Alternative Universe

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Timothy Sykes might have been the right age for a manager, but living in New York, he "was going out so much I got burned out." So in 2002, the then-21-year old relocated his Cilantro Fund Management. Sterile Florida, he believed, posed less of a diversion. "I became wiser," he says, and in 2005 he moved his short-bias fund back to the Big Apple.

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With the explosion of private equity, venture capital and hedge funds, finding the right name for a new firm can be a lot more difficult than many would think. The challenge is to come up with a name that is evocative, emotional and easy to remember. The name has to be something everyone associated with the firm can get behind.

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Thomas Hughes Resigns as President, COO of Clinton Group

BY ALEX J. STOCKHAM | Thomas Hughes has resigned from his position as president and chief operating officer of The Clinton Group after approximately four months in the role.

Hughes started in the position on Nov. 1, 2005, according to a press release announcing his appointment. He will continue to serve in an advisory capacity. Clinton Group declined to comment further at this time.

It is unclear why Hughes left his role as president and COO. When Hughes joined the firm, he told *HedgeFund.net* that he and Hall had a shared vision to serve clients and become a true alternative asset management company.

In his role, Hughes was responsible for furthering Clinton Group's strategic direction, including expanding the firm's product line. He was also responsible for the firm's legal and compliance divisions. In his advisory role, he may continue helping the firm in all of those capacities.

Earlier this year, Clinton Group seemed to be following that plan, hiring people at a fairly rapid clip. In January, the firm hired Marion Boucher Soper from Deutsche Bank to serve as head of credit research and hired Ronald DiPasquale as a managing director and portfolio manager to oversee all structured capital and commercial real estate. DiPasquale previously served as head of mortgage-backed security trading at Keefe Bruyette & Woods.

Hughes joined Clinton Group from Deutsche Bank, where he was the global chief executive officer of Deutsche Asset Management and a member of DB's eight-member executive committee.

Hughes and Hall have known each other for many years and were two years apart at the U.S. Merchant Marine Academy.

Clinton Group appeared to have rebounded from problems the firm experienced in late 2003 and early 2004. In late 2003, Anthony Barkan, who managed the firm's asset-backed securities team, resigned from the firm after disagreements with other Clinton executives about the way they priced certain asset-backed bonds. That resignation led to SEC and CFTC investigations that were ultimately dropped with no action being taken. During this stretch of time, Clinton Group lost both staff and assets under management. But assets had climbed to approximately $8 billion at the time Hughes was hired.

"In spite of what they went through, they're still here, thriving," Hughes told *HedgeFund.net* when he was hired.

Court Dismisses Highland Suit Against Motient

BY JAMES ARMSTRONG | A Delaware court has dismissed a suit against Motient Corp. and financial services firm Tejas Inc. by a hedge fund run by Highland Capital Management.

Highland claimed wireless data services company Motient had wasted corporate funds by authorizing the payment of excessive compensation to Tejas and its subsidiaries Capital & Technology Advisors and Communication Technology Advisors (CTA). Jared Abbruzzese, who runs CTA, was a Motient board member at the time the deal was approved.

Motient hired CTA to provide financial advice and has so far paid the firm more than $3 million dollars in fees and warrants to buy Motient stock, even as Motient lost tens of millions of dollars

The court ruled Highland did not prove Motient's board had an interest in Tejas or that the payments to Tejas were not the product of a valid exercise of business judgment. Tejas ended up raising nearly $600 million in capital for Motient through a PIPE deal.

Among other things, Highland also claimed portfolio manager and former Motient board member James Dondero had been excluded from an executive committee in retaliation for his decision to file a complaint against the hiring of Tejas. The court said a causal relationship between the complaint and Dondero's exclusion could not be inferred.

In a statement announcing the dismissal, Motient chief operating officer Christopher Downie called Dondero's

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accusations without merit and said Dondero was interested in his own pecuniary benefit at the expense of other shareholders.

Motient has filed multiple countersuits against Dondero, claiming he harmed shareholder value by attempting to manipulate the company's stock price by leaking non-public and misleading information. Dondero resigned from Motient's board in February.

Lincolnshire, Ill.-based Motient is also a controlling shareholder in satellite communications company Terre Star Networks.

Mass System Too Fund-Friendly, Says Galvin

BY CHRISTOPHER GLYNN | The Bay State pension system should curb its hedge fund enthusiasm, secretary of state William Galvin told *The Boston Globe*.

Galvin singled out Massachusetts Pension Reserve Investment Management for its 5% allocation to the asset class.

The $40 billion pension, which returned over 12% in 2005, will increase its allocation to 10%, or $4 billion, by year-end.

"I am not happy about it," Galvin said in the report. "I just think as a long-term strategy, it is like gambling."

But Mass PRIM chairman and state treasurer Timothy Cahill praised the strong return the asset class has given his pension.

"Our mandate is to get an 8.25% return, so we have to take some risk to do that," Cahill said.

Galvin confirmed he and Cahill are in disagreement.

"I have told Cahill," Galvin said. "He keeps pointing to his return rate."

Galvin said the smaller the allocation to the asset class, the better.

"The smaller the amount, the less offensive it is," Galvin said. "It is like taking strong medicine."

Cahill countered that the Mass PRIM hedge fund portfolio in fact lowered risk and added its current allocation has had less volatility than the S&P 500.

The Shadow Sows
Commentary From Our Man On the Inside

Is Consolidation Inevitable?

Hedge funds may follow the path of all other types of financial services

The growth in the hedge fund industry in the last five years has been nothing less than remarkable. Some estimates say assets have grown four-fold since 2000, but even more remarkable is the growth in the number of hedge funds and funds-of-funds. Those numbers have expanded closer to five-fold. Despite recent slowdowns of inflows at the end of last year and the beginning of this year, and the skepticism of some of the financial press, the growth in assets seems destined to continue, albeit along perhaps a bumpier growth path than in recent years. But what about the number of hedge funds?

An article this week alluded to 2005 as setting a record for numbers of new hedge funds created, with over 2000 reportedly started last year vs. approximately 1,400 in 2004. That means nearly 40% of the estimated 8,500 hedge funds in existence have been created in just the past two years! Perhaps the most significant statistic, however, is the nearly 850 funds that closed in 2005. That also is a record for one year, and likely exceeds the total number of funds in the hedge fund space 10 years ago.

The Shadow knows that, historically, markets tend to shrink themselves of the problem of too many participants, and often in an unkind manner. Let's hope it's different this time around in our space.

Haven't we seen this movie before? Isn't this somewhat reminiscent of our experience in the mutual fund space in the late 80's and 90's, when we ended up with more mutual funds than stocks listed on the NYSE? The parallels are somewhat obvious. But how does this jive with the consolidation trends elsewhere in the financial world? As the old saying goes: "There is always someone bigger, if not better."

This saying has certainly held over the last 10 years in the banking sector as regional bank accumulators have been replaced by "behemoth accumulators." No bank or investment firm seems "too big to buy" anymore, as evidenced by J.P. Morgan's accumulation of multiple entities over the last three years and the recent Merrill Lynch - BlackRock combination. Even the securities exchanges are caught up in the trend, as multiple bidders seem to want to buy the LSE (all at the same time). Obviously, huge improvements in technology and efficiencies, as well as globalization, have been key drivers in this trend. Can this lead one to a similar conclusion for the hedgies as well?

The Shadow's answer to this question is a resounding "Yes." According to the HedgeFund.Net database, there are nearly 1,900 funds-of-funds (multi and single strategy). In the single strategy space, there are nearly 1,400 long-short equity funds. CTAs number nearly 450. Fully cognizant that there are differences in manager abilities and strategies, and mindful of the monumental asset growth in the space, isn't it possible we've reached the upper limit of the number of funds? Specifically, funds with generic strategies?

