



Trends, Tips and Lessons Learned

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Interviewing Management Teams

In conducting our background checks we are regularly interviewing management to document their side of the story regarding controversies and discrepancies identified by us during the course of our review. The interview becomes part of our report and can be very helpful to our client in the event it is found that the management team member had not been truthful. It provides our client with leverage in any actions they might take such as termination, rescinding stock warrants or paying on contracts. We conduct an average of three or four interviews per week and are frequently asked to provide arbitration/litigation support for our clients.

Letter from the President

This edition of our newsletter highlights some of the recent trends we have noticed while providing our services both domestically and abroad. Whether it's the hedge funds and small businesses of the United States, or the emerging markets of Asia, all are rife with opportunity and few are safe from fraud. Now more than ever, the role of due diligence and innovative business intelligence figures prominently into the landscape of global finance.

Thank you for your continued interest in our newsletter and please visit our newly designed website at www.corporateresolutions.com.

Kenneth S. Springer
President

Hedge Funds – Know Thy Neighbor - Services for the Close Knit Hedge Fund Community

Over the past five years, the Hedge Fund industry has doubled to more than 8,000 funds, totaling over a trillion dollars under management. This rapid and unregulated growth has contributed greatly to an increase in fraud. Although scandal is nothing new to the financial sector, it is the magnitude and prevalence that is cause for alarm.

By October 2005, the SEC had filed 20 cases against hedge funds, compared with a total of 19 in 2004 and just 2 in 2000. With high profile scandals including Bayou Management and Wood River dominating the headlines, there is no longer an excuse to avoid the obvious: The bigger the hedge fund industry gets, the greater the likelihood of fraud.

Even with the registration requirements enacted by the SEC in February, it is unclear how much fraud it will actually prevent. The lack of sophisticated resources and appropriate measures taken by the SEC (they currently



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Anonymous Calls

Over the last few months, we've seen a marked increase in the number of anonymous telephone calls and emails received by our clients during their due diligence process. These have typically occurred during their financial review or when they are conducting on-site visits and meeting with employees, customers and vendors. In response, Corporate Resolutions has made available our 800 hotline number so that our private equity clients can make use of this in anyway they see fit, during their due diligence process. If anyone associated with the target company wants to call anonymously to report information that may be critical to the process, they can do so.

do not conduct background checks on newly registered fund managers) means the investigations they conduct will not be very effective in finding the underlying and hidden problems that pose the biggest risk to employees and investors.

Corporate Resolutions knows that as the hedge fund industry grows in size and influence, so do the number of financial and reputational risks. In response, we provide hedge funds and their counsel with a complete range of business intelligence services that will assist in protecting themselves and their investors from fraud and risk. Some of the inquiries Corporate Resolutions conducts for hedge funds include:

- Global Fund Manager Background Checks (Bi-annual checks as well)
- Due Diligence on Investors, Investments, Third Party Marketers and others
- Litigation Support for Dispute Resolution
- Anti Money Laundering Compliance

The Beast of the East - How India is Making Some Rich and Some Regretful

As you have heard, U.S. and European investors are increasingly taking an interest in the economy in India. Many of the largest and well-known financial institutions, have already started outsourcing key business processes to Bangalore and other parts of India. Despite India's growing economy and the seemingly endless opportunities in the country, there are critical flaws in the government infrastructure that pose threats to overseas interests.

Only a small portion of India's population is catalogued by a central database system, making identity fraud and falsification of credentials a rampant problem. Therefore, many businesses who hire workers in India are not aware of who they are employing and subsequently who they are trusting with their



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Buying Asian Companies

A recent news report on Bloomberg Radio pointed to a marked increase in the buying of Asian companies by U.S. private equity and buyout firms. The broadcast indicated U.S. firms were finding it difficult to obtain background information on many of their target companies. We would like to remind you that Corporate Resolutions maintains and operates a diverse network of in-country investigators in many Asian countries, as well as other worldwide locations that can provide meaningful intelligence on company operations.

company's information. As a result, these companies are putting themselves at risk of theft or fraud.

As recently as May of this year, local newspapers in India have reported that sleeper cells of extremist organizations have infiltrated many Indian businesses. The threat that arises by the presence of these groups is that stolen propriety information (client lists, etc.) could potentially end up in the hands of the wrong group. Obviously the repercussions of this scenario would result in far more than just loss of reputation and income.

Although organizations like India's National Association of Software and Service Companies (NASSCOM) aim to fix these issues, a solution is years away. Until then, due diligence and background checks of partners, investors, employees and vendors must be completed through basic field work. Corporate Resolutions has a network of trusted associates in India who are able to conduct due diligence inquiries, fraud, piracy, and copyright infringement investigations, as well as other security related matters, to help identify and minimize the risks associated with maintaining an operation or other business in the region.

Fraud Association Touts Use of Hotlines

The Association of Certified Fraud Examiners (CFE) released its third publication of Report to the Nation on Occupational Fraud and Abuse in 2004. This report was based on a study of 508 occupational fraud cases that caused an astonishing \$761 million in total losses for businesses. The costliest of these fraud cases occurred in companies with fewer than 100 people. On detection of fraud in 2004, the CFE report notes that more than 39% of reported fraud incidents were initially discovered through a tip. Of this 39%, almost 60% of the tips were reported by an internal employee.

The CFE recommends implementing an anonymous fraud hotline that is available to employees, customers, vendors, and other third parties. Consistent with previous CFE studies, the 2004 report shows that anonymous hotlines have the greatest impact on fraud losses over internal and external audits. Companies that had previously established anonymous reporting procedures suffered half the fraud losses than those companies that did not have reporting mechanisms in place.

Corporate Resolutions' Ethics Hotline is a confidential and precautionary vehicle that allows employees to anonymously report any suspicious activities, reducing a company's vulnerability to fraud. An anonymous tip hotline can be especially beneficial to smaller companies that are more susceptible to fraud. The findings and recommendations by the CFE should not be ignored. Corporate Resolutions' Ethics Hotline is a dynamic tool that can help a business, both large and small, succeed without the economic and reputational duress impacted by fraud.