

notorious Ponzi scheme. The other defendants are Acorn Capital Group, LLC (“Acorn”) and Stewardship Investment Advisors, LLC (“Stewardship IA”), two closely-held companies which Quan utilized to manage several hedge funds and perpetrate his fraud. Relief Defendant Asset Based Resource Group, LLC (“ABRG”) is a successor entity to Acorn. Relief Defendant Florene Quan is the wife of Defendant Marlon Quan.

2. From 1995 to September 2008, Thomas J. Petters perpetrated a massive Ponzi scheme through the sale of promissory notes (“Notes”) to investors, many of which were private, unregistered hedge funds. Petters represented to investors that he used their funds to finance the purchase of merchandise for re-sale to “big box” retailers such as BJ’s Warehouse, Wal-Mart, and Costco (“Retailers”). In reality, Petters misappropriated the investors’ money to pay fictitious returns to previous investors and to pay his own business and personal expenses. Petters’s scheme collapsed in September 2008, when criminal authorities seized all assets held by Petters and his companies and this Court appointed a Receiver to administer those assets.

3. Quan is a Connecticut-based money manager. Through his closely-held companies, Acorn and Stewardship IA, Quan managed and provided services to three hedge funds (“Quan Hedge Funds” or “Funds”). One of the Quan Hedge Funds was organized under the laws of Delaware, while the other two were organized offshore. All of Quan’s entities shared the same office in Greenwich, Connecticut.

4. Quan joined forces with Petters in approximately 2001. Through Acorn and Stewardship IA, Quan purchased Notes from Petters for several of the Quan Hedge Funds. Altogether, from 2001 through 2008, Quan took in over \$459,077,561 from at

least 165 individuals and entities who invested in his hedge funds. Quan reportedly transferred the majority of this amount, in the hundreds of millions, to entities controlled by Petters. The Notes Quan purchased were all issued by Petters-controlled special purpose vehicles. After November 2004, all the Notes Quan purchased were issued by one Petters special purpose vehicle, PAC Funding, LLC (“PAC Funding”). Another Petters-controlled entity, Petters Co., Inc. (“Petters Co.”), handled all the funds that were transferred between Petters and Quan.

5. From 2001 to 2008, Quan, Acorn, and Stewardship IA received more than \$93 million in fees from the Quan Hedge Funds.

6. Quan, personally and through his employees, provided investors and prospective investors with written materials on behalf of Stewardship IA and Acorn. The written materials touted several procedures that Acorn purportedly undertook to protect the investors in the Quan Hedge Funds, including:

- a. requiring the Retailers to make payments into a lock box account, which Acorn controlled;
- b. retaining a major accounting firm to examine the books of the Petters entities that sold the Notes;
- c. obtaining insurance against risks of default or loss; and
- d. conducting full due diligence and review of each transaction prior to funding.

7. The foregoing representations were all deliberate falsehoods. Quan, Acorn, and Stewardship IA implemented none of these safeguards.

8. In sworn testimony during the Commission's investigation, Quan admitted he learned as early as 2001 that Petters entities, not the Retailers, were making the payments into the lock box account.

9. Then in 2005, AG Deutsche Zentral-Genossenschaftsbank Frankfurt Am Main ("DZ Bank"), a German lender, discovered that the lock box account did not function as Quan represented in his offering materials. DZ Bank learned that Petters Co., not the Retailers, was making the payments into the lock box account. DZ Bank made this discovery in the course of performing due diligence for a line of credit to Acorn. Personnel of DZ Bank warned Quan's employees that the lock box arrangement was being breached.

10. Despite his knowledge, Quan, personally and through his employees, continued to misrepresent to investors that the Retailers, as opposed to Petters Co., were making payments into the lock box account.

11. Quan also admitted in sworn testimony that he never retained an accounting firm to examine or audit the books of the parties that executed Notes with Acorn.

12. Quan further admitted that he never purchased insurance against risks of default or loss. Nevertheless, Quan, personally and through his employees, continued to misrepresent to investors that an auditor had been hired to perform the promised examinations and that the promised insurance had been obtained.

13. Contrary to Quan's representations regarding the high level of due diligence, Acorn's due diligence essentially consisted of comparing one set of documents provided by Petters's agents with another set of documents provided by Petters's agents.

Not surprisingly, the documents provided by Petters's agents all agreed with each other.

14. In late 2007, PAC Funding began defaulting on the Notes held by the Quan Hedge Funds. From November 2007 through May 2008, ninety-two of the Notes, worth \$273 million in principal, went into default. Instead of disclosing these defaults to his investors, Quan falsely assured existing and new investors that the Quan Hedge Funds were doing well.

15. Beginning in November 2007, Quan also embarked on a series of convoluted transactions in which he exchanged \$187 million with Petters Co. in "round trips" which created a false appearance, particularly to the Funds' outside auditor, that PAC Funding was paying off the Notes.

16. In February 2008, Quan took an additional step to conceal PAC Funding's defaults. That month Quan negotiated an arrangement with PAC Funding under which Quan gave up the rights to the collateral that supposedly underlay existing Notes in exchange for "new" collateral for the defaulted Notes, effectively rolling over the defaulted Notes into new Notes.

17. Quan took still more steps in February 2008 to conceal Petters's defaults. Quan had previously represented to investors that, as a safeguard, he would establish a cash collateral account into which sellers of Notes, i.e., PAC Funding, would be required to deposit 10% in cash for each outstanding Note. According to Quan, this bank account would be controlled by Acorn.

