

**CONNECTICUT STATE ETHICS COMMISSION
20 TRINITY STREET
HARTFORD, CONNECTICUT 06106-1660**

**AMENDED
COMPLAINT**

The State Ethics Commission issues a complaint alleging a violation of:

_____ The Code of Ethics for Public Officials and State
Employees, Chapter 10, Part I, General Statutes

XX_____ The Code of Ethics for Lobbyists, Chapter 10, Part II,
General Statutes

Time and date matters complained of occurred:

Calendar years 1997, 1998 and 1999

Place violation occurred:

Hartford, Connecticut

Persons involved:

Crescendo Ventures III, L.L.C.
Crescendo Venture Management, L.L.C.
Crescendo World Fund, L.L.C.

Witnesses:

List to be provided at least 10 days prior to any hearing on the merits in this case.

Circumstances which indicate that the Code of Ethics designated above was violated are as follows (a short, plain statement alleging a violation of Chapter 10, General Statutes):

Please See attached.

(over)



7. IAI Ventures, Inc. (IAI) was the managing member of IAI World Fund, L.L.C. (World Fund).
8. IAI contracted with Truro Associates, L.L.C. (Truro) to provide certain services, including identifying public employee pension funds as potential members of the World Fund.
9. In return for the services described in paragraph 8, Truro would receive twenty percent of the annual management fee received from the World Fund based on the capital commitments provided or to be provided by such members identified by Truro. It was agreed that this amount would be paid on a quarterly basis so long as the member did not withdraw its interests from the World Fund. In addition, IAI agreed to pay Truro 10% of the carried interest it received.
10. During calendar year 1997, associates of Truro, on behalf of IAI, contacted the Treasurer to explain the IAI Ventures, Inc. organization and to interest the Treasurer in making investments in the World Fund.
11. Following the action described in paragraph 10 above, one or more associates of Truro set up a meeting with the Treasurer and the principals of IAI.
12. The Office of the Treasurer eventually invested in the World Fund.
13. Following the investment described in paragraph 12 above, The Respondent assumed the obligations of IAI. IAI World Fund, L.L.C. was renamed as Crescendo World Fund, L.L.C. (the Crescendo World Fund Respondent).
14. Given that the fees described in paragraphs 3 and 9 would only be paid if the capital commitment were obtained and given the possibility of a full or partial withdrawal, as described in paragraphs 3 and 9, the payments described in paragraphs 3 and 9 above were contingent on the Treasurer committing and/or maintaining its level of investment.
15. Pursuant to Conn. Gen. Stat. Section 1-91(k), lobbying means communicating directly or soliciting others to communicate with any official or his staff in the executive branch of government for the purpose of influencing any administrative action.
16. The agreements, as described in paragraphs 3 and 9 above, were agreements to engage in administrative lobbying to maintain and/or enter into a new contract with the Office of the Treasurer.
17. The Respondent failed to register in calendar years 1997, 1998 and 1999.

18. Each failure to register is a violation of Conn. Gen. Stat. Section 1-94(2).
19. Pursuant to Conn. Gen. Stat. Section 1-96(a), a client lobbyist shall file periodic financial disclosure reports with the State Ethics Commission regarding its lobbying activities.
20. The Respondent failed to file the required financial disclosure reports in calendar years 1997, 1998 and 1999.
21. Each failure to file a required report is a violation of Conn. Gen. Stat. Section 1-96(a).
22. Pursuant to Conn. Gen. Stat. Section 1-97(b), no person shall be employed as a lobbyist for compensation which is contingent upon the outcome of any administrative action.
23. As more fully described in paragraphs 3 and 9 above, The Respondent entered into a contingent fee payment arrangement with St. James and its associates, and assumed the contingent fee payment arrangement with Truro and its associates, in violation of Conn. Gen. Stat. Section 1-97(b).
24. The payments paid by The Respondent because of the work performed on its behalf by St. James and Truro were contingent fee payments in violation of Conn. Gen. Stat. Section 1-97(b).

