

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Civil Action **05-61672**

CIV-ALTONAGA

COMMODITY FUTURES TRADING COMMISSION,

MAGISTRATE JUDGE
TURNOFF

Plaintiff,

v.

MADISON FOREX INTERNATIONAL, LLC,
CHADWICK GRAYSON BAUER & CO., INC.,
QUALIFIED LEVERAGE PROVIDERS, INC.,
JOHN PETER D'ONOFRIO, CHRISTOPHER PECK,
GARY BAUGH, AND LEA LAUREN,

Defendants. /

FILED BY: _____
2005 OCT 18 AM 11:24
CLERK OF DISTRICT COURT
S.D. OF FLORIDA
D.C.

COMPLAINT FOR INJUNCTIVE AND OTHER
EQUITABLE RELIEF, AND FOR CIVIL MONETARY
PENALTIES UNDER THE COMMODITY EXCHANGE ACT

I.

SUMMARY

1. From at least September 2002 through March 2005 (the "relevant time"), two related South Florida entities, defendant Madison Forex International, LLC ("Madison"), and its predecessor, defendant Chadwick Grayson Bauer & Co., Inc. ("Chadwick"), with several of the employees and agents of Madison and Chadwick including, but not limited to, defendants John Peter D'Onofrio ("D'Onofrio"), Christopher Peck ("Peck"), Gary Baugh ("Baugh"), and Lea Lauren ("Lauren") (collectively, "defendants"), have fraudulently solicited members of the public with high-pressure sales pitches to open accounts to trade options on foreign currencies ("forex options") and foreign currency futures contracts ("forex futures") through two registered futures commission merchants ("FCMs"), including defendant Qualified Leverage Providers,

Inc. (“QLP”), and a purported affiliate of an FCM. The basic tenor of the high-pressure sales pitches made to prospective customers were that: large profits could be made; risks could be minimized; the profit opportunities were only available if investments were made quickly; previous losses could be made back with more investment; and new customers could make substantial profits because previous customers had. In fact, defendants’ customers sustained more than \$3.5 million in losses during the relevant time. Chadwick also traded its customers accounts for the purpose of generating commissions, without regard to their customers’ interests.

2. Madison and its employees and agents, including Peck, Lauren and Baugh, thus have engaged in, are engaged in, or are about to engage in acts and practices in violation of Section 4c(b) of the Commodity Exchange Act, as amended (“Act”), 7 U.S.C. § 6c(b) (2002), and Commission Regulation 32.9(a) and (c), 17 C.F.R. § 32.9(a) and (c) (2004). D’Onofrio and Baugh are controlling persons of Madison and, therefore, are liable for its violations, pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002). Madison was acting as an agent of QLP and, therefore, QLP is liable as a principal for Madison’s violations, pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Regulation 1.2, 17 C.F.R. § 1.2 (2004).

3. Similarly, Chadwick and its employees and agents, including Peck, Baugh and D’Onofrio, have engaged in, are engaged in, or are about to engage in acts and practices in violation of Sections 4b(a)(2)(i) and (iii) and 4c(b) of the Act, 7 U.S.C. §§ 6b(a)(2)(i) and (iii) and 6c(b) (2002), and Commission Regulation 32.9(a) and (c), 17 C.F.R. § 32.9(a) and (c) (2004). D’Onofrio and Baugh were controlling persons of Chadwick during this time period and, therefore, are liable for its violations, pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002).

4. Accordingly, pursuant to Section 6c of the Act, 7 U.S.C. §§ 13a-1 (2002), plaintiff Commodity Futures Trading Commission (“Commission” or “CFTC”) brings this action to enjoin defendants’ unlawful acts and practices and to compel their compliance with the Act and Commission Regulations. In addition, the Commission seeks disgorgement of the defendants’ ill-gotten gains, restitution to customers for losses proximately caused by defendants’ fraud, civil monetary penalties, and such other equitable relief as the court may deem necessary or appropriate.

5. Unless restrained and enjoined by this court, the defendants are likely to continue to engage in the acts and practices alleged in this Complaint and similar acts and practices, as more fully described below.

II.

JURISDICTION AND VENUE

6. Section 2(c)(2)(B) and (C) of the Act, 7 U.S.C. § 2(c)(2)(B) and (C) (2002), provides that the Commission has jurisdiction, including anti-fraud jurisdiction, over certain retail foreign currency options and retail foreign currency futures contracts. Section 6c of the Act, 7 U.S.C. § 13a-1 (2002), authorizes the Commission to seek injunctive relief against any person whenever it shall appear that such person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation or order thereunder.

7. Venue properly lies with this Court pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a-1(e) (2002), in that defendants are found in, inhabit, or transact business, among other places, in this District or the acts and practices in violation of the Act have occurred, are occurring, or are about to occur within this District, among other places.

III.

THE PARTIES

8. Plaintiff Commission is a federal independent regulatory agency charged with the administration and enforcement of the Act, 7 U.S.C. §§ 1 et seq., and the Regulations promulgated thereunder, 17 C.F.R. §§ 1 et seq.

9. Defendant Madison Forex International, LLC is a Florida limited liability company with its principal place of business located at 3101 N. Federal Highway, Suite 400, Ft. Lauderdale, Florida 33306. Although Madison had an application for registration as an introducing broker (“IB”) pending in November 2003, it has never been registered with the Commission in any capacity. Madison was organized as a Florida limited liability company on October 16, 2003.

10. Defendant Chadwick Grayson Bauer & Co., Inc. is a Florida corporation with its principal place of business at 3101 N. Federal Highway, Suite 400, Ft. Lauderdale, Florida 33306. It has shared some of the same management, employees and locations of Madison. Chadwick has never been registered with the Commission in any capacity. Chadwick was organized as a Florida corporation on January 12, 2000.

