

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 :
LETITIA JAMES, Attorney General of the State of :
New York, :

VERIFIED COMPLAINT

Plaintiff,

: Index No.:

v.

LAURENCE G. ALLEN, ACP INVESTMENT
GROUP, LLC, NYPPEX HOLDINGS, LLC, ACP
PARTNERS X, LLC, and ACP X, LP,

Defendants,

- and -

NYPPEX, LLC, LGA CONSULTANTS, LLC,
INSTITUTIONAL INTERNET VENTURES, LLC,
EQUITY OPPORTUNITY PARTNERS, LP and
INSTITUTIONAL TECHNOLOGY VENTURES,
LLC,

Relief Defendants.

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Plaintiff, the People of the State of New York, by Letitia James, Attorney General of the State of New York (the “Attorney General” or the “OAG”), alleges the following against: (a) Defendants Laurence G. Allen, ACP Investment Group, LLC, NYPPEX Holdings, LLC, ACP Partners X, LLC, and ACP X, LP (together, the “Defendants”); and (b) Relief Defendants NYPPEX, LLC, LGA Consultants, LLC, Institutional Internet Ventures, LLC, Equity Opportunity Partners, LP, and Institutional Technology Ventures, LLC (together, the “Relief Defendants”).

NATURE OF THE ACTION

1. Defendant Laurence G. Allen is the Chief Executive Officer of a 15-person broker-dealer (NYPPEX, LLC) owned by NYPPEX Holdings, LLC (“NYPPEX”), which he founded more than 20 years ago. The broker-dealer specializes in transfer administration services—matching buyers and sellers and transferring securities between them—for private partnership interests offered on the secondary market. Allen controls NYPPEX and the broker-dealer, which are effectively the same company, and is responsible for every aspect of their business operations.

2. With Allen at the helm, NYPPEX has consistently lost money, underperformed, and failed to meaningfully grow. Allen directly oversaw NYPPEX’s corporate stagnation and failed to lift the company into profitability. All the while, Allen exploited the finances of the company for his personal gain, paying himself a salary dramatically out of line with NYPPEX’s performance.

3. To compensate for his failures at NYPPEX, Allen turned to ACP X, LP (“ACP”), a private equity fund he launched in 2004 that was scheduled to wind down by December 31, 2018. Allen represented to investors that ACP would invest primarily in discounted private equity interests on the secondary market, including interests sourced through Allen’s broker-dealer, and that investors could expect prompt and consistent distributions from the fund.

4. In the ACP offering documents Allen spelled out the permissible scope of the fund's relationship with affiliates, such as the broker-dealer, to account for conflicts of interest associated with Allen's overarching control and ownership of entities responsible for managing ACP and sourcing many of the fund's investments.

5. The offering documents limited transactions between Allen's affiliated entities, providing that ACP could compensate the affiliates for services provided but that Allen, as the managing principal of the fund's general partner, could not "actively participate in the day-to-day operations" of any of ACP's portfolio investments. To that end, the offering documents do not disclose or contemplate an investment by ACP into any of its affiliates.

6. In 2008, when Allen saw NYPPEX's cash flow tightening and his ability to pay himself threatened, he began abusing his unchecked control over ACP's accounts to divert millions of dollars of the fund's money directly to NYPPEX, in violation of the offering documents, the representations made to ACP investors, and his fiduciary duties.

7. Allen leveraged his control over an enterprise of corporate affiliates and commenced a decade-long effort to take from ACP in order to enrich himself and NYPPEX at the expense of ACP investors. Allen perpetrated his fraudulent scheme in a variety of ways that he concealed from and materially misrepresented to investors.

8. Allen funneled nearly \$6 million in ACP returns directly to NYPPEX in the form of investments. Allen used the money ACP invested to both pay his own NYPPEX salary and stop NYPPEX from going under. Allen failed to accurately disclose the terms and nature of these transactions to ACP investors.

9. Since 2008, Allen has invested approximately \$5.7 million from ACP into NYPPEX; during that same period, Allen paid himself \$5.7 million in salary from NYPPEX,

concretely demonstrating that the primary beneficiary of Allen's decision to compel ACP to invest in NYPPEX was Allen himself.

10. Allen further sought to cover up his fraud by reporting inflated valuations of NYPPEX securities to ACP's investors, valuations that he himself determined and that failed to account for NYPPEX's stagnant revenue and dependence on ACP. The disclosures were intended to obscure the true value of ACP's investment in NYPPEX and to lull ACP's investors into believing ACP's investment in NYPPEX was performing well when, in reality, it was not. When confronted with questions from investors about the conflicted and suspicious nature of the investments in NYPPEX, and the valuation of NYPPEX, Allen refused to respond to the inquiries and ultimately threatened certain investors with personal liability should they continue to seek information.

11. Not satisfied with the substantial sums he diverted from ACP to invest in NYPPEX, in 2013 Allen fraudulently began to distribute what he characterized as carried interest—*i.e.* profits over and above certain investor distribution hurdles—in ACP to himself, depriving investors of distributions to which they were entitled. Through omissions and misleading disclosures, Allen manipulated investors into approving amendments to ACP's operating agreement and then, leveraging the results of his scheme, unlawfully distributed at least \$3.4 million to himself and entities under his control.

12. Finally, in direct violation of the terms of ACP's partnership, Allen caused ACP to pay for millions of dollars in NYPPEX's operating expenses, even though such payments were expressly prohibited. Allen did not disclose the true nature and significance of these payments to investors.

13. Although ACP, NYPPEX, and the other of Allen's affiliated companies are separate in corporate form, Allen has, through his domination and control of Defendants and Relief Defendants, merged the companies into a single fraudulent enterprise. Allen exploited his access to ACP, his control over NYPPEX, the fund's general partner, and the fund's investment adviser, and the lack of any oversight of his activities, to raid ACP's accounts, pay himself handsomely, and prop up his other ventures.

14. The Attorney General's investigation preceding this complaint did not deter Allen from continuing to engage in persistent fraudulent activity. In March 2019, after the Attorney General commenced a pre-action proceeding and secured a preliminary injunction pursuant to General Business Law § 354 restraining Allen's access to ACP's bank and brokerage accounts, Allen commenced efforts to quickly raise capital for NYPPEX from outside sources. The solicitations advised potential investors that NYPPEX planned to raise new capital "to finance [NYPPEX's] 2019 growth plans" but made no mention of the injunction or 354 proceeding—in which NYPPEX was a party—or the Attorney General's investigation.

15. Allen also advised the Attorney General during the investigation that he intended to raise \$10 million dollars for NYPPEX from investors and direct up to \$3 million of those funds to buy out ACP's position in NYPPEX. Summaries of the recent NYPPEX offering omitted any reference to Allen's plan to use capital raised to buy back shares from ACP. Left unchecked, Allen will continue to move money into NYPPEX to benefit himself and conceal his previous misconduct.

16. Allen and the corporate entities he controlled manipulated investors through a web of misrepresentations and omissions. In doing so, Allen and the corporate Defendants violated the Martin Act, Executive Law § 63(12), and their fiduciary duties, and engaged in a decade-long

fraud on the investors of ACP. To date, Allen has looted ACP of more than \$13 million. There is a high likelihood that unless immediately enjoined, Defendants will continue to engage in the fraudulent practices the Attorney General has identified, irreparably harming investors.

17. In light of the foregoing, and as set forth herein, the Attorney General seeks to permanently bar Allen from engaging in the offer or sale of securities in the State of New York, to obtain damages, restitution and disgorgement on behalf of investors in ACP and the State of New York, and to appoint a receiver to wind down ACP.

PARTIES

18. Plaintiff brings this action by and through Attorney General Letitia James.

19. As the State of New York's chief legal officer, the Attorney General brings this action pursuant to her *parens patriae* authority. Where, as here, the interests and well-being of the people of the State of New York are implicated, the Attorney General possesses *parens patriae* authority to commence legal actions for violations of state law. The State of New York has a sovereign and quasi-sovereign interest in upholding the rule of law, in protecting the economic well-being of its residents and, with specific reference to the present action, in ensuring that the marketplace for securities and other financial products functions honestly and fairly with respect to all who participate or consider participating in it.

20. Defendant Laurence G. Allen ("Allen") is a resident of Connecticut who has been working in the financial services field since at least 1985. Allen is a registered broker with the New York Department of Law. At all relevant times, Allen controlled and continues to control each of the corporate Defendants and Relief Defendants.

21. Defendant ACP X, LP (“ACP”) is a Delaware limited partnership with its principal place of business in Rye Brook, New York. ACP is a private equity fund that does business within and from the State of New York. “ACP” stands for Allen Capital Partners.

22. Defendant ACP Investment Group, LLC (the “Investment Adviser”) is a Connecticut limited liability company with its principal place of business in Rye Brook, New York that is an investment adviser registered with the Securities and Exchange Commission. ACP Investment Group, LLC is the investment adviser to ACP and offers investment advice within and from the State of New York. Allen is also the managing principal of the Investment Adviser. The Investment Adviser owns 100 percent of Defendant ACP Partners X, LLC.

23. Defendant ACP Partners X, LLC (the “General Partner”) is a Delaware limited liability company with its principal place of business in Rye Brook, New York. ACP Partners X, LLP is the general partner of ACP and manages ACP within and from the State of New York. Allen is the managing member and managing principal of the General Partner.

