



Trends, Tips and Lessons Learned

June 2009

In This Issue

Corporate Misconduct:
What to do when Problems Arise
at Portfolio Companies

Reducing Stress in
Distressed Investments

Monitoring: Keeping a
Continuous Watch over your
Investment

The Sting of Pang

Letter from the President

Greetings!

We have noticed an increase in deal flow on our end of things and we trust that means things are picking up for you. While things are starting to buzz again in our NY headquarters office, we have also seen momentum in our recently opened Hong Kong office, which handles all of our investigations in Asia. Of course we still look to our London office to oversee our European investigations and our Miami location to direct our Latin American and Mexican inquiries. The newsletter for this summer focuses on how to handle problems at portfolio company investigations, necessary due diligence for distressed investments, how to effectively monitor your investments and, lastly, a closer look at Danny Pang. We hope you find this informative.

Kenneth S. Springer, President
Corporate Resolutions Inc.

Trends

Corporate Resolutions has recently been mentioned in the following media:

1. **Reuters – May 01, 2009** – Funds Sleuth Sees Investors Digging Deeper – Recent frauds like Petters Co Inc and Stanford Group demonstrate that reviewing public records and regulatory filings, as well as interviewing current and former employees, can help investors determine if a fund's results are too good to be true, says Corporate Resolutions president Ken Springer.
2. **Bloomberg – April 16, 2009** –Stanford Coaxed \$5 Billion as SEC Weighed Powers – The uncovering of Stanford Group's massive fraud was preceded by multiple fraud allegations and SEC investigations, all of which were public record and should have been taken seriously by investors, according to Corporate Resolutions director of business intelligence Joelle Scott.
3. **The Wall Street Journal –April 13, 2009** – Seven Questions to Ask When Picking a Financial Adviser – Understanding an adviser's due diligence process is critical to investment decisions, says Ken Springer, president of Corporate Resolutions. Advisers must disclose their relationship with recommended money managers, including any referral fees received.
4. **Kiplinger's Personal Finance – March 01, 2009** – How to Spot the Next Bernie Madoff – President of Corporate Resolutions Ken Springer notes red flags that could have tipped off investors to deeper problems at Bernard Madoff's firm. Vetting a financial advisor's accountants and using independent auditors can help verify the existence of assets under management, he notes.



Trends, Tips and Lessons Learned

June 2009

Corporate Misconduct: What to do When Problems Arise at Portfolio Companies

We have noticed a remarkable increase in private equity firms struggling with problems at their respective portfolio companies. Whether it is finding grounds to terminate an ineffective executive, addressing allegations of fraud/embezzlement/mismanagement or responding to anonymous threatening correspondences, Corporate Resolutions has proven methods to properly address these situations. We rely on our creative intelligence gathering techniques, interviewing skills and our team of forensic computer experts to discreetly and appropriately resolve the problem while mitigating your company's vulnerability to damaged morale, negative publicity and increased losses. To learn more about our portfolio company investigations, please contact us.

Reducing Stress in Distressed Investments

Over the last few months, we have seen more of our clients investing in distressed companies. The intrinsic nature of these investments is that there are existing problems. But, to be sure that the problems are temporary and manageable and not systemic or ongoing, we encourage our clients to heed the necessary due diligence steps. These recommended protective measures include:

Identifying and contacting former employees of the company. By reaching out to these individuals, you learn more about the reasons why a company experienced difficulties, the internal culture of the company and possibly any other challenging issues about the company that would not necessarily be disclosed on the balance sheet, such as fraud, embezzlement and sexual harassment.

Pursue litigation. If a company has been involved in any civil cases, criminal matters or bankruptcy filings, it is best to learn more about the circumstances surrounding these issues. This process begins with retrieving and reviewing court documents filed in the cases and can often lead to contacting relevant parties involved in the action and/or counsel or opposing counsel. This ensures there will be no hidden surprises after you close the deal.

