UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-17342

RECEIVED
AUG 08 2016
OFFICE OF THE SECRETARY

In the Matter of

RD LEGAL CAPITAL, LLC and
RONI DERSOVITZ

ANSWER OF RESPONDENTS RD LEGAL CAPITAL, LLC AND RONI DERSOVITZ

RD Legal Capital, LLC and Roni Dersovitz ("Respondents") answer the Securities and Exchange Commission's Order Instituting Administrative and Cease-and-Desist Proceedings (the "Order") as follows:

INTRODUCTION

RD Legal Capital, LLC ("RDLC") is a New Jersey-based adviser to two small private funds. RDLC does not provide investment advice concerning securities, and RDLC is not registered with the Commission. RDLC is the general partner of RD Legal Funding Partners, LP, a Delaware limited partnership, and the investment manager of RD Legal Funding Offshore Fund, Ltd., a Caymans Islands exempted company (collectively, the "Funds").

Mr. Dersovitz is the principal of RDLC. Since 1998, he has invested in discounted legal receivables owed to attorneys, law firms, and plaintiffs. In 2007, Mr. Dersovitz launched the Funds. As described in the offering documents, the Funds have sought to generate stable returns for investors, while maintaining capital, through: (a) purchasing from law firms their receivables representing legal fees owed; (b) purchasing from plaintiffs receivables representing their proceeds from legal awards or settlements; (c) providing loans to law firms through secured lines of credit; and (d) providing capital to law firms to pursue certain other opportunities that do not fall within the categories above.

Since the creation of the Funds in 2007, all investors in the domestic fund have realized a 13.5% cumulative annual return. Investors in the offshore fund realized a 13.5% cumulative annual return from 2007 through 2014 and earned an 11.4% return in 2015. Investors continue to realize these strong returns today.

RESPONSE TO ALLEGATIONS

> 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.

ANSWER: Respondents deny the allegations in Paragraph 1 of the Order. The type of assets originated into the Funds and the diversification of the assets under management in the Funds were disclosed to investors. The offering documents described that the Funds would seek to generate stable returns, while maintaining capital, through: (a) purchasing from law firms receivables representing legal fees owed; (b) purchasing from plaintiffs receivables representing proceeds from legal awards or settlements; (c) providing loans to law firms through secured lines of credit; and (d) providing capital to law firms to pursue certain other opportunities not falling within the other categories. All assets originated into the Funds fell within this broad investment strategy. The concentration of assets in the Funds was disclosed to the Funds accredited investors in the audited financial statements, among other sources. Investors were given access to a secure RDLC investor website which included, among other things, current and prior financial statements, quarterly updates to Agreed Upon Procedures ("AUP"), and past communications with investors.

The value of the assets in the Funds has always been determined based on fair value accounting within the meaning of accounting principles generally recognized in the United States ("GAAP"). The assets in the Funds are Level 3 assets within the meaning of GAAP, and RDLC has employed, and continues to employ, a nationally-recognized third-party valuation firm to value the portfolio assets. RDLC has marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm.

The valuations of the assets, and the process through which the assets are valued, are reviewed by the external auditor for the Funds as part of its annual audit. The manner in which assets in the Funds were valued was disclosed to investors in the offering documents and audited financial statements, among other sources.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 2 of the Order. As described in response to Paragraph No. 1 above, the types of assets originated into the Funds were described to investors in the offering documents. As early as 2007, the Funds' offering documents disclosed that the "Investment Objective and Strategy" was to "(i) purchase from law firms and attorneys (collectively, the 'Law Firms') certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, judgments and settlement ("Legal Fee Receivables"), and (ii) provide loans to such Law Firms through secured line of credit facilities ('Lines of Credit')." Respondents did not invest investor funds "however they saw fit" but only as described in the offering documents for the Funds.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 3 of the Order. Respondents admit the Funds invested in assets backed by a number of default judgments arising from litigation related to the 1983 terrorist bombing of a Marine barracks in Beirut, Lebanon (the "*Peterson*" cases). Because the many default judgments in the *Peterson* cases were non-appealable, the Funds' investment in receivables backed by the *Peterson* judgments did not bear litigation risk. In addition, the collection risk associated with the assets backed by these default judgments was de minimis, because approximately $1.75 billion in assets at Citibank from which the judgments could be satisfied had been located and restrained before the Funds made any investment in receivables backed by those judgments.

Moreover, on February 5, 2012, President Obama signed an Executive Order blocking the Citibank assets from leaving the United States. Then, in March 2013, the United States District Court for the Southern District of New York entered an order turning the assets at Citibank over to the *Peterson* plaintiffs. The assets were placed in a Qualified Settlement Trust under the direction of the Honorable Stanley Sporkin as trustee. Based on these developments, as well as the existence of secondary collateral from which the judgments could be satisfied, Mr. Dersovitz, as chief investment officer of RDLC, elected over time to increase the size of the Funds' investment in the *Peterson* judgments.

The *Peterson* plaintiffs' right to satisfy their default judgments through the assets in the Qualified Settlement Trust has been established through multiple avenues, including two acts of Congress. In addition, the Funds' investment in the *Peterson* cases was backed by additional collateral sources of payment, removing any material credit or collection risk to the Funds. Indeed, in discussing the Funds' investment in the *Peterson* cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book."

Also, as stated in response to Paragraph No. 1 above, the concentration of assets in the Funds—including assets backed by judgments in the *Peterson* cases—was disclosed to investors in the Funds' audited financial statements, among other sources, and was made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 4 of the Order.

> 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.

ANSWER: Respondents deny that Mr. Dersovitz began operating his financing business through RD Legal Funding, LLC in 2001 and through RDLC in 2007. Respondents admit the other allegations in Paragraph 5 of the Order.

> 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.