11. Defendant Qualified Leverage Providers, Inc. is a Florida corporation with its principal place of business at 824 Surfside Blvd., Surfside, Florida 33154. QLP has been registered with the Commission as a futures commission merchant (“FCM”) since at least December 4, 2003. QLP was organized as a Florida corporation on September 22, 2003.

12. Defendant John Peter D’Onofrio is a resident of Ft. Lauderdale, Florida. D’Onofrio is the owner and compliance officer of Madison. He is responsible for Madison’s overall operations, and exercises ultimate control over Madison. D’Onofrio was the registered agent, president, and a director of Chadwick. D’Onofrio helped train the sales force of

Chadwick, was responsible for Chadwick's overall operations, and exercised ultimate control of the daily functions of Chadwick. D'Onofrio is therefore a controlling person of both Madison and Chadwick. D'Onofrio has been registered with the Commission as an associated person ("AP") of several IBs, but is not currently registered in any capacity.

13. Defendant Gary Baugh is a resident of Pompano Beach, Florida. Baugh was a vice president and director of Chadwick. Baugh was the manager of, and helped train, the Chadwick sales staff. Baugh is currently the "managing partner" of Madison and responsible for its day-to-day operations. Baugh is therefore a controlling person of both Madison and Chadwick. Baugh has been registered with the Commission as an AP of several IBs, but is not currently registered in any capacity.

14. Defendant Christopher Peck is a resident of Boca Raton, Florida and has been employed by both Madison and Chadwick. Peck has been registered with the Commission as an AP of several IBs in the past and is currently registered as an AP of Mizner Financial Trading Corp., a registered IB.

15. Defendant Lea Lauren has been a sales representative with Chadwick and is currently a sales representative with Madison. She has never been registered with the Commission in any capacity.

IV.

FACTS

A. Madison Committed Forex Options Fraud

16. Beginning in and around November 2003 and through March 2005, Madison, by and through its agents and employees, was in the business of soliciting members of the public to open accounts at QLP, a registered FCM then in Aventura, Florida, to trade forex options. Most of the trading by customers in their QLP forex options accounts was based on the

recommendations of Madison employees. These forex options transactions were not conducted or executed on or subject to the rules of any contract market. Madison earns commissions on these options trades.

17. In solicitations using the wires, mails and other means of interstate commerce, Peck, Baugh, and Lauren, and other employees and agents of Madison, knowingly or recklessly made fraudulent and materially misleading statements to actual and potential Madison customers that exaggerated the likelihood of profits and minimized the risk of loss from trading forex options. Among other things, they misrepresented that: (a) a small investment could generate a large return; (b) forex trading was very predictable and that Madison knew what the market was going to do before it happened; (c) currency trading had less risk than investing in the stock market; (d) eight of ten recommended trades were profitable; (e) all of their customers had made money and none of their customers had ever lost money; (f) customers could double or triple their money in a matter of months; (g) customers would not be charged commissions unless their trading accounts made money; and (h) even when customers initially lost money trading, those customers have recovered their losses through additional trading based on Madison's recommendations. For example:

a. Regarding misleading statements that conveyed the message that profits were likely:

- Lauren told at least one customer in January 2004 that Madison knows what the market is going to do before it happens and that currency trading has less risk than investing in the stock market;
- Peck told at least one customer in February 2004 he could make 30%-40% profit in one month, but that he had to invest funds immediately or the customer would miss out on the profits; and
- Lauren falsely told a potential Madison forex options customer in January 2004 that Madison did not take commissions unless the customer made money, declaring that "we don't make money if you don't make money.";

b. Regarding absolute guarantees that a prospective customer would make money:

- Peck told at least one customer in August 2004 that the trade he was recommending was a “grand slam” and guaranteed to make 200%, but he had to invest immediately or miss out on the profits; and
- Peck told at least two other Madison customers, one in December 2003 and the other in January 2004, that the trade he was recommending “could not miss,” but that the customers had to make the trade that day ; and

c. Regarding blatant false solicitations that Madison customers were actually making money by trading through Madison:

- Lauren falsely told at least one customer in November 2003 that many of her customers were getting wealthy trading in the forex market;
- Peck falsely told a customer in June 2004 that two out of three trades he recommended were profitable, and that he could limit losses to 30%;
- Peck falsely told a customer in December 2003 that he had made a lot of money for Madison customers in the past;
- In February 2004, Peck falsely told a customer that all of his customers were profitable and none had ever lost money. He falsely told another customer in August 2004 that all of his customers were making money and he had nothing to worry about; and
- Lauren falsely told at least one customer in the summer of 2004 that eight out of ten trades placed by Madison were profitable and that he could earn profits between 200% and 300% in two to three months.

18. Madison sales representatives, including Peck, often knowingly or recklessly misrepresented the need for potential customers to send in money immediately so as not to miss what they indicated was a fleeting opportunity to make substantial profits or to encourage existing customers to invest additional funds once their initial investment funds were lost.

19. Employees and agents of Madison soliciting forex options customers, in light of the claims of the likelihood of profits they were making to customers, knowingly or recklessly failed to disclose to customers or potential customers the material fact that an overwhelming majority of Madison’s customers sustained large losses trading forex options through Madison.

In fact, from December 2003 through August 2004, only 3 out of 177 Madison customers had forex options accounts that were profitable, and those three had total profits of approximately \$6,600. The other forex options customers of Madison during that time period had losses totaling approximately \$2.7 million. Total commissions paid by these customers to Madison were approximately \$1.5 million.