18. As of February 2008, the account contained slightly more than \$26 million. On February 29, 2008, as a result of his negotiations with Petters, Quan transferred \$6.7

million from the account to investors in the Quan Hedge Funds and disguised the transfers so that they appeared to be interest payments on the defaulted Notes. That very same day, Quan transferred the remaining \$20 million from the account to Petters Co. Quan concealed this transfer from his investors.

19. Even now, Quan is continuing his fraud against his investors. Within the next few business days, ABRG is scheduled to receive approximately \$14 million from the Petters Receiver in settlement of various claims among Quan's entities, DZ Bank, the Bermuda Liquidator for Quan's offshore funds, and the entities controlled by the Receiver.

20. ABRG is a successor to Acorn. It is controlled by two individuals who, at all times relevant to this Complaint, were employed and controlled by Quan. Acorn assigned to ABRG its claims arising in connection with the Petters Notes.

21. Quan, despite his glaring conflict of interest, through ABRG has negotiated settlement agreements on behalf of his U.S. investor-victims. As a result of these settlement agreements, ABRG will receive a total of \$14 million from the Petters Receiver and the Polaroid Trustee on March 25 or 28, 2011. Quan has agreed that \$5,954,298 of this payment will be paid to DZ Bank, \$7,059,201 will be paid to the Bermuda Liquidator, and over \$862,500 will be directed to pay Quan's lawyers and other expenses. Quan's U.S. victims will receive nothing. The disbursement of the \$14 million is to take place as soon as the money is received.

22. ABRG's claim to the payment derives solely from Acorn's assignment to it of certain claims; ABRG has no independent basis upon which to claim this payment.

The claims, and the settlement thereof, arose from the fraudulent activity of the Defendants as set forth in this Complaint.

23. The \$14 million belongs to the investor-victims of the Defendants' fraud. Indeed, ABRG could not have entered into the settlement without the approval of the investor-victims of Quan's Hedge Funds. Quan, in an incurable conflict-of-interest, purported to provide that consent on behalf of those investors through the Quan Hedge Funds.

24. As a result of the foregoing, Defendants Quan, Acorn, and Stewardship IA, directly and indirectly, have engaged in and, unless enjoined, will continue to engage in transactions, acts, practices and courses of business which violate Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §77(q)(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] promulgated thereunder.

25. As a result of the foregoing, Defendants Quan and Stewardship IA, directly and indirectly, have engaged in and, unless enjoined, will continue to engage in transactions, acts, practices and courses of business which violate Section 206(4) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-6(4)] and Rule 206-4(8) [17 C.F.R. § 275.206-4(8)] thereunder.

26. As a result of the foregoing, Defendant Quan, has engaged in and, unless enjoined, will continue to engage in transactions, acts, practices and courses of business which, directly or indirectly, aid and abet violations by Stewardship IA of Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206-4(8) [17 C.F.R. § 275.206-

4(8)] thereunder.

27. The Commission brings this lawsuit to hold the Defendants accountable for their flagrant and repeated violations of the federal securities laws; to freeze the assets of the Defendants and Relief Defendant; to recover available funds for the benefit of the Defendants' victims; and to prevent further harm to investors.

JURISDICTION AND VENUE

28. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u(e)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)].

29. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v], Section 27 of the Exchange Act [15 U.S.C. § 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. § 1331.

30. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

31. Acts, practices, and courses of business constituting violations alleged herein have occurred within the jurisdiction of the United States District Court for the District of Minnesota and elsewhere.

32. Quan, Stewardship IA, Acorn, and ABRG, directly and indirectly, made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein.

33. Quan, Stewardship IA, and Acorn, will, unless enjoined, continue to engage in the acts, practices, and courses of business set forth in this Complaint, and acts, practices, and courses of business of similar purport and object.

DEFENDANTS

34. **Marlon M. Quan**, age 53, resides in Greenwich, Connecticut. He is the managing member and principal owner of Defendant Stewardship IA and the CEO and principal owner of Defendant Acorn. Quan founded both Stewardship and Acorn in 2001. During the years 2001 through 2008, Quan controlled Acorn and Stewardship IA.

35. **Stewardship Investment Advisors, LLC** is Delaware limited liability company controlled by Quan. Quan registered Stewardship IA with the Commission as an investment adviser in 2005. During the years 2001 through 2008, Stewardship IA was the vehicle through which Quan made all investment decisions for the Quan Hedge Funds, including Stewardship Credit Arbitrage Fund, LLC (“SCAF LLC”), which was organized in Delaware in 2001, and Stewardship Credit Arbitrage Fund, Ltd. (“SCAF Ltd.”), which was incorporated in Bermuda in 2001.

36. **Acorn Capital Group, LLC** is a Delaware limited liability corporation controlled by Quan. Acorn and Stewardship IA share office space in Greenwich, Connecticut. During the years 2001 through 2008, Acorn provided investment opportunities for the Quan Hedge Funds, including SCAF LLC and SCAF Ltd.

RELIEF DEFENDANTS

37. **Asset Based Resource Group, LLC** is a Connecticut limited liability company which was incorporated in 2009. The two principals of ABRG are Paul Seidenwar and Mark Sullivan, both of whom were employees of Acorn. ABRG describes itself as a successor to Acorn. The expenses of ABRG are paid by DZ Bank and the Bermuda Liquidator.

