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13 UNITED STATES DISTRICT COURT
 14 CENTRAL DISTRICT OF CALIFORNIA

15 **CV09-01533**
 Case No.:

R JTLX

16 SECURITIES AND EXCHANGE
 COMMISSION,

17 Plaintiff,

18 vs.

19 DIVERSIFIED LENDING GROUP, INC.;
 20 APPLIED EQUITIES, INC.; and BRUCE
 FRIEDMAN;

21 Defendants, and

22 TINA M. PLACOURAKIS,

23 Relief Defendant.
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DECLARATION OF MELISSA
 GRANT

1 I, Melissa Grant, declare as follows:

2 1. I am an attorney admitted to practice law by the State Bar of
3 California and the above-entitled Court. I am employed as a Staff Attorney with
4 the Securities and Exchange Commission (the "Commission") in the Office of
5 Enforcement, plaintiff in this matter. My office is located in the Commission's
6 Los Angeles Regional Office in Los Angeles, California. I make this declaration
7 in support of the Commission's *Ex Parte* Application for Temporary Restraining
8 Order and Orders: (1) Freezing Assets; (2) Appointing a Temporary Receiver; (3)
9 Prohibiting the Destruction of Documents; (4) Expediting Discovery; (5) and
10 Requiring Accountings; and Order to Show Cause Re Preliminary Injunction and
11 Appointment of a Permanent Receiver. I have personal knowledge of each of the
12 matters set forth below.

13 2. In the course of my duties with the Commission, I conduct inquiries
14 and investigations into possible violations of the federal securities laws. My
15 responsibilities include: (1) obtaining and analyzing documents and other
16 materials, (2) interviewing and taking the sworn testimony of witnesses, (3)
17 applying statutes and regulations promulgated by the Commission, and (4)
18 representing the Commission before United States District Courts and
19 administrative courts. In my capacity as a Staff Attorney for the Commission in
20 the Office of Enforcement, I am required to, and have become, personally familiar
21 with the manner in which the Commission's documents, books and records are
22 prepared and made. The Commission maintains records of its investigatory
23 activities in the ordinary and regular course of its business, and it is the ordinary
24 and regular course of business of the Commission to make and keep such records.
25 It is the regular course of business of the Commission's staff with knowledge of an
26 investigatory activity to make or receive a record of the activity or to transmit
27 information thereof to be included in such record, and the record was made at or
28 near the time or reasonably soon after.

1 3. In the course of the Commission's investigation in this matter, I and
2 other members of the Commission's staff sought and obtained documents,
3 information from witnesses, and other materials regarding the activities of the
4 following entities and individuals, who have been named as defendants or a relief
5 defendant in this action: (1) Diversified Lending Group, Inc. ("DLG"); (2) Applied
6 Equities, Inc. ("AEI"); (3) Bruce Friedman; (4) Tina Placourakis ("Placourakis")
7 (DLG, AEI, and FRIEDMAN are collectively referred to as "DLG.") The
8 Commission's staff kept records of the investigation in the ordinary and regular
9 course of business, and it was the ordinary and regular course of business to make
10 and maintain such records.

11 4. The Commission's staff has determined through a search of the
12 Commission's records and files that there is no registration statement filed or in
13 effect with respect to any offering of securities by DLG.

14 5. Based on information obtained in the course of the investigation, the
15 Commission's staff's has determined that defendant Diversified Lending Group,
16 Inc. ("DLG") is a closely held California corporation, with its principal place of
17 business in Sherman Oaks, California. DLG is licensed by the California
18 Department of Real Estate.

19 6. Based on information obtained in the course of the investigation, the
20 Commission's staff's has determined that defendant Applied Equities, Inc. ("AEI")
21 is a California corporation and a wholly owned subsidiary of DLG, with its
22 principal place of business in Sherman Oaks, California. AEI is not registered with
23 the Commission. AEI is licensed by the California Department of Insurance.

24 7. Based on information obtained in the course of the investigation, the
25 Commission's staff has determined that Bruce Friedman is 59 years old and resides
26 in Los Angeles County, California. He is the president, CEO, and sole shareholder
27 of DLG, and through DLG controls AEI. Friedman may have been a real estate
28 broker licensed by the California Department of Real Estate, but that license

1 expired in 2000. Friedman controls DLG's operations, its so-called "investment
2 pool," and the offering and sale of DLG's Secured Investment Notes (the "Notes").
3 Friedman is also a signatory on all of DLG's and AEI's bank accounts. Friedman
4 is not registered with the Commission. In 1981, Friedman was convicted by the
5 State of California for grand theft of personal property and was incarcerated for 23
6 months.

