

“Wanted - Considered Dangerous”
“Known for Separating Business Owners from Their Money”

Above is the heading of a flyer I received from another broker after I give a presentation to the California Association of Business Brokers (CABB) about scams being perpetrated on business owners that were trying to sell their businesses. I was involved with one of my former clients and the FBI regarding one of these scams. The three scammers I am aware of, two teams, and one individual, all have the same basic m.o., and you should definitely be aware of their practices. I sent an email to 293 M&A Source members, asking if they had ever heard of two particular “PEGs” (Private Equity Groups) that I was dealing with, and included the names of the three principals. Within 24 hours I had five emails that all said “Call me!” One IBBA member had just been involved with these guys within the past month, and another described what had happened to his former client, and he provided me with the name and telephone number of the FBI agent that was working on that case. I contacted the agent, and saved my client from the scam.

Here’s how the scam basically works: Scammer (1) contacts businesses for sale (owners or intermediaries), usually via listings on the internet, (2) will act as a Private Equity Group (PEG) or a small investment group, (3) will get initial information about the business, (4) will attempt to get the intermediary out of the way as soon as the intermediary starts asking questions (scammer wants to communicate directly with the seller, convince the seller their broker is getting in the way and is a hurdle to getting the deal done), (5) will offer full price paid over a short buyout period (6-10 month) with maybe 10% down AND as a stock sale (all sellers and their CPA’s love this, for tax reasons), with 100% of the stock to be held by the seller as collateral, and of course, the sale includes Accounts Receivable, cash, Accounts Payable, fixed assets, etc. (the entire balance sheet). Then, (6) they give the seller his initial down payment, (7) take control of the company (while the seller is “training” them, and around most of the time), (8) they factor the A/R’s, clean out the cash, run the credit cards up to the max, and do not pay any payables/liabilities. Then, (9) they disappear within a month, leaving the seller deeply in debt.

One company sold for about \$1.8 million, and from what I can put together, between cash, A/R’s and credit cards, the scammers left town in a few weeks with about \$ 1 million, left the seller with no working capital, no payables paid, and larger liabilities (credit cards, payroll, etc.). And, they convinced the seller to let them take over the business with nothing down, because “their funding was a day or two late, but on the way.” Think no one would fall for this? Well, many business sellers have - at least two of these “teams” have been working the U.S. for years, and this is how they earn their living. One team is two brothers and their father from the Midwest. Another is three individuals. The ring leader of the team I got involved with was arrested by the FBI in Texas and got 14 years in the Federal penitentiary, and his two partners were caught by the FBI a month later boarding a plane for Brazil. At least two of the five IBBA or M&A Source members that contacted me had clients that either fell prey to the scammers I was working on, or were extorted out of money for failure to completing the transaction.

Bottom line - (1) these scams really do exist, and (2) thanks to IBBA and M&A Source members we were able to nail at least one ring leader and his two partners.

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