UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10111 / July 14, 2016

SECURITIES EXCHANGE ACT OF 1934
Release No. 78325 / July 14, 2016

INVESTMENT ADVISERS ACT OF 1940
Release No. 4452 / July 14, 2016

INVESTMENT COMPANY ACT OF 1940
Release No. 32176 / July 14, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17342

In the Matter of **RD LEGAL CAPITAL, LLC and RONI DERSOVITZ,** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(e) AND 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940 AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(e) and 203(f) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against RD Legal Capital, LLC ("RDLC") and Roni Dersovitz ("Dersovitz," and together with RDLC, "Respondents").

II.

After an investigation, the Division of Enforcement alleges that:

A. SUMMARY

1. Since at least June 2011, Respondents defrauded investors by (i) marketing and selling investments in two funds based on misrepresentations concerning the type and diversification of assets under management in these funds, and (ii) by withdrawing money from the funds using valuations based on unreasonable assumptions, thereby draining the funds of liquidity at the expense of investors.

2. Respondents' misrepresentations to investors were oral and written, and varied both over time and from investor to investor, but their false and misleading statements were consistent in at least one critical respect: Respondents marketed RD Legal-branded funds as opportunities to invest in receivables backed by law firms relating to settled litigation. In fact, since the funds' inception in 2007, Respondents invested the funds' money however they saw fit, including in unsettled cases, cases unaffiliated with any law firm, and other cases for which collection was still subject to litigation risk.

3. By the end of 2011, more than half of the funds' assets were invested in unsettled cases or a default judgment. By December 2013, over 60% of the funds' assets were invested in a default judgment relating to litigation associated with the Iranian terrorist bombing of the United States Marine Barracks in Beirut, and by 2015, the percentage of the funds' investments in unsettled cases or a default judgment rose to over 80% of the funds' assets.

4. By virtue of their conduct, Respondents willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Dersovitz also willfully aided and abetted and caused RDLC's violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

B. RESPONDENTS

5. **Dersovitz**, age 56, is a resident of Tenafly, New Jersey. He is the president and chief executive officer of RDLC, and the owner of RDLC and RD Legal Funding, LLC. He is an attorney licensed in New York and New Jersey. He began operating his legal-financing business through RD Legal Funding, LLC in 2001 and through RDLC in 2007.

6. **RDLC** is a Delaware limited liability company with its principal office in Cresskill, New Jersey. RDLC is the managing partner and investment manager of the investment funds RD Legal Funding Partners, LP and RD Legal Funding Offshore Fund, Ltd., respectively. RDLC was registered with the Commission as an investment adviser from 2009 through August 2014.

C. OTHER RELEVANT ENTITIES

7. **RD Legal Funding Partners, LP** ("RDLP") is a Delaware limited partnership that commenced operations in September 2007. Its principal place of business is in Cresskill, New Jersey. RDLC is the general partner of RDLP.

8. **RD Legal Funding Offshore Fund, Ltd.** ("RDLOF," and together with RDLP, the "Funds") is an exempted company incorporated in September 2007 under the laws of the Cayman Islands and managed from RDLC's offices in New Jersey. The Funds have over 150 current investors who allocated over $150 million to the Funds.

D. BACKGROUND

9. The Funds offered investors preferred returns of 1.06% per month (compounded to 13.5% annually), which the Funds hoped to earn through investments in certain legal receivables. Profits in excess of those returns were allocated to RDLC's capital account, out of which most expenses—and Dersovitz's personal profits—were paid.

10. The Funds' stated strategy was to invest in the legal receivables of attorneys in connection with settlements those attorneys had obtained on behalf of their clients.

11. Contrary to Respondents' many written and oral statements about the nature and concentration of the Funds' investments, the overwhelming majority of the Funds' assets were associated with legal receivables, the collection of which was subject to ongoing—and, at times, protracted—litigation risk. In June 2011, over 40% of the Funds' assets were invested in receivables associated with ongoing litigation. By early 2016, that proportion had ballooned to over 90%.