7 8. Based on information obtained in the course of the investigation, the
8 Commission's staff has determined that relief defendant Tina Placourakis
9 ("Placourakis") resides in Scottsdale, Arizona. In addition, the Commission's staff
10 is informed and believes that Placourakis is Friedman's girlfriend.

11 9. The Commission's staff issued administrative subpoenas to Wells
12 Fargo Bank ("Wells Fargo") on February 24, 2009 for bank records related to all
13 accounts of entity defendants DLG and AEI, and on February 25, 2009 for bank
14 records related to all accounts of Friedman. On March 3, 2009, Wells Fargo
15 produced documents in response to the subpoena for bank records related to the
16 entity defendants, including account statements, deposit slips and deposited items.
17 Attached as **Exhibit 1** is a true and correct copy of the Declaration for Records of
18 Regularly Conducted Business Activity that accompanied the documents produced
19 by Wells Fargo in response to the subpoena.

20 10. Attached as **Exhibit 2** is a true and correct copy of the declaration
21 provided by Merrill Lynch personnel regarding the documents produced
22 concerning the brokerage accounts opened, held, or controlled by DLG, Friedman,
23 and affiliated entities or persons.

24 11. The Commission's staff issued administrative subpoenas to DLG on
25 February 25, 2009 and to Friedman on February 26, 2009 for all documents
26 concerning, among other things, any securities issued by DLG, any investors who
27 purchased any securities issued by DLG, the persons and/or entities who offer or
28 sell any security issued by DLG, the operations of AEI as the investment servicing

1 division of DLG, any and all uses of DLG investors' proceeds, the source of any
2 payments to investors, DLG's investment activities, any other information and
3 documents concerning the operations of defendants at issue in this matter.

4 12. The Commission's staff issued an administrative subpoena to
5 Blackmore Escrow on March 3, 2009 for all documents related to a transaction
6 and/or series of transaction associated with or identified by Escrow No. 083914LE.
7 On March 4, 2009, Blackmore Escrow produced documents in response to the
8 Commission's subpoena. I have reviewed the documents produced by Blackmore
9 Escrow No. 083914LE and determined that the transactions associated with or
10 identified by Escrow No. 083914LE concern the bulk purchase of certain magnetic
11 resonance imaging businesses for \$13 million by Consolidated Healthcare dba
12 Ambulatory Services from MedFund dba Horizon Medical Imaging, on or about
13 May 14, 2008, which was funded by DLG. I also reviewed the account statements
14 and wire transfers for DLG's primary Merrill Lynch business account (Account
15 No. 236-07199) for the period of November 1, 2007 through November 30, 2008;
16 the account statements for DLG's Wells Fargo Bank Account No. 2000451001 for
17 the period January 1, 2007 to February 1, 2009; and DLG's check register from the
18 period of January 2004 and April 30, 2008. Based on my review, I determined that
19 the \$13 million DLG used to fund this transaction were investor funds.

20 13. Attached as **Exhibit 3** is a true and correct copy of DLG's
21 Informational Circular that the Commission's staff has determined was provided to
22 prospective investors in or around 2004 (the "2004 Information Circular").

23 14. Attached as **Exhibit 4** is a true and correct copy of DLG's
24 Informational Circular that the Commission's staff has determined was provided to
25 prospective investors in or around 2005 (the "2005 Information Circular").

26 15. Attached as **Exhibit 5** is a true and correct copy of DLG's
27 Informational Circular that the Commission's staff has determined was provided to
28 prospective investors in or around 2006 through June 2007(the "2006 Information

1 Circular”).

2 16. Attached as **Exhibit 6** is a true and correct copy of DLG’s
3 Informational Circular dated July 2007 that the Commission’s staff has determined
4 has been provided to prospective investors since in or around July 2007 to the
5 present (the “2007 Informational Circular”).

6 17. Attached as **Exhibit 7** is a true and correct copy of DLG’s the private
7 placement memorandum that the Commission’s staff has determined was presented
8 to prospective and current sales representatives of DLG’s Notes by Friedman on or
9 about February 2, 2009 (the “PPM”).