38. **Florene Ho Quan**, age 52, resides in Greenwich, Connecticut with her husband Marlon Quan. In July 2008, when Quan's fraudulent scheme was collapsing, Quan transferred to his wife, the deeds to two pieces of real estate located in Maui, with reported respective values of \$2,396,900 and at least \$1,500,000, in exchange for only nominal consideration.

PETTERS RAN A MULTI-BILLION DOLLAR PONZI SCHEME THROUGH THE PUBLIC OFFER AND SALE OF NOTES

39. From 1995 to September 2008, Petters perpetrated a \$3.5 billion Ponzi scheme in which he offered and sold promissory notes to over 20 investors, most of which were hedge funds or other institutions.

40. Petters represented to these investors that he would use the Note proceeds to provide financing for Petters Co., his private corporation which served as the venture capital and financing arm of certain businesses operated by Petters Group Worldwide. Petters represented to investors that Petters Co. received large purchase orders, usually for high-quality electronic merchandise, from well-known "big box" Retailers such as

Wal-Mart, Costco, Sam's Club, and BJ's Wholesale Club. He further represented that all of the underlying transactions were short-term, lasting at most 180 days, and that the Retailers picked up the merchandise directly from the suppliers' warehouses.

41. Investors purchased Notes for the sole purpose of obtaining investment returns. Petters paid interest on each Note at annualized rates of up to 16%.

42. Although Petters raised more than \$3.5 billion for inventory and purchase order financing, there were no Retailers and none of the underlying transactions actually took place. Instead, Petters perpetrated a massive Ponzi scheme in which he misappropriated investor funds to support his other business enterprises, pay for his personal expenses, and funnel the remainder back to provide returns to earlier investors.

QUAN'S HEDGE FUND COMPLEX

43. Quan owned and controlled both Stewardship IA, an investment advisor registered with the SEC since 2005, and Acorn, a commercial financing company.

44. Through Stewardship IA, Quan managed the Quan Hedge funds, some of which were organized in Delaware and others of which were organized offshore. Included among the Quan Hedge Funds were SCAF LLC and SCAF Ltd. SCAF Ltd and SCAF LLC were the two largest of Quan's Hedge Funds. Together, they accounted for almost all of the investors' money.

45. From 2003 through September 2008, Quan, and others employed by him, raised over \$252,000,000 by selling interests in SCAF LLC to investors.

46. From 2006 through 2008, Quan, and others employed by him, raised more

than \$206,000,000 by selling interests in SCAF Ltd. to investors.

47. Quan likely raised more money through the sale of interests in SCAF LLC and SCAF Ltd. However, because Quan and Stewardship IA do not possess complete accounting records covering the entire period from 2001 through 2008, the total amount of money Quan raised from investors has yet to be determined.

48. As of 2008, 110 investors were invested in SCAF LLC and SCAF Ltd. Approximately 60% of these investors were hedge funds; 10-20% were companies of various types; 10-20% were individuals; and 5% were charities.

49. Quan operated both Acorn and Stewardship IA using the same office space and many of the same employees.

50. Stewardship IA charged SCAF Ltd. and SCAF LLC a quarterly performance fee, equal to approximately 20% of the increase in each Fund's NAV, and a monthly management fee of approximately 1% per year of each Fund's NAV.

51. From 2001 through 2008, Stewardship IA received \$46,283,488 in gross performance and management fees, of which Quan personally received \$33,049,628.

52. In addition to receiving performance and management fees through Stewardship IA, Quan received still more fees through Acorn.

53. Acorn charged the Quan Hedge Funds "origination" fees, "consulting" fees, and "servicing" fees.

54. From 2001 through 2008, Acorn received \$47,688,033 in fees from SCAF LLC and SCAF Ltd.

55. The services Acorn was supposed to provide to the Quan Hedge Funds

included due diligence and safeguard procedures in connection with the purchase of Petters Notes.

QUAN INVESTED HEAVILY IN PETERS NOTES

56. As the Managing Member of Stewardship IA, Quan made all investment decisions for the Quan Hedge Funds, including SCAF LLC and SCAF Ltd.

57. Quan used his control over the Quan Hedge Funds to invest heavily in Petters Notes. In particular, he invested the majority of the assets of SCAF LLC and SCAF Ltd. in Petters Notes.

58. Acorn, under Quan's direction, purchased Notes from Petters entities. Acorn executed several contracts with Petters entities, including a Credit Agreement and a Security Agreement. After November 2004, all the Notes were issued by PAC Funding and all the contracts were between Acorn and PAC Funding.

59. The Security Agreements established terms regarding collateral and other safeguards, including the right of Acorn to directly contact Retailers in the event of any defaults.

60. Under Quan's direction, the Funds purchased Notes from Acorn with investor money.

QUAN FRAUDULENTLY SOLICITED INVESTMENTS IN HIS HEDGE FUNDS

61. Quan and his employees, acting on behalf of Stewardship IA and Acorn, began issuing private placement memoranda ("PPMs") for SCAF LLC and SCAF Ltd. in

May 2001. Quan had final approval as to the content of each PPM. Persons working for Quan sent PPMs, on behalf of Stewardship IA and Acorn, to all current investors and to anyone who requested one.