ANSWER: Respondents admit the allegations in Paragraph 6 of the Order.

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.

ANSWER: Respondents admit the allegations in Paragraph 7 of the Order.

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.

ANSWER: Respondents deny that the Funds have over 150 current investors who allocated over $150 million to the Funds. Respondents admit the other allegations in Paragraph 8 of the Order.

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.

ANSWER: Respondents admit the Funds offer investors a targeted cumulative annual return of 13.5% per annum. The investment strategy of the Funds, through which the investor return is earned, is described to investors in the offering documents, as discussed in response to Paragraph No. 1 above.

The distribution of profits generated by the Funds is also described to investors in the offering documents. At the end of each month, the net profits and losses of the Funds, including realized and unrealized gains and losses, are allocated to the accounts of the limited partners of the domestic fund and to the shareholders of the offshore fund. Any net profits in excess of the limited partner and shareholder return are allocated to the capital account of RDLC as the general partner and investment manager. RDLC thus receives the excess of net income over the limited partner allocation and the excess profit over the shareholder return. The offering documents confirm to investors that this excess return is the only income RDLC receives from the Funds, as the Funds do not pay any management or performance fees. All expenses of operating the Funds (employee payroll, payroll taxes, audit fees, rent, health insurance, etc.) are paid out of the return to RDLC.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 10 of the Order. The investment strategy of the Funds was described to investors in the offering documents, as outlined in response to Paragraph 1 above.

> 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%.

ANSWER: Respondents deny the allegations in Paragraph 11 of the Order. The assets in the Funds were not subject to protracted litigation risk. As described in response to Paragraph No. 3 above, the Funds invested in legal receivables related to a number of non-appealable default judgments entered on behalf of the *Peterson* plaintiffs, which were secured against approximately $1.75 billion in forfeited Iranian funds held in a Qualified Settlement Trust for the benefit of the *Peterson* plaintiffs. The *Peterson* judgments in which the Funds invested were final and were not subject to ongoing litigation.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 12 of the Order. The investment strategy of the Funds, and the type of legal receivables in which the Funds would invest, were described to investors in the offering documents and various other materials investors received when contemplating an investment in the Funds. The composition and concentration of assets in the Funds were described to investors in the audited financial statements, among other sources, and all investors were given access to the RDLC secure investor website which included, among other things, current and prior financial statements, quarterly updates to AUP, and past communications with investors.

> 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.

ANSWER: Respondents admit the Funds at times use marketing materials. Respondents also admit that Mr. Dersovitz is the president of RDLC. Respondents deny that Mr. Dersovitz drafted or generated any marketing materials for the Funds. and state further that Respondents relied on professional consultants in connection with the preparation of marketing materials for the Funds. Respondents deny any other allegations in Paragraph 13 of the Order.

> 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]."

ANSWER: Because Paragraph 14 of the Order does not identify the document it refers to as the "2011 Presentation" with any specificity, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 14 of the Order. and deny them on that basis. Although Respondents admit the existence of a marketing document dated as of August 31, 2011 that contains the statements excerpted in Paragraph 14 of the Order, Paragraph 14 of the Order mischaracterizes the context in which those statements appear. For example, the marketing document Respondents have identified does not describe the

Funds' investment strategy as "purchas[ing] attorney fees only on settled cases." To the contrary, the statement quoted in Paragraph 14 of the Complaint is made in connection with a description of "fee acceleration," which the document makes clear was only one part of the Funds' investment strategy. In addition, the Frequently Asked Questions document that was included in the marketing materials and presentations expressly stated that "[t]he primary focus [of the Funds] is on purchasing the aforementioned receivables of settled cases, *or non-appealable judgments*" (emphasis added). Moreover, contemporaneous offering documents for the Funds made clear that the Funds' investment strategy included, *inter alia*, "indirectly (i) purchas[ing] from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added).

> 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."

ANSWER: Respondents deny the allegations in Paragraph 15 of the Order. The marketing materials provided to investors, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds and the nature and types of assets in which the Funds invested, including non-appealable judgments.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 16 of the Order. The investment strategy of the Funds was always accurately described to investors in the offering documents, and the assets held in the Funds fell within this investment strategy. Respondents deny that the Funds' offering documents did not reference investments in receivables backed by judgments until June 2013. Since 2007, the Funds' offering documents disclosed the investments in receivables backed by judgments. The 2011 offering documents quoted in Paragraph 16 defined "Legal Fee Receivables" to include judgments. In fact, the offering documents stated since at least as early as 2011 that the Funds would purchase certain accounts receivable "representing legal fees derived . . . from litigation, *judgments*, and settlements" (emphasis added). Respondents further deny that the Funds' offering documents "failed to disclose that the Funds had substantial investments in ongoing litigation for which there was no settlement or judgment." Contrary to this allegation, the offering documents acknowledged since at least as early as 2011 that, in addition to receivables backed by settlements or judgments, the Funds would also "provide loans to such Law Firms through secured lines of credit facilities." Respondents further deny that they failed to disclose to investors any "significant distinction between a judgment obtained after full litigation" and a default judgment." Indeed, where a pool of assets from which the judgment can be satisfied has been identified, there is no material distinction between a non-appealable judgment obtained following litigation and a non-appealable default judgment. Respondents further deny that "the Funds had invested the majority of their assets in receivables associated with a single default judgment."

> 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."

<u>ANSWER</u>: Respondents deny the allegations in the first sentence of Paragraph 17 of the Order. Because the second sentence of Paragraph 17 of the Order does not identify with any specificity either the document it refers to as the "2011 Presentation" or what it describes as "subsequent iterations" of that document, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in the second sentence of Paragraph 17 of the Order, and deny them on that basis. Respondents admit that a marketing document dated as of August 31, 2011 stated that "[s]ettlements are generally paid by investment grade obligors" such as "[i]nsurance carriers," "[m]unicipalities," and "[l]arge public corporations." Respondents deny, however, that these were the only disclosures made and allege that these quotations—along with all other quotations in the Order—must be read in context of the entire documents that were provided to and available to investors.