10 18. Attached as **Exhibit 8** is a true and correct copy of DLG’s monthly
11 newsletter dated December 31, 2008 that the Commission’s staff has determined
12 was presented to prospective and current sales representatives of DLG’s securities
13 by Friedman on or about February 2, 2009 (the “December 31 2008 Newsletter”).
14 Based on my review of the December 31 2008 Newsletter, DLG claims to have
15 approximately \$281 million investor funds on deposit, real estate investment
16 properties valued at approximately \$325 million, a total of \$659.3 million in
17 “assets under management,” and a 23.34% year-to-date gain.

18 19. Based on my review of the PPM and other information gathered in the
19 course of the investigation by the Commission’s staff, although DLG provided
20 investors with purportedly “audited” financial statements for the years 2004
21 through 2006, DLG’s auditor does not appear to be licensed by any state, is not
22 registered with the PCAOB, and has just one employee who is also not licensed.

23 20. Based on information provided voluntarily by DLG investors to the
24 Commission’s staff and documents obtained in the course of the investigation,
25 there is no evidence that the PPM or December 31 2009 Newsletter have been
26 provided to prospective investors or existing DLG investors.

27 21. Attached as **Exhibit 9** are true and correct copies of the DLG
28 pamphlet, investment applications, and other documents created and maintained by

1 DLG that the Commission has determined were included in the “Welcome Packet”
2 provided to prospective investors by the nationwide network of insurance agents
3 and unregistered sales representatives, with whom AEI contracts to offer and sell
4 DLG’s securities (the “Agents”).

5 22. Attached as **Exhibit 10** are true and correct copies of the AEI
6 pamphlet and promotional materials created and maintained by DLG, Friedman,
7 and AEI that the Commission has determined were included in the “Welcome
8 Packet” that was provided to prospective investors by the Agents.

9 23. Attaches as **Exhibit 11** are true and correct copies of DLG’s monthly
10 investor newsletters for the years ending December 31, 2005, December 31, 2006,
11 December 31, 2007, and December 31, 2008.

12 24. Attached as **Exhibit 12** are true and correct copies of the PowerPoint
13 presentations concerning DLG’s Notes that the Commission staff has determined
14 were created and maintained by DLG, AEI, and Friedman. The Commission’s staff
15 has also determined that these PowerPoint presentations were used by Friedman
16 personally to train the Agents in DLG’s business and in the Notes. In addition, the
17 Commission’s staff has determined that DLG, Friedman, and AEI carefully
18 controls what representations the Agents make to prospective investors about DLG
19 and the Notes.

20 25. Attached as **Exhibit 13** are true and correct copies of PowerPoint
21 presentations and flyers that the Commission’s staff has determined were used by
22 the Agents at seminars, meetings, workshops attended by the Agent’s pre-existing
23 clientele and other prospective investors to offer and sell DLG’s Notes.

24 26. Based on my review of the documents contained in DLG’s “Welcome
25 Packet” (discussed hereinabove and attached hereto as Exhibits 5 through 8, 11,
26 12, and 13) and the PowerPoint presentations (discussed hereinabove and attached
27 hereto as Exhibits 14 and 15), prospective investors are told in writing and orally
28 by DLG, AEI, Friedman, and/or the Agents that the Notes are “a safe,”

1 guaranteed,” “solid investment” that can be cashed out on written demand. In
2 addition, the Welcome Packet materials appear to repeat and reinforce the oral
3 representations that DLG, AEI, Friedman and/or the Agents make to prospective
4 investors concerning DLG’s use of investor proceeds and the Notes’ safety,
5 profitability, and liquidity.

6 27. Based on my review of the 2004, 2005, 2006, and 2007 Informational
7 Circulars (attached hereto as Exhibits 3 through 6), the PPM (attached hereto as
8 Exhibit 9), the monthly investor newsletters (attached hereto as Exhibit 13), the
9 documents contained in DLG’s “Welcome Packet” (discussed hereinabove and
10 attached hereto as Exhibits 3 through 6, 9, 10, and 11), the PowerPoint
11 presentations (discussed hereinabove and attached hereto as Exhibits 13 and 14),
12 and other information gathered in the course of the Commission staff’s
13 investigation, Friedman, DLG, AEI, and/or the Agents have consistently
14 represented to prospective investors the following:

