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Con Artist Mentality and Characteristics

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1. Bio or resume is phony or missing:
* Nonexistent bio or resume;
* Avoids or delays to provide a biography or resume. Or, fails to provide one at all;
* Bio is phony or has phony pieces. Or, other oral statements or written documents about their background are untrue. A false statement on a bio / resume is often the tip of the iceberg.
* Refuses to complete Due Diligence Questionnaire for Offering Memorandum.
1. History of frequently changing professions:
* When questioned, they offers flimsy excuses;
* Look for license revocation or suspension on the background check.
1. Recently moved from another state:
* Or lives now in another state;
* Or moved business from another state;
* Or lives in Boca Raton, Florida.
1. Located outside of the US, but is doing business here:
* Why can’t they find enough work locally? Perhaps they have been “cease & desisted” from doing business locally?
1. Con artist found you, rather than you found them:
* Often on the Internet, or by a cold call, or by an intro from another person you don’t know much about or can’t trust.
1. Refuses to sign agreement (nondisclosure, engagement or other).
2. Always uses other people's money:
* Never uses their own;
* They may not have their own, so if you have been conned, don’t expect to recoup;
* Refuses to put up own money as deposit, retainer, or investment.
1. Vehicle to make you a success will be a public shell.
* Beware of "public shells," they are scams 99.9% of the time! Call the US Securities and Exchange Commission or [www.sec.gov](http://www.sec.gov) and ask the SEC to check out the name of the person, their colleagues, and their firm.
1. Big Talk:
* Big talk about money, often inappropriately;
* Focuses you on their material possessions (or someone else’s) to distract you and make you think they are successful;
* Name Dropper: Drops big names as alleged colleagues, but in reality does not know them (or they do know them, but will not do business with them);
	+ If they are successful in dropping enough big names, they have created a perception of quality and success, even though it is completely false;
	+ Squirms when you ask for those names and numbers to be written down;
* No References:
	+ Balks or turns the tables on you when you ask to check out their references, saying, “If you can’t trust me/us, then maybe we can’t trust you (or some other excuse) ….. ,” or “our client list is confidential;”
	+ Run from this scenario!
* Braggart - Often bragging about connections and accomplishments, which generally turn out to be false.
1. Mission is to make millions, rather than to build a company:
* Focuses on exit strategy rather than building and solidifying the company;
* Interested in salary for start-up at a time when the company is in need of officers/principals to waive salary;
* Wants to lock up YOUR (founder’s) shares in a liquidity event, but THEIR shares are freely tradable.
* Surround themselves with good, but naïve, people, with good reputations:
* In doing so they aim to build a reputation for themselves based solely on the reputation of others, insulating themselves from the real world and allowing them to be effective;
* Carefully chooses people around them who are nice people, hard workers, and who may be viewed by the con artist as too nice, or too weak, to go after them, if they are discovered.
1. Background Red Flags:
* Social security number is a guarded secret (because a background check will possibly uncover prior bad deeds);
* Has more than one social;
* Uses more than one name, or has changed their name;
* Has moved around frequently;
* Has holes in their bio.
1. Personality and Communication Quirks:
* Smooth, sales personality;
* Verbally abusive and insulting when confronted, cornered or caught;
* Sometimes not friendly and more of an all around abusive personality, sometimes only abusive when caught;
* Abusive to those they are blaming;
* Blames you or someone else when confronted with a problem;
* Uses bullying or threats to accomplish goals;
* Everything that goes wrong is someone else’s fault. When the scam or deal crashes, a con artist accuses the right hand man of being a crook. He will go to great lengths to absolve themselves of any wrongdoing and to make the other guy out to be a crook.
1. Filters communications through other people:
* Communications with the mastermind con artist must always first pass through the right hand man;
* This is double trouble when the right hand man is also a con artist.
1. Forbids people in working group from talking to each other or outside parties, as they must be in control of all communications:
* This way people can’t get the real story, especially if one person on team becomes “on to them” (often an accountant or lawyer).
1. Their right-hand con artist partner is often a person who:
* They can manipulate and who will not stand up to them;
* Is often in charge of writing checks for company;
* Is often in charge of filtering communications;
* Often has some type of serious problem in their background. Examples I have seen include: Alcoholism or drug addiction; significant or repeated job loss, criminal conviction, embezzlement, fraud allegation, or other inability (or perception of an inability) to make a successful living without difficulty;
	+ The con artist reminds the “right hand man” of their problem on a daily basis, and reminds them of how much the right had man owes the con artist for “saving” them.
1. Relationships:
* Usually divorced or having marital difficulties; may have cheated on spouse;
* Often at odds with family members: Siblings, parents, adult kids, who have “disowned” them because of their escapades, usually because they have cheated them out of money too;
* It may be difficult to find positive former business references:
	+ If you ask them if you can check former employment references or former accountant or lawyer references, they will always have some problem with the people you want to check. Either the employer was a jerk, the lawyer screwed them or the accountant cheated them....again, never the con artist’s fault;
* When they get caught, they backstab the accomplice by lying, cheating, stealing, and dragging anyone else through the mud they can, so as to make sure that it is clear that it is not their fault.
1. Often an underlying problem with drugs, alcohol, gambling, or sex.
2. Capacity for lying is great:
* Smooth talker, glosses over truth;
* Can tell a bold-face lie with a completely straight face;
* Figure by the time the lie is found out, they will be able to come up with another one to cover;
* Their lies gradually become evident; little lies slip out, then more;
* They do not bat an eye at writing untruths in a written document (even a securities offering memo, nor worries over the criminal legal consequences of lies in a written securities offering);
* They have no concept of right and wrong;
* No rules apply to them, or they always find an exception;
* They do what is expedient, regardless of right or wrong, and worry about the consequences later;
* Their entire life, and the life of those engulfed in their lies, is based on propagating the untruths previously told, and/or how to hide the con artist’s bad background;
* They create their own reality of falsehoods, and press everyone else to live it with them;
* Keep expanding the web of people who are caught in the tangled lies.
1. No qualms about stiffing service providers on payment, no qualms about stiffing employees on payment.
2. Do a reference check with their previous accountant or lawyer:
* Have they been paid?
* Be wary if the accountant reference check indicates past nonpayment, the termination of the relationship or an aversion to doing business with the company again.
* If the lawyer reference check they give you is a criminal lawyer, rather than a business lawyer or general practice…RUN ! If lawyer reference check is a litigation attorney, be very skeptical.