> 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."

<u>ANSWER</u>: Respondents deny the allegations in Paragraph 18 of the Order. The marketing materials provided to investors, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds and the nature and types of assets in which the Funds invested. For example, the Frequently Asked

Questions document that was included in the marketing materials and presentations expressly stated that "[t]he primary focus [of the Funds] is on purchasing the aforementioned receivables of settled cases, *or non-appealable judgments*" (emphasis added).

> 19. Respondents also made numerous misrepresentations concerning the concentration of investments in the Funds. First, Respondents trumpeted diversification 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.

ANSWER: Respondents deny the allegations in the first two sentences of Paragraph 19 of the Order. Because the remainder of Paragraph 19 of the Order does not identify with any specificity either the document it refers to as the "2011 Presentation" or what it describes as "[s]ubsequent presentations to investors" and "[o]ther marketing materials, " Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in the remainder of Paragraph 19 of the Order, and deny them on that basis. Respondents state, however, that any comments in marketing materials or other documents that discussed controlling "aggregate portfolio exposures . . . based on the credit worthiness of the relevant Payor" do not apply where, as in the *Peterson* cases, there is a discrete, bankruptcy-remote source of funds set aside to satisfy the settlement or judgment. Respondents further state that the offering documents disclosed that the Funds pursued an opportunistic strategy and would be concentrated, and specifically afforded RDLC the flexibility to invest disproportionately in attractive opportunities.

> 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").

ANSWER: Respondents deny the allegations in Paragraph 20 of the Order. The *Peterson* assets held in the Funds fell within the investment strategy described to investors in the offering documents. As explained in greater detail in response to Paragraph 3 of the Order above, the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources.

> 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.

ANSWER: Respondents admit the Funds first invested in *Peterson* assets in 2010. As stated in response to Paragraph 3 of the Order, because the default judgments in the *Peterson* cases were non-appealable at the time of the Funds' initial investment, those judgments never bore litigation risk. In addition, the collection risk associated with the assets backing these default judgments was de minimis because approximately $1.75 billion in assets from which the judgments could be satisfied had been located and restrained since 2008, before the Funds' made any investment in the *Peterson* cases.

The existence and concentration of *Peterson* assets in the Funds were disclosed to investors in the audited financial statements and through other sources, including presentations by Mr. Dersovitz. Indeed, in discussing the Funds' investment in the *Peterson* cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book."

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.

ANSWER: Respondents deny the allegations in Paragraph 22 of the Order. Respondents never "obfuscated" the concentration of *Peterson* assets in the Funds, nor did they ever mischaracterize the receivables in which the Funds invested. The Funds' 2012 audited financial statements accurately identified the "Payor" for the *Peterson* judgments as "Funds under control of the US Government" because, on February 5, 2012, President Obama signed an Executive Order blocking the assets from which the *Peterson* judgments could be paid from leaving the United States. Similarly, the Funds' later financial statements accurately identified the "Payor" for the *Peterson* judgments as a "Qualified Settlement Trust" because, in March 2013, the United States District Court for the Southern District of New York entered an order turning the assets in question over to the *Peterson* plaintiffs and placing those assets in a Qualified Settlement Trust under the direction of the Honorable Stanley Sporkin as trustee. Unlike with other Payors, whose creditworthiness affects the collection risk associated with the receivable, the risk associated with receivables backed by settlements and judgments for which funds that can be used to pay the settlement or judgment have been identified and set aside in a bankruptcy remote vehicle does not depend on the creditworthiness of any obligor.

The Funds' audited financial statements were prepared by the Funds' auditor, Marcum, LLP, and Respondents relied on Marcum to ensure that the audited financial statements were accurate and complete.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 23 of the Order. The special purpose vehicle did not offer "greater" returns than the Funds. The special purpose vehicle had a different return profile than the Funds. In particular, investors in the special purpose vehicle paid a 1% origination fee at the time they invested and then received 70% on any upside on the return on the assets (i.e., there was a 30% performance fee). The Funds, by contrast, had no origination fee and no performance fee. Moreover, Respondents did not begin soliciting investments in the special purpose vehicle until 2013, and the marketing materials for the special purpose vehicle disclosed that the Funds were already invested in the *Peterson* judgments.

> 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).

ANSWER: Respondents deny the allegations in Paragraph 24 of the Order. The marketing materials for the special purpose vehicle disclosed that the Funds had already deployed funds investing in *Peterson* assets.

> 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.

ANSWER: Paragraph 25 purports to quote certain communications between the IR Director and the Funds' investors without identifying the source of those quotations. Respondents accordingly do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 25 of the Order, and deny them on that basis. Respondents further deny that the IR Director made any misrepresentations or omissions regarding the Funds' investments or investment strategy. The marketing materials provided to investors, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds and the nature and types of assets in which the Funds invested. Moreover, the marketing materials for the special purpose vehicle disclosed that the Funds were already invested in the *Peterson* judgments.

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.

ANSWER: Respondents admit that the marketing documents referenced in Paragraph 26 of the Order contain the statements excerpted in Paragraph 26 of the Order. Respondents deny any other allegations in Paragraph 26 of the Order, and state that the marketing documents referenced in Paragraph 26 of the Order specifically disclosed that "[t]he primary focus [of the Funds] is on purchasing the aforementioned receivables of settled cases, *or non-appealable* *judgments*" (emphasis added). Respondents further state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents. the audited financial statements, and other sources. In addition, all investors were given access to a secure RDLC investor website which included, among other things. current and prior financial statements, quarterly updates to AUP, and past communications with investors

> 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.

