

Sale of Minnesota electrical business crumbles into tangled tale of alleged deceit

A bankruptcy judge concluded the buyer of Bridgewater Electric stopped paying the company's former owners as he was diverting money from the company to himself and a real estate venture.

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A house in in Sauk Centre, Minn., that was flipped in transactions involving Birchwood Electric owner Travis Burg and property investor Wade Rodenwald. The sale was one of several that allegedly used money that Burg could have used to pay a critical debt. (Mike Hughlett/The Minnesota Star Tribune)

The sale of Birchwood Electric, a central Minnesota electrical contractor, started as a simple, smalltown small business deal.

It led to a dubious bankruptcy, a house-flipping scheme and fraud claims against a small bank and a Stearns County real estate agent.

Rachel and Tony Thoennes, a married couple, sold Birchwood for \$1.8 million to Travis Burg, an employee. Burg paid about half up front; the Thoenneses financed the rest of the deal. Burg dutifully paid them for about two years.

Then the payments stopped.

Instead of paying the Thoenneses, Burg allegedly diverted money from Birchwood to himself and to a real estate venture shepherded by a friend, Wade Rosenwald, who in turn was investing some proceeds in cryptocurrency.

The Thoenneses eventually discovered something was awry and in May 2022 sued Burg in state court. Just before trial, Burg proposed a \$900,000 settlement, which the Thoenneses accepted.

Burg then filed for Chapter 7 personal bankruptcy, a move that could erase his \$900,000 debt, closed Birchwood and started a new company.

In an uncommon ruling, a federal judge rejected Burg's bankruptcy petition. Birchwood was profitable and the only debt it was remiss in paying was to its original owners, U.S. Bankruptcy Court Judge Michael Ridgway wrote in a December ruling.

Burg, Ridgway said, was "looting" Birchwood's assets, diverting them to himself and to Rodenwald and Rodenwald's affiliated businesses — part of a plan to keep the Thoenneses from getting paid. Burg's "actual pattern of conduct overwhelmingly supports a finding of fraudulent intent," he said in the ruling.

Now, the Thoenneses and federal bankruptcy trustee Erik Ahlgren are pursuing Rodenwald, Burg and Burg's wife, Nicole Burg, in court, seeking the \$900,000. They also filed suit, trying to recover money from Randall State Bank, which allegedly financed Rodenwald's house-flipping business through a company owned by Burg.

"The fraud perpetrated on the Thoenneses would not be possible without the willing participation" of the bank, the lawsuit said. Randall State Bank broke federal and state laws, too, the Thoenneses and the trustee claim.

The bank, in a statement through its attorney, called the allegations "baseless." There's not "a single piece of evidence that Randall State Bank was a 'willing participant.' The bank did not know of any fraud."

The court ordered mediation in mid-September between Randall State Bank and the bankruptcy trustee and the Thoenneses, as well as mediation between the latter and Rodenwald. Burg and Rodenwald, through their attorneys, declined to comment. The Thoenneses also declined to comment.

A deal gone awry

Tony and Rachel Thoennes, who live in St. Cloud, started Birchwood Electric in 2005, specializing in residential work. Rachel was the company's full-time officer manager, Tony its master electrician.

In 2011, the Thoenneses hired Burg, of Avon, Minn., who had worked over the previous decade selling phones and installing satellite dishes. He had a license for low voltage electrical work and would later become a master electrician.

Burg ponied up \$878,500 in cash for Birchwood in 2014, money he raised through a 6% loan from St. Cloud-based Falcon National Bank. He agreed to pay the Thoenneses monthly installments at 11% interest on the first \$750,000 of the \$900,000 that he owed them.

The Thoenneses' collateral was Birchwood's stock, which appraisers hired by Falcon Bank had valued at \$1.8 million, the same as the purchase price.

Under the Falcon Bank loan agreement, Birchwood could make monthly payments to the Thoenneses only if the company's debt service coverage ratio — a cash flow measure — remained above a certain level. Such agreements are common in business loans.

Burg stopped making payments to the Thoenneses when the cash flow gauge fell below its required mark.

However, the bankruptcy judge concluded Burg "intentionally manipulated" the ratio — including by taking money out of Birchwood for himself and Rodenwald — hindering the Thoenneses' ability to collect their debt.

