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CENTRAL DISTRICT OF CALIF.
LOS ANGELES

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9 UNITED STATES DISTRICT COURT
10 CENTRAL DISTRICT OF CALIFORNIA
11 CV 09-02974

VBF (JCx)

12 SECURITIES AND EXCHANGE
COMMISSION,

Case No.

13 Plaintiff,

COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS

14 vs.

15 BRADLEY L. RUDERMAN;
16 RUDERMAN CAPITAL
MANAGEMENT, LLC; RUDERMAN
17 CAPITAL PARTNERS, LLC; and
RUDERMAN CAPITAL
18 PARTNERS A, LLC;

19 Defendants.

20
21 Plaintiff Securities and Exchange Commission ("Commission") alleges as
22 follows:

23 JURISDICTION AND VENUE

24 1. This Court has jurisdiction over this action pursuant to Sections 20(b),
25 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C.
26 §§ 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27

1 of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),
2 78u(d)(3)(A), 78u(e), and 78aa. The Defendants have, directly or indirectly, made
3 use of the means or instrumentalities of interstate commerce, of the mails, or of the
4 facilities of a national securities exchange in connection with the transactions, acts,
5 practices and courses of business alleged in this Complaint.

6 2. Venue is proper in this district pursuant to Section 22(a) of the
7 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.
8 § 78aa, because certain of the transactions, acts, practices and courses of conduct
9 constituting violations of the federal securities laws occurred within this district,
10 and all of the defendants reside and/or are located in this district.

11 SUMMARY

12 3. This matter involves a fraudulent scheme operated by Beverly Hills-
13 based Bradley L. Ruderman and Ruderman Capital Management, LLC (“RCM”)
14 through two hedge funds: Ruderman Capital Partners, LLC (“RCP”) and
15 Ruderman Capital Partners A, LLC (“RCP-A”) (together, the “Funds”)
16 (collectively, the “Defendants”). Between 2002 and 2009, approximately twenty
17 investors invested at least \$38 million with Ruderman and RCM through the
18 Funds.

19 4. To obtain investments in the Funds, Ruderman misrepresented to
20 potential investors that Lowell Milken (Chairman of the Milken Family
21 Foundation and younger brother of Michael Milken) and Larry Ellison (the CEO of
22 Oracle Corporation) were investors in the Funds. Ruderman also sent false and
23 misleading account statements to investors stating that the Funds earned consistent
24 yearly gains of between 15% and 61%, and held over \$800 million in assets as of
25 December 31, 2008. In reality, the Funds lost millions of dollars over the years
26 and had a net liquidation value of under \$650,000 at the end of 2008. In addition,
27 in early 2009, Ruderman used new investors’ funds to pay an earlier investor in a
28 Ponzi-like transfer.

1 5. As of March 31, 2009, Ruderman, through his accounts and accounts
2 held in the names of RCM, RCP, and RCP-A, controlled approximately \$387,000
3 of investor funds.

4 6. The Defendants, by engaging in the conduct described in this
5 Complaint, have violated, and unless enjoined will continue to violate, the
6 antifraud provisions of the federal securities laws. By this Complaint, the
7 Commission seeks emergency relief against the Defendants, including a temporary
8 restraining order, an asset freeze, the appointment of a receiver, an order
9 prohibiting the destruction of documents, an order expediting discovery, and
10 accountings, as well as preliminary and permanent injunctions, disgorgement with
11 prejudgment interest, and civil penalties.

12 **DEFENDANTS**

13 7. **Bradley L. Ruderman**, age 46, resides in Beverly Hills, California.
14 Ruderman controls the Funds and is “Managing Member” of RCM. Ruderman is
15 not registered with the Commission in any capacity. Ruderman previously held
16 Series 3, 7, and 63 licenses, but they are no longer valid because Ruderman has not
17 been associated with a registered entity since January 2003. On March 28, 2001,
18 NYSE censured Ruderman, fined him \$5,000, and imposed a four month bar from
19 membership for improper post-execution allocation of block trades and failure to
20 report a customer complaint.

21 8. **Ruderman Capital Management, LLC**, has been a registered
22 California limited liability company since May 1, 2000, and is based in Beverly
23 Hills, California. In offering materials distributed to investors, Ruderman
24 described RCM as the “Manager” of RCP and RCP-A. RCM is not registered with
25 the Commission in any capacity.