Certainly the SEC's registration requirements will have some muting effect upon future growth, and the inevitable standardization of pricing, monitoring and reporting required by investors will as well. But isn't it time that the space itself realizes enough is enough? The Shadow knows that, historically, markets tend to shrink themselves of the problem of too many participants, and often in an unkind manner. Let's hope it's different this time around in our space. As mentioned earlier, the asset growth appears on a path upward. The number of managers may be on s path as well, but in the entirely opposite direction.

The views expressed in this column do not necessarily reflect the views of Channel Capital Group Inc.

Youth Youth Youth!

The $1.5 trillion industry is a young world with young people's problems

BY CHRISTOPHER GLYNN | Timothy Sykes might have been the right age for a manager, but living in New York, he "was going out so much I got burned out."

So in 2002, the then-21-year old relocated his Cilantro Fund Management. Sterile Florida, he believed, posed less of a diversion.

"I became wiser," he says, and in 2005 he moved his short-bias fund back to the Big Apple.

Wiser is a good attribute—an attribute associated with getting older, and getting older is not a prized attribute in the industry.

"Youth is the lifeblood," essential for competitiveness, goes the industry adage.

Youth is also inexperienced and the best-selling *Young, Fabulous and Broke* is a testament to youth's inherent impulsiveness. So could youth also prove the biggest drawback in the industry? Could be.

Despite the role of age in fund failure, when a hedge fund has closed, it in all likelihood had no other choice, personnel agree.

Negative performance can trigger massive redemptions and can eat into the management fee—used to cover operating costs. In such a scenario, closure is the best investor outcome.

So a sweeping reason for the record fund liquidations in 2005 would seem reductive, but age factored largely in the cluster.

For Sykes, generating return never proved a problem.

"There was too much fun to be had in New York," Sykes admits. "But it is the center of the financial world, so I came back."

But Sykes, now 24, who grew his Bar Mitzvah money into a $3 million fund, called age just a part of a bigger liquidation picture.

"People misjudge business, operating and trading cost," he says. "There are a million reasons why a fund will close.

Even though his short-bias fund has done well, Sykes said his fee has been just enough to stay in business.

"A lot of people who start out expect to get paid a lot," when a start-up should focus on maintaining its infrastructure, he said.

"So people start taking bigger risk to get a bigger return, to get paid more instead of covering cost," inviting disaster, he says.

The chosen strategy can help make a fund scaleable, says Randall Watsek.

"For a quantitative strategy, people spend so much on the modeling technology, it can put them in the hole before launching," he says.

> "This is the best paid, most-competitive industry," Sykes says. "You are talking about a lot of ego."

Watsek, 31, favored deep value in part because of overhead. His Watsek Deep Value Fund did not "require him to get an asset base to invent an IT infrastructure."

New York-based Watsek Value Management opened last October.

Emphasizing a strategy early on is a mistake all its own, said Michael DeMeritt.

"You want to avoid getting pigeonholed in a strategy; the appeal can go away," DeMeritt, a partner at Last Atlantis Capital Management, says.

Sykes cited convertible arbitrage as a strategy that became unpopular and suffered massive outflow. Convertible arbitrage performed well in 2004, drawing new capital. But a much-remarked market glut fueled investor fear to the tune of $6 billion in outflow in 2005 as well as high-profile liquidations like Marin Capital.

"It had an in-and-out success," DeMeritt says. "The popularity was good in the short-term, but it did not last."

A successful strategy should have a broad focus.

"Businesses have a lifecycle," he says. "People are shocked when a strategy is no longer popular."

LACM launched earlier this year.

On the operations side, Lorraine Lyons, director of marketing at fund platform PCE Investors, said risk, as well as PCE's service, is not exclusive to the startup segment. Lyons said the administration can let a manager focus on its core competency –managing capital—rather assuming the burden of the back office.

"It can be hugely challenging," Lyons, based in London, says. "There are regulatory and operational pitfalls and we can help them mitigate that risk."

Even with some experience, the character of the manager can still cause failure through negligence.

"This is the best paid, most competitive industry," Sykes says. "You are talking about a lot of ego."

This might explain why Shawn Bromley and his partner Kael Coleman favor humility.

"Neither of us drives a $90,000 car," jokes Bromley, who with Coleman will launch PAI Capital next month. "We are both sort of frugal."

That frugality helped Bromley and Coleman save enough money to get their long-short equity fund off the

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Hedge Fund Performance, by Strategy

Last 12 Months Through February 2006, by Percent Return

This chart displays the last 12 months of the aggregate performance of hedge funds through February 2006, according to HedgeFund.net-PerTrac Universes, a feature of PerTrac Online. The data below presents select strategies. HedgeFund.net-PerTrac Universes charts the aggregate performance of a total of 35 different hedge fund strategies.

	Mar 2005	Apr 2005	May 2005	Jun 2005	Jul 2005	Aug 2005	Sep 2005	Oct 2005	Nov 2005	Dec 2005	Jan 2006	Feb 2006
All Funds	**-0.62%**	**-1.46%**	**0.75%**	**1.48%**	**1.82%**	**0.92%**	**1.79%**	**-1.35%**	**1.78%**	**1.82%**	**3.10%**	**0.61%**
Convert. Arbitrage	-1.44%	-2.93%	-1.36%	1.00%	1.46%	0.56%	1.22%	-0.29%	-0.07%	0.74%	2.54%	3.47%
CTAs	-0.30%	-2.72%	2.14%	2.23%	-0.05%	1.38%	1.21%	-1.32%	3.83%	0.49%	2.63%	-2.05%
Distressed	0.44%	-0.69%	0.10%	1.48%	1.99%	1.89%	1.03%	-0.80%	0.82%	1.18%	2.41%	0.73%
Emerging Markets	-2.26%	0.15%	0.65%	1.74%	3.38%	2.54%	4.99%	-2.35%	2.81%	3.39%	5.09%	2.39%
Event Driven	-0.42%	-1.78%	0.89%	1.60%	2.15%	0.86%	0.93%	-2.14%	1.30%	1.68%	3.51%	1.05%
Fixed Income	-0.04%	-0.17%	0.61%	0.83%	0.90%	0.73%	0.80%	-0.01%	0.27%	1.00%	1.03%	0.37%
Fixed Income Arb.	0.18%	0.11%	0.09%	0.46%	0.63%	0.06%	0.96%	0.29%	0.18%	0.61%	1.10%	0.35%
Fund of Funds	-0.57%	-1.53%	0.03%	1.27%	1.71%	0.84%	1.59%	-1.51%	1.46%	1.86%	2.90%	1.93%
Long/Short Hedged	-0.92%	-1.83%	1.39%	1.85%	2.59%	0.84%	2.42%	-1.96%	2.37%	2.69%	4.12%	0.14%
Macro	-0.83%	-0.86%	0.61%	0.83%	1.29%	0.38%	2.44%	-0.42%	1.79%	1.40%	2.82%	0.11%
Mark. Neutral Equity	0.18%	-0.28%	0.57%	0.94%	1.01%	0.77%	1.01%	-0.36%	0.52%	0.64%	1.49%	0.70%
Risk Arbitrage	0.44%	-1.01%	1.02%	0.75%	1.52%	0.53%	0.27%	-1.18%	1.20%	1.53%	2.74%	0.86%
Short Bias	1.78%	3.13%	-3.60%	-0.26%	-1.84%	1.61%	1.52%	2.31%	-2.99%	-0.44%	-3.13%	0.93%
Technology Sector	-2.05%	-2.86%	3.96%	0.91%	3.62%	-1.06%	1.99%	-0.64%	2.20%	3.65%	4.21%	0.64%
Value	-0.67%	-2.31%	2.34%	1.54%	2.87%	0.60%	1.20%	-1.99%	2.00%	1.75%	4.18%	0.36%

About HedgeFund.net-PerTrac Universes and PerTrac Online

HedgeFund.net-PerTrac Universes are available through PerTrac Online, an advanced tool for hedge fund analytics available exclusively to registered users of HedgeFund.net. The Universes provide a three-dimensional view of HedgeFund.net's hedge fund performance indices. Detailed percentile rankings are calculated each day for each of 35 investment strategies. The results are presented in easy-to-use tables and graphs. Alternative Universe provides monthly, yearly, and sector-focused views of PerTrac Online aggregate data on a rotating basis.