DOCKET NUMBER 2000-5)	STATE ETHICS COMMISSION
)	
IN THE MATTER OF A)	20 TRINITY STREET
)	
COMPLAINT AGAINST)	HARTFORD, CT 06106
)	
CRESCENDO VENTURES III, L.L.C. /)	
CRESCENDO VENTURE MANAGEMENT,)	
L.L.C. AND CRESCENDO WORLD FUND,)	June 8, 2001
L.L.C.)	

STIPULATION AND ORDER

Pursuant to Connecticut General Statutes § 4-177(c), the Connecticut State Ethics Commission (the "Commission") and Respondents, Crescendo Ventures III, L.L.C., ("Crescendo III") and Crescendo Venture Management, L.L.C. ("Crescendo Management") and Crescendo World Fund, L.L.C. (collectively referred to as the "Crescendo Entities"), agree to settle this matter in the manner described below.

The Crescendo Entities represent as follows:

1. In 1997, IAI Ventures, Inc., and IAI World Fund, L.L.C., retained under a contract as an independent contractor a Connecticut advisor, denominated Consultant I, to assist in identifying a limited number of large financial institutions as potential members of the IAI World Fund, L.L.C., to explain the role of venture capital investments to potential members, and to keep the members informed of the fund's activities on an on-going basis. Consultant I was not a manager, or policy maker of IAI Ventures, Inc. or of IAI World Fund, L.L.C.

2. Crescendo Management succeeded to IAI Ventures Inc.'s interests in the contract with Consultant I in December 1998. IAI World Fund, L.L.C., was renamed as Crescendo World Fund, L.L.C. (referred to collectively as the "World Fund").

3. Under the terms of the contract Consultant I agreed and represented that it would perform its services consistent with the Investment Advisors Act of 1940, the Rules promulgated pursuant to that Act, and all Connecticut laws.

4. Under the terms of the contract Consultant I's compensation was twenty percent (20%) of the annual management fee earned on the World Fund, adjusted *pro rata* for the amount of capital commitments of members Consultant I provided. Consultant I also would receive ten percent (10%) of the carried interest earned on the World Fund, adjusted *pro rata* for the amount of capital commitments of members Consultant I generated and provided that the members first receive one hundred twenty percent (120%) of their aggregate capital commitment. This compensation was to come from fees earned by the Crescendo Entities, and not from additional fees charged to investor-members.

5. In 1997, Consultant I identified the State of Connecticut Pension Fund ("Pension Fund") as a potential member of the World Fund. Consultant I introduced the World Fund to the

Connecticut Treasurer (the "Treasurer") and provided assistance to the Treasurer in understanding venture capital and the World Fund.

6. Consultant I, IAI Ventures, Inc., and IAI World Fund, L.L.C., fully disclosed in writing to the Treasurer and the Connecticut state securities and banking regulators their relationship and the nature of Consultant I's compensation. A complete, written copy of the IAI-Consultant I contract was given to the Treasurer's Office.

7. Consultant I provided IAI Ventures, Inc., and IAI World Fund, L.L.C., with assurances that the conduct of Consultant I and of IAI Ventures, Inc. and IAI World Fund, L.L.C., conformed with all Connecticut laws and regulations.

8. After the Treasurer's Office performed due diligence and determined that the World Fund was an appropriate investment for the Pension Fund, the Treasurer's Office committed to invest one hundred million dollars in the World Fund.

9. In October 1998, Crescendo Management and Crescendo III created Crescendo III, L.P., a venture capital limited partnership (the "Crescendo III Fund") and retained under a contract as an independent contractor a Connecticut advisor, denominated Consultant II, to assist in identifying a limited number of large financial institutions as potential members of the Crescendo III Fund, to explain the role of venture capital investments to potential members, and to keep the members informed of the Fund's activities on an on-going basis. Consultant II was not a manager, or policy maker of Crescendo Management or Crescendo III.

