SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

- X

THE PEOPLE OF THE STATE OF NEW YORK By ANDREW M. CUOMO, Attorney General of the State of New York,	:	**SUMMONS**
-against-	:	Index No.
STEVEN L. RATTNER,	:	Plaintiff Designates New York County as the Place of Trial
Defendant.	:	

- X

TO THE ABOVE-NAMED DEFENDANT:

YOU ARE HEREBY SUMMONED to answer in this action and serve a copy of your answer, or if the complaint is not served with the summons, to serve a notice of appearance on the Plaintiff's attorney within twenty (20) days after the service of the summons, exclusive of the day of service. If this summons is not personally served upon you, or if this summons is served upon you outside of the State of New York, then your answer or notice of appearance must be served within thirty (30) days. In case of your failure to appear or answer, judgment will be taken against you by default, for the relief demanded in the complaint.

Dated: New York, New York
November 18, 2010

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Filed: November 18, 2010

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK
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THE PEOPLE OF THE STATE OF NEW YORK By ANDREW M. CUOMO, Attorney General of the State of New York,	:	**COMPLAINT**
-against-	:	Index No.
STEVEN L. RATTNER,	:	
Defendant.	:	

- X

Plaintiff, the People of the State of New York, by Andrew M. Cuomo, Attorney General of the State of New York (the "Attorney General"), alleges upon information and belief the following against defendant Steven L. Rattner ("Rattner" or "defendant").

SUMMARY

1. Rattner, former founding principal of Quadrangle Group, LLC ("Quadrangle"), defrauded the New York State Common Retirement Fund ("CRF"), its members and beneficiaries, and the taxpayers of the State of New York, when he caused Quadrangle to pay kickbacks to and at the direction of Henry "Hank" Morris ("Morris") in order to obtain a total of $150 million in investments from the CRF. These kickbacks included paying sham placement fees to Morris, arranging a DVD distribution deal for the Chief Investment Officer's brother, and obtaining contributions to Alan Hevesi's re-election campaign.

2. Rattner, while a principal of Quadrangle, caused Quadrangle to pay Morris, then-Comptroller Alan Hevesi's paid political advisor and campaign manager, sham placement fees to influence investment decisions by Hevesi and then-Chief Investment Officer David Loglisci ("Loglisci") with respect to a private equity fund managed by Quadrangle, Quadrangle Capital Partners II ("QCPII"). In a further effort to influence Loglisci, Rattner arranged a DVD

distribution deal for a movie, "Chooch," produced by Loglisci's brother, through a Quadrangle portfolio company. In a further effort to influence and reward Morris and Hevesi, Rattner arranged for other parties to contribute to Hevesi's re-election campaign. Rattner was credited by the Hevesi campaign for obtaining at least $50,000 in campaign contributions. Rattner arranged these contributions from third parties to avoid having his name appear in public donor records, thereby concealing his responsibility for the contributions.

3. Rattner understood that Hevesi and Loglisci owed fiduciary duties to the CRF to make investment decisions solely in the best interests of the CRF and its beneficiaries. Rattner, by providing kickbacks to Morris and others in the form of sham placement fees, a DVD distribution deal, and campaign contributions, intended to have Hevesi and Loglisci violate their fiduciary duties by favoring investment in QCPII. In fact, Loglisci and Hevesi did violate their fiduciary duties, in that Loglisci recommended and Hevesi approved an initial $100 million CRF commitment to QCPII due in whole or in part to sham placement fees Rattner arranged to pay Morris. Loglisci also violated his fiduciary duty by failing to disclose to the CRF benefits Rattner provided to Chooch in an effort to influence Loglisci's investment decision. Loglisci and Hevesi also violated their fiduciary duties when Loglisci recommended and Hevesi approved a $50 million increase in the CRF's commitment to QCPII, in part because of the $50,000 in contributions to Hevesi's re-election campaign that Rattner had arranged.

4. The CRF's investment policy required the written recommendation of an outside consultant and a CRF investment officer before the CRF invested in a private equity fund. Rattner failed to disclose the kickbacks he paid to and at the direction of Morris to the consultants and investment staff who recommended the CRF's investment in QCPII. Rattner

also filed and caused Quadrangle to file false disclosure statements to the CRF. These undisclosed kickbacks were material to the CRF's decision to invest in QCPII.

5. As a result of Rattner's fraud and his aiding and abetting of Hevesi's and Loglisci's violations of their fiduciary duties, the CRF's investment process was corrupted, Quadrangle has received over $13 million in management fees from the CRF, and Rattner has personally profited and will continue to profit from the scheme. This action under the Martin Act, Executive Law § 63(12), and New York common law seeks redress for CRF's defrauded beneficiaries. Through this action, the Attorney General seeks an order requiring: (a) disgorgement of ill-gotten gains, including future profits, (b) restitution and other damages, (c) injunction from further violations of the Martin Act and Executive Law § 63(12), (d) injunction from selling or offering for sale to the public within this state, as principal, broker or agent, or otherwise, securities issued or to be issued, and from any employment, consultation, or unpaid service as an investment manager or advisor, and from serving as a general partner, managing partner, officer, or director of any investment fund, or otherwise managing the investments of others, (e) injunction from entering into any contractual relationship with any governmental subdivision of the State of New York, (f) an accounting of all fees, profits and other benefits Rattner has received and will receive as a result of the CRF's investment in QCP II, (g) a court-appointed receiver to take control of all future fees, profits or other compensation Rattner stands to receive as a result of the CRF's investment in QCPII, and (h) such other relief as the Court finds just and proper.