26 9. **Ruderman Capital Partners, LLC**, has been a registered California
27 limited liability since February 20, 2003, and is based in Beverly Hills, California.
28 RCP is a hedge fund managed by Ruderman through RCM. RCP and its securities

1 are not registered with the Commission.

2 10. **Ruderman Capital Partners A, LLC**, has been a registered
3 California limited liability since January 24, 2005, and is based in Beverly Hills,
4 California. RCP-A is a hedge fund managed by Ruderman through RCM. RCP-A
5 and its securities are not registered with the Commission.

6 **THE FRAUDULENT SCHEME**

7 **A. The Ruderman Hedge Funds**

8 11. Between 2002 and 2009, Ruderman offered investors shares in at least
9 two hedge funds that he managed through RCM: RCP and RCP-A. Ruderman
10 provided investors with share certificates representing their fractional interests in
11 the Funds. Approximately twenty investors invested at least \$38 million with
12 Ruderman and RCM through the Funds.

13 12. Ruderman told investors that he would invest in a diversified selection
14 of equities through what he described as a “long-short strategy.” The offering
15 materials for RCP described the investment objectives as follows:

16 The Fund seeks above average capital appreciation,
17 utilizing a multi-strategy, opportunistic investment
18 approach. It employs various, specific predetermined
19 strategies in an effort to diversify approach, e.g. using value
and aggressive growth, special situations and short selling.

20 13. As recently as March 31, 2009, Ruderman continued to solicit new
21 investors by asking current fund investors for the contact information of potential
22 investors. The last known investment in the Funds occurred in January 2009, with
23 two new investors investing a combined total of \$1 million.

24 14. Ruderman was the signatory on RCM, RCP, and RCP-A’s brokerage
25 accounts. Through RCM, he controlled the Funds’ financial accounts.

26 **B. Fraudulent Misrepresentations**

27 15. In approximately 2006, in Los Angeles, California, Ruderman told at
28 least one then-prospective investor that Lowell Milken and Larry Ellison were

1 investors in the Funds. In fact, Ruderman knew, or was reckless in not knowing,
2 that neither Milken nor Ellison had invested in the Funds or with Ruderman or
3 RCM. This misrepresentation was material because the prospective investor
4 invested in RCP, in part, due to Ruderman's false and misleading statements
5 regarding Milken and Ellison.

6 16. Between at least 2002 and 2008, in Beverly Hills, California,
7 Ruderman issued quarterly account statements to Fund investors on RCM
8 letterhead (the Funds' clearing firm sent account statements solely to Ruderman,
9 not to individual investors in the Funds). In at least 2008 and 2009, Ruderman
10 issued account statements that falsely and misleadingly stated the Funds'
11 investment returns, total assets, and securities holdings.

12 17. In February 2009, in Beverly Hills, California, Ruderman sent false
13 and misleading statements to investors reporting that in 2008 RCP earned 15%.
14 Moreover, in this February 2009 statement, Ruderman included the following table
15 of RCP's investment returns:

Year	Percentage Gain
2002	55.99%
2003	60.56%
2004	32.17%
2005	23.30%
2006	22.02%
2007	19.09%
2008	14.99%

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25 Ruderman further reported that RCP had net equity of over \$207 million and that
26 RCP-A's net equity was over \$623 million. In addition, Ruderman reported that
27 the Funds held positions in securities issued by companies such as Apple, Inc.,
28 Microsoft Corp., Qualcomm, Inc., and Wal Mart Stores, Inc.

1 18. In reality, RCP lost over \$3 million in 2008, and ended the year with a
2 net value of \$588,246. Similarly, RCP-A lost \$1.9 million in 2008 and had a total
3 year-end liquidating value of \$43,379. Moreover, as of December 31, 2008,
4 neither RCP nor RCP-A held stock in Apple, Inc., Microsoft Corp., Qualcomm,
5 Inc., or Wal Mart Stores, Inc.

6 19. Ruderman's false and misleading account statements concerned
7 material information because the investors would have considered it important to
8 their investment decision that the Funds had losses rather than gains, had
9 substantially less capital than reported, and did not own certain securities
10 represented in the account statements. Because Ruderman controlled the Funds'
11 bank and brokerage accounts and sent the account statements to investors, or
12 caused them to be sent, he knew, or was reckless in not knowing, that the account
13 statements were fabricated and that they contained false and misleading
14 information.