24. Defendant NYPPEX Holdings, LLC (“NYPPEX” or the “Company”) is the parent company to, and owns 100 percent of, the Investment Adviser and Relief Defendant NYPPEX, LLC, *infra*. NYPPEX has engaged in the offering and selling of securities within and from the State of New York. Allen is the Chief Executive Officer and managing member of NYPPEX.

25. Relief Defendant NYPPEX, LLC is a broker-dealer (the “Broker-Dealer”) registered with the New York Department of Law with its principal place of business in Rye Brook, New York. The Broker-Dealer specializes in transfer administration services for interests in private funds, special purpose vehicles, trusts, and unregistered securities in private companies and their respective derivative instruments on the secondary market.

26. Relief Defendant Institutional Internet Ventures, LLC is a Delaware limited liability company. Upon information and belief, the principal place of business of Institutional Internet Ventures, LLC is in Rye Brook, New York. Allen owns more than 50 percent of the interests in NYPPEX through Institutional Internet Ventures, LLC.

27. Relief Defendant LGA Consultants, LLC, of which Allen is the managing member, is a Delaware limited liability company with its principal place of business in Rye Brook, New York. Allen holds interests in, and provides services to, certain of the Defendants and Relief Defendants through LGA Consultants, LLC.

28. Relief Defendant Equity Opportunity Partners, LP, is a Delaware limited partnership with its principal place of business in Rye Brook, New York.

29. Relief Defendant Institutional Technology Ventures, LLC is a Delaware limited liability company. Upon information and belief, the principal place of business of Institutional Technology Ventures, LLC is Rye Brook, New York.

30. Each of the corporate Defendants and Relief Defendants share the same office, equipment, and employees in Rye Brook, New York.

31. Allen exercises complete domination and control over each of the Defendants and Relief Defendants. The corporate Defendants and Relief Defendants are Allen's alter egos. Allen controlled the financial accounts of all Defendants and Relief Defendants and used those accounts to effect the schemes alleged herein.

JURISDICTION AND VENUE

32. The Court has jurisdiction over the subject matter of this action, personal jurisdiction over the Defendants and Relief Defendants, and authority to grant the relief requested

pursuant to General Business Law § 352 *et seq.* (the “Martin Act”), Executive Law § 63(12), and the common law.

33. The Attorney General is authorized to bring this action and to assert the causes of action set forth below pursuant to the Martin Act, Executive Law § 63(12), and under the common law.

34. Substantially all of Allen’s misconduct and misrepresentations took place within or from the State of New York.

35. Pursuant to C.P.L.R. §§ 503 and 505, venue is proper in New York County because Plaintiff, a public authority, maintains her office in this county.

PROCEDURAL HISTORY

36. On December 20, 2018, the Attorney General obtained a court order pursuant to General Business Law § 354 (the “354 Order,” Index No. 452346/2018) that required Allen and other Defendants and Relief Defendants to produce documents and appear for examinations. The 354 Order also imposed preliminary injunctive relief preventing Allen from making distributions from ACP, except to ACP’s limited partners on a pro rata basis, and prohibited Allen from making distributions to himself, his family members, or any corporate entity that he controlled or in which he had an ownership interest. The 354 Order restrained the accounts of the Investment Adviser, the General Partner, and ACP to prevent Allen from further dissipating ACP’s assets.

37. The 354 Order does not restrain or otherwise enjoin the accounts of any other Defendants or Relief Defendants, including Allen’s personal accounts and assets.

FACTUAL ALLEGATIONS

I. Allen Founded, Managed and Controlled NYPPEX

38. NYPPEX is a 15-person private company that Allen founded in 1998. Shares of NYPPEX are highly illiquid. Upon information and belief, Allen has not offered, and the Company has not sold, any of its shares to outside, unaffiliated parties since 2009.

39. NYPPEX does not generate any independent revenue, and is effectively the same company as the Broker-Dealer; revenue from the Broker-Dealer is transferred to NYPPEX, and NYPPEX manages the affairs of the Broker-Dealer. NYPPEX pays Allen's salary, as well as those of the Broker-Dealer's employees. Allen exercises total control over the business decisions, management, and development of NYPPEX, receives a commission from every transaction the Broker-Dealer facilitates, and is ultimately responsible for every facet of the Company's operations. Allen possesses the exclusive authority to enter into agreements on behalf of NYPPEX, hire and fire employees, establish employee compensation, and allocate Company resources, including capital and staff.

40. Under Allen's stewardship, NYPPEX has consistently lost money and has been largely unprofitable since its founding, with only one profitable year since 2008:

NYPPEX'S REVENUE, PROFITS AND LOSS

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actual Revenue*	\$2.2	\$1.5	\$2.4	\$2.7	\$3.5	\$4.2	\$1.4	\$1.5	\$2.3	\$3.3
Operating Profit/(Loss)*	(\$2.3)	(\$2.7)	(\$1.4)	(\$0.7)	(\$0.2)	\$0.0	(\$1.4)	(\$0.7)	(\$0.8)	\$1.3

* in millions

41. In 2017, Allen caused NYPPEX and the Investment Adviser to merge. The Investment Adviser is now a subsidiary of NYPPEX. NYPPEX's 2017 profit stemmed from the consolidation of the Investment Adviser's assets into NYPPEX. In turn, the Investment Adviser

derived a vast majority of its revenue from management fees paid by ACP and other distributions from ACP's accounts.

42. NYPPEX's most significant operating costs are compensation and benefits. Allen's salary is NYPPEX's single largest expense.

43. Though Allen claimed for years that NYPPEX has been on the verge of monetizing an online trading "platform" used in connection with the Broker-Dealer's trading activities, the Company has failed to realize any revenue from the tool. Users of the platform do not pay an access fee, the Company does not collect licensing fees, and the Company owns no patents on its products. Users still complete trades offline with the assistance of registered Broker-Dealer representatives, the Company employs no software developers and has no technology officer. As has been the case since Allen founded NYPPEX 20 years ago, the Company's revenue is limited to commissions generated through its broker-dealer activities.

44. Notwithstanding the Company's losses, inability to generate profit-sustaining income, and failure to create an online trading platform, Allen awarded himself annual compensation from NYPPEX that regularly exceeded \$400,000 and has reached more than \$900,000 in recent years. For example, in 2016, Allen paid himself \$909,000 from NYPPEX, although that same year the Company generated revenues of only \$2.3 million and incurred \$870,000 in operating losses.

45. Like at NYPPEX, Allen controls all substantive decisions of the Investment Adviser, including all investment recommendations made to clients. The Investment Adviser's only advisory clients are a handful of private funds that it sponsors, the largest of which is ACP, for which it has received millions of dollars in management and incentive fees. Allen controls each

of the Investment Adviser's sponsored funds through his control of the Investment Adviser and the funds' respective general partners.

46. All employees of the Investment Advisor and General Partner are also employees of NYPPEX.

II. Allen Launched ACP in 2004 and Managed Its Investments

47. Allen launched ACP in 2004 ostensibly to allow investors an opportunity to invest in other private equity funds available for a discount on the secondary market. Approximately 75 investors ("Limited Partners") collectively purchased nearly \$17 million in securities from ACP in the form of limited partnership interests.

48. ACP's Private Placement Memorandum ("PPM") represented that the fund would create a diversified portfolio of private equity interests through acquisitions on the secondary market and would make cash distributions to its partners within the first year of its final closing in 2008. The terms of the ACP partnership (the "Partnership") are set forth in the PPM, the Limited Partnership Agreement ("LPA"), and amendments to the LPA.

49. The PPM represented the core objectives and strategy of ACP as follows:

- "The Partnership is being formed to make investments in private equity interests through special situation secondary transactions. ACP believes that special situation secondary private equity provides significant benefits as compared to traditional primary and secondary private equity, namely superior returns with less risk."
- "The Partnership's primary objective is to assemble a portfolio of private equity fund interests at a low cost basis, by providing a comprehensive menu of liquidity-related services to special situation transactions; and thereby, achieve superior returns with less risk for comparable quality holdings."
- "The Partnership will seek to acquire established private equity partnerships at a point in time when the nonperforming assets have been written off, yet the performing assets are still held at conservative valuations, often times at cost. A basket of growing, conservatively

valued private equity assets, having a limited holding period, acquired at a discount to the stated market valuation, provides investors with a cushion of value and reduced risk.”

- “The Partnership will seek to acquire interests in established private equity partnerships, which protects investors from this highest risk period. ACP believes that this also provides for the opportunity to better analyze asset valuations and the risk/return profile of a seasoned basket of assets.”
- “[T]he Partnership expects to begin generating distributions to investors, on average, within 12 months of an investment made by the Partnership. Over time, the Partnership expects to generate distributions on a semi-annual basis, providing consistent cash flow to investors over the life of the Partnership.”

50. Allen, directly and through employees acting at his direction, represented to investors that ACP would operate as a “fund-of-funds,” investing in other established private equity funds that Allen identified, through the Broker-Dealer, were available for a discounted price on the secondary market and which had more immediate upside compared to interests acquired through a fund’s initial launch. Although the PPM permitted ACP to invest in certain private companies, purchasing interests in other funds on the secondary market was supposed to drive the fund’s investment strategy. As one investor wrote to Allen in September 2011: “I am most desirous to start to see distributions resume especially as realizations occur. One of the reasons I bought this investment was that most of the underlying partnerships were of an age and nature that realizations should start to occur so that cash flow could be received each year after all capital had been called.”

