



ÆGIS e-journal

Addressing threats that affect your bottom line

Volume 2 Number 1, January 1999

From the case files of

The LUBRINCO Group

<http://www.lubrinco.com/>

and

Financial Examinations and Evaluations, Inc.

<http://www.feeinc.com/>

Business in Bogotá or other high-threat areas? Call us!

This month's features:

- 1. Due Diligence — YBM Stock and a cheap prevention**
- 2. OPSEC, Economic Espionage, and Competitive Intelligence — Simple, but effective, basics**
- 3. Executive Protection — Crank calls and threats**
- 4. Technical Issues — Radios and finger prints**
- 5. Real Stories from the Field — A quick \$250,000 - please!**
- 6. Book and Product Reviews — *The Economics of Organized Crime***
- 7. Free-Subscription/Unsubscription/Copyright Information**

1. Due Diligence — YBM Stock and a cheap prevention

Trading of YBM Magnex International shares was halted on the Toronto Stock Exchange, following the company's failure to file audited financial statements. The investigation by US authorities is believed to involve allegations that YBM was used to launder proceeds of Russian organized crime (A company founder, Semion Mogilevitch, was barred from the UK in 1995 following a money laundering investigation).

YBM's institutional investors seized control of the company last year, installing their own board of directors. But, in statement, the new Board said it remained unable to supervise YBM's ongoing business, or to ensure that its affairs were conducted lawfully, particularly with respect to its eastern European operations. The directors hired investigators to examine a range of questionable transactions by the company. In a report tabled with YBM's board of directors in January 1999, the investigators said it remained impossible to verify a number of YBM transactions. In most instances, significant transactions involving substantial sums of money are not supported by any documentation. Most of these transactions were carried out by United Trade, an unsupervised subsidiary of YBM. The investigators said that during their probe they became aware of substantial amounts of money being moved through the accounts controlled by United Trade. The YBM saga has led to questions about why Canadian regulators approved the stock for listing, and allowed the company to raise C\$53,000,000 on the Toronto stock markets, despite repeated warnings.

YBM Magnex International, the magnet maker has, been turned over to a receiver and the company's board of directors has resigned, saying there is no possibility the company's shares will resume trading. The directors also warned late on Tuesday that they had been advised by the company's counsel that YBM was certain to be indicted on criminal charges by a US grand jury unless it entered into a guilty plea agreement. For the first time since the US Federal Bureau of investigation raided YBM's Pennsylvania headquarters in May, the company has acknowledged that the US criminal investigation "may involve or relate to the possible links between YBM and certain alleged organized crime members." Ernst & Young, the accountants, have been appointed as YBM's receivers, with a recommendation from the directors that the company be sold off to reimburse some of the losses suffered by shareholders.

YBM, which manufactures high-performance magnets and bicycles, became a Canadian stock market darling earlier this year, reaching a market value of more than C\$900,000,000/US\$600,000,000. The shares were bought heavily by big institutional investors including the Ontario teachers' pension funds.

This editor did a text search of UK publications. This text search showed the accusations on Mr. Mogilevitch in newspapers. A minor investigation into the background of the president by the Board of Directors or the stock exchange would have raised the necessary questions that could have prevented this public gaff and loss. We continue to be astounded by the number of companies which, against all reason, do not do even the most basic background checks on officers and employees.

2. OPSEC, Economic Espionage, and Competitive Intelligence — Simple, but effective, basics

Some excellent places to gather intelligence on both an industry and the competition are:

Trade Shows - Focus on the salesmen and discuss new technologies and upcoming news releases.

Conferences - Work on conference papers and the juries for those papers and interview them about the current state of the art and what is coming in the future.

FDLP - These libraries are part of the Federal Depository Library Program and give excellent access to current research articles and doctoral theses.

Reporters - Reporters, especially industry specific reporters, are excellent sources. Reporters like to be interviewed.

Education - Researchers in higher education understand the concept of publish or perish and are often at the cutting — even the bleeding — edge, of technology, and know what is happening where. Interviewing these people is a must, and can be more informative than any of the other source.

