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U.S. Department of Justice

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District of Maryland
Northern Division

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April 24, 2012

Michael Schatzow, Esq.
Venable LLP
750 E. Pratt Street
Baltimore, MD 21202

RECEIVED
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VENABLE LLP

Re: The Bechdon Company, Inc.

Dear Mr. Schatzow:

On the understandings specified below, the United States Attorney's Office for the District of Maryland (the "Office") will not criminally prosecute The Bechdon Company, Inc. (Bechdon) for any crimes related to Bechdon's participation in a conspiracy to commit wire fraud and wire fraud, Title 18, United States Code, Sections 1343 and 1349 arising from and related to the inflation of labor hours Bechdon employees worked on job orders for the National Security Agency (NSA), as described in Attachment A, which is incorporated by reference herein.

1. The Office enters into this Non-Prosecution Agreement based, in part, on the following factors:
 - a. Bechdon cooperated with this Office's investigation;
 - b. Bechdon agrees to make best efforts to sell all or substantially all of its business operations to an individual or entity that does not as of the date of this agreement have any ownership interest in Bechdon;
 - c. Bechdon undertook remedial measures, including accepting the resignation of the company's president and the relevant program manager both of whom oversaw the NSA contract at the time the billing fraud occurred, accelerating the company's succession plan such that the company president as of the date of this agreement shall resign his employment with Bechdon and resign from the Bechdon Board by no later than December 31, 2012 or the date on which Bechdon sells all or substantially all of its business operations, whichever is sooner; the revision and enhancement of its corporate ethics and compliance program; and the

- hiring of a compliance officer; and
- d. Bechdon agrees to pay a financial penalty of \$1 million to the United States Treasury as outlined below.
2. Bechdon accepts and acknowledge responsibility for the conduct of Bechdon and Bechdon personnel giving rise to the violations of criminal law set forth in the Statement of Facts attached hereto as Attachment A, and incorporated by reference into this Agreement, and admits that the facts described in Attachment A are true and accurate. Should this Office pursue the prosecution that is deferred by this Agreement, Bechdon agrees that it will neither contest the admissibility of nor contradict the Statement of Facts in any such proceeding.
 3. The parties previously agreed that the statute of limitations as to these matters would be tolled from May 6, 2011, through and including November 1, 2011. The parties now agree that the matter will be tolled from November 1, 2011 to expiration of the term of this agreement plus one year. The parties further agree that any alleged violation of the agreement must have occurred during the term of the agreement.
 4. This Agreement does not provide any protection against prosecution for any crimes except as set forth herein, and applies only to Bechdon and not to any other entities or to any individuals.
 5. This Agreement is effective from the date of execution for a period of two (2) years, or until Bechdon sells all or substantially all of its business operations, whichever is sooner.
 6. It is understood that for the two-year term of this Agreement, Bechdon shall: (a) commit no state or federal crimes; (b) truthfully and completely disclose non-privileged information with respect to the activities of Bechdon, its officers and employees, and others concerning all matters about which the Office inquires of it, which information can be used for any purpose, except as otherwise limited in this Agreement; and (c) bring to the Office's attention all criminal conduct by, or criminal investigations of, Bechdon or any of its senior managerial employees that comes to the attention of Bechdon or its senior management, as well as any administrative proceeding or civil action brought by any U.S. governmental authority that alleges fraud by or against Bechdon.
 7. If, during the term of this Agreement, this Office determines, in its sole discretion, that Bechdon has committed any felony under federal law subsequent to the signing of this Agreement, provided deliberately false, incomplete or misleading information at any time, or otherwise breached the Agreement, Bechdon shall thereafter be subject to prosecution for any federal criminal violation of which this Office has knowledge. Any such prosecution may be premised on information provided by Bechdon. Any such prosecution that is not time-barred by the applicable statute of limitations as of the date of the signing of this Agreement may be commenced against Bechdon within one year of

any breach of this Agreement, notwithstanding the expiration of any applicable statute of limitations between the date of the signing of this Agreement and the breach or termination of the Agreement.