10. Under the terms of the contract, Consultant II agreed and represented that it would perform its services consistent with the Investment Advisors Act of 1940, the Rules promulgated pursuant to that Act, and all Connecticut laws.

11. Under the terms of the contract Consultant II's compensation was twenty percent (20%) of the annual management fee earned on the Crescendo III Fund, adjusted *pro rata* for the amount of capital commitments of members Consultant II provided. Consultant II also would receive ten percent (10%) of the carried interest earned on the Crescendo III Fund, adjusted *pro rata* for the amount of capital commitments of members Consultant II generated and provided that the members first receive one hundred twenty percent (120%) of their aggregate capital commitment. This compensation was to come from management fees earned by the Crescendo Entities, and not from additional fees charged to investor-members.

12. Consultant II identified the Pension Fund as a potential member of the Crescendo III Fund. Consultant II provided assistance to the Treasurer in understanding venture capital and Crescendo III.

13. Consultant II and the Crescendo Entities fully disclosed in writing to the Treasurer their relationship and the nature of Consultant II's compensation. A complete, written copy of the agreement between Consultant II and the Crescendo Entities was given to the Treasurer's Office and the Connecticut state securities and banking regulators.

14. Consultant II provided the Crescendo Entities with assurances that their conduct conformed with Connecticut laws and regulations.

15. After the Treasurer's Office performed due diligence and determined that the Crescendo III Fund was an appropriate investment for the Pension Fund, the Treasurer's Office committed to invest one hundred million dollars in the Crescendo III Fund.

16. In 1999, the Connecticut Treasurer requested to decrease its capital commitment in the Crescendo III Fund from one hundred million dollars to approximately twenty four million dollars. The Crescendo Entities voluntarily agreed to reduce the commitment and found other investors to assume the seventy six million dollar difference.

17. The World Fund and the Crescendo III Fund have provided the Pension Fund with significant returns on its investment.

The Crescendo Entities and the Commission represent as follows:

18. The Commission has brought a confidential amended complaint (the "Complaint") against the Crescendo Entities ("Complaint") alleging that the Crescendo Entities have violated the Code of Ethics for Lobbyists, Conn. Gen. Stat. § 1-79, *et. seq.* (the "Code").

19. The Complaint alleges that the Crescendo Entities failed to properly register as lobbyists pursuant to Connecticut General Statutes § 1-94(2) and failed to complete financial disclosure forms pursuant to Connecticut General Statutes § 1-96(a). The Complaint finally alleges that the compensation payments to Consultant I and Consultant II constitute contingent fee payments in violation of Connecticut General Statutes § 1-97(b).

The Commission finds as follows:

20. That the Crescendo Entities unintentionally and unknowingly violated the Code as alleged in the Complaint.

21. That the Crescendo Entities did not have reason to know that the Code applied to their activities or that their actions constituted administrative lobbying under Connecticut law. The Crescendo Entities further were unaware of the registration and reporting requirements, or the contingent fee provision.

22. That the Crescendo Entities state that they were informed by Consultant I and Consultant II that, after a legal inquiry into their status, Consultant I and Consultant II concluded that their activities did not constitute administrative lobbying and the Code did not apply to Crescendo. The Crescendo Entities further state that Consultant I and Consultant II maintain today that their activities were not lobbying and that their compensation provisions are legal, binding, and enforceable.

23. Because of the Crescendo Entities' uncertainty of the legality of the compensation payments to Consultant I and Consultant II, the Crescendo Entities ceased and desisted their payments to them, and have placed those sums of money as follows: (1) \$407,205.30 is deposited

in a segregated interest-bearing account with Associated Bank of Minneapolis for Consultant I; (2) \$357,248.00 is deposited in a segregated interest-bearing account with Associated Bank of Minneapolis for Consultant II; and (3) \$278,793.09 is invested in an account with U.S. Bank Piper-Jaffray, Inc. for Consultant I (hereafter collectively referred to as the "Accounts").