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ground in the first place.

In the early going, Bromley says "we plan to keep it lean and mean. A lot of people are used to being a chief, not an Indian," he says. Meanwhile, PAI Capital will work out of a pedestrian office space in Conshohocken, Penn.

Bromley, 33, and Coleman, 30, began fleshing out their idea for a fund in 2002 while working at Susquehanna International Group.

"We had time to form a business built for the long haul, not for the lure of fast money," he says, noting the fund will open with $3 million.

Bromley said he wanted to monitor the quality of the asset base.

"We emphasize the alpha-generating rather than the asset-gathering model," he says.

Having enough reserve capital is crucial.

"I recommend building your own capital over a two-year period before launching," Watsek says.

Bromley agreed.

"We had enough put away to live on while we do this," he says.

Personnel cite the high-profile failure of Cardinal Asset Management, whose management relied on outside financing, as an example of how not to open a fund.

"There is nothing wrong with Wall Street money," insists Bromley.

Parent F&C Asset Management has still failed to seed Cardinal Asset Management, and most of its personnel have left the fund.

In the meantime, the overall startup market increased 44% and is "proliferating daily," Lyons says.

Record growth has been the flipside of record liquidation; growth that has ushered in multibillion-dollar fund startup businesses Convexity Capital and Eton Park Capital—daunting competition.

"You need confidence," Sykes admits. "You do your best and hope focusing on managing money will be enough. Unfortunately, we know the world does not work that perfectly."

"You need confidence," Sykes admits. "You do your best and hope focusing on managing money will be enough. Unfortunately, we know the world does not work that perfectly."

But massive growth has boosted awareness of the entire industry.

"People are getting much more realistic about what is needed to run a fund," Lyons says.

Regulators Suspend Three Irish Funds

BY JAMES ARMSTRONG | Regulators have asked a Dublin-based company managing three hedge funds on the Irish Stock Exchange to withdraw from the investment business, according to reports.

Broadstone Fund Management, which has about €15 million ($18 million) in assets under management, had to cease all investment and investment advisory services as of 5:00 P.M.. Tuesday. The Irish Financial Services Regulatory Authority says they have uncovered serious issues at the firm.

The three Broadstone funds traded on the exchange are Avenit, Mespil and 4XiM. This marks the first time an Irish-domiciled fund manager has been ordered to cease trading on the Irish Stock Exchange. Regulators say the decision is not related to the integrity of client assets.

Gerry O'Neill, a former head of fixed interest rate trading at ABN Amro, founded Broadstone in 2002.

Shortly before the order went into effect, regulators allowed Broadstone to sell a subsidiary, Harvest Global, to its management. Harvest Global will not be affected by the order.

Missing Manager Says He Fears Investors

BY JAMES ARMSTRONG | A lawyer for missing hedge fund manager Kirk Wright says the fugitive hedgie went into hiding out of fear of angry investors.

Attorney Jacob Frenkel said Wright has made his whereabouts unknown "because of threats made against him," reports the *Atlanta Journal-Constitution*.

Up to 500 investors placed as much as $185 million with Wright's Atlanta-based firm International Asset Management. Investors include California millionaire Roger O'Neal, bus company executive Charles Busskohl and former football players Blaine Bishop, Steve Atwater and Terrell Davis.

According to Frenkel, an unidentified ex-football player posed as a law enforcement officer and threatened an employee at Wright's home in Marietta, Ga.

Authorities have frozen Wright's assets and there is currently a warrant out for his arrest. Several investors have also brought civil suits against him and International Asset Management.

According to a complaint by the Securities and Exchange Commission, Wright supplied false quarterly reports misrepresenting the amount of assets in seven different hedge funds. Though regulators believe the firm's assets were largely dissipated by 2005, Wright claimed a 20% return that year.

Late Trading Figure Fails to Respond to SEC

BY JAMES ARMSTRONG | The Securities and Exchange Commission said Martin Druffner, a former Prudential Securities broker embroiled in the late trading scandal, has not responded to an order instituting proceedings.

Druffner allegedly used deceptive trading practices to market time mutual funds on behalf of seven hedge fund clients. He is charged with four counts of violating securities laws and four counts of wire fraud.

While at Prudential Securities, Druffner allegedly created multiple customer account numbers for the same client, used multiple financial adviser numbers and made false material representations to employees at mutual funds in order to avoid detection. Authorities believe he generated more than $2 million in net commissions as a result of his scheme.

In December, the SEC sent the order by certified mail to Druffner's address in Hopkinton, Mass. The agency also sent the order to Druffner's attorney. However, the agency's files show no record of the certified letters being received, and Druffner's lawyer has not filed the required notice of representation.

The SEC sent another notice to Druffner by Federal Express in January, and records show Druffner signed for the FedEx envelope. To date, he has not filed an answer to the order.

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On March 2, the SEC mailed to Druffner a copy of its motion to find him in default, to which he has also not responded. Consequently, the agency has found him in default and found the allegations against him to be true. The SEC has thus formally barred Druffner from associating with any broker, dealer or investment adviser.

Druffner's former colleague at Prudential, Skifter Ajro, was barred from the industry last month.

German Pension Fund to Increase Allocation to Hedge Funds

BY JAMES ARMSTRONG | Germany's largest pension fund, Bayerische Versorgungskammer (BVK), plans to raise its hedge fund allocation to €1 billion by the end of the year.

According to a report by *Investment & Pensions Europe*, BVK chief investment officer Daniel Just made the announcement on Monday at a hedge fund conference in Frankfurt. Just said over the long term, hedge funds will account for about 5% of the pension fund.

BVK set a targeted return of 5% for its hedge fund investments, but they outperformed that target last year, returning 7% in 2005, Just said.

The €38 billion fund decided in 2004 to begin investing in hedge funds, initially placing money in three funds-of-funds. BVK currently has about €150 million in hedge funds.

CFTC Charges Couple With Fraud

BY JAMES ARMSTRONG | The Commodity Futures Trading Commission has charged a couple from Mason, Mich. with fraud in connection with their hedge fund firm Aurifex.

A federal district court has frozen the assets of Aurifex founders Ty and Monette Klotz. Investigators are still trying to determine how many people were affected by their scheme, but Aurifex appears to have taken in nearly $150,000.

According to the CFTC, Aurifex was a Ponzi scam billing itself as a "private hedge fund." The scheme continued to operate from at least April 2004 until it was shut down last month.

Regulators say Ty Klotz told investors their funds would be pooled into a commodity futures account earning monthly profits of 20%. He falsely claimed their deposits would be insured by Lloyd's of London and Klotz even forged correspondence between Lloyd's and Aurifex, according to court documents.

Aurifex placed funds in a commodities futures trading account opened in Monette Klotz's name. That account lost more than $60,000 from April 2004 to January 2006, but the Klotzes informed investors the fund was profitable. Monette Klotz also misappropriated funds, according to the CFTC, using investors' money for a down-payment on a house and for the purchase of several automobiles.

Though Aurifex used new investments to pay previous investors, as in a classic Ponzi scheme, court documents say Ty Klotz discouraged withdrawals, telling participants he did not want them treating their investment "like a bank account." Regulators claim Klotz also took computers and records out of the Aurifex office in Mason in order to make it impossible for investors to contact him.

The CFTC is seeking permanent injunctive relief, including the return of funds to defrauded customers, repayment of ill-gotten gains and civil monetary penalties.

