



# **ÆGIS** journal

## ***Addressing threats that affect your bottom line***

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## 1. Asset Location and Due Diligence — October 2002 – 30 September 2004

It is not our wont to discuss politics in these pages, firstly because this is an inappropriate place for political discussion, and secondly because the political views of the editors are so widely divergent. It is, however, an appropriate place to learn from the lessons of political action. The lesson we will discuss today is that of how failure to exercise due diligence often has unfortunate consequences.

We see this all the time in our work. Companies don't bother to exercise due diligence, or they exercise inadequate diligence, and all too frequently bad things happen as a result. And as these companies fail to exercise appropriate diligence on the changing situation, things go from bad to worse.

An example of this was the passage of the *Authorization for the Use of Military Force Against Iraq*. This authorization was *in theory* voted upon in Congress based on the classified October 2002 National Intelligence Estimate (NIE 2002 16-HC), entitled □ *Iraq's Continuing Programs for Weapons of Mass Destruction* (<http://www.fas.org/irp/cia/product/iraq-wmd-nie.pdf>). We do not know what the redacted first word in the title might be. It is not our place here to ask whether the evidence presented in the NIE was persuasive or not persuasive. Since, as you will see if you look at the declassified version, most of it is redacted, we are certainly not in a position to even hazard a guess.

A more reasonable question was whether members of Congress found it persuasive or not persuasive. And the answer to this question is a clear no: Senators and representatives found it to be neither persuasive nor unpersuasive, because they almost to a man, didn't read it! As best we can determine, Senators Biden (voted Yea), Graham (voted Nay), Roberts (voted Yea), Rockefeller (voted Yea), Durbin (voted Nay), and Feinstein (voted Yea) read the document. We are unable to find a listing of Congressmen who read NIE 2002 16-HC, but assume it was an equally small number. We are not questioning here the judgment of the two who voted Nay, nor of the four who voted Yea. We do, however, find ourselves questioning the judgment of the ninety-four senators who voted to send our country to war without reading NIE 2002 16-HC. We understand that NIE 2002 16-HC was over 90 pages long – even longer than the list of artificial ingredients in a can of soup – but feel that the consequences of going to war reasonably demands the sacrifice of spending half an hour reading about why war might or might not be justified.

Accepting that we passed the *Authorization for the Use of Military Force Against Iraq* and subsequently invaded Iraq based largely on the understanding that Iraq had, or would soon have weapons of mass destruction – by which was meant things that make a really large bang – we then have to look two years into the future to the release of the *Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD*, which can be found at [https://www.cia.gov/library/reports/general-reports-1/iraq\\_wmd\\_2004/index.html](https://www.cia.gov/library/reports/general-reports-1/iraq_wmd_2004/index.html). We have been plowing through this report – it is roughly a thousand pages – for quite some time. It is both well written and illuminating. We suspect that when we finish, we will be among a group of under a hundred people in the entire world who have read it.

The *Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD* is the second critical document that didn't shape the direction of Congress' input nor the President's prosecution of the war. Although the presence or absence of nuclear weapons was critical to our decisions as to what needed to be done and why, it is a safe guess that if our elected officials did not bother to read ninety pages, they certainly didn't read a thousand pages, no matter how important it might have been to do so!

While we have little direct control of Congress, the lesson is still clear: When making important decisions, you should look at available information that will help you make an informed decision.

## **2. OPSEC, Economic Espionage, and Competitive Intelligence — How does loss of IPCI manifest itself?**

If someone hijacks a truckload of a product you made, the product is gone. You will be aware that it is gone, and will be able to make a bookkeeping entry to account for its loss. You will have lost all the cost invested in its manufacture, and will have to re-spend that money to recover or re-manufacture it. In addition, the revenue from the sale of the stolen product goes into someone else's pocket, not yours. In a limited market there may be less demand for the newly manufactured product, because some of the demand has been satisfied by the stolen product.

If someone steals your intellectual property and critical information, however, you still have it. What you have lost is the exclusive use of the IPCI, and the benefit that comes from that. But if you still have it, what have you really lost? IPCI is, after all, pretty intangible. What you lose depends in part on whether the IPCI goes to competitors or adversaries. In this article we will only concern ourselves with competitors.

