

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

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SECURITIES AND EXCHANGE)	
COMMISSION,)	
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	Plaintiff,)	Civil Action No.
)	
v.)	
)	
)	
DAVID S. HADDAD, TRAFALGAR)	
SQUARE RISK MANAGEMENT, LLC,)	
and NEW ENGLAND RE, LLC,)	
)	
)	
	Defendants.)	
)	
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COMPLAINT

Plaintiff Securities and Exchange Commission (the “Commission”) alleges the following against defendants David S. Haddad (“Haddad”), Trafalgar Square Risk Management, LLC (“Trafalgar”), and New England RE, LLC (“New England RE”):

SUMMARY

1. From April 2012 until August 2016, Haddad, acting through his related companies Trafalgar and New England RE, both based in New London, Connecticut and operating in various aspects of the reinsurance industry, engaged in a fraudulent scheme and made material misstatements and omissions while offering and selling Trafalgar and New England RE securities to at least 29 investors, raising a combined total of at least \$2,500,000. Among other things, Haddad represented to investors that their funds would be used to build and grow Trafalgar and New England RE when, in fact, Haddad diverted a significant portion of the

investor's money for his own purposes, including the purchase of multiple homes, art and antiques, entertainment, substantially supporting a dog rescue charity founded by Haddad, and to make Ponzi-like payments to other investors.

2. By engaging in the conduct alleged herein: Haddad, Trafalgar, and New England RE violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder.

3. Based on these violations, the Commission seeks: (1) entry of permanent injunctions prohibiting defendants from committing further violations of the relevant provisions of the federal securities laws; (2) entry of a permanent injunction prohibiting specific conduct by Haddad related to the violations alleged herein; (3) entry of an order barring Haddad from serving as the officer or director of a public company; (4) disgorgement of defendants' ill-gotten gains, plus pre-judgment interest; and (5) the imposition of a civil monetary penalty as to Haddad because of the egregious nature of his violations.

JURISDICTION AND VENUE

4. The Commission brings this action pursuant to the enforcement authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. §§78u(d)].

5. This Court has jurisdiction over this action pursuant to 28 U.S.C. §1331, Sections 20(b) and (d) and 22(a) of the Securities Act [15 U.S.C. §§77t(b), (d); 77v(a)], and Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§78u and 78aa].

6. Venue is proper in this district pursuant to 28 U.S.C. §1391(b)(2), Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], and Section 27 of the Exchange Act [15 U.S.C. §78aa] because some of the acts, transactions, or courses of business constituting the alleged violations

occurred in the District of Connecticut, and because defendants have transacted business in Connecticut, Haddad is an inhabitant of Connecticut, and the principal place of business of Trafalgar and New England RE is Connecticut.

7. In connection with the conduct alleged in this complaint, defendants directly or indirectly made use of the means or instrumentalities of transportation or communication in interstate commerce, or of the mails.

8. Defendants' conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

9. Unless enjoined, defendants will continue to engage in the securities law violations alleged herein, or in similar conduct that would violate the federal securities laws.

DEFENDANTS

10. Haddad, age 55, is a resident of New London, Connecticut, and is the founder and managing member, majority owner, Chief Executive Office, and investors relations contact of Trafalgar; and the managing member, majority owner, Vice Chairman, Treasurer, Chief Underwriting and Marketing Officer, and investor relations contact for New England RE. Haddad held an insurance license with the state of Connecticut from October 2009 through August 2017. He has never been registered with the Commission in any capacity.

11. Trafalgar, a privately-held Connecticut limited company established in 2009 with a principal place of business in New London, Connecticut, has purported variously to be a stop-loss insurance sales underwriting consulting and marketing firm and a private investment firm that aggregates funds to invest in entities including marketing firms, managing general

underwriters, third part administrators, and reinsurance companies. Trafalgar is not, and has never been, registered with the Commission in any capacity.

12. New England RE is a privately-held Connecticut limited liability company with a principal place of business in New London, Connecticut that was established in 2014 to market, underwriter, and bind stop-loss insurance coverage to self-insured employers. New England RE is not, and has never been, registered with the Commission in any capacity.

