

**Bayou Offshore Master Fund, Ltd; Bayou Offshore Fund A, Ltd;  
Bayou Offshore Fund B, Ltd and Bayou Offshore Fund C, Ltd  
(all in official liquidation)**

**Fourth report of the Joint Official Liquidators  
to the Grand Court of the Cayman Islands**

**28 February 2009**

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- I. Receipts and payments for the period 2 September 2005 to 28 February 2009
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**1.0 Basis of Presentation and Disclaimer**

**1.1. Basis of Presentation**

This report, covering the period 1 March 2008 to 28 February 2009, has been prepared for the purpose of informing the Grand Court of the Cayman Islands (the "Grand Court") and the investors and creditors of Bayou Offshore Master Fund Ltd ("Master"), Bayou Offshore Fund A, Ltd ("Fund A"), Bayou Offshore Fund B, Ltd ("Fund B") and Bayou Offshore Fund C, Ltd ("Fund C") (collectively, the "Bayou Offshore Funds") about the progress made in the liquidations of the Bayou Offshore Funds since the last report dated 29 February 2008 (the "Third Report").

Once filed with the Grand Court, a copy of this report will be posted to the website [www.bayoucaymanliquidation.ky](http://www.bayoucaymanliquidation.ky) that was set up for the express purpose of keeping investors informed about the progress of the liquidations of the Bayou Offshore Funds as well as for the publication of notices and other documents.

This report has been prepared by the Joint Official Liquidators of the Bayou Offshore Funds (the "Liquidators") using the information available at the time of preparation. Investigations are ongoing and new information continues to be received. This may result in material changes to the information shown in this report, which should be read in conjunction with previous reports.

It continues to be the Liquidators' understanding and belief that Bayou Offshore Fund D, Ltd, Bayou Offshore Fund E, Ltd and Bayou Offshore Fund F, Ltd (the "Dormant Funds") did not trade and the Dormant Funds appear never to have solicited investments.

**1.2. Disclaimer**

In the event that this report is used for any purpose other than in accordance with its purpose of informing the Grand Court and updating the investors and creditors of the Bayou Offshore Funds, any such party relying on the report does so entirely at their own risk and shall have no right of recourse against the Liquidators, Kroll (Cayman) Limited ("Kroll"), its partners, directors, employees, professional advisers or agents.

None of the Liquidators, Kroll, its partners, directors, employees, professional advisers or agents accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of this report and any such party who receives a copy of this report whether from Kroll, or any other source shall have no right of recourse against Kroll, its partners, directors, employees, professional advisers or agents.

In preparing this report the Liquidators have relied upon information in the possession of the Bayou Offshore Funds at the time of their appointment, and the statutory documentation and other information provided to them since that time. The Liquidators have not performed an audit examination of this information. Except where specifically stated, the Liquidators have been unable to establish the reliability of the sources of information presented to them by reference to independent evidence.

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**2.0 Receipts and Payments Account**

Attached as Appendix I to this report is an account of receipts and payments to date, concerning which additional explanation is provided below.

**3.0 Assets**

**3.1. Bank Accounts**

No further bank accounts have been identified. During the period covered by this report, the previously identified bank accounts, containing a total of US\$148.31, were closed with the balances being written off to bank charges.

**3.2. Claims Filed Against the Bayou Onshore Entities**

The following companies are collectively referred to as the "Bayou Onshore Entities":

- i) Bayou Management;
- ii) Bayou Group, LLC;
- iii) Bayou Superfund, LLC;
- iv) Bayou No Leverage Fund, LLC;
- v) Bayou Affiliates Fund, LLC;
- vi) Bayou Accredited Fund, LLC;
- vii) Bayou Fund, LLC;
- viii) Bayou Advisors, LLC and
- ix) Bayou Equities, LLC.

As detailed in previous reports to the Grand Court, a number of claims have been filed against Bayou Management LLC ("Bayou Management") for recovery of amounts that were paid to that entity by the Bayou Offshore Funds. In summary, those claims were:

1. Claim filed by Master in the amount of US\$37.24 million. This claim is duplicative, but protective, of the three claims filed by each of Fund A, Fund B and Fund C;
2. Claim filed by Fund A in the amount of US\$15.00 million;
3. Claim filed by Fund B in the amount of US\$16.13 million; and
4. Claim filed by Fund C in the amount of US\$6.11 million;

The Liquidators also filed protective claims in an undetermined amount against each of the other Bayou Onshore Entities. To date, there have been no realisations from any of the claims.

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As detailed in section 2.3 of the Third Report, the Liquidators successfully negotiated an agreement (the "Onshore Settlement") with the Receiver for the Bayou Onshore Entities, Mr. Marwil (the "Onshore Receiver"). The Onshore Settlement is contingent upon the approval of the Bankruptcy Plan for the Bayou Onshore Entities by the US Bankruptcy Court. The hearing of the Bankruptcy Plan has been delayed pending resolution of the Onshore Receiver's actions against various early redeemers.

Upon conclusion of the Onshore Receiver's actions, if the US Bankruptcy Court grants the necessary approval of the Bankruptcy Plan, the Liquidators estimate that the Bayou Offshore Funds will realise between US\$360,000 and US\$1,020,000 from the Onshore Settlement.

**3.3. Return of Fraudulent Transfers**

As noted in section 2.4 of the Third Report, the Liquidators sought recoveries from certain investors that received early redemption payments from the Bayou Offshore Funds. In total, there were eight such investors (the "Redeeming Investors").

