

EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC	X			
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
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21					
22					
		SUSPENSE	16 June		
			Date		

Remarks:

Please prepare acknowledgment for DCI's signature.

[Signature]
Executive Secretary

9 June 83

Date

C137

Executive Registry

83-2978

STAT

June 7, 1983

William Casey, Director
United States Central Intelligence Agency
Washington, D.C. 20505

Dear Sir:

I have an item which concerns a danger to our national security, and which I feel compelled to bring to your attention. This danger was exhibited in a financing deal we attempted to consummate some months ago.

Approximately ten months ago, my firm attempted to obtain a contract to arrange the financing needed by a high-technology company which manufactures defense-sensitive optical equipment. During our preliminary negotiations, events and possible courses of action arose that led us to check out the legality of the project with a ranking official at the Department of Commerce. When the official could find no legal restrictions which would prohibit the company from doing what had bothered us, we proceeded in our attempt to obtain a contract to arrange normal financing for them. Incidentally, if we had consummated our deal, the perceived danger to our national security would have been obliterated because we would have arranged normal financing.

I should point out that we are experts in finance, not national security, yet we perceived a danger.

The company wanted financing, that is, cash investors who were willing to put up money to allow the company to construct facilities to manufacture its devices to fill a number of orders from foreign governments. A large number of its orders were from Mid-Eastern countries but they were not limited thereto. Further, these potential foreign sales required Department of Defense approval and I feel certain that the Company had applied for such approvals. Most of these orders were of recent vintage and unfilled.

During our negotiations, however, the owner embarked upon a trip to Europe and to the Middle East. Upon his return, he announced that he had received two firm offers for the Company itself. These offers would require him to move the company, in total, to London and/or an unspecified (and confidential) location in the Middle East. Apparently, only the administrative portion would have been located in London, although this is an educated conjecture on our part. It was this possibility which disturbed us and led us to check out its legality. For, with such a simple artifice, it appeared that the Company could circumvent the laws controlling the flow of defense-sensitive technology into unwanted hands.

Even though we found no illegality, the possibility of this, or a similar company moving its entire operations to a foreign country has to be scary from the point of view of national defense. Even if it were to transplant only its technical or manufacturing expertise, the move could have had a devastating effect. We have no evidence that either deal was consummated, or that such deals really existed beyond the puffery of the owner. Nonetheless, in recent months we have speculated, among ourselves, about the intense desire of such high-technology companies to fill armloads of orders from foreign governments. They must feel tremendous pressure to circumvent the requirements for, and the delays connected with, seeking DOD authorization. How much easier it would be, especially to a company already hard-pressed for expansion capital, if the entire company were located in Saudi Arabia, or even, Libya.

In other words, the United States needs a policy which limits our exposure to high-technology companies being purchased or financed (and controlled) by undesirable foreign governments. According to the Department of Commerce: we do not.

Yet, in the financial world, it is surprisingly easy to gain total control of a company (any company!!) by supplying limited quantities of money. Please note that the type of money supplied to a company does not have to be common equity capital to gain external control of a company. There are, today, very complex and elaborate ways of supplying money to companies who need it. A large number of financial deals involve foreign monies either directly through broker-agents or indirectly through trusts, consortiums, foreign banks, and even, the World Bank. Deals to supply capital to U.S. companies are often made in Europe and the money never appears in the United States, at all.

Many small high-tech companies are literally barred from the major suppliers of capital in New York. They are barred simply because the compensation offered to major underwriters for raising such capital is too small for the underwriters to bother with. Another factor is that small issuances cost prohibitively more than big ones. Finally, the risks of failure are much greater. For all of these reasons, the small high-technology companies are generally forced into the murky world of venture capitalists, or into the hands of purveyors of foreign funds or into the smaller regional money markets where few know the ultimate sources of the funds. Even well-established U.S. sources do not trace the true sources behind trusts or foreign entities.

An additional, but different, danger lies in the case with which even the largest U.S. companies can be controlled by foreign suppliers of capital. There is probably little real danger that such large companies can be perverted for foreign interests, however, because extraterritorial sales account for a much smaller portion of their total endeavors. The gas pipeline equipment sales to Russia and the sales to Iran during the hostage crises are, nonetheless, examples of it happening.

