

TITLE: IS YOUR PARTNER USING THE RECESSION TO HIDE FRAUD?

By: Robert M Heller

Tough economic times can sometimes be used to mask fraudulent activities. In times like these, minority shareholders who suspect improper activity by the majority should be more vigilant than ever.

Often minority shareholders, especially those not involved in the business, simply get used to receiving little financial information about the company. The attitude often is, there's no cause for alarm as long as the dividends or other payments keep coming. In those circumstances, it is all too easy to fall into the trap of not paying close attention to the company's finances.

In normal economic times, a sudden lack of revenue would likely arouse suspicion of a minority owner and there is no easy explanation that a majority owner can fall back on in such a case. Any sudden change in the company's financial behavior would likely be noticed.

However, in an economic downturn such as the one we are experiencing now, the majority has a built-in excuse – business is down and “things are tough all over.” While this may, in fact, be true, a downturn such as the current recession makes minority owners especially vulnerable. You know business is down, but by how much? If business is really down 20%, but your partner tells you business is down 40%, would you ever learn the truth?

Many people find it hard to believe that anyone, including their fellow shareholder, would do such a thing; but it happens. If you are reading this, chances are you may already distrust your partner and been having suspicions for some time. If your majority shareholder has any business acumen at all, he just may realize the opportunity that an economic slowdown presents to make sure that the pain is shared disproportionately, with you bearing the brunt of it.

One of the ways to protect yourself is to be more proactive. Now is not the time to sit back and do nothing when the majority shareholder fails to provide you with financial information. In fact, now is the time to demand more information than ever before. Although minority owners are not entitled to inspect all of a company's books and records, an attorney who practices in this area of law can guide you regarding which records you are entitled to see.

The maxim “knowledge is power” could not be more true than in times like these.

If you would like us to consult with you on your rights, please do not hesitate to give us a call.

West Coast:

Robert M. Heller, Esq.

Robert M. Heller, APLC

Tel: 310.286.1515

Email: heller@rhellerlaw.com

East Coast:

David C. Roberts, Esq.

Norris, McLaughlin & Marcus

Tel: 908.722.0700

Email: dcroberts@nmmlaw.com