As at the date of this report, settlement agreements have been reached with four Redeeming Investors which have been sanctioned by the Grand Court (the "Sanctioning Orders"). The settlement agreements are confidential and the Sanctioning Orders and all related court documents have been sealed by the Grand Court.

Total realisations from the above matters amount to US\$1,424,690.

One further settlement agreement is pending at this time and the Liquidators are considering the recovery options relating to the remaining Redeeming Investors.

**4.0 Monies Recovered by Legal and Government Authorities in the United States of America**

The Liquidators have previously reported that the distribution being contemplated by the Federal Agencies out of the Forfeited Funds (both terms as defined in the Third Report) would only occur after sentencing of Sam Israel ("Mr. Israel") and Dan Marino ("Mr. Marino") in the criminal proceedings. On 19 February 2008, Mr. Marino was sentenced to twenty years imprisonment and on 2 July 2008, Mr. Israel was also sentenced to twenty years imprisonment.

The Liquidators understand that the Federal Agencies have distributed a significant amount of the seized funds direct to the Bayou Offshore Funds' investors.

**5.0 Pooling of Assets**

When granting the Sanctioning Orders in October 2008 and on the Liquidators' application, the Grand Court also ordered the pooling of the assets of the Bayou Offshore Funds for the purpose of paying costs, expenses, claims and distributions (the "Pooling Order").

As a consequence of the granting of a Pooling Order, the Bayou Offshore Funds' assets have been pooled in one liquidation estate account. Liabilities of the Funds are not pooled per se. However, once admitted, creditors' claims will be paid pro-rata from the general pool of assets, after payment of liquidation costs and other preferential payments under Cayman law (which would also be met from the pool). Claims between the Bayou Offshore Funds, if any, will themselves fall into the pool as assets of each of Fund A, Fund B Fund C and Master, and so be released and extinguished upon consolidation.

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**6.0 The Liquidation Committee**

The Liquidators have continued to liaise with the Liquidation Committee ("the Committee"), in particular in relation to the developments described at paragraphs 3.3 and 4.0 of this report. The Committee has also been regularly consulted on general matters affecting the liquidation and the Liquidators' fees and expenses.

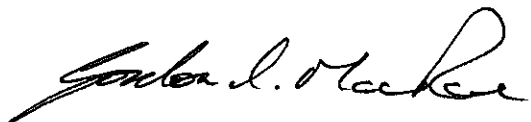
**7.0 Fees and Expenses of the Joint Official Liquidators**

Attached, as Appendix II, is a summary that shows the total cost of professional fees and expenses, from the start of the liquidations to 28 February 2009, incurred by the Liquidators and their advisors.

The Liquidators' fees and expenses to 31 August 2008 have been approved by the Committee and sanctioned by the Grand Court, as has the time spent in relation to the Dormant Funds. As yet, there have been insufficient realisations to discharge these approved costs in full but the extent to which they have been defrayed is shown in Appendix I to this report.

**8.0 Summary and Conclusion**

The Liquidators intend to continue to seek a final resolution of the outstanding claims against the Redeeming Investors. In addition, the Liquidators will monitor the approval of the Onshore Settlement Plan and will report further on progress in due course.



**Gordon I MacRae  
Joint Official Liquidator of the Bayou Offshore Funds**

## APPENDIX I

## Appendix I

### The Bayou Offshore Funds

Receipts and payments account for the period 2 September 2005 to 28 February 2009

	US\$
<b>Receipts</b>	
Recoveries from redeeming investors	1,424,690.00
Total receipts	<u>1,424,690.00</u>
<b>Payments</b>	
Joint Provisional Liquidators's fees and expenses	(232,852.93)
Joint Official Liquidators' fees and expenses	(345,369.22)
Legal fees and expenses	(806,175.94)
Payments relating to Dormant Funds	(3,967.94)
Petitioning Creditor fees and expenses	(34,323.36)
Bank charges	(714.80)
Total payments	<u>(1,423,404.19)</u>
<b>Net position at 28 February 2009</b>	<u><u>1,285.81</u></u>

## APPENDIX II

Appendix II

The Bayou Offshore Funds  
Professional fees and expenses incurred and balances outstanding  
for the period 2 September 2005 to 28 February 2009

	US\$	Fees and expenses incurred from 2 Sep 05 to 31 Aug 08	Fees and expenses incurred from 1 Sep 08 to 28 Feb 09	Total fees and expenses incurred to 28 Feb 09	Paid to date	Unpaid fees and expenses
	US\$	US\$	US\$	US\$	US\$	US\$
Liquidators' fees and expenses			90,779.81	816,084.88	(578,222.15)	237,862.73
Attorney's fees: Maples and Calder		261,998.10	63,022.06	325,020.16	(209,137.19)	115,882.97
Attorney's fees: Diamond McCarthy		717,172.62	1,264.51	718,437.13	(572,530.16)	145,906.97
Attorney's fees: Zeissler & Zeissler		24,488.59	0.00	24,488.59	(24,488.59)	0.00
		<b>1,728,964.38</b>	<b>155,066.38</b>	<b>1,884,030.76</b>	<b>(1,384,398.09)</b>	<b>499,632.67</b>
Fees and expenses for the Bayou Offshore Funds D, E & F		3,967.94	0.00	3,967.94	(3,967.94)	0.00
<b>TOTALS</b>		<b>1,732,932.32</b>	<b>155,066.38</b>	<b>1,887,998.70</b>	<b>(1,388,366.03)</b>	<b>499,632.67</b>