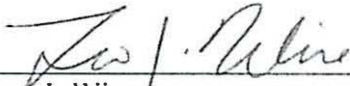
8. In the event that this Office determines that Bechdon has breached this Agreement, this Office agrees to provide Bechdon with written notice of such breach prior to instituting any prosecution resulting from such breach. Bechdon shall, within thirty days of receipt of such notice, have the opportunity to respond to this Office in writing to explain the nature and circumstances of such breach, as well as the actions Bechdon has taken to address and remediate the situation, which explanation this Office shall consider in determining whether to initiate a prosecution.
9. In the event that this Office determines that Bechdon has breached this Agreement:
 - a. All statements made by or on behalf of Bechdon to this Office, including the attached Statement of Facts, and any testimony given by Bechdon before a grand jury or any tribunal, whether prior or subsequent to this Agreement, or any evidence derived from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings brought by this Office against Bechdon subject to Bechdon's right to raise evidentiary objections under the Federal Rules of Evidence.
 - b. Bechdon shall not assert any claim under the United States Constitution, Rule 11(f) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence or any other federal rule, that statements made by or on behalf of Bechdon prior or subsequent to this Agreement, and any evidence derived therefrom, should be suppressed.
10. The decision whether conduct or statements of any individual will be imputed to Bechdon for the purpose of determining whether Bechdon has violated any provision of this Agreement shall be in the sole discretion of this Office.
11. It is understood that Bechdon has agreed to pay a monetary penalty in the amount of \$1,000,000. Within 14 days of the signing of this agreement, Bechdon agrees to pay \$600,000 to the United States Treasury. Thereafter, Bechdon agrees to pay at least \$20,000 a month, starting in the first month following the execution of this agreement, for a period of 20 months or until Bechdon has paid the United States Treasury \$1,000,000. In the event of a sale of all or substantially all of Bechdon's business operations, the balance of Bechdon's financial obligation to the United States Treasury pursuant to this paragraph shall become due within 14 days of such a sale.
12. Bechdon and the Office agree that this monetary penalty is appropriate given the nature and extent of Bechdon's cooperation and the remediation undertaken by Bechdon. In the event of any termination of this Agreement, any amounts paid by Bechdon as a penalty shall not be returned to Bechdon, but shall be credited by the government against any amounts in the future determined or agreed to be owing by Bechdon as a monetary

penalty, if any, in this matter.

13. It is further understood that this Agreement does not bind any federal, state, local, or foreign prosecuting authority other than the Office. The Office will, however, bring the cooperation of Bechdon to the attention of other prosecuting and investigative offices, if requested by Bechdon. It is further understood that Bechdon and the Office may disclose this Agreement to the public.
14. With respect to this matter, from the date of execution of this Agreement forward, this Agreement supersedes all prior, if any, understandings, promises, and/or conditions between the Office and Bechdon. No additional promises, agreements, or conditions have been entered into other than those set forth in this Agreement and none will be entered into unless in writing and signed by all parties.

Sincerely,


ROD J. ROSENSTEIN
UNITED STATES ATTORNEY


By: 
Leo J. Wise
Assistant United States Attorneys
36 South Charles Street
Fourth Floor
Baltimore, Maryland 21201
(410) 209-4800


AGREED AND CONSENTED TO:

FOR THE BECHDON COMPANY, INC.

By: 


Date


Michael Schatzow, Esquire
Counsel for The Bechdon Company, Inc.


