



ÆGIS journal

Addressing threats that affect your bottom line

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- **Special Announcement**

L Burke Files will be speaking at:

Sept 15th - 17th The 13th Annual International East West Security Conference, Rome, Italy

Oct 16th - 17th Detectando al Empleado Deshonesto, A Comprehensive Look at Occupational Fraud and Money Laundering, Mexico City, Mexico

Oct 20th – 24th International Structures - Panama City, Panama

Richard Isaacs will be speaking at:

ROMI (<http://www.iirusa.com/romi>) on 25 June 2008.

December 9th – 15th International East-West Security Conference & Exposition, Malta

1. Asset Location and Due Diligence — What's the rush, pal?

While we generally think of exercise of due diligence in financial terms, it is really more of an approach to doing business and, indeed to leading our lives. We were reminded of this the other day when talking with a friend who is a leading trainer in the field of hospital security.

He had received a call from a mental hospital interested in training in defensive tactics when dealing with unruly cases, and had asked for examples. He was given two. In the first, a patient had dropped to the floor and refused to get up. In the second, a woman refused to get out of bed, instead gripping the handrails on the bed so tightly that she could not be moved. In both cases this was annoying and inconvenient for the staff. In neither case was the subject acting out, nor did they present any danger to themselves or others.

Since this was a mental hospital, where it was not unreasonable to expect irrational behavior from the patients, our guy asked why they didn't put cones – or chairs – around the person on the ground so nobody would trip over them, and why they didn't wait for the woman on the in the bed to become tired or bored, and let go of the handrails on her own. He was told that, as was the case at Waco, the patients had been give ample time to cooperate, and that some firm action was thus needed. He declined to do business with the hospital.

The next day he received a call from the hospital's director, asking why he had turned down their business. He explained the he believed that the hospital staff was out of control, and that he fully expected that they would end up needlessly injuring a patient. The hospital was, in his opinion, a

lawsuit looking for a place to happen, and the when the lawsuit took place he did not want to be a named party.

The director agreed that the staff was out of control and noted that in the case of the patient on the ground, the specific instructions had been to leave the patient there, making sure he did not get injured by people using the corridor. Instead, two orderlies had grabbed his arms and picked him up, dislocating both shoulders in the process.

Since our guy had quite properly refused to work with the hospital, the director felt he might be the right person to come in and help deal with what they considered to be an endemic and dangerous problem. We will wait to see what happens on this one.

2. OPSEC, Economic Espionage, and Competitive Intelligence — Disinformation

When this editor was in graduate school, a friend left a deck of computer punch cards in the computer room one evening. Assuming this was an oversight, I mentioned this to him. He explained that he was involved in a very competitive school project, and that if he “accidentally” left the deck overnight, one of the other teams would find it, run it, be misinformed about his group’s project, and change their project accordingly.

Disinformation can be a very important part of an OPSEC program, and we have written about it in the past. Indeed, the August 1999 issue’s OPSEC article was on disinformation, and opened with the same paragraph! The current Democratic presidential race has us thinking about disinformation again, as we tried to figure out what was being done by whom, and why.

What triggered this was the behavior of The Reverend Dr. Jeremiah A. Wright, Jr., Barack Obama’s former pastor. While we have no evidence for believing this, it would not stretch our imagination as counterintelligence practitioners to discover that, for whatever reason, Wright was a supporter of Mrs. Clinton. His behavior would certainly indicate an intentional desire on *someone’s* part to derail the Obama campaign. It seems not impossible that Wright was either wittingly co-opted or un-wittingly suborned by the Clinton campaign. In either case the effect is the same.

The problems caused by this set of incidents brought to the forefront of our consciousness the importance of disinformation. Disinformation should be thought of as a consideration in all plans that need to be kept secret. This, of course, requires several things to happen. First, someone has to recognize that information exists and that it would be of value to others. Second, they

have to determine that they will actually protect it. Third, they then need to actually take steps to protect the information. Whether or not disinformation is part of this protection depends on the circumstances.

When disinformation is used, it can have a significant effect on both keeping the information secret, and making adversaries and competitors take actions based on their best (albeit incorrect) information. These misdirected efforts might well give you an even greater competitive advantage than you would have had by merely keeping the information out of the public eye.

3. Executive Protection — On shootings

Shootings are traumatic for all involved, and it is important that they be analyzed after the fact. Of course, when judging this kind of event after the fact, we spend hours or days analyzing a situation where the original events required an analysis and a decision within seconds.