51. Through his control of both the Investment Adviser and General Partner, Allen made all decisions for ACP, including which investments to make, when to exit and realize investments, and when to write-off investments.

52. The General Partner and the Investment Adviser are fiduciaries to ACP and owe fiduciary duties to Limited Partners. Allen also owes fiduciary duties to Limited Partners as the alter ego of the General Partner and the Investment Adviser. The fiduciary relationships between the General Partner, the Investment Adviser, and Allen on the one hand, and Limited Partners on the other, have been ongoing since ACP's inception.

III. The PPM Prohibited ACP From Investing in NYPPEX

53. Investors understood, and NYPPEX employees emphasized when offering subscriptions in ACP, that the fund's value would be derived from secondary purchases of private equity partnership interests through its access to the Broker-Dealer.

54. The PPM represented that although the fund might rely on the Broker-Dealer to facilitate ACP's investments, ACP could not invest in any private company that Allen controlled or managed. In particular, the PPM stated: "The General Partner will not actively participate in the day-to-day operations of a Portfolio Investment."

55. The PPM further provided:

[A]lthough the Partnership may be represented on certain advisory boards of Portfolio Funds and Companies, the Partnership will not be able to participate in the management and control of the Portfolio Funds and Companies. *The Partnership will not have an active role in the day-to-day management of the Portfolio Funds and Companies.* (Emphasis added.)

56. The LPA disclosed the permissible scope of transactions between ACP and its affiliates in Section 2.09 "Transactions with Affiliates," a provision identical to the PPM's disclosure of "Certain Activities of ACP and its Affiliates." While compensation for services provided by affiliates was permitted, neither the LPA nor the PPM disclosed or contemplated an *investment* by ACP in one of its affiliates, much less an entity completely controlled by Allen. NYPPEX Holdings, LLC is not referenced in the PPM or LPA.

57. Limited Partners relied upon the PPM and LPA and reasonably expected that Allen, the General Partner and the Investment Adviser, all fiduciaries to the investors, would adhere to their terms.

58. During the first few years after ACP launched, Allen made investments in long-running, established private equity funds and quickly realized certain of those investments for a profit.

59. However, in 2008, with NYPPEX facing a cash flow shortage, Allen caused ACP to begin directly investing in NYPPEX, violating the PPM, his fiduciary duties, and the representations made to ACP's investors. Allen then commenced a decade of taking from ACP to enrich himself and his corporate interests.

60. Allen misappropriated the assets of ACP for his personal and professional benefit in multiple ways, primarily through (a) investing ACP's proceeds into NYPPEX; (b) misappropriating distributions of purported carried interest; and (c) improperly paying NYPPEX's operating expenses by taking additional funds from ACP. The ACP assets that Allen misused for his own purposes belonged to Limited Partners, and should have been distributed to them accordingly.

IV. Allen Invested ACP's Assets in NYPPEX and Perpetrated a Fraud on Investors

61. In October 2008, at the height of the financial crisis, Allen used proceeds of realizations from other, profitable investments the fund previously made to invest approximately \$1.25 million of ACP's assets into NYPPEX. This investment was in violation of the PPM provisions barring ACP from investing in companies Allen controlled (*see, supra*, ¶¶ 54-55), and conflicted with the fund's disclosed investment strategy and objectives.

62. NYPPEX generated only \$2.2 million in revenue and incurred a \$2.3 million operating loss in 2008. NYPPEX's poor performance then repeated year after year as Allen continued to transfer ACP proceeds into the Company to keep it afloat.

63. Over the course of the next 10 years, Allen transferred millions of dollars from ACP into NYPPEX. To date, ACP has invested more in NYPPEX than in any other single investment the fund made by more than \$3 million. Other funds that Allen manages and controls also invested heavily in NYPPEX.

64. Since 2008, Allen has invested approximately \$5.7 million from ACP into NYPPEX; during that same period, Allen paid himself nearly \$5.7 million in salary from NYPPEX.

65. Allen's continued multi-million dollar investments rendered the representations in the PPM that ACP would invest primarily in low-risk, secondary private equity interests materially false and misleading.

66. Allen has not solicited any outside capital or financing for NYPPEX since 2009, and ACP is NYPPEX's largest investor by millions of dollars. NYPPEX has not generated any positive return on ACP's investment.

67. Allen also drafted sham transaction documents related to ACP's investments in NYPPEX to add legitimacy to the prohibited transactions if ever questioned. For instance, when the Attorney General asked Allen to provide evidence of a 2017 credit facility agreement between ACP and NYPPEX, Allen produced multiple executed "agreements" that contained inconsistent signatures, varying draw-down amounts, and different dates on which NYPPEX purportedly accessed the line of credit.

68. ACP's investments into NYPPEX allowed Allen to personally benefit from both ends of the transactions by (i) taking fees from ACP for "managing" ACP's investment in the Company, and (ii) using the proceeds of the investments to enrich himself in the form of his substantial NYPPEX salary and the continued operation of his business.

A. Allen Invested Heavily in NYPPEX During ACP's Wind-Down

69. Pursuant to the terms of the Partnership, as amended, ACP was scheduled to complete its wind-down on or before December 31, 2018. Wind-down of the fund entailed the General Partner selling off fund assets and distributing the proceeds, winnowing the portfolio down slowly until all assets were sold, written off, or distributed in-kind to investors.

70. From 2013 through the middle of 2018, the General Partner disclosed to Limited Partners in quarterly reports and notices that ACP had entered its wind-down period. During this time Allen, through the General Partner, represented in written reports to investors that he was in the process of selling off ACP assets to "help facilitate the wind down of the Partnership," and, beginning in 2014, would "make a reasonable best effort to exit remaining holdings in the Portfolio at prices deemed acceptable by the General Partner and make cash distributions to Limited Partners."

71. Notwithstanding Allen's representations, Allen continued heavily investing ACP funds into NYPPEX, transferring approximately \$4 million more into the Company during ACP's final years. Instead of exiting positions and returning capital to Limited Partners, Allen made investments in NYPPEX from ACP proceeds in each of 2014, 2015, 2016, and 2018, investing at least \$500,000 in March 2018.

72. For instance, in December 2017, one year before ACP's term was to end, Allen caused ACP, as lender, to enter into a \$1 million credit facility agreement with NYPPEX, as

borrower. As with prior investments, Allen sat on all sides of the transaction and did not utilize any controls or processes to avoid the inherent conflicts of interest attendant to the investment.

73. Upon information and belief, Allen has drawn down the entire \$1 million line of credit, though he has only advised investors of accessing \$700,000. Allen did not disclose the loan to Limited Partners until approximately September 2018, nine months after initially closing the transaction.

74. Allen also retained cash and liquid securities in ACP's accounts during the wind-down instead of distributing the proceeds to investors. Allen did so to ensure that if NYPPEX needed additional capital infusions, ACP would be able to provide capital.

75. Allen's recent investments in NYPPEX also directly conflicted with representations he made to investors during a July 2015 conference call. During the call, Allen told Limited Partners that investments made during ACP's wind-down period would be for specific, limited purposes. He explained:

The point we're making here is a disclosure point that although we're in a wind down period that there are certain holdings that we have, for example, private partnership interests, that might have uncalled commitments where we're obligated to make the capital call, so you might see us making certain investments during this time period over the next four years, even though we're in a wind down period. We just want to disclose that to you and make sure everybody understands that.

76. ACP had no such capital call obligation for NYPPEX, yet Allen invested substantial ACP assets in NYPPEX during the wind-down period. This rendered Allen's representations on the July 2015 conference call false and misleading. During the call Allen did not disclose that in or about June 2015, one month prior, he executed two subscription agreements obligating ACP to invest to invest an additional \$1.65 million of ACP's money into NYPPEX, a material fact of

which he did not advise investors until sometime in 2016, when they received copies of ACP's quarterly report.

77. In the absence of public demand for NYPPEX shares, which has not previously materialized, it is very possible that ACP's shares will be rendered essentially worthless, to the detriment of Limited Partners, materially diminishing the net asset value of the fund.

B. Allen Made Material Misrepresentations to, and Withheld Material Information from, ACP Investors

i. Allen Misrepresented How ACP Would be Managed

78. Allen misrepresented how the General Partner and Investment Adviser would manage the fund.

79. The PPM disclosed that other members of the General Partner and Investment Adviser would substantively participate in managing ACP. While the General Partner and Investment Adviser do technically have members apart from Allen, Allen is, and at all relevant times has been, the General Partner's and Investment Adviser's sole decision maker.

80. Although the PPM identifies five (5) members of the ACP Investment Committee "which will formulate investment guidelines for the Partnership and approve investments," apart from Allen none of the other individuals identified ever had any role in the investment decisions of ACP.

81. Further, although quarterly and annual reports to investors identified NYPPEX as an "affiliate" of ACP in a footnote, Allen omitted any reference to the fact that he managed NYPPEX's day-to-day operations, and that he used substantial amounts of the proceeds from ACP's investments to pay his own salary at the Company.

82. To further facilitate his fraud, Allen purposefully delayed sending quarterly reports to investors that disclosed ACP's holdings, depriving Limited Partners of timely information concerning Allen's use of fund proceeds to invest in NYPPEX.