FACTUAL ALLEGATIONS

A. Background Concerning Trafalgar

12. Haddad worked for many years in various capacities in the re-insurance business, a segment of the insurance industry in which multiple insurance companies share risk by purchasing insurance policies from other insurers to limit the total loss the original insurer would experience in case of catastrophic claims. In 2009, he founded Trafalgar as a purported sales underwriting consulting and marketing firm specializing in stop-loss insurance, which is insurance purchased over and above employer self-funded insurance for catastrophic claims or high dollar claimants on employer-sponsored employee benefit plans. Trafalgar claimed in a prospectus (a document intended to disclose details about an investment) that it “represents the marketing on nearly \$65 million in stop loss business.” Haddad and Trafalgar generated revenue through commissions paid by stop-loss insurance carriers and fees earned for services provided to managing general underwriters (“MGUs”), specialized insurance agent/brokers that are vested with underwriting authority by insurers and that perform various tasks including binding coverage, underwriting and pricing, and settling claims. During the period 2012 through 2016, Trafalgar typically earned commission and fee revenue of between \$2 million and \$3 million annually.

B. Haddad's Personal Lifestyle and Financial Problems

13. Trafalgar maintained an account at a financial institution for general business operation purposes (the "Trafalgar business account"). The company's commission and fee revenue would typically be deposited into and maintained in that business account, and Trafalgar would pay its general business expenses using that account. Haddad spent money from the Trafalgar business account on personal expenditures such as real estate that cost over \$5 million, art and antiques costing more than \$1.78 million, entertaining at his properties, landscaping, and cooking/cleaning/dog caretaker staff at several of his multiple homes. Haddad also purchased a building for his dog rescue charity and paid its expenses primarily with funds from the Trafalgar business account. He spent little of the reinsurance fee and commission revenue earned by Trafalgar on legitimate expenses of the business. Although Haddad purportedly paid approximately \$2.53 million in payroll to 46 individuals from the Trafalgar business account for the period September 2013 through August 2016, only about \$232,000 was paid to three individuals who actually provided services in connection with the stated business of Trafalgar. The remaining payroll went to individuals who performed dog care and other services for Haddad's dog rescue charity, maintained Haddad's homes, or worked directly for Haddad in a personal capacity.

14. Although Haddad and Trafalgar received over \$9.9 million in commissions and fees from Trafalgar's operations from 2012 to August 2016, it was not sufficient to support his lifestyle. Haddad, Trafalgar, and Haddad's dog rescue charity regularly paid their bills late, their bank accounts were frequently overdrawn and assessed insufficient funds charges, their retail and veterinary services accounts were repeatedly frozen, and their property and other insurance policies were threatened with cancellation on multiple occasions. In addition, Haddad, who has

poor credit, has purchased his homes through private mortgages and rent-to-own arrangements and has not been able to get financing through conventional financial institutions. In this time period, Haddad spent over \$16 million from the Trafalgar business account, of which little more than one tenth, approximately \$1.85 million, was used for business expenses. In order to fund his personal spending beyond the income he earned and had obtained through private mortgages and loans, Haddad raised money from investors by falsely representing that their money would be used to grow Trafalgar's business.

C. The Offer and Sale of Trafalgar Securities

15. Beginning at least as early as 2012, Haddad and Trafalgar made up the short-fall between his income and spending by raising money from investors through the offer and sale of securities. Initially these securities took the form of promissory and other notes. Haddad and Trafalgar issued at least 19 notes that ranged in term length from one to five years, with interest rates between 12% and 15%. Several of the notes provided an option for the investor to “roll over the...principle [sic] investment for another 3 years.”

16. In June 2015, Haddad and Trafalgar began to offer and sell “private equity investments” in Trafalgar. Beginning in July 2015, Haddad sold “shares” of Trafalgar as well. Four investors purchased securities through the “private equity investment” vehicle, while five investors purchased shares of Trafalgar.

17. Through these sales of securities, Trafalgar raised at least \$1,189,125 from April 2012 through August 2016 from at least 19 investors located in at least five different states, including Connecticut, Rhode Island, California, Illinois, and Florida.

D. Haddad and Trafalgar Misled Trafalgar Investors Regarding Their Finances and Use of Investor Proceeds

18. Haddad and Trafalgar made multiple material misstatements and omissions in connection with their offer and sale of Trafalgar securities. In multiple instances, Haddad told investors that he was raising funds to support the operations and growth of Trafalgar and to hire additional salespeople. However, Trafalgar did not have significant overhead expenses that required funds beyond the commissions and fees it earned, and Haddad did not take any steps to grow the company's sales force.