Senate Subcommittee to Discuss Hedge Funds

BY JAMES ARMSTRONG | The role of hedge funds in capital markets will be the topic for discussion before the U.S. Senate Banking Committee on March 28.

The subcommittee on securities and investment, chaired by Nebraska Republican Chuck Hagel, will drill

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prominent hedgies, including John Gaine, president of the Managed Funds Association, and Jim Chanos, head of the Coalition of Private Investment Companies.

The subcommittee's ranking member, Democrat Christopher Dodd, represents the hedge fund-rich state of Connecticut.

The hearing is scheduled for 2:00 p.m. in the Dirksen Senate Office Building.

GLG Acquires Stake in Lexar

BY JAMES ARMSTRONG | London-based hedge fund GLG has acquired a 6.3% stake in Lexar Media, increasing speculation Micron Technology will have to increase its bid for the company.

Micron has offered $8.43 per share for electronic memory card maker Lexar, valuing the Fremont, Calif.-based company at $680 million. Since then, a number of large investors, including Carl Icahn and Elliott Associates, have increased stakes in Lexar, betting Micron will have to increase its offer.

Both Icahn and Elliott have publicly come out against the merger. GLG's filing said the fund had not acquired its stake for the purpose of influencing the control of the company.

GLG's filing came on the heels of D.E. Shaw & Co., which on Tuesday revealed a 7.9% stake in Lexar. Boise, Idaho-based Micron already owns 11.9% of Lexar.

Lexar shares closed at $9.21 on Wednesday. Its share price has gone up about 30% since the Micron offer.

Lichtenstein Wins Korean Tobacco Co Seat

BY CHRISTOPHER GLYNN | Warren Lichtenstein won a seat at KT&G Friday, according to a Steel Partners press release.

His election to the board of the Korean tobacco company marked a victory for a shareholder group

With Lichtenstein now on the board the group, led by Carl Icahn, can now exert direct influence on KT&G.

Lichtenstein and Icahn want KT&G to dispatch its real estate portfolio as well as its ginseng business in order to maximize its value.

The group had been limited by a South Korean court to the number of people it could nominate to the KT&G board.

Icahn, who has 6.72% of KT&G, and Lichtensetin offered to buy the company for $61.67 a share.

Once a state-operated monopoly, KT&G now has a 61% non-Korean shareholder base.

The court ruling underpinned the lack of local support for Lichtenstein and Icahn.

Third Point Tackles Coal Company

BY JAMES ARMSTRONG | Activist hedge fund Third Point is putting forth two nominees for the board of coal producer Massey Energy.

New York-based Third Point, which owns about 5.9% of Massey, has been critical of the company's poor stock performance. Portfolio manager Daniel Loeb is suggesting himself and Todd Swanson to fill two of the three open board seats when Massey has its annual shareholders meeting in May.

> If elected, Loeb and Swanson will seek to accelerate the company's share buyback program and reform management compensation.

In a filing with the Securities and Exchange Commission, Loeb said the Richmond, Va.-based company had lost sight of the interests of shareholders. If elected, he and Swanson will seek to accelerate the company's share buyback program and reform management compensation.

Massey, the largest coal producer in the central Appalachian Mountains, already plans to buy back $500 million worth of stock

Last year, Loeb railed against Massey chairman and president Don Blankenship, saying the market had factored a "Blankenship Discount" into the company's share price to account for its poor leadership.

ValueAct Refuses to Meet With Chiron Officials

BY JAMES ARMSTRONG | ValueAct Capital again refused to meet with the management team of biotech firm Chiron and remains adamant in its opposition to a buyout by pharmaceutical giant Novartis.

In an open letter to Chiron chief executive officer Howard Pien, ValueAct partner G. Mason Morfit called management's push to sell the buyout to shareholders "a sham roadshow" and said there was no purpose in discussing the matter further.

Novartis has offered $45 per share for the portion of Chiron it does not already own. Though Chiron ran into trouble in 2004 when a contamination at a plant in the United Kingdom made it miss out on vaccines for an entire flu season, the company has been doing better recently and many shareholders feel the offer significantly undervalues Chiron.

With about 5.2% of Chiron, ValueAct is the company's third largest shareholder, after Novartis and CAM North America. Legg Mason, which controls CAM North America, also opposes the deal.

Soros Acquires DreamWorks Library

BY JAMES ARMSTRONG | Hedge fund king George Soros is leading a group acquiring the film library of DreamWorks Studios.

Soros Strategic Partners and Dune Entertainment will buy the rights to all 59 DreamWorks live action films released through mid-September of last year. The deal values the library at $900 million, according to an announcement by Viacom.

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Dune Entertainment is an affiliate of Dune Capital Management, which was spun off from Soros Fund Management in 2004.

Last December, Viacom's Paramount Pictures agreed to buy DreamWorks for $1.6 billion. It said at the time it would help pay for the deal by selling the DreamWorks film library.

Under the terms of the deal, Viacom will retain ownership of music publishing and certain other rights relating to the library, including sequel and merchandising rights, and the company will retain a minority stake in the library. Viacom's Paramount will distribute the library through an exclusive five-year agreement that will automatically renew if Soros retains ownership.

Viacom will have the right to buy, and Soros and Dune will have the right to sell, the library back after five years at fair market value.

The deal is expected to close in April.

Viacom recently spun off its broadcasting and publishing assets as CBS Corp. following the weak performance of its stock. Viacom retains Paramount as well as cable channels like MTV and Comedy Central, Famous Music and other assets.

Judge Rules in Portus Investor Dispute

BY JAMES ARMSTRONG | Ontario Superior Court Justice Colin Campbell ruled certain investors of the defunct Canadian hedge fund firm Portus are entitled to have their assets segregated before bankruptcy proceedings begin.

Investors who placed money in Portus's Market Neutral Preservation Fund (MNPF) had asked to segregate their assets from those of investors who placed money with Portus Alternative Asset Management (PAAM), which will likely file for bankruptcy.

In newly released court documents, Campbell called the affairs of Portus "complex and obscure." However, he noted the structure of the MNPF was distinct from the managed account structure of PAAM. Investigators found the majority of assets recovered from the Portus blow-up in an account in the name of MNPF.

Campbell noted the structure of the MNPF was distinct from the managed account structure of PAAM. Investigators found the majority of assets recovered from the Portus blow-up in an account in the name of MNPF.

Portus managed the MNPF, which is an open-ended unit trust. Units in the trust were sold to accredited investors through various intermediaries, raising about CAN$19.2 million ($16.5 million) which was invested in a basket of non-dividend paying Canadian securities listed on the Toronto Stock Exchange.

Of the CAN$19.2 million, CAN$2.9 million was transferred to other Portus Group accounts. Court-appointed receiver KPMG has yet to determine how those funds were used.

The bulk of Portus investors, about 26,000, placed money in PAAM's managed accounts structure. In all, they invested CAN$730.6 million and an additional $52.6 million through an off-shore U.S. dollar-denominated vehicle.

Campbell found that the only material role PAAM played in the MNPF was as investment adviser and it did not hold any MNPF assets. While the MNPF was properly established, the PAAM managed accounts were not, and PAAM accounts commingled funds from their initial receipt. Furthermore, for some unknown reason, the bulk of these assets, about CAN$618.5 million, was deposited in the MNPF.

To make matters even more complicated, the assets of MNPF investors were, for tax reasons, placed in another vehicle established by Portus, the MNB Trust, which lists PAAM as its trustee.

Campbell found there is no contractual reason for which PAAM had to be the trustee of the MNB Trust. He also said he accepts the claim by MNPF investors that they are entitled to claim the balance in their account. However, he said there was no entitlement made prior to Portus going into receivership.