ANSWER: Because Paragraph 27 of the Order does not identify the document it refers to as a "marketing presentation in 2014" with any specificity, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in the first two sentences of Paragraph 27 of the Order. and deny them on that basis. Although Respondents admit the existence of a marketing document from August 2014 that contains the statements excerpted in Paragraph 27 of the Order, Paragraph 27 of the Order omits a key portion of the statement so as to misleadingly suggest that it did not acknowledge the Funds' investment in judgments such as the *Peterson* receivables. The complete statement, however, confirms that "[t]he primary strategy of the Funds ... is to factor Legal Fee receivables associated with settled litigation, *or judgments where a corpus of money has been identified, from US based attorneys and/or plaintiffs*" (emphasis added) Respondents deny all other allegations in Paragraph 27 of the Order, including the allegation that a 2014 marketing presentation for the Funds included false or misleading statements regarding the Funds' investment strategy. as well as the inaccurate characterization of the *Peterson* judgments in which the Funds invested as "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."

ANSWER: Respondents deny the allegations in Paragraph 28 of the Order. The offering documents, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds, the nature and types of assets in which the Funds invested, and the risks associated with those investments. Moreover, the offering documents did not "obscure[]" the Funds' investment in the *Peterson* judgments. As stated above, the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources. In addition, all investors were given access to a secure RDLC investor website which included, among other things, current and prior financial statements, quarterly updates to AUP, and past communications with investors.

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."

ANSWER: Respondents admit the marketing document referenced in Paragraph 29 of the Order contains the statement excerpted in Paragraph 29 of the Order. Respondents deny all other allegations in Paragraph 29 of the Order, including the allegation that the marketing document referenced in Paragraph 29 of the Order disclosed "extensive risks" associated with investment in the special purpose vehicle. While the marketing document for the special purpose vehicle did identify some theoretical risks associated with investment in the *Peterson* judgments, it described these risks as "unlikely" to be realized and "[de] minimus." Moreover, contemporaneous offering documents made clear that the Funds did not only invest in cases where a settlement had been reached, but rather "indirectly (i) purchased from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added).

> 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.

ANSWER: Respondents deny the allegations in Paragraph 30 of the Order. Paragraph 30 of the Order mischaracterizes the risk disclosures in the marketing document for the special purpose vehicle referenced in Paragraph 29 of the Order. Moreover, the offering documents and marketing materials provided to the Funds' accredited investors, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds, the nature and types of assets in which the Funds invested, and the risks associated with those investments.

> 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%.

ANSWER: Respondents deny the allegations in the first sentence of Paragraph 31 of the Order. Because the remainder of Paragraph 31 of the Order references "[m]any potential investors" without identifying those potential investors or the specific statements and sentiments attributed to them, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 31 of the Order, and deny them on that basis. Respondents state that investors in the Funds should not have been surprised that the Funds had invested in the *Peterson* judgments, as the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources. Indeed, in discussing the Funds' investment in the *Peterson* cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book." . Respondents also deny that the SPV offered a "maximum annual return of 18%" to investors.

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.

ANSWER: Because Paragraph 32 of the Order references "[s]ome investors" without identifying those investors or the specific statements attributed to them, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 32 of the Order, and deny them on that basis. Respondents state that investors in the Funds should not have been surprised that the Funds had invested in the *Peterson* judgments, as the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources. Indeed, in discussing the Funds' investment in the *Peterson* cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book."

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.

ANSWER: Respondents deny the allegations in Paragraph 33 of the Order. The marketing materials provided to investors, and the various other materials investors received before investing in the Funds, accurately described the investment strategy of the Funds and the nature and types of assets in which the Funds invested, and oral and email communications with investors described the Funds in a manner consistent with those disclosures. The materials investors received emphasized that the Funds' portfolios would be concentrated and would not be broadly diversified, and specifically afforded RDLC the flexibility to invest disproportionately in particularly attractive opportunities. In addition, the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources. Indeed, in discussing the Funds' investment in the Peterson cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book."

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).

ANSWER: Because Paragraph 34 of the Order references alleged communications with "prospective investors" and "one investment manager" without identifying those individuals or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 34 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that investors in the Funds should not have been surprised that the Funds had invested in the *Peterson* judgments, as the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources. Respondents further state that Mr. Dersovitz spoke frequently with investors and potential investors about the Funds' investment in the *Peterson* judgments, which Mr. Dersovitz consistently described as "the best trade in the book."

> 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.

ANSWER: Because Paragraph 35 of the Order references alleged communications with "numerous investors" without identifying the investors or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 35 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the risks associated with the Funds' investments. Respondents state that investors should not have been surprised that the Funds had invested in the *Peterson* judgments, as the existence and concentration of *Peterson* assets in the Funds was disclosed in marketing documents, the audited financial statements, and other sources. Respondents further state that Mr. Dersovitz spoke frequently with investors and potential investors about the Funds' investment in the *Peterson* judgments, which Mr. Dersovitz consistently described as "the best trade in the book."

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

ANSWER: Because Paragraph 36 of the Order references alleged communications with "some investors" without identifying the investors or the dates of the communications. Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 36 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

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.

ANSWER: Because Paragraph 37 of the Order references alleged communications with "certain investors" without identifying the investors or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 37 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Because Paragraph 38 of the Order references alleged communications with an "investment advisor" without identifying the investment advisor or the specific dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 38 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website. Respondents further state that offering documents for the Funds made clear that the Funds' investment strategy included, *inter alia*, "indirectly (i) purchas[ing] from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added).

> 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).