JURISDICTION AND VENUE

6. The Attorney General has an interest in the economic health and well-being of investors who reside or transact business within the State of New York. In addition, the Attorney

General has an interest in ensuring that the marketplace for the purchase of securities functions fairly with respect to all who participate or consider participating in it. The State of New York, moreover, has an interest in upholding the rule of law generally. Defendant's conduct injured these interests.

7. The State of New York brings this action in its sovereign and quasi-sovereign capacities as *parens patriae*, and pursuant to Executive Law §§ 63(1), 63(12), and 63-c and General Business Law § 352 *et seq*. (the "Martin Act"). The State sues to redress injury to the State and to its general economy and citizenry-at-large. The State seeks injunctive relief, disgorgement, restitution, damages, costs and other relief with respect to defendant's fraudulent and otherwise unlawful conduct.

8. Pursuant to Executive Law § 63(12), the Attorney General is authorized to bring an action for injunctive relief, restitution, damages, and other relief in connection with repeated fraudulent acts in the carrying on of any business.

9. Pursuant to the Martin Act, the Attorney General is authorized to bring an action for restitution of money as a result of any fraudulent practices in connection with the sale of securities.

10. Pursuant to Executive Law § 63-c, known as the Tweed Law, the Attorney General is authorized to bring an action to recover State funds improperly obtained.

11. The Attorney General also has common law *parens patriae* to protect the public interest.

12. Defendant's actions originated from New York County, where defendant resides and/or conducts business. Moreover, the CRF, its members and beneficiaries, as well as the interests of the State of New York, were harmed by defendant's conduct.

PARTIES

13. The Attorney General is the legal advisor of the CRF under New York's Retirement and Social Security Law §14. This action is brought by the Attorney General on behalf of the People of the State of New York pursuant to his authority under Executive Law §§ 63(1), 63(12) and 63-c, General Business Law § 352 *et seq.*, and the common law of the State of New York.

14. Defendant Steven L. Rattner is an individual residing on Fifth Avenue, in New York, New York. Rattner is a former founding principal of Quadrangle, a private equity firm with over $3 billion under management, whose principal executive office is located at 375 Park Avenue in New York, New York.

FACTUAL ALLEGATIONS

I. Background on the CRF

15. The New York Office of the State Comptroller (the "OSC") administers the CRF. The CRF is the retirement system for New York State and many local government employees. Most recently valued at $124.8 billion, the CRF is by far the single largest monetary fund in State government and the third-largest public employee pension fund in the country. The New York State Comptroller is designated by the legislature as the sole trustee responsible for faithfully managing and investing the CRF for the exclusive benefit of over one million current and former State employees and retirees.

16. The Comptroller is a statewide elected official and is the State's chief fiscal officer. The Comptroller is the sole trustee of the CRF, but typically appoints a Chief Investment Officer and other investment staff members who are vested with authority to make investment

decisions. The Comptroller, the Chief Investment Officer, and CRF investment staff members owe fiduciary duties and other duties to the CRF and its members and beneficiaries.

17. The CRF invests in specific types of assets as set forth by statute. The statute's "basket" provision allows a percentage of the CRF portfolio's investments to be held in assets not otherwise specifically delineated in the statute. During the administration of Hevesi, who was Comptroller from January 2003 through December 2006, the CRF made investments that fell into this basket through its Division of Alternative Investments.

18. The CRF invested the majority of its alternative investments portfolio in private equity funds. The CRF generally invested in private equity funds as one of various limited partners. In these investments, a separate investment manager typically served as the general partner and managed the day-to-day investment.

19. Pursuant to the CRF's policies on alternative investments, potential investments in private equity funds underwent multiple layers of evaluation before they were sent to the Comptroller for final approval. Once the CRF was introduced to and interested in a fund, the fund was referred to one of the CRF's outside consultants for due diligence. At the same time, a CRF investment officer was assigned to review and analyze the transaction. If the outside consultant found the transaction suitable, the investment officer then determined whether to recommend the investment to the Director of Alternative Investments.

20. If the investment officer recommended a proposed private equity investment, and the Director of Alternative Investments concurred, then both recommendations were memorialized in formal, signed recommendation memoranda that were sent to the Chief Investment Officer for approval. If the Chief Investment Officer approved the investment, he created and signed a third and final recommendation memorandum to the Comptroller, attaching

the (usually more detailed) recommendation memoranda of the investment officer and Director of Alternative Investments. The Comptroller's approval was required before the investment could be made. If the Comptroller approved the investment, he would indicate his approval by signing the Chief Investment Officer's investment recommendation memorandum.

