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6 BRUCE FRIEDMAN

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8 UNITED STATES DISTRICT COURT  
9 CENTRAL DISTRICT OF CALIFORNIA  
10 WESTERN DIVISION

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12 SECURITIES AND EXCHANGE  
13 COMMISSION,

14 Plaintiff,

15 vs.

16 DIVERSIFIED LENDING GROUP,  
17 INC., APPLIED EQUITIES, INC.,  
AND BRUCE FRIEDMAN,

18 Defendants,

19 And

20 TINA M. PLACOURAKIS,

21 Relief Defendant.

CASE NO. CV 09-01533-R-JTLx

RESPONSE OF DEFENDANT  
BRUCE FRIEDMAN TO RECEIVER'S  
SECOND REPORT; DECLARATION  
OF BRUCE FRIEDMAN

Judge: Hon. Manuel L. Real  
Date: September 8, 2009  
Time: 10:00 a.m.  
Dept: Courtroom 8

22 Defendant Bruce Friedman respectfully submits this response to the  
23 Receiver's Second Report submitted to this Court on August 14, 2009. By this  
24 response, he seeks to address the allegations that the Receiver has made that 1)  
25 Diversified Lending Group, Inc. ("DLG") was a "Ponzi" scheme, 2) the lack of  
26 income producing property, 3) the value of assets acquired by DLG, and 4) Mr.  
27 Friedman's cooperation.  
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1 **I. The Alleged “Ponzi” Scheme**

2 Mr. Friedman disagrees with the Receiver’s characterization of DLG  
3 as a “Ponzi” scheme. As is evident from the Receiver’s own report, this was not a  
4 Ponzi scheme. The Receiver acknowledges that DLG invested over \$116,200,000  
5 in equity and loans. (Second Report, p. 21). During the time that DLG was raising  
6 money through investment notes, it acquired real estate and on-going business  
7 concerns and made loans that generated an income stream for DLG other than the  
8 funds coming in from new investors. Exhibit 1 to the Receiver’s report lists  
9 approximately fifty loans and investments to various individuals and businesses.

10 Mr. Friedman believes that there are several assets, including  
11 Consolidated Healthcare Services, Inc., Browns Field International Business Park,  
12 and Palm Springs International Business Park (Desert Land Ventures III), that have  
13 the potential to generate a substantial long-term return for DLG and its investors.

14 Consolidated Healthcare has outpatient surgery centers in several  
15 states, a diagnostic imaging facility, and magnetic imaging facilities, which are  
16 currently generating revenue for the company. Mr. Friedman believes that there is  
17 a potential for an initial public offering (IPO) that could result in significant funds  
18 for DLG and its investors.

19 Browns Field International Business Park and Palm Springs  
20 International Business Park are development projects that Mr. Friedman believes  
21 have the potential for significant income for DLG and its investors.

22 **II. Lack of Income Producing Properties**

23 Mr. Friedman disagrees with the Receiver’s assertion that “[w]hen I  
24 was appointed Diversified owned no income producing real estate.” (Id., p. 2, l’s  
25 20-21.)

26 In one example, DLG made a real estate loan to an apartment building  
27 owned by Bethany Legend Oaks LLC in Florida (Ex. 1, ¶ F, p. 7), which Mr.  
28

1 Friedman believes converted into an 80% ownership interest.<sup>1</sup> It appears that the  
2 Receiver has decided not to pursue the property because he believes that it has “no  
3 equity” (id., p. 8) even though Mr. Friedman believes that the first lien holder has  
4 been brought current and that it has a positive cash flow.

5 Mr. Friedman also believes that DLG has a minority ownership in an  
6 entity known as Bethany Holdings, which had an interest in over 60 properties,  
7 some of which he believes were generating positive cash flow at the time the  
8 Receiver took control of DLG.

9 Another example is DLG’s investment with Kachay in two apartment  
10 complexes, which Mr. Friedman believes had a positive cash flow at the time the  
11 Receiver was appointed.

### 12 **III. Valuation of Assets**

13 As discussed above, Mr. Friedman believes that Consolidated  
14 Healthcare Services, Inc., Browns Field International Business Park, and Palm  
15 Springs International Business Park (Desert Land Ventures III), have the potential  
16 to generate a substantial long-term return for DLG and its investors.

### 17 **IV. Mr. Friedman’s Cooperation**

18 Mr. Friedman disagrees with the Receiver’s allegation that he has been  
19 less than cooperative. As set forth in Mr. Friedman’s declaration submitted  
20 herewith, he has cooperated with the Receiver 1) by repeatedly meeting with the  
21 Receiver and his staff, 2) by identifying the assets of DLG and working with the  
22 Receiver to maximize the value of those assets, and 3) by assigning his interests in  
23 various assets to DLG without objection for the benefit of DLG’s investors.

