



Solving an International Puzzle

By Larry Ross

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Introduction...

My agency, Ross Financial Services, Inc. (RFS), provides investigative litigation support in areas ranging from informal discovery to asset location to unmasking fraud. We locate documents and trace witnesses across the United States and around the world.

I am often asked to explain how we conduct our investigations. Let's start with the fact that I am a hybrid, licensed as an attorney and a private investigator and am qualified as a forensic auditor. Before establishing RFS, I was a tax practitioner in private practice, on Capitol Hill and for the U.S. Justice Department. I have litigated civil and criminal tax cases, unraveling complex business transactions spun by sophisticated taxpayers and reconstructing the incomes of mobsters like Tony Spilotro. Thanks to this background, I have a deep understanding of business transactions, evidence and privileges.

To understand an RFS investigation, start by picturing pieces of a jigsaw puzzle lying around without a picture for guidance. Some of the pieces may even be missing. Regardless of where in the world they exist, we gather and fit together those pieces until a

coherent picture emerges. This involves a complex mixture of fact gathering and analysis, best explained by reviewing a decided case.

The Receivership...

The case against Mark Haukedahl was decided by the Hon. Jed Rakoff in the Southern District of New York. Judge Rakoff has been in the news of late because he frequently holds the feet of the SEC to the fire.

Judge Rakoff ordered a receivership for InterEquity Capital. InterEquity owned an asset that was purported to be an errors and omissions policy purchased through a company named American Real Estate Association (AREA). Initially, my assignment was very narrow. The Receiver sought to recover under the policy, and asked me to obtain some basic information about AREA. Specifically, I just needed to determine where to send the process server. This simple question led to a complex investigation, and testimony that resulted in a judgment of civil fraud. The RFS investigation determined that this was bogus insurance, best described as a Ponzi scheme. We “pierced the corporate veil” and obtained a \$2.5 million judgment including punitive damages against the promoter, Mark Haukedahl. Following up on my investigation, a federal prosecutor was successful in criminally prosecuting Haukedahl, who is currently serving time in prison.

The Letter...

But we are getting a bit ahead of ourselves: The first piece of the puzzle was a letter indicating that AREA’s insurer was unwilling to pay claims. It was typed on letterhead that sported a Chicago street address, prominently displayed. Less prominent was the Toledo post office box at the bottom of the page. Missing is any indication of a suite number or a Chicago telephone number, and a visit to the Chicago address, 39 S. LaSalle Street, revealed that AREA was not listed on the building directory.

Next we researched AREA in a database that reports information from the Illinois Secretary of State. No hits. We ran the search again using the search term “American Real Estate” and found a defunct Illinois corporation with a similar name, but key was the fact that it actually had a registered agent located at 39 S. LaSalle. The suite number was 1400.

Thanks to another database, we developed a telephone number with a 312 area code for the defunct corporation. Next we were able to tie the 312 telephone number to a Toledo company, again with a similar name. From there, databases allowed us to develop a Toledo street address and telephone number.

The initial letter denying insurance was signed by

‘Douglas J. Ritson’ who was not to be found in Illinois. Another red herring. We hit pay dirt when we were able to match the name to an attorney in Toledo.

The Ponzi Scheme...

Through communication with the Illinois Department of Insurance we learned that AREA was not registered in Illinois as an insurer or a purchasing group. Crucial, though, was the revelation that the department

had received numerous inquiries about AREA, as well as another group with a suspiciously similar name, “National Real Estate Association.” Departments of insurance in other states were contacted, uncovering cease and desist orders against both associations.

Intrigued, we searched for litigation against both organizations. We found dozens of complaints against them, but no satisfied judgments because the defendant had set up an amazing maze of entities to confuse plaintiffs about where assets were available or even where to sue.

We were able to fit together more pieces of the scheme from the various complaints and the state orders filed against the two associations. Mark Haukedahl, the man behind these two, as well as numerous other associations, marketed to small businesses such as real estate appraisers and engineers. He offered these professionals a basket of services, the main focus of which was E&O insurance. Small insurance claims were paid, but significant claims were always denied. But Haukedahl was not done: The insurance was supposedly purchased through an independent Bermuda insurance company -- Midwest Insurance Company. Of course it was Midwest, not AREA, which was blamed for refusing to pay the claims.

U.S. Small Business

Admin. v.

Haukedahl, et al.

I testified as an expert witness at trial. My testimony that Haukedahl's Toledo office occupied 1,000 square feet was challenged on cross examination. Thinking that he could rattle me, opposing counsel demanded, “Mr. Ross, would it surprise you to know that the office occupied 3,000 square feet?” I replied, “1,000 square feet, 3,000 square feet...the man claimed to be operating 34 business entities in that office space.”

Judge Rakoff asked me whether AREA had any assets. “Your honor,” I said, “to paraphrase Will Rogers, AREA started with nothing, and it was downhill from there!”



Will Rogers
*American
Humorist*

*“Alexander Hamilton
started the U.S.
Treasury with nothing,
and that was the closest
our country has ever
been to being even.”*

Midwest Insurance Company...

Our research determined that Midwest was supposed to be a Bermuda company, but we could not find it registered with the Bermuda Registrar of Companies. Thanks to an article we found in the archives of the Bermuda Sun Newspaper, more puzzle pieces fit together when we learned that the company had been dissolved in Bermuda and was subsequently operating in the Bahamas.

Then we found that Midwest was no longer operating in the Bahamas, and traced it to a registration in Barbados. The directors of the company registered in Barbados included our friend Mark Haukedahl, his son, and AREA attorney Douglas Ritson. In addition, a Haukedahl confederate, whom we had previously identified as signing checks for AREA, was also signing checks for Midwest.

Haukedahl used banks in both Chicago and Toledo. Among the checks that were subpoenaed from those banks, we found checks drawn in the name of Midwest that were deposited into the Toledo bank account. Funds drawn on Midwest's bank account were traveling a circuitous route only to land right in the pocket of Mark Haukedahl. In addition, we examined more than three million dollars' worth of checks written by members of AREA to pay for their E&O insurance. While we did not examine every check, all of the checks that we examined followed a circuitous route until the funds wound up in the personal accounts of Haukedahl and his cronies. Another puzzle piece slipped into place.

Conclusion...

The puzzle was complete: It turned out that Mark Haukedahl had set up an astonishing web of companies. Whenever one company began to have problems, another, with an infuriatingly similar name, was established to take its place. We tracked this via filings with the Ohio Secretary of State. Haukedahl's purpose, to discourage and confuse claimants, had been successful for quite a while. He was still hatching new companies, up until the day his case went to trial.

¹ U.S. Small Business Admin. v. Haukedahl, et al, No. CV-00-5356 (S.D. NY Feb. 25, 2004)

² Zachery Kouwe, Judge Rejects Settlement Over Merrill Bonuses, N.Y. Times, Sept. 15, 2009.

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