

**ÆGIS** e-journal



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

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## **1. Due Diligence — A bad deal that kept getting worse**

This is story is of a recent due diligence investigation of a proposed acquisition. The client intended to acquire the company and hire its owner. The owner was an experienced inventor of automatic weapons technology, and the company was a manufacturer of automatic weapons components to be sold to other companies that would integrate these products into there own weapons.

The key assets of the company were the 13 patents filed both domestically and internationally on the technology for weapon components. The second key asset of the company was the owner himself. The owner is important because, while patents describe the science behind a technology, they rarely describe the art of making the technology work.

The due diligence process began with specially formatted questionnaires. The questionnaires used for this investigation were a corporate questionnaire and a key-individual questionnaire. Every officer, director, and key person in the company received a key-individual questionnaire.

When the completed questionnaires were received back they were late, not prepared in accordance with their instructions and incomplete. This is a red flag. If someone selling a business for \$750,000 and cannot take the time to complete a five page questionnaire accurately and completely, there is usually something wrong.

Several claims were made by the selling individual. These claims related to the patents, capital equipment of the company, and the ability and skill of the individual.

An investigation of the patents with the U.S. Patent and Trademark Office showed that the Patents were null, void, and now public domain: There is an annual maintenance fee required to keep the patents in force. The maintenance fee had not been paid for many years on any of the patents.

An investigation of the principal showed that he was a convicted felon. He was convicted on a federal government contracting billing scheme where he over-billed on products and services. (It gets better) During the entire time he was operating the company he was trying to sell – he was on a prison work release program! This was a result of his government contract billing scheme conviction. He could work at the company during the day but had to go back to prison at night and on weekends. Also, as a convicted felon, he could not be anywhere near a firearm of any sort whatsoever let alone own a factory that produced components for firearms. (It gets even better)

On investigating the company it was found that the owner did not own the company. It was set up in the name of relatives who were acting as his nominees. It seems the federal government wanted its money back, and he was under a requirement to pay restitution and damages of almost \$400,000. This restitution this would put a substantial dent into the money coming from the sale of his company.

To add insult to injury, it appears that he had sold or licensed the patents to several other companies. Two of these companies had recently filed civil racketeering suits against the individual and the listed owners of the company.

When his relatives learned that they were being sued for civil racketeering because of their entrepreneurial relative, you could practically hear their screams from coast to coast even without a telephone.

Suffice it to say the client passed on the company. The due diligence investigation occurred near the end of the transaction. The acquisition documents had been drawn up and the accountants had reviewed the books. The books were good. The company's sales and client base were accurately stated. But it was a mess beyond belief.

Approximately \$15,000 had been spent on attorney and accounting fees. The due diligence investigation cost less than \$2,000. Had the transaction been completed, the liability incurred by the accountants and the attorneys could have been substantial. The loss to the client could have been corporately fatal.

For their own protection, the owner's relatives notified all authorities and regulatory agencies of the real nature of his activities. As a result, three months after the client passed on the acquisition opportunity the Bureau of Alcohol Tobacco and Firearms closed down the plant and caused the owner's parole to be revoked.

## **2. OPSEC, Economic Espionage, and Competitive Intelligence — Aerial surveillance**

Recently a semiconductor manufacturer was constructing a new plant in Arizona. As the construction began the onsite management noticed a plane flying overhead several times a week. They wrote down the plane's n-numbers and promptly forgot about the plane during the holidays. After the holidays, when the managers were back at the construction site, they noticed the same plane (confirmed by the N-numbers on the side of the plane). Not sure what to do, they reported this information the president the company.

The president went to the plant site that same afternoon and witnessed the same plane overflying again. Using the FAA's web site his staff discovered that the plane was registered to a competitor. It took a few days to coordinate, but soon thereafter the construction site was tented and all equipment installations began at night.

It was estimate that the competitor had viewed the entire layout of the factory including the installation of several pieces of proprietary equipment. The competitor, within 9 months, began re-arranging its factories to take advantage of the process layouts, and some of the Arizona company's economic advantage was lost through this economic espionage.

As an interesting side note, while aerial surveillance is prohibited by the Economic Espionage Act of 1996, the same thing done using satellite photos is, by international treaty, not prohibited.

### **3. Executive Protection — A very sad story**

Chechnya's top anti-kidnapping official was executed 10/25/98 when a bomb tore his car to pieces on the very day he was to launch a major offensive on kidnappers in the breakaway rebel Chechen Republic. Shadid Bargishev's two bodyguards were in critical condition and several passers by were also injured by the blast. Bargishev, only 27 years old, died on the operating table after loosing both legs in the blast in the parking lot of the anti-kidnapping department office in the Chechen capital of Grozny.

### **4. Technical Issues — Y2K: New and fun stuff**

BSRMJ apologizes for berating this issue - but this story is a bit different. The State of Wisconsin has the National Guard on standby for Y2K problems. They are concerned about the way a population will behave when power and telephone breakdown. In the US we have only a few empirical example of what happens in crisis situations. People either party and subsequently there are a lot of children born 9 months later, or they riot and loot. Wisconsin is prepared for the latter.