20. As the person in charge of compliance at Madison, and a controlling person of Madison, D'Onofrio has not maintained an adequate system of internal supervision and control. He has failed to establish and implement adequate procedures that would detect and halt known fraudulent sales practices. Prior to the start up of Madison, D'Onofrio was president of Chadwick, where he was made aware of many customer complaints about sales practices at Chadwick. D'Onofrio knew or should have known that similar sales practices were common at Madison. He has demonstrated reckless disregard for the protection of Madison's customers by failing to put a compliance system or supervisory system in place that was reasonably designed to deal with the sales practice problems that had previously surfaced at Chadwick.

21. Baugh, as a controlling person of Madison, also has failed to maintain an adequate system of internal supervision and control and failed to establish and implement adequate procedures that would detect and halt known fraudulent sales practices. He has demonstrated reckless disregard for the protection of Madison's customers. In addition, in February 2004, Baugh, as a controlling person of Madison, told a Madison customer that he (Baugh) was trading puts and the trading was "going very well." At the time, Baugh knew or should have known the terrible track record that Chadwick and Madison customers had had trading forex options, and that the trading was not "going very well." Finally, in January 2004, Baugh was put on notice of a potential problem when a customer complained to him that he had been charged commissions even though Peck had said that the customer would not have to pay

commissions unless his account was profitable. Baugh promised to look into it, but he never got back to the customer.

22. On December 1, 2003, Madison entered into an exclusive introducing agreement with QLP. The agreement was a form document drafted by QLP, and included the following provisions:

- (a) Madison agreed to refer prospective customers exclusively to QLP;
- (b) Madison agreed to assess the qualifications of the prospective customers to trade with QLP, according to standards established by QLP;
- (c) Madison agreed to ensure, to the best of its ability, that customers had read and fully understood the QLP contract and risk disclaimers;
- (d) Madison agreed to notify QLP, in writing, of any customer complaints, or pending or threatened action or proceeding, in respect of any matters, relating to the customer's QLP account. QLP reserved for itself the exclusive right to respond, adjust or settle such complaints;
- (e) Madison agreed to notify QLP, in writing, of the assertion of any material claim against Madison, or of the institution against Madison, of any action, investigation, or proceeding by a customer or regulatory agency, exchange, or board of trade; and
- (f) Madison agreed to cooperate with QLP by furnishing all documents necessary to conduct an investigation and defend such a claim or proceeding involving Madison.

23. Madison directed its customers to send funds directly to QLP.

24. QLP generated the Madison customer account statements.

25. Madison used only account opening forms and disclosures provided by QLP.

B. Chadwick Committed Fraud Concerning Forex Futures

26. Beginning at least in September 2002 and continuing through at least November 2003, Chadwick, by and through its agents and employees, was in the business of soliciting members of the public to open managed accounts at Gain Capital, Inc. ("Gain"), a registered FCM in Warren, New Jersey, to trade forex futures on Gain's electronic platform. Once customers opened and funded accounts at Gain, the trading in their accounts was directed through "Limited Powers of Attorney, Managed Account Authorizations" by employees and

agents of Chadwick acting as the customers' "trading agent." These forex futures transactions were not conducted or executed on or subject to the rules of any contract market. Chadwick received commissions on this trading.

27. The Gain forex futures contracts marketed by Chadwick concerned the purchase or sale of standardized amounts of commodities for future delivery at a price or using a pricing formula or mechanism that was established at the time the contracts were initiated. Although typically the contracts were closed on the same day as purchased, they could be rolled over and held open indefinitely.

28. The customers who purchased the Gain futures contracts had no commercial need for the foreign currency. Instead, customers entered into the transactions intending to speculate and profit from anticipated price fluctuations in the markets for these currencies.

29. At the time these contracts were entered into, the customers did not actually purchase an interest in currencies, but purchased an interest in the contract, for which Gain was the counterparty. Gain did not go into the market for these customers but, in fact, took the opposite side of (was the counterparty to) each customer position.

30. Chadwick led customers to believe that they were entitled to close their positions by offset. Chadwick's customers did not anticipate taking, and did not have the capacity to take, delivery of foreign currency as a consequence of these investments. If the market moved in a favorable direction, a customer expected to liquidate his or her position by means other than delivery of the commodity and receive American dollars. Most of the open positions Chadwick customers maintained at Gain, were covered by at least one stop loss order, demonstrating that it was clearly anticipated by Chadwick, Gain and the customers that positions could and would be offset, without making or taking delivery of the commodity. Because of this implication that the positions would be offset, the Gain contracts operated as if they were fungible.

31. The Chadwick/Gain customers trading on the Gain electronic platform did not negotiate individual purchase agreements. The Gain rules for margins, typically 2%, and the terms and conditions of the Gain contracts for Chadwick customers were standardized. The Gain contracts involved trading in pairs, i.e., the simultaneous buying of one currency and selling of another. Gain offered trading in 14 currency pairs. The transaction sizes were from 1 to 25 lots, with 1 lot representing 100,000 of the base currency in the currency pair. The Gain customer agreement called for the novation of opposing contracts. That is, whenever the same customer account had two or more open and opposite contracts providing for the purchase and sale of the same foreign currency pair on the same value date, such contracts had to be automatically canceled and replaced by an obligation to settle only the net difference between amounts payable in respect of the relevant currencies under the relevant contracts. Such novation could not occur unless the contracts were standardized.

