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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-against-

QUADRANGLE GROUP LLC and QUADRANGLE GP  
INVESTORS II, L.P.,

Defendants.

10-CV-

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint against defendants Quadrangle Group LLC ("Quadrangle") and Quadrangle GP Investors II, L.P. ("Quadrangle GP") (collectively, the "Defendants"), 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 Quadrangle, an investment management firm that specializes in private equity funds, and Quadrangle GP, the general partner of the private equity fund at issue, 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, the Defendants secured a \$100 million investment from the Retirement Fund for the Quadrangle GP private equity fund only after a former Quadrangle executive arranged for a Quadrangle affiliate to distribute the DVD of a low-budget film that Loglisci and his brothers had produced and after that executive agreed 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. Although the DVD deal and the sham “finder” fee paid to Morris created a clear conflict of interest, the Defendants 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.

3. By virtue of the foregoing conduct Quadrangle and Quadrangle GP 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)].

4. Unless Quadrangle and Quadrangle GP are permanently restrained and enjoined, they 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

5. 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 the Defendants from engaging in the acts, practices, transactions and courses of business alleged herein. The Commission also seeks a final judgment ordering the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

6. 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)]. The Defendants, directly or indirectly, singly or in concert, have 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. The transactions, acts, practices and courses of business at issue occurred in the Southern District of New York. Quadrangle and Quadrangle GP maintain their principal places of business in New York, New York. The Comptroller of the State of New York maintains an office in New York, New York, and Loglisci worked in that office during the relevant period.

## THE DEFENDANTS

7. **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.

8. **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.

**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 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 Comptroller of the State of New York, 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 scheme described in paragraph 1 above.

## **THE DEFENDANTS' VIOLATIVE CONDUCT**

### **Overview of the Scheme**

12. 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 sham "finder" or "placement agent" fees in order to obtain those investments from the Retirement Fund.

13. 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, Quadrangle arranged for a company owned by one of its affiliates to distribute the DVD of *Chooch* on discounted terms in order to help Quadrangle secure an investment from the Retirement Fund.

### **The Defendants' Dealings With Morris, Loglisci And The Retirement Fund**

14. The Defendants' dealings with Morris, Loglisci and the Retirement Fund at issue here were conducted by a former senior executive of Quadrangle, who was one of its founders and was, at the time of the conduct at issue, its coordinating managing member ("Quadrangle Executive"). As described more fully below, the Quadrangle Executive arranged for the undisclosed DVD distribution deal for the Loglisci film and the purported "finder" fee payment to Morris in order for the Defendants to obtain an investment from the Retirement Fund. The Quadrangle Executive left Quadrangle in February 2009.

15. In December 2003, Morris met with the Quadrangle Executive, 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 the Quadrangle Executive that a brother of Loglisci, whom the Quadrangle Executive knew to be a high-ranking official at the Retirement Fund, was involved in producing a low-budget film named *Chooch*. Morris specifically asked the Quadrangle Executive, 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 the Quadrangle Executive and personally made the same request. Although the Quadrangle Executive undertook to assist Loglisci's brother with respect to securing theatrical distribution for *Chooch*, those efforts did not lead to a distribution deal.

16. Approximately one year later, in the fall of 2004, Loglisci's brother again contacted the Quadrangle Executive, this time to ask him for help in securing a DVD distribution deal for *Chooch*. The Quadrangle Executive 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 distributor that was owned by one of Quadrangle's private equity funds. Also in the fall of 2004, the Quadrangle Executive 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*, the Quadrangle Executive directly contacted Loglisci with respect to the proposed Quadrangle Fund II investment. In the course of soliciting Loglisci for an investment in Quadrangle Fund II, the Quadrangle Executive discussed with

Loglisci his intention to help secure a DVD distribution deal for *Chooch*, and Loglisci thanked the Quadrangle Executive for the assistance.

17. Shortly after the foregoing discussions between the Quadrangle Executive 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 the Quadrangle Executive 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 the Quadrangle Executive to complain about the treatment he received from GT Brands, the Quadrangle Executive warned the GT Brands' chief executive officer to treat Loglisci's brother "carefully" because Quadrangle was trying to obtain an investment from the Retirement Fund through Loglisci. 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 the Quadrangle Executive 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."

18. Although GT Brands was not interested in distributing *Chooch*, the Quadrangle Executive, in an email, instructed GT Brands' chief executive officer to "dance along" with Loglisci's brother while the Quadrangle Executive 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 the Quadrangle Executive, the Quadrangle Executive 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.

19. The DVD distribution deal proved to be important. 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. The Quadrangle Executive 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*.

20. At approximately the same time that the Quadrangle Executive arranged for GT Brands to distribute the *Chooch* DVD, the Quadrangle Executive also caused Quadrangle to retain Morris as a "placement agent" even though the Quadrangle Executive was already dealing directly with Loglisci and Quadrangle thus did not need any placement services. In late October 2004, after 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 the Quadrangle Executive and solicited a purported "finder" fee from Quadrangle. Morris warned the Quadrangle Executive that Quadrangle's negotiations with the Retirement Fund could always fall apart.

21. Although Quadrangle was already working with a placement agent, the Quadrangle Executive 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. A few days later, the Quadrangle Executive 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 the Quadrangle Executive 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.

22. As a result of the Retirement Fund's \$100 million investment in Quadrangle Fund II, Quadrangle GP paid Searle a total of \$1.125 million from October 2005 through June 2007 in purported placement fees, 95 percent of which went 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.

23. Neither the Quadrangle Executive 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. As a result of these efforts, the Retirement Fund made investments in Quadrangle Fund II resulting in the payment of approximately \$5 million in management fees pursuant to the limited partnership agreement with Quadrangle GP.

### **CLAIM FOR RELIEF**

#### **Violations of Sections 17(a)(2) of the Securities Act**

24. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 23.

25. As a result of the conduct described above, Quadrangle and Quadrangle GP, 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.

26. By reason of the foregoing, Quadrangle, and Quadrangle GP, singly or in concert, directly or indirectly, have 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 Quadrangle, Quadrangle GP, and their agents, servants, employees and attorneys and all persons in active concert or participation with them

who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating, directly or indirectly, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

**II.**

Ordering Quadrangle and Quadrangle GP to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

**III.**

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

Dated: April 15, 2010  
New York, New York

By:



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