The question, according to Campbell, is whether the court can

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or should intervene on the eve of bankruptcy to aid the MNPF investors. He said the intention of the structure as inferred from contractual documents is that assets in the MNB Trust were meant to be held for MNPF investors. Thus, those assets in the trust that can be traced to MNPF investors belong to those investors and do not fall within the pending bankruptcy of Portus.

Toward the end of the 18-page opinion, Campbell said he hoped circumstances in which parties seek exemptions from bankruptcy proceedings would be infrequent in the future.

All-Star Scandinavian Manager to Start Fund

BY CHRISTOPHER GLYNN | A renowned Carnegie Asset Management long-short specialist has left the Stockholm firm to launch his own fund.

Andreas Tholstrup helped the Carnegie Worldwide Long/Short Equity Fund return 64.70% since its inception in 2003, according to *Nordic News*. He will relocate to Switzerland.

Bo Knudsen and Bent Seger will remain in charge of the CWW Long/Short Fund, along with new hire Mogens Akselsen, a manager from Nordea Asset Management.

Attalus Hires Ex-JB Fund Honcho Serhus

BY CHRISTOPHER GLYNN | Attalus Capital has hired ex-Julius Baer hedge fund executive Bob Serhus.

The fund-of-funds hired Serhus to co-manage its $800 million multi-strategy vehicle, according to *Money Management Letter*.

The report quoted Serhus describing his new employer as "built on entrepreneurial flavor and energy."

The Philadelphia-based company also hired BlackRock Management analyst Paul Respicio in effort to expand its research unit.

Serhus left his post as chief executive officer of the $2.5 billion Julius Baer fund unit last summer following the death of his brother.

Patrick Eagan founded Attalus Capital, which has $1 billion under management, in 1998.

KE Hires Head of Alternative Strategies

BY JAMES ARMSTRONG | Hedge fund service provider KE Absolute has hired David Blennerhassett as head of alternative strategies, according to a report by *Finance Asia*.

Blennerhasset was most recently head of research for Sinopec Securities. At KE, he will build a team of analysts to provide research ideas for the Hong Kong-based company, which is an independent unit of Kim Eng Securities.

KE has also promoted David Kwan to the position of head of sales, where he will be responsible for a team of seven.

While KE specializes in servicing Asian-focused hedge funds, it is currently targeting funds in North America.

Last year, KE appointed former Sofaer Capital executive Tony Smith as chief operating officer.

Providence Equity Partners Group to Acquire Casino Co in $3.6B Deal

BY MARC RAYBIN | Providence Equity Partners is part of a consortium that has agreed to buy resort and casino operator Kerzner International for approximately $3.6 billion, according to reports.

The deal values Kerzner's shares at $76 apiece, representing an 8% premium above the stock price at the close of the market on March 17. The investment group will pay $3 billion for the company and assume $599 million of debt.

Kerzner is allowed to seek better offers in the next 45 days, but if the company does accept a new offer, it will have to pay the investment group a fee of approximately $30 million, according to the report. Kerzner's board of directors is said to have already approved the deal, which is expected to close in the middle of this year.

Kerzner is based in the Bahamas and owns the Atlantis brand and One&Only hotels. The company will reportedly still go forward with its plans to expand in the Bahamas.

Joining Providence on the deal are Kerzner chief executive officer Howard Kerzner, real estate private equity firm Colony Capital and The Related Cos. Should the deal close, the Kerzner family's stake in Kerzner International will more than double to nearly 25%, according to the reports.

Permira Drops Bid For HMV; Plans €8.5B Fund

BY ALEX J. STOCKHAM | British private equity firm Permira Advisers has dropped its plans to buy music and book retailer HMV Group after the company rejected its second offer.

HMV turned down an offer of 210 pence per share for the company, which valued HMV at approximately $1.45 billion. Under U.K. securities law, Permira is now forbidden to make a hostile offer for the company for six months.

Permira initially offered 190 pence per share, but that was rejected by HMV as well.

In other news, Permira plans to raise €8.5 billion ($10.3 billion) for its next fund, according to reports. The fund came to light after SVG Capital and its subsidiaries announced plans to to invest €3.8 billion ($4.6 billion) in the fund.

> SVG Capital and its subsidiaries announced plans to to invest €3.8 billion ($4.6 billion) in the [Permira] fund.

SVG Capital, which has approximately 75% of its assets tied up in Permira, is a publicly traded investment fund that invests in other private equity funds. SVG also has a business, SVG Advisers, which advises other investors on their private equity investments.

JP Morgan Partners Invests in Quiznos

BY ALEX J. STOCKHAM | J.P. Morgan Partners has agreed to invest in sandwich chain Quiznos.

Terms of the deal were not disclosed, according to a press release. J.P. Morgan Partners will become a "significant ownership partner" in the company, but it is not known if the firm will own a majority of Quiznos.

Quiznos has 4,500 locations worldwide. The company offers sandwiches, salads and soups. The company used Goldman Sachs as its financial adviser. When it was disclosed Goldman Sachs was brought in for advice, reports said the entire chain might receive $2 billion.

J.P. Morgan Partners has $10 billion under management. The firm is in the process of being spun out from JPMorgan Chase. The buyout unit will be known as CCMP Capital while its venture unit will be known as Panorama Capital.

MARKET COMMENTARY BY ALEX J. STOCKHAM

Increasingly in the Public Eye

Private equity firms are making splashes like never before

It was but a few short years ago that every time private equity firms were in the headlines, there was a requisite description of what private equity firms do, usually consisting of how they raised money to make private investments and later sold those investments hopefully for a profit.

If today's headlines are any indication, private equity firms no longer have to explain who they are or the nature of their business, because readers have become familiar with the asset class.

Just this year alone, private equity firms have captured the imagination of those who follow the business world like never before. Seemingly every time a big-name company announces it is looking to "explore strategic alternatives," a host of private equity firms are mentioned as potential bidders. Recently, deals for GMAC's commercial real estate group, Dutch media conglomerate VNU and Pizza Hut franchiser NPC International have made news just about everywhere.

Those announced deals pale in comparison to reports of private equity bids for other companies, such as Jones Apparel, broadcaster Univision and publisher Knight Ridder. While some of those deals did not or may not come to fruition, the word is most definitely out on private equity firms.

And let's not forget about those companies that turn down private equity offers. In the past few weeks alone, we've heard both ITV, a British broadcaster, and HMV, a book and music retailer, have turned down offers from private equity firms. All of these factors combine to form a powerful image of private equity firms as being extremely active and extremely important.

From a media perspective, what's not to love about the private equity business? Firms are led by interesting characters, and it doesn't hurt that those who lead the largest firms have amassed great fortunes. While the strategy of staying under the radar may have worked in the past, with private equity firms increasingly taking looks at large publicly traded concerns, the days of remaining fairly anonymous are over. That's not necessarily a bad thing, either. Private equity firms still have to defend themselves from people who view them as vultures, but that image has largely fallen by the wayside. Companies now see private equity firms as something of a "white knight." As some shareholders publicly push boards and managements to do something about stagnant share prices, private equity firms can swoop in and save the day for those companies under attack. In fact, I argue private equity firms are winning the PR battle against hedge funds - both red-hot alternative investment strategies.

> If today's headlines are any indication, private equity firms no longer have to explain who they are or their business.

Another factor involved in the growing recognition and understanding of private equity is simply the money they control. Firms have raised more capital than ever and are teaming up in ways that gives firms a previously unheard of amount of purchasing power. Deals are being announced at a rapid pace and funds are being raised in a few short months.

With this greater public persona, however, the private equity industry shoulders a greater responsibility for communicating with the public. News outlets are doing a better job on reporting on the industry. A boilerplate explanation of what a private equity firm is is no longer necessary I'm not saying private equity firms need to disregard the privacy restrictions regulators and working with private companies necessitates - far from it. Those restrictions are in place for a reason.

