



# Trends, Tips and Lessons Learned

May 2008

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## Trends

Corporate Resolutions has recently been mentioned in the following media:

1. **Fox Business Channel – January 25, 2008** – Ken Springer appeared as a guest to discuss Sovereign Wealth Funds
2. **Brazzil Magazine – January 28, 2008** – "How to Beat Fraud and Still Make Money Doing Business in Brazil" - Ken Springer and Keith Prager
3. **Markets Media – 2008–** "Portfolio Company Puzzles: What to do When The Wheels Come Off" - Ken Springer

## Letter from the President

Greetings!

As seen daily, international inquiries are steadily increasing. This newsletter provides insight into how such inquiries are handled, and how international investigations are conducted, specifically in the emerging markets. Also in this newsletter, we share recent trends in our industry, such as addressing problems at portfolio companies and investment risks in today's financial climate. We encourage you to contact us if you have any questions on these or other problematic issues. We thank you for your trust in us and your continued business.

**Kenneth S. Springer**  
President

## Corporate Resolutions Worldwide

Last month Corporate Resolutions opened a new London office at 33 Glasshouse Street. Although we have had an office in the UK for over ten years, our presence overseas and our network of in-country investigators continues to grow.

Over the last few years, the number of international inquiries we have conducted has increased significantly. Approximately 30% of our casework takes place in Europe, Asia, and Latin America. These international investigations, like our domestic inquiries, consist of vetting potential corporate acquisitions/mergers, joint venture partners, investments, hedge funds and their fund managers.

In some countries, private equity investments have quadrupled in the last few years. In India, for example, a growing middle class and a liberal shift in the economy has led to 903 private equity deals over the last five years. While these numerous deals continue to create opportunities of wealth and profit for investors, the rise in fund raising and deal making overseas has also increased the prevalence of risk and fraud.

This is evident in Brazil, where fraud has been rampant. According to a survey from Unisys



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in 2005, and reported in IT Digest and other publications, Brazil was ranked third in the number of banking identity theft frauds (also included in the sample- Mexico, Australia, USA, France, England, Hong Kong and Germany). Brazil has also long been plagued by tax and currency tax fraud, money laundering and ATM fraud. While Brazilian banks and federal police have begun to implement stricter policies to address these issues, still many investors are unaware of these risks.

Eastern Europe is another emerging area where we have begun conducting investigations. We have seen more funds investing in this area; and, to accommodate this need, we have increased our network of sources in this area.

To protect and ensure that your financial transactions and investments are performed in accordance with the appropriate laws of foreign governments and to reduce your vulnerability to fraud, Corporate Resolutions works with a network of in-country investigators who know what's available and how to research foreign companies, investors and others with whom you intend to do business.

Corporate Resolutions can provide you with intelligent strategies and safeguards to avoid any reputational or monetary loss when investing overseas.

### Portfolio Company Challenges

Whether you have received an anonymous threatening email or heard allegations of employee misconduct, Corporate Resolutions Inc has proven methods to address these portfolio company distractions. Our experience has shown there is a need to promptly develop business intelligence to ascertain the potential magnitude of the problem, and implement a course of action so as to create options and provide you and your counsel with leverage.

Whether it is Sarbanes-Oxley, "Know Your Customer" or any other corporate governance requirement, board members are now addressing a variety of post-investment problems. Sometimes these problems are financial and have obvious solutions. Other times, however, the issues manifest themselves in ways that require thorough independent inquiries. Knowing how to address these issues is where Corporate Resolutions can help. Skilled at resolving post-investment dilemmas, Corporate Resolutions has the expertise to resolve any post acquisition issue. Our solutions are creative and logistical and designed to reduce your risk of exposure and embarrassment.