21. The final investment recommendation memoranda of the CRF's outside consultant, investment officer, Director of Alternative Investments, and Chief Investment Officer were kept in the CRF's vault as part of the official documentation of the investment.

22. The CRF was a large and desirable source of investments funds. Gaining access to and investments from the CRF was a competitive process, and frequently the investment manager who served as the general partner of the funds retained third parties known as "placement agents" or "finders" (hereinafter "placement agents") to introduce and market them to CRF. If an investment manager paid a fee or conferred any benefit to a placement agent or any third party in connection with a CRF investment, the CRF required that the investment manager make a written disclosure of the benefit and recipient to the CRF pursuant to the closing documentation. The CRF's standard disclosure requirement was quite robust, demanding that the investment manager send a letter within ten days of the closing of the investment stating all fees or compensation of any kind paid to any placement agent, finder, or other person or entity in connection with the CRF's investment with the investment fund. If the investment manager failed to provide the CRF with such a letter, or if the disclosure contained any material misstatement or omission, the CRF was empowered to cease investing with the investment manager.

23. Placement agents and other third parties who are engaged in the business of effecting securities transactions and who receive a commission or compensation in connection

with that transaction are required to be licensed and affiliated with broker-dealers regulated by an entity now known as the Financial Industry Regulatory Authority ("FINRA").

24. In November 2002, Hevesi was elected to serve as Comptroller, and took office on January 1, 2003. Prior to and after the 2002 election, Morris served as Hevesi's paid chief political consultant and advisor. Upon Hevesi taking office in 2003, Morris began to exercise control over certain aspects of the CRF, including the alternative investment portfolio.

25. Morris participated in discussions to remove and promote certain executive staff at the CRF. In or about April 2004, for example, Morris and certain other high-ranking OSC officials determined that the original Chief Investment Officer of the CRF was not sufficiently accommodating to Morris and his associates. Morris participated in the decision to remove the original Chief Investment Officer and promote Loglisci to that position.

26. Beginning in 2003, Morris also began to market himself as a placement agent to private equity and hedge funds seeking to do business with the CRF. At the same time that Morris was profiting through investment transactions involving the CRF, Morris participated with Loglisci in making decisions about investments. In particular, during the Hevesi administration, Morris occupied three conflicting roles at the CRF although he had no official position there: (1) he advised and helped manage the CRF's alternative investments, acting as a *de facto* Chief Investment Officer; (2) he brokered deals between the CRF and politically-connected outside investment funds, thereby obtaining millions of dollars in undisclosed management fees and placement agent fees; and (3) he had a commercial, personal and political relationship with the Comptroller as his chief political strategist and fundraiser.

27. Loglisci ceded decision-making authority to Morris regarding particular investments and investment strategies to be pursued and approved by the CRF. During this time,

Loglisci was also aware that Morris had an ongoing relationship with the Comptroller. Loglisci was a fiduciary to the CRF and a public officer with duties pursuant to the Public Officers Law and therefore had a duty to disclose his own and others' actual and potential conflicts of interest.

28. With Loglisici's acquiescence and assistance, Morris asserted control over CRF business by recommending, approving, securing or blocking alternative investment transactions. Morris ensured that Loglisci used his authority as Chief Investment Officer to focus the CRF investment staff's and outside consultants' resources on evaluating investments on which Morris and/or Hevesi stood to benefit financially and/or politically.

29. Loglisci failed to disclose Morris's role to members and beneficiaries of the CRF through the CRF's annual report or otherwise. Loglisci and Morris concealed their corrupt arrangement and Morris's role in investment transactions from the investment staff, ethics officers, and lawyers at CRF. Additionally, Loglisci did not disclose his own conflicts of interest involving the financing and distribution of his brother's film, "Chooch," by Morris, Quadrangle, and other persons receiving an investment commitment from the CRF.

30. The written recommendation of a CRF investment staff member was essential to obtaining a CRF investment that complied with CRF investment procedures. By focusing CRF resources on investments in which Morris had an interest, and by concealing material information about Morris's role and Loglisici's conflicts from CRF investment staff, Morris and Loglisci maintained the appearance that their corrupt investments had been thoroughly vetted according to CRF investment policies, while shielding those investments from the scrutiny they would otherwise have received from the investment staff, ethics officers, and lawyers at CRF.

31. On March 10, 2010, Loglisci pled guilty to a felony violation of the Martin Act. During his plea, Loglisci admitted having abdicated his authority over CRF investment decisions

to Morris to help steer hundreds of millions of dollars worth of investment deals to Morris and his associates for their financial benefit and for the political benefit of the Comptroller. Loglisci admitted that in exchange for breaching his duty to the CRF in this manner, he was promoted to and maintained his position as CIO.

32. On October 7, 2010, Hevesi pled guilty to a felony charge of receiving reward for official misconduct. During his plea, Hevesi admitted that Morris profited from CRF investments, steered CRF investments to friends and political associates, and solicited campaign contributions from those doing business with the CRF.