62. The PPMs stated that the Funds' "Primary Investment Strategy" was purchasing Notes from Acorn which provided financing to commercial entities.

63. Quan and his employees, acting on behalf of Stewardship IA and Acorn, also disseminated other marketing materials to investors and potential investors. Until at least January 2008 these materials contained diagrams showing how the lockbox account worked, with Retailers making payments directly into the lockbox, and Acorn controlling the disbursement of funds out of the lockbox. The marketing materials also stated that accounting firms would audit the books of Petters and other distributors, that onsite field examinations were conducted, that each transaction was subject to a full review prior to funding, and that "full due diligence on Borrower" was conducted prior to commitment. Quan and his employees also met with existing and prospective investors and made oral statements concerning the Funds.

64. Quan and his employees, and through them Stewardship IA and Acorn, misled existing and prospective investors about the risks and returns of investing in the Quan Hedge Funds.

Lockbox Account

65. From 2001 through 2008, Quan and his employees, acting on behalf of Stewardship IA and Acorn, represented to investors, orally, in the PPMs, and in other

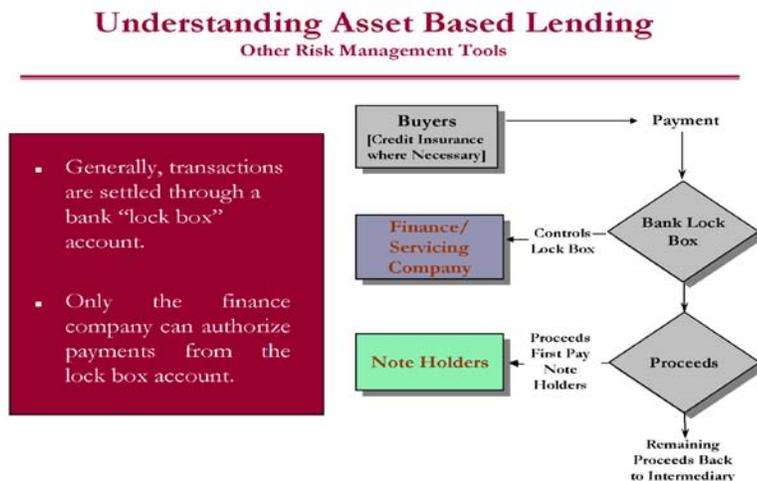
marketing materials that one significant safeguard consisted of the “lockbox” account.

66. Every PPM stated that Acorn “required” payments to be made into a lockbox account.

67. Stewardship IA’s marketing materials included diagrams (such as the one shown below) which showed “Buyers” (that is, Big Box retailers such as Sam’s Club) making Note payments directly into a “Bank Lock Box” account.

68. The diagrams indicated that Acorn (the “Finance/ Servicing Company”) controlled the lockbox account and that only Acorn could authorize payments from the lockbox account.

69. According to the diagram, Acorn would first direct disbursements from the lockbox account to pay Note Holders, i.e., the Quan Hedge Funds. Acorn would then direct any funds remaining in the lockbox to the Intermediary, i.e., Petters-controlled entities.



70. The lockbox account, and the representations regarding the manner in

which it functioned, constituted a key protection for Fund investors. Quan and his employees led investors to believe that Quan, through Acorn, would control and monitor the flow of money into and out of the lock box account. This purported arrangement minimized the risk of a Ponzi scheme or other improper diversions of the investors' money.

71. The purported lockbox arrangement, however, was a sham.

72. Quan admitted in sworn testimony during the Commission's investigation that he had known since 2001 that Petters Co., rather than any Retailers, was making the payments into the lockbox account.

73. Moreover, in 2005, the German bank known as DZ Bank discovered that Petters Co., not the Retailers, was making payments into the lockbox account. Personnel from DZ Bank warned Quan and several of his employees that the lockbox account was not functioning as represented.

74. Nevertheless, Quan and his employees, acting on behalf of Stewardship IA and Acorn, continued to distribute offering materials which falsely portrayed Acorn as controlling the lockbox account and the Retailers as making payments into the account.

Examinations by a Major Accounting Firm

75. Quan and his employees distributed marketing materials, on behalf of Stewardship IA and Acorn, which represented that Stewardship IA would retain a "[m]ajor accounting firm . . . to examine the books" of the entities that issued the Notes.

76. Quan admitted in testimony that the representation about the purported

examinations was false. No accounting firm was ever retained to examine the books of PAC Funding.

Insurance

77. The PPMs distributed by Quan and his employees, acting on behalf of Stewardship IA and Acorn, represented that Acorn would obtain insurance policies to protect against risks of default or loss on the Notes and that Acorn would be designated as a beneficiary of the policies.

78. This representation was a complete fabrication. Quan admitted in sworn testimony during the Commission's investigation that he never purchased the promised insurance policies.

Acorn's Due Diligence

79. Quan and his employees, acting on behalf of Stewardship IA and Acorn, represented that Acorn, in exchange for its "origination" fees, conducted "Full Due Diligence on Borrowers prior to commitment" to the purchase of any Note. In fact, neither Quan, Stewardship IA, nor Acorn performed any meaningful due diligence review of Petters's entities.

80. What passed for due diligence was performed by a single employee with no prior experience in purchase order or inventory financing. This employee's due diligence efforts consisted primarily of comparing information from one set of documents provided by Petters with information from another set of documents provided by Petters.

