



THE UNITED STATES ATTORNEY'S OFFICE
DISTRICT OF OREGON

FOR IMMEDIATE RELEASE

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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 pled guilty before the Honorable Michael J. Mosman in federal court today to conspiracy to defraud the United States. Kustom Products, Inc. (KPI), a vehicle parts supply business located in Coos Bay, Oregon, its owner, and four employees admitted that they committed fraud on contracts with the United States Department of Defense (DOD).

Pleading guilty were the owner of KPI, Harold Ray Bettencourt II, 60, of Coos Bay, Oregon; his sons, Bo Bettencourt, 34, Nicholas Ryan Bettencourt, 32, and Peter Tracy Bettencourt, 28, of North Bend, Oregon; and KPI's office manager, Margo Antoinette Densmore, 43, also of Coos Bay, Oregon. The matter is scheduled for sentencing on December 10 and 11, 2014. All defendants were released on conditions pending sentencing.

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.

Amanda Marshall, United States Attorney for the District of Oregon, emphasized the serious nature of the charges. "The actions of these defendants in putting their own greed before the safety of military personnel warrant serious repercussions," Marshall stated. "We will bring the full extent of this criminal activity to the Court's attention during the sentencing hearing."

The defendants' scheme, as laid out in Court during the guilty plea hearing, related to the defendant's 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, through employee Josh Kemp, 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 were 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.

"The guilty pleas of the owners and operators of Kustom Products, Inc. (KPI) are part of an ongoing effort by the Defense Criminal Investigative Service and its law enforcement partners to bring to justice to individuals who seek unjust enrichments at the expense of U.S. taxpayers, while recklessly compromising the safety of U.S. service members," said Chris Hendrickson, Special Agent in Charge, DCIS Western Field Office. "This is an unfortunate example of a dishonest contractor who disregarded safety and profited through risking the lives of our troops by knowingly placing faulty and unsafe parts and equipment, including flight critical components, into the military supply chain. This plea serves as notice that these types of practices by a contractor will be fully investigated and punishment pursued."

"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.”

“As a law enforcement official I’m proud that my agents helped bring these criminals to justice, and as a Veteran it is hurtful to see profit put before the safety of our nation’s most precious treasure, our sons and daughters,” said Special Agent in Charge Kenneth Hines of IRS Criminal Investigation. “These crooks took deliberate actions to supply defective equipment to our military, putting our service men and women in harm’s way during a time of war. Then, they spun a web of complex lies to cover it all up. This a clear message from the IRS and DOD-OIG Special Agents and the United States Attorney’s Office that this will not happen on our watch. If your actions harm or place our military service members at risk, we will bring you to justice.”

The case is being 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 is being prosecuted by Assistant U.S. Attorney Scott Erik Asphaug.