E. RESPONDENTS' MISREPRESENTATIONS

12. Respondents marketed the Funds as opportunities to profit by purchasing, at a discount, receivables arising primarily from "settled law suits" and, on occasion, other kinds of resolved cases. Respondents' descriptions of the Funds' investments changed over time, but never accurately disclosed the true composition or concentration of investments in the Funds.

i. Respondents Misrepresented the Type and Concentration of Investments in the Funds' Marketing Materials and Offering Documents.

13. Respondents used many different written materials to market the Funds. Dersovitz collaborated with others at RDLC, including RDLC's Director of Investor Relations (the "IR Director"), in generating the Funds' marketing materials. Dersovitz maintained final editorial authority over the contents of the Funds' marketing materials at all times relevant herein.

14. A 2011 RDLC presentation (the "2011 Presentation") stated that the Funds' investment strategy consisted of "purchas[ing] attorney fees only on settled cases," which the presentation claimed constituted "94.99% of the portfolio as of [August 31, 2011]."

15. Subsequent iterations of the 2011 Presentation and other materials given to potential investors similarly falsely stated that:

a. 95% of the Funds' investments consisted of "the purchase of a legal fee at a discount from a law firm, once a settlement has been reached and the legal fee is earned";

b. the purchased receivables "stem primarily from the legal fee" portion of "settlement proceeds";

c. the Funds differ from other legal-funding firms in that they pursue a "'post-settlement' strategy" as opposed to "pre-settlement funding";

d. the dollar value of the legal fee "can be accurately determined" because the litigation is "past the point of potential appeals or other disputes";

e. the Funds' "primary focus is on purchasing the aforementioned receivables of settled cases, or non-appealable judgments"; and

f. the Funds' investments "were principally comprised of purchased legal fees associated with settled litigation."

16. From at least 2011, the Funds' offering documents falsely noted that "[a]ll of the Legal Fee Receivables purchased by the Partnership arise out of litigation in which a binding settlement agreement or memorandum of understanding has been reached between the parties." In or around June 2013, months after the majority of the Funds' assets had been invested in receivables for which there was collection risk because of ongoing litigation, this statement in the Funds' offering documents was modified to include "litigations in which … a judgment has been entered" as another category of cases for which the Funds purchased legal fees. But even this after-the-fact modification failed to disclose that the Funds had substantial investments in ongoing litigation for which there was no settlement or judgment. The modification also failed to capture the significant distinction between a judgment obtained after full litigation and a default judgment—an important failure given that the Funds had invested the majority of their assets in receivables associated with a single default judgment, as discussed below.

17. Moreover, the Funds' marketing materials trumpeted the reasons why investing in settlements was safe. For example, the 2011 Presentation also assured investors by stating that the settlements in which the Funds invested were "typically paid by investment grade obligors" such as "rated insurers, municipalities, and corporations," and subsequent iterations similarly stated that "[c]ases [were] paid by rated insurers, municipalities and corporations."

18. At various times, the Funds' marketing documents also misleadingly emphasized the relative comfort that investors could take in advancing monies to law firms, which would see their "license at risk" if they did not remit the purchased legal fee to the Funds upon collection. The documents further maintained that "[d]efendant(s) have no incentive to settle if they cannot make payment."

19. Respondents also made numerous misrepresentations concerning the concentration of investments in the Funds. First, Respondents trumpeted diversification as an important aspect of the Funds' strategy. For example, the 2011 Presentation emphasized that the Funds' "portfolio obligor investment matrix [was] designed to create a diversified portfolio in investment positions" and had "exposure limits on Obligors (corporate, municipal insurance company)" and "selling attorney limitations." Subsequent presentations to investors stated that "aggregate portfolio exposures [are] strictly controlled based on the credit worthiness of the relevant 'Payor.'" Other marketing materials represented that the "funds offer a diversified approach to the standard legal receivable strategy." Presentations also misleadingly explained that "[i]n the event there is excessive risk, it is participated out," meaning that interests in the purchased receivables would be sold to independent third parties.

20. Respondents' statements were particularly misleading in describing the Funds' concentrated exposure to investments in certain receivables relating to the litigation captioned *Peterson, et al. v. Islamic Republic of Iran, et al.*, 10 Civ. 4518 (S.D.N.Y.) (the "*Peterson* Receivables").