81. The Security Agreement underlying each Note transaction gave Acorn the right to directly contact the Retailers in order to verify the transactions. Nevertheless, Acorn never performed the basic due diligence of contacting Retailers to independently verify the existence of the underlying transactions. Had Quan taken this obvious step, Petters's fraud likely would have been brought to a sudden halt.

82. Indeed, Quan, Stewardship IA, and Acorn failed to perform adequate due diligence even after becoming aware of red flags regarding Petters's background. On May 22, 2005, a potential investor emailed Stewardship IA, stating that a third party "report indicated that Mr. Petters's background includes a criminal history (fraud or forgery convictions, possibly with prison time served), along with significant civil litigation, including a recent \$5 million fraud suit." The investor then asked if "special precautions" had been taken to protect "against any adverse consequences of that relationship...."

83. Quan told the investor he had checked with Petters and that Petters denied having a criminal record and said he planned to sue the company that had produced the report. Quan never even asked the investor for a copy of the background report.

84. In fact, Petters had been convicted of several felonies, including a 1983 conviction for writing a bad check, a 1989 conviction for forgery (for which he served time in prison), and a 1990 conviction for theft by check.

BEGINNING IN 2007, QUAN ACTED TO CONCEAL PETTERS'S FRAUD

Quan Covered Up Repeated Defaults by PAC Funding

85. Beginning in approximately November, 2007, PAC Funding was unable to pay off several Notes held by the Quan Hedge Funds.

86. From May 2007 through October 2007, a Petters employee repeatedly asked Quan to extend the maturity dates of defaulted Notes, so that PAC Funding would have more time to pay them. Quan typically agreed to extend the Notes by 30 days. Through October 2007, PAC Funding managed to pay off the defaulted Notes by the extended maturities.

87. But at the end of 2007, PAC Funding became unable to pay off Notes, even with the extended maturities. By January 3, 2008, PAC Funding had defaulted on at least eight Notes totaling at least \$27 million. By January 31, 2008, as additional Notes matured, PAC Funding was in default on \$47.75 million of Notes. By mid-February 2008, defaults had ballooned to approximately \$119 million.

88. The Defendants did not disclose the defaults to investors in the Quan Hedge Funds.

89. Instead, Quan and his employees, acting on behalf of Stewardship IA and Acorn, continued sending out monthly statements to investors in the Funds which reported positive rates of return. These monthly statements communicated the false message that things were continuing to go well, as they had without change or interruption, since the inception of the Funds.

90. To make matters worse, Quan continued to solicit investments from new and existing investors without disclosing the fact that PAC Funding was in default of the Notes. As a result, at least 15 investors placed \$8.9 million in SCAF LLC during the first four months of 2008, and at least seven investors placed an additional \$12.6 million in the SCAF Ltd. during that same period.

Fictitious “Round Trip” Transactions

91. Beginning on November 28, 2007 and continuing through April 16, 2008, Quan concealed PAC Funding’s inability to make Note payments by agreeing to conduct a series of so-called “round-trip” transactions.

92. Quan agreed on repeated occasions that when Petters Co. wired money to Acorn as purported repayment of an outstanding PAC Funding Note, Quan would return the money to Petters Co. within approximately 24 hours under the guise of an investment in a new Note.

93. In total, Quan recycled nearly \$187 million through this means, thereby creating the appearance that PAC Funding was repaying its Notes.

94. In a number of instances, Petters’s personnel sent Quan and his employees emails that set forth what amounted to quid pro quos, stating that PAC Funding would pay off a Note that was about to mature if, on the next business day, Acorn would return the money in the guise of purchasing a new Note.

95. In one such instance, a Petters employee emailed Quan and one of Quan’s employees on March 12, 2008, stating:

I'll have about 6.5mm to 7mm on Friday that I can use to pay off a couple notes Friday if you're able to put the money back to work on Monday or Tuesday. The funds are [Petters Co.'s] and need to be used for a couple deals, but if you're able to do the deals Monday or Tuesday, I could use the funds to pay off a couple old notes.

96. Two days after this email, Petters Co. wired \$6,567,485 to Acorn on a Friday, ostensibly to pay off Notes 796 and 797. Acorn then wired \$6,921,188 back to Petters Co. on the following business day, purportedly to buy two new Notes. The same day the Petters employee received the money from Acorn, she immediately emailed Acorn again, asking "If we pay PAC 798 and PAC 800 off on Tuesday (tomorrow), can you fund 2 new Sam's deals on Wednesday for \$4,335,000 and \$2,745,400?" Bank records disclose that Petters Co. then wired a total of \$7,788,735 to Acorn on Tuesday and on Thursday Acorn wired \$7,080,400 back to Petters Co.

97. In other words, over six days, Petters Co. wired \$14,356,220 to Acorn and Acorn wired \$14,001,588 back to Petters Co.

98. By engaging in these spurious roundtrip transactions, Quan, Stewardship IA, and Acorn concealed from investors the facts that PAC Funding, not the Retailers, was paying off the Notes and that PAC Funding did not have sufficient money to repay the Notes.

99. Meanwhile, Quan, Stewardship IA, and Acorn continued to receive fees and to solicit new investments for the Funds.

Quan Secretly Renegotiated His Agreement with Petters

100. Because of PAC Funding's defaults, Quan could have foreclosed on the

underlying collateral for the defaulted Notes. Quan, however, did not take the simple step of foreclosing. Instead, Quan secretly negotiated with Petters to obtain payments and new collateral for the defaulted Notes.