Going forward, private equity firms will continue to remain in the spotlight. Firms are still raising ever-larger funds and doing bigger deals. Some in the media have speculated that KKR's purchase of RJR-Nabisco may soon fall as the ultimate standard of the private equity industry's purchasing reach. According to an article in *Forbes*, six of the industry's largest deals ever occurred last year. Rumors and reports of large deals continue to flourish this year as well.

It's incumbent upon the industry to not let its current success go to its head, though. Venture capital firms learned the hard way what happens when there's too much money investing in somewhat suspect companies. One argument says buyout firms have a tougher time making disastrous mistakes because the companies they buy are more established. Despite that argument, loading up on debt to fund a transaction can be a dangerous thing and private equity firms can always be duped by fraud. If the overall economy takes a turn for the worse, debt-laden companies may be in trouble. Private equity firms must remain vigilant in purchasing good companies at good multiples. But it's OK to revel in the attention a bit. Becoming well-known isn't something to be feared. Just watch out for the paparazzi cameras.

The Name Game

Firms often go to great lengths to be creative when identifying themselves

BY MARC RAYBIN | *What's in a name?*
That which we call a rose by any other name would smell as sweet,
except when branding a venture capital firm.

Perhaps these were not the exact words William Shakespeare used when he was describing that it was only a name that preventing Romeo and Juliet from forming a successful merger. If the playwright had been charged with naming a venture capital firm today, he probably would have made that statement.

With the explosion of private equity, venture capital and hedge funds in the market right now, finding the right name for a new firm can be a lot more difficult than many would think. The challenge is to come up with a name that is evocative, emotional and easy to remember. The name has to be something everyone associated with the firm can get behind.

"Limited partners are [usually] large conservative firms that expect you to be taking some risk, but still [be] very careful about what you are doing with their money, [whereas] the entrepreneurs love hot shots who are very out there, connected and [are] risk takers," says June Bower, vice president of marketing for software company Mobiltec. "That is a real challenge - [coming up with] something that works for your two main audiences and one that works for the partners as well."

Bower used to work for Lightspeed Venture Partners when the firm spun out from financial services firm Weiss, Peck & Greer. Before Lightspeed was known by that name, it went under the parent company's moniker. The firm's general partners were surprised to find they had difficulty in attracting new investors. Bower and others at the firm realized Weiss, Peck & Greer was thought of as being stodgy, old school money. Not surprisingly, that kind of personality did not catch on in the high-tech new money atmosphere of California. That was when Bower contacted Burt Alper, co-founder of Catchword Branding.

In addition to working with Lightspeed, Alper, who has 15 years of marketing experience, has worked with a fund-of-funds. He says branding a venture capital fund in many ways is similar to naming anyone else's firm. The key for Alper to learn is who the firm is, who it wants to be and how it wants to be perceived. Catchword will then generate a list of names for the firm to consider. Once the client settles on a basket of names it likes, Alper will find which of the names are available. The process generally takes four to six weeks and usually costs $20,000 to $40,000.

> "Limited partners are [usually] large conservative firms that expect you to be taking some risk, but still [be] very careful about what you are doing with their money, [whereas] the entrepreneurs love hot shots who are very out there, connected and [are] risk takers" says Bower. "That is a real challenge."

Finding available names from that whittled-down list can be a pretty difficult task. Firms have to be careful to avoid a name already being used by a business or one that resembles a name in use.Firms also need to see if the URL has been purchased.

There is one major pitfall, according to branding experts, which firms can fall into and that is to put the founders' own names into the firm name. That tactic is rife with potential hazards.

"Venture capital firms tend to have names that are the partners' names or the street address," explains Micaela Wilson, senior brand strategist for Russell Branding. "That works very well if you are [Tom] Perkins." However, even industry bigwigs today are learning to stay away from inserting their own names into their fund names. Take Alan Patricof, co-founder of venture giant Apax, who started his new fund known as Greycroft Partners. Patricof recently lamented on the dearth of good names available and wound up settling on the name of his East Hampton, N.Y. summer home.

Alper takes the name game even further, pointing out the negatives of having a person's name associated with a deal gone bad.

"I think the predominant approach has been to use your name or you and your partner's names, [but] the big downside with that is if your fund goes belly-up or if there is some kind of problem with the fund, you have sort of sullied your name," says Alper. "I think that is one of the big justifications for putting a concocted brand name on the door."

Lest you think naming a firm is akin to the difficulty in performing brain surgery, not everyone in the asset class finds branding to be as daunting a task.

For Ridgelift Ventures, which opened its doors for business earlier this week, coming up with a name took about a month of discussions between founding partners Robert Goldberg and Stuart Phillips.

Phillips was reading a gliding book and saw the term ridge lift, which

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Financial Sponsor Backed Acquisitions

Last 12 Months Through February 2006

This chart displays the number and value of global financial sponsor backed acquisitions for the last 12 months through February 2006, according to Capital IQ. The data is presented as buyout-only, venture capital-only and total deals. Values are in $mil. Learn more about Capital IQ at www.capitaliq.com. The data is up to date as of March 23, 2006.

	No. of Buyout Deals	Value of Buyout Deals	No. of Venture Deals	Value of Venture Deals	Total No. of Deals	Total Value of Deals
Feb 2006	220	$9,286,432.61	317	$12,285.44	537	$9,298,718.05
Jan 2005	230	$39,960.78	358	$12,558.90	588	$52,519.68
Dec 2005	238	$53,915.19	263	$13,419.89	501	$67,335.08
Nov 2005	223	$26,638.88	267	$37,758.46	490	$64,397.34
Oct 2005	232	$55,304.65	280	$5,587.54	512	$60,892.19
Sep 2005	304	$45,407.21	320	$3,708.28	624	$49,115.49
Aug 2005	179	$37,952.63	272	$27,844.74	451	$65,797.37
Jul 2005	231	$38,022.95	245	$4,053.77	476	$42,076.72
Jun 2005	226	$58,414.17	290	$3,464.18	516	$61,878.35
May 2005	208	$51,046.29	245	$3,406.22	453	$54,452.51
Apr 2005	235	$93,682.37	220	$1,630.52	455	$95,312.89
Mar 2005	199	$1,709,866.33	247	$2,389.21	446	$1,712,255.54
12-Month Total	2,725	$11,496,644.06	3,324	$128,107.15	6,049	$11,624,751.21

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comes from a phenomenon created when wind strikes a mountain that is large and steep enough to deflect the wind upward. Gliders can take advantage of this phenomenon by riding the wind in order to stay airborne for a longer duration of time. The idea behind the name in relation to Ridgelift Ventures is that the firm intends to propel start-up technology companies to success in the same way ridge lift propels gliders. The firm will look to raise $200 million in capital.

"We have gone through the naming process multiple times with people and have done everything from sitting in the bar drinking beer and brainstorming to hiring a $100,000 naming firm," explains Goldberg. "Luckily we have got enough experience that we skewed closer to the bar [scenario]."

While finding a name for a firm is an important step, it is an area within marketing that can take on a life of its own and become more important than it really is. Goldberg explains he and Phillips concentrated on the business plan for Ridgelift much more than coming up with the firm's name.

This is not surprising to hear coming from a general partner with more than 20 years of venture capital and operational experience, but it is a bit surprising to hear the same kind of reasoning from Dick McGlinchey, a managing director of BluePoint Venture Marketing. He thinks the naming process should only take a couple of days at the most.

"People sort of obsess over it and it is really stupid because you can waste huge amounts of money on this," explains McGlinchey. "Intrinsic names [and] what they mean internally are totally meaningless [because] people outside [of the firm] do not care."

For McGlinchey, whose firm's client list includes HarbourVest and JK&B Capital, the formula is simple. He says many firms make the mistake of thinking their name should have something to do with the firm, but that is not always the smartest direction in which to go. Instead, general partners should pick a name that is relatively neutral and does not have a commonly accepted definition. They can then build their own definition around it.