33. During Hevesi's tenure, Morris concealed his conflicting roles as political consultant, CRF gatekeeper and CRF placement agent from the CRF alternative investment staff and others. Loglisci helped to conceal his and Morris's scheme by maintaining exclusive custody of letters to the CRF that disclosed the use of placement agents and fees paid relating to certain CRF investment transactions.

34. In some instances, Morris and Loglisci concealed Morris's scheme from the private equity and hedge fund managers that paid Morris's fees. Other fund managers, including Rattner, knowingly paid fees to Morris and others with the understanding that such fees were not compensation for legitimate services, but rather were kickbacks intended to influence the investment decisions of Loglisci and Hevesi in violation of their fiduciary duties to the CRF.

35. As a result of Morris's and Loglisci's scheme, Morris and his associates earned fees on more than five billion dollars in commitments to more than twenty private equity funds, hedge funds, and fund-of-funds during the Hevesi administration. These deals generated tens of millions of dollars in fees to Morris and his associates. Fund managers such as Rattner, who

knowingly and willing made payments to Morris and to others at Morris's direction, also reaped millions in management fees and profits as a result of the CRF's investments in their funds.

II. Rattner Arranged a DVD Distribution Deal for "Chooch" at Morris's Request to Influence Loglisci's Investment Decision

36. In or around 2003, when Quadrangle had not officially begun fundraising for QCPII, Rattner sought to meet with Loglisci, then the Head of Alternative Investments at the CRF, in an effort to build a relationship and pre-market QCPII. Rattner and another former principal of Quadrangle met with Loglisci on July 8, 2003. Rattner already had a relationship with both Hevesi and Morris at this time. Rattner was well-known in political circles as an important Democratic supporter and campaign contributor, and his wife was the finance chair of the Democratic National Committee from 2001 to 2006.

37. In or around November 2003, Rattner received a phone call from Hank Morris, whom he had known from political circles for years and whom he understood to have a close political relationship with Hevesi, requesting that Rattner meet with him.

38. On December 2, 2003, Rattner met with Morris. During the meeting, Morris informed Rattner that he was helping investment firms raise private equity money from pension funds he was close to, including the CRF. Morris also asked Rattner to help Loglisci's brother, with his film, "Chooch."

39. Rattner agreed to help Loglisci's brother by facilitating a deal with the Independent Film Channel ("IFC") in order to influence Loglisci's investment decision with respect to QCPII. Rattner was in a position to help Chooch with IFC because IFC was a subsidiary of Cablevision, a company in which Quadrangle was an investor and on whose board Rattner sat.

40. Rattner met with Loglisci's brother twice in early December 2003 regarding Chooch. Later in December 2003, Rattner connected Loglisci's brother to various people at IFC. Loglisci's brother met with those people and thanked Rattner for introducing them. Loglisci's brother did not ultimately reach any agreement with IFC regarding Chooch.

41. In or around the fall of 2004, while Quadrangle was pitching an investment in QCPII to CRF investment staff and the CRF's outside consultant, Hamilton Lane, Rattner renewed his efforts to help Loglisci's brother with Chooch, again attempting to influence Loglisci's investment recommendation regarding QCPII. Rattner contacted the CEO of Good Times Entertainment ("Good Times"), a portfolio company of Quadrangle with a DVD distribution business. Rattner and another managing principal at Quadrangle were on the board of directors of Good Times, and the CEO of Good Times reported to the board.

42. After speaking with Loglisci's brother about Chooch, the CEO of Good Times informed Rattner that Good Times could offer Loglisci's brother a distribution deal for Chooch as a courtesy, if it would benefit Rattner to do so, but that Chooch was a movie Good Times would otherwise "take a pass on."

43. Rattner understood that distributing the Chooch DVD was not something that Good Times had an independent interest in pursuing. He nonetheless requested the CEO of Good Times to continue to consider a distribution deal for Chooch because Loglisci was important to Quadrangle.

44. After further review of a potential DVD distribution deal for Chooch, the CEO of Good Times told Rattner that Good Times was "at a point with [Loglisci's brother] and the Chooch movie that we would typically disengage," and asked Rattner to advise on how he would like her to proceed. Rattner responded that "[a]s for [Loglisci's brother], I would appreciate it if

you could dance along with this for another couple of weeks while I try to figure out what we need to do."

45. On or around November 29, 2004, Rattner had a conversation with Morris in which Rattner asked Morris's advice on "whether GT needs to distribute [Loglisci's brother's] video." Morris told Rattner he would "nose around." Rattner understood Morris was indicating he would find out the extent to which obtaining a distribution deal for the Chooch DVD would influence Loglisci's decision to recommend a CRF investment in QCPII.

46. On or around November 30, 2004, the Good Times CEO informed Rattner that Good Times had offered Loglisci's brother a below-market distribution deal earlier that day, and that Loglisci's brother had accepted it. While Good Times' standard deal term was a fifteen to twenty percent distribution fee, Good Times agreed to a discounted rate of twelve percent. Rattner approved the terms of the deal, including the discount.

