
Financial Fraud Alert

Who: *Plaintiff:* Securities and Exchange Commission

Defendants: The Companies, LLC, Kristoffer A. Krohn, Stephen R. Earl,
and Michael Krohn

What: This action stems from the alleged fraudulent offer and sale of unregistered securities for the purchase of distressed real estate for investment. Allegedly, “[Defendant] The Companies or its subsidiary... initiated four unregistered offerings of securities from January 2009 to June 2011.” According to the complaint, “the four offerings raised a total of approximately \$11.9 million from approximately 169 investors.”

The complaint states that the Defendants established a long-term strategy of purchasing real estate owned properties or “REOs”. The complaint describes an REO as a “portfolio[] of homes that have been foreclosed upon and packaged together to be re-sold by a bank or lending institution.” Allegedly, the Defendants planned to purchase REOs and “then donat[e] or sell[] off the homes that were in complete disrepair, repairing those homes that were worth repairing, renting the repaired homes for a steady cash flow, and later selling the homes at a profit when the homes appreciated in market value.”

According to the complaint, the Defendants obtained valuations of the individual properties in Defendant Kristoffer Krohn’s REO, by hiring a third party real estate evaluation company, which used broker price opinions or BPOs. The BPOs evaluated all of the properties in the REO at approximately \$2.9 million. Purportedly, the Defendants also used an online software program, RealQuest, to evaluate the REO properties. The complaint states that the RealQuest software valuations did not account for the fact that many of the REO properties “had significant liens or other encumbrances that exceeded the value of the properties, thereby giving the properties a negative equity.” Allegedly the RealQuest valuations for the REO properties “totaled \$12,272,986, approximately \$9.4 million more than the total of the BPO values.”

The complaint states that “in order to raise money for the purchase of REOs, The Companies and [its subsidiary] initiated four private offerings[.]” According to the complaint, multiple offerings supplied

investors with material misrepresentations and omissions, including the failure “to disclose that [the] Defendants already knew that [Defendant] Kris Krohn’s REO properties had substantial problems and encumbrances.” Additionally, the Plaintiff alleges that, in more than one private placement, the Defendants provided RealQuest valuations without disclosing “the significant limitations to RealQuest valuations in determining current market value [of real estate].”

Based on these allegations, the complaint alleges two causes of action against the defendants: fraud in the offer and sale of securities and offer and sale of unregistered securities. The plaintiff seeks a judgment that the Defendants committed the violations, an order enjoining the Defendants from engaging in similar transactions and courses of business, and payment of civil penalties.

Where: United States District Court for the District of Utah

When: August 6, 2012

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