A perfect example is BluePoint itself. In coming up with his firm's name, McGlinchey says he did not care what the meaning of BluePoint was because he liked that it was nonpartisan. As a for-hire marketing swat team, the firm is defining the meaning of BluePoint through its work.

There is no one correct method to determining a name for one's firm. Sometimes it just comes to the general partners and other times an outside expert is needed. The important thing, one way or another, is to come up with something that resonates with people, for it was Oscar Wilde who said: "It is a sad truth, but we have lost the faculty of giving lovely names to things. Names are everything." This is especially true when forming a venture capital fund.

PE Group Buys 78% Stake in GMAC Commerical Holding

BY ALEX J. STOCKHAM | A group of private equity firms composed of Kohlberg Kravis Roberts & Co., Goldman Sachs Capital Partners and Five Mile Capital Partners has acquired a 78% stake in GMAC Commercial Holding Corp. The company will be renamed Capmark Financial Group.

The private equity group will pay $1.5 billion in cash for the stake. Capmark will repay $7.3 billion of inter-company loans to GMAC. GMAC will realize almost $9 billion in total cash proceeds due to the transaction, according to a press release.

Capmark also announced it closed on a $10.75 billion loan facility with a syndicate of banks to provide the company with an intermediate and long-term debt funding base. Capmark has also been given investment-grade ratings from the three primary rating agencies. Capmark's management team, led by chief executive officer Robert Feller, owns a 4% equity stake in the company while the investor group, including the management team, owns 75% of the equity. GMAC will retain a 21% stake.

The deal was originally announced last summer, but the equity group was to purchase a 60% stake in GMACCH. GMAC was to initially retain 40% of GMACCH.

Capmark is active in the commercial real estate lending market. The company also manages equity real estate and mortgage related investments with $10.8 billion under management. The company has a loan portfolio of $276 billion.

The deal comes about a week after a report said KKR had led a group that made a non-binding bid of $12.5 billion to $13 billion for a majority stake in GMAC as a whole. Analysts at the time doubted whether a deal for the whole company could be completed.

Lone Star Sells Stake in Korea Exchange Bank For $7.2B

BY DANA CZAPNIK | Lone Star Fund's stake in Korea Exchange Bank will be sold to Kookmin Bank, South Korea's largest commercial bank, for $7.2 billion in the nation's largest takeover deal ever and a very lucrative deal for the Dallas-based private equity firm.

According to reports, Lone Star acquired a 50.53% stake in KEB approximately two and one-half years ago for $1.2 billion. In conjunction with the Kookmin deal, Lone Star is purchasing an additional 14.09% from KEB shareholders Commerzbank AG and Export-Import Bank of Korea through the firm's call options. Lone Star is receiving 15,400 won per share from Kookmin for KEB, meaning the firm is earning a $4 billion gain on its investment.

Kookmin will purchase the 64.6% stake from Lone Star and the sale will be increased to 70.9% once the other shareholders in the bank sell their shares.

The deal is expected to close this summer after it meets government approval.

ITV Rejects PE Overture

BY ALEX J. STOCKHAM | British independent broadcaster ITV has rejected a takeover offer from a group of private equity firms including Apax Partners, The Blackstone Group and Goldman Sachs' private equity unit.

ITV's board rejected the offer because the proposal would lead to an increase in the broadcaster's debt. The consortium offered to buy a controlling stake in ITV, take out more debt and then return cash to investors. If the deal went through, ITV would have remained publicly traded and Apax and Goldman Sachs would hold a minority stake, according to reports.

According to reports, the group offered to invest approximately $2.62 billion to take control of ITV, which has reported a drop in viewers and ad revenue at its flagship ITV1 channel. Despite those drops, the company reported an increase in after-tax profits of 26% earlier this month due to cost cuts and new revenue streams.

News of the offer caused ITV's shares to jump more than 10%.

Bridgepoint Sells Hydrex for $185M

BY MARC RAYBIN | European private equity firm Bridgepoint has sold portfolio company Hydrex Group to private equity firm The Quilvest Group and Saudi Arabian organization Shoaibi Group for £106 million ($185 million), according to a statement.

Hydrex was founded in 1985 and supplies equipment and support services for the U.K. rail and materials handling sectors. The company's customers are typically involved in infrastructure maintenance, track renewal and waste management.

Bridgepoint first invested £15 million in Hydrex in March 2002 in a £36 million management-led buyout. The firm provided capital for two of four add-on acquisitions.

The Quilvest Group has more than $6 billion in capital under management with offices throughout North America and Europe.

Bridgepoint currently manages €6 billion ($7.3 billion) in capital and primarily acquires companies valued up to €750 million.

Francisco Partners' OfficeTiger to be Sold to RR Donnelley

BY ALEX J. STOCKHAM | Business process outsourcing company OfficeTiger, a portfolio company of Francisco Partners, has agreed to merger with RR Donnelley.

The all-cash deal is reported to be worth approximately $250 million.

Francisco Partners led a $50 million recapitalization of OfficeTiger in June 2004, investing $25 million. Firm partners Neil Garfinkel and David Golob served on the company's board of directors.

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OfficeTiger offers professional support services to investment banks, financial institutions, law firms and retail chains. The firm helps its clients make published documents, perform market research and financial management services. The company is led by co-chief executive officers Randolph Altschuler and Joseph Sigelman.

RR Donnelley is one of the world's largest print provider and business process outsourcing company. The company prints magazines, brochures, catalogs and other publications for its clients.

The deal is expected to close in the second quarter of this year.

Alchemy to Buy Caravan Park For £135M

BY ALEX J. STOCKHAM | British private equity firm Alchemy Partners has agreed to buy vacation resort company Parkdean Holidays in a deal valuing the company at £135 million ($237 million).

Alchemy Partners has agreed to pay 270.5 pence per share for Parkdean, a 22% premium to the company's shares prior to talks commencing last October, according to reports.

Parkdean Holidays operates 20 parks throughout the United Kingdom. The parks are essentially vacation resorts with beaches, activities and other recreational opportunities. The company was founded in 1999.

This is the second caravan parks deal done in the past few weeks. Earlier this month, The Blackstone Group agreed to acquire holiday village company Center Parcs for £205 million. Center Parcs owns four vacation resorts in the U.K. which attracts 1.5 million visitors.

Alchemy Partners makes equity investments in companies ranging from £25 million to £130 million. The firm is led by managing partner Jon Moulton.

Warburg Pincus Invests In Cardiovascular Centers

BY DANA CZAPNIK | Warburg Pincus has invested $75 million in Salick Cardiovascular Centers, which provides treatment services for cardiovascular disease in outpatient facilities.

Salick Cardiovascular Centers was formed by Dr. Bernard Salick, who has founded other outpatient healthcare facilities dedicated to dialysis and cancer services. Salick Cardiovascular Centers is currently in talks with cardiovascular groups and academic medical centers to develop facilities in major metropolitan areas.

"The centers haven't been established - we wanted to make sure we had the financing in place," said Salick. "In general, if I were establishing centers of catastrophic illness, as these cardiovascular illnesses are, I would open centers in Southern California, the tri-state area [New York City], Florida, Texas, Cleveland. We will affiliate with existing major programs and cardiologists."

Salick said the diagnostic treatment centers will be open 24 hours a day. He also said the company has explored possibilities of opening centers in South East Asia and the Far East.

> "The centers haven't been established - we wanted to make sure we had the financing in place," said Salick.

"There has been a global increase of heart disease and Type II Diabetes," Salick said. "People don't have access to care and the delivery systems are not very refined [in those areas]."

Highland Partners, an executive search firm, introduced Salick to Warburg Pincus.

Warburg Pincus has $12 billion under management. The firm has invested in many other healthcare companies. Most recently, the firm acquired CCS Medical for $360 million and MP TotalCare from Charterhouse Group for $270 million.