83. For instance, in June 2014 Allen invested at least \$1 million of ACP's money from realizations of other fund investments and made a follow-on investment into NYPPEX. Allen should have disclosed the investment in the Second Quarter 2014 report sent to Limited Partners. Instead, Allen waited until November 2015 to disclose the transfer, one and half years later.

84. Allen also failed to distribute audited financials to Limited Partners in a timely manner, notwithstanding the requirement in the LPA that the General Partner do so "[a]s soon as practicable after the end of each fiscal year." The audited financials included material information about the ACP's investments in NYPPEX and how Allen would address the conflicts of interest associated with those investments.

85. For example, Allen did not complete the 2010 ACP audited financials until May 30, 2013, nearly two and half years after the end of the 2010 fiscal year. The 2011 audited financials were not complete until July 2013, the 2014 audited financials were not complete until February 29, 2016, and the 2016 audited financials were not complete until May 2018. Limited Partners have to date not received audited financial statements for 2017 or 2018.

86. Certain Limited Partners expressed concerns about ACP's failure to respond to basic inquiries about investments, the expectation for exit, and the calculation of certain fees and expenses.

87. For example, a Limited Partner emailed the General Partner in February 2017: "I would appreciate hearing from you or (Allen) with an explanation of why the reporting is so infrequent and out dated. Also, are there any plans to conduct another call to explain what is

happening. I remain concerned about the liquidity of the portfolio, particularly the ‘private deals.’”

Neither Allen nor representatives of the General Partner responded to such questions.

ii. Allen Used ACP Proceeds to Preferentially Redeem At Least One Investor

88. As a result of Allen’s issues in managing ACP, some investors requested that the General Partner buy out their interests in ACP. In 2017, two Limited Partners sought liquidity for their interests. Allen responded:

We cannot redeem your investment as per the terms of the operating agreement of ACP X. ACP X is a private equity partnership (and not a hedge fund some of which redeem investments). Otherwise, we would have to provide the same opportunity to all LPs.

89. Allen’s response omitted material information concerning his prior practice of giving preferential treatment to certain Limited Partners.

90. In 2014, a Limited Partner demanded that Allen redeem its Partnership interests (“Limited Partner 1”) or it would proceed with filing a complaint about Allen’s mismanagement of ACP.

91. Limited Partner 1 hired counsel and made a formal books and records demand, specifically requesting a full list of Limited Partners.

92. To avoid the filing of complaint and further inquiries from Limited Partner 1, Allen ultimately bought out Limited Partner 1 in mid-2014 for approximately \$712,000. Allen satisfied Limited Partner 1’s redemption using ACP assets by wiring cash from an ACP bank account directly to Limited Partner 1.

93. Allen did not offer any other Limited Partner the redemption opportunity he granted to Limited Partner 1, nor did he disclose the redemption or the source of the funds used to complete the transaction to other investors in ACP.

94. To the contrary, Allen concealed his buy-out of Limited Partner 1 in disclosures to Limited Partners. Allen combined the \$712,000 redemption price with the total amount of distributions to Limited Partners when he disclosed the information in the 2014 audited financials, consolidating the disproportionate payment to Limited Partner 1 with the pro rata distributions made to the remaining investors.

iii. Allen Misrepresented Conflicts of Interests Policy to Investors

95. Allen also misrepresented the process he claimed the General Partner implemented to protect the Partnership against conflicts of interest arising in connection with “affiliated” investments.

96. Allen disclosed in quarterly and annual reports that he put in place strict procedures to ensure the propriety of “affiliated” investments, such as those in NYPPEX. Those processes purportedly included the formation of a committee to evaluate the merits of any affiliated investment and to ensure the best interests of the Partnership were represented in the transaction, as well as the execution of a certification memorializing the terms and rationale for the investment were it ultimately made.

97. In practice, however, neither the General Partner nor the Investment Adviser—themselves nothing more than Allen represented in corporate form—ever formed any actual committee and the certifications Allen referenced were fraudulent.

98. Although internal documents identified NYPPEX employees as committee “members,” that designation was a sham. The “committees” held no meetings, followed no agenda, took no minutes, and held no votes.

99. Allen created a paper trail of internal, self-serving certifications that he caused various NYPPEX employees to execute in his effort to legitimize ACP’s investments in NYPPEX.

100. Allen did this to create the impression that the decision to invest was the product of substantial consultation and ultimate agreement among members of the General Partner.

101. In truth, the employees had no actual role in evaluating ACP's investments in NYPPEX and no authority or discretion to stop such transactions, as such decisions resided entirely with Allen.

102. Allen used the certifications—referred to as “CYA” certifications by at least one employee—as leverage by forcing employees to sign the documents as a condition of their employment, including as stated terms in their employment agreements. Employees believed that if they did not sign the certifications they would be fired or that their compensation would be withheld.

103. Allen gave the certifications to auditors and government agencies as evidence of the purported consensus among members of the General Partner to invest ACP's money into NYPPEX.

C. Allen Fraudulently Inflated the Valuation of NYPPEX

104. Allen presented inflated and fraudulent valuations of NYPPEX to investors and did not adhere to the valuation methodology disclosed to investors in the PPM, LPA, audited financials or ACP quarterly reports.

105. The PPM disclosed that the General Partner would value non-freely tradeable securities, such as shares in NYPPEX, as follows: “All other non-freely tradeable securities will be initially valued at cost, with subsequent adjustments to values that reflect selected comparable

investments, third party transactions in the private market, or third party appraisals.” The LPA disclosed the same valuation method.

106. ACP’s audited financials further specified how the General Partner, *i.e.* Allen, would mark ACP’s holdings in private companies: “For securities in private companies, our fair values follow the implied valuations for such companies based on (i) a closing for their most recent capital round or (ii) a scheduled closing for a subsequent capital round if we deem the company has a credible track record attaining closings.”

107. Quarterly reports to investors from at least as early as 2009 likewise disclosed that private companies would be valued using capital rounds, selected comparable investments, third party transactions in the private market, or third party appraisals.

108. Instead of adhering to the valuation methodology provided to investors, Allen valued NYPPEX using his own internal analysis that did not take into account any of the disclosed valuation metrics.

109. Allen created analyses, without substantive assistance from other employees or independent parties, reflected in one-page documents called “Fair Valuation Analyses” (“FVA”) to value NYPPEX’s per share price and total valuation. Allen then relied upon the analyses when reporting the value of ACP’s shares in NYPPEX to Limited Partners in quarterly and annual reports and incorporated the information into audited financials. Allen did not provide the analyses themselves to investors.

110. The Fair Valuation Analyses reference, among other things, NYPPEX’s past revenues, expenses, and earnings as well as projected future revenues and profits. Allen selected all data metrics used in the analyses. The FVAs did not rely upon a recognized or consistent valuation methodology, lacked an objective basis, ignored material facts including two decades of

NYPPEX's operating history, and were based upon unachievable future revenue and corporate growth.

111. Neither did the analyses take into account the valuations of comparable companies. Instead, Allen relied upon metrics from companies that bore no resemblance to the market capitalization, business objectives, growth strategy, employee headcount, revenue history, or capital rounds of NYPPEX. For example, in an effort to provide credibility to his valuations to outside parties, including ACP's auditor, Allen falsely compared NYPPEX to growth stage financial technology firms that generated increasing revenue derived from disruptive technology products, even though NYPPEX had been in business for 20 years and had not developed any such product.

112. Allen's analyses projected revenue growth that routinely tripled or quadrupled NYPPEX's revenues year-over-year, from \$2 million to \$7 million to \$14 million. Over NYPPEX's 20-year history, it never generated, or came close to generating, revenue in line with Allen's forecasts, although Allen valued NYPPEX as high as \$75-100 million in recent years.

113. The revenue projections from the 2013 and 2015 FVAs are below, compared to the actual revenue NYPPEX earned during the relevant period:

2013 FVA

	2013	2014	2015	2016
PROJECTED*	N/A	\$15.1	\$24.5	\$39.2
ACTUAL*	\$4.2	\$1.4	\$1.5	\$2.3

2015 FVA

	2015	2016	2017	2018
PROJECTED*	N/A	\$7.5	\$14.5	\$24.3
ACTUAL*	\$1.5	\$2.3	\$3.3	\$1.1

*in millions

114. As CEO of NYPPEX, Allen knew that the Company's actual business prospects could not reasonably result in the projected outcomes reflected in his valuation models, yet he failed to adjust the projections to account for NYPPEX's continued poor performance and losses.

participated in Early Withdrawal redemptions received more than they were actually entitled to, to the detriment of Limited Partners that elected to forego the redemption opportunity. Certain Limited Partners therefore redeemed out of ACP at an inflated NAV, diluting the remaining investors' interests.

120. Allen advised Limited Partners that remained fully invested in ACP that they would purportedly benefit more from an increase in ACP's value, anchored by the fund's disproportionate investment in NYPPEX, because their partnership interests grew as other investors partially exited the fund.

121. In March 2017, a Limited Partner requested information about the valuation of the underlying assets, and explained its need to understand that information before deciding whether to elect to participate in the Early Withdrawal opportunity. The partner stated in an email: "I'd like to exercise my right as an investor to understand the valuations. The fund is down to a hand full of key holdings in individual companies. If the fund can explain, we value company ABC at X for these reasons *then I can decide if I want an early withdrawal or not.*" (Emphasis added.)