With competitors, when you lose intellectual property, what you have lost is market share, which translates to bookable revenues. Let us walk through this. You come up with an idea for a product line, and spend money to develop the idea. For the sake of round figures, let us say that you spend five million dollars developing a product. You spend another ten million marketing and advertising it, and estimate that you will have revenues of \$150 million during the product's lifecycle.

Your competitor spends \$80,000 – essentially zero – to buy your development information from a disgruntled employee after hearing inadvertent hints of its development in the public press. They arrive in the marketplace either at roughly the same time as you do, or a little earlier if you are unlucky, and also spend ten million on advertising, their only real outlay. You end up with revenues of \$60 million.

When you lose critical information what happens is less direct. We have discussed in the past cases where small companies have disclosed, for marketing reasons, the names of their key developers, where the developers are then hired away. The company then either closes or suffers major setbacks. In other cases the names and sales of salespersons has been disclosed when companies have been offered for sale, allowing potential buyers to cherry-pick the best sales people either before or after the sale. In other cases bids have been disclosed, allowing competitors to adjust their bids accordingly. And the list goes on.

In all cases loss of IPCI is generally preventable at low cost, and the implementation of appropriate internal controls to protect IPCI yields a significantly higher return in base revenues than any other prophylactic measure of which we are aware. By failing to protect your IPCI you are making a deliberate choice to have revenues below what should be booked.

### **3. Executive Protection — Dancing down the road to Hell**

We generally think of due diligence as something to be exercised in financial dealings. But it also applies in the world of dance.

If you are a dancer, if you know any dancers, or if you have seen movies like *Shall We Dance*, *Strictly Ballroom* or almost any movie about ballet, then you know that dancing – either amateur or professional – is almost a compulsion. Indeed, some have said that dancers dance for much the same reasons that alcoholics drink.

Dance, particularly performance dance, is very difficult. You have to be in football-player condition all the time, with the aches and pains associated

with high-level athletic endeavor. To top it off, there are so many genuinely talented dancers, and so few performance opportunities. Because of this, young dancers, eager to do anything that will allow them to dance, may be exposed to risks they had not anticipated while at the barre.

The worst of these risks – thankfully rare – is to be abducted into world of human trafficking. There have been a number of cases, of late largely focused in Eastern Europe, where girls are engaged to dance, frequently in cabarets, in a foreign country. While there, they have their passports taken away and they are forced into prostitution (The United Nations Office on Drugs and Crime cites Thailand, China, Nigeria, Albania, Bulgaria, Belarus, Moldova and Ukraine as being among the countries that are the greatest sources of trafficked persons, and Thailand, Japan, Israel, Belgium, the Netherlands, Germany, Italy and the United States as common destination countries of trafficked women and girls).

If your daughter is considering a foreign engagement, be very sure that you know who the agents are, and that they are stable and easily locatable. Verify that the engagements themselves are in legitimate places, and try to pre-establish independent contacts in the country to which your daughter will be going. It is also a prudent idea to speak with the American Embassy in that country, to find out what precautions need to be taken, and to have a contact point in case of an emergency. As with all travel, the dancer should have extra photocopies of their passport. In addition, giving them a local cell phone so that they can check in with parents or friends immediately upon arrival (and regularly thereafter) is a good idea, as is having a code word or phrase to indicate that they are in trouble. Note that they can use a callback service – we use World Wide Telecom’s call back service (<http://www.wwtelecom.com/ilive.htm>) – so that they don’t have to spend money out of pocket. Even if the phone is taken away from them, the sudden lack of contact will be an alert that something has possibly gone wrong, and that they might need help.

Many cabaret owners, both abroad and in the U.S. expect that girls will mingle with patrons between acts. Some girls enjoy this, and some find it distasteful. It is a good idea to find out if they will be required to act as a B-girl or just dance, and help them make a decision beforehand as to what they want to do. It is not fun to end up in a foreign country – or even to rehearse for a review here – and then discover that you are being discharged without pay because you are only willing to dance.

Another problem can be that an engagement simply doesn't work out for reasons beyond your control, and that the show closes, leaving them somewhere with no income stream. For this reason it is a good idea to have a return ticket before they leave home for any engagement.