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Con artists prey on unsuspecting entrepreneurs, start-ups, investors, employees-for-hire and service providers. They tend to gravitate toward small-firm lawyers and smaller service providers, thinking that smaller firms will not conduct due diligence. They often seek a law firm as early-partner legal backing to legitimize their actions. They operate on the Internet, phone and in person, even inside of legitimate business groups or entrepreneurial groups.

Con artists run alone, in pairs, or operate in groups. Groups seem to be comprised of unrelated persons, until you dig deeply for information on how they met or know each other. Then the connection becomes evident. Ask how parties in a group met each other; it’s a very interesting discussion.

They view your start-up company, and your chances for success, as their chance to use you and your ideas to make money. If you are investor, employee, or a service provider, they see your money or your services as a way to use you and your time to make money for them, without paying you for your time.

Con artists lure you with the promise of finding money to fund your company. Then they permanently attach themselves to the company by requiring stock as part of their compensation.

Or they may lure you as an investor, consultant, employee or service provider with the promise of big returns on your time or money investment in exchange for stock in their phony or dubious company. They take your money and run, or use your time and run without payment.

***Due Diligence is Key***

Exercise care before jumping into bed with anyone. Do not give away your stock, money, time or credibility without first checking out the other parties. Once you have given your money or stock to a con artist, you will never see it again.

 Prevent such occurrences by doing a thorough background check on anyone with whom you will invest money, or from whom you will accept money in exchange for stock. Ask many questions. Check out college degrees by calling the universities; check prior work history by calling employers, and check for the lateral peer respect of former employers, past business colleagues, lawyers and accountants for prior companies, and other deals and clients.

Conduct a Google search on their name and/or obtain their social security number to look into their background, assets, job history, bankruptcy history, published criminal or fraud background, tax liens and internet commentary. If you find anything but an exceptionally clean background, or if the individual was not referred to you by a very trusted source who has checked them out, use a private eye or professional background checker. You can also hire a person to conduct a criminal background check.

Once you have given a con artist stock in your company (if they are money finders), it will be very difficult to get rid of them. They will be along for the ride if you are successful, and they will be a thorn in your side if you are not. Further, if your small company grows larger, it will be denied an IPO listing on NASDAQ National Market if someone with a “bad boy” background is on your board, or is one of your officers, or owns 5% or more of your stock (directly, or indirectly in combination with other parties). (“Bad Boy” is one whose background contains securities violations, fraud, or criminal activity). If the party has a bankruptcy or tax lien in their past, then you will have trouble securing further private placement money.

If such a person owns your stock or is affiliated with your company, your company could also be denied a merger or acquisition transaction with a NASDAQ-listed company, or could be prevented from using a reputable investment banking firm in a subsequent round of financing.

Therefore, conduct *due diligence*. Conduct Due Diligence on any:

* investor,
* broker,
* “underwriter,”
* “investment banker,” or
* money-finder

Tips for dealing with money finders or “investment bankers” or underwriters:

* Before signing any agreements, giving away any money or stock, or disclosing any confidential information, conduct Due Diligence;
* Don’t ever give a money finder or broker a retainer, unless they are a very reputable firm which has a valid basis for requesting a retainer, and whose reputation you have thoroughly checked out;
* Don’t give them stock in your company until you know they are clean.
* Money-finding should only be success-fee based, and only to persons who are registered broker-dealer firms;
* Money-finding / capital raising for any kind of fee, or for stock as compensation, is only legal if the money-finder or investment banker is a registered broker-dealer:
	+ With the National Association of Securities Dealers ([www.nasdr.com](http://www.nasdr.com));
	+ With the US Securities and Exchange Commission (Call the US Securities and Exchange Commission or [www.sec.gov](http://www.sec.gov), both the registration division and the enforcement division, and ask the SEC to check out the name of the person, their colleagues and their firm);
	+ With any state in which the investors reside;
	+ With any jurisdiction or foreign country and province in which their office is located or from which they are doing business, and in which they have investors.

If you have already been duped by a con artist, or by a pair of them, be aware that it is not your fault and that you are not alone. They are smooth enough to fool even the smartest entrepreneurs and business people, and they are often sophisticated enough to get past a sophisticated entrepreneur.

However, they know how to prey on you when you are vulnerable – when you are seeking money to fund your company. They have likely done this before, and will probably do this again. Do what you can to stop them from acting again.