Date

ATTACHMENT A
STATEMENT OF FACTS

1. From 1966 until the fall of 2008, William Turley was the President and owner of the Bechdon Company (Bechdon), a company he founded that was in the business of supplying precision manufactured metal and plastic machined parts and other speciality items to both government and private commercial customers. Donald Turley, one of William's three children, worked at Bechdon for his entire career, starting in the mid-1970's. After initially working on the shop floor, Donald was promoted to the position of Planner and then, in the late 1990's, he became a Program Manager, where his responsibilities consisted of overseeing Bechdon's performance on individual contracts and serving as the principal point of contact for the customer on those contracts. Christina Turley Knott and Beverly "Sue" Wertz, William's two daughters (and Donald's sisters), also worked for Bechdon, where Christina was a bookkeeper and Ms. Wertz handled various office-related work. Both William and Donald Turley were obliged to resign from Bechdon in November 2008, as a result of the facts set forth below.
2. Beginning in 1974, Bechdon regularly contracted to supply machined parts and other speciality items to the United States National Security Agency (NSA). From 1999 through 2003, Bechdon had a four-year contract with the NSA that called for it to produce various machined parts on an as-needed basis. Although this was identified as a fixed-price contract, it functioned more as a time and materials contract whereby the NSA placed orders with Bechdon on an ongoing basis up to a specified maximum amount. In 2003, this contract expired and was replaced with a 5-year "time and materials" contract that was known as the "Project Stockrack" contract. Pursuant to that contract, Bechdon billed the NSA, based upon rates previously bid by Bechdon and approved by the NSA, for the actual cost of materials and the number of employee work hours Bechdon used to produce the items ordered by the NSA. Both of these contracts were "unclassified," which meant that Bechdon needed to have only a couple of employees with security clearances who could be briefed more fully on what the parts ordered were for. Neither William nor Donald Turley held security clearances.
3. Bechdon's employees recorded the time they spent working on NSA-related jobs on their daily time cards. Bechdon's accounting department used these daily time cards to generate production detail reports from which invoices were prepared and submitted to the NSA for payment. From 1990 until she was terminated by the company for embezzling funds in October 2005, Christina Turley Knott (who was one of William's daughters and Donald's sisters) was responsible for preparing and submitting Bechdon's invoices to the NSA. After Mrs. Knott resigned, April Steen, Donald Turley's daughter, took over these responsibilities.
4. According to testimony presented at William and Donald's criminal trial, Bechdon was overbilling the NSA for the work it performed that dated back to at least the late 1980's or

early 1990's. Richard Kloss, who worked at Bechdon for thirty years in various positions, including a machinist and then as a Planner/Estimator, and finally as a Programmer, testified that when he became a planner in the late 1980's, William Turley called him into his office and told him that Bechdon "did timekeeping differently on some contracts," including those with the NSA. William Turley explained to Kloss that he would periodically be directed to bill hours to jobs for the NSA that he had not actually spent on NSA work. Kloss testified that although he did not like this practice and knew it wasn't right, he complied because he wanted to be a team player. Kloss testified that he typically received instructions to bill time he hadn't worked from Donald Turley, who would give him a post-it or other slip of paper with the job numbers and hours he wanted billed. Kloss testified that it was relatively infrequent that he was asked by Donald Turley to misbill hours on a contract in this manner.

5. Kloss testified that this practice continued through the 1990's and then into the last decade, and it affected other government customers besides the NSA. For example, during the years 2000-2005, Bechdon had a contract to produce machine gun sights for the Naval Surface Warfare Center (NSWC) in Dahlgren, Virginia. Kloss testified that he was also directed to bill time on this contract that he had not worked. Kloss became increasingly uncomfortable with this practice, because he was being asked to bill time for operating machines that he had not used since the 1980's. He feared that this fraud was so blatant that it raised "a bright red flag," and that if any of the charges were ever questioned, it would be easy to demonstrate that Kloss had not done work of the kind for which he was billing in many years. Accordingly, Kloss eventually went to William Turley – his best recollection was that this was probably around 2004 – and advised him of his concerns, and said he no longer wanted to bill his time falsely in this manner. William Turley agreed to allow him to stop, but a few years later, he once again called Kloss into his office and told him, "I need you to lean on a job," meaning to add hours he hadn't worked on a contract. Kloss once again agreed to do so.
6. During this conversation about the NSWC contract, Kloss asked William Turley if he wasn't concerned about going to jail for submitting these false claims to the federal government. Kloss testified that William Turley responded that he felt that he had insulated himself pretty well, and that if anyone wound up going to jail, it would either be his deputy, Bechdon Vice-President Paul Dittner, or his son Donald.
7. Kloss also testified that a "special method" was used in estimating time on projects for NSA. The planner would calculate what the expected hours and costs would be normally, and would then use a separate sheet to figure the number of hours that should be estimated to make up for the lower rates that Bechdon used when bidding on NSA contracts. Thus, Bechdon's planners/estimators increased the estimated number of hours beyond what they believed to be necessary so that Bechdon's payments would approximate what it would have gotten if the job was for a private sector client.

