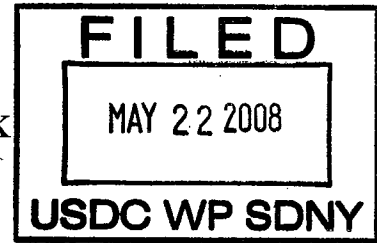


UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

JAMES G. MARQUEZ,

Defendant.

CIVIL ACTION NO.

08- ~~08~~ CIV. 4773

COMPLAINT

Plaintiff Securities and Exchange Commission alleges:

SUMMARY OF ALLEGATIONS

1. From 1996 until October 2001, defendant James G. Marquez (“Marquez”) was a portfolio manager and principal of Bayou Fund, LLC (“Bayou Fund”), a Connecticut-based hedge fund that was directed, managed, and controlled by Bayou Management, LLC (“Bayou Management”) (for ease of reference, the Bayou Fund, its successor funds, and Bayou Management are collectively referred to herein as “Bayou”). During that time, Marquez and two other individuals, Samuel Israel III (“Israel”) and Daniel E. Marino (“Marino”), systematically concealed from current and prospective Bayou investors the Bayou Fund’s mounting trading losses. Marquez, Israel, and Marino materially misrepresented the fund’s performance in correspondence and periodic account statements sent to Bayou investors, as well as in promotional materials that they provided to prospective investors. In or about December 1998, Bayou created a sham accounting firm to issue and certify phony “independent” yearly audits of the Bayou Fund’s performance. Marquez was aware that the sham accounting firm was formed with the intent of hiding Bayou Fund’s true performance. By issuing fictitious account statements, periodic

newsletters, year-end “independent” financial statements, and promotional materials, Marquez, Israel, and Marino attracted several million dollars in investments in the Bayou Fund. In or about October 2001, Marquez dissociated himself from Bayou. He did not, however, disclose the ongoing fraud at Bayou or report the fraud to government authorities. Israel and Marino continued the scheme and attracted increasing amounts of investor capital before the Bayou fraud was revealed in 2005. In September 2005, Israel and Marino entered guilty pleas and consented to judgments in related criminal and civil proceedings before this Court arising from facts similar to those alleged in this complaint. On December 14, 2006, Marquez pleaded guilty to one count of criminal conspiracy in proceedings before this Court based on substantially the same facts alleged herein. On January 22, 2008, Marquez was sentenced by this Court to fifty-one months in prison and ordered to pay \$6,259,650 in criminal restitution.

2. By his conduct alleged herein, Marquez engaged in and, unless restrained and enjoined by the Court, will continue to engage in, transactions, acts, practices, and courses of business that violate Section 17(a) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 thereunder [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5].

3. The Commission seeks a judgment from this Court enjoining Marquez from engaging in future violations of the above-referenced sections of the federal securities laws.

JURISDICTION

4. The Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 77t(b), 77t(d), 77v(a), 78u(d), 78u(e), and 78aa].

5. The defendant made use of the means and instrumentalities of interstate commerce or of the mails in connection with the acts, practices, and courses of business alleged herein, certain of which occurred within the Southern District of New York. Venue is proper in this District

pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act [15 U.S.C. §§ 77v(a) and 78aa].

THE PARTIES

6. The plaintiff is the Securities and Exchange Commission, which brings this civil action pursuant to authority conferred on it by Section 20(b) of the Securities Act and Section 21(d)(1) of the Exchange Act [15 U.S.C. §§ 77t(b) and 78u(d)(1)].

7. Defendant **James G. Marquez**, age 59, is a resident of Cos Cob, Connecticut. From 1996 until October 2001, Marquez was a portfolio manager and principal of Bayou. During that time, he also was associated with Bayou Securities, LLC (“Bayou Securities”), a broker-dealer that was, at all relevant times, registered with the Commission.

RELATED PERSONS AND ENTITIES

8. **Samuel Israel, III** was the owner and managing member of Bayou Management, the investment adviser to the Bayou Fund and its successors, from the time of its inception in 1996 until it dissolved in late 2005.

9. **Daniel E. Marino** was the chief operating officer and chief financial officer of Bayou Management from the time of its inception in 1996 until it dissolved in late 2005.

10. **Bayou Fund, LLC** was a Stamford, Connecticut hedge fund, or private pool of capital, formed in 1996, that was directed, managed, and controlled by an investment adviser known as **Bayou Management, LLC**, which itself was directed and managed by Israel, Marino, and, from 1996 until October 2001, Marquez. In January 2003, Bayou Management reorganized Bayou Fund into four successor funds: Bayou Superfund, LLC; Bayou Accredited Fund, LLC; Bayou Affiliates Fund, LLC; and Bayou No Leverage Fund, LLC.

11. **Bayou Securities, LLC** was a registered broker-dealer owned by Israel that acted as the introducing broker for trades executed on behalf of the Bayou Fund and its successor funds.

FACTS

12. In 1996, Samuel Israel founded the Bayou Fund as a hedge fund or private investment pool. Israel hired Marino to serve as the fund's chief financial officer and chief operating officer. Israel and Marino previously had worked together at a firm known as HMR Investors, which was owned by Marquez. Marquez joined Bayou Management as a portfolio manager and principal in or about June 1996, and acted in those capacities until October 2001.

13. Bayou's purported investment strategy was day trading – rapidly buying and selling stocks throughout the day in an attempt to capture profits from market momentum. Israel represented to investors that he had developed a unique trading system and technical analysis that enabled him to trade profitably regardless of market conditions. Bayou also represented that, in order to maintain liquidity and minimize overnight exposure, virtually all of Bayou's securities positions were converted into cash at the close of each trading day.

