

When a Business Starts Bleeding Cash

Business disputes often arise when a company begins experiencing financial distress. Revenue may appear stable or even growing, yet cash flow deteriorates, profitability declines, and partners or stakeholders begin questioning financial decisions.

In many of these situations, attorneys are asked to evaluate claims involving financial misconduct, mismanagement, or lost profits. The financial records alone rarely tell the full story.

The analysis usually begins with several key questions.

Was the Business Actually Profitable?

One of the first issues in many disputes is determining whether the business was financially viable.

Revenue growth does not necessarily indicate profitability. Businesses can generate increasing sales while simultaneously losing money due to rising costs, shrinking margins, or operational inefficiencies.

Important questions include:

- Were gross margins sufficient to support operating costs?
- Were labor expenses increasing faster than revenue?
- Were marketing expenditures producing diminishing returns?
- Were hidden operational costs affecting profitability?

Understanding the underlying profitability of the business is essential when evaluating financial damages or claims of mismanagement.

Where Did the Money Go?

Many disputes arise because owners or partners cannot clearly explain how money moved through the business.

In these situations, financial reconstruction may reveal:

- unexplained withdrawals
- missing deposits
- irregular transfers between accounts

- excessive owner compensation
- payments to unknown vendors

Tracing financial transactions helps determine whether financial irregularities occurred or whether operational issues explain the financial outcome.

When Did the Financial Problems Begin?

Determining the timeline of financial decline is often critical in litigation.

Key questions may include:

- When did cash flow problems first appear?
- Did financial problems exist before the dispute began?
- Were losses caused by operational issues or specific disputed actions?
- Did management decisions accelerate financial decline?

Reconstructing the financial timeline allows courts to understand the sequence of financial events leading to the dispute.

Were Operational Decisions Reasonable?

Many business disputes involve allegations of mismanagement.

Evaluating these claims requires examining operational decisions such as:

- staffing levels relative to revenue
- pricing strategies and contribution margins
- inventory purchasing and working capital management
- marketing expenditures and return on investment

Understanding the operational drivers of profitability often helps explain why financial outcomes occurred.

Were Funds Diverted or Misused?

Some disputes involve allegations of financial misconduct.

These situations may involve:

- unauthorized withdrawals
- misuse of company credit cards
- forged checks
- altered accounting records
- payments to undisclosed vendors

Financial reconstruction and transaction tracing can help determine whether funds were misappropriated or whether the financial activity reflects normal business operations.

What Profits Were Actually Lost?

Lost profits claims require careful analysis.

Courts generally require evidence that:

- the business had a history of profitability
- damages were caused by specific actions
- financial losses can be calculated with reasonable certainty

Evaluating lost profits often requires both financial analysis and an understanding of the operational economics of the business.

How Financial Reconstruction Helps

Financial reconstruction examines financial records, operational data, and transaction histories to determine what actually occurred inside a business.

The analysis often includes:

- tracing financial transactions
- reconstructing financial timelines
- evaluating operational cost structures
- analyzing profitability drivers
- identifying irregular financial activity

This process helps clarify complex financial issues for attorneys, judges, and juries.

About A.J. Carrabus

A.J. Carrabus provides expert witness and litigation consulting services in matters involving financial reconstruction, lost profits analysis, fraud investigations, and operational financial analysis.

With decades of experience as a business owner, financial executive, and operational leader, he analyzes financial records and operational data to determine how financial outcomes occurred within businesses involved in disputes.

His experience spans multiple industries including franchise systems, restaurants and hospitality businesses, manufacturing operations, retail and e-commerce companies, and service businesses.

Contact

A.J. Carrabus
Financial Reconstruction & Lost Profits Expert Witness

Phone: 505-501-1626
Email: aj@ajcarrabus.com
Website: ajcarrabus.com