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## CIA moonlights in corporate world

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In the midst of two wars and the fight against Al Qaeda, the [CIA](#) is offering operatives a chance to peddle their expertise to private companies on the side — a policy that gives [financial firms](#) and hedge funds access to the nation's top-level intelligence talent, POLITICO has learned.

In one case, these active-duty officers moonlighted at a hedge-fund consulting firm that wanted to tap their expertise in “deception detection,” the highly specialized art of telling when executives may be lying based on clues in a conversation.

The never-before-revealed policy comes to light as the CIA and other intelligence agencies are once again under fire for failing to “connect the dots,” this time in the [Christmas Day bombing plot](#) on Northwest Flight 253.

- This article is adapted from the author's forthcoming book, 'Broker, Trader, Lawyer, Spy: The Secret World of Corporate Espionage.'

But sources familiar with the CIA's moonlighting policy defend it as a vital tool to prevent brain-drain at Langley, which has seen an exodus of highly trained, badly needed intelligence officers to the private sector, where they can easily double or even triple their government salaries. The policy gives agents a chance to earn more while still staying on the government payroll.

A government official familiar with the policy insists it doesn't impede the CIA's work on critical national security investigations. This official said CIA officers who want to participate in it must first submit a detailed explanation of the type of work involved and get permission from higher-ups within the agency.

“If any officer requests permission for outside employment, those requests are reviewed not just for legality, but for propriety,” CIA spokesman George Little told POLITICO.

There is much about the policy that is unclear, including how many officers have availed themselves of it, how long it has been in place and what types of outside employment have been allowed. The CIA declined to provide additional details.

Generally, federal employees across the vast government work force are allowed to moonlight in the private sector, but under tight guidelines, that can vary from agency to agency, according to the federal Office of Government Ethics.

“In general, for most nonpolitical employees, they may engage in outside employment, but there are some restrictions,” said Elaine Newton, an attorney at the Office of Government Ethics. She explained that agencies throughout the federal government set their own policies on outside employment, and that they all typically require that the employment not represent a conflict of interest with the employee’s federal job and that the employee have written approval before taking on the work.

But the close ties between active-duty and retired CIA officers at one consulting company show the degree to which CIA-style intelligence gathering techniques have been employed by hedge funds and financial institutions in the global economy.

The firm is called Business Intelligence Advisors, and it is based in Boston. BIA was founded and is staffed by a number of retired CIA officers, and it specializes in the arcane field of “deception detection.” BIA’s clients have included Goldman Sachs and the enormous hedge fund SAC Capital Advisors, according to spokesmen for both firms.

BIA has employed active-duty CIA officers in the past, although BIA president Cheryl Cook said that has “not been the case with BIA for some time.”

But the ties between BIA and the intelligence world run deep. The name itself was chosen as a play off CIA. And the presence of so many former CIA personnel on the payroll at BIA causes confusion as to whether the intelligence firm is actually an extension of the agency itself. As a result, BIA places a disclaimer in some of its corporate materials to clarify that it is not, in fact, controlled by Langley.

BIA’s clients can put the company on a retainer for as much as \$400,000 to \$800,000 a year. And in return, they receive access to a variety of services, from deception detection to other programs that feature the CIA intelligence techniques.

In one presentation in 2006, BIA personnel promised to teach managers at a leading hedge fund some of the CIA’s own foolproof techniques.

The presenters that day at SAC Capital Advisors in Stamford, Conn., included two women with backgrounds in intelligence. One spent 20 years with the CIA, specializing in polygraph, interviewing, and deception detection. The other had more than 25 years of interrogation experience.

In their intensity, they reminded one person in the room of Clarice Starling, the no-nonsense FBI agent played by Jodie Foster in the movie “The Silence of the Lambs”: “You could tell they knew exactly what they were doing.”

The tactics that BIA officials such as these teach hedge fund clients are based in a program it calls “Tactical Behavior Assessment.”

Unlike polygraph machines, the TBA technique allows examiners to work without hooking up their subject to a series of wires. The subject never knows he’s being scrutinized.

Polygraph machines work by measuring a person’s physical responses, such as heart rate, that indicate stress. Analysts using the machine need to sit with their subject for a long time. They have to establish a person’s physiological baseline, so they begin with a

“control” conversation about neutral topics, before they can begin grilling the subject. Conducting an interview and doing a thorough analysis of polygraph results can take hours.

TBA focuses on the verbal and nonverbal cues that people convey when they aren't telling the truth. Psychologists familiar with the method say it works because human beings just aren't hard-wired to lie well. Holding two opposing ideas in your brain at the same time — as you have to do in order to tell a lie — causes a phenomenon they term “cognitive dissonance,” which creates actual physical discomfort. And when people are uncomfortable, they squirm. They fidget ever so slightly, they pick lint off their clothes, they shift their bodily positions.

Agents look for the physical indicators of lying. They watch for a person shifting anchor points. If the person is leaning forward on one elbow, does he switch to the other one? Interrogators watch for grooming gestures such as adjusting clothes, hair or eyeglasses. They look to see if the person picks at his fingernails or scratches himself. They watch for the person to clean his surroundings — does he straighten the paper clips on the table or line up the pens? If he does, he could be lying.

To obtain verbal clues, agents listen for several kinds of statements. They'll listen for qualifying answers, phrases that begin with words like “honestly,” “frankly” or “basically.” The agents will be listening for detour phrases like “as I said before ...” They'll want to hear if the person invokes religion — “I swear to God” — or attacks the questioner: “How dare you ask me something like that?”