Currently there are some identified problems with GPS equipment sold within the last two years. The problems with the technology are for the "consumer" GPS units and some professional GPS units sold for maritime navigation. The problems have to do with the Y2K and synchronization of the date/time clocks. Most professionals are now unsure, after some laboratory tests, if all of the satellites, cell phone, and modem technology incorporated into some of these GPS units will roll over to the correct week

001 and second 0000001. If they do so, will they be done simultaneously, maintaining contact within specified variances and tolerances to allow for proper re-programming of receivers to decipher data correctly. Three choices: Yes, it works, No the satellites cannot be understood, or Hey, where are the satellites anyway?

Robert Bemer is the father of the ASCII language and the "escape key" sequence and has a unique perspective on Y2K. He believes that the problem is very real, and the solution in most cases will have its cure in binary, not in any compiler language. He believes that by reprogramming in the base binary code that the solutions will be found. Compiler languages are large blocks of binary code for each line of code in a compiler language. There is one block in the structure that is vulnerable. He feels it is prudent to focus on the one block and not the whole structure.

Other Y2K Stuff. If your IBM based PC was built after 1996 you should be OK, but check your software. Either call the supplier or advance the date on your computer to see if it crashes. PS - back up your data in advance, and load one application at a time to isolate the offender, if any. Mac Users - no problem: it was anticipated in the design – however check software as described above.

Some Useful websites:

<http://www.Y2Knewswire.com/> News on Y2K problems.

<http://www.microsoft.com/tech/> For those who run Microsoft applications.

<http://www.righttime.com/> Download software to test Y2K problem.

<http://www.nstl.com/> Download software to test Y2K problem.

<http://www.Duh-2000.com/> Y2K Humor.

If you have any more information please forward it on to us so we may forward it on to our readers.

## **5. Real Stories from the Field — A German used car dealer emigrates!**

Some times the little things really do matter. A Used car dealer borrowed the equivalent of \$3 million dollars from a German bank and left Germany with the funds. The German bank hired a PI to find the money. The PI was having a hard time even locating the individual, let alone the money. Finally the PI began pulling drivers licenses. He found the offender, but the address on the license lead to a vacant lot. There was, however, a ticket issued to the driver and the license information gave the license plate of the car he was driving. The car belonged to a Grape Vine Studios. A review of all of the cars

belonging to Grape Vine Studios showed several Rolls Royce and Mercedes, all registered to one home address.

With this basic information, it was found that the home, the cars, and the company, Grape Vine Studios, were all free and clear of any debt, and that the movies produced by Grape Vine Studios were very profitable. The bank moved to freeze the assets and was successful. The "borrower" from Germany repaid the loan with interest and fees. When asked why he had skipped, he said he figured no one would ever be able to find him since he was using a series of shell companies and fronts. When he was told how he was found, he was shocked that anyone, let alone a mere PI, could follow up such a meaningless lead.

## **6. Book and Product Reviews**

### *Investigating Computer Crime*

Frank Clark and Ken Diliberto

CRC Press 228 pages

This book is aimed at law enforcement and the criminal justice system, including attorneys general and prosecutors. It might also be a helpful aid or guide in the education of a judge or a jury. This is a well assembled book covering the basics from "What's a Computer Crime?" to the use of sophisticated hardware and software in the investigation and documentation of the crime. This is a difficult topic to cover: If you are too general, you have a leaflet, and if you are too specific, you have a many-thousand page document. The other difficulty is that computer crime investigation is an active pursuit and you learn by doing. It is much like reading a book about driving - just because you have read the book it doesn't mean you can do it. Use this book in conjunction with a computer and have at it. This book is a good educational tool.

### *The Guide to Background Investigations, 8th Edition*

Published by T.I.S.I., 4110 S. 100th Street, Tulsa OK 74146

\$129.50 for book and \$299.00 for software

According to the American Management Association, misrepresentation occurs in one out of every three resumes. Hence, the verification of the background of prospective employees is a must. The Guide to Background Investigations, published by T.I.S.I. can be a valuable tool to aid in that verification.

This is truly the comprehensive source of sources for information to conduct background investigations. Contents include sources for information on

criminal records, driving records, worker's compensation records, licensing boards, UCC records, and all of the counties of all of the states, cross indexed by city, federal records sources, and educational record sources. The book is the size of a large telephone directory. It also comes as a software package to help automate some tasks. A very informative Social Security number guide is also available for \$8.95 for the printed version and \$29.50 for the software version. The Software is a must for the verification of Social Security numbers in the field, and can be loaded into a lap top computer.

The publication is directed at human resources professionals, and investigators who specialize in background investigations. However, while directed at professionals, it is self explanatory and leads the reader so even a novice can conduct a thorough and comprehensive background investigation with little or no fuss.

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