Burg denies that in court documents.

Burg was not well steeped in commerce when he bought Birchwood.

He acknowledged in court filings he had no business background and signed the Birchwood purchase agreement without reading it. In late 2016 or early 2017, Burg turned to Rodenwald, whom he'd known since high school, for help. Rodenwald, a real estate agent in Albany, Minn., understood "business lingo."

Rodenwald was also known for sheltering assets from the reach of creditors, ex-spouses and the IRS, the judge noted in his ruling.

How the alleged scheme developed

Rodenwald told Burg he overpaid for Birchwood Electric. Burg was "set up to fail" by the Thoenneses, Rodenwald said in a court filing. "The Thoennes took advantage of their longtime employee [Burg] who demonstrated his lack of sophistication by naively trusting [them]."

Burg sounded a similar note in a court filing, saying the Thoenneses took "shameful advantage of him."

Birchwood hired Rodenwald as a consultant, paying him \$225,375 from mid-2017 to early 2022. Birchwood also did \$181,000 worth of free work on Rodenwald's house and for his housing-flipping business, the Thoenneses and the bankruptcy trustee claim in court filings.

(Trustees are appointed by federal courts to administer bankruptcy cases, including compliance with laws and insolvency regulations).

In 2018, Travis and Nicole Burg, by then a Birchwood employee, created a company called Grubworm, which was funded by Birchwood. Rodenwald had “full access” to Grubworm’s bank accounts, and Burg claimed he had no knowledge of money transfers to and from Grubworm, according to a court filing of undisputed facts.

Grubworm’s primary purpose was to invest in real estate, and between 2018 and 2020, the company bought seven properties, mostly in Stearns County. The Burgs personally also bought a property in Melrose with money drawn from Birchwood. The seller of all of the properties was Rodenwald or businesses affiliated with him, the bankruptcy trustee and the Thoenneses claim.

Grubworm lost \$111,000 on the deals, while Rodenwald and his affiliates made \$333,500 in profits, according to a court filing by the Thoenneses and the trustee. Rodenwald objected to that claim, calling it “unclear and ambiguous” in another court filing.



Randall State Bank loaned Grubworm around \$850,000 to finance its real estate deals, even though bank employees knew they were “commercially absurd,” the trustee and the Thoenneses claim. Randall Bank “knew that (Burg) and Rodenwald were using Birchwood funds to pay Grubworm’s loan obligations,” the lawsuit said.

The bank denied that knowledge, saying in court documents the source of Grubworm’s loan payments “was only known by the Burgs and Grubworm. ... The bank was as surprised as anyone to learn of these allegations.”

Randall State Bank is a small institution with branches in Brainerd and the tiny central Minnesota town of Randall.

A top Randall State Bank executive advised Rodenwald to forsake ownership in Grubworm so that his borrowing capacity at the bank wouldn't be limited, the trustee and the Thoenneses claim.

Given Rodenwald's control of Grubworm, federal regulations required the bank to name him as a beneficial owner of the company, according to the trustee and the Thoenneses. But that would have curtailed Randall State Bank's loans to Rodenwald under state-mandated lending limits to individual customers.

Randall State bank called such allegations "meritless."

Fraud allegations and the crypto connection

The Thoenneses didn't know about Grubworm and its real estate business until May 2021, according to court documents.

They found out after hearing that Rodenwald had made an offhand remark to two local business owners about his relationship with Burg and Birchwood. They testified about the conversation in Burg's bankruptcy court trial, court documents say.

Bankruptcy trustee Ahlgren and the Thoenneses alleged in their lawsuits, filed in May, that the bank and Rodenwald aided and abetted fraud, while also accusing Rodenwald of fraud and unjust enrichment.

The lawsuit against Rodenwald also claims he is sheltering funds "diverted" from Birchwood in cryptocurrency accounts. The trustee and the Thoenneses unsuccessfully petitioned the court in the spring to bar Rodenwald from transferring any more cryptocurrency from his Ethereum accounts.

With a run-up in value, Rodenwald's Ethereum accounts were worth over \$800,000 in May, court documents said.

Rodenwald disputed the cryptocurrency allegations in court filings. He would be forced out of his real estate business without access to capital through his crypto accounts, his lawyer wrote in a court filing.

"It also goes without saying he needs income to support his family."