101. Quan's failure to exercise his existing foreclosure rights betrays his knowledge that the "collateral" supporting the Notes was either nonexistent or worth materially less than PAC Funding claimed.

February 29, 2008 Security Agreement with Polaroid

102. In February 2008, the Polaroid Corporation appeared to be the only company Petters controlled which was economically viable. Quan therefore arranged for Petters to have Polaroid execute a Security Agreement with Acorn.

103. Pursuant to the Agreement, entered into on February 29, 2008, Polaroid guaranteed the obligations PAC Funding owed to Acorn and provided Acorn with a first priority lien on Polaroid's U.S. inventory and accounts as security for that guarantee.

104. The Defendants did not disclose the Security Agreement with Polaroid to investors in the Quan Hedge Funds.

February 29, 2008 Forbearance Agreement with Petters

105. Also on February 29, 2008, Quan secured from PAC Funding and Petters a "Forbearance Agreement." This Agreement acknowledged PAC Funding's defaults on the Notes and provided that Acorn would forbear from foreclosing on the collateral underlying the defaulted Notes for 120 days while it simultaneously released its interest

in this collateral and received “evidence” that PAC Funding owned \$112 million of collateral to be sold to different Retailers. In effect, Quan and Petters agreed to “roll-over” the \$112 million of defaulted Notes into new Notes that would be backed by \$112 million worth of new collateral.

106. The fact that Quan negotiated for the substitution of new collateral is a further indication of Quan’s doubts as to the existence and adequacy of the earlier collateral.

107. Moreover, Quan did not obtain verifiable proof of the existence or value of the new collateral.

108. The Defendants did not disclose the Forbearance Agreement to investors in the Quan Hedge Funds.

Quan Siphoned Money from the Blocked Account

109. The marketing materials Quan and his employees used to solicit investors for the Funds represented that, in addition to the supposed safeguards described above, “additional cash collateral is held in a segregated account.” The offering materials explained that because of the cash held in the segregated account (referred to as the “Blocked Account”) the “Borrower” (i.e., Petters) would have “skin in the game.” Quan and some of his employees repeated this representation to investors during due diligence meetings.

110. Consistent with these representations, in November 2004, Acorn and PAC Funding had entered into an agreement establishing the Blocked Account. PAC Funding

actually funded the Blocked Account, and in February 2008 the account held approximately \$26,468,245.

111. Acorn was the only party which could direct transfers out of the Blocked Account. Money deposited in the Blocked Account could be used to pay the Funds in the event some of the Notes went into default.

112. In spite of his representations to investors, however, Quan secretly emptied the Blocked Account in February 2008.

113. Quan directed Acorn to pay the Fund investors \$6.7 million from the Blocked Account, as if the money constituted payment of interest owed by PAC Funding on several of the Notes.

114. At the same time, Quan caused Acorn to transfer the remaining \$20,061,275 balance of the Blocked Account to Petters Co., effectively doing away with the “cash collateral” intended to protect the Funds and their investors.

115. The Defendants never disclosed to the investors that the “interest” payments they received in February 2008 were funded with money from the Blocked Account, rather than with receipts collected from Retailers. The Defendants also concealed the \$20,061,275 payment from the Blocked Account to Petters Co.

The March 2008 Audit

116. A week after the Forbearance Agreement was executed and the collateral swap was completed, Ernst & Young International, the outside auditor for Acorn, Stewardship IA, and the Funds, commenced its audits of those entities.

117. Quan did not disclose to the auditors any information regarding PAC Funding's defaults, the extension of the maturities, the substitution of the so-called "new" collateral, or the resulting rolling over of the defaulted Notes.

118. Quan also did not give the auditors copies of the Forbearance Agreement or the Polaroid Security Agreement.

119. Moreover, as a result of Quan's deceptive practices, including the round trip transactions, the raiding of the Blocked Account, and the collateral swaps, Acorn, Stewardship IA, and the Funds did not record any overdue Notes or defaults on their books.

120. On March 31, 2008, the outside auditor issued an opinion stating that, although it had not been engaged to audit internal controls over financial reporting, it believed the entities' consolidated financial statements fairly presented their financial positions as of December 31, 2007.

Additional Misleading Statements in March and April 2008

121. After the events of February 2008, Quan misled existing and prospective investors about the risks and returns of investments in the Funds.

122. In a March 6, 2008 due diligence status meeting with representatives of an existing institutional investor, Quan indicated that SCAF Ltd. was "in very good shape" and was "100% performing with nothing being worked out."

123. In a March 10, 2008 newsletter to investors, Quan bragged that because of Stewardship IA's "standards, policies and procedures . . . few defaults have occurred . . .

[and] the Funds have experienced little to no write-downs in their respective portfolios.”

124. In April 2008, after a meeting outside of Milan, Italy, with representatives of an Italian institutional investor, Quan sent the representatives an email asking them to consider SCAF Ltd. “and its stable performance as an investment.”

125. Quan made the foregoing statements with the knowledge that they were false and misleading.

Quan Secretly Renegotiates the Security Agreement in May 2008

126. PAC Funding continued to default on payment obligations into May 2008. Quan responded by negotiating an Amendment to the Credit Agreement between Acorn and PAC Funding which canceled all the outstanding Notes that had been acquired by Acorn and assigned to the Funds. Acorn then replaced the canceled Notes with new Notes, renamed “Polaroid Notes” for Petters’s largest solvent company.