Procedure - As with every research project, procedure must be followed. Each interview and document will lead to more sources of information and documentation. Follow the leads if they are determined to be relevant.

3. Executive Protection — Crank calls and threats

When we think of workplace violence — particularly workplace homicide — most of us imagine either crazed or incensed employees going berserk, or crazed or incensed customers running amok. In fact, these two categories taken together represent a small portion of workplace violence. Most

workplace violence is either common crime (all-night convenience stores being robbed, all-night gas stations being robbed, taxi drivers being robbed, and cops being attacked while working, to name a few), or domestic violence that spills over into the workplace. As it turns out homicidal customers and employees are so rare they invariably make national news.

None the less, many of us will still, at some point in our careers, encounter an irate customer who makes crank or threatening calls, sends crank or threatening letters, or even eventually shows up in person to be cranky or threatening. How should we deal with these people?

For a start, the initial contact should be noted. This could be as informal as a note saying “Received angry call 14 January 1999, 10:15am from Gracie Andersen, complaining about shipment of bad 1000 year old duck eggs. Offered to replace them with 500 year old duck eggs.” This note can be tossed into a drawer and, if you’ve successfully resolved the problem and you never hear from her again, thrown out. If the problem has *not* been resolved and you *do* hear from her again, you can hunt around in the drawer, find the note, and stick it in a file that logs contacts with this person. Remember to write down everything that you can: The rule of thumb is that if it is not written down, and it makes you look good, it never happened.

It is key to remember that the people whom we consider to be cranks consider themselves to have been wronged in some way. Putting aside the rare possibility of violence, there are two business reasons to resolve the person’s complaint. First, if you do resolve the matter, they will remain happy clients and will tell their friends and associates to deal with you. Second, if you do not resolve the matter, they will take their trade elsewhere and will tell their friends and associates not to deal with you. In terms of numbers, someone once told me that a single customer lost actually represents seven customers lost.

As a concrete, albeit low-level, example, some years ago a friend of the editor of this segment bought a quart of milk at an Associated Supermarket here in New York City. The milk was spoiled, but when she returned it, she was told in a rather insulting manner by the manager that Associated did not carry that brand, and she was refused an exchange. From the manager’s point of view it was an appropriate action: It simply wasn’t their milk, and he had saved Associate Supermarkets a dollar. From the customer’s point of view it was the wrong action: No matter how the milk got there, Associated Supermarkets was where she purchased it. If you assume that she, and we,

and even only five others she knows will never, ever, shop in an Associated Supermarket again, Associated did not get good value for the dollar saved.

Thus, it is always in a company's best interest to try to resolve customer disputes, even those that are not entirely clear-cut. And, during this process, it is imperative that all contacts on our part be courteous, no matter what is being said by the irate party. While insults and snappy retorts may be soul-satisfying, they only serve to inflame the other person further, and do nothing to either calm or resolve the matter.

If calls keep coming in for you, and you have reached a stalemate, it may be best to have the caller told that you are not in the office, but that you want the matter resolved, and have asked someone else to handle the situation in your absence. This person can then try to resolve the issue, perhaps bypassing whatever animus was initially built up.

It is important to remember that there is almost always some grain of merit in a complaint, and that the complaint should be resolved. An outstanding corporate application of this philosophy was observed some years ago by this editor at Simmons Corporation, manufacturers of Beautyrest mattresses. At regular intervals Grant Simmons would sit down with senior management, summoning more-junior people as needed, and resolve every letter of complaint that had come in. It was his view that it was not appropriate to tell a 400 pound man he should have bought a firmer mattress. It was appropriate to exchange it.

The physical arrival of an angry client can present logistical problems. For a larger corporation, which does not generally deal with the public, it is prudent to have a meeting room off the lobby, with no access to the offices, for just such meetings. In smaller companies, when the person steps through your front door they are in your office, and you have to deal with them.

In all cases, contact should be non-confrontational, polite, and aimed at resolving the matter. From a physical positional point of view is better to have your visitor's chair at a right angle to yours (at the side of your desk, for example, rather than on the opposite side), as this is perceived to be less confrontational than a face-to-face encounter.