21. Dersovitz began investing the Funds' assets in *Peterson* Receivables as early as 2010. The *Peterson* Receivables were assets in which Dersovitz invested fund monies that involved the pursuit, by numerous plaintiffs, of assets from the Islamic Republic of Iran on the basis of default judgments they had obtained for victims and relatives of the 1983 Marine barracks bombing in Beirut (the "*Peterson* Case"). By August 2012, the *Peterson* Receivables were valued at over 20% of the Funds' portfolio, a proportion that grew to approximately two-thirds of the portfolio by the middle of 2014.[1]

[1] Thousands of individuals filed suit against Iran and obtained default judgments in the early 2000s. In 2007, the *Peterson* plaintiffs and their attorneys located what they believed were $1.75 billion in bonds belonging to Bank Markazi (the Iranian national bank) in an account at Citibank, N.A. in New York, New York. In 2010, the plaintiffs filed several fund-turnover actions against the assets, and the cases were eventually consolidated before Judge Katherine B. Forrester, as *Peterson, et al. v. Islam Republic of Iran, et al.*, 10 Civ. 4518 (S.D.N.Y.). In the summer of 2012 Congress enacted Section 502 of the Iran Threat Reduction and Syria Humans Rights Act of 2012, Pub. L. No. 112-158, 126 Stat. 1214, 1258 (22 U.S.C. § 8772). It provided that "the financial assets that are identified in [the *Peterson Case*]" are subject to execution. 22 U.S.C. § 8772. Iran challenged the constitutionality of Section 8772, but, on February 28, 2013, the District Court ordered turnover of the assets. *Peterson v. Islamic Republic of Iran*, No. 10 Civ. 4518 (KBF), 2013 WL 1155576 (S.D.N.Y. Mar. 13, 2013). The Court of Appeals affirmed in the summer of 2014, *see Peterson v. Islamic Republic of Iran*, 758 F.3d 185 (2d Cir. 2014), and the Supreme Court affirmed the Second Circuit's ruling on April 20, 2016, 136 S. Ct. 1310 (2016).

22. In addition to these misleading marketing materials, RDLC and Dersovitz made available (upon request) other due diligence documents that contained similar misleading statements and omissions about the Funds' portfolio. For example, RDLC and Dersovitz provided certain investors with audited financial statements that obfuscated the proportion of the Funds that were invested in *Peterson* Receivables. The 2012 audited financial statements for RDLFP describes certain assets by listing "Funds under control of the US Government" as a "Payor" which comprised both *Peterson* Receivables and other receivables. The possible sources of payment in the *Peterson* Case, however, were not under the control of the U.S. government. The 2013 and 2014 audited financials for the Funds similarly spoke of concentrations in an investment for which the ultimate obligor was "Qualified Settlement Trust," which combined the *Peterson* Receivables and other Fund assets. In another example, to some investors, RDLC and Dersovitz made available periodic audit documents that at times misleadingly referred to a certain receivable (the "Law Firm A Receivables," as defined below) as arising out of a settled case when, as explained, the monies advanced were to fund ongoing litigation.

ii. Contrasting the Respondents' Marketing of the Funds with the Marketing of Another Investment Opportunity with Higher Returns Further Evidences Their Deception of Investors.

23. Dersovitz purchased *Peterson* Receivables for the Funds and for a separate fund branded a "special purpose vehicle" that Dersovitz had created to invest in *Peterson* Receivables (the "Iran SPV"). Respondents offered the Iran SPV as a unique opportunity to profit from *Peterson* Receivables and offered the opportunity to invest in the Funds to those investors who sought to avoid or limit their exposure to the *Peterson* Case. The Iran SPV offered greater returns than those offered by the Funds for investors willing to invest in a concentrated portfolio of *Peterson* Receivables.

24. Respondents offered the Funds and the Iran SPV side-by-side without explaining the extent to which the Funds had invested in the *Peterson* Receivables and thus faced many of the risks disclosed in the Iran SPV's offering documents (and not disclosed in the Funds' offering documents).

25. The IR Director typically introduced the Funds to investors by sending them the Funds' marketing materials with the explanation that "our primary strategy is factoring legal fee receivables associated with settled litigation." She then misleadingly added that "in addition to our fund offerings, we are also in the process of raising an SPV which will invest in one large opportunity: the [*Peterson*] case." Elsewhere, the IR Director described the Iran SPV to existing and potential Fund investors as "an opportunity separate from our flagship fund." On one occasion, when asked by an investor if the Funds invested in *Peterson* Receivables, the IR Director misleadingly responded that, due to their nature, the *Peterson* Receivables required a "distinct" vehicle.

