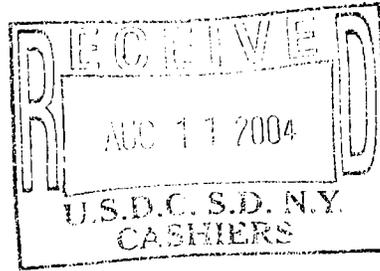


**MARK K. SCHONFELD (MS-2798)
REGIONAL DIRECTOR**

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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-against-

**ANGELO HALIGIANNIS,
STERLING WATTERS GROUP LP,
STERLING WATTERS CAPITAL ADVISORS, LLC,
and STERLING WATTERS CAPITAL
MANAGEMENT, INC.,**

Defendants.

04 CV 06488
04 Civ. ____ ()

COMPLAINT

JUDGE HOLWELL

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint against defendants Angelo Haligiannis ("Haligiannis"), Sterling Watters Group LP ("Sterling Watters" or "the Fund"), Sterling Watters Capital Advisors, LLC ("Sterling Advisors"), and Sterling Watters Capital Management, Inc. ("Sterling Capital") (collectively, the "Defendants"), alleges as follows:

SUMMARY

1. This action concerns a scheme to defraud investors who purchased limited

partnership interests in Sterling Watters. Since 1996, Haligiannis has convinced a number of individuals (the “Sterling Investors”) to invest at least \$27 million in Sterling Watters, a hedge fund, by grossly misrepresenting the Fund’s performance. The Defendants have also concealed substantial losses from the Sterling Investors by, among other things, issuing phony customer account statements and making other material misrepresentations about the value of investors’ accounts. As recently as two weeks ago, Sterling Watters sent Sterling Investors quarterly account statements that showed an aggregate of tens of millions of investor equity in the Fund. In fact, the Fund’s brokerage records show that the Fund is essentially worthless.

2. The Commission brings this emergency action to halt any ongoing fraudulent activity, to prevent the dissipation of any remaining assets, and to compel an accounting of the missing funds.

VIOLATIONS

3. By virtue of the conduct alleged herein:

- a. The Defendants, directly or indirectly, singly or in concert, have engaged and are engaging in acts, practices and courses of business, that constitute violations of Section 17(a) of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. § 77q(a).
- b. The Defendants, directly or indirectly, singly or in concert, have engaged and are engaging in acts, practices and courses of business that constitute violations of Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.
- c. Haligiannis, Sterling Advisors, and Sterling Capital, directly or indirectly,

singly or in concert, have engaged and are engaging in acts, practices and courses of business, that constitute violations of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (the "Advisers Act"), 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

4. Unless the Defendants are preliminarily and permanently restrained and enjoined, they will continue to engage in the acts, practices and courses of business set forth in this Complaint and in acts, practices and courses of business of similar type and object.

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

5. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), Section 21(d)(1) of the Exchange Act, 15 U.S.C. § 78u(d)(1), and Section 209 of the Advisers Act, 15 U.S.C. § 80b-9, seeking to restrain and enjoin permanently the Defendants from engaging in the acts, practices and courses of business alleged herein.

6. The Commission also seeks, as immediate relief, a temporary restraining order and asset freezes against all Defendants, verified accountings by all Defendants, an order directing the Defendants to repatriate assets, expedited discovery and an order preventing the destruction of documents.

7. Finally, the Commission seeks a judgment ordering all Defendants to disgorge ill gotten gains with prejudgment interest thereon, and ordering the Defendants to pay civil money penalties pursuant to Section 20(c) of the Securities Act, 15 U.S.C. § 77t(c), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3). Additionally, the Commission seeks a judgment ordering Haligiannis, Sterling Advisors, and Sterling Capital to pay civil money penalties pursuant to Section 209 of the Advisers Act, 15 U.S.C. § 80b-9.

JURISDICTION AND VENUE

8. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e) and 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14.

9. The Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. Certain of these transactions, acts, practices and courses of business occurred in the Southern District of New York, including a meeting in New York City between Haligiannis and Sterling Investors during which Haligiannis distributed marketing materials that contained material misrepresentations about the Fund and its performance over time.