32. From at least September 2002 through November 2003, employees and agents of Chadwick, in solicitations using the wires, mails and other means of interstate commerce, knowingly or recklessly made fraudulent and materially misleading statements to actual and potential customers, including telling customers to expect to make large returns on their investments quickly and downplaying the risks involved. For example, in May 2003, a Chadwick sales representative told a potential customer that profits between 100% and 200% were possible, and falsely told him that only half his investment was at risk. Other prospective customers were falsely told that: a customer could double or triple his money, yet losses could not exceed 20% per trade; and returns of 200%-300% were possible with Chadwick, yet trading in the account would stop if it sustained a 60% loss.

33. Chadwick sales representatives and other agents and employees of Chadwick often knowingly or recklessly made misrepresentations to encourage potential customers to send

in money immediately so as to not miss the opportunity to make substantial profits or to encourage existing customers to invest additional funds once their initial investment funds were lost. For example, in May 2003, one Chadwick sales representative falsely told a potential customer that customers normally earned over a 25% return per month and could earn much more. He added that if the prospective customer had only invested the week earlier, he would have quadrupled his investment.

34. From September 2002 through November 2003, employees and agents of Chadwick, knowingly or recklessly misrepresented the purported successful record of Chadwick's trading forex futures for its customers. For example, in June 2003, a Chadwick salesperson falsely told a potential Chadwick customer that three out of every five trades placed by Chadwick were profitable. In September 2002, another Chadwick sales representative falsely told a potential Chadwick customer that Chadwick's currency traders have been able to achieve an average monthly net growth of 5% for clients. Other false claims included that all customers were doing well and making money, that Chadwick customers were making 4% to 8% returns on a monthly basis and that customers were making 30% returns.

35. Employees and agents of Chadwick soliciting forex futures accounts, in light of the claims of the likelihood of profits they were making to customers, knowingly or recklessly failed to disclose the actual overwhelmingly losing trading record sustained by Chadwick customers trading forex futures. In fact, going back to September 2002 through November 2003, Chadwick had 99 forex futures customer accounts, almost all discretionary accounts traded by Chadwick. None were profitable. Total losses were approximately \$610,000.

36. From September 2002 through at least November 2003, employees and agents of Chadwick, in sales solicitations to the public, knowingly or recklessly misrepresented that Chadwick's traders, executives and sales representatives were making the same trades in forex

futures that its customers were making, and therefore had “additional incentives to act prudently.”

C. Chadwick Defrauded Forex Options Customers

37. From June 2003 through approximately November 2003, Chadwick solicited public customers to trade forex options through accounts at Universal Options, Inc. (“Universal Options”). Universal Options is a Florida corporation, organized on July 30, 2002, which has never been registered with the Commission in any capacity, but held itself out as an affiliate of a registered FCM and an affiliate of an affiliate of a registered FCM. Universal Options also held itself out to be a wholly owned subsidiary of Universal Commodity Corporation, which has been registered with the Commission as an introducing broker since January 29, 2003. These forex options transactions were not conducted or executed on or subject to the rules of any contract market. Chadwick earned commissions on these options trades.

38. In solicitations using the wires, mails and other means of interstate commerce, Peck, and other employees and agents of Chadwick, knowingly or recklessly made fraudulent and materially misleading statements to actual and potential customers that exaggerated the likelihood of profits and minimized the risk of loss from trading forex options. These included Peck falsely telling customers that he was 99.9% positive he could make money for them trading foreign currency options, that he had made a lot of money for Chadwick customers in the past and would make a lot of money for them, and that Chadwick did not charge commissions unless the customer trading was profitable.

39. In fact, Chadwick had at least 19 customer accounts that traded forex options through Universal Options, none of these were profitable, and, in total, they lost approximately \$260,000. No one from Chadwick ever disclosed these material facts to potential or actual forex options customers.

D. Chadwick Churned Forex Futures Accounts

40. During the time period of January 2003 through July 2003, Chadwick, through its agents and employees, traded forex futures through Gain for more than 61 customers pursuant to "Limited Powers of Attorney, Managed Account Authorizations." Chadwick employees controlled the trading in these customers' accounts. Chadwick employees traded virtually all of these discretionary customer accounts for the purpose of generating commissions, without regard for the interest of the customers. During this time, these accounts lost approximately \$320,000 of \$440,000 invested, including commissions taken by Chadwick of approximately \$230,000. The accounts churned and the average monthly ratios of commissions to average equity, the ratios of total commissions to total investment, and the ratios of total commissions to losses for each account are summarized in Exhibit A, attached to this Complaint.

41. D'Onofrio, as a controlling person of Chadwick, induced some of the violative acts of Chadwick by his actual participation in the fraud, in deterring some customers from withdrawing their funds, and in his participation in the training of Chadwick salespeople to use certain solicitation points. For example, in telephone calls with customers, D'Onofrio urged customers to leave their money with Chadwick, as the only way to make back their losses. He told a customer that the customer would have to double his investment to make back his losses. He falsely told another customer that Chadwick had been successfully trading for the past several days, in order to convince that customer to allow the trading in his account to continue. D'Onofrio also instructed salespeople to tell potential customers that Chadwick typically placed five trades per week and 20-25 trades per month, when he knew or should have known that the actual trading was far more active.

42. Baugh, as a controlling person of Chadwick, induced some of the violative acts of Chadwick by helping to train the sales force and by his participation in some of the fraudulent

solicitation of customers. For example, Baugh told a Chadwick customer that almost the entire value of his account had been lost, but if he sent in more money Chadwick would be able to rebuild his account. Further, as the manager of the sales force at Chadwick, Baugh failed to maintain a reasonably adequate system of internal supervision and control or did not enforce with any reasonable diligence such system.

