

**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)**

**Report of the Joint Official Liquidators**

**29 February 2008**

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)

**REPORT OF THE JOINT OFFICIAL LIQUIDATORS**

29 February 2008

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**APPENDICES**

- I. Fees and expenses of the joint provisional liquidators, the joint official liquidators and their professional advisors for the period 2 September 2005 to 30 April 2007
- II. Fees and expenses of the joint official liquidators and their professional advisors for the period 1 May 2007 to 31 January 2008

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**1.0 Basis of presentation and disclaimer**

**1.1. Basis of presentation**

This report 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 30 April 2007 was issued ("the Second Report").

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 the Second Report and the report of the joint provisional liquidators' dated 15 December 2005 ("the First Report").

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**

This report should not be copied or disclosed to any third party or otherwise be quoted or referred to, in whole or in part, without the Liquidators' prior written consent. In the event that this report is obtained by a third party or 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 Assets**

**2.1. Monies held by the Liquidators**

Since the date of the Second Report, no realisations have been made and it remains the case that the monies available to the Liquidators amount to US\$148.31.

**2.2. Claims filed against the Bayou Onshore Entities**

As reported in section 5.0 of the Second Report, the Liquidators filed claims against Bayou Management LLC ("Bayou Management") for recovery of amounts that were paid to that entity by the Bayou Offshore Funds as follows:

- i) 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;
- ii) Claim filed by Fund A in the amount of US\$15.00 million;
- iii) Claim filed by Fund B in the amount of US\$16.13 million; and
- iv) 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.

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.

Following the failure of the Joint Protocol (referred to in section 5.0 of the Second Report), by which it had been hoped information and recoveries could be shared amongst all the victims of the Bayou fraud (whether they were investors and creditors in the Bayou Offshore Funds or the Bayou Onshore Entities), the Liquidators have continued to negotiate with the Bayou Onshore Funds' independent fiduciary, Mr. Jeff Marwil. Mr Marwil is also the federal equity Receiver appointed on 28 April 2006 by US District Judge, Colleen McMahon, in the Southern District of New York charged with a duty to, among other matters, seek recoveries for defrauded investors and otherwise administer the liquidations of the Bayou Onshore Entities.

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**2.3. Settlement with the Bayou Onshore Entities**

During the summer of 2007 and with the agreement of the liquidation committee of the Bayou Offshore Funds (the "Committee"), the Liquidators reached a negotiated settlement with Mr Marwil under terms that involved a number of complex contingencies but, if concluded, was likely to result in a return to the liquidation estates of between US\$1 million and US\$1.35 million in exchange for the withdrawal of the claims filed by the Bayou Offshore Funds against the Bayou Onshore Entities. The successful completion of the negotiated settlement was contingent upon the confirmation of the Bayou Onshore Entities' Chapter 11 Bankruptcy Plan ("the Initial Plan"). Unfortunately, due to a number of objections being filed, the Initial Plan was not confirmed and so, under the terms of the negotiated agreement, the settlement fell away.

As a consequence, in December 2007, the Liquidators entered into further negotiations with Mr Marwil in an attempt to preserve some value in the claims against the Bayou Onshore Entities. The Liquidators agreed to renegotiated terms with Mr Marwil ("the Agreement"). The Agreement was contingent upon the sanction of both the Court and the confirmation of Mr Marwil's Bankruptcy Plan ("the Plan") by the US Bankruptcy Court. The principal economic term of this settlement from the Bayou Offshore Funds' perspective is that the Bayou Offshore Funds and the claims of the individual investors in the Bayou Offshore Funds shall together be allowed as a single claim of US\$3m against the consolidated estate of the Bayou Superfund, LLC, Bayou No Leverage Fund, LLC, Bayou Affiliates Fund, LLC, Bayou Accredited Fund, LLC, Bayou Fund, LLC (together, the "Onshore Funds"), and a separate claim of US\$20m against Bayou Management. The allowance of these claims is conditional upon the Liquidators and the individual investors voting as a class (in accordance with the US Bankruptcy Code) to accept the Plan. If sanctioned, the Plan is forecast to result in recoveries for the Bayou Offshore Funds of between US\$360,000 and US\$1.02 million.

A condition of the Plan is that the Liquidators will be responsible for contesting any claim brought individually by investors in the Bayou Offshore Funds against the Bayou Onshore Entities. This is made necessary because, under Cayman law, the proper claimant to the monies is the relevant Bayou Offshore Fund itself and not the individuals that invested in it.

Taking all factors into consideration, the Liquidators are advised, and believe it to be the case, that the Agreement with Mr Marwil represents as good an outcome for the claims of the Bayou Offshore Funds against the Bayou Onshore Entities as could be achieved.

**2.4. Return of fraudulent transfers**

By letters dated 15 February 2008, the Liquidators sought recovery of US\$17.4 million from those investors that received early redemption payments from the Bayou Offshore Funds. The Liquidators are currently following up these demands with the relevant parties.

**3.0 Distributions to investors**

**3.1. Funds recovered by legal and government authorities in the United States of America**

Based on discussions that their US Attorneys have had with the US Attorney General's office, the Liquidators understand that the US\$101 million that was intercepted by the Arizona Attorney General and subsequently transferred to the Southern District of New York ("the Forfeited Funds") discussed in the Second Report will be distributed direct to the individual investors in the both the Bayou Offshore Funds and the Bayou Onshore Entities by United States federal agencies ("the Federal Agencies").