- 15 • Friedman formed DLG in May 2004 as a California
16 corporation. DLG is purportedly an income-producing “scratch
17 and dent” (i.e., imaged and distressed) real estate business.
18 DLG acquired AEI as its wholly-owned subsidiary shortly after
19 DLG’s formation in May 2004. DLG describes itself as a
20 “boutique mortgage banking firm with more than 80 years
21 experience,” and AEI as DLG’s investment servicing division.
- 22 • Defendants represent that DLG sells its Notes to generate
23 capital for DLG’s so-called “investment pool,” which
24 purportedly reinvests those funds in real estate and mortgage
25 lending ventures. Investors have the option of “loaning” DLG
26 money by purchasing one-year or five-year Notes. DLG
27 promises to repay investors their principal and guarantees that
28 investors will receive an additional return or yield of either 9%

1 or 12% compounded monthly.

- 2 • DLG represents that it “invest[s] substantially all of [its] net
3 investable funds and distribution reinvestments in mortgage loans
4 and real property.” DLG also claims that investor funds are
5 invested 70% in real estate and 30% in mortgage lending. DLG
6 also claims that primary objectives are to “preserve your
7 investment” and to provide cash distributions from the rental
8 income earned from DLG properties and the interest income
9 earned from DLG’s mortgage loans.
- 10 • Once investors invest in the Notes, defendants have continued to
11 represent to them that their money is being used as represented,
12 that DLG’s investments are profitable, that their money is safe, and
13 that their returns of 9% or 12% are guaranteed. First, defendants
14 receive an investment contract in which, among other things, DLG
15 guarantees the investors’ principal and rate of return. Second,
16 defendants send investors account statements on at least a quarterly
17 basis, which set forth investors’ year-to-date account balances and
18 interest payments. Third, defendants send DLG investors a
19 monthly investor mailing that reports DLG’s “assets under
20 management” and year-to-date gains and recites DLG’s purported
21 three-fold investment philosophy of:

- 22 “1. Preservation of our investors’ capital;
- 23 2. Delivering absolute returns; and
- 24 3. Having lower volatility than major traditional indices.”

25 28. Based on information and documents obtained by the Commission’s
26 staff in the course of its investigation, defendants have repeatedly represented to
27 investors—despite evidence to the contrary contained in DLG’s bank records, the
28

1 PPM, and the December 31, 2008 newsletter—that DLG “uses only investments in
2 Income Stream Real Estate.”

3 29. Based on the information obtained by the Commission’s staff in the
4 course of the investigation, until very recently, defendants have represented to
5 investors, as well as to state securities regulators, that DLG has never failed to pay
6 investor returns and principal. Based on that information and a review of the 2005
7 through 2008 monthly newsletters, as recently as February 2, 2009, DLG has
8 continued to tout the annual gains of its investments in real estate and mortgage
9 lending, claiming that they have consistently exceeded 21% since 2005.

10 30. Based on the Commission staff’s review of DLG’s Information
11 Circulars, nothing in them states or even suggests that investor funds will be used
12 for business ventures other than real estate and mortgage loans. In fact, the
13 Information Circular represents that DLG “may not change [its] investment
14 objectives . . . except upon approval of a majority of our Board. [DLG] has no
15 authority to do anything that would impair our ability to carry on our ordinary
16 business as a mortgage or real property investor.” The Information Circular further
17 represents under the heading “VARIOUS OTHER POLICIES AND
18 PROCEDURES” that “[w]ithout approval of a majority of the Board, we will not .
19 . . change the nature of our business or our investment policies.” And DLG’s
20 monthly mailings have further reassured investors that their money was being used
21 for real estate and mortgage loan ventures. Specifically, each monthly mailing
22 repeated the investment objectives set forth in the Information Circular. In
23 addition, the “INVESTMENT OVERVIEW” section states that “Diversified
24 Lending Group uses only investments in Income Stream Real Estate.”

