn, Saul Steinberg and John A. Mulheren Jr., a controversial trader convicted in 1990 of stock manipulation. That conviction was later reversed, but not before police stopped Mulheren from confronting prosecution witness Ivan Boesky with a rifle.

Wolfson also has a reputation for sharing his profits with charitable beneficiaries, supporting overseas religious and educational groups in a low-profile manner.

In the 1990s, Zev Wolfson's sons began appearing as investors in their own right. While Abraham, Morris and Aaron Wolfson may well have made blue-chip investments that don't fill the public record, numerous SEC registration statements show one or another of them as substantial participants in private placements by a rogues' gallery of bad-news brokers. In addition to D.H. Blair and A.R. Baron, those brokers included Kensington Wells, William Scott & Co. and Patterson Travis. These firms stole hundreds of millions of dollars from the investing public, by the estimate of government regulators.

Executives of both Kensington Wells and Patterson Travis were ultimately convicted of running stock-fraud conspiracies to pump up the prices of, and then dump, stocks like VideoLan Technologies, a Kensington Wells underwriting financed by Abraham and Aaron Wolfson and Morris Wolfson's wife, Arielle.

Morris also invested directly in a boxing promoter underwritten by William Scott & Co., a firm whose brokers were busted in the June 2000 "Mob on Wall Street" dragnet -- when Brooklyn's federal prosecutors and the SEC broke up a ring of boiler-rooms that they said were controlled by New York's organized-crime families.

D.H. Blair was the infamous brokerage firm that hyped many millions of dollars worth of flimsy stocks through the 1980s and '90s, -- until its rip-offs were halted with a wave of regulatory censures and fines in 1998. Prosecutors eventually secured convictions of 12 Blair brokers and four officers for defrauding retail investors.

Zev Wolfson's sons and their investment entities made bridge loans to D.H. Blair's investment-banking clients prior to public offerings. The Wolfsons put more money into PIPE financings once the D.H. Blair stocks came public -- receiving huge piles of stock and warrants that would be ruinously dilutive to public investors once the privately placed securities were registered and eligible for sale.

Patrons like the Wolfsons were essential to D.H. Blair's hustles. Brokers say that the Wolfsons were important enough to rate personal visits from Blair's wealthy owner, J. Morton Davis. A financial analysis of SEC filings shows why.

The Wolfson brothers, in-laws, employees and various investment entities registered shares worth more than $100 million from the private placements of Blair and similar firms.

To be sure, the lists of such boiler-rooms' private patrons were long, and the Wolfsons weren't the only wealthy New Yorkers helping to bankroll dubious stock promotions. Investing alongside them, for example, in Beachport Entertainment -- one of the allegedly mobbed-up stocks targeted in the June 2000 federal prosecutions in Brooklyn -- was Martin Hodas, who ran many of the peep shows around Times Square before it was Disneyfied.

In 1998, the federal bankruptcy trustee for the boiler-room A.R. Baron presented the court with embarrassing details of the Wolfsons' relations with A.R. Baron chief executive, Andrew Bressman. According to the trustee's complaint filed in Manhattan bankruptcy court, Abraham, Morris and Aaron invested $400,000 in the brokerage firm after a July 1994 meeting in which Bressman offered to cut them in on his firm's rigged stock offerings. "This was a game," the complaint says Bressman told them, And "in order to make money at the game, you had to be an insider."

According to the complaint, Bressman told the trustee that in 1994 he became close to the Wolfson brothers -- particularly Morris -- visiting with them several times a week and often praying with them. To renovate A.R. Baron's offices, the trustee alleged, Bressman hired a construction company controlled by Morris.

That company, Adonis Construction, got Morris unwanted media attention in 1995 when a tenement it owned in Harlem collapsed and killed three people.

The trustee further alleged that Bressman asked the Wolfsons to let him trade their accounts to help manipulate the price of the "house stocks" that A.R. Baron controlled, and to create the appearance of active trading. How did the Wolfsons get the Baron stocks? Through PIPE deals, of course.

The Wolfsons' accounts "were among the largest and most actively traded at A.R. Baron," said the trustee in a pleading. "The purpose of the trading," the trustee continued, "was to facilitate the A.R. Baron criminal enterprise by creating the false appearance of the firm's liquidity. Unlike other A.R. Baron customers, the firm allowed [the Wolfsons] to move funds in and out of their accounts freely." The small investors snared by the broker's cold callers, in contrast, were never allowed to sell out of A.R. Baron's stocks.