26. A document containing "FAQ [Frequently Asked Questions]" that Respondents drafted and utilized in 2013 and 2014, for example, described two different categories of investment opportunities: (1) the Funds, which "offer[ed] a diversified

approach to the standard legal receivable strategy," and separately (2) the Iran SPV, a "special opportunity / concentrated fund that invests in a single opportunity…." The 2014 FAQs, like the 2013 FAQs, continued to portray "the primary strategy employed [by the Funds as] one in which receivables arising from settled law suits are purchased at a discount," and omit any reference to investments in the *Peterson* Case or that approximately 64% of the Funds' positions were already invested in the *Peterson* Case.

27. Respondents also employed a marketing presentation in 2014 reiterating, falsely, that "[t]he primary strategy of the Funds … is to factor Legal Fee receivables associated with settled litigation." The marketing presentation explicitly distinguished the Funds' portfolio from that of the Iran SPV. But at that time, approximately two-thirds of the Funds' portfolio was tied to the *Peterson* Case, and the balance of the Funds were heavily invested in other unsettled claims.

28. The contrasting risk disclosures in the respective offering documents for the Funds and the Iran SPV also obscured that more than half of the Funds' assets were invested in *Peterson* Receivables, like the entirety of the Iran SPV. The Iran SPV's offering documents disclosed the following risks that were absent from the Funds' offering materials:

a. the litigation to collect against Iran may be unsuccessful;

b. there existed political risks to collection related to U.S. foreign policy with Iran;

c. assets recovered may not be sufficient to satisfy the amounts due to the Iran SPV, in part because of the existence of a large number of other creditors against Iran;

d. there existed "investment concentration" in *Peterson* Receivables in the Iran SPV "without the protections against loss afforded by diversification"; and

e. there existed a potential constitutional challenge against the statute that formed the basis for the *Peterson* litigation and that, if the constitutional challenge was successful, "the [Iran SPV's] investments may become worthless."

29. A flier for the Iran SPV that Respondents created in August 2013 similarly disclosed these extensive risks and contrasted the Funds to the SPV by noting that the former "typically funds the law firm or the plaintiff after a settlement agreement has been agreed to and fully executed by both the plaintiff and the defendant."

30. By contrast, the disclosures in the Funds' offering and marketing documents contained no such explanations of risk. They did not discuss the political risk, concentration risk, or ongoing litigation risks that Respondents disclosed for the Iran SPV.

31. The Iran SPV attracted very few investors. Many potential investors told Respondents that they were not interested in investing in the *Peterson* Case for reasons including "political risk" (*i.e.*, the investment might be impacted by United States relations with Iran), and a more general distaste for profiting from the suffering of victims of terrorism. Many of those investors were surprised to learn that by investing in the Funds, they took on an outsized exposure in the same *Peterson* Receivables they declined to pursue through the Iran SPV. Many of the same investors were particularly troubled that they had declined exposure to the *Peterson* Case through the Iran SPV, which offered a maximum annual return of 18%, only to be exposed to the same risks through funds that offered a maximum return of 13.5%.

32. Some investors who found out about the Funds' growing concentration in *Peterson* Receivables in 2012 withdrew their assets from the Funds and explicitly expressed to Dersovitz their distaste for the investment in the *Peterson* Case.

iii. Respondents Made Oral Misrepresentations to Current and Prospective Investors.

33. Respondents' fraudulent scheme also relied heavily on false and misleading oral and email communications with current and prospective investors. Some of these communications repeated the same misstatements found in the Funds' marketing materials, while others went further in misrepresenting facts about the Funds.

34. For example, in various oral representations made to prospective investors starting in June 2011, Dersovitz and his employees emphasized that the focus of the Funds' strategy was to invest in settled cases. Dersovitz told one investment manager in 2011 that all potential appeals had been exhausted in the matters underlying the receivables that the Funds had purchased. Dersovitz went on to assure that potential investor that the Fund was a "very diversified" portfolio with no concentration in one particular case. Dersovitz never mentioned in 2011 that the Funds were invested in the *Peterson* Receivables to the investment manager (or to certain other prospective investors in 2011).

