



Department of Justice

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COOS BAY COMPANY, ITS OWNER AND FOUR EMPLOYEES PLEAD GUILTY TO FRAUD ON DEFENSE CONTRACTS

PORTLAND, Ore. — A Coos Bay business, its owner, and four employees were sentenced by the Honorable Michael J. Mosman in federal court on December 12, 2014 for their roles in a conspiracy to defraud the United States by supplying knock-off vehicle and aviation parts to the United States Department of Defense (DOD).

Harold Ray Bettencourt II, 60, of Coos Bay, Oregon and the owner of Kustom Products, Inc.(KPI), was sentenced to 45 months in custody. His sons were also sentenced to prison terms: Nicholas Ryan Bettencourt, 32, was sentenced to 27 month in prison; Bo Bettencourt, 34, was sentenced to a term of 25 months; and Peter Tracy Bettencourt, 28, was sentenced to 12 months in custody. KPI's office manager, Margo Antoinette Densmore, 43, also of Coos Bay, Oregon, was sentenced to a 12 month prison term. The business, KPI, was sentenced to pay a fine of \$150,000. All of the defendants were ordered to pay restitution to the military in the amount of \$5,000,000.

The United States Attorney charged that KPI, Bettencourt, and the others conspired to commit wire fraud, money laundering, and trafficking in counterfeit goods and services. As part of the plea, the defendants agreed to forfeit all proceeds traceable to the fraud, including \$365,503.26 in funds from 20 bank accounts, eight vehicles, one boat, two boat trailers, two jet skis, and three all-terrain vehicles.

U.S. Attorney, Amanda Marshall, expressed satisfaction with the outcome. "Prison sentences for these defendants are entirely appropriate. They put their own greed before the safety of military personnel. They promised to provide our troops with quality equipment then substituted knock-off parts solely to line their own pockets," Marshall stated. "The United States will not hesitate to prosecute those who cheat the government, especially when the lives of our young people are at stake."

The defendants' scheme, as laid out in Court during the three-day sentencing hearing, related to the defendants' actions while contracting to provide supplies to the Department of Defense (DOD) from approximately 2006 through 2010. The DOD sought equipment, supplies, and services that were filled through purchase orders awarded to DOD contractors, including KPI. Some of these products were identified as critical application items, meaning that they were items essential to weapons systems performance or operation, or to preserve the life and safety of military personnel. The contracts were awarded through a web-based posting of

contract solicitations. Each contained the specific details about the items to be procured, including the requirements related to the specific part desired by Original Equipment Manufacturer (OEM) part number and by approved OEM vendor, whether the part was a critical application, and whether the part was required to be manufactured in the United States. In solicitations for specific products, the contractor was required to supply the “exact product” and to certify that fact by stating that the bid was “without exception.” The solicitation made clear that submitting alternate products could result in criminal and civil penalties.

KPI, acting through the individual defendants, lied to the DOD in order to secure what the government found to include 750 fraudulent contracts with a value in excess of \$10,000,000 and used wire communications in interstate and foreign commerce to carry out the scheme. In addition, the defendants knowingly engaged in approximately \$8,000,000 in monetary transactions in amounts greater than \$10,000 derived from the wire fraud scheme. Finally, in some contracts, the defendants supplied counterfeit Freightliner parts and shipped some parts on pallets that falsely contained the logo and heat treatment certification stamp of Timber Products Inspection, Inc. In essence, the defendants bid to supply a specific OEM part from an approved vendor at a price consistent with an OEM part, but instead knowingly provided a knock-off part from an unapproved vendor that cost them significantly less. This allowed them to under-bid the competition, and generated substantial profits for KPI and the individual defendants.

To highlight one contract, the United States set out the defendants’ actions related to the provision of aviation locknuts. In 2008, KPI was awarded contracts to supply aviation locknuts to the DOD, which were used to secure the blades to the main rotary assembly of the Kiowa Helicopter. The locknuts were flight critical and of proprietary design to be acquired from only two approved manufacturers, SPS or Bristol Industries. Rather than obtain the locknuts from one of the approved sources, Nicholas Bettencourt contacted Coloc Manufacturing in Texas and arranged with them to make and deliver thousands of non-conforming locknuts for fulfillment of the contract. Coloc was unaware that the parts they were contracted to manufacture were proprietary and were to be used in a flight-critical military application. In August 2008, the defective locknuts were detected throughout the military supply chain, which triggered the issuance of a DOD-wide safety alert, a worldwide inspection of all aircraft and stockpiles. After DOD notified KPI about the defective parts, Nicholas Bettencourt provided the DOD officials with false information in an attempt to cover up the acquisition of the defective locknuts.