The Liquidators have provided information to the Federal Agencies to assist in that process and have notified all investors having claims against the Bayou Offshore Funds of this. It is understood that all

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victims, including investors in the Bayou Offshore funds, will receive a substantial dividend as a result of the distribution being contemplated by the Federal Agencies although it is also understood that such distribution of the Forfeited Funds will only occur after sentencing of Sam Israel and Dan Marino in the criminal proceedings. There have been various dates set for the sentencing of each of the former principals of the Bayou Offshore Funds which have been adjourned from time to time. The latest information available to the Liquidators is that, on 19 February 2008, Marino was sentenced to twenty years in prison and the sentencing hearing for Israel is scheduled for 14 April 2008.

### **4.0 The Liquidation Committee**

The Liquidators continue to liaise closely with the Committee. The most recent meeting was held by telephone conference call on 15 January 2008 when the representatives of the two Committee members attending were each provided with detailed information about the terms of the Agreement and the contents of the Plan (discussed in section 2.3). The representative of the third member of the Liquidation Committee had recused himself from the meeting on the basis that the Liquidation Committee member has sold its economic interest in the Bayou Offshore Funds to another party and that the purchaser of that economic interest also holds a position in the Onshore Funds. Additionally, the Liquidation Committee member is, itself, one of the Individual Offshore Investors.

### **5.0 Fees and expenses of the Joint Official Liquidators**

Attached, as Appendix I, is a summary that shows the fees billed, since the onset of the liquidations to 31 April 2007, by the Liquidators and their advisors. It may be seen that total costs (including legal fees) to this date are in the order of US\$1.4 million.

The fees and expenses of the Liquidators for the period 1 May 2007 to 31 January 2008 amount to US\$119,285.92 and have yet to be sanctioned by both the Committee and the Court. All earlier fees and costs have been sanctioned by the Committee. The Liquidators and their legal advisors continue to accrue time costs in relation to these liquidations against which, to date, no remuneration has been paid and for which no realisations are yet available.

It should be noted that, if the Agreement is sanctioned, any recovery under the Agreement will be used to settle some of the outstanding costs.

### **6.0 Summary and Conclusion**

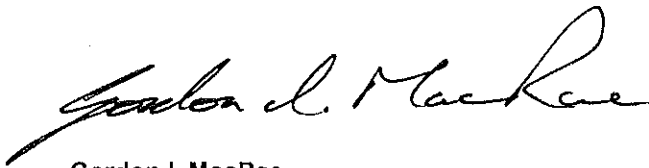
Since their appointment in 2005, the Liquidators and their counsel have worked diligently to obtain recoveries for the Funds and their investors. In furtherance of these efforts, the Liquidators initiated an ancillary bankruptcy proceeding in US Bankruptcy Court, conducted extensive discovery to determine the nature and scope of the fraud perpetrated on the Funds and the damages the Funds suffered, and obtained broad injunctive relief from the US Bankruptcy Court to protect the Funds' interests in the United States. The Liquidators and their professional advisors engaged in exhaustive negotiations with the US Federal Agencies holding the Forfeited Assets to obtain distributions of these proceeds to the Funds' investors. The Liquidators' efforts have led to the anticipated distribution of a portion of the forfeited assets directly to the Bayou Offshore Funds' investors. In addition, the Liquidators' negotiations with the Bayou Onshore Entities have produced a settlement that ought to provide further recoveries to the Funds. The Liquidators and their professionals are conducting an ongoing investigation into litigation claims that may be asserted on behalf of the Bayou Offshore Funds to provide additional recoveries to the Bayou Offshore Funds and their investors. These efforts were vital to the Liquidators' goal of obtaining the best recovery for the Bayou Offshore Funds.

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The Liquidators continue in discussions with various authorities in the US in order to ensure, as far as possible, that the overall conduct of proceedings relating to both the Bayou Offshore Funds and the Bayou Onshore Entities is carried out in the most efficient and fair manner possible.

A handwritten signature in black ink, reading "Gordon I. MacRae". The signature is written in a cursive style with a large, sweeping initial 'G'.

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

## Appendix I

### The Bayou Offshore Funds Fees and expenses of the Joint Provisional Liquidators, the Joint Official Liquidators and their professional advisors for the period 2 September 2005 to 30 April 2007

	Fees US\$	Expenses US\$	Total US\$
Liquidators' fees and out-of-pocket expenses	468,742.50	54,192.18	522,934.68
Attorney's fees: Maples and Calder	149,609.50	4,257.53	153,867.03
Attorney's fees: DiamondMcCarthy	531,649.00	37,122.89	568,771.89
Attorney's fees: Diamond McCarthy Interface	48,726.50	1,891.21	50,617.71
Attorney's fees: Zeissler & Zeissler	23,376.74	-	23,376.74
Other professionals: Kroll Inc	30,765.00	1,739.00	32,504.00
	<b>1,252,869.24</b>	<b>99,202.81</b>	<b>1,352,072.05</b>
Fees and expenses incurred in respect of the Bayou Offshore Funds D, E & F	<b>3,262.50</b>	<b>705.44</b>	<b>3,967.94</b>
	<b>1,256,131.74</b>	<b>99,908.25</b>	
<b>Total liquidation fees and costs</b>			<b>1,356,039.99</b>

## Appendix II

**The Bayou Offshore Funds**  
**Fees and expenses of the Joint Official Liquidators**  
**and their professional advisors**  
**for the period 1 May 2007 to 31 January 2008**

	Fees US\$	Expenses US\$	Total US\$
Liquidators' fees and out-of-pocket expenses	108,183.00	11,102.92	119,285.92
Attorney's fees: Maples and Calder	198,756.20	9,931.19	208,687.39
Attorney's fees: DiamondMcCarthy	85,432.00	1,746.80	87,178.80
	<u>392,371.20</u>	<u>22,780.91</u>	
<b>Total liquidation fees and costs for the period</b>			<u><u>415,152.11</u></u>