47. Contemporaneous with Rattner's efforts on behalf of Chooch, Quadrangle was seeking an investment from the CRF for QCPII. In or around October 2004, Rattner and the former Quadrangle principal had a meeting with Loglisci. Following the meeting, Rattner understood that Loglisci "was eager to help and seemed to be trying to position [Quadrangle] for his staff in the most favorable light." Loglisci made clear to Quadrangle he wanted to help QCPII with both consultants vetting the deal and other pension funds considering making an investment.

48. In early December 2004, Good Times began negotiating the Chooch contract with Loglisci's brother. The negotiations continued through December and into January and February 2005.

49. On January 14, 2005, the Good Times CEO sent an email to Rattner reporting to him that Good Times was moving forward with the Chooch distribution deal and "wanted to bring it to [his] attention as a potential relationship issue." Rattner forwarded the email to Morris, telling him, "[t]his is [Loglisci's brother's] project. Wanted you to be aware." Rattner understood that Morris would communicate to Loglisci that Rattner had obtained a DVD distribution deal for Chooch.

50. Rattner understood that had it been making its own business decision, Good Times would not have offered Loglisci's brother any DVD distribution deal for Chooch, let alone a discounted deal. Rattner nonetheless instructed Good Times to pursue the deal in an attempt to influence Loglisci's investment recommendation regarding QCPII.

51. On February 24, 2005, Loglisci's brother (through his company, Chooch LLC) and Good Times (through its affiliate GT Merchandising & Licensing LLC) signed a distribution agreement for Chooch.

52. Good Times signed the deal on the eve of its own bankruptcy. Since in or around the fall of 2004, the company had been in financial trouble, and by February 2005, when Good Times began trying to sell parts of the company, bankruptcy was likely. In or around June 2005, various companies began to acquire components of Good Times. Gaiam, a Colorado company, acquired certain of Good Times' titles, including Chooch.

III. Rattner Paid Morris to Influence Hevesi's and Loglisci's Investment Decisions

53. In or around October and November 2004, while the Good Times deal was pending and after Loglisci had been promoted to Chief Investment Officer of the CRF in part because of his willingness to favor deals on which Morris would profit, Rattner resumed contact

with Morris. Rattner and a then-principal of Quadrangle spoke with Morris about hiring Morris to market QCPII to a variety of pension funds, including the CRF.

54. Around the time Rattner resumed contact with Morris, Quadrangle was actively marketing an investment in QCPII to the CRF. Quadrangle met with the CRF's outside consultant, Hamilton Lane, to discuss the CRF's potential investment in QCPII. Rattner also participated in a formal presentation to the CRF regarding an investment in QCPII.

55. At the time Rattner contacted Morris, Quadrangle had already retained Monument Group as a placement agent to assist in marketing QCPII to the CRF. Based on its marketing efforts with the CRF, Monument Group informed Quadrangle that the CRF was likely to invest between $20 and $50 million in QCPII, with the most likely scenario being a $25 million investment.

56. Morris told Rattner he could increase the size of the CRF's investment in QCPII and proposed that Quadrangle agree to pay him for any investment the CRF made in QCPII in excess of $25 million. Morris also warned Rattner that Quadrangle's negotiations with the CRF could always fall apart.

57. In or around December 2004, Quadrangle agreed in principle to a fee arrangement with Morris, and on January 10, 2005, Quadrangle formally retained Searle & Co. ("Searle"), the broker-dealer with which Morris was affiliated, as its placement agent for CRF and six other pension funds, including the New York City pension funds, the Los Angeles Fire & Police pension fund, and the New Mexico State Investment Counsel. Searle was to be paid 1.1% of aggregate investments made by these seven funds (excluding the first $25 million committed by CRF – since Quadrangle was expecting to get that amount prior to Morris's insertion in the deal), plus an additional bonus of .4 percent of any amount over $75 million.

58. Morris provided no legitimate placement services in connection with the CRF's investment in QCPII. In contrast to the Monument Group, which arranged and attended meetings with Hamilton Lane in an effort to market QCPII, Morris neither set up nor attended any marketing meetings on Quadrangle's behalf. Morris never attended any meeting with any CRF staff member, other than Loglisci, and never attended meetings with Hamilton Lane or with Pacific Corporate Group ("PCG"), the outside consultants vetting the QCPII investment.

59. Morris also did not provide any legitimate service in introducing Quadrangle to the CRF. Rattner already knew Hevesi, and Hevesi had in fact introduced Rattner to Loglisci.

60. Rattner understood that Morris provided no legitimate services as a placement agent. Rattner agreed to pay Morris because he understood that Morris was a close political advisor to and fundraiser for Hevesi. Rattner intended for Morris to use his political connection to Hevesi to affect Hevesi's and Loglisci's fiduciary consideration of QCPII. To this end, Rattner ensured that Morris informed Hevesi that Quadrangle would be paying Morris in connection with any CRF investment in QCPII.