The real danger lies in international financial institutions which supply funds to selected small companies. The receiver of such funds is often forced to accept some rather onerous contractual terms to get the money they need. Lately, many such deals have required the small company to surrender large portions of its common equity ownership to the suppliers of funds.

I do not mean to imply that all such deals are suspect. Most are just good and solid business deals on the part of the financial institutions who are using, and should use, the full economic power available to them.

Assume, however, that an undesirable foreign interest, with apparent legitimacy, had formed or acquired an insurance company, a monetary trust, a bank, or whatever, in this country. In that case, such deals might well be something other than just good business. Again, I do not want to make too much of this, I just want to point out the possibilities. Almost any financial analyst can point to companies where total operating control has been maintained for many years by a single individual who owns no more than five percent of the total outstanding common stock.

I know that the U.S. Government has no power, nor even the right, to prevent highly-talented individuals from taking their own technological expertise to more favorable climates for self-profit. But we ought to be able to know when it is happening and to prevent the wholesale movement of a defense-sensitive enterprise into undesirable foreign hands. This could probably be accomplished by identifying the sensitive companies and maintaining a constant review of the money markets where this type of company looks for funds.

A potential for large foreign sales requires the physical plants to make the products and the money to build such plants. Since such companies need to seek out the funds from various sources, the word always seems to get around quite quickly among underwriters, finders, banks and insurance companies. These are standard sources of capital and normally such companies try these sources first. It is when they are turned down that the real possibilities of undesirable foreign interventions occur.

Therefore, my suggestion is that the U.S. government establish a liason with these standard sources of investment capital to identify and monitor the high technology companies, and especially those which have been refused help by these sources. At the very least, you ought to conduct a study to find out how extensive the danger really is. I find it difficult to believe either that the incident which happened to us is an entirely unique experience or that, with the currently massive international movements of money, the Russians, or others, will fail, for long, to recognize their opportunities.

The \$140 million alleged to have been spent by the Russians on the Nuclear Freeze movement, if correctly used, could have established partial or total control of five to twenty high-technology companies with total sales in the hundreds of millions of dollars and with existing research budgets larger than the monies needed to establish control.

Just as an example, a list of eight small high-tech companies, which I have selected at random, is as follows:

Information International
KRATOS Inc.
LTX Corp.
Mathematical Applications
North Atlantic Industries
Odetics, Inc.
ROCKCOR, Inc.
Simmonds Precision

At recent prices, the \$140 million spent by the Russians on the nuclear freeze movement could have purchased an absolute (51%) controlling interest in, at least, six; far less than \$300 million would have purchased them all. Yet, these companies are reasonably well-known, with one even listed on the New York Stock Exchange. Therefore, control of such companies would be the most expensive to acquire by the Russians, or others. In reality, much less than 51% ownership is needed for control or to introduce management of your own choosing. Ironically, since the market values for most of these companies has risen lately, the Russians could have made a profit, as well, while stealing our secrets.

If I, or my associates, can be of any further assistance in this matter, please feel free to call.

Sincerely,



STAT

Senior Vice President

cc: Webster/FBI

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Acknowledgement of Letter from [redacted]

STAT

FROM: Stanley Sporkin
General Counsel

EXTENSION NO.

OGC-04846/STAT

STAT

DATE 10 June 1983

TO: (Officer designation, room number, and building)

DATE	OFFICER'S INITIALS	
	RECEIVED	FORWARDED

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. <i>DCI</i> DDCI <i>MS</i>	13 JUN 1983	<i>[Signature]</i>
2.		
3. DCI	<i>13 June</i> 16 JUN 1983	
4.		
5. [redacted]		
6. [redacted]		
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Attached acknowledgement is for the Director's signature.

We have an interest in foreign groups or networks targeting U.S. companies & technology. Discuss with Chivers at Commerce & Patrick DeLoach & Malley at FBI & lay out your ideas on what can & should be done about this.

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