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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	
	:	10-CV-
-against-	:	
	:	<u>COMPLAINT</u>
STEVEN L. RATTNER,	:	
	:	
Defendant.	:	
	:	

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint against defendant Steven L. Rattner ("Rattner"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. This action involves one part of a wide-ranging scheme to extract kickbacks from investment management firms seeking to manage assets held in trust by the New York State Common Retirement Fund ("Retirement Fund"). The primary perpetrators of the scheme were Henry Morris ("Morris"), the top political advisor and chief fundraiser for former New York State Comptroller Alan Hevesi, and David Loglisci ("Loglisci"), the former New York State Deputy Comptroller. Morris, Loglisci and several others involved in this "pay to play" scheme were previously charged in a separate action (*SEC v. Morris, et al.*, 09-CV-2518 (CM)). In the

instant action, the Commission charges Rattner, a former managing principal of the private equity firm Quadrangle Group LLC (“Quadrangle”) for entering into undisclosed *quid pro quo* arrangements with Morris and Loglisci in order to secure an investment from the Retirement Fund.

2. In 2005 and 2006, Rattner and Quadrangle secured \$150 million in investments from the Retirement Fund for Quadrangle after arranging for a Quadrangle affiliate to distribute the DVD of a low-budget film that Loglisci and his brothers had produced, and by agreeing to pay more than \$1 million in purported “finder” fees to Morris even though Quadrangle had already presented the investment proposal at issue directly to Loglisci.

3. Although the DVD deal and the sham “finder” fee paid to Morris created a clear conflict of interest, Rattner and Quadrangle failed to disclose the DVD deal or the true nature of the payment to Morris to the Retirement Fund’s Investment Advisory Committee (“IAC”), which is required by state law to monitor and give advice regarding the Retirement Fund’s investments, or to anyone else that was not involved in the scheme.

4. By virtue of the foregoing conduct Rattner directly or indirectly, singly or in concert, violated Section 17(a)(2) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77q(a)(2)].

5. Unless Rattner is permanently restrained and enjoined, he will again engage in the acts, practices, transactions and courses of business set forth in this Complaint and in acts, practices, transactions and courses of business of similar type and object.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to the authority conferred by Section

20(b) of the Securities Act [15 U.S.C. § 77t(b)], seeking to restrain and enjoin permanently Rattner from engaging in the acts, practices, transactions and courses of business alleged herein. The Commission also seeks a final judgment ordering Rattner to pay disgorgement, prejudgment interest and civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

7. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d) and 77v(a)]. Rattner, directly or indirectly, singly or in concert, has made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Some of the transactions, acts, practices and courses of business at issue occurred in the Southern District of New York. During the relevant period, Rattner resided in and maintained his principal place of business in New York, New York. The New York State Comptroller maintains an office in New York, New York, and Loglisci worked in that office during the relevant period.

THE DEFENDANT

8. **Rattner** resides in New York, New York. Rattner founded Quadrangle in 2000 and served as its managing principal until February 2009, when he became the head of the Presidential Task Force on the Auto Industry. In July 2009, Rattner resigned from that position. During the relevant period, Rattner was also a managing principal of Quadrangle Equity Management LLC, formerly a registered investment adviser, and Quadrangle Securities LLC, formerly a registered broker-dealer. Rattner previously held Series 7, Series 24, and Series 63

licenses.

OTHER RELEVANT PERSONS AND ENTITIES

9. **The Retirement Fund** is a public pension fund that during the relevant period held over \$150 billion in assets for more than one million New York State employees, retirees and other beneficiaries. The Retirement Fund is the largest pension fund in New York and the third largest pension fund in the country. Pursuant to New York statute, the New York State Comptroller is the sole trustee of the Retirement Fund.

10. **Morris** resides in New York City and East Hampton, New York. Morris was the top political advisor and chief fundraiser for Alan Hevesi, the New York State Comptroller from January 2003 through December 2006. During the relevant period, Morris was a registered representative associated with Searle & Co. (“Searle”), a Connecticut-based broker dealer.

11. **Loglisci** resides in Norwalk, Connecticut. Beginning in 2003, he served as the Director of Alternative Investments for the New York State Comptroller, overseeing investments in private equity funds. In April 2004, Loglisci was promoted to Deputy Comptroller and Chief Investment Officer and served in that position until his resignation in mid-2007. In March 2010, Loglisci pled guilty to parallel criminal charges in connection with his role in the pay-to-play scheme.

12. **Quadrangle**, a Delaware limited liability company, is a private investment management and advisory firm based in New York City that specializes in investing in media and communications companies. During the relevant period, Rattner was a managing principal of Quadrangle.

13. **Quadrangle GP Investors II, L.P. (“Quadrangle GP”)**, a Delaware limited

partnership, is a Quadrangle affiliate and the general partner of Quadrangle Capital Partners II, L.P., a private equity fund in which the Retirement Fund invested \$100 million in 2005 and an additional \$50 million in 2006. During the relevant period, Rattner was an indirect owner of Quadrangle GP and served on its Investment Committee. In April 2010, the Commission brought a related action against Quadrangle and Quadrangle GP. *SEC v. Quadrangle Group LLC, et al.*, 10-CV-3192 (LAK). On April 19, 2010, the Court entered a final consent judgment permanently enjoining Quadrangle and Quadrangle GP from violating Section 17(a)(2) of the Securities Act and ordering them to pay a civil penalty in the amount of \$5 million.

