

Appendix B:

Memorandum for Suspension and Debarment Official regarding Airtech sent to Air Force Suspension and Debarment official, Stephen Shaw, dated September 26, 2006, from Army Criminal Investigation Command-Laguna Niguel, California Fraud Office



DEPARTMENT OF THE ARMY
UNITED STATES ARMY CRIMINAL INVESTIGATION COMMAND
MAJOR PROCUREMENT FRAUD UNIT
LAGUNA NIGUEL FRAUD RESIDENT AGENCY
P.O. BOX 2429
LAGUNA HILLS, CA 92654-2429

REPLY TO
ATTENTION OF

195-2b3

25 Sep 06

MEMORANDUM FOR SUSPENSIONS AND DEBARMENT OFFICIAL, US AIRFORCE
4040 N. FAIRFAX DRIVE, SUITE 204, ARLINGTON, VA 22203

ATTN: Mr. Steven A. Shaw

SUBJECT: Airtech International, Inc.

1. As discussed in the 25 Sep 06, telephone conversation among Special Agent [REDACTED] of this office, [REDACTED] Defense Criminal Investigative Service (DCIS), and [REDACTED] Suspension and Debarment Official (SDO) US Air Force, the purpose of this memorandum is to provide the SDO with the facts supporting debarment of Airtech International Inc. (Airtech).
2. During our four year investigation of Airtech, allegations of fraudulent acts by Airtech have come from numerous reliable sources. Although our investigation was not been able to substantiate every allegation, mainly due to the type of products and customer loyalty, it is our belief that every allegation against Airtech has merit. At one time or another, Airtech has supplied some form of nonconforming product to every aircraft manufacturer in the world. However, Airtech operates in the perfect industry for fraud; an industry that leaves little evidence and rewards dishonesty due to the potential liability costs. The following paragraphs provide insight into some of the allegations in which we were able to obtain corroborating evidence.
3. Airtech is a direct and indirect supplier to the US Department of Defense (DOD) of materials used to manufacture composite parts for DOD aircraft, vehicles and weapon systems, including the US Air Force's C-17, F-18 and JSF aircraft. During the period Jan 97 through Dec 05, Airtech knowingly supplied nonconforming products to DOD prime contractors. In addition, Airtech violated the Anti Kickback Act by providing goods and services to employees of DOD contractors in exchange for preferential treatment on the purchase of its products. The following examples provide a brief overview of Airtech's fraudulent conduct:
 - a. On 7 Dec 98, Gino Garilli, Purchasing Agent, Kaman Aerospace Corporation (Kaman), pled guilty to receiving kickbacks in violation of 41 USC 51 through 54. As part of his plea, Garilli provided information, memorialized in the attached interview reports, regarding his

kickback scheme with Airtech in which he received two percent of Airtech's monthly sales to Kaman. In addition, Garilli advises and provides evidence of a \$300 kickback in the form of cash from William Dahlgren, Owner/President of Airtech. Garilli provided agent with the letter from Dahlgren as well as the \$300 in cash. (ATTACHMENT 1)

b. On 8 Mar 02, information was received from Vought Aircraft Industries, Inc. (Vought) that it had fired one of its employees [REDACTED], for receiving kickbacks from Airtech. Vought provided notification to the DOD with a copy of [REDACTED] written statement where he admits to receiving kickbacks from Airtech. (ATTACHMENT 2)

c. On 23 Jul 03, [REDACTED] Manufacturing Engineering, Sierracin Corporation, was interviewed by SA McWhirter. In his interview, Tignanelli admitted to accepting a kickback in the amount of \$800 from William Dahlgren. He also admitted to utilizing Dahlgren's condominiums in Las Vegas and Hawaii without payment. He advised that these gifts influenced his decisions on the use of Airtech products. (ATTACHMENT 3)

d. An analysis of Airtech sales personnel expense reports during the period Jan 99 through Feb 03, details dining, party and golf expenses for employees of DOD contractors, which were paid for by Airtech. Also included is a summary of Federal Express records, detailing deliveries of items, some referencing the word "gift," from Airtech to the personal residences of employees of DOD contractors. Of concern is why Airtech would be shipping items to the residences of DOD contractors. (ATTACHMENT 4)

e. Vought Aircraft Industries purchase order to Coast-Line International Distributors, a distributor of Airtech products, for 2000 yards of Airtech's 72 inch Release Ply G. The 72 inch Release Ply G was shipped from Airtech's facility. (See Attached Photos). Vought advised that they utilized this product in the manufacturing of longeron accessory compartment doors for the US Air Force C-17 aircraft. Testing by Vought, at the recommendation of agents, concluded the material not to be Release Ply G, but actually Airtech's 72 inch Release Ply F, and not heat set and scoured as per product specification.