The trustee found that the Wolfson accounts realized over $83 million in cash proceeds from trading A.R. Baron house stocks. Attached to the trustee's complaint were exhibits showing "crossed trades" between various Wolfson family accounts -- trades that the trustee said had "no conceivable investment rationale."

The Wolfsons' spree with A.R. Baron ended after the SEC subpoenaed Morris in the summer of 1995 to testify in its investigation of the boiler-room. The family transferred its shares of A.R. Baron house stocks to Bear Stearns. After A.R. Baron collapsed in June 1996, Bressman pleaded guilty to state charges of grand larceny and racketeering, for schemes that cost investors at least $75 million.

The Wolfsons denied the bankruptcy trustee's allegations that they had been part of the A.R. Baron scam. They objected when the trustee rejected the Wolfsons' claims for more than $1 million from a restitution fund. Eventually, the Wolfsons settled by paying the trustee $90,000.

As strange as the Wolfsons' involvement with a Wall Street low-life like Bressman might seem , even stranger was their use of their charities as investment vehicles in the A.R. Baron machinations.

Among the Wolfson accounts used for A.R. Baron's trading schemes, said the trustee's filings, were those of United Congregations Mesora -- a not-for-profit Jewish organization controlled by Zev Wolfson and his son Abraham -- and the Chana Sasha Foundation, controlled by Morris and Arielle Wolfson. In its tax returns, the Chana Sasha Foundation said it makes educational grants and helps needy families. In SEC filings, it showed a predilection for millions of dollars' worth of the house stocks of A.R. Baron and other boiler-rooms.

As noted, the Wolfson Group's managing director, Eli Levitin, says the family won't discuss its investing. As it turns out, Levitin himself has followed the Wolfsons in patronizing dubious brokers and their stocks. Back in 1997, he received warrants for 15,000 shares of a D.H. Blair-sponsored company that marketed discounted chiropractic care. The warrants were Levitin's compensation for performing investor-relations services, said the SEC filings of the now-vanished company.

In 2004, another failed company in which Levitin was an investor and adviser merged with a videogame-distribution business called Alliance Distributors Holding. The next year an SEC suit alleged that Alliance had been one of several distributors involved in a sales fraud scheme by executives at Take-Two Interactive Software (TTWO), publisher of the very violent, very popular gangster game Grand Theft Auto. Without making admissions, Take-Two executives settled the SEC suit, which had contended that in 2000 and 2001, Alliance's predecessor business Corner Distributors had let the Grand Theft publisher park $10 million worth of games. Corner then returned them all after Take Two had falsely reported them as having been sold. (It might amuse Grand Theft Auto devotees to learn that Corner Distributors was involved in a real East Harlem numbers racket that produced a 1998 guilty plea by a patriarch of Corner's family owners.)

Levitin has owned several investment ventures with Mel E. Lifshitz -- a class-action lawyer with the New York firm Bernstein, Liebhard and Lifshitz-and Ezra Y. Birnbaum, a Maserati-driving broker whom the SEC sued in Brooklyn's U.S. district court last year, alleging that Birnbaum allowed his employees at the Brooklyn brokerage firm Pond Equities to engage in "naked" short selling. Birnbaum's brokers allegedly drove down a company's shares by selling them short without borrowing and delivering stock to make the short sales legit.

Neither Birnbaum, nor his attorney, responded to Barron's' inquiries. In a statement to Barron's, Lifshitz said that he and his law partner, Sandy Liebhard, have known Levitin and Birnbaum for more than 30 years. The circle of friends has donated substantial sums to each others' charitable trusts, according to the trusts' tax returns. Those returns also show some of the trusts investing in many of the same crummy stocks as the Wolfsons, through trust accounts at Birnbaum's Pond Equities.

As reported last year by TheStreet.com Website, the Bernstein, Liebhard & Lifshitz lawyers' financial ties to Birnbaum and Levitin raise ethical questions. That's because the lead plaintiffs in many of the law firm's class actions were Levitin's wife, Raizy, as well as Ezra Birnbaum and Birnbaum investment ventures -- including some ventures in which the lawyers themselves were investors.