19. Haddad and Trafalgar omitted to tell prospective investors that Haddad would be spending their money, in significant part, on homes, antiques, art, a dog rescue charity, and other non-business-related expenditures. Haddad boasted to investors about how successful Trafalgar was and omitted to disclose to investors and prospective investors the financial difficulties caused by his spending habits, including the fact that he and Trafalgar frequently overdrew the Trafalgar accounts.

20. Haddad's regular depletion of the funds in the Trafalgar business account meant that he and Trafalgar had to raise additional money from investors to make principal and interest payments to other investors and to cover Haddad's other current and delinquent debts. Haddad and Trafalgar did not tell prospective investors and investors that funds raised from investors were being used, in part, to make payments to other investors.

21. Haddad and Trafalgar made additional misrepresentations and omissions in the documents they provided to investors. Haddad and Trafalgar provided multiple prospective investors with a prospectus that touted Trafalgar's financial success without disclosing any of its or Haddad's financial woes. The prospectus and investor agreements also misleadingly stated that Trafalgar was offering guaranteed interest yields in rates varying from 8% to 15%, when in

fact Haddad knew or should have known that Trafalgar could not make such guaranteed returns without raising money from additional investors.

E. New England RE and Its Offer and Sale of Securities

22. In 2014, Haddad co-founded New England RE purportedly to operate as a re-insurer that would market, underwrite, and bind stop-loss insurance coverage to self-insured employers. In December 2014, Haddad and New England RE began offering and selling New England RE securities, telling prospective investors that they were raising funds to build the new business and fund the company's capital and surplus reserves.

23. Haddad and New England RE sold securities described as "Class A" and "Class B" shares and, in the case of one investor, a promissory note that gave the investor the right to convert the investment to shares. From February 2015 through November 15, 2015, New England RE and Haddad raised at least \$1,330,388 from 16 investors from at least nine different states, including Connecticut, California, Illinois, Florida, Massachusetts, Missouri, Michigan, Tennessee, and New Hampshire. During that same period, New England RE brought in approximately \$350,000 in re-insurance fees. The agreements between New England RE and investors offered varying amounts of returns on investments, with some purporting to guarantee a rate of return of between 10-12% per quarter.

F. Haddad and New England RE Made False and Misleading Statements in Written Disclosures to Investors

24. The New England RE prospectus, which Haddad provided to potential investors, contained multiple misstatements and omitted to disclose information that was necessary to make the prospectus' statements were not misleading.

25. Although the prospectus stated that New England RE was "seeking investors to fund approximately \$1,450,000 in working funds and statutory capital," it did not inform

investors that, in actuality, New England RE was lending significant amounts of money – ultimately a total of at least \$373,000 – to Trafalgar, which spent the money on, among other things, paying Haddad’s non-business-related expenses and making interest payments to Trafalgar investors.

26. Although the New England RE prospectus represented that the funds were to be used to fund the business of New England RE, it failed to disclose that, in actuality, Haddad and Trafalgar had New England RE guarantee at least one Trafalgar investor’s principal and interest.

27. The New England RE prospectus also contained the misleading statement that Haddad was “of financial soundness.” This representation was false and materially incomplete in in light of the precarious state of Haddad’s finances, including his substantial indebtedness, his frequently delinquent debt payments, and his poor credit. Far from being “financially sound,” Haddad and his entity Trafalgar had borrowed money from New England RE to, among other things, make payments to Trafalgar investors and to support Haddad’s lavish lifestyle.

28. Haddad and New England RE also failed to correct these material misstatements and material omissions in any other written or oral communication with investors.

29. Haddad made an additional false and misleading statement to at least one New England RE investor by telling the investor in an email that Haddad would not draw a salary from New England RE. In actuality, New England RE paid Haddad \$125,000 in consulting fees and paid Trafalgar \$25,500 in consulting and marketing fees.

30. In the same email exchange, the prospective investor asked how much money had been raised. Haddad responded “approximately \$1,000,000.” In fact, he and New England RE had only raised approximately \$600,000 as of the time of the email.

31. Haddad and New England RE further misled investors regarding the specifics of New England RE's securities offerings and the resulting ownership structure of the company. The Investor Agreement with one investor who purchased Class A shares in October 2015 represented that only four investors (including the three founders) owned more than 1% of the total Class A shares. In actuality, Haddad and New England RE had sold shares to two additional investors in March 2015 in blocks that constituted 10% and 2.5%, respectively, of the total Class A authorized shares.

