



Trends, Tips and Lessons Learned

September 2008

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Corporate Resolutions has recently been mentioned in the following media:

1. ***The New York Times* – June 2008** – The article profiled Ken's intimate knowledge and expertise on corporate fraud. Ken also discussed background checks and the integral role these inquiries play in pre-deal situations.
2. **Round Table – June 2008** – Corporate Resolutions and Blank Rome, LLP hosted a professional roundtable on "Responding to Allegations of Corporate Misconduct." The premise, an obvious hot topic in today's corporate climate, generated interest from private equity firms, VCs, board members, attorneys and others.
3. ***San Francisco Business Times* – July 2008** – Ken Springer was quoted regarding business investigations and the ways in which private equity and venture capital firms rely on Corporate Resolutions for their background checks and business intelligence. The article also ran in similar business journals across the country.
4. **Panel Discussion – September 9, 2008** – Don Klaskin participated in a panel discussion regarding "War Stories: Lessons Learned from Tough Encounters" presented at the Institutional Investor 3rd Annual Board Member/CFO Symposium in Washington, DC. The discussion was aimed at providing solutions to board members grappling with daunting issues based on the experiences of their peers.

Letter from the President

Greetings!

Well, it has been an interesting summer, to say the least. With all of the dramatic changes on Wall Street, our newsletter this quarter focuses on how to address problems, such as corporate fraud, asset investigations and arbitrations; issues you may encounter given the climate of today.

To address our growing client base in Asia, we are excited to announce that Corporate Resolutions, Inc. will be opening our Hong Kong office later this year.

Please feel free to call or email me with any questions. Thank you again.

Kenneth S. Springer
President

Background Checks ... Why Aren't You on the Bandwagon?

With all that has recently transpired in regards to hedge fund blowups, corporate scandals, and mortgage fraud, you would think that background checks have become standard operating procedure. Yet, we continue to come across people in the investment community who still rely on mere Google searches as their form of due diligence. Conducting background checks on key personnel, as a part of the standard due diligence process, improves the value of any investment decision and complements the legal and financial due diligence that goes into any deal.

We don't mind spreading the gospel of the critical necessities of a background check; it is what we believe in. Our concern is not in what people tell you, it is what they do not tell you that tends to risk, or often sacrifice, your reputation and investment. No one wants a scandal on the front page of the Wall Street Journal that profiles the pitfalls of a deal and highlights information you could have known from the beginning, such as a CEO who has had a pattern of misrepresenting the numbers, a string of disconcerting litigation involving the company or its management team, a CFO with personal finance issues or a number of other conflicts or troubling



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information that leads to defunct corporations and failed investments. Background checks illuminate these problems before it is too late.

Information is the key to any business transaction and not knowing exactly who you are doing business with could be the difference between a successful transaction and a lesson learned. Unfortunately, closing a deal on a handshake and a glass of scotch just doesn't cut it anymore.

Show Me the Money!

Our asset investigations have increased in popularity. We are frequently retained by lenders, outside counsel and others to confirm/deny the existence of an individual's assets as well as to determine veracity prior to initiating litigation, releasing a guarantor, foreclosing, restructuring a loan or pursuing civil remedies. Often, the most valuable information we develop is intelligence and leverage for settlement negotiations. In addition to identifying assets, our inquiries also develop critical information such as non-disclosed business interests, patterns of hiding assets, potentially fraudulent property conveyances and key information developed from former employees and others.

Our Phase I asset investigation involves researching any/all available public records utilizing proven search strategies for property ownership, business interests, securities, cars/boats and investment relationships. If you would like to know more about domestic or international searches, please contact Ken Springer.

Anonymous Correspondences: What to Do?

We have seen a surge in the number of inquiries from investors and board members who have received threatening anonymous letters and emails regarding a company. Based on our experience in conducting internal investigations, we believe it is crucial that these correspondences are immediately addressed. Corporate Resolutions, Inc. has proven methods to address these distractions and resolve these post-investment dilemmas. We believe that there are several steps you need to take when posed with these threatening messages: identify your objective (quietly identify/resolve the problem or, even, terminate an employee); do not make swift decisions (risk damaging evidence and/or internal morale); and, hire outside investigators through your general counsel (to define the authenticity of the allegations, contain the exposure of information, and for privilege purposes). If you would like more details about our internal corporate investigations, please contact us.

Arbitrations on the Rise . . . Again

The smoke has yet to clear and people are already lining up to sue investment firms for their alleged losses. Corporate Resolutions is often retained by these investment firms, through counsel, to gather intelligence on customers who allege their bankers churned their accounts or gave them bad advice. These fact-gathering character assessments can confirm one's veracity or impeach their credibility as a witness through identifying inconsistencies, controversies and litigation patterns. One recent example was an alleged naive innocent investor who claimed a large firm churned away his life savings. In reality, the investor had multiple option accounts, owned various LLC's and was merely caught short on a margin call.



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Loan Defaults - Lessons Learned

What ever happened to the three C's - Credit Capacity and Character?

When assessing a borrower, banks have historically relied on the three C's - Credit, Capacity and Character. While banks have come to rely on credit scoring and other automated processes, lenders are finding that these time and cost saving efficiencies do not adequately address the character of a given borrower. Borrower background checks are so much more than just checking a credit score, identifying a bankruptcy or any current liens or judgments levied against the individual. Our experience is that patterns of lawsuits being settled before going to trial/resulting in judgment and material non-disclosure of key events in an individual's career are by far the two major shortcomings of automated credit systems. This information, and a variety of other intelligence identified in our inquiries, gives you a better sense of the borrower and their ability to repay the loan. We recently were retained by a lender to vet a potential borrower who was seeking a sizable loan. Although the individual did not have any current liens or judgments filed against him, we found that he had been involved in over 120 lawsuits, 10 of which were filed by prior lenders. The borrower had been savvy enough to settle the lawsuits before any judgments were filed against him. Given this history, the loan was not approved.

For more information regarding our borrower background checks, please call us.

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.



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