

NEWS

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Defense Contractor Pleads Guilty to Fraud in Manufacture and Sale of Chemical, Nuclear, Biological Filters

(More)

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NEWARK – A New Jersey-based defense contractor pleaded guilty on Thursday to the fraudulent manufacture of nuclear, biological and chemical filters used by the Department of Defense in military tanks, U.S. Attorney Christopher J. Christie announced.

Previously, two employees and one prior employee of the company, Parmatic Filter Corporation, and a Department of Defense employee pleaded guilty.

Parmatic, formerly located in Denville, pleaded guilty before U.S. District Judge William H. Walls to conspiring to commit major fraud against the United States.

Judge Walls scheduled sentencing for the company for Dec. 10. The company faces a maximum penalty of \$500,000 in fines. In addition, at sentencing, Parmatic will be required to make \$7,962,807.14 in restitution to the United States, which represents all money paid by the DoD to Parmatic to manufacture the filters.

The Indictment against Parmatic alleged that Parmatic received two DoD contracts in 1996 and 1997 to manufacture the M48A1 filter. The filter is designed and intended to provide breathable, uncontaminated air to soldiers and marines conducting operations in environments contaminated by nuclear, biological, and chemical agents and materials, and the filter is primarily used in the M1A1/2 Main Battle Tank. The total value of both contracts was in excess of \$7 million.

The count to which the company pleaded guilty alleged that Parmatic and its employees conspired to fraudulently circumvent the manufacturing, testing, and quality assurance requirements through a variety of means to maximize the company's profits. These fraudulent means included using substituted and defective components and parts; shipping filters to the DoD, knowing that the filters had failed required internal testing, submitting fraudulent test filters to the DoD; re-manufacturing defective filters and then shipping them to the DoD; and creating and submitting false documents to the DoD.

During the plea hearing, Parmatic, through its attorney, admitted that the company changed a supplier for a key component of the filter, without the DoD's knowledge or approval as required under the contracts. After this unauthorized change of supplier, the company acknowledged that it learned that the new components were too big and did not conform to the contracts' required specifications.

In an attempt to remedy the situation, Parmatic admitted that its senior managers and employees machined or removed aluminum from the components, again without the DoD's knowledge or approval as required under the contracts. By machining these components, the company admitted that it removed a protective coating on the components intended to inhibit corrosion. Parmatic admitted that it then shipped filters to the DoD, containing these substituted and defective parts.

Parmatic also admitted that it shipped filters to the DoD knowing that the filters had failed required internal testing. This internal testing was intended to ensure that the filters could properly filter air contaminate by radiological particles and biological and chemical agents, such

as nerve gas and blood and blister agents.

Under both DoD contracts, Parmatic was also required to submit a small number of randomly selected filters from each lot of filters it had manufactured. A lot of filters consisted of between 100 to 400 filters. These sample filters were then shipped to a DoD testing facility and independently tested by the DoD. If any sample filter failed this independent DoD testing, then the DoD rejected the entire lot of filters.

Parmatic admitted that instead of submitting randomly selected filters to the DoD, its senior managers and employees provided the DoD with hand-selected and specially manufactured filters. The company acknowledge that it submitted such fraudulent sample filters to the DoD on at least three occasions.

Finally, Parmatic admitted that after two lots of filters had been rejected as defective by the DoD Parmatic re-manufactured them, without the DoD's knowledge or approval, and shipped them to the DoD. As part of this fraud, Parmatic acknowledged that its fraudulent conduct caused documents to be created that falsely stated that the re-manufactured filters conformed to the contracts.

Pleading guilty previously were:

- Brett J. Halpin, 63, of Ocean City, Maryland, pleaded guilty before Judge Walls on Aug. 8 to a one-count Superseding Information charging him with conspiracy to commit major fraud against the United States. Halpin was a former senior manager at Parmatic. Halpin admitted that he conspired to remanufacture the defective filters and caused them to be shipped to the DoD. He faces a maximum penalty of five years' imprisonment and a \$250,000 fine. Judge Walls scheduled sentencing for Nov. 13.
- William Schwartz, Jr., 44, West Milford, N.J., pleaded guilty on Aug. 13 before Judge Walls to a one-count Superseding Information charging him with failing to report and actively concealing Parmatic manufacture of fraudulent sample filters. Schwartz is still employed by Parmatic as a foreman. He faces a maximum penalty of three years' imprisonment and a \$250,000 fine. Judge Walls scheduled sentencing for Nov. 19.
- Lawrence E. Norman, 64, Mine Hill, N.J., pleaded guilty before Judge Walls on Aug. 8 to a one-count Superseding Information, charging him with making false and fraudulent documents. Norman was a former Quality Assurance Representative for the DoD and assigned to Picatinny Arsenal. Norman was assigned by the DoD to the Parmatic plant, and he was responsible for ensuring that the company properly manufactured filters in accordance with the contracts. During his plea, Norman admitted that he intentionally falsified DoD required documentation pertaining to the calibration status of Parmatic's testing equipment. He faces a maximum penalty of five years' imprisonment and a \$250,000 fine. Judge Walls scheduled sentencing for Nov.13.

- David D. Sward, 62, Randolph, N.J., pleaded guilty before Judge Walls on Aug. 8 to a one-count Superseding Information unrelated to the DoD contracts. During his plea, Sward admitted that Parmatic had a commercial contract with a private company to manufacture nuclear, biological, and chemical filters intended for non-U.S. naval vessels. Sward admitted that he failed to report and actively concealed Parmatic's submission of false and fraudulent certifications to this private company. Sward also admitted that these certifications were signed by Lawrence Norman, and that Norman had no authority to sign these commercial certifications. He faces a maximum penalty of three years' imprisonment and a \$250,000 fine. Judge Walls scheduled sentencing for Nov. 12.

In determining the actual sentence for each defendant, Judge Walls will consult the U.S. Sentencing Guidelines, which provide appropriate sentencing ranges that take into account the severity and characteristics of the offense, the defendant's criminal history, if any, and other factors. The judge, however, is not bound by the guidelines in determining a sentence.

Parole has been abolished in the federal system. Defendants who are given custodial terms must serve nearly all that time.

Christie credited Special Agents of the Defense Criminal Investigative Service, under the direction of Resident Agent in Charge James Murawski and Special Agents of the Army's Criminal Investigative Command, under the direction of Special Agent in Charge Steven Mickelberg, with the investigation leading to today's Indictment.

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Defense Counsel:

Michael A. D'Aquanni, Esq., for Parmatic

Michael N. Pedicini, Esq., for Brett Halpin

Robert B. Woodruff, Esq., for David D. Sward

William Strazza, Esq., for William Schwartz, Jr.

David A. Holman, Esq., for Lawrence E. Norman