A copy of Airtech's purchase order to its supplier Texlon, Inc. on another occasion, directs Texlon to supply 72 inch Release Ply F, but label as Release Ply G. Texlon's certification for the product confirms the product is 72 inch Release Ply F and not the required 72 inch Release Ply G. Additional records exist that reflect that Airtech directed this several time between the years 97 and 03. (ATTACHMENT 5)

f. Airtech letter, dated 8 Jul 99, to Vought stating that Airtech utilizes a "stamped-hole" process in manufacturing the perforations on its Stretchlease product. A "stamped-hole" process removes the stamped material to prevent sealing of the hole, as opposed to "pin-pricked," in which the material is still attached. The removal of the material is critical for air and resin flow in the manufacturing of composites. Excess resin or air pockets can result in the rejection or even failure of a part if not detected. Laboratory analysis, dated 5 May 05, conducted by Vought, concluded that Stretchlease supplied by Airtech contains perforations made by "pin prick" and not the required "stamp-hole" process. (ATTACHMENT 6)

g. Proffer of [REDACTED] Purchasing Agent, Airtech, who admitted that Airtech sold Release Ply C to customers with an added charge for "Corona Treating" process, which was never applied. Airtech claims "Corona Treating" is a process, which allows its products to release away from finished composite parts easier. However, discussions with experts in the field of "Corona Treating," state that the process is used for the exact opposite, to make materials stick together. This may explain why Airtech never conducted the process, but still charged its customers, like the DOD and DOD contractors, for this fraudulent process. Also provided is an analysis of Airtech's sales of products containing Corona Treating, which refutes [REDACTED] statement that "Corona Treating" was only applicable to Release Ply C. (ATTACHMENT 7)

h. In addition to the above issues, Airtech at its own discretion, routinely changes the composition, the manufacturer or the manufacturing process of products without disclosure to its customer, which in most case would require requalification of the product. Examples include: 1) sealing tapes originally manufactured (Ideal Tapes) in the US are now imported from China; 2) percentage of fire retardant raw materials in Airtech's breather products are less than originally used or even nonexistent; 3) Airtech's self manufacturing of ETFE release film, using a different process than the film it used to procure from an outside manufacturer (Asahi, Inc.). These products are originally qualified for safety concerns. Changes to the products or processes could result in contaminations to the end product, which could result in the loss of parts or safety issues if the part is put into use.

4. In my career investigating allegations of fraudulent acts against the DOD, seldom have I come across a company with such brazen disregard for the safety of soldiers and civilians as well as for the sanctity of laws, rules and regulations. Although our investigation has substantiated violations of Federal Law by Airtech, the violations substantiated are miniscule in comparison with the believed violations. The products which Airtech sells, allow Airtech to easily avoid detection by customers. By way of explanation, Airtech's products are non-fly away materials, meaning after they are used, they go in the trash and not with the plane. In addition, the indistinguishableness of several of Airtech's products allows easy substitution of products. Finally, the ability of DOD contractors to pin point the cause of their failed composite parts to an Airtech product is almost impossible. As if substituting products was not enough, Airtech's payments of kickbacks, in violation of the Anti Kickback Act, have not only allowed it to compartmentalize the substitutions, but have caused DOD contractors to pay higher costs, which are then passed on to the DOD. Airtech's fraudulent actions have allowed it to eliminate competition, which impacts the industry and industries that utilized its products. However, Airtech could not be successful in its fraudulent actions if not for the lack of oversight by its DOD customers. Information developed during the investigation was forwarded to several DOD contractors, which pledged cooperation, but limited their involvement which limited our ability to fully substantiate allegation against Airtech. To this day, despite instances of substitutions at Vought, Airtech remains an approved vendor for DOD contractors like The Boeing Company, Sikorsky Aircraft, Lockheed Martin and Bell Helicopter.

5. In summary, based on Airtech's fraudulent activities, as described above, it is our recommendation that the US Air Force Suspension and Debarment Official take action against Airtech in order to protect DOD interests.

6. Should you have any questions or comments regarding this request, please do not hesitate to contact myself at [REDACTED] or [REDACTED]. Your cooperation in this matter is greatly appreciated.

[REDACTED]

Special Agent