ANSWER: Because Paragraph 39 of the Order references an alleged communication with a "prospective investor" without identifying the investor or the date of the communication, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 39 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the risks associated with the Funds' investment portfolio. Respondents state that the offering documents and various other materials investors received before investing in the Funds accurately described the investment strategy of the Funds, the nature and types of assets in which the Funds invested, and the risks associated with those investments. Respondents further state that offering documents for the Funds made clear that the Funds' investment strategy included, *inter alia*, "indirectly (i) purchas[ing] from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added). Respondents deny that the settlements and non-appealable judgments that the Funds invested in were subject to litigation risk. Respondents further state that, contrary to the allegation in Paragraph 39 of the Order, the marketing document for the special purpose vehicle described the risk that the *Peterson* judgments would not collect as "unlikely" to be realized and "[de] minimus."

> 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.

ANSWER: Because Paragraph 40 of the Order references an alleged communication with an "investor" without identifying the investor or the date of the communication, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 40 of the Order, and deny them on that basis.

Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that the offering documents and various other materials investors received before investing in the Funds accurately described the investment strategy of the Funds, including the nature and types of assets in which the Funds invested. Respondents further state that offering documents for the Funds made clear that the Funds' investment strategy included, *inter alia*, "indirectly (i) purchas[ing] from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added).

> 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.

ANSWER: Because Paragraph 41 of the Order references an alleged communication with an "investor" without identifying the investor or the date of the communication, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 41 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the Funds' investment portfolio. Respondents state that the offering documents and various other materials investors received before investing in the Funds accurately described the investment strategy of the Funds, including the nature and types of assets in which the Funds invested. Respondents further state that offering documents for the Funds made clear that the Funds' investment strategy included, *inter alia*, "indirectly (i) purchas[ing] from law firms and attorneys . . . certain of their accounts receivable representing legal fees derived by the Law Firms from litigation, *judgments* and settlements" (emphasis added). Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Because Paragraph 42 of the Order references an alleged communication with an "investor" without identifying the investor or the date of the communication, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 42 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the risks associated with the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website. Respondents deny that the settlements and non-appealable judgments that the Funds invested in were subject to litigation risk, and state that the characterization of the *Peterson* judgments in which the Funds invested as "unsettled litigation" is inaccurate and misleading.

> 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.

ANSWER: Because Paragraph 43 of the Order references alleged communications with "investors" without identifying the investors or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 43 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the composition of the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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."

ANSWER: Because Paragraph 44 of the Order references an alleged communication with an "investor" without identifying the investor or the date of the communication, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 44 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the composition of the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website. Respondents further state that the allegation in Paragraph 44 of the Order is misleading because it first references an alleged investment amount by the Funds collectively (i.e., the offshore fund and the domestic fund) but then purports to quote a statement that, on its face, relates only to the investment by 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.

ANSWER: Because Paragraph 45 of the Order references alleged communications with "other investors" without identifying those investors or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 45 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the composition of the Funds' investment portfolio.

> 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.

ANSWER: Because Paragraph 46 of the Order references alleged communications with "certain investors" without identifying the investors or the dates of the communications. Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 46 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the composition of the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Because Paragraph 47 of the Order references alleged communications with "one investor" and "another investor" without identifying the investors or the dates of the communications, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 47 of the Order, and deny them on that basis. Respondents further deny making any materially false or misleading statements or omissions to investors regarding the composition of the Funds' investment portfolio. Respondents state that the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Because Paragraph 48 of the Order uses the term "settled cases" without defining it, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 48 of the Order, and deny them on that basis. Respondents understand the term "settled cases" to mean cases that have been fully resolved either through a voluntary settlement or a non-appealable judgment. Based on that understanding, Respondents deny the allegations in Paragraph 48 of the Order. Respondents state that the investment strategy of the Funds, and the type of legal receivables in which the Funds would invest, were described to investors in the offering documents and various other materials investors would receive when contemplating an investment in the Funds. The offering documents specifically provide that the Funds' investment strategy includes: (a) purchasing from law firms their receivables representing legal fees owed; (b) purchasing from plaintiffs receivables representing their proceeds from legal awards or settlements; (c) providing loans to law firms through secured lines of credit; and (d) providing capital to law firms to pursue certain other opportunities that do not fall within the categories above. Respondents state further that the concentration of assets in the Funds was disclosed to investors in the audited financial statements, among other sources, and was also made available to the Funds' accredited investors on the Funds' website.

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.

ANSWER: Because Paragraph 49 of the Order uses the term "unsettled litigations" without defining it, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 49 of the Order, and deny them on that basis. Respondents state that the investment strategy of the Funds, and the type of legal receivables in which the Funds would invest, were described to investors in the offering documents, and all assets originated into the Funds fell within this investment strategy. The offering documents specifically provide that the Funds' investment strategy includes: (a) purchasing from law firms their receivables representing legal fees owed; (b) purchasing from plaintiffs receivables representing their proceeds from legal awards or settlements; (c) providing loans to law firms through secured lines of credit; and (d) providing capital to law firms to pursue certain other opportunities that do not fall within the categories above. Respondents state further that the concentration of assets in the Funds was disclosed to investors in the audited financial statements, among other sources, and was also made available to the Funds' accredited investors on the Funds' website.

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.

ANSWER: Respondents admit that Mr. Dersovitz commenced a lawsuit to recover certain monies owed to the Funds, and that the lawsuit settled for less than the amount the Funds had advanced to the law firm. Respondents deny any other allegations in Paragraph 50 of the Order. Respondents further allege that this issue was disclosed to the Funds' accredited investors in quarterly updates to Agreed Upon Procedures, and other documents.

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.