8. **Four other Bechdon employees likewise testified about the company's practice of falsely billing time on contracts with the NSA. Sue Wertz had worked for Bechdon since 2002 as its Administrative Manager, while April Steen had been employed by the company doing office work since 1995. When Wertz and Steen did office work that related to Bechdon's contracts with the NSA, this time was not properly billable, because the "loaded" billing rate that the NSA approved on Bechdon's contracts already included a generous built-in allowance for administrative costs and overhead (73.84% on the previous NSA contract) that was added on top of the underlying labor rate. Nevertheless, both Wertz and Steen testified that they were instructed by Donald Turley to bill hours to NSA as hardware fabricators, although neither Wertz nor Steen did any actual machinist work at Bechdon during the past decade. By billing time for Wertz and Steen to the NSA jobs as hardware fabricators, Bechdon was double-billing by receiving payment for their administrative time and then also falsely billing them as hardware fabricators. William Turley also submitted fraudulent resumes for Wertz and Steen to Jerry Hall, the Contracting Officer's Representative on the NSA contracts, which falsely represented that both Wertz and Steen worked as machinists on CNC milling machines, among other things. (During his testimony at trial, William Turley said he was unable to recall why he had done this.) In June 2006, several months after he had a polygraph examination requested by the NSA, William Turley stopped billing Sue Wertz's and April Steen's time as hardware fabricators.**
9. **Paul Richmond, one of the three shop foremen/supervisors at Bechdon, likewise testified that he was instructed by Donald Turley to bill additional time on NSA jobs that he had not actually worked. (Richmond was one of Bechdon's longest-serving employees, having started with the company in 1969.) Richmond testified that he was periodically asked by Donald Turley to bill time to the NSA jobs that he had actually spent working on other matters.**
10. **Michael Janes also testified at trial about Bechdon's practice of falsely billing employees' time on its contracts with the NSA. Janes, like Richmond and Kloss, was another long-time Bechdon employee who had been with the company since 1989. Starting in the mid-1990's, he was employed as a Quality Manager, where he was responsible for overseeing the company's quality management system and procedures; he also acted as the company's security officer, both for the physical plant and with regards to its information technology (IT), and was responsible for the maintenance of Bechdon's manufacturing facility and other special projects. Janes testified that he was instructed by Donald Turley and also sometimes by Christina Turley Knott to put hours on jobs that he had not worked. He would either be given these instructions verbally, or would receive a post-it or scrap of paper with the job numbers and hours written down. Janes was originally asked to bill these additional hours by William Turley sometime in the fall of 2003. Janes testified he was asked to add hours he had not worked on NSA jobs on his timecard until 2008.**

11. **Bechdon's fraudulent billing practices first began to come to light in the spring of 2006, when William Turley applied for a security clearance and, as a result, underwent a polygraph examination. William Turley did not initially admit to any wrongdoing. However, as the examination progressed he told the examiner that he had for many years diverted proceeds from sales of excess scrap metal without sharing the money with Bechdon's minority stockholders or reporting these funds on his tax returns. William Turley also minimized and misstated Bechdon's fraudulent billing practices conduct by telling the examiner that Bechdon was "shifting time around" on its contracts between jobs where it had underestimated the time required to jobs where it had overestimated the time required. This explanation was false: under the time-and-materials contract that Bechdon had in place with the NSA between 2003-08, it could charge the NSA whatever time the job required, and in any case, the NSA contracting officer Jerry Hall testified that Bechdon never exceeded its estimates.**