THE DEFENDANTS

10. **Haligiannis**, age 31 and a resident of New York City, is president and chief operating officer of Sterling Advisors and Sterling Capital, respectively. Haligiannis received his bachelor's degree from New York University in or around 1993. Between 1994 and 1995, Haligainnis was employed by Merrill Lynch in New York. Haligiannis maintains a personal bank account with JP Morgan Chase & Co. ("JP Morgan Chase").

11. **Sterling Watters**, a Delaware limited partnership formed in 1995, has operated as a hedge fund since at least 1996. Since that time, Sterling Watters has maintained an office in New York City and has offered for sale partnership interests in Sterling Watters to investors. Sterling Watters' stated mission is to return for its limited partnership investors above-average returns through stock and security transactions. Sterling Watters maintains bank accounts with JP Morgan Chase and HSBC (Cayman Islands) and brokerage accounts with Banc of America

Securities LLC (“BOA”).

12. **Sterling Advisors**, a Delaware limited liability company, is a general partner of Sterling Watters. Sterling Advisors is responsible for management of the Sterling Watters securities portfolio. Sterling Advisors maintains a bank account with JP Morgan Chase.

13. **Sterling Capital**, a Delaware corporation, is a general partner of Sterling Watters. Sterling Capital is responsible for administrative services of Sterling Watters. Sterling Capital maintains a bank account with JP Morgan Chase.

FACTS

14. The Commission brings this emergency enforcement action because Haligiannis and the other Defendants have systematically been defrauding Sterling Investors. Since 1996, Haligiannis has raised at least \$27 million in Sterling Watters by grossly misrepresenting the Fund’s performance to Sterling Investors and potential investors. Haligiannis and Sterling Watters distributed to Sterling Investors quarterly and annual account statements that recorded fictitious quarterly and annual investment gains and account balances. Haligiannis and Sterling Watters also inflated Sterling Watters investment returns in marketing materials in an effort to induce investments in Sterling Watters. As investors saw what appeared to be dramatic investment returns on their account statements, they invested more and convinced friends and relatives to invest as well. Although some investors took distributions from their accounts over time, many kept their entire investment in the Fund in the hopes of realizing even greater returns. As recently as two weeks ago, Sterling Watters sent investors quarterly account statements that showed an aggregate of tens of millions of dollars of investor equity in the fund. In fact, the Fund has lost money over the years and now appears to be worthless.

15. Haligiannis has also deceived Sterling Investors by falsely stating that Sterling

Watters was solvent and capable of distributing funds to Sterling Investors. In fact, Sterling Watters' brokerage accounts have held little or no assets for many months, and Sterling Watters lacks the funds necessary to distribute monies to the Sterling Investors as they requested.

A. False Statements in Sterling Watters Offering Materials

16. In connection with the sale of its limited partnership interests, Sterling Watters distributed to investors a private placement memorandum, a partnership agreement, and a subscription agreement ("Offering Materials"). Sterling Watters distributed two sets of Offering Materials to investors. One set of Offering Materials is dated December 18, 1995, the other set of Offering Materials is dated March 31, 2000. The text of the two sets of Offering Materials is virtually identical.

17. The private placement memorandum and the partnership agreement contained within the Offering Materials describe, among other things, the manner by which investors may redeem partnership interests in Sterling Watters. Specifically, the private placement memorandum states that limited partners may, on thirty days written notice, withdraw all or part of their investment at the end of any calendar quarter.

18. Additionally, the private placement memorandum and the partnership agreement contained within the Offering Materials falsely state that Sterling Watters will provide to Sterling Investors annual financial statements certified by its independent certified public accountants, and the general partners of Sterling Watters - Sterling Advisors and Sterling Capital - will furnish unaudited financial statements for each of the first three quarters of each fiscal year to limited partners of Sterling Watters.

19. Neither Sterling Watters nor its general partners have ever provided Sterling Investors with certified audited financial statements. Moreover, Sterling Investors have never

received unaudited financial statements for any quarterly period from either Sterling Watters or its general partners.

20. As the president and chief operating officer of Sterling Advisors and Sterling Capital, respectively, Haligiannis knew, or recklessly disregarded, that Sterling Watters did not have audited annual financial statements for any year since 1996 and that Sterling Watters and its general partners had no intention of providing quarterly unaudited financial statements to Sterling Investors.