35. Dersovitz emphasized to numerous investors the settled nature of the cases underlying the Funds' investments and explained that settled cases presented limited risks, unlike other litigation-financing claims that faced the risk that a case might not end favorably. Dersovitz told investors the main risk relating to settlements was "attorney theft" of monies due to the Funds. In line with his misleading offering documents, Dersovitz emphasized that attorneys had no incentive to fail to disburse proceeds to the Funds, because they would be at risk of losing their licenses.

36. Dersovitz told some investors as late as 2013 that there were no significant concentrations in a single case in the Funds.

37. At times, Dersovitz acknowledged to certain investors that the Funds had some interest in the *Peterson* Case, but on many such occasions he allayed investor concerns by stating that he expected the concentration to go down, when, in fact, he

continued to purchase *Peterson* Receivables in the Funds. Dersovitz also misrepresented the Funds' exposure to the *Peterson* Case and the growing nature of the Funds' investments in that case. For example, Dersovitz told one investor that the Funds had a 5 to 7% interest in the *Peterson* Receivables in 2012, when those receivables constituted approximately 30% of the Funds' portfolio, and further assured the investor that the *Peterson* Receivables were to be "offloaded" to the Iran SPV.

38. Dersovitz represented to an investment adviser in 2011 that the Funds concentrated on settled cases and provided that adviser with documents stating that the Funds' assets consisted of receivables that represent the "contingent share of legal settlements reached with defendants." Dersovitz later acknowledged that 40% of the Funds' portfolio was tied to the *Peterson* Case, but assured the adviser that the Funds were working to decrease that exposure. At the same time, Dersovitz was purchasing additional *Peterson* Receivables, rapidly increasing the Funds' exposure to the *Peterson* Case.

39. To another prospective investor, Dersovitz stated the investments the Funds "are dealing with primarily, 100%, are settled cases, so there is no litigation risk in the strategy." He explained that "the risks are duration and theft," without mentioning the key risk presented by the *Peterson* Receivables: that collection would simply fail if turnover of Iran's assets was not granted by the courts (*i.e.*, the very risk Respondents warned existed for the Iran SPV).

40. The IR Director told the same investor that the Funds had "to work with those that are only settled claims." This investor also received the 2012 Due Diligence Questionnaire setting forth in unequivocal terms that 95% of the Funds' portfolio consisted of law firm receivables in cases where a settlement had been reached.

41. The IR Director told another investor that the Funds' investment thesis was buying attorney receivables in settled cases. She further explained that the Funds were entirely unrelated to the Iran SPV without mentioning that the Funds' largest concentration was in the same *Peterson* Receivables in which the Iran SPV planned to invest its entire fund.

42. Dersovitz told the same investor in a subsequent meeting that the only risk facing the Funds was collection risk. Dersovitz did not mention litigation risk, even though, at that time, the Funds were not only invested in the unsettled *Peterson* Case but also had more than 20% of the Funds' assets invested in other unsettled litigation.

43. As investors came to learn that the Funds had more exposure to the *Peterson* Case than Respondents had previously disclosed to them, many investors contacted Respondents with questions about that exposure, but Respondents continued to mislead them about the extent to which the Funds' investments were concentrated in the *Peterson* Case and other assets.

44. For example, at a time when the Funds had invested over $50 million in the *Peterson* Case, the IR Director told an investor that Dersovitz had "deployed a total of $18 [million] in the domestic fund."

45. To other investors, Respondents conflated the total money deployed by the Funds to acquire assets with the valuations of these assets, which further obfuscated the concentration of Fund assets in particular receivables.

46. When certain investors found out about the Funds' investment in the *Peterson* Receivables, Dersovitz misleadingly stated that the concentration of these receivables in the Funds would decrease, even though this concentration steadily increased through the end of 2014.

47. Even as late as 2015, Dersovitz falsely told one investor that the Funds' maximum exposure to the *Peterson* Case, if the *Peterson* Receivables became worthless, was $12.5 million, and he told another investor that the total investment was roughly 10 to 20% of the Funds' portfolio. At that time, of the Funds' total portfolio valued at nearly $170 million, over $100 million was tied to *Peterson* Receivables, and purchases of *Peterson* Receivables constituted more than half of the Funds' deployed assets.

