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**BAYOU FUNDS PRINCIPAL SENTENCED TO 51 MONTHS FOR CONSPIRING
TO DEFRAUD INVESTORS OF MORE THAN \$10 MILLION**

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced that JAMES G. MARQUEZ was sentenced today to 51 months in prison for conspiring to defraud investors in the now-collapsed Bayou hedge funds of more than \$10 million. The sentence was imposed by United States District Court Judge COLLEEN MCMAHON in Manhattan federal court.

In imposing the sentence, Judge MCMAHON called Bayou a "massive Ponzi scheme" and said that she wanted to send a deterrent to the hedge fund and securities industries. "Concealing adverse material information which impacts investors is serious behavior meriting serious consequences," Judge MCMAHON said.

MARQUEZ, who ran Bayou Fund LLC and Bayou Fund Ltd. with SAMUEL ISRAEL III for about five years, admitted during his guilty plea on December 14, 2006, that he was responsible for helping to formulate trading strategy and that he conspired with ISRAEL and DANIEL E. MARINO to defraud investors by creating fake financials that were distributed to investors. MARQUEZ admitted that between 1996, when the funds were set up, and 2001, when he left, the funds sustained consistent losses, yet investors were regularly told that the funds were reaping substantial gains.

According to the Information to which MARQUEZ pleaded guilty, MARQUEZ, ISRAEL and MARINO hatched the scheme after the funds sustained a second year of losses. At that time, the three agreed that MARINO, a Certified Public Accountant ("CPA"), would form a sham CPA firm named Richmond-Fairfield Associates, to sign off on the fraudulent financial statements that were sent to future and current investors. Beginning in 1999, they sent out, among other things, financial statements in which Bayou falsely reported profits and falsely asserted that Richmond-Fairfield Associates was an independent auditor that had audited Bayou and

certified its financial statements.

According to publicly filed documents, a later series of Bayou funds collapsed in August 2005, after ISRAEL and MARINO attempted to recoup mounting losses by using fund contributions to invest in private placement transactions in the United States and abroad. The private placement transactions turned out to be frauds, according to publicly filed documents.

ISRAEL and MARINO each pleaded guilty on September 29, 2005 - ISRAEL to conspiracy, investment adviser fraud and mail fraud charges, MARINO to those charges and a wire fraud charge. They are awaiting sentencing. Their guilty pleas followed the filing of a civil forfeiture action against the remaining Bayou assets on September 1, 2005, by the United States Attorney's Office for the Southern District of New York.

According to the Civil Complaint, approximately \$100,010,673.68 in Bayou funds were the subject of an Arizona state court seizure order. These funds had been transferred by Bayou in connection with the private placement transactions that turned out to be fraudulent. In connection with these transactions, Bayou transferred investor funds through various banks -- the funds moved from New York to London to Hamburg and then back to London -- and ultimately to an account in Flemington, New Jersey, where the money was seized and forfeited pursuant to an order of the Arizona Superior Court.

In October 2006, as a result of the submission of facts by the Federal Bureau of Investigation sufficient to demonstrate that the seized money was the property of the victims of the Bayou fraud, the Arizona Superior Court issued an order directing that the funds be transferred to the custody of the United States Marshals. A total of more than \$106,000,000, representing proceeds of the fraud, along with accrued interest, was transferred to the United States Marshals. According to the federal civil Complaint, the United States Attorney's office will, upon entry of a final order of forfeiture, request that the forfeited property be distributed *pro rata* to victims of the fraud offenses.

MARQUEZ was ordered to surrender to federal prison in late April 2008. Judge MCMAHON also sentenced MARQUEZ to 2 years of supervised release to follow his incarceration. The Court also ordered that MARQUEZ forfeit certain property and securities and pay \$6,259,650 in restitution to his victims. A final Order of Restitution will be issued within the next 90 days.

Mr. GARCIA praised the efforts of the Federal Bureau of

Investigation.

Assistant United States Attorneys MARGERY B. FEINZIG, PERRY A. CARBONE, SHARON LEVIN, and BARBARA WARD are in charge of the criminal prosecution.

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