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Bayou Investors Seek to Recover More Than $100 Mln (Update1)

By Rob Urban and Katherine Burton - Sep 30, 2005

Sept. 30 (Bloomberg) -- Investors in Bayou Group, the collapsed hedge fund company, are hoping to recover more than $100 million following guilty pleas yesterday by principals Samuel Israel III and Daniel Marino.

U.S. regulators are hunting for millions of dollars in Bayou funds that they allege Israel and Marino siphoned off to invest in private companies. They have already targeted for seizure $100 million that was intercepted in May by the Arizona attorney general; Marino's $2.9 million home in Westport, Connecticut; and other personal accounts and property.

``Investors are hoping there is going to be a large amount of money to recover that were the fruits of the Bayou fraud,'' said Ross Intelisano, a lawyer with Rich Intelisano LLP in New York, who's representing Bayou investors.

U.S. Attorney Michael Garcia said yesterday that Stamford, Connecticut-based Bayou took in $450 million since July 1996. The Securities and Exchange Commission has asked a court to appoint a receiver to track down assets that can be used to repay investors. Bayou ``grossly exagerrated'' its performance to make it appear the funds were profitable, the SEC said.

Israel and Marino, both 46, pleaded guilty yesterday in federal court in White Plains, New York, to mail fraud, investment adviser fraud and conspiracy to commit those crimes. Marino also pleaded guilty to wire fraud, and faces a maximum 50 years in prison. Israel may be sentenced to as many as 30 years.

Bayou is the biggest hedge fund to come under scrutiny for missing money since 2000, when Michael Berger was accused of hiding $400 million of losses at his Manhattan Investment Fund. The Bayou case has prompted regulators to call for stricter oversight of the industry, which caters to wealthy investors and institutions, and whose assets doubled to more than $1 trillion during the past five years.

Isle of Man

Israel, Bayou's founder and principal trader, and Marino, its chief financial officer, began investing in private companies in Europe and the U.S. in 2003 through partnerships including IM Partners and IMG LLC, a change they didn't disclose to investors, according to court documents filed by Garcia and the SEC. Investigators don't know how much of that money may be recovered.

One of Israel and Marino's early private investments was a startup called Kycos Ltd. IM Partners invested more than $10 million in the company, which opened in October 2003, said John Bourbon, a former financial regulator in the Isle of Man and the Cayman Islands who was Kycos's chief executive officer. The company marketed services to help offshore financial institutions meet anti-money laundering and anti-terrorist regulations.

Financing Movies

Kycos eventually opened offices in the Isle of Man and the Cayman Islands, employing more than 30 people. IM Partners took over management of Kycos in December and it closed in July, said Chris Corlett, CEO of the Isle of Man's Ministry of Industry and Trade.

IM Partners also was involved in financing movies. The partnership agreed to provide $2.7 million in funding for a film called ``Yellow,'' according to documents filed in Nevada. It's not clear if the financing deal was consummated.

In 2004, Israel stopped trading for the hedge funds, the SEC said. He began ``searching for high-payout, short-term investments and made the assets of the funds vulnerable to theft and fraudulent investment scams,'' the agency said. He wired $150 million of Bayou funds in and out of a series of bank accounts. Arizona officials suspected the transfers were part of an investment scam and the state froze $100 million in account.

Arizona officials allege a former Bayou executive entered into a complex and ``fanciful'' investment arrangement with Israel to use the $100 million, along with debt, to buy ``bank instruments'' on which Israel would earn $7.1 billion over 10 years.

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