Implement an Ethics Hotline. A 2006 study by white-collar crime research at the University of Wisconsin found that of the 1500 reported white-collar crime cases, the most common method of detection was by a tip. Our Ethics Hotline is the ideal way to mitigate fraud by allowing employees to anonymously report malfeasance or suspected wrongdoing thereby reducing a company's vulnerability to fraud. It is also an ideal marketing tool if, and when, you intend to sell a portfolio company. It not only protects your current investment but also serves a valuable function from a public relations perspective.

Monitoring: Keeping A Continuous Watch Over Your Investment

As with any investment, there is always the risk that once the due diligence is complete, the financial models have been run, the attorneys and accountants have reviewed the necessary documents and the ink has dried on the term sheet, problems will ensue. So what can you do to help reduce your vulnerability to these seemingly unpredictable problems? We believe monitoring is the answer.



Trends, Tips and Lessons Learned

June 2009

Monitoring the activities of the company and its management team allows you to be constantly and instantly apprised of any negative rumors, allegations of impropriety, internal problems and, hopefully, all of the positive reports and murmurs in the media. In addition to implementing an Ethics Hotline (described above), we believe that adhering to certain monitoring activities will give you an additional level of comfort with your investment. We have developed a specific monitoring program that consists of examining available blogs, chat rooms, Internet postings, national and international media sources, regulatory filings and court records in conjunction with routinely updating background checks of the management team to ensure no new issues have surfaced. To learn more about the specifics of our monitoring program, please contact us.

The Sting of Pang

While investors were still grappling with the losses incurred by the schemes orchestrated by Madoff and Robert Allen Stanford, in April the SEC filed a civil case against Danny Pang stating he had defrauded investors of millions of dollars and the SEC went so far as to freeze Pang's assets. Two weeks after the SEC's actions, the Federal Bureau of Investigation (FBI) arrested Pang claiming he deliberately structured his cash withdrawals in amounts under \$10,000 so as to avoid notifying federal regulators who have established the \$10,000 mark as a means to identify money laundering activities. We also now know that Pang used over \$80 million of investor money for personal expenses, including purchasing a Gulfstream jet. Pang, a Taiwanese man who established offices in California and ran Private Equity Management Group (PEMG), raised money from investors, many of whom were from Taiwan, and relied on one talent: telling lies.

Similar to Madoff and Stanford, we conducted research on Danny Pang to see what, if anything, would investors have known had they done some due diligence before handing money over to Pang. The following are highlights of what we uncovered:

- Pang claims he received a Master of Business Administration degree from the University of California at Irvine. FALSE. The school said that while Danny Pang was enrolled for one class in the summer of 1986, he never attended any other classes and he certainly never received an undergraduate or MBA degree from this school;
- Pang's biography posted on PEMG's website states he serves on the boards of "many" public companies. FALSE. We scoured SEC filings and did not find Pang as a member of the board of any publicly traded company;
- Pang and one of his affiliates, InterPacific Capital, were sued for fraud in April 2001 in Orange County Court, California. The case was not settled until February 2006, five years after the case was filed;
- In September 2003, one of Pang's investors filed a civil lawsuit against him in Orange County Court, California charging Pang with constructive fraud, damages for sale of unqualified securities and breach of contract. This investor claimed he gave Pang over \$80,000 to be invested in a fund (later believed to be non-existent) and that Pang "absconded with" the money and used it for his own personal gain.



Trends, Tips and Lessons Learned

June 2009

- PEMG was never registered as an investment adviser with the SEC and Pang is not individually registered with the SEC, FINRA or any other state or federal regulatory body;
- During a 2002 murder trial of a man accused of killing Pang's former wife, Janie, it was learned through media reports that the FBI said Pang "might have" connections to the Taiwanese mob. In that same the trial, the defendant who was ultimately found not guilty of the murder of Janie Pang, admitted in court that he engaged in money laundering on behalf of Pang;
- The President and CEO of Pang's former employer, Sky Capital Partners, alleged Pang stole \$3 million and forged the CEO's signature;
- Pang's former wife, Janie, once called the police to their house alleging Pang beat her and stole money from her parents; and,
- Former employees of PEMG said Pang once told the employees that he was engaged in a Ponzi scheme.

The information above would have been discovered through our comprehensive review and analysis of public records and by reaching out to employees and former employees of PEMG, a tactic we often rely on to yield relevant information.

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