24. The Crescendo Entities and the Commission wish to resolve the Commission's Complaint against them.

25. The Crescendo Entities waive any rights any or all of them may have under Connecticut General Statutes §§ 1-93, 1-93a, 1-98, 1-80 and 4-183(f), including the right to a hearing or appeal in this case, and agree with the Commission to an informal disposition of this matter pursuant to Connecticut General Statutes § 4-177(c).

26. This Stipulation and Order concludes the Commission's investigation into the conduct of the Crescendo Entities and constitutes the final penalties as to the Crescendo Entities in connection with the Independent Contractors Agreements with Consultants I and II. The Commission is not, and does not, intend to conduct any further investigation into the conduct of the Crescendo Entities, or any investigation into the conduct of Crescendo III, L.P., Crescendo Ventures World Fund, L.L.C., IAI Ventures, Inc. and/or IAI World Fund, L.L.C. with regard to the matters set forth in the Complaint.

WHEREFORE, the State Ethics Commission enters and the Crescendo Entities agree to the following orders in lieu of any other action the State Ethics Commission is authorized to take with regard to this Complaint:

1. The Crescendo Entities agree to file the required financial disclosure forms for calendar years 1997-1999 within sixty days of the date they execute this Stipulation and Order.
2. The Crescendo Entities agree to pay a civil penalty of two thousand dollars (\$2,000) to the State Ethics Commission within thirty days of the date the Crescendo Entities sign this Stipulation and Order.
3. The Crescendo Entities will cease and desist from making any payments to Consultant I and Consultant II pursuant to the Independent Contractors Agreements unless ordered to make such payments by any court or tribunal of competent jurisdiction.
4. The Crescendo Entities confirm that they have ceased and desisted from making any contingency payments which otherwise would have accrued to Consultants I and/or II, prior to the date of the Crescendo Entities' execution of this Stipulation and have placed such monies in the Accounts.
5. The Crescendo Entities will transfer the monies in the Accounts in the total amount of \$1,043,246.30 (hereafter the "Current Payments") to a trust account established by the State Ethics Commission (the "Trust Account"). The Crescendo Entities' agreement under this Stipulation to turn over any payments that otherwise would have been owed or would be owed to Consultants I and/or II after the execution of this agreement, includes the sum of \$3,932,857.00 representing the payments which are estimated to accrue based upon the Connecticut Retirement Plans and Trust

Funds' current investment in the Fund and the assumption that the amount and terms of said investment remain the same (hereafter the "Estimated Future Payments"). The approximate present value of such payments is \$1,895,810.00. It is understood that the amount of the Estimated Future Payments may fluctuate depending upon whether the Connecticut Retirement Plans and Trust Funds increases or decreases its investment with the Fund. Regardless of whether the amount of the Estimated Future Payments decreases or increases, all Estimated Future Payments will nevertheless be transferred, as they become due, to the Trust Account. The Estimated Future Payments do not include carried interest. Any carried interest payments accruing after the date of the execution of this stipulation which otherwise would have been owed to Consultant I and/or Consultant II will also be transferred, as they become due, to the Trust Account (the "Future Carried Interest Payments"). The Current Payments, the Estimated Future Payments and the Future Carried Interest Payments shall be collectively referred to as the "Payments."