Class-action law requires an arms-length relationship between plaintiffs and the class attorneys, notes Columbia University law school professor John C. Coffee, to help ensure that the attorneys don't shortchange the class members. "Courts have held that you can't be both the plaintiff and the attorney," says Coffee, speaking generally, "because we want the plaintiff to monitor the attorney, and you can't do that if you're the same person."

Lifshitz and his partners say in their statement that "virtually all" the cases involving Birnbaum or Levitin's wife were started before the lawyers or their charities invested with Levitin or Birnbaum. After TheStreet.com raised questions last year, the lawyers divested themselves of the Birnbaum-managed partnerships that are class-action plaintiffs. They also asked a legal-ethics professor at Hofstra, Roy Simon, to examine the lawyers' investments with Birnbaum. He pronounced them ethical.

The charitable foundation of Lifshitz's law firm continues to invest with Levitin, through a venture called BL Cubed. Within weeks of the Lifshitz firm's sharing in a $3.5 million class-action fee award from suing a company called Irvine Sensors on behalf of Ezra Birnbaum, in June 2004, the BL Cubed venture invested in a PIPE deal in Irvine Sensors (a struggling chipmaker whose shares had fallen 99.7% from their year 2000 high). Then, BL Cubed invested in a SulphCo PIPE deal alongside the Wolfsons. It's strange to see class-action attorneys investing in the sort of companies such attorneys typically sue.

Levitin says that none of his investment activities "relate in any way to, or affect, the Wolfson family, nor do they relate to my position as general counsel of Acta Realty or any other Wolfson family entities."

He says that the Wolfsons' SulphCo position is a long-term investment. It had better be. A few weeks ago, SulphCo's board fired founder Rudolf Gunnerman and filed their Nevada state court allegations that Gunnerman had made many SulphCo stock purchases in violation of the company's insider-trading policy. Former SulphCo employees tell Barron's that Gunnerman frenetically traded the company's stock. Gunnerman remains a SulphCo director and shareholder. He issued a press release calling the board's allegations vicious and false.

Last Monday, SulphCo held a conference call featuring Gunnerman's replacement as CEO -- Larry Ryan, a former General Electric executive. Ryan promised a valid commercial test of the company's oil-processing technique as soon as he could get the SulphCo ultrasound device to function reliably. After the call, SulphCo shares rose 18% to end the week at 3.91.

If Gunnerman's technology does indeed work, SulphCo investors can thank the Wolfsons for financing Gunnerman through PIPE deals. If not, perhaps they can apply for help from the Wolfsons' charities.

Why Hedge Funds Love PIPEs

The histories of wall street's scuzzy companies frequent- ly feature PIPEs, or "private investments in public equities." In these financings, a public company sells stock via a discounted private placement to investors -- typically hedge funds or investment vehicles controlled by wealthy investors like the Wolfsons of New York.

Public investors in PIPE-issuing companies don't make out very well, say researchers like Clemens Sialm, an assistant professor of finance at the University of Michigan's Ross School of Business. Sialm and his colleagues studied more than 5,000 PIPE deals done from 1995 through 2002 and recorded in a database compiled by Sagient Research of San Diego.

They found that shares of PIPE issuers underperformed those of similar companies by about 30% in the two years after a PIPE deal, if the private-placement investors were mostly hedge funds. A third of the issuers were delisted within two years of their PIPE offerings.

The private-placement investors seem to do well, however. Hedge funds got their PIPE shares at an average discount of 14% to the stock's public- market price, often also receiving warrants convertible into additional stock. Sialm estimates that those warrants boosted the deals' value to the private-placement investors by another 15%. By matching his PIPE database with information in the Lipper TASS hedge-fund database, Sialm figures that hedge funds enjoyed returns of 2% in the month of their PIPE purchases.

Remorseful PIPE issuers have complained that the hedge funds' profits and public's losses in PIPEs result from the private-placement investors exploiting the discount they receive, by shorting the issuers' stocks. Sialm's study found that PIPE issuers' short interest did indeed rise. But he doesn't blame PIPE "privates" for the stocks' declines. "These are companies in poor financial health," he says, that would have gone out of business with or without the PIPE deals. As financings of last resort, the PIPEs forestall bankruptcy.

In the past year, the staff of the Securities and Exchange Commission has sought to get better disclosure in registration statements filed for certain securities that are often sold as PIPEs, says David Lynn, the chief counsel for the commission's corporation finance division, primarily when the deal would significantly dilute the interests of public investors.