122. Allen responded in an email that, "for privately held company holdings" such as NYPPEX, "we generally use the valuation implied from its last capital round. If it has been awhile since the last capital round, then we adjust the valuation based on company's performance for the recent year and its prospects ahead." Allen's valuation of NYPPEX, however, did not actually account for the Company's performance over the prior years or reasonably assess the Company's "prospects" going forward. Allen did not disclose his complete discretion over the NYPPEX valuation in his response, or the fact that NYPPEX had been unable to secure outside capital—*i.e.* from any entity not controlled by Allen—since approximately 2009.

123. Internal emails at the Investment Advisor and NYPPEX reflect that Limited Partners emailed Allen and employees of the Investment Adviser and General Partner with questions specifically about the “uptick in the size of the NYPPEX investment” and “how NYPPEX[‘s] valuation is calculated and who calculates it.” Allen met Limited Partners’ concerns and questions with misleading responses that did not respond directly to the inquiries. Oftentimes Allen, directly or through employees acting at his direction, told Limited Partners that they were not entitled any additional information regarding the fund other what was that contained in quarterly and annual reports.

124. For example, with the December 31, 2018 wind-down date rapidly approaching, a Limited Partner emailed Allen on October 29, 2018, asking for information about the valuations of the underlying assets, the limited distributions in the fund, and the concentration of fund assets:

As you know, I am very concerned about the limited distributions coming from ACP X. I do not understand how you can claim the valuations are as high as you say yet only a small percentage of the value of the fund has been distributed to investors (not counting the investors who took a big haircut to get out (through Early Withdrawals) - which I think is outrageous that they felt the need to do that). I also do not understand how the majority of the Fund now consists of individual company positions rather than secondary interests in PE funds - which was supposed to be the primary investment that ACP X was making. Are the marks on these positions valid? If so, why can't NYPPEX distribute these private company positions through their network? I am troubled by the marks on NYPPEX. . .in particular. Are they really correct?

125. Allen responded two weeks later by reprimanding the Limited Partner for distracting him from other ACP business, and advised the investor that “decisions about whether to distribute or reinvest realizations are at the discretion of the General Partner” without providing any further information.

126. Allen never disclosed to Limited Partners that he was solely responsible for the valuation of NYPPEX and that the General Partner did not obtain independent appraisals. As of

June 2018, Allen reported to investors that ACP's investment in NYPPEX had generated approximately \$2.6 million in unrealized gains.

D. ACP's Auditor Objected to Allen's Valuation of NYPPEX, Advised Allen to Obtain Independent Appraisal

127. Although Allen withheld the Fair Valuation Analyses from investors, he provided the documents to ACP's third party, independent auditor (the "Auditor") in connection with audits of ACP's financial statements.

128. The Auditor simply accepted the Fair Valuation Analyses that Allen provided to it to test the value of NYPPEX and acquiesced to Allen's valuation determinations in certifying ACP's financials. However, the Auditor repeatedly expressed substantial concerns about the self-interested nature of Allen's valuations.

129. The Auditor's objections to Allen's valuation began as early as 2011. In a December 2011 email exchange, the Auditor advised Allen that it could not accept his NYPPEX valuation for the purposes of issuing ACP audited financials and threatened to issue a qualified audit opinion letter. Allen responded in an email asking "[w]hy do you insist on debating ACP X on this topic (of NYPPEX's valuation)? Is it worth losing the relationship over an issue where there is definitive answer."

130. The audit engagement partner wrote to Allen 30 minutes later: "[Y]ou have not been providing the valid inputs that I need to be able to rely on. Input from ACP X is not acceptable from us and I can't rely on skewed numbers. Please send me something that I can use as reliable input."

131. A contemporaneous email from the Auditor in March 2012 reflecting minutes of a meeting held with Allen reflect that the Auditor advised Allen to obtain an independent valuation of NYPPEX, and that Allen agreed:

[The Auditor] feels strongly that because ACP X and (NYPPEX) Holdings are related parties through common management, a more independent approach is desirable. [The Auditor] reminded Larry (Allen) and [the ACP treasurer] that using the K-1 book value was the most conservative route of all. . . .

Larry stated he has already identified a valuation company to use and will make this high priority with a possible two week turn around.

132. Notwithstanding Allen's agreement to obtain an outside appraisal of NYPPEX, he did no such thing.

133. The Auditor became increasingly concerned about the integrity and sufficiency of the valuations in light of Allen's inconsistent methodology, NYPPEX's repeated failure to meet revenue projections or raise outside capital, and Allen's refusal to obtain independent validation of NYPPEX's value.

134. In 2015, the Auditor continued to demand that Allen obtain additional audit support evidence backing up his valuations of NYPPEX. In November 2015, a member of the audit team wrote to Allen:

For years there has been a discussion as to how the value of [NYPPEX] stock has been valued. There is no third party value here and based on the time of the year it is probably too late to try and have someone value it. As I explained today, there seems to be a high jump in revenue from 2014 to 2016. I asked [the ACP treasurer] approximately a month ago for some sort of support as to how he increased [NYPPEX]'s revenue projections by approximately 10 million in both 2015 and 2016. We wanted to feel comfortable that it was reasonable that there could be such a big jump to those numbers. . . [W]e have not seen any real projection of revenue in 2015/2016 that would come close to matching the amounts used to value the Holding shares.

135. Allen avoided addressing the issue and instead responded in an email: "These audits are just taking up too much of our time."

136. After multiple requests for additional audit support evidence, and Allen's continued refusals to provide such evidence, the Auditor advised Allen that it would not release ACP's 2014

audited financials until Allen agreed to obtain an independent valuation for future audits. Allen finally agreed, mollifying the Auditor into releasing the 2014 ACP audit.

137. In May 2016, the Auditor emailed Allen and asked about the status of the independent valuation. The Auditor referenced the earlier agreement to release the 2014 audits on the condition that Allen subsequently obtain an independent valuation:

[Obtaining an independent valuation] was something that we all agreed was best for all parties and was why [the engagement partner] went along and released the 2014 audits. This valuation was the reason for the holdup of the applicable 2014 audits. Once we agreed to use an independent valuation, we then released the audits.

138. Later that same day, the Auditor wrote again:

[The engagement partner] said that everyone agreed the independent valuation would be the best way to protect everyone and it was agreed to be completed in order to release the 2014 audits.

139. Allen responded that the requirement was a non-starter, despite his prior agreement, and that he was reconsidering whether to continue adhering to the General Partner's obligation in the LPA to obtain audited financials at all.

140. The audit engagement partner reiterated the importance of obtaining an independent appraisal:

. . .[W]e are recommending the use of a third party appraiser as it averts potential reputational damage from flawed or heavily scrutinized valuations. The cost for an independent valuation is more than offset by the additionally (sic) auditing costs now required.

141. The audit engagement partner continued in a subsequent email later that same day after Allen alleged the Auditor was being "too risk adverse" in refusing to accept Allen's valuation:

[T]his would be a prudent action to avoid the costly consequences of investigations, legal fees, and possible remediation. I like to think that you have looked upon us as advisors with your best interests at heart. It is interesting that we are being charged as being "too risk adverse". Each year more ACP entities invest in these shares and are owned by more investors. Your exposure is broadening. The issue here is that this involves

a level 3 investment which is subject to the greatest scrutiny and a related entity. It is imperative for many reasons to present a sound and pro-active course of action.

142. Allen thereafter again threatened to terminate the Auditor because of its continued insistence that Allen obtain independent support for his flawed valuations.

143. Allen maintained his refusal to engage an independent valuation firm. In February 2019, after the Attorney General obtained a court order limiting Allen's ability to access ACP assets, Allen obtained a valuation report from an outside appraisal company. However, the company Allen hired merely incorporated Allen's flawed projections into a report.

144. The report did not undertake an independent assessment or analysis with respect to the accuracy of the revenue projections Allen provided, which formed the basis of the valuation conclusions. As the report disclosed: "All data provided for our use in this analysis has been accepted as accurate and reflective of actual business operations and conditions."

V. Allen Misappropriated Carried Interest to Which Limited Partners Were Entitled

145. In marketing ACP to investors, Allen and representatives of NYPPEX and the Investment Adviser stressed the consistency and promptness of future distributions. By 2013, however, Allen had begun to limit distributions to investors in the ordinary course. After nine years in ACP, many investors became disturbed with the delay.

146. Allen took advantage of investors' concerns—which were caused by Allen's own misconduct—by proposing amendments to ACP's partnership agreement that would give investors Early Withdrawal opportunities (*supra*, ¶¶ 117-120). Investors understood the amendments as the most direct path towards receiving material distributions; indeed, in notices to investors Allen highlighted the purpose of the amendments as a means of providing "liquidity event(s)" to investors, *i.e.* distributing cash to investors from ACP's accounts. The partnership agreement,

however, already permitted Allen to make distributions at the General Partner's discretion, and the amendments were not necessary to allow Allen to return capital to investors.

147. Allen's true purpose in proposing the amendments was to use the promise of investor distributions as a means of deceiving Limited Partners into passing the proposals that Allen then improperly relied upon to direct additional ACP assets to himself that he fraudulently characterized as "carried interest."