6. The Crescendo Entities agree that the Payments will be transferred from the Trust Account to the Connecticut Retirement Plans and Trust Funds pursuant to Paragraph 5 above only after the occurrence of any one of the following contingencies:

- a. The respondents to Docket Nos 2000-1, 2000-2 and 2000-3 settle with the Commission by entering into one or more Stipulations and Orders with the Commission; or
- b. The applicable statute of limitations for Consultants I and II to sue the Crescendo Entities to recover any payments under the Contracts has expired or, in the event Consultants I and II bring against the Crescendo Entities, a suit or counterclaim in state or federal court or a claim in a proceeding before any other tribunal found to be of competent jurisdiction within the applicable statute of limitations, such proceeding between Consultants I and II and the Crescendo Entities is settled, or resolved in favor of the Crescendo Entities and all appeals have been exhausted or no appeal has been brought by Consultants I and II and the time for them to bring such an appeal has expired; or
- c. The Commission finds the respondents to Docket Nos 2000-1, 2000-2 and 2000-3 to be in violation of the Code pursuant to Conn. Gen. Stat. § 1-93(b) and all appeals by these respondents found to be in violation of the Code have been exhausted and resolved in favor of the Commission or the Commission's findings of the violation(s) referenced above become a final, non-appealable order by virtue of the failure of these respondents to pursue a timely appeal from the order; or
- d. Any interpleader proceeding is settled as to Consultants I and II or a final judgment, order or award is entered in the interpleader proceeding which requires that the Payments (which otherwise would have been owed to Consultants I and II, respectively) be paid to the State of Connecticut. All orders, awards, or judgments shall be deemed final only after the exhaustion or default of all rights to appeal, reconsider, or otherwise review or alter the order, award, or judgment.

7. Notwithstanding the provisions of the preceding Paragraph 6, the Crescendo Entities agree to make that portion of the Payments, which would otherwise have been due and owing to Consultant I, to the Connecticut Retirement Plans and Trust Funds pursuant to the terms outlined in Paragraph 5 above only after the occurrence of any one of the following contingencies:

a. The respondents to Docket Nos. 2000-1, 2000-2 and 2000-3 settle with the Commission by entering into one or more Stipulations and Orders with the Commission; or

b. The applicable statute of limitations for Consultant I to sue the Crescendo Entities to recover any of the Payments has expired or, in the event Consultant I brings, against the Crescendo Entities, a suit or counterclaim in a state or federal court or a claim in a proceeding before any other tribunal found to be of competent jurisdiction within the applicable statute of limitations, such proceeding between Consultant I and the Crescendo Entities is settled, or resolved in favor of the Crescendo Entities and all appeals have been exhausted or no appeal has been brought by Consultant I and the time for it to bring such an appeal has expired; or

c. The Commission finds respondents to Docket Nos. 2000-1, 2000-2 and 2000-3 to be in violation of the Code pursuant to Conn. Gen. Stat. § 1-93(b) and all appeals by the respondents to Docket Nos. 2000-1, 2000-2 and 2000-3 from this finding have been exhausted and resolved in favor of the Commission or the Commission's finding of a violation becomes a final, non-appealable order by virtue of the failure of the respondents to Docket Nos. 2000-1, 2000-2 and 2000-3 to pursue a timely appeal from the order; or

d. Any interpleader proceeding is settled as to Consultant I or a final judgment, order or award is entered in the interpleader proceeding which requires that portion of the Payments (which otherwise would have been owed to Consultant I) to be paid to the State of Connecticut. All orders, awards, or judgments shall be deemed final only after the exhaustion or default of all rights to appeal, reconsider, or otherwise review or alter the order, award, or judgment.

8. Notwithstanding the provisions of the preceding Paragraph 6, the Crescendo Entities agree to make that portion of the Payments, which would otherwise have been due and owing to Consultant II, to the Connecticut Retirement Plans and Trust Funds pursuant to the terms outlined in Paragraph 5 only after the occurrence of any one of the following contingencies:

a. The respondents to Docket Nos. 2000-1 and 2000-2 settle with the Commission by entering into one or more Stipulations and Orders with the Commission; or

b. The applicable statute of limitations for Consultant II to sue the Crescendo Entities to recover any of the Payments has expired or, in the event Consultant II brings, against the Crescendo Entities, a suit or counterclaim in state or federal court or in a proceeding before any other tribunal of competent jurisdiction within the applicable statute of limitations, such proceeding between Consultant II and the