F. THE TRUE COMPOSITION OF THE FUNDS' PORTFOLIOS WAS NOT WHAT RESPONDENTS' REPRESENTED TO INVESTORS.

48. In mid-2011 nearly half of the Funds' assets, based on their valuations in RDLC's own records and financial statements, were not invested in receivables associated with settled cases. In 2014 and 2015, almost every dollar that Dersovitz invested for the Funds was in something other than a receivable associated with a settled case.

i. The Funds Invested in Unsettled Litigations with Law Firm A.

49. The first category of unsettled litigations in which the Funds invested heavily related to funds advanced to Law Firm A. Starting in January 2008, Dersovitz and RDLC began advancing the Funds' monies to Law Firm A in connection with Law Firm A's litigation on behalf of individuals injured by a drug commercially known as Fosamax or Actonel ("Law Firm A Receivables"). These cases were still in their early stages, far from any settlement. By June 2011, the litigation that Law Firm A was pursuing had not settled, but Dersovitz and RDLC had advanced nearly $6 million (of the approximately $58 million invested by the Funds). Based on the valuation of the Funds' assets (as opposed to the cost to purchase each asset), the Law Firm A Receivables constituted over 10% of the Funds' portfolio.

50. Law Firm A did not settle the cases underlying the Law Firm A Receivables until 2014, after which Dersovitz commenced a lawsuit to recover what he claimed was owed to the Funds. That lawsuit did not settle until 2016, at which point the Funds received several millions of dollars less than the amount they had advanced to Law Firm A starting eight years earlier.

ii. The Funds Invested in Unsettled Litigations with Law Firm B.

51. Another category of the Funds' assets, unrelated to any settled litigation, involved various ongoing cases associated with Law Firm B. Beginning in October 2007, Dersovitz and RDLC began advancing the Funds' monies to Law Firm B. At first, Law Firm B was purportedly owed millions in legal fees from a criminal defendant, with respect to which Dersovitz and RDLC had advanced Law Firm B over $3.5 million. Law Firm B had also represented a relator in a *qui tam* action, and Dersovitz advanced Law Firm B another $3 million in 2009 in exchange for Law Firm B's portion of whatever award his client might obtain in that matter (together with the $3.5 million advance, the "Law Firm B Receivables"). When Dersovitz and RDLC advanced the Funds' money in connection with the *qui tam* case, the matter was still in litigation—a settlement had been reached between the defendant in the civil case and the United States in a related criminal matter, but the civil matter was not resolved. By June 2011, the Law Firm B Receivables were valued by Dersovitz and RDLC at nearly 16% of the Funds' total valuation.

52. Dersovitz filed suit against Law Firm B in January 2013 to collect on the Law Firm B Receivables, but at no time did RDLC or Dersovitz write down these assets or subtract the collection costs from their stated value. In fact, by September 2015, the Funds valued the Law Firm B Receivables at over $31 million, or nearly 18% of the Funds' total valuation. Law Firm B and Dersovitz settled their lawsuit in early 2016 for $1.4 million and rights to certain real property, the value of which has still not been conclusively established, but which Dersovitz had reason to know was worth far less than the $31 million at which he had valued the Law Firm B Receivables.

iii. The Funds Invested Most Heavily in the Peterson Receivables, Including Investments Directly with the Peterson Plaintiffs.

53. The *Peterson* Receivables reflect the largest category of receivables in which Dersovitz invested Fund assets.

54. The assets that the *Peterson* plaintiffs sought to collect were approximately $1.75 billion of bond assets owned by Bank Markazi (the Iranian national bank) held in an account at Citibank, N.A.

55. In September 2010, Dersovitz and RDLC began advancing the Funds' monies to two law firms ("*Peterson* Firms") involved in the pursuit of Bank Markazi's assets for various plaintiffs. By June 2011, Dersovitz had advanced nearly $10 million for the *Peterson* Receivables. At that time, these receivables constituted approximately 17% of the Funds' portfolio.

