

## THE CASE OF SPACE-AGE ETHICS

### BACKGROUND

You are FuturEthix, a boutique ethics consulting firm in Washington, D.C. You are well known for the work you have done over the years, especially in the U.S. defense industry, helping a variety of companies create, evaluate, and implement state-of-the-art ethics, values, and culture programs at both the management and governance levels. You are also recognized for transforming purely compliance- or rules-based programs into robust principle-based ethics programs and ethical cultures.

QuantumX (“QX”), a ten-year-old, highly successful defense industry technology company based in Alexandria, Virginia, specializes in cutting edge, classified artificial intelligence (AI)-driven technology and biological experiments that are often part of the U.S. Space Force mandate and included in NASA missions to the International Space Station and beyond. QX is very proud of its values statement which was adopted in its first year of existence as follows:

- We are innovators
- We innovate with integrity
- We always win
- We care about our stakeholders

QX has the fast-paced, youthful, “take-no-prisoners” culture of a Silicon Valley technology unicorn combined with the more traditional laboratory, science-based culture of a research and development company. From time to time, this clash of cultures has led to tension and disagreements between different parts of the organization. Sales and business development personnel on the client-facing, tech side of the business have gotten a reputation for borderline bad behaviors in their sales efforts (both internally and externally), while the lab-coat wearing side of the house has felt embarrassed by some of these behaviors. Some scientists have threatened to quit, and other valuable administrative employees have quietly complained of bullying and harassment.

Somewhat concerned about these murmurings, and consistent with federal requirements to help maintain its federal contractor status, the Board of Directors of QX has retained FuturEthix to evaluate the company’s slowly emerging ethics program as well as the aforementioned cultural issues. QX has had a long-standing regulatory compliance program in place, but has only just recently begun to build an ethics program and tackle the challenges of creating an ethical culture. This is the first time outside experts have been brought into QX to assess its culture.

While there has not been a specific event that triggered the QX Board to hire FuturEthix, it has been a decade since the company was founded and some of the concerning cultural issues mentioned earlier have reached the ears of several board members. Moreover, it was prudent and timely from a best practices standpoint to engage an outside expert to evaluate the state of ethics and ethical culture at QX. Additionally, the Board is worried that some of these ethical and cultural issues may spill over

into the marketplace and have reputational implications for them, individually, as board members, for the company, and for the future prospects of QX.

## RECENT DEVELOPMENTS

Over the past year and a half, QX has been under the helm of its relatively new, well-known and charismatic CEO — Brandon Brash. Brash was hired to take over from the co-founders of QX, the twin-sister, serial-tech company founders, Rhea and Bria Volare, referred to in the media as the “Volare Twins”. Mr. Brash, who is a legendary serial tech-company CEO and friendly with several of the QX board members (especially the former U.S. government officials), lives up to his name as a central figure in the U.S. tech scene taking a number of tech unicorns public. His track record of successfully publicly listing these start-ups has been excellent — three for three. However, two of these companies are currently and suddenly facing serious reputational and possibly legal issues relating to management’s “well-timed” stock sales, potential insider trading, and conflicts of interest, though Brash himself has not (yet) been implicated in either case.

While the Volare Twins no longer manage QX directly (they were co-CEOs for the first nine years), they remain in positions of power as chair and vice chair of the Board of Directors as well as controlling shareholders of QX with a 60% interest. While Rhea was always behind the scenes and the quiet one, Bria was a very notable presence in the tech world and at the company, often finding herself the subject of less-than-flattering paparazzi attention as well as gossip columns about her personal life as she has dated a number of famous musicians and movie stars.

Since they moved from their management roles to the QX Board of Directors, the Volare Twins have undertaken new business endeavors as follows:

- Rhea is CEO of a new AI incubator in Silicon Valley called “QT00” that is nurturing start-ups focused on developing AI products and services that relate to Crispr and other biology-based experiments, not only for outer space environments, but also for new frontiers on Earth. In her work with start-ups at QT00, Rhea has benefitted immensely from her scientific knowledge (she has a PhD in physics from MIT), her years of developing new and highly successful intellectual property at QX, and her amazing network of scientific friends and colleagues including at QX.
- Bria, consistent with her more public persona, has been on a whirlwind global tour over the past year, visiting major tech hubs — from Berlin, Baku, and Moscow to Seoul, Ulan Bator, and Shanghai — in search of new investments and partners for QX and QT00. She combines business and pleasure (sometimes traveling with her Rockstar, “bad boy” boyfriend, John “Venom” Smith), frequently featured in gossip media and social media. She has been making many business media appearances as well as commenting on the business prospects of QX and QT00 (of which she is a 50/50 owner with her sister). Bria has also been featured in major national and international print and e-zine spreads hobnobbing, partying, and meeting with high-level government officials, local movie and music stars, and local CEOs in several countries.