One fact that is often dissected by the public is the number of shots fired. As an example, in the recent unfortunate Sean Bell shooting here in New York City, one officer fired 31 rounds. Was this too many? While common sense might seem to say yes, we would contend that the only shot that needs deep analysis is the first, and that when shootings involve multiple shooters, the total number of shots fired will almost always be surprisingly high.

Several factors enter into play. The first is that under stress you are reacting very quickly and in a very goal-oriented (stay alive) mode. Because of this, there is a real and strong tendency to shoot until you are aware that the threat has diminished or that you have run out of ammunition. Now, let us assume that an incident starts and ends over a fairly extended period of time, say, ten seconds from the time the first shot is fired. Now, how fast you can shoot depends on the kind of gun you have. Revolvers can shoot very fast but only hold six rounds, while semi-automatic handguns are slower but hold more cartridges.

How fast is fast? Well, back in 1932 Ed McGivern was able to place five shots from 15 feet, with a spread that could be covered by a half dollar, in 0.45 seconds. In 2003 Jerry Miculek fired five shots in 0.57 seconds, close to McGivern's 0.45, but broke McGivern's record of shooting six shots each from 10 different .38 caliber revolvers in 25 seconds, shooting his sixty shots in 20 seconds. You can see some of Miculek's shooting at <http://www.youtube.com/watch?v=giSaNiQ-Wb4>.



So, what happens is that everyone is all keyed up, with adrenalin flowing, and someone fires a first shot. Often nobody knows who exactly fired the

shot or what triggered the response that caused them to pull the trigger. There is no time to reflect on this: Someone yells “gun,” a shot is fired, and everyone instinctively starts shooting. This is known unofficially as *the popcorn effect*, and more officially as *mass reflexive response*. On a good day about a third of the shots hit the person at whom you are shooting. For those not mathematically inclined, this means that two thirds of the shots miss the target, explaining our belief that we are not concerned with the bullet that has our name on it: We are afraid of the bullet that says, “To whom it may concern!”

Because of the stress and the time constraints, and assuming that you yourself have not been shot, you tend to shoot until you become aware that you have run out of ammunition. If you are well-trained, you may not even be consciously aware that you have re-loaded and continued firing. It is simply unnatural for anyone, when they believe they are being shot at, to stop shooting before they are aware that the threat has ended.

This does not take away responsibility for what happens to the rounds that fly off to hit some innocent after missing the target. And, more to the point, it does not take away responsibility for the first shot. This includes situational responsibility.

What is situational responsibility? Let us go back to what is needed to justify hurting (which can cover a wide range, up to and including killing) someone:

- Ability: Could the assailant hurt you? (He has a club.)
- Opportunity: Can the ability be put to use on you? (His ability is less if he is on the other side of the street with the club, greater if he is on your side of the street coming toward you.)
- Jeopardy: Is there reason for you to believe you are in actual danger? (If the club is a baseball bat and he also has a bag of softballs your sense of danger should be less than if he has a bat and is screaming that he is going to beat your brains in.)
- Preclusion: What steps did you take to keep the conflict from starting, from continuing, and to get away from the conflict? (If he says “Your mother wears army boots” and you snap back “So’s your old man,” you have become a willing participant in moving the conflict to the next level.)

- Reasonableness: Was the amount of force you used reasonable for the threat that you faced? (Shooting someone who pines you will most likely be seen as excessive.)

It is the last two items that are the ones likely to get a civilian sent to jail, and get a police precinct picketed by the Reverend Al Sharpton. In most questionable shootings what is questionable is not the tactics or the execution of force, but the fact that it happened at all – that is to say, in the planning and supervision, not in the execution of the plan. Thus, if in a police shooting the first three criteria are met, the officers will reasonably be acquitted, because the supervision and planning – the last two criteria – were not within their purview. Because of this, when prudent police departments analyze what happened, they should **not** (in a more-perfect world) concentrate on the shooting issues (like the number of shots fired), but rather on how the situation could have been prevented, and how similar instances can be prevented in the future, all of which are supervisory issues.

Civilians who carry guns don't act under color of law, and don't have preclusion and reasonableness separated from ability, opportunity, and jeopardy. This is a very big difference! For civilians, therefore, real thought must be given to how best to avoid getting into a situation where a gun is needed. The civilian must attempt to de-escalate any situation that can be de-escalated before it turns into shots fired by anyone connected to the event. If the civilian's aim is true, the difference is between Murder and Self Defense.

4. Technical Issues — Security and the traffic light. And the smart bomb.

We frequently mention the five questions that should be asked of any policy of measure:

1. What problem is the policy or measure trying to solve?
2. How can it fail in practice?
3. Given the failure modes, how well does it solve the problem?
4. What are the costs, both financial and social, associated with it, and flowing from its unintended consequences?
5. Given the effectiveness and costs, is the policy or measure worth it?