148. In notices accompanying the amendments, Allen misrepresented that the General Partner was already authorized to distribute carried interest when, in fact, the terms of the partnership expressly prohibited such distributions. Allen also drafted the amendments in a highly deceptive and misleading manner by seeking to amend a provision of the partnership agreement dealing with the return of excess carried interest payments after the fund dissolved.

149. In reality, Allen intended to use the amendments to dramatically alter investors' rights to prioritized distributions during the life of the fund.

150. Allen fraudulently obtained investors' agreement to the proposed amendments and then proceeded to distribute millions of dollars in carried interest to himself and entities under his control.

A. Allen Misrepresented the General Partner's Right to Distribute Carried Interest

151. One of the most material terms of the Partnership was the process by which Limited Partners received distributions of investment realizations from ACP, *i.e.* the distribution waterfall. The distribution waterfall, set forth in the PPM and Section 6.02 of the LPA, established the order in which investment proceeds and carried interest would be distributed to Limited Partners and the General Partner and specified that "net cash proceeds from the sale or other disposition of

securities or other property held by the Partnership will be distributed as soon as practicable after receipt.”

152. “Carried interest” is the portion of ACP’s profits over and above certain distribution hurdles set forth in the distribution waterfall.

153. Investors described the distribution waterfall as a “selling point,” and it was featured prominently in the PPM. Pursuant to the representations Allen made to them, investors expected realizations to occur and distributions to be made to them on a regular basis.

154. ACP’s distribution waterfall required that the General Partner first (i) distribute 100 percent of the investors’ capital contributions and (ii) an eight (8) percent preferred return to Limited Partners, *prior* to making any distribution of carried interest to the General Partner. The General Partner, therefore, did not earn carried interest until fully satisfying the first two steps of the waterfall.

155. The LPA emphasized the priority granted to Limited Partners by confirming that the General Partner could not receive *any* distribution of carried interest until ACP had distributed available sums in accordance with the waterfall:

The General Partner shall receive a distribution of its carried interest only upon the complete return of the Capital Commitments funded by the [Limited] Partners.

156. The distribution waterfall has never been modified.

157. To date, the General Partner has not distributed all of the Limited Partners’ contributed capital, and has made no distribution towards the preferred return.

158. Nevertheless, in 2013 Allen began to fraudulently access what he characterized as carried interest from ACP, money that should have been distributed to Limited Partners towards the return of capital and preferred return.

159. In an attempt to paper over and circumvent the clear directives in the LPA regarding the priority of distributions, Allen proposed and subsequently represented that a sufficient percentage of eligible partnership interests consented to the Third, Fourth, and Fifth Amendments to the LPA.¹ These amendments modified Section 9.04, a provision known as the “Clawback,” which as set forth in the LPA required the General Partner, “upon dissolution” of ACP, to return any excess distributions of carried interest it may have received over the life of the fund *after the General Partner first distributed to Limited Partners their capital commitments and preferred return.*

160. Such a situation would most commonly occur if the General Partner calculated and distributed carried interest to itself *after* satisfying the first two steps of the distribution waterfall based on ACP’s unrealized investment gains, prior to dissolution of the fund. “Upon dissolution,” if an investment had ultimately yielded a less valuable return than previously calculated, or the General Partner wrote off investments completely, the General Partner’s previously distributed share of carried interest may have exceeded that to which it was entitled. The Clawback protected Limited Partners against the General Partner receiving too much carried interest and reinforced their entitlement to prioritized distributions.

161. The amendments changed the Clawback by limiting the total percentage of excess carried interest otherwise subject to return after ACP’s dissolution; however, the amended language also included a line of text briefly noting the General Partner’s intention to distribute a portion of its “allocated” carried interest, which amount was not disclosed.

162. The amendments also offered Limited Partners Early Withdrawal opportunities.

¹ The First Amendment to the LPA, passed in December 2005, did not concern the Clawback. The General Partner advised the Attorney General that there was no Second Amendment to the LPA.

163. At the time Allen proposed each of the amendments, however, the General Partner was not authorized to distribute *any* carried interest to itself because ACP had not yet distributed the requisite amounts of capital and preferred return to Limited Partners. In emails between and among Allen, the Auditor, and counsel on December 27, 2013, counsel confirmed that “allocations follow distributions” to investors and that, while the Third Amendment referenced an intention to “allocate” carried interest, the distribution waterfall prevented the General Partner from “allocating” carried interest until first satisfying the prioritized distribution obligations to Limited Partners.

164. In notices to Limited Partners included with the Third Amendment, Allen misrepresented that the General Partner was, at the time of the amendment, already entitled to distributions of carried interest. The notices included the following text:

Note: The General Partner is *currently* permitted to distribute up to 100% of its Carried Interest balance, subject to the Clawback provision. (Emphasis added.)

165. These statements in the notices were false and misleading: At the time Allen proposed the Third Amendment, the General Partner was not entitled to distribute any of its carried interest balance because it had not yet satisfied the distribution hurdles. The Clawback did not relate to or otherwise influence the distribution waterfall.

166. By conflating the Clawback, which was only applicable after dissolution of ACP, with the distribution of carried interest to the General Partner, which could only occur after satisfying the applicable distribution hurdles, and by misrepresenting that Allen was entitled to distribute carried interest at the time he proposed the amendments when he was not, Allen misled investors.

167. Through these actions, Allen created the false and misleading impression that investors had authorized material amendments allowing him to step in front of them for the distribution of ACP's assets when, in fact, they had done no such thing. As drafted, the terms of the amendments did not modify the distribution waterfall, which continued to govern the priority of distributions to investors and of carried interest.

168. At least one investor expressed confusion to the General Partner concerning the reference to carried interest in the Third Amendment. The investor described its concern in an email on January 14, 2014, after passage of the amendment, which referenced a November 27, 2013 email sent prior to the passage of the amendment:

As discussed, please send me the original LPA, the two previous amendments and the related solicitation materials. As stated in my 11/27/13 e-mail to [an ACP Employee] and you, to which I received no reply:

Separately, I am confused by the proposal language regarding carried interest and clawback, especially in light of Note 8 to ACP's 6/30/2013 financial statements. Note 8 states that no carried interest is payable until the LPs have received a return of 100% of their capital, plus an 8% per annum preferred return, whereas the Notice of Proposal states "The General Partner is currently permitted to distribute up to 100% of its Carried Interest balance, subject to the Clawback provision." Please clarify this apparent discrepancy.

Section 6 of the third amendment (the new clawback language) also confused me. It omits any reference to the 8% per annum preferred return. How, if at all, would adoption of the third amendment affect the current 8% per annum preferred return?

My understanding is that no carry is payable unless and until LPs have received return of 100% of their invested capital plus an 8% per annum cumulative preference. I see nothing adequate in the disclosures soliciting the third amendment or the purported clarification that would authorize change of the carry treatment memorialized in the original PPM or Note 8 to ACP's financial statements. If you have a different view, please state the basis for it and summarize how you believe the preferred return, carry and waterfall now operate.

(Emphasis in original.)

169. Internal discussions among Allen, his employees, the Auditor, and counsel confirmed that the terms of the Third Amendment and disclosures to investors related to amendment were misleading, violated the LPA, and were contrary to what Limited Partners agreed to when they invested. Allen knew that even after passage of the Third Amendment he was not permitted to distribute carried interest to the General Partner, and that in fact, no carried interest had been earned such that it could be “allocated.”

170. Allen then distributed \$1.1 million to the General Partner as a payment of carried interest in February 2014.

171. Allen continued to intentionally disregard the distribution waterfall and simply repeated his misrepresentations in connection with subsequent amendments.

172. The Fourth Amendment, proposed in June 2015, again sought to amend the Clawback and offer an Early Withdrawal opportunity. The summary of the terms of the Fourth Amendment included the same false representation regarding the distribution of carried interest: “Note: The General Partner is currently permitted to distribute up to 100% of its Carried Interest balance, subject to the Clawback provision.”

173. In July 2015, Allen held a conference call for Limited Partners to discuss the proposed Fourth Amendment. During the call, and aware of the misrepresentations made in connection with the Third Amendment, Allen described the modification to the Clawback and distribution of carried interest as routine and already permitted:

[W]e will take a sliver of whatever the carried interest balance is and be able to pay that out to certain parties of the general partner. *We're able to do that now*, it's just that there's a clawback to that and if the fund fails to generate at least a certain return then the General Partner would have to come out of pocket and pay that back.

(Emphasis added.)

174. Allen's representation that he could distribute carried interest at the time he proposed the Fourth Amendment was false.

175. Limited Partners continued to raise questions about the General Partner's purported distribution of carried interest. For example, in November 2016, a Limited Partner asked for clarification on the carried interest calculation and distribution to the General Partner:

How is carried interest calculated? . . . Neither the Annual Report nor the purported amendments to the ACP partnership agreement discloses modifications to the original carried interest formula (also specified in note 8 [to the audited financials]) that no carried interest is due until LPs have received cumulative distributions equal to the sum of their funded commitments plus an 8% cumulative annual rate of return. Please explain your calculations and provide underlying support.

176. Allen ignored the investor, even when it followed up several days later reiterating the request for clarification explaining how the General Partner could distribute carried interest to itself when Limited Partners had not yet received the requisite distributions.

177. Although the amendments may have modified the Clawback, Limited Partners did not approve any modification to Section 6.02 of the LPA or distribution priority set forth therein remains, despite Allen's representations to the contrary.