24 Mr. Friedman met with the Receiver on numerous occasions at the  
25 outset of the Receivership and has made himself available to the Receiver and his  
26 staff since then. He has also provided the Receiver with his knowledge of DLG’s

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28 <sup>1</sup> It appears that the Receiver’s Exhibit transposes two sentences relating to DLG’s acquisition of  
an 80% interest in the properties.

1 investments and transactions to the best of his ability, although there have been  
2 times that he did not know or was unable to recall information the Receiver was  
3 seeking. He has attempted in good faith to assist the Receiver for the benefit of  
4 DLG and its investors.

5 Mr. Friedman was not, as the Receiver states, “less than forthcoming  
6 in identifying Diversified’s financial accounts.” (Id., ¶ 9.) When the Receiver was  
7 originally appointed, Mr. Friedman and an assistant immediately gave him copies  
8 of DLG and Applied Equities bank statements, and his assistant thereafter identified  
9 all of the accounts that these companies had. The additional 100 accounts  
10 identified by the Receiver consist of sub-accounts under Applied Equities that were  
11 never used.

12 Mr. Friedman has disclosed all of his own assets and accounts to the  
13 Court, the Securities and Exchange Commission, and the Receiver, and he filed an  
14 amended schedule when he recalled additional assets. For example, the interests  
15 that the Receiver says that he “recently learned of” (id., p. 9, l’s 16-19) were  
16 included on the original schedule of assets that Mr. Friedman submitted to the  
17 Court and served on the Receiver over five months ago on March 11, 2009. This  
18 was within days after the Court’s appointed the Receiver to take control of DLG.

19 Mr. Friedman has assigned his interests in these assets to the Receiver,  
20 as well as all other assets (other than the car he drives) that he acquired with funds  
21 from DLG. Indeed, the Receiver grudgingly acknowledges, “[i]n fairness, Mr.  
22 Friedman has cooperated with the Receiver in returning property placed in his own  
23 name and in permitting the Receiver to administer these properties for the benefit of  
24 the receivership estate.” (Id., p. 24, l’s 6-8.) Mr. Friedman’s only remaining assets  
25 are his house and some art, which were not acquired with DLG funds.

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Mr. Friedman has cooperated with the Receiver and will continue to do so in the future to help maximize the value of the DLG estate for the benefit of its investors.

DATED: August 26, 2009

Munger, Tolles & Olson LLP

By:   
RICHARD E. DROOYAN

Attorneys for Defendant  
BRUCE FRIEDMAN



1 ago on March 11, 2009. This was within days after the Court appointed the  
2 Receiver to take control of DLG.

3 7. I have assigned all of my assets (other than the car I drive) that I  
4 acquired with funds from DLG to the Receiver. My only remaining assets are my  
5 house and some art, which were not acquired with DLG funds.

6 8. I believe that several of DLG's assets have the potential to generate a  
7 substantial long-term return for DLG and its investors. These assets include  
8 Consolidated Healthcare Services, Inc., Browns Field International Business Park,  
9 and Palm Springs International Business Park (Desert Land Ventures III).  
10 Consolidated Healthcare currently operates two Outpatient Surgery Centers, a  
11 Diagnostic Imaging Facility, and Open Magnetic Imaging Facilities and High Field  
12 Imaging Facilities, and I believe that there is a potential for an initial public offering  
13 (IPO) that could result in significant funds for DLG and its investors. I believe that  
14 DLG has fully funded the amount required to fulfill its obligation to acquire the  
15 interests in these business projects. During the time that DLG was raising money  
16 through investment notes, it acquired real estate and on-going business concerns  
17 and made loans that generated an income stream for DLG other than the funds  
18 coming in from new investors.

19 9. I disagree with the Receiver's assertion that "Diversified owned no  
20 income producing real estate" when he was appointed. For example, DLG made a  
21 real estate loan to an apartment building owned by Bethany Legend Oaks LLC in  
22 Florida, which I believe converted into an 80% ownership interest. It appears that  
23 the Receiver has decided not to pursue the property because he believes that it has  
24 "no equity." I believe, however, that the first lien holder has been brought current  
25 and that it has a positive cash flow. Another example is DLG's investment with  
26 Kachay in two apartment complexes, which I believe had a positive cash flow at the  
27 time the Receiver was appointed. I also believe that DLG has a minority ownership  
28 in an entity known as Bethany Holdings, which had an interest in over 60

1 properties, some of which I believe generated positive cash flow at the time the  
2 Receiver took control of DLG.

3 I, declare under penalty of perjury that the foregoing is true and correct.  
4 Executed this 24 day of August 2009, in Los Angeles, California.

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7 Bruce Friedman

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