

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8714 / June 21, 2006

SECURITIES EXCHANGE ACT OF 1934
Release No. 54027 / June 21, 2006

INVESTMENT ADVISERS ACT OF 1940
Release No. 2524 / June 21, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12338

In the Matter of

EVAN MISSHULA,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER PURSUANT TO
SECTION 8A OF THE SECURITIES ACT OF
1933, SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, AND SECTIONS
203(f) AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Evan Misshula (“Misshula”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial

Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, and Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

SUMMARY

1. This proceeding concerns fraudulent conduct by Evan Misshula, the founder and manager of Sane Capital Partners, L.P. (the “Fund”), a hedge fund located in New York, New York and Greenwich, Connecticut. In 1999, Misshula created the Fund and managed the Fund through its unregistered investment adviser, Sane Capital, LLC. At its peak, the Fund, which Misshula told investors would invest primarily in technology and telecommunications stocks, had ten investors and approximately \$800,000 in assets. In January 2001, Misshula developed financial difficulties in his personal life and began misappropriating Fund assets by transferring them into his personal bank account. From 2001 to 2004, Misshula materially misrepresented the performance of the Fund’s investments to investors while he continued to misappropriate Fund assets. To hide his fraudulent conduct, Misshula sent investors fictitious quarterly reports showing investment gains, which bore no relation to the true condition of the Fund’s investments or assets under management. By 2004, Misshula had ceased trading altogether and he had depleted the Fund’s brokerage and bank accounts primarily through unauthorized transfers to his personal bank account. During the course of his fraudulent conduct, Misshula misappropriated approximately \$529,000 in Fund assets. In July 2004, the Fund collapsed when Misshula was unable to meet an investor’s redemption demand.

RESPONDENT

2. **Misshula**, age 39, is a resident of Greenwich, Connecticut and was the founder and manager of Sane Capital Partners, L.P. and Sane Capital, LLC. From 1999 to 2004, Misshula managed Sane Capital Partners, L.P. and Sane Capital, LLC. Misshula holds Series 7, 24 and 63 licenses. Since the collapse of Sane Capital in 2004, Misshula has worked as a Senior Risk Analyst at a registered investment adviser to a hedge fund located in Old Greenwich, Connecticut.

OTHER RELEVANT ENTITIES

3. **Sane Capital Partners, L.P.** was a limited partnership registered in the State of Delaware. Misshula founded the Fund in 1999 and from January 2000 to July 2004, the Fund was a domestic hedge fund that purportedly invested in public market securities in the technology industry.

4. **Sane Capital, LLC** was a New York limited liability company based in New York, New York and was the General Partner of, and unregistered investment adviser to, the Fund. Misshula was the principal of Sane Capital, LLC.

FACTS

A. Misshula Solicited Investors to Invest in Sane Capital Partners, L.P.

5. In 1999, Misshula gave a presentation on a new hedge fund that he was creating, Sane Capital Partners, L.P., to several partners at a law firm located in New York City (the “Law Firm”). In November 1999, a partner at the Law Firm prepared the operating agreement and articles of organization for Sane Capital, LLC, and, in January 2000, he prepared the Certificate of Limited Partnership for the Fund.

6. From November 1999 through July 2004, Misshula offered and sold the Fund’s limited partnership interests to investors by telling investors that he would invest the Fund’s assets in technology and telecommunications stocks. During this period, Misshula raised approximately \$800,000 from investors.

7. In late 1999, Misshula solicited a personal friend (“Investor A”) to invest in the Fund. Misshula told Investor A that he would be investing the Fund’s assets in technology stocks, that he would manage the Fund, and that he would take as compensation a one percent management fee and 20 percent of profits. On January 5, 2000, Investor A and his wife invested \$250,000 in the Fund.

8. In March 2000, four partners at the Law Firm founded a partnership (“Investor B”) for the purpose of investing in the Fund. On March 31, 2000, Investor B made an initial investment of \$162,500 in the Fund. In 2001 and 2002, individuals associated with Investor B made additional investments in the Fund. In total, Investor B and individuals associated with Investor B collectively invested approximately \$262,500 in the Fund.

9. Four other individuals invested in the Fund, but three of them withdrew their investments before July 2004 for reasons unrelated to Misshula’s misconduct. The fourth remaining investor (“Investor C”) invested \$20,000 in the Fund. By July 2004, Investor A, Investor B, and Investor C were the only investors remaining in the Fund.

B. Misshula Made Material Misrepresentations Concerning The Fund’s Investments and Misappropriated the Fund’s Assets

10. From the inception of the Fund in 1999 until January 2, 2001, Misshula traded in technology and telecommunication stocks, and sent investors quarterly investment reports that accurately depicted the Fund’s returns and net asset value. In January 2001, unable to support his mounting personal expenses, Misshula began misappropriating Fund assets and depositing them into his personal bank account. To conceal his conduct from investors, Misshula began sending investors fictitious quarterly reports that failed to disclose that he had converted some of the Fund’s assets to his own personal use, and falsely represented that the investors had made substantial returns on their investments. Additionally, Misshula incurred trading losses in the Fund’s brokerage accounts – which he also concealed from investors. Eventually Misshula ceased trading

altogether and misappropriated the remaining assets of the Fund for his personal benefit. From January 2001 through July 2004, Misshula continued to send quarterly reports that falsely represented that the Fund's investments were receiving positive returns and that the investors' accounts were growing. Misshula also sent investors Form K-1s which showed positive returns consistent with the false quarterly reports.

11. Contrary to Misshula's representations to the investors in the quarterly reports and Form K-1s, Misshula diverted approximately \$529,000 of investor funds, without the investors' authorization or knowledge, to pay his personal expenses.

12. In 2005, after the Fund's collapse, Investor A and Investor B obtained civil judgments against Misshula and Sane Capital LLC in the amounts of \$486,460 and \$300,000. To date, Misshula has paid \$25,000 pursuant to these judgments.

VIOLATIONS

13. As a result of the conduct described above, Respondent Misshula willfully violated Section 17(a) of the Securities Act in that he, by the use of the means of instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly, in the offer or sale of securities, employed devices, schemes or artifices to defraud; obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers or prospective purchasers of such securities.

14. As a result of the conduct described above, Respondent Misshula willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder in that he, in connection with the purchase or sale of securities, directly or indirectly, by the use of the means or instrumentalities of interstate commerce, or of the mails, employed devices, schemes or artifices to defraud; made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit.

15. As a result of the conduct described above, Respondent Misshula willfully violated Section 206(1) and 206(2) of the Advisers Act by employing devices, schemes or artifices to defraud clients or engaging in transactions, practices or courses of business that defrauded clients or prospective clients.

RESPONDENT'S COOPERATION

16. In determining to accept the Offer, the Commission considered cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Misshula's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, and Sections 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Misshula cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act;

B. Respondent Misshula be, and hereby is barred from association with any investment adviser;

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any restitution ordered against the Respondent by any court related to the conduct that served as the basis for the Commission order; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

By the Commission.

Nancy M. Morris
Secretary