#### **4. Technical Issues — ~~Guns or butter~~ Gasoline or eggs**

The other morning we went to the store to buy eggs, and discovered that the cost of eggs had more than doubled since last year. This is largely related to two factors. The first is the increasing cost of oil, which had topped \$100 a barrel when last we looked.

The second is the increasing cost of corn, to which eggs are more sensitive than most other food products. The cost of corn has gone up because an increasing amount of it is being diverted to make ethanol. Farmers are planting more corn to help meet the demand. Of course, in order to do so, they must cut down on other crops such as soybeans.

To add to the mix, we must also consider what is happening in China, the world's second largest producer (and consumer) of corn. Although China is increasing its corn production, and has suspended further expansion of corn-based ethanol industries in favor of non-grain foodstocks, it *may* cut exports, which will shift demand from Chinese corn to U.S. corn. Which will in turn put upward pressure on domestic corn prices.

Why is corn of concern to readers of *ÆGIS*? For a start, we eat, and should therefore be concerned about anything that can drastically change the percentage of income that goes to basic sustenance. Second, we drive, and should therefore be concerned about anything that can change the percentage of income that goes to transportation. Finally, we, more than most, tend to be concerned about unintended consequences when making policy decisions.

#### **5. Real Stories from the Field — Funny thefts**

Most thefts are not fun, but occasionally we come across some that are. We have two favorites.

The first involved the fiancé of a friend, who was dog sitting for the weekend. On Sunday morning she awoke to discover that the Airedale had died during the night. Distraught, she called the police, who said to call sanitation, who said to call the ASPCA, who said to call the police, who said to call...

Eventually the ASPCA allowed as how if she brought in the dog, they would dispose of it for her. She finally found a really big suitcase, stuffed in the dead pooch, and dragged it down four flights to the street. She needed to get a cab on the other side of the street, and lugged it to the corner. When the light changed, a man came up and offered to carry it across for her. Grateful, she raced across the street to hail a cab. The man took the suitcase and ran in the other direction as fast as he could. Problem solved!

The second event happened to one of our editors after he returned from Iran, where he had contracted cholera, a job-related hazard. Each week he would go to see a tropical medicine specialist, bearing as a gift a stool sample. One afternoon he was early for his appointment, and decided to spend some time sitting in the sun in Washington Square Park. He sat there for half an hour, reading. When it was time to go to his appointment, he discovered that while he was reading someone had stolen the paper bag containing the stool sample. Fortunately, there was more where that came from...

Could these thefts have been avoided? Sure, but we are awfully glad they weren't!

## 6. Book and Product Reviews

### *iPhone*

Apple / AT&T Wireless \$399.00

<http://www.wireless.att.com/cell-phone-service/specials/iPhoneCenter.html>

1-866-MOBILITY

As international travelers, we are always interested in new quad-band terminals, so we were eager to try the iPhone. The iPhone is not particularly large or small – 4.5 x 2.4 x 0.46 inches, and weighs in at 5.8 ounces. The screen is large and lovely, and while it takes a while to get the hang of entry, once you do it is no problem.



With any mobile telephone the three big questions, of course, are

1. How well does it capture and hold a signal in fringe areas (or other areas where there may be signal difficulties).
2. How does it sound to both the person talking and the person listening.
3. What is the SAR (we would prefer it to be under 0.5). It is 0.974.

Most smartphones, up til now, have been firstly a set of tools (the *smart* part) of one sort or another, with the phone seeming something of an

afterthought. The iPhone follows in this tradition, and being the best telephone didn't seem to be at the top of the designers' list. And while on the question of design, we must note that the phone does not have interchangeable batteries: This means that when you travel in areas where charging is not an easy option, you may need to carry a backup phone with extra batteries.

Additionally, as business travelers, we tend to have camera phones taken away when we go into an increasingly large number of businesses. As with any camera phone, you will need to be prepared to voucher your iPhone and switch your SIM to a backup phone.

Less of an issue is the use of foreign SIMS. While ATT Wireless, unlike T-Mobile, apparently does not seem to wish to unlock their devices for use by international travelers, it appears that third party services can now do so, allowing you to use local SIM cards with the iPhone.

In fine, the iPhone is a pretty toy, and your kids, who won't care about the phone part, will be delighted to get them as gifts. They are, however, an inappropriate choice for the international business traveler who actually needs a mobile phone.

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