E. Statutory Background

43. Section 2(c)(2)(B)(i) and (ii) of the Act provides that the Commission shall have jurisdiction over an agreement, contract or transaction in foreign currency that is a sale of commodity for future delivery or an option, so long as:

- the contract is “offered to, or entered into with, a person that is not an eligible contract participant,” and
- the counterparty, or the person offering to be the counterparty, is not one of the regulated entities enumerated in Section 2(c)(2)(B)(ii)(I-VI).

7 U.S.C. § 2(c)(2)(B)(i) and (ii). FCMs and certain statutorily defined affiliates are regulated entities enumerated in Section 2(c)(2)(B)(ii)(II) and (III). 7 U.S.C. § 2(c)(2)(B)(ii)(II) and (III). Even if entities qualify as proper counterparties, Section 2(c)(2)(C) of the Act subjects agreements, contracts or transactions in retail foreign currency described in subparagraph (B) to antifraud provisions of the Act, Sections 4b and 4c(b). 7 U.S.C. § 2(c)(2)(C).

44. Section 1a(12)(A)(xi) of the Act, 7 U.S.C. § 1, defines an eligible contract participant as an individual who has total assets in excess of: a) \$10 million; or b) \$5 million and who enters the transaction to manage the risk associated with an asset owned or a liability incurred, or reasonably likely to be owned or incurred. The Act anticipates that wealthy or institutional investors, known as eligible contract participants, that meet certain financial criteria and that trade foreign currency futures or options contracts have sufficient resources to protect

their own interests when entering into foreign currency transactions, and therefore their transactions fall outside the Commission's jurisdiction. The Act further contemplates that the foreign currency futures or options transactions of investors who do not meet the financial criteria to be eligible contract participants, retail customers, shall fall within the Commission's jurisdiction.

45. Most, if not all, of the foreign currency futures and/or options transactions alleged herein were offered to or entered into with persons who did not qualify as eligible contract participants.

46. QLP and Gain may be proper counterparties for the retail foreign currency transactions described in this Complaint, as registered FCMs, as described in Section 2(c)(2)(B)(ii)(II) and (III) of the Act. However, the agreements, contracts or transactions in retail foreign currency described in this Complaint are still subject to the antifraud provisions of the Act, Sections 4b and 4c(b), pursuant to Section 2(c)(2)(C) of the Act. Universal is not a proper counterparty for retail foreign currency transactions under Section 2(c)(2) (B)(ii) of the Act and, therefore, its transactions would not be excluded from Commission jurisdiction.

47. Since the Complaint alleges that defendants violated Sections 4b(a) and 4c(b) of the Act, the Commission has jurisdiction over this action.

V.

**VIOLATIONS OF THE COMMODITY EXCHANGE
ACT AND COMMISSION REGULATIONS**

COUNT I

**VIOLATIONS OF SECTION 4c(b) OF THE ACT
AND COMMISSION REGULATION 32.9 (a) and (c):
FOREX OPTIONS FRAUD AT MADISON
(Madison, QLP, D'Onofrio, Baugh, Peck and Lauren)**

48. Paragraphs 1 through 25 and 43 through 47 are realleged and incorporated herein.

49. During the time period from at least November 2003 through March 2005, defendants Peck, Baugh and Lauren, and other employees and agents of Madison, violated Section 4c(b) of the Act, 7 U.S.C. § 6c(b) (2002), and Commission Regulation 32.9(a) and (c), 17 C.F.R. § 32.9(a) and (c) (2004), in that, in or in connection with offers to enter into, the entry into, or the confirmation of the execution of, commodity option transactions, they cheated or defrauded or attempted to cheat or defraud customers or prospective customers and deceived or attempted to deceive customers or prospective customers by, among other things: misrepresenting the likelihood that customers will profit from the trading of forex options and misrepresenting, and omitting discussion of, the risks and costs of trading forex options; misrepresenting the urgency of trading forex options; and misrepresenting and failing to disclose, in light of the profit predictions they were making, Madison's customers' performance record trading forex options.

50. The actions and omissions of Peck, Baugh and Lauren, and other employees and agents of Madison, described in paragraphs 1 and 2, 12 and 13, and 16 through 25 of this Complaint, were done within the scope of their employment and agency with Madison. Therefore, Madison is liable as a principal for each of the violations alleged in this Count, pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Commission Regulation 1.2, 17 C.F.R. § 1.2 (2004).

51. During this time, D'Onofrio and Baugh each, directly or indirectly, controlled Madison and did not act in good faith, or knowingly induced, directly or indirectly, the acts

constituting the violations of Madison alleged in this Count, and thereby each is liable for Madison's violations of Section 4c(b) of the Act, 7 U.S.C. § 6c(b) (2002), and Regulation 32.9(a) and (c), 17 C.F.R. § 32.9(a) and (c) (2004), pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002).

52. Madison engaged in the illegal conduct alleged in this Count, within the scope of its office, as an agent of QLP. Pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Regulation 1.2, 17 C.F.R. § 1.2, (2004), QLP is liable as a principal for the illegal conduct of its agent, Madison, alleged in this Count.

53. Each material misrepresentation or omission and each deception made during this time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation.