KPI was also contacted by a DOD inspector, who requested KPI officials provide a written response as to the cause of the deficiency. KPI provided the DOD with a false explanation as to why the locknuts were not in compliance with the contract requirements, explaining that the parts were pulled from the wrong storage bin. Even after the defendants were notified of the deficiency, instead of replacing the defective parts with authentic parts from the approved manufacturers, they went back to Coloc and directed them to re-machine another batch of non-conforming locknuts to more closely resemble the authentic part. The additional defective locknuts were shipped to the DOD, all with complete disregard for the contract specifications on this critical application and the potential for catastrophic failure to the helicopter and injury or death to the occupants as a result.

Again, when the second batch of defective locknuts was detected in the supply chain, DOD officials requested acquisition records from KPI. In response, Nicholas Bettencourt, in conjunction with Margo Densmore, created false records that reflected that the correct parts were ordered by KPI and supplied to the military. Several more requests for records were made by DOD officials, and in response to these requests, Harold Bettencourt II provided the DOD with falsified records and false explanations as to the origin of the defective locknuts. KPI, through Margo Densmore, altered purchase orders to indicate that the correct parts were ordered, and produced those altered documents to DOD officials and investigators. Harold Bettencourt II also provided DOD officials with these false purchase orders and provided DOD officials with a price quote from a parts dealer for authentic conforming parts that KPI never actually ordered. Harold Bettencourt II obtained this quote for the purpose of deceiving the DOD into believing that the correct parts had been ordered.

The United States alleged that these actions by the defendants compromised the integrity of the aviation supply chain and put service members in harm's way by knowingly placing defective and unsafe aviation components into the supply chain and attempting to conceal their actions by falsifying records, and misleading DOD officials and investigators with false statements and information.

Chris Hendrickson, Special Agent in Charge, Defense Criminal Investigative Service, Western Field Office said, "We are extremely pleased at this outcome, which yet again sends the message that fraud and corruption will be vigorously investigated and prosecuted. This is an unfortunate example of a corrupt contractor who recklessly risked the safety of our troops by selling counterfeit and defective parts, including flight critical parts, to the Department of Defense. Cases such as these are not motivated by need or other difficult personal circumstances; they are the product of simple greed. This investigation should serve as a warning for those intent on defrauding the U.S. military and American public that the Defense Criminal Investigative Service (DCIS) and our law enforcement partners will pursue these crimes relentlessly."

Those with information relating to fraud, corruption or waste in government contracting should contact the DoD Hotline at www.dodig.mil/hotline <<http://www.dodig.mil/hotline>> or should call (800) 424-9098.

Financial fraud is a serious crime and it deserves serious punishment, but the real impact of Kustom Product's actions could have been disastrous," stated Special Agent in Charge Teri Alexander of IRS Criminal Investigation. "We are proud to have worked beside our law enforcement partners in this effort to protect our military personnel."

"While our warfighters were in Iraq and Afghanistan putting their lives on the line and depending on the Bettencourts' counterfeit parts, the defendants were in Oregon ripping off taxpayers and enjoying the proceeds of their multimillion dollar scam," said Brad Bench, Special Agent in Charge of Homeland Security Investigations in Seattle, which oversees Oregon investigations. "These prison sentences should make clear, those who violate the public's trust will be held accountable for their actions."

“The financial cost of this fraud – more than \$10 million – is significant, but the human cost could have been much higher,” said Greg Bretzing, Special Agent in Charge of the FBI in Oregon. “The counterfeit hardware that Kustom Products passed off as real could have led to catastrophic failures of trucks and helicopters used by our military. This case shows that we – with many partners at the Departments of Defense and Homeland Security as well as the IRS – will not allow anyone to make what they believe to be an easy buck on the backs of our service members.”

The case was investigated by the Department of Defense/Office of Inspector General/Defense Criminal Investigative Service, the Army Criminal Investigative Division Major Procurement Fraud Unit, the Federal Bureau of Investigation, the Internal Revenue Service, Criminal Investigation Division, and Immigration and Customs Enforcement. The case was prosecuted by Assistant U.S. Attorney Scott Erik Asphaug.

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EB9025-14, Compared to Defective Parts



SPS Technologies,
EB9025-14,

KPI, 1st Generation
Defective Part

KPI, 2nd Generation
Defective Part