B. Phony Account Statements and Misrepresentations

21. From at least 1996 through the present, Sterling Watters distributed to Sterling Investors quarterly account statements that supposedly reflected the value of the Sterling Investors' accounts. Most of these quarterly account statements contain fictitious account balances and vastly overstated rates of return. For example, three Sterling Investors and their relatives, have, over time, invested more than \$14 million in the Fund. These Sterling Investors invested in the Fund based upon representations made to them by Haligiannis about the Fund's performance and its annual rate of return. Account statements for the second quarter of 2004 (ended June 30, 2004) for these investors show account balances (less distributions) of approximately \$19 million. Additionally, Haligiannis supplied Sterling Investors with marketing materials that state that investments in the Fund gained more than 1,500% from 1996 through the third quarter of 2003.

22. In reality, as of June 30, 2004, the Fund had assets of less than \$2,000, and has been losing money consistently since 2002. Overall, BOA brokerage account statements show that from October 1998 through June 2004, the Fund received contributions of \$27 million, distributed proceeds of \$21 million, and realized a loss of \$5.6 million.

23. Despite the fact that Sterling Watters was losing money, and was virtually insolvent as of the third quarter of 2003, Haligiannis continued to distribute account statements to Sterling Investors that show fictitious positive returns and account balances in the tens of millions of dollars. For example, the account statement for the third quarter of 2003 for one Sterling Investor account, account number 097-58-7814, shows that the account's capital balance as of June 30, 2003 was \$4,099,416.15, that the account's capital balance as of September 30, 2003 was \$4,829,112.22, and that the account gained \$729,696.07 (after fees) during the quarter. This account statement, and others like it, shows investment gains in excess of 17% for the quarter. Haligiannis also distributed marketing materials for the Fund that claim that, as of the end of the third quarter 2003, the Fund had \$180 million in assets.

24. The Fund's brokerage records show that these representations are entirely fictitious. At the end of the third quarter of 2003, Sterling Watters' BOA accounts had a balance of less than \$100,000. During that quarter, the accounts gained only \$8,200.

25. In addition, Sterling Watters distributed quarterly account statements for the fourth quarter of 2003 to Sterling Investors that similarly misstated the amount of investment gain during the quarter and the balance of the accounts. In fact, Sterling Watters distributed account statements for the fourth quarter of 2003 that show investment gains of more than 30% for the fourth quarter of 2003. For example, the fourth quarter 2003 account statements for one Sterling Investor and his relatives show capital account balances totaling in excess of \$11.6 million, and a gain for the quarter of approximately \$4.1 million. These investment gains and the account balances appear to be entirely fabricated. In fact, as of the end of the fourth quarter 2003, Sterling Watters' BOA accounts held a total balance of less than \$150,000.

26. Haligiannis and Sterling Watters knew, or recklessly disregarded, that these account

statements contained material misrepresentations.

C. Misrepresentations Contained in Marketing Materials

27. In a November 3, 2003, newsletter distributed to potential and existing Sterling Watters investors, Haligiannis states, "Having returned greater than 17% for the [third] quarter, Sterling Watters Group was positioned properly to take advantage of the rising market." As discussed in paragraph 23 above, this statement is false.

28. Moreover, Haligiannis distributed additional documents in the fourth quarter of 2003 in an attempt to secure additional investments from Sterling Investors. For example, he provided Sterling Investors with a document ("the Sterling Watters Summary") that summarizes Sterling Watters and its performance during the period 1996 through the third quarter of 2003. The Sterling Watters Summary states that the Fund has assets of \$180 million, and that, from 1996 through the third quarter of 2003, the Fund increased 1,565.13%. These representations are false. In fact, during the last six months of 2003, Sterling Watters never had more than \$150,000 in its BOA accounts.