Crescendo Entities is settled, or resolved in favor of the Crescendo Entities and all appeals have been exhausted or no appeal has been brought by Consultant II and the time for it to bring such an appeal has expired; or

c. The Commission finds the respondents to Docket Nos. 2000-1 and 2000-2 to be in violation of the Code pursuant to Conn. Gen. Stat. § 1-93(b) and all appeals by the respondents to Docket Nos. 2000-1 and 2000-2 from this finding have been exhausted and resolved in favor of the Commission or the Commission's finding of a violation by the respondents to Docket Nos. 2000-1 and 2000-2 becomes a final, non-appealable order by virtue of the failure of the respondents to Docket Nos. 2000-1 and 2000-2 to pursue a timely appeal from the order; or

d. Any interpleader proceeding is settled as to Consultant II or a final judgment, order or award is entered in the interpleader proceeding which requires that portion of the Payments (which otherwise would have been owed to Consultant II) to be paid to the State of Connecticut. All orders, awards, or judgments shall be deemed final only after the exhaustion or default of all rights to appeal, reconsider, or otherwise review or alter the order, award, or judgment.

9. The Commission will not oppose the procedure of an interpleader action filed by the Crescendo Entities in state court in Connecticut as to the Payments.

10. The Commission agrees that in no case will it claim that any of the Crescendo Entities should make the Payments, or any portion thereof, to both the State of Connecticut and the Consultants.

11. The Crescendo Entities represent and warrant that one or more of them has control over the Payments outlined in Paragraph 5 above. The Crescendo Entities further represent and warrant that they have the authority to enter into this Stipulation and Order which requires that the Payments first be transferred to the Trust Account and that all or a portion of the Payments be made to the Connecticut Retirement Plans and Trust Funds only after the occurrence of any one of the contingencies outlined in Paragraphs 6-8 above, respectively.

12. The Crescendo Entities shall submit to the Commission simultaneously with their execution of this Stipulation and Order any and all documents which refer, reflect or relate to the matters referenced in the Complaint with the exception of any documents subject to the attorney-client privilege or work-product doctrine. The Crescendo Entities shall, simultaneously with their execution of this Stipulation and Order, provide to the Commission a privilege log of any withheld document. The Crescendo Entities and the Commission agree that any disagreement that may arise between them with respect to any claim of privilege will promptly be submitted to a court of competent jurisdiction for resolution.

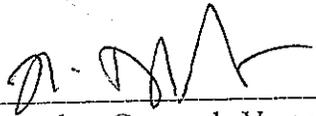
13. The Crescendo Entities shall cooperate with any further Commission enforcement proceedings relevant to the matters referenced in the Complaint and/or Docket Nos. 2000-1, 2000-2 and 2000-3 (the "Proceedings"). This cooperation includes providing all non-privileged information relevant to matters identified in the Complaint, identifying persons with knowledge of any facts

relevant to the matters referenced in the Complaint, and providing live and sworn testimony if the Commission staff deems such testimony necessary and relevant to the Proceedings.



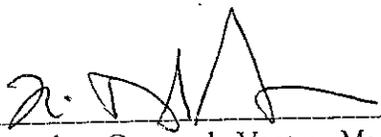
Chairperson, State Ethics Commission

3 JULY 01
Date



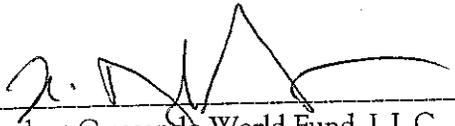
Respondent Crescendo Ventures III, L.L.C.

effective July 3, 2001
Date



Respondent Crescendo Venture Management, L.L.C.

effective July 3, 2001
Date



Respondent Crescendo World Fund, L.L.C.

effective July 3, 2001
Date