14. Almost from its inception, the Bayou Fund lost money from trading. At the end of 1997, the fund's first full year of operation, Marquez, Israel, and Marino made up the difference between Bayou's "actual" and "reported" profits by rebating to Bayou Fund commissions that the fund owed to Bayou Securities, the broker-dealer firm owned by Israel through which Bayou Fund executed most of its trades. However, Bayou did not disclose the shortfall in actual profits or the commission rebate to its investors.

15. In 1998, Bayou Fund continued to lose money. In order to retain investors and to attract new ones, Marquez, Israel, and Marino began concealing from investors the fund's true financial results by disseminating false account statements and newsletters purporting to show that the fund was profitable. Realizing that their scheme could not withstand an independent audit, Bayou created a sham accounting firm known as Richmond-Fairfield Associates ("Richmond-Fairfield") to serve as the fund's purported independent auditor. In early 1999, Bayou distributed year-end financial statements describing purportedly profitable investing in 1998 that included a fabricated audit opinion by Richmond-Fairfield attesting to the accuracy and truthfulness of Bayou's financial statements. In fact, in 1998, the fund lost money. In addition, Marquez, Israel,

and Marino represented to investors that Richmond-Fairfield was an independent auditor that had audited Bayou Fund in accordance with Generally Accepted Accounting Standards and certified its financial results, when, in fact, Richmond-Fairfield was a sham accounting firm and had conducted no such audits.

16. For each year after 1998, the Bayou Fund consistently incurred trading losses. During each of those years, Marquez, Israel, and Marino concealed the Bayou Fund's losses from their investors and potential investors by issuing fictitious client account statements, newsletters, performance summaries, and year-end financial statements "audited" by Richmond-Fairfield. Marquez, Israel, and Marino carefully concocted Bayou's artificial earnings to create the appearance that the fund had achieved modest, steady, and believable growth, which enabled Bayou to attract millions of dollars in new investor capital.

17. In or about October 2001, Marquez dissociated himself from Bayou, Israel, Marino, and the fraudulent scheme. By the time Marquez left Bayou, investors had invested several million dollars in the Bayou Fund. Following Marquez's departure, Israel and Marino continued to act as investment advisers to the Bayou Fund and its four successor funds. Despite consistently losing money, Israel and Marino attracted increasing amounts of investor capital by reporting false returns and issuing fake audited financial statements. Marquez took no steps to expose Bayou's continuing fraudulent scheme, which ultimately began to unravel in May 2005.

18. On December 14, 2006, in criminal proceedings before this Court arising from substantially the same facts alleged in this complaint, Marquez pleaded guilty to one count of criminal conspiracy to commit investment adviser fraud and mail fraud. United States v. James G. Marquez, Criminal Information No. 7:06-CR-01138 (S.D.N.Y.) (CM).

19. On January 22, 2008, Marquez was sentenced by this Court to fifty-one months in prison and ordered to pay \$6,259,650 in criminal restitution. Israel and Marino previously entered guilty pleas and consented to judgments in related criminal and civil proceedings before this Court in September 2005. They each pleaded guilty to one count of criminal conspiracy, one count of investment adviser fraud, and one count of mail fraud and Marino pleaded guilty to one count of

wire fraud. United States v. Samuel Israel III, Criminal Information No. 7:05-CR-01039 (S.D.N.Y.) (SCR); United States v. Daniel E. Marino, Criminal Information No. 7:05-CR-01036 (S.D.N.Y.) (SCR). On January 29, 2008, Marino was sentenced by this Court to twenty years in prison. Israel awaits sentencing. In a related civil action brought by the Commission, Securities and Exchange Commission v. Samuel Israel III, et al., Civil No. 05-CIV-8376 (S.D.N.Y.) (CM), this Court entered consent judgments against Israel and Marino on April 19, 2006 permanently restraining and enjoining them from future violations of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5]; and Section 206(1) and (2) of the Investment Advisers Act of 1940 [15 U.S.C. § 80b-6(1) and (2)].

FIRST CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act
[15 U.S.C. § 77q(a)]

20. The Commission realleges and reincorporates paragraphs 1 through 19 as if fully set forth herein.

21. From 1996 until October 2001, Marquez, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the offer or sale of securities: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions 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/or (c) engaged in acts, practices or courses of business which operated as a fraud or deceit upon the purchasers of the securities offered and sold by the defendant.

22. By reason of his actions alleged herein, Marquez violated Section 17(a) of the Securities Act of 1933 [15 U.S.C. § 77q(a)].

SECOND CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5
[15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5]

23. The Commission realleges and reincorporates paragraphs 1 through 22 as if fully set forth herein.

24. From 1996 until October 2001, Marquez, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale of securities: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omissions 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/or (c) engaged in acts, practices or courses of business which operated as a fraud or deceit on the purchaser of the securities sold by the defendant.

25. By reason of his actions alleged herein, Marquez violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

(i) finding that Marquez violated the securities laws and rule promulgated thereunder as alleged herein;

(ii) permanently enjoining Marquez from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder [15 U.S.C. §§ 77q(a) and 78j(b); 17 C.F.R. § 240.10b-5]; and

(iii) granting such other relief as this Court may deem just and proper.

Dated: May 19, 2008

Of Counsel:

Antonia Chion, Esq.

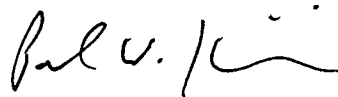
Yuri B. Zelinsky, Esq.

Lawrence C. Renbaum, Esq.

Scott F. Weisman, Esq.

Pamela Nolan, Esq.

Respectfully submitted,



Paul W. Kisslinger, Esq. (PK0764)

Attorney for Plaintiff

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549-4030

(202) 551-4427

(202) 772-9246 (fax)