IV. Rattner Concealed and Did Not Disclose to Anyone at the CRF, Other than Loglisci and Hevesi, that He Was Paying Kickbacks to and at the Direction of Morris

61. CRF policies and procedures required that CRF's investment staff and outside consultants perform a due diligence review of every potential CRF investment. Pursuant to CRF policies and procedures, a written evaluation supporting each investment had to be issued by a CRF investment staff member and outside consultant before the Chief Investment Officer and the Comptroller could authorize an investment.

62. Starting in or around October 2004 and continuing through late January 2005, CRF investment staff and CRF outside consultant Hamilton Lane performed due diligence on a potential CRF investment in QCPII.

63. As part of their due diligence review, CRF investment staff and Hamilton Lane met with and interviewed personnel representing QCPII. Rattner communicated with CRF investment staff and Hamilton Lane throughout the process.

64. Rattner did not disclose and concealed that he had paid, or had agreed to pay, kickbacks and other inducements to influence Hevesi and Loglisci to approve a CRF investment in QCPII. Specifically, Rattner concealed or failed to disclose to CRF investment staff and the CRF's outside consultants that he had: (a) arranged a DVD distribution deal for Loglisci's brother at a particularly favorable rate, and (b) negotiated a placement agent agreement with Morris to pay Morris a percentage of any CRF investment in QCPII in excess of $25 million. Rattner also did not disclose to, and concealed these facts from, Hamilton Lane.

65. These facts were material to CRF investment staff and their outside consultant.

66. On January 27, 2005, without knowing the above facts, CRF investment staff sent a memorandum to Loglisci recommending an investment of up to $100 million in QCPII. An investment recommendation memorandum from Hamilton Lane, dated December 20, 2004, was attached to the investment staff's memorandum.

V. Rattner Submitted False and Misleading Disclosure Documents to the CRF in Connection with the CRF's Investment in QCPII

67. On March 17, 2005, in connection with the limited partnership agreement with the CRF through which the CRF committed $100 million to QCPII, Quadrangle and the CRF entered a side letter agreement. The side letter agreement contained the CRF's standard requirement that general partners send a separate letter disclosing all fees or compensation of any kind paid to any placement agent, finder, or other person or entity in connection with the CRF's investment with the general partner. Pursuant to the side letter agreement, the CRF could cease

investing with the general partner if the general partner failed to submit the required fee disclosure letter or if the disclosure contained any material omissions.

68. The side letter agreement required Quadrangle to disclose all fees or benefits paid in connection with the CRF's investment in QCPII, except for fees paid to Searle or Monument Group. The side letter agreement did not disclose Morris's name or the DVD distribution deal for Chooch.

69. On April 26, 2005, Rattner caused Quadrangle to send the CRF a false fee disclosure letter. The disclosure letter falsely stated that no fees or compensation of any kind had been provided to any placement agent, finder, or other person or entity, by or on behalf of Quadrangle, except those already disclosed in the side letter agreement. Neither the side letter agreement nor the fee disclosure letter disclosed Morris's name or the fact that Rattner had arranged for Good Times to sign a DVD distribution deal with Loglisci's brother to benefit Quadrangle in connection with the CRF's investment in QCPII.

70. On December 20, 2007, Rattner sent a second false letter to the CRF in connection with the CRF's investment in QCPII. After Loglisci terminated his position with the CRF in approximately June 2007, the CRF discovered that many of the placement agent fee disclosure letters were missing. The CRF therefore requested that the general partners with which it invested re-submit the fee disclosure letters so that the CRF could reconstruct its files. In connection with this effort, in or about December 2007, Rattner re-sent the March 2005 side letter, which referenced Searle and Monument Group, to the CRF. In his letter transmitting Quadrangle's file copy of the side letter, Rattner stated that Quadrangle "continues to be bound by the terms and conditions set forth in the enclosed copy of the side letter." Despite his duty to disclose all payments made in connection with the CRF's investment, Rattner did not disclose

them, and omitted material information in the side letters and disclosure letters provided by Quadrangle to the CRF in April 2005 and December 2007.

71. Rattner understood that Quadrangle's agreement with the CRF required disclosure of his payments to Morris and the Chooch DVD deal he had arranged, and he understood that these payments and benefits were material to the CRF's investment in QCPII, but he did not disclose and omitted material information from the April 2005 and December 2007 letters.

VI. Quadrangle Obtained $150 Million in CRF Investments, and Investments from Other Pension Funds, as a Result of Rattner's Fraud and Loglisci's and Hevesi's Breach of their Fiduciary Duties to the CRF

72. At the end of January 2005, the CRF recommended a $100 million investment in QCPII. This recommendation came approximately two weeks after Rattner notified Morris that Good Times would be distributing the Chooch DVD and Quadrangle formally agreed to pay Morris for any CRF investment in excess of $25 million. On February 11, 2005, Quadrangle learned that the CRF would be making the investment and that it was one of the five largest direct investments the CRF was making that year.

73. On March 17, 2005, CRF made its formal commitment of $100 million in QCPII. This commitment was four times what Quadrangle had been told it could expect from the CRF by Monument Group, the placement agent that actually marketed QCPII to the CRF and to Hamilton Lane.

