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Goldman Sues to Vacate \$20.6 Million Bayou Award

By CHAD BRAY

Goldman Sachs Group Inc. asked a federal court on Friday to vacate a \$20.6 million arbitration award to unsecured creditors of Bayou Group LLC.

The creditors had alleged Goldman ignored signs of fraud at the defunct hedge-fund firm, which was run by Samuel Israel III. Goldman provided clearing services to the Connecticut firm before it abruptly closed its doors in 2005.

Mr. Israel, 51 years old, is serving a 20-year sentence after pleading guilty in 2005 to defrauding clients out of more than \$400 million. Once Mr. Israel completes that sentence, he must serve an additional two years after he briefly disappeared before he was set to report to prison in 2008.

"In rendering its award, the arbitration panel manifestly disregarded the law and exceeded its authority," the lawsuit said.

A Financial Industry Regulatory Authority arbitration panel awarded nearly \$20.6 million to Bayou's unsecured creditors committee last month. The arbitration panel ruling represented the largest ever such award against Goldman.

"The petition to vacate is completely without merit," said Ross B. Intelisano of Rich & Intelisano LLP, which is representing the creditors committee. "We look forward to knocking it out and returning the funds to their rightful owners, the Bayou victims."

The creditors committee had filed an arbitration claim against two Goldman units.

In a lawsuit filed in federal court in Manhattan on Friday, Goldman claims the committee used a "novel bankruptcy law theory" to argue that Bayou's deposit of funds into its own brokerage account and its shuffling of money between accounts constituted transfers to Goldman that could be recouped under federal law.

About \$13.9 million of the award relates to money that Bayou shuffled between its own accounts, Goldman said in the lawsuit.

"The debtors now stand to be paid twice—once through withdrawals before the bankruptcy was filed and once after through the award—for the same alleged transfers," the lawsuit said.

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