ANSWER: Because Paragraph 51 of the Order uses the term "settled litigation" without defining it, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 51 of the Order, and deny them on that basis. Respondents state that the investment strategy of the Funds, and the type of legal receivables in which the Funds would invest, were described to investors in the offering documents, and all assets originated into the Funds fell within this investment strategy. The offering documents specifically provide that the Funds' investment strategy includes: (a) purchasing from law firms their receivables representing legal fees owed; (b) purchasing from plaintiffs receivables representing their proceeds from legal awards or settlements; (c) providing loans to law firms through secured lines of credit; and (d) providing capital to law firms to pursue certain other opportunities that do not fall within the categories above. Respondents state further that the concentration of assets in the Funds was disclosed to investors in the audited financial statements, among other sources, and was also made available to the Funds' accredited investors on the Funds' website. Respondents further allege that this issue was disclosed to the Funds' accredited investors in quarterly updates to Agreed Upon Procedures, and other documents.

> 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.

ANSWER: Respondents admit that Mr. Dersovitz commenced a lawsuit to recover certain monies owed to the Funds and that the lawsuit was settled for a monetary payment and other consideration. Respondents deny any other allegations in Paragraph 52 of the Order.

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

ANSWER: Because Paragraph 53 of the Order does not define the term "category of receivables" and does not identify the time period to which the allegation relates, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 53 of the Order, and deny them on that basis. Respondents state that the individual receivables backed by various *Peterson* judgments had different risk profiles and rates of return, and therefore cannot meaningfully be lumped together into a single "category of receivables." Respondents further state that the concentration of assets in the Funds—including assets backed by judgments in the *Peterson* cases—was disclosed to investors in the Funds' audited financial statements, among other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 54 of the Order. Respondents state that the *Peterson* plaintiffs had a variety of sources from which they sought to collect on the default judgments they had obtained against the Iranian government, which sources included approximately $1.75 billion in assets that had originally been located in a Citibank account in the United States but were subsequently transferred to a Qualified Settlement Trust under the control of the United States government, with the Honorable Stanley Sporkin as trustee.

> 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.

ANSWER: Respondents admit the Funds began investing in receivables backed by *Peterson* judgments in 2010. Because Paragraph 55 of the Order does not identify how the dollar and percentage figures referenced in the second sentence of Paragraph 55 were calculated, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in the second sentence of Paragraph 55 of the Order, and deny them on that basis. Respondents state the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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."

ANSWER: Respondents deny the allegations in Paragraph 56 of the Order. A default judgment, which is non-appealable, does not carry "additional risk" compared to a judgment following litigation, which can be appealed. Because the default judgments in the *Peterson* cases were non-appealable, the Funds' investment in receivables backed by the *Peterson* judgments did not bear any litigation risk. In addition, the collection risk associated with the assets backed by these default judgments was de minimis, because approximately $1.75 billion in assets from which the default judgments could be satisfied had been located and restrained *before* the Funds made any investment in receivables backed by those judgments.

Moreover, on February 5, 2012, President Obama signed an Executive Order blocking these assets from leaving the United States. Then, in March 2013, the United States District Court for the Southern District of New York entered an order turning the assets at Citibank over to the *Peterson* plaintiffs. The assets were placed in a Qualified Settlement Trust under the direction of the Honorable Stanley Sporkin as trustee. Based in part on these developments, Mr. Dersovitz elected over time to increase the size of the Funds' investment in the *Peterson* judgments.

The *Peterson* plaintiffs' right to satisfy their default judgments through the assets in the Qualified Settlement Trust has been established through multiple avenues, including two acts of

Congress. In addition, the Funds' investment in the *Peterson* cases was backed by additional, overlapping collateral sources of payment, removing any credit or collection risk to the Funds. Indeed, in discussing the Funds' investment in the *Peterson* cases with investors, Mr. Dersovitz consistently described it as "the best trade in the book."

Also, as stated in response to Paragraph No. 1 above, the concentration of assets in the Funds—including assets backed by judgments in the *Peterson* cases—was disclosed to investors in the Funds' audited financial statements, among other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

<u>ANSWER</u>: Respondents admit the Funds invested in *Peterson* assets including receivables held by *Peterson* plaintiffs. Respondents state that investors were notified as early as December 2008 that the Funds would begin investing in legal receivables held by plaintiffs, and the offering documents for the Funds dated June 2013 disclosed that the investment strategy for the Funds included "purchas[ing] from certain plaintiffs accounts receivable representing the plaintiff's portion of proceeds arising from final judgment awards or settlements." Respondents deny any other allegations in Paragraph 57 of the Order.

> 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.

<u>ANSWER</u>: Because Paragraph 58 of the Order does not identify how the dollar and percentage figures referenced therein were calculated, Respondents do not have, and are unable

to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 58 of the Order, and deny them on that basis. Respondents state the existence and concentration of *Peterson* assets in the Funds was disclosed to investors in marketing documents, the audited financial statements, and other sources, and was also made available to the Funds' accredited investors on the Funds' website.

> 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.

<u>ANSWER</u>: Respondents admit the Funds invested in legal receivables related to the Deepwater Horizon oil spill. Respondents do not have, and are unable to obtain, information sufficient for it to admit or deny the other allegations in Paragraph 59 of the Order, and deny them on that basis.

> 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%.

<u>ANSWER</u>: Respondents deny the allegations in Paragraph 60 of the Order and that there was any misstatement of material facts, let alone "numerous misstatements". Contrary to those allegations, Respondents state that the investment strategy of the Funds was accurately described to investors in the offering documents, and that the assets held in the Funds fell within this investment strategy. Respondents state further that the flow of profits in the Funds is

outlined for investors in the offering documents. At the end of each month, the net profits and losses of the Funds, including realized and unrealized gains and losses, are allocated to the accounts of the limited partners of the domestic fund and to the shareholders of the offshore fund. The values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. Any net profits in excess of the limited partner and shareholder return are allocated to the capital account of RDLC as the general partner and investment manager. RDLC thus receives the excess of net income over the limited partner allocation and the excess profit over the shareholder return. The allocation of profits and losses in the Funds has always followed the structure described to investors in the offering documents.