COUNT II

VIOLATIONS OF SECTION 4b(a)(2)(i) AND (iii) OF THE ACT: FOREX FUTURES FRAUD AT CHADWICK (Chadwick, D'Onofrio and Baugh)

54. Paragraphs 1 through 15, 26 through 36, and 41 through 47 are realleged and incorporated herein.

55. During the time period of at least September 2002 through November 2003, employees and agents of Chadwick, including Baugh and D'Onofrio, violated Section 4b(a)(2)(i) and (iii) of the Act, 7 U.S.C. § 6b(a)(2)(i) and (iii) (2002), by, in or in connection with orders to make, or the making of, contracts of sale of commodities for future delivery, made or to be made, for or on behalf of any other persons, where such contracts for future delivery were or could be used for the purposes set forth in Section 4b(a)(2) of the Act, 7 U.S.C. § 6b(a)(2) (2002), have cheated or defrauded or attempted to cheat or defraud customers and willfully deceived or attempted to deceive customers by, among other things: misrepresenting the

likelihood that customers will profit from the trading of forex futures and misrepresenting, and omitting discussion of, the risks in the trading of trading of forex futures; misrepresenting the urgency of trading forex futures; misrepresenting and failing to disclose, in light of the profit predictions they were making, Chadwick's customers' poor performance record trading forex futures; and misrepresenting the trading done by Chadwick employees for themselves.

56. The actions and omissions of the employees and agents of Chadwick, including Baugh and D'Onofrio, described in paragraphs 1 and 3, 12 and 13, 26 through 36, and 41 and 42 of this Complaint, were done within the scope of their employment and agency with Chadwick. Therefore, Chadwick is liable as a principal for each of the violations alleged in this Count, pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Commission Regulation 1.2, 17 C.F.R. § 1.2 (2004).

57. During this time, D'Onofrio and Baugh each, directly or indirectly, controlled Chadwick and did not act in good faith, or knowingly induced, directly or indirectly, the acts constituting the violations of Chadwick alleged in this Count, and thereby each is also liable for Chadwick's violations of Section 4b(a)(2)(i) and (iii) of the Act, 7 U.S.C. § 6b(a)(2)(i) and (iii) (2002), pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002).

58. Each material misrepresentation or omission and each deception made during this time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation.

COUNT III

**VIOLATIONS OF SECTION 4c(b) OF THE ACT
AND COMMISSION REGULATION 32.9(a) AND (c):
FOREX OPTIONS FRAUD AT CHADWICK
(Chadwick, D'Onofrio, Baugh, and Peck)**

59. Paragraphs 1 through 15, 37 through 39, and 41 through 47 are realleged and incorporated herein.

60. During the time period of June 2003 through approximately November 2003, defendant Peck, and other employees and agents of Chadwick, violated Section 4c(b) of the Act, 7 U.S.C. § 6c(b) (2002), and Commission Regulation 32.9(a) and (c), 17 C.F.R. § 32.9(a) and (c) (2004), in that, in connection with offers to enter into, the entry into, or the confirmation of the execution of, commodity option transactions, they cheated or defrauded or attempted to cheat or defraud customers or prospective customers and deceived or attempted to deceive customers or prospective customers by, among other things: misrepresenting the likelihood that customers will profit from the trading of forex options and misrepresenting, and omitting discussion of, the risks and costs of trading forex options; misrepresenting the urgency of trading forex options; and misrepresenting and failing to disclose, in light of the profit predictions they were making, Chadwick's customers' poor performance record trading forex options.

61. The actions and omissions of Peck, and other employees and agents of Chadwick, described in paragraphs 1 and 3, 12 and 13, 37 through 39, and 41 and 42 of this Complaint, were done within the scope of their employment and agency with Chadwick. Therefore, Chadwick is liable as a principal for each of the violations alleged in this Count, pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Commission Regulation 1.2, 17 C.F.R. § 1.2 (2004).

62. During the relevant time, D'Onofrio and Baugh each, directly or indirectly, controlled Chadwick and did not act in good faith, or knowingly induced, directly or indirectly, the acts constituting the violations of Chadwick alleged in this Count, and thereby each is liable for Chadwick's violations of Section 4c(b) of the Act, 7 U.S.C. § 6c(b) (2002), and Regulation

32.9(a) and (c), § 17 C.F.R. § 32.9(a) and (c) (2004), pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002).

63. Each material misrepresentation or omission and each deception made during the relevant time, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation.

COUNT IV

**VIOLATIONS OF SECTION 4b(a)(2)(i) AND (iii)
OF THE ACT: FRAUD BY CHURNING FOREX
FUTURES DISCRETIONARY ACCOUNTS AT CHADWICK
(Chadwick, D'Onofrio and Baugh)**

64. Paragraph 1 through 15, 26 through 36, and 41 through 47 are realleged and incorporated herein.

65. During the time period of January 2003 through July 2003, employees and agents of Chadwick, have cheated or defrauded or attempted to cheat or defraud customers and willfully deceived or attempted to deceive customers by, among other things: excessively trading forex futures for at least 61 discretionary accounts for customers for the purpose of generating commissions, without regard for the interest of the customers, in violation of Section 4b(a)(2)(i) and (iii) of the Act, 7 U.S.C. § 6b(a)(2)(i) and (iii) (2002).

66. The actions and omissions of employees and agents of Chadwick described in paragraphs 1 and 3, 12 and 13, 26 through 36, and 41 and 42 of this Complaint, were done within the scope of their employment and agency with Chadwick. Therefore, Chadwick is liable as a principal for each of the violations alleged in this Count, pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2002), and Commission Regulation 1.2, 17 C.F.R. § 1.2 (2004).

67. During this time, D'Onofrio and Baugh each, directly or indirectly, controlled Chadwick and did not act in good faith, or knowingly induced, directly or indirectly, the acts

constituting the violations of Chadwick alleged in the Count, and thereby each is liable for Madison's violations of Section 4b(a)(2)(i) and (iii), 7 U.S.C. § 6b(a)(2)(i) and (iii) (2002), pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b) (2002).

68. Each account traded excessively for the purpose of generating commissions, without regard for the interest of the customer, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation.

VI.