We are frequently asked about security measures that seem to make no sense. The reason they don't make sense to the uninitiated is that the uninitiated usually mistake the purpose of the measure.

A classic example of this was seen in Dallas, Texas, as well as other municipalities, when they implemented, at great cost, cameras at traffic lights and then removed them. The confusion here was caused by the fact that many assume that cameras in public places have a security value, which they don't. In general their purpose is to help generate revenue. This has been seen in London, where cameras have been instrumental in helping close only three percent of street crimes, yet helped raise money due in congestion traffic pricing. While the money spent on cameras would have brought a higher closure rate for crime if spent directly on police, revenues are revenues.

Civilians in Dallas seemed to think that the cameras were intended to increase safety, rather than help increase revenue. However, when the cameras were put into place, there was an unfortunate drop in the number of drivers running lights, and therefore a significant drop in revenues. Since the purpose of the cameras was to increase revenues, the cameras had to go, a pattern seen in many municipalities where cameras have been installed.

But what about the public safety issue? As it turns out, drivers realizing that a light has a camera tend to stop immediately when the light turns red, which increases the number of rear end collisions. Thus in practice the elimination of the cameras may improve public safety. Others note, however, that there is a reduction in right angle accidents, improving public safety. Statistically it is pretty much a wash. The National Motorists Association has a standing offer of \$10,000 to any community that can empirically prove that red light cameras can prevent violations and accidents better than a schedule of traffic engineering steps it recommends, which include proper signal timing, better signal design and improved intersection design. We doubt that anyone will ever collect the ten grand.

Another example was seen when we visited a building in New York City that had "High Security." We had to show ID, and all our belongings were scanned in an x-ray machine before we could enter. As it happened, our collective belongings included guns, knives, impact weapons, and canisters of unknown gas, none of which caused so much as a raised eyebrow. When we asked about this, we were told that the building got a break on insurance if they scanned bags. They knew that people did not habitually do bad things, so they didn't really care what we brought in. The x-ray machine was not intended to filter out dangerous items; it was intended to save money on insurance premiums.

Similarly, we have federal policies purported to be aimed at protecting national security by preventing export of critical technology. An example of this would be rare-earth (neodymium) magnets, which are used in a range of devices from computer hard drives to the guidance systems of smart bombs. The GM division that made these was sold to companies owned by the Chinese government. The new owners soon closed down all American production and moved the manufacturing and technology to China. Now, it may seem that the ability to make smart bombs would be good to have domestically; on the other hand, by moving this technology to China we potentially increased GM's chances to sell cars in China – and what is good for GM is good for the U.S. Right?

5. Real Stories from the Field — Outside the box

Recently, Financial Examinations and Evaluations (FE&E), which does a lot of collections work, got a call from a chain of bookstores wanting help in collecting on a lot of money owed by people who bought books on credit, but hadn't paid. This is not an uncommon problem. The unsophisticated turn this over to a collection agency. The more sophisticated pick up the phone and call the people who owe the money.

We know of a man – a multi-millionaire, who owned, among factories and other ventures, a store in a dodgy part of town, whose customers periodically bounced checks. He would come in once a month and call these people, and explain that they had, doubtless inadvertently, bounced a check, and ask how they would like to take care of this. Virtually all either replaced the check, brought in cash, or made payment arrangements. He was rarely stiffed.

Armed with the knowledge that most people do not deliberately write bad checks, FE&E suggested hiring a college student to call all the debtors and offer to give them a ten percent discount coupon on a future purchase if they would come in and cover their debt. They took the advice, and for the cost of having a kid make phone calls, recouped most of what they had thought of as a loss, plus assuring future revenues on the coupon sales. Often is recovery it is not about making the debtor wrong, it is about allowing them to save face and make good on their obligation. From experience, they are an order of magnitude more likely to pay someone who is try to help as opposed to someone who is calling in the middle of the night to threaten them.

High risk credit ventures, such as sub-prime loans, or selling used cars to the credit-challenged, can be very profitable if appropriately managed. The risk is directly proportional to the distance, measured in managerial terms,

between the investment and the responsible manager. That is if a responsible manager can be found.