29. The Sterling Watters Summary also states that the Fund gained 11.81% during the fourth quarter of 2002. This statement is false. In fact, during the fourth quarter of 2002, Sterling Watters BOA accounts lost more than \$64,000. The Sterling Watters Summary further states that the Fund gained 17.24% during 2002. This statement is also false. In fact, Sterling Watters BOA accounts lost value during 2002. During 2002, the Fund's BOA accounts returned the following profits/(losses):

Jan-02	115,500.79
Feb-02	(85,372.32)
Mar-02	(695,468.01)
Apr-02	(1,943,805.28)
May-02	(608,422.05)
Jun-02	(398,063.46)
Jul-02	(24,202.26)
Aug-02	(125,384.91)
Sep-02	(88,895.15)
Oct-02	444,580.22
Nov-02	185,284.72
Dec-02	(293,903.85)

30. One group of Sterling Investors relied on the representations contained in the Sterling Watters Summary and invested \$6 million in the Fund in February 2004.

31. Haligiannis knew, or recklessly disregarded, that the November 3, 2003 newsletter and the Sterling Watters Summary contained material misrepresentations.

D. Recent Statements Made by Haligiannis to Investors

32. Since at least April 2004 and continuing through the present, Sterling Investors have repeatedly attempted to liquidate their accounts with Sterling Watters in accordance with the distribution provisions contained in the Offering Materials. Despite numerous attempts, Haligiannis and Sterling Watters have repeatedly failed to honor the Sterling Investors' requests for distributions.

33. Instead, Haligiannis has fabricated excuses to put off the Sterling Investors. For example, on June 8, 2004, Haligiannis falsely stated to Sterling Investors that the Fund had sold investments valued at approximately \$39 million and that he would distribute the proceeds to Sterling Investors within a week. In fact, the Fund never possessed the investments to which Haligiannis referred, and Haligiannis and Sterling Watters did not have the funds necessary to make the distributions to Sterling Investors.

34. Additionally, on July 8, 2004, Haligiannis induced an employee of JP Morgan Chase to lie on his behalf to Sterling Investors and falsely state that the Fund maintained enough cash in its JP Morgan Chase account to make certain distributions to the Sterling Investors in July 2004. In fact, Sterling Watters did not have cash in its account to make the distributions, and the scheduled distributions were never made. During a subsequent telephone conversation with Sterling Investors later that day, the JP Morgan Chase employee admitted that Sterling Watters did not have the funds to make the necessary distributions, and the employee further admitted that Haligiannis directed her to lie to the Sterling Investors during the earlier conversation.

35. Moreover, approximately two weeks ago, during a conversation with a Sterling Investor, Haligiannis admitted that he sent money offshore and that he “did some illegal things with it.” He stated that he “set up some shell companies,” and transferred money to the shell companies. He further stated that he “commingled” funds from Sterling Watters with the funds of other investment entities with which he is affiliated.

36. Haligiannis knowingly provided substantial assistance to Sterling Capital and Sterling Advisors in connection with the activities described above.

FIRST CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act
(All Defendants)

37. Paragraphs 1 through 36 are realleged and incorporated by reference as if fully set forth herein.

38. From at least 1996 through the present, the Defendants, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in

interstate commerce or by the use of the mails, directly and indirectly, have employed and are employing devices, schemes and artifices to defraud.

39. From at least 1996 through the present, the Defendants, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, directly and indirectly, have obtained and are obtaining money and property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and have engaged and are engaging in transactions, practices or courses of business which have operated and will operate as a fraud and deceit upon Sterling Investors.

40. The Defendants knew or were reckless in not knowing of the activities described above.

41. By reason of the activities described herein, the Defendants have violated and are violating Sections 17(a)(1), (2) and (3) of the Securities Act, 15 U.S.C. §77q(a)(1), (2) and (3).

SECOND CLAIM FOR RELIEF
Violations of Section 10(b) of the Exchange Act and Rule 10b-5
(All Defendants)

42. Paragraphs 1 through 41 are realleged and incorporated by reference as if fully set forth herein.

43. From at least 1996 through the present, the Defendants, in connection with the purchase and sale of securities, directly and indirectly, by the use of the means and instrumentalities of interstate commerce or of the mails, have employed and are employing devices, schemes and artifices to defraud; have made and are making untrue statements of

material fact and have omitted and are omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and have engaged and are engaging in acts, practices and courses of business which operated as a fraud and deceit upon Sterling Investors.

44. Defendants knew or were reckless in not knowing of the activities described above.

45. By reason of the activities described herein, the Defendants have violated and are violating Section 10(b) of the Exchange Act, 15 U.S.C. §§78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder.