THE DEFENDANT'S VIOLATIVE CONDUCT

Overview of the Scheme

14. Beginning in 2003, Morris and Loglisci devised and implemented a wide-ranging scheme to extract monetary payments and other benefits from investment management firms seeking to do business with the Retirement Fund. Pursuant to this scheme, Morris and Loglisci caused the Retirement Fund to invest billions of dollars with numerous investment management firms, including Quadrangle, which together paid millions of dollars to Morris and others in the form of “finder” or “placement agent” fees in order to obtain those investments from the Retirement Fund.

15. Loglisci also benefited from the scheme. Among other things, Loglisci obtained funding and other consideration for a low-budget film, titled *Chooch*, that Loglisci and his brothers produced. As discussed in more detail below, Rattner arranged for a company owned by a Quadrangle affiliate to distribute the DVD of *Chooch* on discounted terms in order to help Quadrangle secure an investment from the Retirement Fund.

Rattner's Dealings with Morris, Loglisci and the Retirement Fund

16. As described more fully below, Rattner arranged for the undisclosed DVD distribution deal for the Loglisci film and the "finder" fee payment to Morris in order for Quadrangle to obtain an investment from the Retirement Fund.

17. In December 2003, Morris met with Rattner, whom Morris knew from his political work, to discuss obtaining investments from the Retirement Fund and other large public pension funds. In the course of this meeting, Morris informed Rattner that Loglisci, whom Rattner knew to be a high-ranking official at the Retirement Fund, had a brother who was involved in producing a low-budget film named *Chooch*. Morris specifically asked Rattner, who has ties to the entertainment industry, whether he could help Loglisci's brother obtain financing for the theatrical distribution of the film. Within days of that meeting, Loglisci's brother contacted Rattner and personally made the same request. Although Rattner undertook to assist Loglisci's brother with respect to securing theatrical distribution for *Chooch*, those efforts did not lead to a distribution deal.

18. Approximately one year later, in the fall of 2004, Loglisci's brother again contacted Rattner, this time to ask him for help in securing a DVD distribution deal for *Chooch*. Rattner again agreed to assist Loglisci's brother and arranged for him to meet with executives at GT Brands LLC ("GT Brands"), an infomercial and DVD distribution company that was owned by one of Quadrangle's private equity funds. Also in the fall of 2004, Rattner and Quadrangle began soliciting the Retirement Fund for an investment in a new private equity fund that Quadrangle was then marketing, Quadrangle Capital Partners II Fund, L.P. ("Quadrangle Fund II"). Within days of speaking to Loglisci's brother about a DVD distribution deal for *Chooch*,

Rattner arranged a meeting with Loglisci to discuss an investment in Quadrangle Fund II. In the course of soliciting Loglisci for an investment in Quadrangle Fund II, Rattner told Loglisci that he had arranged a meeting between Loglisci's brother and GT Brands concerning a DVD distribution deal for *Chooch*, and Loglisci thanked Rattner for the assistance.

19. Shortly after the foregoing discussions between Rattner and Loglisci, Loglisci's brother met with a GT Brands executive to discuss a possible DVD distribution deal for *Chooch*. According to an e-mail sent to Rattner by GT Brands' chief executive officer after that meeting, GT Brands found Loglisci's brother to be "very unrealistic and naïve" and was inclined to "take a pass" on distributing the *Chooch* DVD. The following day, after Loglisci's brother telephoned Rattner to complain about the treatment he received from GT Brands, Rattner advised the GT Brands' chief executive officer to treat Loglisci's brother "carefully" given Loglisci's importance to Quadrangle. As a result, GT Brands representatives met with Loglisci's brother for a second time later that fall. In late November 2004, GT Brands' chief executive officer once again told Rattner that GT Brands was not inclined to distribute the *Chooch* DVD and had reached the point in its discussions at which it would "typically disengage."

20. Although GT Brands was not interested in distributing *Chooch*, Rattner, in an email, instructed GT Brands' chief executive officer to "dance along" with Loglisci's brother while Rattner figured out whether Quadrangle "needed" to do a distribution deal in order to secure an investment from the Retirement Fund. According to an email sent by Rattner, Rattner telephoned Morris to inquire whether "GT needs to distribute [the *Chooch*] video" and, in response, Morris offered to "nose around" to determine how important the DVD distribution deal was to Loglisci.

21. Despite GT Brands' avowed lack of interest in distributing the *Chooch* DVD, GT Brands reversed course and ultimately offered to manufacture and distribute the *Chooch* DVD in exchange for 12 percent of the net revenue generated by the distribution of the film, which was a discount from GT Brands' standard fee of between 15 and 20 percent. Rattner approved the proposed terms of the distribution deal and, in December 2004, GT Brands and Loglisci's brother reached agreement on the DVD distribution deal for *Chooch*.