6. Book and Product Reviews

Free Lunch

David Cay Johnston

Portfolio ISBN: 1-978-1-59184-191-3 352 pages \$24.95

<http://us.penguin.com/nf/Book/BookDisplay/0,,9781591841913,00.html>

The editors of AEGIS journal are died in the wool free-market capitalists, and believers in the minimal amount of government intervention. We do not, however, believe in thievery or a disconnect of economics from the public good. Nor do we believe in the legitimacy of extortion, intimidation, or government corruption as tools of private enterprise. Nor do we believe that all industries can be free of regulation, or price regulation (power generation springs to mind), nor even that all industry can be run as for-profit enterprise (health care, for example, where health care is turned to profit by refusing health care). *Free Lunch* deals with all these areas.

Many people who ostensibly base their economic views on Adam Smith – we suspect that some of them ascribe to but have never actually read *An Inquiry into the Nature and Causes of the Wealth of Nations* – seem to have forgotten Smith’s warnings that **unchecked self-interest, especially when aided by the government, will spoil the benefits of capitalism**. He said, “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.” Smith notes, “But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.” This ignored dictum, reflected in the 35,000 paid lobbyists infesting Congress, figures heavily in Johnston’s view of the causes of many of today’s economic problems.

If we ask ourselves, today, the question that Reagan asked in 1980 (Are you better off now than you were four years ago?) how could the answer be anything but yes? After all, our economy has more than doubled since 1980, and income increased by 79 percent between 1980 and 2005, while the population increased by only a third, which means there was more money for everyone. So how could we not be better off?

The answer, of course, depends on who “we” is. In 2005 the top one-tenth of one percent of households – some 300 thousand men, women, and children

made more than the 150 million who make up the bottom half. In 1980 the bottom 90 percent of the population shared roughly two-thirds of the income, while by 2005 they shared roughly half.

This can be more easily seen in a chart comparing the change in income distribution for America's 30 thousand really rich, the 3 million rich, and the 270 million others.

	The Vast Majority 270 million	The Rich 3 Million	The Super Rich 30,000
1980	65.3%	10%	1.3%
2005	51.5%	21.8%	5.1%

But didn't the majority of Americans still see a growth in income as a result of the efforts of the rich and the superrich? No. Income for the bottom 90 percent of Americans actually dropped relative to inflation, and they had less money to spend each week. The result is a country whose income distribution matches that of third-world nations like Brazil and Russia.

This change in income distribution is the result of government policy choices. Since the 1980s, we have moved from the 1930s policy of strengthening the middle class to strengthening the well-lobbied wealthy.

There were three reactions to this book, largely related to the readers' position on the political spectrum. On one side, you had readers horrified by what was happening. On the other, side we had readers who considered the book an invaluable how-to on using the government for enrichment if you are fortunate enough to have money for, er, lobbying.

In the middle, we had a philosophical view that this was really caused by failing industries trying to cling to the status quo as long as they can and invent exasperating theories for why competing technologies should be throttled. They believed that this book is a public treatise on how dying companies are supported by the government though regulating other companies out of business, and how large companies use all of their political will, muscle, and check books to exchange even more favors for more money. It is chapter and verse about how a government can be perverted by business for business's needs and against the public interest (read *Tyranny of the Status Quo* by Milton Friedman).

There were several categories of problem areas discussed, of which we will mention only a sampling. One is not-for-profit companies that convert to for-profit companies to the detriment of their client base. As an example,

one of the complaints commonly heard is that health care in the United States is too expensive. Partly this is because of successful lobbying to write legislation to prevent bargaining by Medicare for best-prices from drug companies. But the author argues further that money spent for health care by not-for-profit organizations is lost when the companies become for-profit organizations. Profits, after all, come from refusing to pay for treatment (some have said that 45% of for-profit health care dollars are spent on administration – saying no – not healthcare.), with the money saved being either given to shareholders or senior managers. How much do healthcare managers get? To pick one example at random, UnitedHealth Group (the company we use), which spent \$ 1.1 million lobbying in the first quarter of this year, showed in its annual report that the top five officers took home \$33,816,637. In addition, dividends of \$36,000,000 were paid. Had this been a not-for-profit organization there would have been an additional \$60 million plus available for healthcare.

Another category is industries that the author feels should be regulated, but are not. An example would be power generation, which used to allow a profit of ten percent. With de-regulation, a gift of the efforts of Enron, prices have escalated. One study indicated that states adopting Enron-style deregulation paid \$48 billion more than they would with traditional regulation, which ties price to the cost of production. Since power generation is not a competitive market (it is a sellers' market), this is in line with computer simulations of the price of electricity with no collusion on the part of generators. Partly this is caused by the fact that electricity, which is auctioned off in fifteen minute segments, pays everyone on the net the highest rate accepted anywhere in the system. Thus, if you have a nuclear power plant with electricity it will give away, and some small plant that sells a few megawatts of power at \$990, everybody gets \$990. In addition, many power companies are owned by the same corporation, so that what appears to be a vibrant market is not. Finally, unregulated power companies can be sold for a song (construction cost less depreciation), bonds issued for the actual value, and the difference passed on to the consumer. Plus, of course, when the plant is re-sold to a sister company, those costs will be added to the cost the consumer bears. Plus, of course, while consumers pay taxes to the power generator, the parent company not-infrequently does not pass them on to the government. According to the author, Warren Buffett, who invests in utilities, fights against paying these collected taxes.