General Atlantic Invests $67 M in Indian IT Co

BY DANA CZAPNIK | General Atlantic is set to invest $67 million in Hexaware Technologies, an information technology provider based in India.

General Atlantic will receive a 14.99% stake in the company, comprised of 11 million equity shares and 1 million convertible preferred shares. The preferred shares will hold a 2.95% coupon rate for the first 18 months after the deal and if the conversion option is not used, the shares will have a 5% coupon rate thereafter. The deal values Hexaware at $450 million. The transaction still awaits shareholder approval.

Hexaware specializes in providing IT and business process outsourcing services in enterprise application management, application services for human resources departments and legacy application management. The company services clients in the financial services, insurance and transportation industries.

The company expects to use the capital invested by General Atlantic to expand into the United States, Germany and China, according to a statement.

General Atlantic has $10 billion under management. The firm invests in companies with a focus on IT and intellectual property.

TCV Invests $48M in Online Marketer

BY MARC RAYBIN | Technology Crossover Ventures has purchased a minority share of Adknowledge, an online marketer, for $48 million, according to a statement.

Adknowledge works with small businesses to market them online outside of signing up with search engines. Adknowledge also provides full-service solutions to Web site owners in order to boost their profitability by outsourcing their banner or email advertising sales. Adknowl-

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edge purchases large amounts of online ad space inventory for a fixed price under long-term contracts.

Adknowledge was founded in 2004 and is headquartered in Kansas City, Mo. The company has served more than 25,000 small businesses.

In exchange for its investment, TCV will also receive two seats on Adknowledge's board of directors.

Technology Crossover Ventures was founded in 1995 and is based in Palo Alto, Calif. The firm focuses on technology, having invested in Expedia, CNET and RealNetworks.

DW Healthcare Invests in Radiology Co

BY DANA CZAPNIK | DW Healthcare Partners, a private equity firm that invests exclusively in healthcare, has invested an undisclosed amount in The Radlinx Group, which provides overnight and off-site teleradiology services in the United States.

The Radlinx Group provides professional radiological interpretation services to radiology groups, hospitals and individual physician practices in the U.S. The company has 30 radiologists on staff and has the ability to provide reading services 24 hours a day, every day of the year in all 50 states.

"The philosophy of DW Healthcare is to invest in management teams we believe in that can grow a business into $75 million to a $100 million company in three to five years," said Justin Pettit, an associate at DW Healthcare. "In addition to this initial investment, we have reserved additional capital to help the company with some growth acquisitions it might pursue."

DW Healthcare Partners invests exclusively in privately owned healthcare companies with growth potential. Pettit said that the firm has been negotiating a partnership with Radlinx for the past 18 months after the firm had learned about the company through other deals and companies in the healthcare sector.

ArcLight Acquires Energy Construction Co

BY MARC RAYBIN | Energy investment firm ArcLight Capital Partners has acquired 60% of the common stock of energy company MYR Group from FirstEnergy Corp. for an undisclosed sum, according to a statement.

An inquiry made to a spokeswoman from ArcLight seeking comment on the deal was not immediately returned.

MYR is a holding company of electrical and mechanical contracting firms across the United States. Its subsidiaries provide a variety of construction services, such as power line, telecommunications and traffic signals. MYR is based in Rolling Meadows, Ill. and operates through five subsidiaries, with the oldest having been founded in 1891.

ArcLight Capital Partners was founded in 2001 and is headquartered in Boston with an office in New York. The firm has more than $2.5 billion in capital under management.

Sun Capital to Acquire Lubrizol Businesses

BY MARC RAYBIN | Sun Capital Partners has agreed to acquire the food ingredients and industrial specialties business of The Lubrizol Corp. for an undisclosed sum, according to a statement.

Exact terms of the deal were not revealed. The business earned approximately $400 million in sales in 2005.

The Lubrizol business being acquired by Sun Capital consists of the company's fine chemicals group, a specialty polymers and additives group and a performance materials group. The business has a number of applications, including the food and beverage, textiles and industrial rubber sectors.

Six manufacturing sites are included in the deal. They are located in Akron and Cincinnati, Ohio, Charlotte, N.C., Cheyenne, Wyo., Henry, Ill. and Kalama, Wash. Sun Capital intends to retain all 625 employees at these sites, according to the statement.

The transaction, which is subject to regulatory approvals, is anticipated to close in the second quarter.

This deal represents the latest step in Lubrizol's plans announced in July 2005 to divest itself of non-core assets. The company's goal is to focus on personal care, performance coatings, specialty materials and lubricant additives businesses.

Lime Rock Partners Invests In Oil Rig Co

BY DANA CZAPNIK | Lime Rock Partners has made an investment in IDM Equipment, a drill rigs supplier to the oil industry, for an undisclosed amount.

IDM Equipment is based in Houston and manufactures rigs and power and control products to oil companies. Some of the products it produces include engine and generator sets, integrated drilling and monitoring systems, turnkey land rigs and the Quicksilver Drilling System.

"We expect to use IDM as a platform to expand the technology and make acquisitions in markets in other parts of the world," said Tom Bates, a managing director at Lime Rock. "There's an opportunity to marry the technology and management expertise of IDM with markets that are dispersed throughout the world. We intend on making add-on acquisitions of other companies with similar manufacturing faculties in markets outside the United States."

Lime Rock has $1.3 billion under management. The firm invests in energy companies as well as in companies that own and operate oil and gas properties in the U.S.

Thomas Lee Officially Gone From Namesake Firm

BY ALEX J. STOCKHAM | Thomas H. Lee has officially stepped down from the firm with his name on it to explore new opportunities in the private equity and funds-of-hedge-funds industries.

In a statement released Wednesday, Lee said he will pursue the funds-of-

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hedge-funds business through Blue Star Holdings, which he established several years ago. He will also pursue buyout opportunities in the coming months. While Thomas H. Lee Partners retains the right to use that name, it was reported he will be able to call his new buyout venture Thomas H. Lee Capital and will have some rights to use his old firm's track record.

Lee's departure has been planned since at least 1999, according to reports. Thomas H. Lee Partners is now led by Scott Sperling, Anthony DiNovi and Scott Schoen, who were appointed co-presidents more than two years ago.

Thomas H. Lee Partners was founded in 1974 and burst onto the scene in 1992 when the firm bought Snapple for $135 million and two years later sold it to Quaker Oats for $1.7 billion.

Thomas Lee has also been in the news regarding his involvement in the Refco proceedings. Refco directors, including Lee and others who work at Thomas H. Lee Partners, are petitioning the bankruptcy judge to allow them to use insurance to cover their legal costs. The directors submitted claims to U.S. Specialty Insurance Co., which sought court permission to pay the costs, but Refco creditors have objected. The hearing on the matter is scheduled for Thursday.

AXA Reorganizes UK, NY FoF Teams

BY DANA CZAPNIK | AXA Private Equity has decided to reorganize its funds -of-funds activity in the firm's New York and London office.

Vincent Gombault, a general manager and member of the executive committee at the firm, is spearheading the effort. By June, the London office will have changed its structure in order to become a limited company called AXA Private Equity UK, which will function as a subsidiary of AXA. The head of the London office, James Pitt, will leave the firm.

In July, Michael Ferragamo, will join AXA Private Equity UK and work as the compliance officer for both offices. Since the London office is becoming a limited company, the firm will need to comply with Financial Services Authority regulations. In addition, Alexandre Monteux, who currently works in the Paris office is moving to U.K. to join the investment team.

Barry Miller, a senior investment manager based in New York, will be leaving the company, while Vladimir Colas from the Paris office and Mark Benedetti will join the New York team.

"One of our main products is our secondary funds, and our third secondary fund is already 66% engaged, which means we're going on the road soon," Goumalt said. "Only we want to start fundraising with a team that is solid and can commit to a four year period. It was good timing to do the restructuring of the team."