If, even with your best good-faith efforts, it becomes clear that the issue cannot be resolved through negotiation, it is best to tell that to the other party, and to suggest in a positive manner that they should look to arbitration (as opposed to a lawsuit) for redress. If you have acted in good faith, and have documented all your contacts and efforts to amicably resolve the matter, arbitration — or even legal action — should pose no major threat.

4. Technical Issues — Radios and finger prints

MOBILTRAK

A new company called MOBILTRAK uses advanced-technology radio frequency scanning and detection, which logs the commercial frequencies being tuned into by passing cars through detecting emissions from the local oscillators in the car radios. The technology allows the company to monitor what radio station the vehicle driver is listening to and record the information quantitatively. The information can be used by both radio advertisers and radio stations to monitor their listeners in, what amounts to, nearly real-time. It helps the radio station know what to charge and the advertising client to know what they are paying for!

Advanced Precision Technology (APRE)

Advanced Precision Technology (APRE) specializes in the holographic capture, recovery, and comparison of finger prints, and has technology available that cost under \$600 for a device about the size of a fat pack of cigarettes. Finger print records of such high quality there are easily compared to ink based prints.

What does this mean? A great deal. Our research staff regularly looks to see what the trends are for the future of industries. The identification industry is going to go to biometrics for the recognition of individuals.

So you say, why do we care about the ease of the generation, storage, retrieval and recognition of a fingerprint? Biometrics is the only way to present proof of the ID of an individual without having anyone else there to double check the presentation. Other means, such as cards, passwords, and secret decoder keys can and do fail when someone else gets a hold of the “key”. The “key” in Biometrics is you! Now, imagine that your finger is your passkey. You place your finger on a glass pad, a buzzer rings and you now in you can enter your office, high technology lab, your apartment, your car, use your P.C., or that your smart card transaction has been authorized. It is coming and at under \$600 the trend is going to accelerate rapidly. The potential markets include, passports, military, immigration, driver’s licenses, welfare benefits, law enforcement, local, state and national, and commercial markets for any location that uses an access system with pass key’s and pass words. While the error rates are too high at this stage for them to be used on large populations (you could use it to validate pilots at an airport, but not passengers), this will change as time goes by.

5. Real Stories from the Field — A quick \$250,000 - please!

A Detroit-area auto supply executive is scheduled to be arraigned this week on charges that he embezzled from his former employer. The complaint against Rafael Antonio Fernandez, 38, stems from his employment with Irausa American Co. A 1996 internal audit of Irausa conducted of its Southfield office alleged he, Fernandez, used his Irausa corporate credit card and other means to run up bills for; jewelry, women's shoes, a honeymoon shopping trip in California, leather furniture for his home and more. Irausa estimates that Fernandez embezzled about \$250,000.

The audit became the basis of a criminal complaint. The charges stem from Fernandez's alleged purchase of a refrigerator with Irausa checks totaling \$1,630 according to police. Company auditors found that two used refrigerators were delivered to Irausa's office, while a new appliance was delivered to Fernandez's home in West Bloomfield Township, Mich.

6. Book and Product Reviews

The Economics of Organized Crime

Fiorentini and Peltzman

Centre for Economic Policy Research

Cambridge University Press

This book is a compilation of papers presented at a conference on organized crime. Its topics are far and wide ranging and ultimately, for this reader, fascinating. The papers cover a good narrative description on their hypothesis and conclusions, and back up these narratives with the mathematics of economics. Those who just need the story without the math will be very pleased. It is an important read for those involved in investigations. For, while it focuses on established organized crime, the models, conclusions, and behavior patterns can be applied to gangs, criminal rings, and criminal behavior within business. It is a good book to read and discuss with others in the field, a little like an Oprah book club book, but for the sophisticated investigator.