178. Allen paid himself, other members of the General Partner, and additional entities under his control carried interest pursuant to each of the Third, Fourth and Fifth Amendments to the LPA, totaling more than \$3.4 million. Allen received more than half of the carried interest ACP distributed to the General Partner and received additional amounts through distributions made to the Investment Adviser and Broker-Dealer.

AMENDMENT	AMOUNT OF DISTRIBUTED CARRIED INTEREST	DATE OF DISTRIBUTION
THIRD	\$1,187,947	February 28, 2014
FOURTH	\$594,526	November 17, 2014
FIFTH	\$1,657,025	May 2, 2017
TOTAL	\$3,439,498	

179. In 2017, when ACP did not have sufficient funds to satisfy Allen's improper claim of carried interest pursuant to the Fifth Amendment, he forced ACP to sell off at least \$1.6 million of its liquid assets and then distributed the proceeds to himself and his various businesses, even though such proceeds belonged exclusively to Limited Partners.

180. Further, because the calculation of carried interest is dependent on the value of ACP's underlying assets, by relying upon a fraudulent valuation for NYPPEX, Allen ensured that ACP's books reflected an unrealized profit which did not actually exist, thereby artificially inflating the amount of carried interest Allen claimed the General Partner had earned.

181. Upon distribution from ACP to the General Partner, Allen transferred the money to Relief Defendant Equity Opportunity Partners, LP ("EOP") for subsequent distribution to EOP members and Allen alone determined the amount each respective member would receive, awarding himself a vast majority of the proceeds.

VI. Allen Misappropriated Money from ACP to Pay NYPPEX's Operating Expenses

182. Allen also misappropriated the assets of ACP to pay NYPPEX's operating expenses.

183. The PPM and LPA both expressly prohibited the General Partner from using assets of ACP to pay overhead expenses, including wages, salaries, rent, utilities, and bookkeeping, and

provided that the General Partner was solely responsible for paying such expenses. The General Partner charged ACP an annual management fee to cover its operating expenses.

184. Notwithstanding this clear prohibition, since at least 2008, Allen has used hundreds of thousands of dollars from ACP's accounts to pay NYPPEX's operating expenses on an annual basis.

185. To effectuate the unlawful payment of expenses, Allen first transferred money out of ACP to the Investment Adviser. The Investment Adviser in turn transferred ACP's funds to NYPPEX.

186. For example, in August 2018, Allen transferred \$755,000 from ACP's brokerage account to the Investment Adviser's account. As reflected in bank statements, Allen then transferred the money directly into NYPPEX's operating account over the next two months as follows:

DATE	PURPOSE	AMOUNT
August 10	"To cover expenses"	\$20,000
August 13	"Transfer for 401k distributions"	\$10,377
August 14	"To fund payroll"	\$60,000
August 27	unknown	\$5,000
September 13	"Transfer to fund payroll"	\$85,000
September 27	"Fund payroll"	\$55,000
October 5	"To cover overdraft"	\$10,000
October 5	"LGA Recommended transfer"	\$500,000
TOTAL		\$745,277

187. In the last six months of 2018 prior to entry of the 354 Order, Allen transferred approximately \$862,000 from ACP's accounts to the Investment Adviser.

188. Allen concealed ACP's payment of NYPPEX's operating expenses. While quarterly and annual reports to Limited Partners included a reference to amounts "due to affiliates" and audited financials noted various "Partnership expenses," the documents omitted any reference to ACP's payment of NYPPEX's rent, employee salaries (including Allen's), or other operating expenses.

189. Upon information and belief, since at least 2008, Allen has caused ACP to allocate to NYPPEX and the Investment Adviser more than \$2.5 million in funds to cover operating expenses.

VII. Allen's Recent Misconduct Compelled the Attorney General to Seek and Obtain Preliminary Relief to Protect Against Allen's Further Fraud

190. In early December 2018, during the pendency of the Attorney General's investigation, Allen proposed another amendment to the LPA (the "Seventh Amendment").² The terms of the Seventh Amendment sought to materially and adversely affect Limited Partners in a number of ways.

191. The amendment threatened Limited Partners with individual liability if they participated "directly or indirectly" in any "formal proceeding." Styled as an "indemnification" clause, the proposed provision dramatically amplified the categories of indemnified expenses provided for in the LPA and sought to punish Limited Partners that participated in the Attorney General's investigation, threatening obstruction of an ongoing law enforcement proceeding. The provision further infringed on Limited Partners' rights under the LPA and the common law to

² The Sixth Amendment, passed in September 2017, proposed a plan to make ACP public and did not modify the Clawback.

exercise their information rights and/or seek appropriate relief for misconduct by Allen, the General Partner, or the Investment Adviser.

192. The summary Allen prepared of the amendment that he sent to Limited Partners did not reference this change or the purported imposition of personal liability on cooperating investors.

193. The Seventh Amendment also proposed the elimination of nearly all of the General Partner's disclosure obligations, including the requirement to obtain audited financials, dramatically interfering with Limited Partners' ability to understand the status of their remaining investments in private companies and leaving them unable to determine whether Allen would continue making follow-on investments in NYPPEX and other companies instead of distributing money to Limited Partners.

194. The Auditor advised Allen that eliminating audits would be against the best interests of Limited Partners.

195. To ensure that Limited Partners could not recover excess carried interest Allen previously paid to himself and others, Allen drafted the Seventh Amendment to eliminate the entirety of the Clawback. He further revised Section 9.04 to allow for the immediate distribution of all "earned" but unpaid carried interest without disclosing the amount of carried interest he claimed to have earned.

196. The proposed Seventh Amendment did not disclose the pendency of the Attorney General's investigation, the singular role Allen played in calculating ACP's valuation of its position in NYPPEX, or the lack of any viable exit strategy to redeem ACP's interests in NYPPEX.

197. Allen misrepresented to Limited Partners that the amendment was necessary for winding down ACP, and suggested that any future distributions from the fund were tied to passage of the amendment. The LPA, however, already empowered the General Partner to take all steps

necessary to effectuate dissolution and liquidation of ACP without aid of the Seventh Amendment, rendering it unnecessary except as a means for Allen to further his fraud. Allen fraudulently led investors to believe that unless they voted in favor of the amendment, the fund could not promptly wind down and assets that belonged to them would not be distributed.

198. Allen advised Limited Partners that even if they did not approve the Seventh Amendment, the terms of the LPA would nonetheless be amended without consent from investors. Specifically, in the notice accompanying the Seventh Amendment Allen advised that if investors did not vote in favor of the amendment he would unilaterally extend ACP's term for one additional year and "be entitled to earn and distribute [the General Partner's] management and carried interest fees and the Clawback provision in Section 9.04(d) of the [LPA] shall be rescinded and no longer apply."

199. Multiple Limited Partners objected to the terms of the Seventh Amendment and made inquiries, *inter alia*, regarding the calculation and distribution of carried interest and the valuation of NYPPEX. Allen refused to provide substantive responses to these inquiries and, in many cases, provided no responses at all.

200. Allen's attorneys also sent threatening letters to a Limited Partner who had asked questions about the status of the ACP, the valuations of NYPPEX, and Allen's self-interested positions in the affiliated companies managing the fund.

201. Allen did not disclose the proposal for the Seventh Amendment to the Attorney General and, one week after sending the proposal to investors, failed to appear for scheduled testimony pursuant to a subpoena, in violation of General Business Law § 352[4].

202. The General Partner advised Limited Partners in mid-December that a sufficient amount of partnership interests consented to the Seventh Amendment.

203. In light of the provisions of the Seventh Amendment, Allen's continued use of ACP funds for his own personal and professional enrichment, and his unilateral decision to cancel his testimony, the Attorney General obtained the 354 Order (*supra*, ¶ 36) on December 20, 2018.

204. Allen sought to interfere with the Attorney General's investigation even after the 354 Order went into effect by sending numerous communications to Limited Partners of ACP referring to the Attorney General's investigation—which now included the 354 Order and its attendant asset restraints—as a non-controversial “review.”

205. In these communications, Allen mischaracterized his interactions with the Attorney General and the purpose of the 354 Order. Allen misrepresented the Attorney General's fraud investigation and court ordered injunction as an exercise of “exam powers” by a “regulator [that] is new at their position and is conducting a review that our attorneys believe is ‘over the top’, and now, damaging our investors in ACP X” in emails with certain investors in February 2019.

A. Allen Continued to Mislead Investors about NYPPEX After Entry of the 354 Order

206. As recently as March 2019, Allen represented to investors in email solicitations that he intended to promptly take NYPPEX public via an initial public offering and was seeking bridge financing. Allen further advised the Attorney General during its investigation that he planned to raise new private equity funds.

207. During the investigation, Allen disclosed to the Attorney General that he planned to use proceeds from a planned NYPPEX capital raise from investors to partially buy out ACP's nearly \$6 million position in the Company, taking money from new investors to pay off ACP investors already damaged by Allen's fraudulent conduct. Specifically, Allen sought to raise \$10 million dollars for NYPPEX and advised the Attorney General that he would direct up to \$3 million of that raise to buy out ACP's position in the Company.