22. At approximately the same time that Rattner arranged for GT Brands to distribute the *Chooch* DVD, Rattner and Quadrangle decided to retain Morris as a "placement agent" even though Rattner was already dealing directly with Loglisci and Quadrangle thus did not need Morris to provide an introduction. In late October 2004, after Rattner and others from Quadrangle had already met with Loglisci and the Retirement Fund's private equity consultant and had received encouraging feedback from both of them, Morris met with Rattner and offered his placement agent services to Quadrangle. Morris warned Rattner that Quadrangle's negotiations with the Retirement Fund could always fall apart.

23. Although Quadrangle was already working with a placement agent, Quadrangle agreed to pay Morris a "fee" as well. On January 10, 2005, Quadrangle GP, which was the general partner of Quadrangle Fund II, entered into a written agreement to pay Searle, the broker-dealer with which Morris was affiliated, a sliding fee ranging from 1.1 to 1.5 percent of the amount that the Retirement Fund invested in Quadrangle Fund II above \$25 million. A few days later, Rattner e-mailed Morris to advise him that GT Brands was also moving forward with the deal to distribute the *Chooch* DVD. Approximately three weeks later, Loglisci personally informed Rattner that the Retirement Fund would be making a \$100 million investment in

Quadrangle Fund II. In March of 2005, after GT Brands had memorialized its DVD distribution deal with the production company controlled by Loglisci's brother (Chooch LLC), the Retirement Fund formally committed to purchase a \$100 million limited partnership interest in Quadrangle Fund II.

24. As a result of the Retirement Fund's \$100 million investment in Quadrangle Fund II, Quadrangle GP paid Searle purported placement fees of \$1.125 million in five installments starting on or about October 26, 2005 and continuing through at least June 2007. Searle then remitted 95 percent of these fees to Morris pursuant to Morris's arrangement with Searle. Between September 2005 and November 2007, Chooch LLC, the film production company controlled by Loglisci's brother, received approximately \$88,000 in revenue as a result of the distribution of the *Chooch* DVD.

25. Neither Rattner nor anyone else at Quadrangle or Quadrangle GP ever disclosed the *Chooch* DVD distribution agreement or Quadrangle GP's payments to Morris -- and the conflict of interest that these dealings presented -- to any member of the Comptroller's staff (other than Loglisci) or to the IAC. In April 2005, Quadrangle GP made a written disclosure to the Retirement Fund stating that it had not paid any placement agent, finder or other individual other than those referenced in a "side letter" that was drafted in connection with the Retirement Fund's investment in Quadrangle Fund II. Although the side letter disclosed Quadrangle GP's agreement to pay placement fees to Searle, neither the written disclosure nor the side letter mentioned Morris's receipt of fees, the *quid pro quo* nature of these payments, or the Quadrangle affiliate's agreement to distribute the *Chooch* DVD and the discounted terms of that distribution deal.

26. In late 2005 or early 2006, after the Retirement Fund had agreed to invest \$100 million with Quadrangle, but before the firm had completed fundraising for Quadrangle Fund II, Morris contacted Rattner and pressed him for a financial contribution to Comptroller Hevesi's re-election campaign. Although Rattner purportedly had a personal policy that he would not make political contributions to politicians who have influence over public pension funds, Rattner agreed to find someone else to make the contribution. After speaking with Morris, Rattner asked a friend and the friend's wife to each contribute \$25,000 to Hevesi's campaign, for a total contribution of \$50,000. The day after these contributions were communicated to Hevesi's campaign staff, Hevesi telephoned Rattner and left him a message thanking him for the contribution. In late May 2006, Rattner's friend transmitted the promised campaign contributions to Rattner, who forwarded the two checks to Hevesi's campaign. Approximately one month later, Loglisci made a verbal commitment that the Retirement Fund would purchase an additional \$50 million worth of limited partnership interests in Quadrangle Fund II. This commitment was memorialized on December 13, 2006.

27. As a result of the Retirement Fund's \$150 million total investment in Quadrangle Fund II, the Retirement Fund paid management fees to a Quadrangle subsidiary from 2005 through 2010. By virtue of his partnership interest in Quadrangle and its affiliates, Rattner's share of these fees totals approximately \$3 million.

CLAIM FOR RELIEF

Section 17(a)(2) of the Securities Act

28. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 27.

29. As a result of the conduct described above, Rattner directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails 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 light of the circumstances under which they were made, not misleading.

30. By reason of the foregoing, Rattner, singly or in concert, directly or indirectly, has violated, and unless enjoined will again violate, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a Final Judgment:

I.

Permanently enjoining and restraining Rattner, and his agents, servants, employees and attorneys and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, from violating, directly or indirectly, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

II.

Ordering Rattner to disgorge the ill-gotten gains he received from the violations alleged herein, and to pay prejudgment interest thereon.

III.

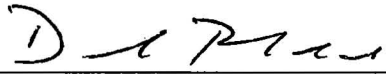
Ordering Rattner to pay civil monetary penalties pursuant to Section 20(d) of the

Securities Act [15 U.S.C. § 77t(d)].

IV.

Granting such other and further relief as the Court deems just and proper.

Dated: November 18, 2010
New York, New York

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