15 20. In January 2009, in Beverly Hills, California, Ruderman used new
16 investor funds to pay an earlier investor. Specifically, in approximately November
17 2008, an investor requested a January 2009 withdrawal of \$750,000 from RCP, but
18 RCP did not have sufficient funds to pay this amount. Only after RCP received
19 two \$500,000 deposits from new investors on January 15, 2009, and January 22,
20 2009, was Ruderman able to transfer funds out of RCP's account to pay the earlier
21 investor. Thus, he made at least one Ponzi-like payment.

22 21. Because Ruderman controlled the Funds' financial accounts, he knew,
23 or was reckless in not knowing, that he was paying a prior investor with funds
24 from new investors.

25 **C. The Scheme's Collapse**

26 22. Ruderman's fraudulent scheme collapsed on April 15, 2009, when his
27 attorney sent investors a letter stating that "there is currently very little value in the
28 assets held by the [Funds]."

1 23. In March and April 2009, Ruderman made two separate \$100,000
2 wire transfers out of the RCP's brokerage account to RCP's local bank account.

3 24. As of March 31, 2009, the Funds had total remaining assets of
4 approximately \$387,000.

5 **FIRST CLAIM FOR RELIEF**

6 **Fraud In The Offer Or Sale Of Securities**

7 **Violations of Section 17(a) of the Securities Act**

8 **(Against All Defendants)**

9 25. The Commission realleges and incorporates by reference paragraphs
10 1 through 24 above.

11 26. The Defendants, and each of them, by engaging in the conduct
12 described above, in the offer or sale of securities by the use of means or
13 instruments of transportation or communication in interstate commerce or by use
14 of the mails directly or indirectly:

- 15 a. with scienter, employed devices, schemes, or artifices to
16 defraud;
- 17 b. obtained money or property by means of untrue statements of a
18 material fact or by omitting to state a material fact necessary in
19 order to make the statements made, in light of the
20 circumstances under which they were made, not misleading; or
- 21 c. engaged in transactions, practices, or courses of business which
22 operated or would operate as a fraud or deceit upon the
23 purchaser.

24 27. By engaging in the conduct described above, the Defendants violated,
25 and unless restrained and enjoined will continue to violate, Section 17(a) of the
26 Securities Act, 15 U.S.C. § 77q(a).

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SECOND CLAIM FOR RELIEF

**Fraud In Connection With The Purchase Or Sale Of Securities
Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder
(Against All Defendants)**

32. The Commission realleges and incorporates by reference paragraphs 1 through 24 above.

33. The Defendants, and each of them, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

34. By engaging in the conduct described above, the Defendants violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I.

Issue findings of fact and conclusions of law that the Defendants committed the alleged violations.

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1 **II.**

2 Issue judgments, in forms consistent with Fed. R. Civ. P. 65(d), temporarily,
3 preliminarily and permanently enjoining the Defendants and their officers, agents,
4 servants, employees, and attorneys, and those persons in active concert or
5 participation with any of them, who receive actual notice of the judgment by
6 personal service or otherwise, and each of them, from violating Section 17(a) of
7 the Securities Act, 15 U.S.C. § 77q(a), and Section 10(b) of the Exchange Act, 15
8 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

9 **III.**

10 Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining
11 order and a preliminary injunction freezing the assets of each of the Defendants
12 and any entity affiliated with any of them, appointing a receiver over RCM, RCP,
13 and RCP-A, prohibiting each of the Defendants from destroying documents,
14 granting expedited discovery, and requiring accountings from each of the
15 Defendants.

16 **IV.**

17 Order each of the Defendants to disgorge all ill-gotten gains from their
18 illegal conduct, together with prejudgment interest thereon.

19 **V.**

20 Order each of the Defendants to pay civil penalties under Section 20(d) of
21 the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act,
22 15 U.S.C. § 78u(d)(3).

23 **VI.**

24 Retain jurisdiction of this action in accordance with the principles of equity
25 and the Federal Rules of Civil Procedure in order to implement and carry out the
26 terms of all orders and decrees that may be entered, or to entertain any suitable
27 application or motion for additional relief within the jurisdiction of this Court.

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1 **VII.**

2 Grant such other and further relief as this Court may determine to be just and
3 necessary.

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5 DATED: April 28, 2009

Respectfully submitted,

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9 Gregory C. Glynn
Morgan B. Ward Doran
Attorneys for Plaintiff
Securities and Exchange Commission