> 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.

ANSWER: Respondents admit the RDLC has employed, and continues to employ, a nationally-recognized third-party valuation agent to value the assets in the portfolio. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm.

The valuation of the assets in the Funds, and the process through which the assets are valued, is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

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.

ANSWER: Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 62 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP.

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.

ANSWER: Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 63 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds were not calculated by Respondents, but by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. Respondents admit that each month RDLC would provide data to the third-party valuation agent concerning the assets in the portfolio and would respond to requests for additional data when requested by the valuation agent.

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.

ANSWER: Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 64 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of the meaning of GAAP. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets held in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm.

The valuation of the assets in the Funds, and the process through which the assets are valued, is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

Respondents deny that the Funds "increasingly invested in a very different type of receivable relating to unsettled cases." Respondents state that, contrary to the allegation in Paragraph 64 of the Order, the risk profiles for receivables backed by settlements and those backed by non-appealable judgments for which a corpus of funds has been identified (such as the *Peterson* judgments) are very similar, and one is not an inherently riskier investment than the other.

> 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.

ANSWER: Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 65 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds was calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets held in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm. The valuation of the assets in the Funds, and the process through which the assets are valued, is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

Respondents further state that the valuation agent was able to communicate directly with the attorneys from whom the Funds were purchasing receivables, as well as the Funds' outside counsel, to ask any questions the agent had regarding the nature of the underlying litigation.

> 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.

<u>ANSWER</u>: Respondents deny the allegations in Paragraph 66 of the Order. The *Peterson* assets in the Funds, including the *Peterson* plaintiff receivables, were secured against multiple, overlapping collateral sources of payment; including, but not limited to, the funds under the control of the United States government held in the Qualified Settlement Trust. Moreover, while the marketing document for the special purpose vehicle did identify a theoretical risk associated with the potential inability of the plaintiffs to recover the entire

amount of their judgment out of the Qualified Settlement Trust, it noted that "an agreement has already been reached whereby the Marine families [i.e., the *Peterson* plaintiffs] will receive 82%" of the funds in the Qualified Settlement Trust. This fact, combined with the multiple collateral sources of payment described above, minimized the collection risk associated with the assets backed by these *Peterson* plaintiff receivables.

> 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.

ANSWER: Because Paragraph 67 of the Order uses the term "unsettled litigation" without defining it, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 67 of the Order, and deny them on that basis.

> 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.

ANSWER: Because Paragraph 68 of the Order references "changes" and "certain cases" without identifying them, Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 68 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets held in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm. The valuation of the assets in the Funds, and the process through which the assets are valued. is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

Respondents further state that the valuation agent was able to communicate directly with the attorneys from whom the Funds had purchased receivables to ask any questions the agent had regarding the nature of the underlying litigation.

> 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.

ANSWER: Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in Paragraph 69 of the Order, and deny them on that basis. Respondents state that values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets held in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation firm. The valuation of the assets in the Funds, and the process through which the assets are valued, is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

Respondents further state that the valuation agent was able to communicate directly with the attorneys from whom the Funds had purchased receivables to ask any questions the agent had regarding the nature of the underlying litigation.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 70 of the Order. Respondents state that values of the assets held by the Funds were calculated by a nationally-recognized third-party valuation agent based on fair value accounting within the meaning of GAAP. The valuation agent reviews the portfolio on a monthly basis and uses a proprietary model to value the Level 3 assets held in the Funds based on fair value accounting within the meaning of GAAP. The valuation agent provides recommended valuations to RDLC, and RDLC has always marked the assets in the portfolio consistent with the recommendations of the third-party valuation agent. The valuation of the assets in the Funds, and the process through which the assets are valued, is reviewed by the external auditor for the Funds as part of its annual audit. The manner in which the assets are valued is described to investors in the audited financial statements, among other sources.

Respondents state further that the flow of profits in the Funds is outlined for investors in the offering documents. At the end of each month, the net profits and losses of the Funds, including realized and unrealized gains and losses, are allocated to the accounts of the limited partners of the domestic fund and to the shareholders of the offshore fund. Any net profits in excess of the limited partner and shareholder return are allocated to the capital account of RDLC as the general partner and investment manager. RDLC thus receives the excess of net income over the limited partner allocation and the excess profit over the shareholder return. The allocation of profits and losses in the Funds has always followed the structure described to investors in the offering documents.

> 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 thirdparty investor to purchase assets directly from the Funds. In doing so, Dersovitz elevated his own interests over those of the Funds' investors.

ANSWER: Respondents deny the allegations in Paragraph 71 of the Order. The third party investor referenced in Paragraph 71 of the Order is a financial institution which, under its own governing documents, is prohibited from investing in comingled funds, and thus could not invest in the Funds directly. The third party investor therefore invested in certain assets of the Funds directly through a participation agreement, thereby increasing liquidity in the Funds and serving the interests of investors in the Funds. Moreover, the offering documents for the Funds disclosed to investors that the Funds could enter into participation agreements such as the one governing the Funds' relationship with the third party investor referenced in Paragraph 71 of the Order.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 72 of the Order. The third party investor referenced above is a financial institution which, under its own governing documents, is prohibited from investing in comingled funds, and thus could not invest in the Funds directly. The third party investor therefore invested in certain assets of the Funds directly through a participation agreement, thereby increasing liquidity in the Funds and serving the interests of investors in the Funds. The third party investor was not an investor in the Funds and therefore was not "permitted to withdraw assets" from the Funds; rather, the third party owned its assets directly. Moreover, the offering documents for the Funds disclosed to investors that the Funds could enter into participation agreements such as the one governing the Funds' relationship with the third party investor referenced in Paragraph 71 of the Order.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 73 of the Order. As described above, the third party investor referenced above is a financial institution which, under its own governing documents, is prohibited from investing in comingled funds, and thus could not invest in the Funds directly. The third party investor therefore invested in certain assets of the Funds directly through a participation agreement, thereby increasing liquidity in the Funds and serving the interests of investors in the Funds. Moreover, the offering documents for the Funds disclosed to investors that the Funds could enter into participation agreements such as the one governing the Funds' relationship with the third party investor referenced in Paragraph 71 of the Order.

