SEC cans Web campaign to buy beer company

June 9 2011, By MARCY GORDON , AP Business Writer

(AP) -- It seemed like an innovative way to buy a beer company: Start an online campaign to purchase the iconic Pabst Brewing Co. and sell shares on Facebook and Twitter to cover the $300 million cost.

Michael Migliozzi II and Brian William Flatow found 5 million people who said they would invest a total of $200 million. But the federal government halted the venture after it informed the two men of one major oversight - they neglected to register the public offering with the Securities and Exchange Commission, a violation of federal law.

The SEC said Wednesday that it reached a settlement with the two advertising executives. The men, who never collected any money, agreed to stop selling shares to the public.

The case spotlights a growing challenge for regulators, who must patrol business online ventures and ferret out scams disguised as stock offerings.

The SEC has an entire enforcement unit devoted to Internet surveillance with a staff of more than 200 people. The CyberForce has flagged numerous instances of unregistered securities sales online. But Scott Friestad, an associate director in the SEC's enforcement division, called the beer campaign "fairly new." He said he couldn't recall another instance of someone selling shares online to buy an existing company.

By law, public stock offerings must be registered with the SEC before their promoters begin to sell shares. When they register to sell shares in a company, they must provide information about the company's financial condition and other data to help investors decide whether they should buy in.

Migliozzi, 45, and Flatow, 41, neither admitted nor denied wrongdoing in agreeing to the SEC's "cease-and-desist" order.

Their lawyer, Steven Berkowitz, said the two were old friends from the ad business who came up with the idea as "an interesting experiment in crowdsourcing." Crowdsourcing is a way of organizing large groups of people by using the Internet and social media.

"It never dawned on them" that they needed to register the offering without any shares being sold, Berkowitz said.

They launched their campaign to buy Pabst in November 2009 and got an "overwhelming response," Berkowitz said. The company, which sells Schlitz, Pabst Blue Ribbon and Old Milwaukee, had been owned for about a decade by a charitable foundation and was seeking a buyer at the time.

Migliozzi and Flatow spread the word on Facebook and Twitter. And they created the BuyaBeerCompany.com web site, which included a countdown timer showing how much money had been pledged.

Prospective investors were told to hold off sending money until the company had $300 million in pledges. Once they reached that goal, promoters would contact them to collect the money and proceed to buy Pabst. In return, investors would receive a certificate of ownership and beer equal in value to what they had contributed.

The campaign drew quick interest. The web site reported receiving pledges of $14.75 million in just the first three weeks, the SEC said. The BuyaBeerCompany web site continued to seek pledges until April 2010, when the SEC notified Migliozzi and Flatow of the possible violation. Berkowitz said he then advised them to take the web site down and suspend the campaign.

Pabst was sold to C. Dean Metropoulos, a food industry executive, in June 2010.