Other red flags: Complaints —“How long is this going to take?” Selective memory —“To the best of my knowledge.” Overly courteous responses —“Yes, sir.”

BIA doesn't just offer training, though. For a fee, its officers do the analysis themselves.

Often, BIA deploys its CIA-trained operatives to analyze quarterly corporate-earnings calls. Those conference calls are an important Wall Street ritual that serves as a direct line from the corporate boardroom to the trading floor.

Companies use the calls to put the best spin on the events of the quarter and give investors a sense of the way ahead. Analysts for top-of-the-line investment houses use them to ask probing questions of senior management.

And BIA uses them to figure out if the company may not be disclosing the truth — all with the help of the CIA-trained analysts.

In one particular instance in August 2005, Hong Liang Lu, the chairman and CEO of a company called UTStarcom, walked through the numbers with a telephone audience of Wall Street investment bankers. With his slicked-back hair, rimless glasses and wide smile, Lu projected an image of intelligence and competence.

And as he began the call, Lu couldn't know that it also was being patched into a room thousands of miles away where interrogators trained in CIA-style techniques would analyze each inflection in Lu's voice. The analysts were human lie detectors, working for BIA. They were trying to find out whether Lu was telling the whole truth about UTStarcom's financial health.

When they came to their conclusion, they'd report it to BIA's client, an enormous hedge fund. The secret intelligence they produced would help the hedge fund decide whether to buy or sell UTStarcom stock. If the intelligence analysts did their jobs, the hedge fund would be far ahead of the rest of the market.

The information they gleaned from this phone call could be worth millions of dollars.

The company Hong Liang Lu ran sells broadband, wireless and hand-held Internet equipment and technology around the world. It had generated more than \$700 million in revenue that quarter, and although it was still losing money, that performance was good enough to bring it close to profitability. The company thought the results were positive, and the CEO seemed optimistic.

Investment analysts from Bank of America, Smith Barney, Deutsche Bank and other Wall Street powerhouses were the official participants in UTStarcom's call. The analysts prepared their best questions to help them figure out the answer to one big question: Would UTStarcom emerge as a hot stock in the third quarter?

After some opening remarks, Lu threw open the session to questions from the Wall Streeters. One of them, Mike Ounjian, a keen-eyed analyst with Credit Suisse First Boston, asked about potential problems he'd spotted with how the company's income was being counted in the books, a process known as revenue recognition.

There seemed to be a backlog in the recording, and Ounjian wanted to know why. If the problems were serious, they could affect the company's financial results in the next quarter and might cause the stock price to dip.

"Are there any issues related to recognizing revenues on these?" Ounjian asked.

The voice of Michael Sophie, then the company's interim chief financial officer, came over the phone line: "Yes, with the backlog, the vast majority of the wireless backlog is clearly PAS [an acronym for one of the company's products, Personal Access System]. I think you saw the announcement at the end of June where we announced on the PAS infrastructure orders in China. And again, it's just the timing of deployment and achieving final acceptance, we've also got some CDMA [an acronym for a type of mobile phone standard] to a lesser extent in the backlog. ... But Q3 is clearly a little more handset-oriented than we would typically run."

After analyzing the call, BIA's employees supplied a 27-page confidential report to their client, and they singled out Sophie's response to the question about revenue recognition for particular attention. They noted that Sophie qualified his response and referred back to another announcement from the end of June.

BIA called that kind of conversational reference a "detour statement," and its analysts were convinced that Sophie was trying to minimize the delays. "Mr. Sophie avoids commenting on any issues related to revenue recognition, and his overall behavior indicates that revenue recognition problems cannot be ruled out."

Overall, BIA's team rated the second-quarter conference call as a "medium high level of concern"—the same rating they'd given UTStarcom's call the quarter before. This time,

though, the BIA team found more problems, which they listed in a box on the first page of their report: “Lacks Confidence,” “Underlying Concern,” “Avoids Providing Information.”

In their conclusion, the BIA team said they’d found that the executives were worried about the timing of the company’s profitability date and the issue of revenue recognition. The report says: “Management’s behavior indicates that they will post poor third-quarter results, and it is also highly unlikely they will achieve profitability in the fourth quarter.”

It might not seem like much, one take on whether the company will do well in the next six months. But to hedge-fund investors — who are looking for ways to make money off of falling stocks by selling short — that is valuable information indeed.

BIA’s client had no way of telling whether the deception analysis report was accurate or not. It was the client’s job to take the report, combine it with other information known about UTStarcom and make a bet for or against the company. And there’s no evidence that UTStarcom officials weren’t being truthful during the call.

With the benefit of hindsight, though, it’s possible to go back and check the record to find out what did happen to UTStarcom stock in the weeks after the call.

It turns out that any investor who shorted UTStarcom at the time BIA submitted its report would have been in a position to reap substantial gains.

Over the next month or so after the call of Aug. 2, UTStarcom’s stock price lost about \$1 per share, a nice win for any short seller. But on Oct. 6, 2005, the company released its third-quarter results, shocking Nasdaq traders with numbers that were below the guidance executives had offered during the conference call. In October, UTStarcom said it expected total revenues of between \$620 million and \$640 million, compared with its previous target of \$660 million to \$680 million. The next morning, investors frantically sold their shares: more than 23 million transactions took place on Oct. 7, 2005.

A day after the third-quarter results were released, the stock was down roughly an additional \$2, closing at \$5.64. It had been at \$8.54 when the BIA team listened in on the conference call in August and flagged the potential problems with revenue recognition.

And what reason did UTStarcom give for its poor third-quarter performance? It disclosed difficulties with revenue recognition.