7. Free-Subscription/Unsubscription/Copyright Information

•• AEGIS e-journal is supported and maintained by voluntary efforts. This publication is owned, published, and copyright © 1999 by The LUBRINCO Group Ltd, Inc. and Financial Examinations and Evaluations, Inc. It is edited jointly by Richard Isaacs (RBIsaacs@lubrinco.com) and L. Burke Files (LBFiles@lubrinco.com).

The LUBRINCO Group provides services in three high-threat areas, too specialized to be dealt-with in-house, that can adversely affect domestic and international bottom lines.

- **Protection of trade secrets and intellectual assets.**
 - Anti-economic espionage.
 - OPSEC: The identification and protection of information that would give your competitors and adversaries an advantage.
- **International financial investigations and due diligence consulting.**
 - Location and recovery of missing and hidden assets.
 - Establishing business relationships and strategic partnerships in Central and Eastern Europe, the offshore financial centers, Beijing and Shanghai, Central Asia, and Latin America and the Caribbean.
 - Anti-money laundering and financial fraud requirements under the *International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001* and the *EU Revised Money Laundering Directive of 2001*.
- **Protection of management, staff, and families.**
 - In the high-threat environments of Latin America, Africa, the Mid-East, and Southeast Asia.
 - When traveling and living overseas.
 - When transporting items of substantial value.

LUBRINCO identifies and quantifies threats and vulnerabilities, and their associated risk, then manages the vulnerabilities so you can transfer or live with the residual risk. We prevent disastrous financial loss to your company, and physical harm to you, your family, and your staff.

For information on **The LUBRINCO Group** and its services, or for the archive of all past issues of *ÆGIS* e-journal in PDF format, please go to <http://www.lubrinco.com/>.

To sign up for a **complimentary subscription** to *ÆGIS* e-journal or the *ÆGIS* e-journal PDF notification list, go to <http://lb.bcentral.com/ex/manage/subscriberprefs?customerid=7768> or send an email to ejournal@lubrinco.com.

To subscribe to our AvantGo channel, go to http://avantgo.com/channels/_add_channel.pl?cha_id=1773

To be removed from the subscription list, follow the instructions on the mailing you received, or send an e-mail to ejournal@lubrinco.com.

If you know of anyone else who should be receiving ÆGIS e-journal, please send their e-mail address to ejournal@lubrinco.com.

If there is a topic that you would like to know more about, send it to ejournal@lubrinco.com and the editors will consider it as the topic for an article in an upcoming issue.

If you would like to submit an article for publication in ÆGIS e-journal, send it as an attachment to an e-mail to ejournal@lubrinco.com. Submission of an article certifies that (a) all information in the article is in the public record, or (b) that you are authorized to release any personal or corporate proprietary information contained in the article, and (c) that none of the article has previously been copyrighted. The submission of materials for publication in ÆGIS e-journal constitutes a license to The LUBRINCO Group Ltd, Inc., and/or Financial Examinations and Evaluations, Inc, their assigns, associates, or affiliates, to abridge and/or edit said submission, and to copyright and publish/republish any submitted materials in whatever written and/or electronic form they may choose.

If you would like to go beyond normal fair-use in reproducing articles from this issue of ÆGIS e-journal, you may do so freely as long as appropriate source, copyright, accreditation, and link to the LUBRINCO website is included. This should be in the form

Article Title, from the January 1999 ÆGIS e-journal (© 1999 LUBRINCO & FEE), to be found at <http://www.lubrinco.com/>.

ÆGIS e-journal is a forum for the exchange of information, ideas, operating styles, theories, and related topics for corporate managers who make decisions about threats typically outside the expertise available in-house, yet which have the potential to affect their company's domestic and international bottom lines. Nothing appearing in ÆGIS e-journal should be construed as legal advice. The information provided is "general information," not "specific advice."

The solution to any problem is highly dependent upon the precise facts involved. Thus, before making any reliance upon anything said here, you should consult with an appropriately skilled professional. Opinions expressed by contributors are not necessarily endorsed by the publisher, and may be presented to encourage a dialogue among subscribers. The publisher

and any re-publisher cannot be held responsible for any loss incurred as a result of the application of any information published in *ÆGIS* e-journal.

Please be safe, and be smart.