127. Quan also negotiated an Amended Security Agreement, executed on May 12, 2008, between Polaroid and Acorn, again obtaining Polaroid’s guarantee of all of PAC Funding’s obligations to Acorn. In contrast to the February 2008 Security Agreement, the May 2008 Security Agreement provided even more security from Polaroid, including all Polaroid’s North American trademark rights.

128. Quan’s continuing efforts to acquire even more collateral reflected still more his recognition that the collateral underlying the Notes was insufficient or nonexistent.

129. Quan did not disclose any of these events to Fund investors.

AS PROBLEMS MOUNTED, QUAN ATTEMPTS TO SELL HIS BUSINESS

130. In early February 2008, Quan initially sought a loan from Fortress Investment Group LLC (“Fortress”). Fortress asked for information including Acorn’s “most recent credit writeup for PAC” and Stewardship IA’s “due diligence program for PAC, including results/findings....”

131. Quan needed to obtain some of the requested financial information directly from PAC Funding and advised Tom Petters in a “for your eyes only” email dated February 19, 2008 that “we have a direct inroads to additional liquidity. However, we need to resolve the current problems at hand. Can you call me. I really do need to speak to you asap.”

132. Although Petters would not give Quan financial statements, Quan directed Acorn employees to continue providing Fortress with information in the hope that Acorn might either receive a loan from Fortress or even sell its PAC Funding business to Fortress.

133. On March 26, 2008, Quan was copied on a memo in which an Acorn employee informed Fortress that over the 2007 holiday season, Retailers had extended their terms to their vendors. The employee then stated that Acorn in turn “on advice of counsel [and] with agreement of the noteholders” had in turn extended the maturities of Petters Notes affected by these developments. Both representations were patently false.

134. On March 28, 2008, Fortress sought to confirm its understanding that Retailers made payments directly into Acorn’s lockbox. Following due diligence,

Fortress learned this was not true. Fortress decided not to loan Acorn money or to purchase its PAC Funding business.

THE QUAN HEDGE FUNDS IMplode

135. On October 8, 2007, the largest investor in SCAF Ltd., Gottex ABL Ltd. (“Gottex”), asked to redeem all its \$90 million investment in the Fund. SCAF Ltd. did not have enough money to honor this withdrawal request, so Quan negotiated an agreement under which Gottex agreed to postpone its redemption until March 31, 2008.

136. On March 31, 2008, however, SCAF Ltd. still did not have sufficient cash to honor Gottex’s redemption request. Quan stalled, offering a series of excuses and proposing several alternatives.

137. Finally, on May 23, 2008, Gottex filed two lawsuits, one in the U.S. District Court for the District of Connecticut against Quan and Stewardship IA and one in Bermuda against SCAF Ltd.

138. Stewardship IA stopped calculating net asset value for the Funds after May 31, 2008.

139. On June 10, 2008, SCAF Ltd. announced that it would stop paying redemptions and on June 20, 2008, SCAF LLC also suspended redemptions.

140. On July 17, 2008, Quan transferred the deeds of two properties he owned in Maui to his wife, Relief Defendant Florene Quan, in exchange for only nominal consideration. The estimated market value of these properties was then \$2,396,900 and at least \$1,500,000, respectively. Quan’s Maui properties were proceeds of the

Defendants' fraud as set forth in this Complaint.

141. Relief Defendant Florene Quan has no legitimate right to the two Maui properties she obtained from Defendant Quan in July 2008. She also has no legitimate right to any other assets, obtained from the Defendants' fraud, which she shares with Quan.

142. On August 14, 2008, Acorn filed a lawsuit against Tom Petters in the U.S. District Court for the Southern District of New York alleging that PAC Funding had defaulted on over \$273 million in principal of Notes, thus triggering Petters's obligations as a guarantor and giving Acorn the right to accelerate its loans. Acorn voluntarily dismissed its Complaint without prejudice to refile, following the appointment of a Receiver over Petters's assets in October 2008, and the entry of an injunction against further prosecution of civil actions against him.

143. On November 27, 2008, the Bermuda Supreme Court placed SCAF Ltd. under the control of Liquidators.

144. Quan, Stewardship IA, and Acorn have been named as defendants in numerous civil lawsuits since 2008, including a lawsuit by an investor, which bought \$3 million shares of Acorn from Quan on August 20, 2008, a lawsuit by one of Acorn's lending banks, lawsuits by at least three investors, and a lawsuit by the Receiver for Petters's estate.

COUNT I

Violations of Section 17(a)(1) of the Securities Act

(Against All Defendants)

145. Paragraphs 1 through 144 are realleged and incorporated by reference as though fully set forth herein.

146. By engaging in the conduct described above, Quan, Stewardship IA, and Acorn, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have employed devices, schemes and artifices to defraud.

147. Quan, Stewardship IA, and Acorn acted with scienter.

148. By reason of the foregoing, Quan, Stewardship IA, and Acorn violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

**Violations of Sections 17(a)(2) and (3) of the Securities Act
(Against All Defendants)**

149. Paragraphs 1 through 144 are realleged and incorporated by reference as though fully set forth herein.

150. By engaging in the conduct described above, Quan, Stewardship IA, and Acorn, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have:

- a. obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the

statements made, in light of the circumstances under which they were made, not misleading; and

- b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

151. By reason of the foregoing, Quan, Stewardship IA, and Acorn have violated Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2)-(3)].