12. **A little more than a year later, in April 2007, Donald Turley also agreed to submit to a polygraph examination as part of his efforts to get approved for a security clearance. Donald Turley likewise initially attempted to minimize the character and scale of Bechdon's fraudulent billing. He first tried to suggest that any inaccurate billing was a matter of degree and imprecision: "you know, we're not swiping barcodes. . . . I don't keep accurate to the minute time sheets, you know, at the end of the day I fill out my time card. I was working on that job, okay, you know, you got 2 hours on that and put 2 and a half." Later, apparently trying to be consistent with his father's explanation of the year before, he stated that "it's not a matter of not billing, there's not a matter of billing time while not working on NSA, the NSA contract is an umbrella, it's an issue of me billing to the correct jobs." Donald also claimed that he was simply belatedly billing time that he had spent doing estimates for the NSA a week or two earlier. Donald asserted that this was necessary because it took Bechdon's billing system some time to generate a billing number for the new NSA job.**

13. **Eventually, however, Donald Turley outlined the full scope of the fraudulent billing on Bechdon's contracts with the NSA. He estimated that he personally had improperly billed the NSA for a period of at least ten years. He also admitted that he had directed eight other Bechdon employees to inflate the hours they worked on NSA jobs on their timecards during the Stockrack contract.**

14. **When his polygraph examiner asked Donald Turley "why did you do it?", Donald replied, "Well, primarily because the hourly rate or rates that we had bid on the job . . . don't cover the cost of doing the job." He further added, "there's probably a greed factor in there, as far as getting a job that will keep the shop busy. Keeps us from going out of business. We'd rather have the job that, a contract in place where you can get work than not have a contract, and we having to go out and look for work". The hourly payment rates the NSA approved for each of the five labor categories established on the 2003 Stockrack contract were the exact same rates, to the penny, that were requested by**

Bechdon itself in its offer.

15. Because of the way the fraudulent billing scheme worked, there was no second set of books kept at Bechdon on an ongoing basis that reflected the exact amount of the company's fraud against the NSA. Instead, the involved employees were instructed verbally or with notes on slips of paper as to the number of false hours they should report to particular NSA jobs, and those slips of paper were then immediately thrown away. The one partial exception to this lack of paper documentation of the fraudulent billing relates to April Steen and Sue Wertz, because they were fraudulently billed for machinist work when they were actually office workers whose time was not properly billable under the contract since it was already included in the overhead calculation. Accordingly, it is possible from Bechdon's records to determine the exact number of hours that Steen and Wertz were fraudulently billed as hardware fabricators on the NSA contract for Bechdon's 2004-06 fiscal years. Those numbers and the rates at which they were billed are shown in the chart below:

**STEEN AND WERTZ ADMINISTRATIVE WORK HOURS
BILLED TO THE NSA CONTRACT AS HARDWARE FABRICATORS**

Fiscal Year	April Steen Hours	Sue Wertz Hours	Total Hours	Billing Rate per Hour	Total
2004	876.00	788.50	1664.50	\$42.21	\$70,258.54
2005	1041.00	1180.50	2222.00	\$43.48	\$96,612.56
2006	746.00	1057.50	1803.50	\$44.78	\$80,760.73
				Total	\$247,631.83

16. The amount of Bechdon's fraudulent billings on the NSWC contract between 2000-2005 is likewise unknown, for the reasons set forth above, but the amount billed under that contract was substantial – \$4.172 million between 2000 and 2005 – and thus overbillings of as little as 5% would have produced a fraud loss on that contract in the \$200,000 range.

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NEW INTL AIRPORT

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