208. After the 354 Order cut off Allen's ability to access the assets of ACP to further fund NYPPEX's operations, he quickly commenced efforts to raise new capital from outside sources. The solicitations advised investors that NYPPEX planned to raise \$2.5 million in capital in advance of an IPO "to finance [NYPPEX's] 2019 growth plans," as well as effectuate a stock split in the Company that Allen claimed would supposedly drive NYPPEX's share price to \$10 "or more."

209. Summaries sent to potential investors of the recent offering for the NYPPEX bridge financing round, however, omitted any reference to Allen's plan to use capital raised from the NYPPEX offering to buy back shares from ACP. The "Use of Proceeds" in one of the summaries disclosed that the funds raised would be used "[p]rimarily for the development of technology, hiring key talent, marketing and general corporate purposes" and omitted Allen's plan to distribute the money to ACP.

210. The disclosures also highlighted various key management employees Allen claimed were working with NYPPEX. Notably, the individual identified as the "Head, Software/AI Development" had provided no services to NYPPEX for the last 10 years, had received no payment from the Company, had not reviewed the current state of NYPPEX's online trading platform, did not possess log-in credentials for any NYPPEX programs, and had no understanding of the current user base or development status.

211. On multiple occasions after entry of the 354 Order, Allen claimed in legal filings, conferences, and disclosures to the Attorney General that NYPPEX's business was severely impacted by the asset freeze imposed on ACP's accounts and that without access to ACP's funds, NYPPEX could not pay its bills. Allen, on behalf of Defendants, including himself, failed to pay counsel in the 354 proceeding in part because, as he claimed in a November 2019 conference in

the proceeding, the asset freeze caused a “budget problem” at NYPPEX; Defendants currently owe hundreds of thousands of dollars in outstanding legal fees to three different law firms that provided representation during the Investigation and 354 proceeding. Allen’s admissions that the health of NYPPEX depended on free access to ACP’s assets further confirms that Allen relied on and exploited his access to ACP to keep NYPPEX afloat.

212. Allen’s recent conduct, coupled with the prior ten years of improper, deceptive and unlawful conduct in connection with the management of ACP, and the issuance of securities in NYPPEX based on materially misleading and deceptive information, renders him unfit to continue operating as an investment adviser or broker-dealer in the State of New York. Neither can Allen be entrusted to faithfully wind-down ACP as provided for in the LPA and pursuant to his fiduciary duties, which duties he has disregarded and exploited for a decade.

FIRST CAUSE OF ACTION

Martin Act Securities Fraud – General Business Law §§ 352 *et seq.* (Against All Defendants)

213. Plaintiff repeats and realleges the paragraphs above as if fully set forth herein.

214. Defendants together, and each of them individually, made materially false and misleading representations, statements, and promises, and omitted material information in disclosures to investors, about the nature of ACP’s securities, investment advice relating to the operation, management and investment objectives of ACP, and distribution of ACP’s securities and assets.

215. Allen and NYPPEX made materially false and misleading representations, statements and promises, and omitted material information in disclosures to investors, about the nature and value of NYPPEX securities in connection with the offer, purchase, sale, and issuance of NYPPEX securities.

216. The foregoing acts and practices of Defendants and their agents and employees, consisting of materially false and misleading oral and written representations, statements, promises and omissions, constitute fraudulent acts and practices as defined in GBL §§ 352 *et seq.*, and are subject to the equitable remedies of permanent injunctive relief and restitution set forth in GBL § 353.

217. Plaintiff and the public have been, and are being, irreparably harmed by the aforesaid acts and practices and have no adequate remedy at law.

SECOND CAUSE OF ACTION

Repeated and Persistent Fraud and Illegality – Executive Law § 63(12) (Against All Defendants)
Martin Act Securities Fraud, General Business Law §§ 352 *et seq.*

218. Plaintiff repeats and realleges the paragraphs above as if fully set forth herein.

219. The acts and practices alleged herein of each Defendant constitute conduct proscribed by Executive Law § 63(12), in that Defendants engaged in repeated fraudulent acts, in violation of GBL §§ 352(1) and/or 352-c, or repeated illegal acts, or persistent fraud or illegality in the carrying on, conducting, or transaction of business. These misrepresentations and omissions were part of a single continuing scheme to defraud investors.

THIRD CAUSE OF ACTION

Breach of Fiduciary Duty (Against Defendants Allen, ACP Investment Group, LLC and ACP Partners X, LLC)

220. Plaintiff repeats and realleges the paragraphs above as if fully set forth herein.

221. Allen, individually and through ACP Investment Group, LLC and ACP Partners X, LLC, owed fiduciary duties to Limited Partners as their investment adviser and general partner to ACP.

222. By engaging in the acts and conduct described in this complaint, Defendants Allen, ACP Investment Group, LLC and ACP Partners X, LLC breached these fiduciary duties. Defendants' breaches caused economic injury to the Limited Partners.

FOURTH CAUSE OF ACTION

Equitable Fraud (Against Defendants Allen, NYPPEX Holdings, LLC, ACP Investment Group, LLC, ACP Partners X, LLC)

223. Plaintiff repeats and realleges the paragraphs above as if fully set forth herein.

224. Defendants made material misrepresentations and omitted material facts as part of a single, continuing scheme to deceive Limited Partners.

225. Upon information and belief, investors relied on the above-referenced Defendants' misrepresentations and omissions in making their investment and business decisions and such reliance was justifiable and reasonable.

226. These misrepresentations and omissions of material facts as alleged herein constitute equitable fraud under New York common law.

227. Plaintiff and the public have been, and continue to be, irreparably harmed by the aforesaid acts and practices and have no adequate remedy at law.

FIFTH CAUSE OF ACTION

Repeated and Persistent Fraud and Illegality – Executive Law § 63(12) (Against Defendants Allen, NYPPEX Holdings, LLC, ACP Investment Group, LLC, ACP Partners X, LLC)
Equitable Fraud

228. Plaintiff repeats and realleges the paragraphs above as if fully set forth herein.

229. The acts and practices alleged herein of each Defendant constitute conduct proscribed by Executive Law § 63(12), in that Defendants engaged in repeated fraudulent acts, or repeated illegal acts, or persistent illegality in the carrying on, conducting, or transaction of business. These fraudulent acts, misrepresentations and omissions were part of a single continuing scheme to defraud investors.

PRAYER FOR RELIEF

WHEREFORE, the Attorney General demands judgment against Defendants and Relief Defendants as follows:

A. Directing Defendants and Relief Defendants, pursuant to General Business Law § 353(3) and Executive Law § 63(12), to disgorge profits obtained from Defendants' fraudulent practices; pay restitution of any monies obtained directly or indirectly from the fraudulent practices; and pay damages cause by the fraudulent practices complained of here;

B. Directing Defendants and Relief Defendants to pay damages caused, directly or indirectly, by the fraudulent and deceptive acts and repeated fraudulent acts and persistent illegality complained of herein, including punitive damages, plus pre-judgment interest;

C. Directing Defendants to pay costs and additional allowances in the maximum amount allowable under General Business Law § 353(1) and Civil Practice Law and Rules § 8303(a)(6);

D. Directing that Allen be permanently barred from engaging in the issuance, offer, exchange, sale, promotion, negotiation, advertisement, investment advice, or distribution of securities within or from the State of New York;

E. Pursuant to GBL § 353-a or otherwise, directing the appointment of a receiver to ACP X, LP, ACP Investment Group, LLC, and ACP Partners X, LLC, to receive, for the benefit of defrauded investors, all payments of restitution and damages made by the Defendants and Relief Defendants, and all moneys and property obtained from the Relief Defendants, and to take title to, and liquidate for the benefit of defrauded investors, all moneys and property derived by the Defendants and Relief Defendants, or any of them, by means of any of the fraudulent acts and practices alleged herein, including also all moneys and property with which such moneys and

property have been mingled, because such moneys and property cannot be identified in kind because of such commingling, together with any or all books of account and papers relating to such moneys and property;

F. Directing that Defendants pay Plaintiff's costs and fees;

G. Directing such other equitable relief as may be necessary to redress Defendants' violations of New York Law;

H. Permitting Plaintiff to make further applications for such other and further relief as it appears to Plaintiff is proper and necessary for the enforcement of the judgment; and

I. Awarding such other and further relief to Plaintiff as the Court may deem just and proper.

Dated: New York, New York
December 4, 2019

LETITIA JAMES
Attorney General of the State of New York

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Senior Enforcement Counsel

*Attorneys for Plaintiff, People of the State of
New York*

VERIFICATION

STATE OF NEW YORK)

COUNTY OF NEW YORK) ss.:

I, JACLYN H. GRODIN, being duly sworn, deposes and says:

I am an Assistant Attorney General in the Investor Protection Bureau in office of Letitia James, Attorney General of the State of New York, and am duly authorized to make this verification.

I have read the foregoing complaint and know the contents thereof, which are to my knowledge true, except as to those matters stated to be alleged on information and belief, and to these matters, I believe them to be true. The grounds of my belief as to all matters stated upon information and belief are investigative materials contained in the files of the Attorney General's office.

The reason this verification is not made by Plaintiff is that Plaintiff is a body politic and the Attorney General is its duly authorized representative.


Jaclyn H. Grodin

Sworn to before me this 4th
day of December, 2019.


Notary Public

RENATA BODNER
NOTARY PUBLIC-STATE OF NEW YORK
No. 01BO6250373
Qualified in Kings County
My Commission Expires October 24, 2023