Currently, management and the Board of QX are considering a potential IPO. Though not completely decided, they are contemplating listing on the Nasdaq in 2022. Beyond the Volare Twins, the rest of the ten-person QX Board consists of the CEOs of five tech giants, a former defense secretary, a former secretary of state, and Angelika Polee, a world-renowned Hollywood star and humanitarian, and a good friend of the Volare Twins, especially Bria.

QX never had a standalone chief ethics and compliance officer (CECO) before 2020 as the General Counsel had previously served in that role. The General Counsel, James Polee-Garcia, is a cousin of both Angelika Polee (by marriage) and the Volare Twins (whose father is his paternal uncle).

In 2020, QX, at the recommendation of their new CEO, Mr. Brash, hired the retired CECO Ralph Rummage of Flowing Inc., one of the largest defense contractors in the world. Flowing has found itself in a number of ethical, environmental, social, and governance crises over the past decade. The worst of these involved allegations of bribery and corruption under the U.S. Foreign Corrupt Practices Act including violations and actual fines for bribes paid to foreign officials in several Asian countries. While Rummage was the CECO at Flowing, he kept a low profile, never engaging in industry activities like conferences and never speaking to the media. Mr. Rummage was recommended for the job of CECO at QX by Mr. Brash shortly after he was appointed CEO.

Additionally, Flowing is the primary U.S. contractor to the U.S. government for space vehicles and equipment which form a major and essential part of transportation to and from, as well as hardware on, the International Space Station (ISS) and other outer space missions. QX is one of the top subcontractors to Flowing, coordinating and providing them with all of the technology for the classified biological experiments that they transport to, and take place on, the ISS. The relationship between Flowing and QX has been close and longstanding almost since the inception of QX ten years ago. Indeed, QX has a lock on the supply of classified AI-driven biological, space-based experiments and has made strict and extensive environmental, health, and safety representations and covenants to Flowing for many years through these contracts.

However, QX does not have a standalone environmental, health, and safety team and relies instead on General Counsel Polee-Garcia and primary contractors' teams to take care of those matters relating to their projects. The personnel hired at QX are vetted by the QX Human Resources Department and, depending on whether their work requires top secret clearance or other classification, HR requires, and is expected to vet, proof of classification.

There have been several additional disturbing developments that have come to light while the FuturEthix team has been conducting its ethics evaluation at QX:

- In early 2021, a new fact comes to light about the relationship between Brash and Rummage — they apparently were once related by marriage (they are ex in-laws), but neither of them revealed that at the time of hiring of Mr. Rummage.
- It also becomes clear, as the facts come out, that Rummage was the CECO at one of the prior unicorns Brash had helmed as CEO, that is now under regulatory investigation.

- The FuturEthix team learns through its ethics assessment and due diligence process that there appear to be pockets of cultural malaise in several departments of QX:
  - There is evidence of unaddressed anonymous complaints of harassment, bullying, and rogue behaviors by the sales team (whose annual incentive compensation is tied to selling as many new contracts as possible — their motto is “8 is great”)
  - Turnover of administrative personnel in the sales department is five times higher than in the R&D department
- The Board of Directors was informed that there may have been a series of cyber-breaches that have compromised the security of QX affecting its most valuable assets: its AI algorithms that gather key data to design the biological experiments transported by the U.S. Space Force to the ISS. While these breaches have now been detected by QX’s information security team, it is unclear how long, how far, and how successful the breach or series of breaches have been.

## YOUR ASSIGNMENT

You are providing an interim ethics evaluation to the QX Board. Provide your assessment and recommendations of some of the key ethical issues — both risks and opportunities — that face QX, their management, the Board, and principal shareholders (the Volare Twins) especially in view of the possible IPO that is being contemplated for the Nasdaq in 2022.

- What are the principal ethical issues and challenges?
  - How did they transpire?
- What can the company do to mitigate ethical risk?
- What can the company do to promote an ethical culture?
- What can the QX program do better to underscore ethical values and an ethical culture in the future, especially as it prepares for public listing on the Nasdaq?

*This case was prepared for the Daniels Fund by Andrea Bonime-Blanc, CEO, and Jacqueline Brevard, Senior Advisor, GEC Risk Advisory, and consultants to the Ethics & Compliance Initiative.*