32. In January 2015, Haddad sent a potential New England RE investor an email representing that Class B share purchases were capped at 15 shares for calendar year 2015. In actuality, Haddad and New England RE sold 30 Class B shares to another investor shortly thereafter. The investor sent Haddad a follow-up email on March 15, 2015 specifically asking Haddad to verify that he would be obtaining 2.5 Class B shares of New England RE through his investment and that there were a total of 10,000 Class B shares authorized. Haddad falsely confirmed the investor's understanding even though he and New England RE had executed other investor agreements, both several days prior to and several days after that email, stating, variously, that 150,000, 20,000, and 1,000 Class B shares had been authorized.

G. Haddad, Trafalgar, and New England RE Engaged in a Ponzi-Like Scheme

33. The material misstatements and omissions by Haddad, Trafalgar, and New England RE were part of a larger scheme that they perpetrated with an aim of keeping Haddad afloat financially as he chronically spent well beyond his financial means. Part of the scheme was to create and support the illusion that Haddad was financially successful enough to sustain his lavish lifestyle.

34. Haddad and his entities engaged in a continuous practice of raising and spending investor money in Ponzi-like fashion (making payments to earlier investors with money obtained from new investors) that helped to mask what was actually being done with investors' money and helped mask Haddad's and Trafalgar's true financial circumstances. On several occasions when the Trafalgar business account had a low balance, Haddad sought and obtained funds from investors in Trafalgar to pay his personal expenses without disclosing the true purpose of the funds. Haddad also indirectly used monies raised from New England RE investors to fund his personal expenses by causing New England RE to lend Trafalgar money and to pay compensation to Haddad and Trafalgar. On these occasions, after transferring funds from a bank account in the name of New England RE to the Trafalgar business account, Haddad quickly spent the money to make payments to other investors, to make purchases and payments that supported his lifestyle, and otherwise to spend the funds on expenses unrelated to the business operations of Trafalgar or New England RE. Absent the inflow of these funds from investors, Haddad would not have been able to make those non-business-related payments and purchases.

First Claim for Relief
(Violation of Section 17(a) of Securities Act By Haddad, Trafalgar, and New England RE)

35. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

36. By engaging in the conduct described above, Haddad, Trafalgar, and New England RE have, directly or indirectly and singly or in concert, acting intentionally, knowingly or recklessly, by use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, in the offer or sale of securities: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state a material fact necessary to make the statements made not

misleading in light of the circumstances under which they were made; and/or (c) engaged in transactions, acts, practices, or courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities.

37. By engaging in the conduct described above, Haddad, Trafalgar, and New England RE have directly or indirectly and singly or in concert, violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. §77q(a)].

Second Claim for Relief
(Violation of Section 10(b) of Exchange Act and Rule 10b-5 By
Haddad, Trafalgar, and New England RE)

38. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 34 above as if set forth fully herein.

39. By engaging in the conduct described above, Haddad, Trafalgar, and New England RE have, directly or indirectly and singly or in concert, acting intentionally, knowingly or recklessly, in connection with the purchase or sale of securities, by use of the means or instrumentalities of interstate commerce or the mail: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material fact(s) necessary to make statements made not misleading in light of the circumstances under which they were made; and/or (c) engaged in transactions, acts, practices, or courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities and upon other persons.

40. By engaging in the conduct described above, Haddad, Trafalgar, and New England RE have violated, and unless 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 requests that this Court:

- A. Find that each of the defendants committed the violations alleged in this Complaint;
- B. Enter a permanent injunction restraining each of the defendants and each of their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from future violations of, and aiding and abetting future violations of, Section 17(a) of the Securities Act [15 U.S.C. §77q(a)], 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];
- C. Enter a permanent injunction restraining and enjoining Haddad from providing information to, soliciting, or accepting investments or funds from, any investor or potential investor regarding the offer or sale of any securities issued by any entity that Haddad directly or indirectly owns, controls, consults for, or is employed by, without first providing such person with a written disclosure regarding Defendant's prior regulatory history, and keeping a written record that he provided such written disclosure to that person;
- D. Order that Haddad be prohibited from acting as an officer or director of any public company pursuant to Section 20(e) of the Securities Act [15 U.S.C. §77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. §78u(d)(2)];
- E. Require defendants to disgorge the ill-gotten gains they received as a result of their violation of the federal securities laws, plus pre-judgment interest thereon;

F. Require Haddad to pay an appropriate civil monetary penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)];

G. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

H. Grant such other and further relief as the Court deems just and proper.

Respectfully submitted,

SECURITIES AND EXCHANGE COMMISSION
By its attorneys,

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