56. Because these Receivables arose not from a judgment following a litigated proceeding among two parties but a default judgment, they carried additional risk. After obtaining a default judgment, the plaintiff still has to identify funds belonging to the defendant and convince a court to order the turnover of these funds to satisfy the plaintiff's claims. Accordingly, as delineated in the Iran SPV offering documents discussed above, the *Peterson* Receivables were subject to risks relating to the ongoing

nature of the *Peterson* Case. As RDLC's own underwriting documents acknowledged, "the manner and timing of [collection] cannot be determined."

57. Starting in September 2012, Dersovitz and RDLC caused the Funds to begin advancing monies to certain *Peterson* plaintiffs themselves. The Funds' offering materials at that time made no mention of advancing any money directly to plaintiffs. Whereas contracts with law firms involved collateral beyond the negotiated receivable itself, arrangements with plaintiffs did not provide any such additional collateral.

58. By September 2013, investments in the *Peterson* Case constituted approximately 54% of the Funds' portfolio. By September 2015, nearly 64% of the Funds' portfolio was invested in the *Peterson* Receivables. From a cost perspective, of the approximately $100 million deployed by the Funds as of that date, over $50 million alone had been deployed with respect to that case.

iv. Respondents Funded Entities Other than Law Firms Seeking Recoveries in Unsettled Matters.

59. By 2014, Dersovitz and RDLC found yet another way to invest the Funds' assets other than in receivables relating to settled litigation. In 2014, Dersovitz and RDLC began advancing monies to entities that were not law firms but nevertheless were involved with claims over the BP Deepwater Horizon oil spill (the "BP Receivables"). Dersovitz advanced funds to accounting and claim aggregator firms that, in exchange for a fee, aided claimants in pursuing recoveries against a fund established by BP to resolve the matter. These entities had not entered into any settlement agreement with BP or anyone else. In 2014 and 2015, Dersovitz and RDLC purchased over $7 million in BP Receivables with investor funds.

G. DERSOVITZ AND RDLC PROFITED BY UNREASONABLY VALUING THE FUNDS' ASSETS

60. In addition to the numerous misstatements about the Funds' assets, Respondents employed a scheme that facilitated Dersovitz's withdrawal of millions of dollars from the Funds. Pursuant to the Funds' operating documents, limited partners in RDLP and shareholders of RDLOF—*i.e.*, investors—were entitled to a priority 13.5% allocation, after which the general partner—*i.e.*, RDLC and, indirectly, Dersovitz—could, under certain circumstances, collect excess profits. Dersovitz, therefore, had a clear incentive to show Fund profits in excess of 13.5%.

61. The Funds engaged a valuation agent ("VA") to provide valuation services in order to calculate the Funds' returns. The VA's valuation methodology determined the value of the Funds' receivables by discounting to present value the amount Respondents expected the receivable to pay at a projected future payment date.

62. The primary inputs affecting this present value calculation (other than the amount of the receivable purchased) were the expected date of payment and a discount rate for the position.

63. Respondents directly or indirectly provided these inputs to the VA. The amount of the receivable purchased was normally reflected in the contract between RDLC and the selling party, and the expected date of payment of the receivable was provided to the VA.

64. The discount rate was primarily based on the implied rate of return RDLC had achieved on the sale of other receivables. Respondents provided the VA with this information. But these old receivables (and, therefore, the implied rates of return derived from their sales) related to settled or otherwise resolved cases, where the primary risk was timing rather than litigation outcome. The Funds, however, increasingly invested in a very different type of receivable relating to unsettled cases.

65. The portfolio used several possible discount rates, which would be applied based on that receivable's "rating," understood to represent the nature or quality of the investment. Respondents provided the VA with a rating for each of the Funds' receivables. The determination of a particular receivable's rating required an understanding of the nature of the underlying litigation, including its likelihood of success. The VA employees who provided valuation services to RDLC were not lawyers and did not understand the legal issues underlying the litigations in which the Funds invested.