### Hedge Fund Transparency

The buzz over hedge fund regulation has ebbed and flowed over the last year, but one concept in particular has picked up new steam in the industry: transparency. The theme of transparency has been central to the "institutionalization" of hedge funds. Those who support the push for transparency, like the SEC and individual investors, believe that corporate disclosure is crucial in leveling the playing field for investors. As hedge funds become the preeminent and highly sought after clients of institutional banks, the individual investor has suffered a huge disadvantage because he/she cannot compete. While transparency from the hedge funds and their managers may protect the investors, but opponents argue that transparency goes against everything that made hedge funds success-



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ful in the first place. As Bloomberg reporter Matthew Lynn wrote in a recent article, asking a hedge fund to reveal its strategy "is like asking Coca-Cola to reveal its formula, or Microsoft Corp to unveil its code."

Whether or not transparency becomes an industry mandate is yet to be determined. Until then, there is a voluntary code of sorts that funds are expected to follow. One of the major components of the code is fund manager background checks. Fund of funds and institutional investors are requesting these investigations in record numbers and the hedge funds and managers are not only aware of the practice, but supportive in most cases.

For years, Corporate Resolutions has conducted background checks on managers and their funds for investors seeking to gain leverage and avoid risk in a burgeoning, but still unregulated industry. In addition to our global hedge fund manager background checks, Corporate Resolutions conducts a variety of investigations, to include corporate intelligence, fact gathering and corporate investigations for investors, hedge funds, activist hedge funds, counsel and others. Services include:

- Management background checks when investing in privately held companies
- Vetting foreign investors, borrowers and others
- Special purpose fact gathering for proxy contests
- Internal Investigations
- Intelligence gathering for investments under regulatory scrutiny -(e.g., backdating of options, insider trading and other types of malfeasance)
- Interview managers re discrepancies or controversies to document their explanation of the facts
- Litigation support for dispute resolution

### Heeding the Warning Signs

Given the situation with the credit crisis, we are beginning to see more companies going into default or worse. Corporate Resolutions has developed ways to strategically research any given company and identify certain indicators that often lead to a company's demise. Often, borrowers know they will default up to 6 months before the lenders react. This type of intelligence gives you warning signs and hopefully enough time to anticipate the problems and react accordingly before it is too late. Some of these indicators include the borrower transferring property; moving his official residence to Florida (Homestead Act); troubling patterns of breach of contract suits or forming new entities- which could indicate a potential transfer of inventory; new lawsuits filed against the company by vendors or lenders and instances when an owner or officer of a company transfers property ownership to the name of a spouse or relative as a way of insulating themselves from bankruptcy creditors or others. If you are interested in learning more about this type of competitive intelligence and the protection it affords you, please call us.



CORPORATE RESOLUTIONS INC

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### Intelligence for the Distressed

As the investment community evolves to meet the demands of the already stressed financial climate, investment companies are creating innovative ways to get involved in distressed investments. While distressed investments have a shiny appeal, they also have significant risk. Corporate Resolutions has perfected the art of locating, contacting and interviewing former employees who often provide invaluable information and another perspective about the company they left, the management team of the company and the reasons why they left the company. Often times, former employees will talk of the positive aspects of the company and provide reasonable explanations as to how the company has evolved over the years. In other instances, we have found former employees have been witnesses to information that may not be known to you. Recent examples of information yielded from these inquiries include conflicts of interest by the management team, sexual harassment, and other types of essential information that help you properly prepare yourself when investing in distressed companies.

In addition, Corporate Resolutions recommends implementing our Ethics Hotline when investing in these distressed companies. As we have explained in the past, our Ethics Hotline is a unique tool that helps prevent internal corporate malfeasance. Our toll-free number/email address fosters trust in employees and encourages them to anonymously report any wrongdoing. It is an effortless service that supports your fiduciary duties, enhances morale and helps prevent fraud and misconduct.



17 West 24th Street, New York, NY 10010  
(212) 691-3800 • (800) 893-1755  
(212) 691-7635 • (877) 268-6751 Fax  
[www.corporateresolutions.com](http://www.corporateresolutions.com)