Because the last sentence of Paragraph 73 of the Order does not define or describe the phrase "new deals away from the Funds," Respondents do not have, and are unable to obtain, information sufficient to permit them to admit or deny the allegations in the last sentence of Paragraph 73 of the Order, and deny them on that basis.

> 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.

ANSWER: Respondents deny the allegations in Paragraph 74 of the Order. Respondents state further that the flow of profits in the Funds is outlined for investors in the offering documents. At the end of each month, the net profits and losses of the Funds, including realized and unrealized gains and losses, are allocated to the accounts of the limited partners of the domestic fund and to the shareholders of the offshore fund. Any net profits in excess of the limited partner and shareholder return are allocated to the capital account of RDLC as the general partner and investment manager

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.

ANSWER: Respondents deny the allegations in Paragraph 75 of the Order.

GENERAL DENIAL

Other than as expressly and unequivocally admitted above, Respondents deny all allegations in the Order.

AFFIRMATIVE AND SPECIAL DEFENSES

Respondents state their intention to assert the following defenses pursuant to Commission Rule of Practice 220(c), as amended. Respondents do not assume any burden of proof that would otherwise rest on the Commission. Respondents expressly reserve the right to amend this Answer to assert any additional defenses as discovery proceeds and more information becomes available.

First Additional Defense

The allegations of the Division of Enforcement fail to state a claim against Mr. Dersovitz or RD Legal Capital, LLC for which relief may be granted by the Commission.

Second Additional Defense

The Order is deficient because the Division has failed to plead its fraud allegations with the required definiteness.

Third Additional Defense

The Order, and each alleged cause of action contained therein, is barred in whole or in part by the applicable statute of limitations.

Fourth Additional Defense

Respondents did not willfully violate Section 17(a)(1)-(a)(3) of the Securities Act, Section 10(b) of the Exchange Act, or Rule 10b-5 thereunder.

Fifth Additional Defense

Mr. Dersovitz did not willfully aid and abet or cause RD Legal Capital, LLC's alleged violations of Section 17(a)(1)-(3) of the Securities Act or Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

Sixth Additional Defense

The Division's claims are barred in whole or in part because the facts pled in the Order do not give rise to an inference that Respondents acted with the requisite state of mind to establish liability under any of the Division's legal theories.

Seventh Additional Defense

The Division's claims are barred in whole or in part because Respondents at all times acted in good faith and with good cause.

Eighth Additional Defense

The Division's claims against Respondents are barred in whole or in part because the alleged misstatements and omissions are not material.

Ninth Additional Defense

The Division's claims are barred in whole or in part because Respondents relied in good faith upon the judgment, advice, and counsel of attorneys, accountants, auditors, and other professionals, including but not limited to a nationally-recognized third-party valuation agent, as to matters reasonably believed to be within such persons' professional or expert competence.

Tenth Additional Defense

The Division may not obtain disgorgement because Respondents did not receive any ill-gotten profits or economic gains as a result of any of the actions alleged in the Order.

Eleventh Additional Defense

The Division has failed to allege the amount it seeks to disgorge from Respondents or the basis for any such amount. Any claim for disgorgement in excess of what Respondents actually received would constitute a penalty and would entitle Respondents to a jury trial.

Twelfth Additional Defense

The Commission and the Commission's Administrative Law Judges lack authority to conduct the proceedings herein.

Thirteenth Additional Defense

The adjudication of this proceeding by the Commission's Administrative Law Judges violates the Appointments Clause in Article II of the United States Constitution.

Fourteenth Additional Defense

The adjudication of this proceeding by the Commission's Administrative Law Judges violates Article II of the United States Constitution because the Commission's Administrative Law Judges are separated from Presidential supervision and removal by more than one layer of tenure protection.

Fifteenth Additional Defense

The Commission's administrative proceedings do not afford an adequate opportunity to defend against the charges in violation of Respondents' due process rights under the United States Constitution.

RESERVATION OF RIGHTS

Respondents intend to rely on any other and further defenses as may become available during discovery, and reserve the right to amend their Answer to assert additional defenses.

Dated: August 5, 2016

By:____________________

Roel C. Campos
Terence M. Healy
Hughes Hubbard & Reed LLP
1775 I Street, N.W.
Washington, D.C. 20006-2401
202-721-4600
www.hugheshubbard.com

David K. Willingham
Michael D. Roth
Caldwell Leslie & Proctor, PC
725 South Figueroa Street, 31st Floor
Los Angeles, CA 90017-5524
213-629-9040
www.caldwell-leslie.com

Counsel for RD Legal Capital, LLC and Roni Dersovitz

CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing Answer was served by electronic mail and U.S. Postal Service on this 5th day of August 2016 to Division of Enforcement's counsel:

Michael D. Birnbaum
Securities and Exchange Commission
New York Regional Office
Brookfield Place, 200 Vesey Street
New York, NY 10281

Jorge Tenreiro
Securities and Exchange Commission
New York Regional Office
Brookfield Place, 200 Vesey Street
New York, NY 10281

Victor Suthammanont
Securities and Exchange Commission
New York Regional Office
Brookfield Place, 200 Vesey Street
New York, NY 10281

Terence Healy