66. Additionally, the yield rate took into account whether Dersovitz had obtained "collateral" on any given position. For *Peterson* Receivables purchased from plaintiffs—unlike those purchased from law firms—Dersovitz did not obtain any additional collateral beyond each plaintiff's judgment. But the assets at issue in the *Peterson* Case were subject to the claims of many other plaintiffs, introducing the risk that there would not be enough of a recovery to satisfy the entire judgment of a particular plaintiff. RDLC disclosed this risk in the Iran SPV offering documents but not in the Funds' documents. Dersovitz nevertheless instructed the VA to include for the plaintiff *Peterson* Receivables "collateral" equal to the entire size of the default judgment that each plaintiff had obtained.

67. For other receivables associated with unsettled litigation, Dersovitz provided, and later extended, his expected repayment dates for these assets, resulting in the continued accrual of interest from those investments. Dersovitz provided extended repayment dates to the VA both for matters in which he entered into signed agreements to extend such dates and in other instances where he had no such basis to extend the repayment dates.

68. Dersovitz failed to disclose to the VA changes in certain cases that influenced whether Dersovitz reasonably could expect to collect on those investments, which in turn led to inflated valuations for assets in the Funds by understating their riskiness.

69. Two groups of receivables—Law Firm A and Law Firm B Receivables—accrued to such high valuations that it was doubtful whether those inflated amounts could be covered even if the law firm (or attorney) made available the entirety of their

receivables to satisfy them. Years after the original contracts with those law firms expired, RDLC valued the receivables as if the Funds were going to recover every single dollar on the then-anticipated payment date.

70. By unreasonably inflating the value of assets in the Funds' portfolios, RDLC was able to allocate to investors monthly accruals of largely speculative profits while withdrawing cash in excess of that owed to investors. In other words, investors got monthly IOUs based on inflated valuations, while RDLC and Dersovitz pulled cash out of the Funds and further out of reach of investors.

71. Despite the increased valuations, Dersovitz was unable to keep money flowing to himself and RDLC because the assets in the Funds' portfolios became increasingly illiquid. To bring needed cash into the Funds, Dersovitz recruited a third-party investor to purchase assets directly from the Funds. In doing so, Dersovitz elevated his own interests over those of the Funds' investors.

72. Dersovitz permitted that third party to purchase certain of the Funds' receivables directly, rather than invest in them through the Funds, but nevertheless included that third party's investment as part of RDLC's total assets under management figure. The third party, which invested approximately $50 million in receivables through Dersovitz, was permitted to withdraw assets immediately as those receivables paid off, unlike Fund investors who were subject to various waiting periods and gating provisions. Dersovitz did not generally disclose to investors these side deals with the third party.

73. When the third party sought to invest in the *Peterson* Receivables, Dersovitz did not use that opportunity to sell such receivables held by the Funds, notwithstanding his promise to investors to decrease the Funds' concentration in Peterson Receivables. Instead, Dersovitz originated new deals away from the Funds for which he collected origination fees of at least $2 million.

74. The third-party funding enabled Dersovitz to monetize the Funds' investments so that he could withdraw cash after allocating the 1.06% return to investors on paper. Therefore, money continued to flow to Dersovitz and RDLC from the Funds, even though Respondents had invested the Funds' assets in cases that, in part because of their nature as ongoing litigation, were taking years to collect.

H. VIOLATIONS

75. As a result of the conduct described above, Respondents willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities. Dersovitz also willfully aided and abetted and caused RDLC's violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Dersovitz pursuant to Section 203(f) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Sections 203(j) and (i) of the Advisers Act, respectively;

C. What, if any, remedial action is appropriate in the public interest against Dersovitz and RDLC pursuant to Section 9(b) of the Investment Company Act including, but not limited to, disgorgement and civil penalties pursuant to Sections 9(e) and 9(d) of the Investment Company Act, respectively;

D. What, if any, remedial action is appropriate in the public interest against RDLC pursuant to Section 203(e) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Sections 203(j) and (i) of the Advisers Act, respectively; and

E. Whether, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondents should be ordered to cease and desist from committing or causing violations of and any future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, whether Respondents should be ordered to pay a civil penalty pursuant to Section 8A(g) of the Securities Act and Section 21B of the Exchange Act, and whether Respondents should be ordered to pay disgorgement pursuant to Section 8A(e) of the Securities Act and Sections 21B(e) and 21C(e) of the Exchange Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If either Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, that Respondent may be deemed in default and the proceedings may be determined against that Respondent upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Brent J. Fields
Secretary