



## Money seized from Bayou Management hedge funds

By Greg Farrell, USA TODAY

Investors who thought they'd lost all their money in hedge funds operated by Bayou Management breathed a sigh of relief Tuesday when the Arizona attorney general's office disclosed that in May it seized \$101 million in funds associated with the defunct Connecticut-based hedge fund.

Assistant Attorney General Cameron Holmes told Bloomberg News that the money seemed to have come from Bayou into a Wachovia bank account controlled by Majestic Capital Management. Karl Johnson, a principal at Majestic, has filed a claim on the money, indicating in court papers that the money came from Bayou founder Sam Israel III.

"Bayou's filings with the court indicate that it's their money — the state is pursuing proof of that," Holmes told Bloomberg.

Earlier this year, a representative of Wachovia bank in Arizona notified state authorities of a series of unusual transactions where funds were shifted between accounts in Germany, Hong Kong, London and the USA. In response to the notification, Arizona seized the funds.

Lawyers representing investors in Bayou's hedge funds say the recovery of at least some of the funds was a positive development.

"It's a fantastic thing for investors," says Ross Intelisano of law firm Rich Intelisano, who represents a dozen Bayou investors. "People thought all the money was gone. It's secure, sitting in the treasurer's office." He adds there will be a process for investors to file requests for pro-rated shares.

In July, Israel informed his investors that he would shut down his funds and return most of their money by mid-August, citing personal problems such as a divorce. After that deadline passed, several investors grew concerned and sought out Israel personally or hired lawyers.

Israel posted a note outside the door of his Westchester, N.Y., estate, warning visitors that trespassers would be prosecuted.

The note, which seemed to be addressed to investors, said, "Please be patient. You will be contacted as soon as possible. I am precluded from making any comment at this time."

"This appears to be a good step," says Ron Geffner, a former Securities and Exchange Commission lawyer, now at Sadis & Goldberg, who represents an investor. "It would be premature to celebrate before investors are able to identify the total sum of assets."

The unusual fund transfers identified by Wachovia and forwarded to the Arizona attorney general's office began in late 2004 and extended into 2005. That pattern causes Intelisano to believe that some of the statements Bayou's Israel sent to his investors early this year might have been false, since the statements don't account for the fund transfers.

Federal authorities are investigating the events at Bayou. Earlier this year, Israel claimed his funds had more than \$440 million in investments.

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