74. Rattner understood that both Loglisci and Hevesi owed fiduciary duties to make investment decisions solely in the best interests of the CRF and its beneficiaries. Nonetheless, in violation of their fiduciary duties to the CRF, Loglisci recommended and Hevesi approved a $100 million investment in QCPII, in part because of the payments Rattner had agreed to make to Morris.

75. Loglisici also owed a duty to the CRF to disclose even the appearance of a conflict of interest. Notwithstanding this duty, Loglisci recommended a $100 million investment in QCPII without disclosing to the CRF that Rattner had arranged for Good Times to distribute the DVD of his brother's movie, Chooch.

76. Rattner aided and abetted both Loglisci and Hevesi in the violation of their fiduciary duties to the CRF by paying sham placement fees to Morris, by arranging the DVD distribution deal for Chooch, and by not disclosing these benefits to the CRF's investment staff or outside consultant.

77. Rattner ensured that Morris told Hevesi that Quadrangle was paying Morris. Loglisci also understood from Morris that Morris stood to benefit – as a placement agent, Hevesi's political fundraiser, or both – from a CRF investment in QCPII over and above the $25 million that the CRF was considering investing in QCPII prior to Quadrangle hiring Morris.

78. Rattner arranged the DVD distribution deal for Chooch at Morris's request, in an effort to influence Loglisci's investment decision. Rattner understood that Morris would communicate to Loglisci, whom Rattner was trying to improperly influence, that Rattner arranged the DVD deal, but Rattner did not disclose the DVD deal to anyone else at the CRF.

79. In or about early 2006, as Hevesi was running for re-election as Comptroller, Morris told Rattner to contribute to Hevesi's reelection campaign. Morris told Rattner that other managers whose funds had received investments from the CRF were contributing to Hevesi's reelection campaign. When Rattner explained he had a policy against making contributions to officials with oversight over investments, Morris told him he should contribute money indirectly, by getting other parties to make the contribution.

80. Rattner asked a Democratic donor he knew to contribute to Hevesi. That person and his wife each contributed approximately $25,000 to the Hevesi for New York Campaign in January 2006, and subsequently contributed an additional $25,000 each to Hevesi for New York in May 2006 for a total of $100,000.

81. Rattner obtained these contributions at Morris's request in order to influence the CRF's investment in QCPII. He obtained the contributions from others so that he would receive credit for contributing to Hevesi without his name appearing on public donor records. As a result of the contributions he arranged, Rattner was credited by the Hevesi campaign for contributing at least $50,000.

82. Approximately one month after Rattner arranged the May 2006 contributions to Hevesi's campaign, Quadrangle received a verbal commitment from Loglisci that the CRF would increase its commitment to QCPII by $50 million. Thereafter, in an inter-office memorandum dated December 12, 2006, Loglisci recommended to Hevesi that the CRF increase its commitment to QCPII from $100 million to $150 million. Hevesi approved the recommendation, and the CRF increased its investment in accordance with the memorandum.

83. Rattner understood that the contributions he obtained for Hevesi's reelection campaign were a factor in the CRF's decision to invest an additional $50 million in QCPII.

84. Pursuant to its agreement with Searle, described in paragraph 57, *supra*, Quadrangle paid Searle approximately $1,125,000 in connection with the CRF's investment in QCPII in five installments, from October 2005 to June 2007. Searle paid approximately $1,068,746 to PB Placement, LLC, an entity controlled by Morris, in five installments from November 2005 to July 2007. Quadrangle refused to pay Searle fees relating to the CRF's $50 million increase funded in or about December 2006.

85. Subsequent to the CRF's investment in QCPII, and pursuant to their agreement with Quadrangle, Searle and Morris were additionally paid in excess of $850,000 in connection with investments in QCPII by the New York City pension funds and the Los Angeles Fire & Police pension fund.

86. As a result of Rattner's fraud and his aiding and abetting of Loglisci's and Hevesi's breach of their fiduciary duties to the CRF, the CRF's investment process was corrupted and Quadrangle has received over $13 million in management fees from the CRF.

87. Because he was Quadrangle's primary fundraiser, Rattner received the highest share of Quadrangle's profits on QCPII among Quadrangle's partners. To date, Rattner has reaped over $3 million in personal profits as a result of the CRF's investment in QCPII.

88. In concert with Morris (*see supra* paragraph 57), Rattner was able to leverage the results of his fraudulent scheme at the CRF into investments by other public pension funds in QCPII. For example, subsequent to the CRF's initial $100 million commitment, other public pension funds invested in QCPII, including but not limited to: $125 million by the New York City pension funds; $10 million by the Los Angeles Fire and Police pension fund; and $20 million by the New Mexico State Investment Council. By March 2007, QCPII had obtained commitments from these four institutional investors totaling $305 million.

