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Bayou Co-Founder Gets 4 1/4 Year Sentence for Fraud (Update4)

By David Glovin - Jan 22, 2008

Jan. 22 (Bloomberg) -- James Marquez, co-founder of bankrupt hedge fund company Bayou Group LLC, was sentenced to 4 1/4 years in prison for his role in a fraud that cost investors more than $350 million and spurred calls for increased industry oversight.

U.S. District Judge Colleen McMahon said Marquez's creation of a sham accounting firm as part of the scheme was ``as reprehensible as anything in the storied history of securities fraud'' and that his actions with co-founder Samuel Israel and finance chief Daniel Marino led to a ``massive Ponzi scheme.''

``I made a terrible choice to take the easy way out when things started to go wrong,'' Marquez, 59, told McMahon today in Manhattan federal court. He must pay $6.2 million in restitution in addition to his sentence, which was nine months less than the maximum under federal guidelines.

Bayou, based in Stamford, Connecticut, is among the biggest hedge fund firms to come under scrutiny for missing money. The firm filed for bankruptcy in May 2006, prompting investor lawsuits that alleged it operated a Ponzi scheme in which old investors were paid off with money from new investors.

Prosecutors said Israel and Marquez hatched a plan to falsify financial disclosures after Bayou sustained substantial losses in 1998. The fraud unraveled in August 2005 after Marino wrote a six-page suicide note that was recovered by the police at Bayou's headquarters, authorities said. Marquez helped plan the scheme, according to Marino, who didn't take his life.

Former Soros Aide

A former aide to investor George Soros, Marquez claimed to have played a small role in the crime before he left the company in 2001. Israel and Marino, who pleaded guilty and helped prosecutors build a case against their former colleague, will be sentenced in the next few weeks, the government said.

Defense lawyer Bradley Simon urged McMahon to spare Marquez from prison because his role was minor and he suffers from mental illness. Marquez agreed to hide modest investor setbacks in the late 1990s, while Israel and Marino concealed massive losses and stole millions of dollars, the lawyer said.

Marquez, who wanted to aid prosecutors, was beaten to the punch by his more culpable superiors, Simon said.

``It came as a complete shock, four years later, when he read about the massive, massive Bayou fraud,'' said Simon.

U.S. prosecutors said Marquez, who lives in Connecticut, was as culpable as the two men for an initial $6 million fraud, while not guilty of the larger crime that followed.

Sham Accounting

``The investors are disappointed that Marquez received only 51 months as it is the low end of the 51-to-60 months provided in his plea agreement,'' said attorney Ross Intelisano, a partner at Rich & Intelisano in New York, which represents 20 investors who collectively lost more than $25 million. ``Our clients hope that the court doesn't show the same leniency to Israel and Marino.''

As part of the crime, Israel and Marquez agreed that Marino, a certified public accountant, would form a sham accounting firm named Richmond-Fairfield Associates to sign off on fake financial documents sent to clients.

Hedge funds are private, largely unregulated pools of capital whose managers can buy or sell any assets and participate substantially in profits from money invested. Globally, managers oversee more than $1.8 trillion, according to Hedge Fund Research.

Marquez pleaded guilty in December 2006 to a single conspiracy count, a year after Israel and Marino pleaded guilty to fraud and other charges. Marquez faced up to five years in prison under federal sentencing guidelines.

Their Cooperation

Israel and Marino may not benefit much from their cooperation, the judge said. When Simon noted that they may get substantial credit when they're sentenced, McMahon said ``don't count on it,'' adding the two men ``will be held to account.''

Marquez must report to prison by April 21.

Before Bayou, Marquez ran a hedge fund firm called JGM Management Co. in New York. Israel and Marino worked with him at JGM, which closed in 1995 after losses mounted for several years.

Israel opened his own hedge fund in March 1996 in Stamford. He called it Bayou in reference to his New Orleans roots and recruited Marquez and Marino to join him.

The case is U.S. v. Marquez, 06-cr-1138, U.S. District Court, Southern District of New York (Manhattan).

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