



COMMENT

JIM JONES on the latest investigation into Corpcapital

Frangos vs Liebesman

I HAVE little doubt that Jeff Liebesman, the former CEO of Corpcapital and before that of (industrial conglomerate) W&A, is among Johannesburg's more accomplished and creative accountants.

Some who were encouraged by his promises to invest in his companies and who lost money while he and his colleagues were creaming it might prefer to use the epithet "shyster", others "fraudster".

Whatever Liebesman's purported corporate sins have been, he has not been indicted by any court. Until he is, his innocence of any misdeeds must remain assumed.

All that said, businessman Nic Frangos, a former director of Corpcapital, is convinced Liebesman is dishonest. And he proves it, at least to my satisfaction, with a meticulously argued exposé on his new website www.corporatecodes.co.za. Some months ago when Frangos first invited me to comment on the case he, his attorneys and forensic auditors had assembled on Liebesman's alleged fraud at Corpcapital, I was in two minds. Would it be yet another businessman's stilted memoirs? Not a chance. Frangos's story is as compelling as any I have read.

Here we have the clinical exposure of one man's corporate shenanigans, of his career at the head of two companies creating fortunes for himself and his closest associates if not for unwitting outside shareholders. Here we have the twisting and turning to divert attention from the charges being levelled by a persistent Frangos. For this is not simply a story of one schlenker businessman's deals, it is also about another's dogged pursuit to bring the facts of the case to light, no matter what the personal cost.

Frangos is perfectly prepared to make his allegations of fraud — he knows that should Liebesman challenge them the entire can of worms will be re-opened. And

'One man's dogged pursuit to bring the facts of the case to light, no matter what the personal cost'

Liebesman, who has vanished from Joburg's business scene, is keeping his head down.

At the outset, it took me back to the 1980s when I was finance editor at the Financial Mail. Liebesman had invited me to an evening interview at the Doornfontein offices of his problematic company W&A. I was left in the boardroom with a glass of whisky while Liebesman and his colleagues left the room to complete "an important deal". Facing me was a flip chart with all sorts of arrows pointing to deals and fortunes — a chart I was presumably to be gulled into copying surreptitiously and, later, to write glowingly about in the FM.

Journalists should always ask the mocking question: Why is the lying devil lying to me? One knows he's a devil, one knows he's lying. The question is: Why?

I wasn't gulled. Nor were investment analysts who could not penetrate the murky reporting standards of Liebesman's W&A. Eventually, as Frangos elegantly recounts, Liebesman became a liability and was ditched by his W&A co-directors and narrowly escaped being hauled into court on fraud charges by Cape-based Trencor, which had been persuaded by Liebesman's glib promises to invest in W&A.

But before that affair was laid to rest, Liebesman was planning and laying the groundwork for his next corporate foray — setting up a series of offshore companies in Caribbean tax havens to be used to conceal his own financial participation in

what was to come.

First there was the acquisition of a JSE-listed shell company, eventually to be renamed Corpgro and subsequently Corpcapital. Liebesman's aim was to generate fast growth so as to lift his company's share price. But when that laudable aim was unsuccessful, he was back to his old W&A stratagem — creative accounting.

By 1998 Liebesman had got his hands on a secondary bank, re-named Corpcapital Bank. But that was failing to generate anywhere near the revenues he had hoped for and by 2000 he was faced with having to report an earnings downturn.

But good old Jeff had another card to play — an undisclosed investment in Cytech, an online gambling operation registered in the tax haven of steamy, sleazy Belize. He and his close associates re-valued Cytech, took the putative capital gain into Corpcapital's profit and loss account and, hey presto, Liebesman could glowingly report a soaring profit.

The accounting method would have been highly contentious even if it had been disclosed to shareholders. But this one wasn't and Liebesman and his associates could continue to collect hefty salaries and performance bonuses.

Of course, these things can't go on forever, as they eventually discovered at Enron, and the Liebesman board insiders had even less room to manoeuvre. He could only pull the Cytech trick once or twice; eventually there would be no capital gains to be taken to account and reported

profits would, inevitably, fall. Well, perhaps not inevitably. It might still be possible to fudge the issue by ill-explained changes to accounting practices. And Liebesman found the way.

That was the merger of all three companies in the Corpcapital stable — a merger that by 2002 rendered it impossible to compare year-on-year performances. The game was still on. But the merger was challenged by outside shareholders and its effects on reporting obscurity could only last so long. And the secrecy led Frangos, who had been left in the dark throughout all the accounting changes, to quit the board at the end of the year and to go public on his reasons.

Within six months, and despite Liebesman's earlier contrary assurances to shareholders, it was decided to unbundle the merged group, ostensibly to release value for shareholders but, in effect, yet again to confuse with accounting changes.

Liebesman's associates were appointed by the board to manage the unbundling and, in the process, amassed another heap of bonuses. Little or nothing accrued to outside shareholders. Frangos set about exposing the entire racket, paying for independent forensic investigations out of his own pocket. This helped lead to a Section 258 investigation which, Frangos claims, was superficial and which was hobbled by highly technical financial arguments and which seemed to exonerate the Liebesman group.

Again, the persistent Frangos's forensic accountants pulled the S258 findings to pieces, which is where we now stand.

Frangos's contentions are backed by incontrovertible documentation. It nevertheless underscores the fact that Joburg retains the mining camp mentality that allows clever individuals with an eye to the main chance to make fortunes.

Go to www.corporatecodes.co.za. See if you reach the same conclusion as I have.