COUNT III

Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 (Against All Defendants)

152. Paragraphs 1 through 144 are realleged and incorporated by reference.

153. By engaging in the conduct described above, Quan, Stewardship IA, and Acorn, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon other persons.

154. Quan, Stewardship IA, and Acorn acted with scienter.

155. By reason of the foregoing, Quan, Stewardship IA, and Acorn violated

Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

COUNT IV

**Violation of Advisers Act
Section 206(4) and Rule 206(4)-8 Thereunder
(Against Quan and Stewardship IA)**

156. Paragraphs 1 through 144 are realleged and incorporated by reference.

157. At all times relevant to this Complaint, Quan and Stewardship IA acted as investment advisers as defined under the Advisers Act. Quan and Stewardship IA managed the investments of the Quan Hedge Funds in exchange for compensation in the form of performance and management fees.

158. By engaging in the conduct described above, at all times alleged in this Complaint, Quan and Stewardship IA, while acting as investment advisers, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: engaged in acts, practices or courses of business which are fraudulent, deceptive, or manipulative. Quan and Stewardship IA made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that was fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

159. By reason of the foregoing, Quan and Stewardship IA have violated Section

206(4) of the Advisers Act. [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 [17 C.F.R. 275.206(4)-8] thereunder.

COUNT V

**Aiding and Abetting Violations of the Advisers Act
(Against Quan)**

160. Paragraphs 1 through 144 are realleged and incorporated by reference.

161. At all times relevant to this Complaint, Stewardship IA acted as an investment adviser as defined under the Advisers Act.

162. As more fully described in paragraphs 1 through 144 above, at all times alleged in this Complaint, Stewardship IA, while acting as an investment adviser, by use of the mails, and the means and instrumentalities of interstate commerce, directly or indirectly: engaged in transactions, acts, practices or courses of business which are fraudulent, deceptive, or manipulative. Stewardship IA also employed devices, schemes or artifices to defraud its clients or prospective clients. Stewardship IA made untrue statements of a material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective in the pooled investment vehicle, and otherwise engaged in acts, practices or courses of business that was fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle. Through its conduct, Stewardship IA violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. §

275.206(4)-8].

163. Quan owned and controlled Stewardship IA and was generally aware of all of its activities.

164. Quan knowingly provided substantial assistance to Stewardship IA in connection with the violations described in Paragraphs 1 through 144 above, and summarized in Paragraph 162 above.

165. By reason of the foregoing, Quan aided and abetted Stewardship IA's violations of Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8] as described in Paragraphs 1 to 144 above and as summarized in Paragraph 162 above.

COUNT VI

(Relief Defendants)

166. Paragraphs 1 through 144 are realleged and incorporated by reference.

167. Defendant Acorn assigned its claims arising in connection with the Petters Notes to Relief Defendant ABRG. As the result of this assignment, ABRG now stands to receive a payment of approximately \$14 million within the next few business days.

168. The money Relief Defendant ABRG will receive constitutes ill-gotten gains from the Defendants' fraud as alleged in this Complaint.

169. Relief Defendant ABRG has no legitimate claim to the ill-gotten funds it will receive from the Defendants or to any assets that the Relief Defendant ABRG has acquired or may acquire with those ill-gotten funds.

170. On or about July 17, 2008, Defendant Quan deeded to Relief Defendant Florene Quan two pieces of real estate located in Maui and reportedly valued at more than \$2 million. Public records describe the transaction as “nominal.” The Maui properties Quan transferred to Relief Defendant Florene Quan are proceeds from the Defendants’ fraud as described in this Complaint. At the time Quan transferred the Maui properties to Relief Defendant Florene Quan, he knew of asserted claims and potential claims against him arising from his conduct as described in this Complaint. Relief Defendant Florene Quan has no legitimate claim to the two Maui properties.

171. On information and belief, Quan and Relief Defendant Florene Quan share assets derived from the Defendants’ fraud as described in this Complaint to which Relief Defendant Florene Quan has no legitimate claim.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that Defendants Quan, Stewardship IA, and Acorn committed the violations charged and alleged herein.

II.

Grant an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently restraining and enjoining Defendants

Quan, Stewardship IA, and Acorn, their agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 CFR § 240.10b-5] thereunder;

III.

Grant an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendants Quan and Stewardship IA, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, that violate Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

IV.

Grant an Order of Permanent Injunction in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendant Quan, his officers, agents, servants, employees, attorneys and those persons in active concert or

participation with them who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, aiding and abetting violations of Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

V.

Issue an Order requiring the Defendants and the Relief Defendants to disgorge the ill-gotten gains that they received as a result of the violations alleged in this Complaint, including prejudgment interest.

VI.

With regard to the violative acts, practices and courses of business of Defendants Quan, Stewardship IA, and Acorn set forth herein, issue an Order imposing upon Quan, Stewardship IA, and Acorn appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

VII.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion

for additional relief within the jurisdiction of this Court.

VIII.

Grant appropriate emergency relief to prevent further secretion or dissipation of assets purchased with investor funds.

IX.

Grant an Order for any other relief this Court deems appropriate.

Plaintiff demands a trial by jury.

Respectfully submitted,

Dated: March 25, 2011

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