RELIEF REQUESTED

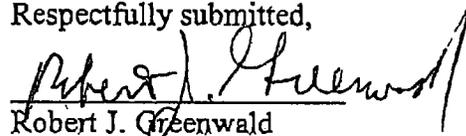
WHEREFORE, the Commission respectfully requests that this Court, as authorized by Section 6c of the Act, 7 U.S.C. § 13a-1, and pursuant to the Court's own equitable powers, enter:

- a) a statutory restraining order restraining and enjoining defendants and all persons insofar as they are acting in the capacity of their agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with them who receive actual notice of such order by personal service or otherwise, from directly or indirectly:
 1. Destroying, mutilating, concealing, altering or disposing of any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of defendants, wherever located, including all such records concerning defendants' business operations;
 2. Refusing to permit authorized representatives of the Commission to inspect, when and as requested, any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of defendants, wherever located, including all such records concerning defendants' business operations; and
 3. Withdrawing, transferring, removing, dissipating, concealing or disposing of, in any manner, any funds, assets, or other property, wherever situated, including but not limited to, all funds, personal property, money or securities held in safes, safety deposit boxes and all funds on deposit in any financial institution, bank or savings and loan account held by, under the control of, or in the name of, defendants;
- b) an order of preliminary injunction prohibiting the defendants from engaging in conduct violative of Sections 4b(a)(2)(i) and (iii) and 4c(b) of the Act and Commission Regulation 32.9(a) and (c), including, but not limited to, the

conduct described in this complaint, and from withdrawing, transferring, removing, dissipating, concealing or disposing of, in any manner, any funds, assets, or other property, wherever situated, including but not limited to, all funds, personal property, money or securities held in safes, safety deposit boxes and all funds on deposit in any financial institution, bank or savings and loan account held by, under the control of, or in the name of, defendants;

- c) an order of permanent injunction prohibiting the defendants from engaging in conduct violative of Sections 4b(a)(2)(i) and (iii) and 4c(b) of the Act and Commission Regulation 32.9(a) and (c), including, but not limited to, the conduct described in this complaint, and from engaging in any commodity futures or options-related activity, including soliciting new customers, giving advice or other information in connection with the purchase or sale of commodity interest contracts, options on futures or options on foreign currencies, for others, and introducing customers to any other persons engaged in the business of commodity interest futures, options on futures or options on foreign currencies;
- d) an order directing the defendants to disgorge, pursuant to such procedure as the Court may order, all benefits received from the acts or practices which constitute violations of the Act or Regulations, as described herein, and interest thereon from the date of such violations;
- e) an order directing the defendants to make full restitution, pursuant to such procedure as the Court may order, to every customer whose funds were received by them as a result of acts and practices which constituted violations of the Act and Regulations, as described herein, and interest thereon from the date of such violations;
- f) an order directing the defendants to pay a civil monetary penalty in the amount of not more than the higher of \$120,000 (\$130,000 for violations occurring after October 23, 2004) or triple the monetary gain to each defendant for each violation of the Act or Regulations; and
- g) an order for such other and further remedial ancillary relief as the Court may deem appropriate.

Respectfully submitted,



Robert J. Greenwald

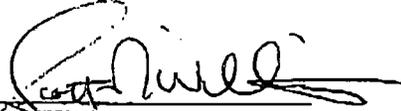
Florida Bar ID Number A5500826

Lead Trial Attorney

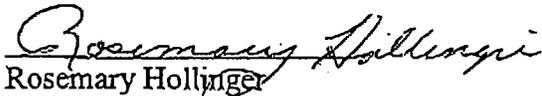
Commodity Futures Trading Commission

Division of Enforcement

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Dated: 10-18-05

Exhibit A

Account number	POA	Date opened	Date Closed	Additions	Withdrawals	Ending Balance	Profit/Loss	Comm & fees paid	Comm to Invest	Comm to ave equity	Comm to loss
4223	X	06-Jan-03	05-May-03	10000	720.84	0	-9279.16	7697	77%	94%	83%
4245	X	07-Jan-03	23-Jan-03	5000	2155.39	0	-2844.61	2064	41%	60%	73%
4270	X	10-Jan-03	18-Feb-03	10000	3975	0	-6025	3410	34%	47%	57%
4310	X	21-Jan-03	05-Feb-03	10000	3014.98	0	-6985.02	6670	67%	43%	95%
4314	X	21-Jan-03	12-Feb-03	5000	657.03	0	-4342.97	3615	72%	54%	83%
4468	X	30-Jan-03	04-Mar-03	5000	2002.95	0	-2997.05	2789	56%	36%	93%
4367	X	03-Feb-03	28-Feb-03	5000	1128.68	0	-3871.32	1902	38%	83%	49%
4423	X	03-Feb-03	27-Feb-03	7000	1580.12	0	-5419.88	2663	38%	82%	49%
4507	X	07-Feb-03	14-Mar-03	10000	3947.67	0	-6052.33	6082	61%	47%	100%
4500	X	10-Feb-03	13-Mar-03	4968.37	1980.25	0	-2988.12	3291	66%	48%	110%
4477	X	13-Feb-03	25-Mar-03	10000	1945.03	0	-8054.97	8822	88%	83%	110%
4714	X	21-Feb-03	26-Mar-03	5000	1954.38	0	-3045.62	1747	35%	51%	57%
5250	X	21-Feb-03	23-Jun-03	5000	930.53	0	-4069.47	3046	61%	51%	75%
4682	X	25-Feb-03	06-May-03	5000	1038.07	0	-3961.93	4037	81%	67%	102%
4687	X	05-Mar-03	14-Apr-03	10000	1761.44	0	-8238.56	8657	87%	84%	105%
4674	X	07-Mar-03	14-Apr-03	14940	6326.42	0	-8613.58	8853	59%	82%	103%
4705	X	10-Mar-03	26-Mar-03	4980	1946.56	0	-3033.44	1740	35%	51%	57%