25 31. In the December 31 2009 Newsletter, the Commission’s staff has
26 determined that DLG altered its longstanding disclosure about the use of investor
27 funds. In a section entitled “COMMENTARY,” DLG states that “[w]e have
28 expanded our horizons to include the industries that will benefit most from these

1 [recent economic] changes, alternative energy and healthcare just to mention two.”
2 The Commission’s staff has further determined that this purported disclosure is
3 inadequate at best for the following reasons: First, it appeared years after DLG
4 began using investor funds for these undisclosed business and investment ventures.
5 Second, there is no evidence that this mailing was in fact sent to investors. Third,
6 the disclosure appears in the middle of a long paragraph in extremely small type,
7 and it is at odds with the “INVESTMENT OVERVIEW” section, which appears in
8 standard type and continues to represent that DLG is using investor proceeds for
9 real estate activities. Moreover, the language of the purported disclosure gives no
10 detail as to when DLG invested in these other business ventures, whether the
11 Board approved this significant shift in business strategy as required by DLG’s
12 policies, how much was invested in other business ventures, and the potential
13 impact on the safety and profitability of the Notes.

14 32. Based on the information gathered from DLG investors and other
15 documents, the Commission’s staff has learned that DLG investors have recently
16 made repeated demands for the return of their principal investments, but DLG has
17 been unable or unwilling to return their money. One investor has filed a civil
18 action against DLG for securities fraud, alleging, among other things, that
19 defendants fraudulently misrepresented that investor funds would only be used for
20 investment in real estate and mortgage lending, that DLG’s primary investment
21 objective was to preserve investors’ capital, and that investors’ proceeds were safe,
22 guaranteed, subject to little risk, and readily liquidated upon demand. Attached as
23 **Exhibit 12** is a true and correct of that complaint, which was filed in this Court in
24 Martin L. Markowitz v. Diversified Lending Group, Inc., Case No. CV09-00483
25 FMC (C.D. Cal.) (filed Jan. 22, 2009) (the “Markowitz Complaint”).

26 33. Attached hereto as **Exhibit 13** is a true and correct of a letter dated
27 December 16, 2008 that Bruce Friedman sent to DLG investors in which he
28 disclosed his 1981 felony conviction. Based on the information gathered in the

1 course of the investigation, the Commission's staff has determined that defendants
2 did not disclose Friedman's prior criminal conviction until forced to do so by
3 regulatory and media scrutiny in December 2008.

4 34. Based on the information and documents gathered by the
5 Commission's staff in the course of the investigation, including information
6 obtained from the California Secretary of State, I determined that Makin' Fun, Inc.
7 is a California corporation formed by Friedman on or about September 7, 2007.
8 Makin' Fun, Inc., DLG, and AEI, other affiliated entities, each list 15260 Ventura
9 Blvd., Suite 1240, in Sherman Oaks, California as their principal place of business.
10 Friedman is one of two "presidents" of Makin' Fun, Inc. Makin' Fun, Inc. through
11 three affiliated entities or business located in Montclair, New Jersey, is in the
12 children's toy business and operates a children's website known as Club Kiddoo.
13 Based on a review of DLG's Wells Fargo bank records, the company's check
14 register, and its Merrill Lynch accounts, the Commission's staff determined that
15 \$350,000 of investor funds was paid to Makin' Fun, Inc.

16 35. Based on information and documents gathered by the Commission's
17 staff in the course of the investigation, including information obtained by visiting
18 the Internet website <friedmanfoundation.com>, Friedman formed the Friedman
19 Charitable Foundation in 2006. The Commission's staff has determined based on a
20 review of DLG's bank records that Friedman has donated \$1.815 million in
21 investors funds to a variety of charities.

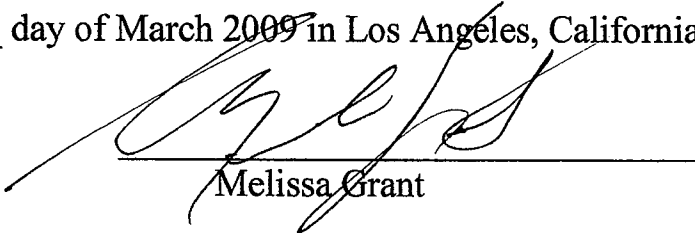
22 36. Attached as **Exhibit 14** are true and correct copies of the contracts of
23 Your Platinum Distributors and American Benefits Company, two of the Agents
24 that DLG, through AEI, authorized to offer and sell DLG's Notes and to which
25 defendants agreed to pay commissions based on investor deposits received.
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37. Based on information and documents gathered by the Commission's staff in the course of the investigation, including a review of DLG's bank records, Friedman used \$6.53 million investor funds, through MMHIM, Inc. and DLG, to purchase a luxury home in Malibu, California.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 7 day of March 2009 in Los Angeles, California.



Melissa Grant