89. The CRF's investment in Quadrangle was significant for Quadrangle, not only because of the size of CRF's investment, but also because the CRF was understood in the industry to be an "anchor investor." In other words, the CRF's investment in Quadrangle made Quadrangle a more attractive investment to other institutional investors. For the initial closing of QCPII in or about March of 2005, Quadrangle raised $770 million, $100 million of which was provided by the CRF. By the time of its final closing on or about March 30, 2007, Quadrangle

had raised an additional $1.3 billion in funding, nearly tripling the total size of QCPII to $2 billion under management.

90. Rattner has personally profited, and will continue to profit, as a result of management fees paid by the CRF and fees paid by others who were influenced in part by the CRF's investment in QCPII and/or Morris. In addition to his interest in future management fees, Rattner holds a significant interest in any future carried interest generated by QCPII. QCPII is projected to generate approximately $190 million in carried interest over the life of the fund, worth approximately $47.5 million to Rattner.

CLAIMS

FIRST CAUSE OF ACTION
(Securities Fraud – General Business Law § 352-c(1)(a))

91. The Attorney General repeats and re-alleges paragraphs 1 through 90 herein.

92. The acts and practices of the defendant alleged herein violated Article 23-A of the General Business Law, in that they involved the use or employment of a fraud, deception, concealment, suppression, or false pretense, where said uses or employments were engaged in to induce or promote the issuance, distribution, exchange, sale negotiation, or purchase within or from this state of any securities.

SECOND CAUSE OF ACTION
(Securities Fraud – General Business Law § 352-c(1)(c))

93. The Attorney General repeats and re-alleges paragraphs 1 through 90 herein.

94. The acts and practices of the defendant alleged herein violated Article 23-A of the General Business Law, in that defendant made, or caused to be made, representations or statements which were false, where (i) he knew the truth, or (ii) with reasonable efforts could have known the truth, or (iii) made no reasonable effort to ascertain the truth, or (iv) did not have

knowledge concerning the representations or statements made, where said representations or statements were engaged in to induce or promote the issuance, distribution, exchange, sale, negotiation, or purchase within or from this state of any securities.

THIRD CAUSE OF ACTION
(Persistent Fraud or Illegality – Executive Law § 63(12))

95. The Attorney General repeats and re-alleges paragraphs 1 through 90 herein.

96. The acts and practices alleged herein constitute conduct proscribed by § 63(12) of the Executive Law, in that defendant engaged in repeated fraudulent or illegal acts or otherwise demonstrated persistent fraud or illegality in the carrying on, conducting or transacting of business.

FOURTH CAUSE OF ACTION
(Securities Fraud – General Business Law § 352 and 353)

97. The Attorney General repeats and re-alleges paragraphs 1 through 90 herein.

98. The acts and practices of the defendant allege herein violated Article 23-A of the General Business Law, in that they constituted fraudulent practices as defined in General Business Law § 352.

FIFTH CAUSE OF ACTION
(Aiding and Abetting Breach of Fiduciary Duty)

99. The Attorney General repeats and re-alleges paragraphs 1 through 90 herein.

100. The acts and practices of the defendant alleged herein constitute aiding and abetting the breach of fiduciary duty in that they establish the existence of a fiduciary relationship, defendant's knowing participation in and encouragement of the breach of that duty, and damages to the CRF proximately caused by the breach.

WHEREFORE, plaintiff demands judgment against the defendant as follows:

A. Enjoining and restraining defendant from engaging in any conduct, conspiracy, contract, or agreement, and from adopting or following any practice, plan, program, scheme, artifice or device similar to, or having a purpose and effect similar to, the conduct complained of above;

B. Directing that defendant, pursuant to Article 23-A of the General Business Law and Section 63(12) of the Executive Law and the common law of the State of New York, disgorge all gains, including fees and profits to date and all future fees and profits generated by QCPII, and pay all restitution and damages caused, directly or indirectly, by the fraudulent and deceptive acts complained of herein;

C. Directing that defendant pay plaintiff's costs, including attorneys' fees as provided by law;

D. Enjoining Rattner from selling or offering for sale to the public within this state, as principal, broker or agent, or otherwise, securities issued or to be issued, and from any employment, consultation, or unpaid service as an investment manager or advisor, and enjoining Rattner from serving as a general partner, managing partner, officer, or director of any investment fund, or otherwise managing the investments of others, including but not limited to investments obtained through public pension fund contracts;

E. Enjoining Rattner from entering into any contractual relationship with any governmental subdivision of the State of New York, including contractual agreements concerning any money, funds, credits, or other property, held or owned by the state, or held or owned officially or otherwise for or on behalf of a governmental or other public interest, by a domestic, municipal, or other public corporation, or by a board, officer, custodian, agency, or

agent of the state, or of a city, county, town, village or other division, subdivision, department, or portion of the state;

F. Ordering Rattner to provide an accounting of all fees, profits and other benefits he has received and will receive as a result of the CRF's investment in QCPII;

G. Appointing a receiver to take control of all future fees, profits or other compensation Rattner stands to receive as a result of the CRF's investment in QCPII;

H. Directing such other equitable relief as may be necessary to redress defendant's violations of New York law; and

I. Granting such other and further relief as may be just and proper.

Dated: November 18, 2010
New York, New York

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