Exhibit A

4723	X	11-Mar-03	27-May-03	14697.2	770.8	0	-13926.4	11576	79%	111%	83%
5012	X	13-Mar-03	22-Apr-03	14440.69	6146.44	0	-8294.25	4415	31%	34%	53%
4856	X	18-Mar-03	19-Jun-03	9960	3320.63	0	-6639.37	5226	52%	54%	79%
4825	X	19-Mar-03	08-May-03	15538	609.54	0	-14928.46	10521	68%	61%	70%
4990	X	24-Mar-03	06-May-03	10000	2735.95	0	-7264.05	6191	62%	82%	85%
4855	X	25-Mar-03	27-May-03	10000	311.48	0	-9688.52	9003	90%	78%	93%
5481	X	25-Mar-03	10-Jul-03	10000	190	0	-9810	5086	51%	99%	52%
4826	X	26-Mar-03	03-Apr-03	9985	4823.9	0	-5161.1	4022	40%	27%	78%
5301	X	28-Mar-03	01-Jul-03	4988	2124.01	0	-2863.99	1841	37%	46%	64%
4989	X	31-Mar-03	23-Apr-03	5000	1915.39	0	-3084.61	2521	50%	58%	82%
4993	X	07-Apr-03	10-Jun-03	19952.2	1105.92	0	-18846.28	11927	60%	76%	63%
5002	X	07-Apr-03	22-Apr-03	10000	3662.92	0	-6337.08	3476	35%	42%	55%
5111	X	21-Apr-03	23-Jun-03	5000	226.18	0	-4773.82	2556	51%	90%	54%
5055	X	23-Apr-03	07-May-03	6000	1867.2	0	-4132.8	2373	40%	25%	57%
5203	X	25-Apr-03	09-Jun-03	5000	938.63	0	-4061.37	3157	63%	54%	78%
5110	X	28-Apr-03	27-May-03	5000	1062.52	0	-3937.48	2177	44%	99%	55%
5101	X	29-Apr-03	08-May-03	4985	2216.85	0	-2768.15	973	20%	23%	35%
5122	X	01-May-03	19-Jun-03	4990	1475.01	0	-3514.99	1910	38%	67%	54%

Exhibit A

5160	X	02-May-03	12-Jun-03	5020	691.7	0	-4328.3	3768	75%	67%	87%
5214	X	06-May-03	11-Jun-03	5000	1117.01	0	-3882.99	2140	43%	37%	55%
5164	X	08-May-03	12-Jun-03	5000	2869.1	0	-2130.9	1558	31%	38%	73%
5151	X	09-May-03	22-May-03	5000	2588.89	0	-2411.11	2605	52%	64%	108%
5245	X	15-May-03	23-Jun-03	5000	930.53	0	-4069.47	3046	61%	53%	75%
5395	X	16-May-03	07-Jul-03	10000	1081.55	0	-8918.45	5088	51%	53%	57%
5426	X	20-May-03	09-Jul-03	5000	1390.29	0	-3609.71	2654	53%	37%	74%
5364	X	23-May-03	17-Jun-03	5000	813.94	0	-4186.06	1943	39%	79%	46%
5385	X	25-May-03	07-Jul-03	5000	546.65	0	-4453.35	2752	55%	55%	62%
5261	X	27-May-03	17-Jun-03	4988	1482.5	0	-3505.5	2023	41%	48%	58%
5269	X	27-May-03	18-Jun-03	5985	2298.67	0	-3686.33	1864	31%	34%	51%
5360	X	28-May-03	11-Jun-03	5000	2220.71	0	-2779.29	2064	41%	54%	74%
5365	X	28-May-03	18-Jun-03	5000	813.94	0	-4186.06	1943	39%	79%	46%
5280	X	02-Jun-03	07-Jul-03	5000	561.26	0	-4436.74	2451	49%	51%	55%
5271	X	03-Jun-03	16-Jun-03	5000	2827	0	-2173	1800	36%	41%	83%
5428	X	04-Jun-03	07-Jul-03	5030.64	1445.15	0	-3585.49	2302	46%	63%	64%
5275	X	05-Jun-03	13-Jun-03	5000	2856.77	0	-2143.23	861	17%	19%	40%

Exhibit A

5279	X	05-Jun-03	19-Jun-03	5000	2648.46	0	-2351.54	1913	38%	46%	81%
5335	X	12-Jun-03	30-Jun-03	8177	5552.33	0	-2624.67	1992	24%	27%	76%
5463	X	12-Jun-03	07-Jul-03	5000	1436.33	0	-3563.67	2288	46%	63%	64%
5498	X	12-Jun-03	07-Jul-03	10000	4049.36	0	-5950.64	4001	40%	24%	67%
5427	X	17-Jun-03	07-Jul-03	5000	1436.33	0	-3563.67	2288	46%	63%	64%
5482	X	20-Jun-03	07-Jul-03	5000	1436.33	0	-3563.67	2288	46%	63%	64%
5492	X	20-Jun-03	07-Jul-03	5000	1436.33	0	-3563.67	2288	46%	63%	64%
5525	X	20-Jun-03	09-Jul-03	7320.64	2279.82	0	-5040.82	3430	47%	75%	68%
5515	X	22-Jun-03	10-Jul-03	6000	1780	0	-4220	2490	42%	54%	59%
				439945.74	121159.66	0	318786.08	229,876	50%	58%	71%