

PRO PE LEGAL REGULATORY

GPB Capital Faces Renewed Fraud Claims by a Massachusetts Auto Executive

A Bay State auto dealer claims GPB owes him millions and has engaged in 'massive fraud' in an amended complaint filed in a local court



A salesman talks with a customer trying the driver's seat in a new Ford. GPB Capital focuses on acquiring and operating auto dealers. PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Ted Bunker

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GPB Capital Holdings LLC faces renewed allegations of fraud by a Massachusetts auto executive whom the alternative asset manager forced from his leadership role earlier this year.

David Rosenberg, the executive, in an updated complaint filed in Norfolk County Superior Court in Massachusetts, claims New York-based GPB engaged in fraudulent activities to finance its acquisitions of auto dealerships, including the Prime Motor Group controlled by his family and which he led. In raising more than \$1.5 billion from investors, he claims the firm “engaged in a massive securities fraud.”

Tab Rosenfeld, a lawyer at Rosenfeld & Kaplan LLP in New York representing GPB, described Mr. Rosenberg as an unhappy former employee “who is trying to tear down the company.”

“He’s a disgruntled ex-employee,” Mr. Rosenfeld said Wednesday. “We deny each and every claim.” A representative for Mr. Rosenberg didn’t immediately return a request for comment on Mr. Rosenfeld’s statement.

The move by Mr. Rosenfeld follows earlier legal actions against GPB, which describes itself as a “middle-market acquisition and operations firm.”

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A lawsuit filed Nov. 6 in federal court in Austin, Texas by Millicent Barasch, who invested in GPB funds, claims the firm “ran a Ponzi scheme” that promised investors 8% returns and used later investments to pay

returns to earlier investors.

Mr. Rosenfeld said “there’s no basis to that allegation” in an interview Wednesday.

GPB fired its head of compliance, Michael Cohn, in October after learning he had been indicted by a federal grand jury on obstruction of justice charges after he left the Securities and Exchange Commission to join the firm. In regulatory filings, GPB said it was unaware of Mr. Cohn’s alleged activities and that it “denies the implications relating to GPB.” GPB wasn’t accused of any wrongdoing as part of the complaint against Mr. Cohn.

The indictment of Mr. Cohn alleged he told GPB that he had inside information about the SEC’s probe into its business, and disclosed confidential information, privileged attorney-client work materials and other details to members of GPB’s senior management. The indictment said Mr. Cohn wasn’t authorized to have access to the information while at the SEC, where he was an examiner.

Mr. Cohn’s lawyer, Scott Resnik of Katten Muchin Rosenman LLP, said by email that Mr. Cohn maintains that “he is innocent of the charges contained in the indictment and looks forward to vindicating himself at trial.” He added that a March 2 trial date had been set.

In May, the firm acknowledged in an SEC filing it had received a subpoena and other information requests starting in May 2018 from federal prosecutors in New York, the SEC and state and local regulators. GPB also said that its local offices had been searched by the FBI in February.

In his updated complaint against the firm, Mr. Rosenberg alleges he discovered and tried to stop improprieties in the GPB-owned auto operation he oversaw after his Prime group was acquired.

He alleges that those actions led to his removal from the business. He also claims his personal electronic devices were unlawfully seized and not returned. Mr. Rosenberg initially sued GPB in July.

Among his further allegations, Mr. Rosenberg said GPB failed to replace him with a qualified dealer operator, leading auto manufacturers to start a termination process which could damage the value of the assets of the business. He also alleges that the firm has failed to make a \$5.9 million payment he was due in July as well as other payments he claims are owed to him.

GPB said in a March regulatory filing that “unforeseen complications” had prevented the completion of required audits, and that the “significant delays” it has encountered could constitute a default on existing financial agreements. Such a determination could impede future financing for the business and “may result in an inability to finance portfolio company operations.”

In July 2018, the Massachusetts Securities Division, an enforcement agency, said a failure to file audit reports on two GPB funds, GPB Automotive and GPB Holdings II, prompted it to investigate the sales practices of brokers that sold investments in the funds. The probe remained in progress this month, according to a spokeswoman.

The agency also said last year that GPB had told broker executives around that time it would temporarily stop accepting new investments in the funds. It added that the funds had also stopped redeeming investor shares pending completion of the audits.

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