Oddly, when municipalities have their own power generation systems, its citizens pay significantly lower power costs. According to the author,

Buffett has worked hard, with the cooperation of government officials, to make sure that electricity prices would not fall.

This leads us naturally to a third area that the author feels is bad:

Government regulations that either give money directly to a company or allow it to pass on costs. As an example cited by the author, when Amtrak started, legislation made them liable for all accidents involving Amtrak trains. According to the author, the natural conclusion for owners of the tracks (Amtrak merely leases them to run on) is that there is no need to do regular maintenance. By cutting maintenance, CSX saved billions of dollars that would have otherwise gone to maintenance. What this means to those of us who travel is that maintenance-regulation-heavy plane crashes kill 1.9 folks per 100 million miles traveled, big trucks (also well regulated) kill about 2.5 people per 100 million miles traveled, and trains kill 130 people per hundred million miles traveled. Since inspectors are so under-funded, few accidents are investigated. In one case, where the author says a judge ruled that the proximate cause of a death was CSX' reckless disregard for human life, the punitive damages against CSX were passed to Amtrak to be paid by the taxpayers.

There are other ways to get the taxpayer to cough up money. For example, a company might convince a municipality – or even a state – to give it benefits. The author notes that in its 2007 annual report to shareholders, Cabela's said, "Historically, we have been able to negotiate economic development arrangements relating to the construction of a number of our new destination retail stores, including free land, monetary grants and the recapture of incremental sales, property or other taxes through economic development bonds, with many local and state governments." This means that if you want to open a store, sell merchandise, and collect and pay taxes, you will be hard pressed to compete with a company that was given land, given tax breaks, and perhaps allowed to keep the sales taxes it collected.

The benefits given are immensely profitable to the corporations that receive them, but don't they also bring commensurate benefits to the communities in which these corporations exist. Sadly, no. Picking again on Cabela's, the author says of a store in West Virginia, "Thanks to the generosity of West Virginia taxpayers, Cabela's will realize an astonishing \$115 million for its skill not in the competitive markets, but in manipulating politicians. ... My analysis of its reports suggests that at best Cabela's earns an annual profit of \$12.60 per square foot of retail space. This means it captures about 3.6 cents out of each dollar as profit. At that rate of profit the whopping \$115 million gift from West Virginia taxpayers roughly equals 52 years of profits from

the store there. If the state were to get all of the sales taxes from that store, instead of letting Cabela's pocket that tax money, it would take more than 31 years to get back the \$115 million.

To get an idea of just how generous the gift to Cabela's was, it is useful to compare it to state spending. The state could provide free lunches for 50 years to all the West Virginia children who are so poor that they qualify for that form of welfare."

We won't go into the many other issues discussed. We also won't discuss the author's solution, which includes paying our elected representatives enough that they don't have to be on the corporate dole, and punishing them for taking anything from lobbyists. The fact that one does not have a complete solution does not mean that one can't recognize the existence of a problem.

The bottom line is that whether you are in the 90 percent who are not better off than they were 8 years ago or in the top ten percent who are better off, and would like to know how to do even better still at the public trough, this book goes on our must read list. As is often the case, it makes it to the list not because the editors necessarily agree completely with the description of the problem or the solutions offered, but because it addresses a serious problem that clearly demands wider public debate. This adds it to the must-read list that now includes:

- *All You Need Is Love, and Other Lies about Marriage* by John W. Jacobs, M.D (<http://www.lubrinco.com/ejournal/ej200504.pdf>)
- *Better* by Atul Gawande, M.D. (<http://www.lubrinco.com/ejournal/ej200708.pdf>)
- *Beyond Fear* by Bruce Schneier (<http://www.lubrinco.com/ejournal/ej200309.pdf>)
- *Corporocracy* by Robert A. G. Monks (<http://www.lubrinco.com/ejournal/ej200802.pdf>)
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- *How Doctors Think* by Jerome Groopman, MD (<http://www.lubrinco.com/ejournal/200803.pdf>)
- *Inside the Tornado* by Geoffrey A. Moore (<http://www.lubrinco.com/ejournal/ej200211.pdf>)
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