THIRD CLAIM FOR RELIEF
Violations of Sections 206(1) and 206(2) of the Advisers Act
(Haligiannis, Sterling Advisors, and Sterling Capital)

46. Paragraphs 1 through 45 are realleged and incorporated by reference as if fully set forth herein.

47. From at least 1996 through the present, Haligiannis, Sterling Advisors, and Sterling Capital, as investment advisers, directly and indirectly, by the use of the means and instrumentalities of interstate commerce or of the mails, have employed and are employing devices, schemes and artifices to defraud Sterling Investors; and have engaged and are engaging in transactions, practices and courses of business which operated as a fraud and deceit upon Sterling Investors.

48. Haligiannis, Sterling Advisors, and Sterling Capital knew or were reckless in not knowing of the activities described above.

49. By reason of the activities described herein, Haligiannis, Sterling Advisors, and

Sterling Capital have violated and are violating Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

50. In the alternative, Haligiannis knowingly provided substantial assistance to, and thus aided and abetted, Sterling Advisors' and Sterling Capital's violations of Section 206(1) and 206(2) of the Advisers Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant the following relief:

I.

An Order temporarily and preliminarily, and a Final Judgment permanently, restraining and enjoining the Defendants, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of 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, 15 U.S.C. § 78j(b) and Rule 10b-5, 17 C.F.R. § 240.10b-5.

II.

An Order temporarily and preliminarily, and a Final Judgment permanently, restraining and enjoining Haligiannis, Sterling Advisors, and Sterling Capital, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2).

III.

An Order directing the Defendants, their agents, banks, debtors, bailees, servants, employees, and attorneys-in-fact, and those persons in active concert or participation with the Defendants who receive actual notice of said Order by personal service, facsimile, or otherwise, and each of them, to hold and retain within their control, and otherwise prevent any withdrawal, transfer, pledge, encumbrance, assignment dissipation, concealment, or other disposal of any of the Defendant's assets, funds or other properties of any kind wherever situated, and assets over which said Defendants have control by signatory authority or otherwise.

IV.

An Order directing each of the Defendants to file with this Court and serve upon the Commission, within three (3) business days, or within such extension of time as the Commission staff agrees to, a verified written accounting, signed by each Defendant under penalty of perjury, setting forth:

- (1) All assets, liabilities and property currently held directly or indirectly by or for the benefit of such Defendant, including but not limited to bank accounts, brokerage accounts, investments, business interests, loans, lines of credit, and real and personal property wherever situated, describing each asset and liability, its current location and amount;
- (2) All money, property, assets, and other income received by such Defendant, or for their direct or indirect benefit, in or at any time from January 1, 1996 to the date of the accounting, describing the source, amount, disposition and current location of each of the items listed;
- (3) All assets, funds, securities, real or personal property of customers of such

Defendant, transferred to or for the benefit of such Defendant in or at any time from January 1, 1996 to the date of the accounting, and the disposition by such Defendant of such assets, funds, securities, real or personal property;

- (4) All money, property, assets and other income transferred from such Defendant, including transfers to any bank account, brokerage account or other account, or to any individual, or entity, in or at any time from January 1, 1996 to the date of the accounting; and
- (6) The names and last known addresses of all bailees, debtors, and other persons and entities which are currently holding the assets, funds or property of such Defendant.

V.

An Order directing each of the Defendants to repatriate assets.

VI.

An Order permitting expedited discovery.

VII.

An Order enjoining and restraining each of the Defendants, and any person or entity acting at their direction or on their behalf, from destroying, altering, concealing, or otherwise interfering with the access of the Commission to relevant documents, books and records.

VIII.

A Final Judgment ordering each of the Defendants to disgorge their ill-gotten gains, plus prejudgment interest, and such other and further amount as the Court may find appropriate.

IX.

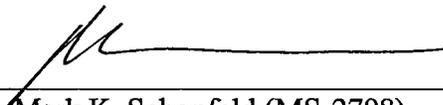
A Final Judgment ordering each of the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), and ordering Haligiannis, Sterling Advisors, and Sterling Capital to pay civil money penalties pursuant to Section 209 of the Advisers Act, 15 U.S.C. § 80b-9.

X.

Such other and further relief as to this Court deems just and proper.

Dated: New York, New York
August 11, 2004

By: _____


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