

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF NEW JERSEY

UNITED STATES OF AMERICA : Honorable  
v. : Criminal No. 08-  
DAVID DRILL : 18 U.S.C. § 371

I N F O R M A T I O N

The defendant having waived in open court prosecution by Indictment, the United States Attorney for the District of New Jersey charges:

Circle System Group, Inc.

1. At all times relevant to this Information, Circle System Group, Inc., was a privately owned Pennsylvania corporation with its principal offices in Easton, Pennsylvania. In or about September 2005, Circle System Group, Inc. was acquired by Schutt Holdings, Inc. Although the company continued to do business as Circle System Group, Inc. for a period of time after the acquisition, the company began doing business as Schutt Reconditioning in or about 2007. Its legal corporate name, however, remained Circle System Group, Inc., and throughout the remainder of this Information, it will be referred to as "Circle."

### Circle's Business and Its Customers

2. At all times relevant to this Information, Circle was engaged in the business of selling and reconditioning athletic equipment, uniforms, and apparel. Reconditioning is the process of repairing, sanitizing, cleaning, and sometimes repainting used athletic equipment, and a significant part of Circle's business was reconditioning football equipment such as football helmets and shoulder pads.

3. Although Circle's products and reconditioning services were marketed nationally, a large portion of its sales of athletic equipment and reconditioning services were to high schools, colleges, and youth sports programs in New Jersey. (The schools with which Circle did business will hereafter collectively be referred to as the "Schools.") These sales were effectuated primarily through a sales force that attempted to maintain personal relationships with the School officials who were responsible for purchasing athletic equipment and reconditioning services on behalf of the Schools, and these officials included athletic directors, equipment managers, trainers, and coaches. (These School officials will hereafter be collectively referred to as "School Purchasing Officials.")

The Defendant

4. The defendant DAVID DRILL was employed by Circle from in or about 1982 until in or about September 2007. After starting his employment in sales, the defendant DAVID DRILL became the President of Circle in or about 1988, and he maintained this position after Schutt Holdings, Inc. acquired Circle in 2005. As President, the defendant DAVID DRILL was primarily responsible for, among other things, the day to day management of Circle's sales force.

The Conspiracy

5. From at least as early as the 1980s to as late as in or about June 2007, in the District of New Jersey, and elsewhere, the defendant

DAVID DRILL

and others, knowingly and willfully combined, conspired, confederated and agreed to commit offenses against the United States, that is: to devise a scheme and artifice to defraud, and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, and for the purpose of executing such scheme and artifice, to utilize the United States mails, private and commercial interstate carriers, and interstate wire communications, contrary to Title 18, United States Code, Section 1341 (mail fraud) and Section 1343 (wire

fraud).

OBJECT OF THE CONSPIRACY

6. The principal object of the conspiracy was to obtain money and other things of value for Circle by means of a number of fraudulent business practices. These fraudulent business practices included, but were not limited to, the following: (1) submitting fake quotes to School Purchasing Officials so that their purchases from Circle would seemingly comply with applicable laws, regulations, and policies; (2) submitting fraudulently inflated invoices to Schools in order to ensure that Circle achieved its desired profits on goods and services that had been "underpriced" to obtain the Schools' business, and to recoup money that Circle had expended for gifts and donations to Schools and School Purchasing Officials; (3) submitting fraudulent invoices and other paperwork to Schools, when requested to do so by School Purchasing Officials, to hide the nature and timing of purchases by the School Purchasing Officials; (4) retaining, and converting to Circle's own use, overpayments by Schools that should have been returned or credited to the Schools; and (5) misreporting Circle's helmet testing data for reconditioned helmets in order to lower Circle's costs and increase its profits. Each of these fraudulent business practices will be discussed in more detail below.

## MEANS AND METHODS OF THE CONSPIRACY

### Fake Quotes

7. Pursuant to applicable laws, regulations, and policies, School Purchasing Officials at times were required to obtain three price quotes from three different companies before purchasing goods or services for the Schools.

8. In an effort to increase Circle's sales, Circle salesmen, with the knowledge and approval of Circle's management, represented to School Purchasing Officials that, if the School Purchasing Officials wanted to purchase goods and services from Circle but needed to obtain two additional price quotes to justify doing so, Circle could provide those two additional price quotes for the files of the School Purchasing Officials.

9. When School Purchasing Officials asked Circle for those two additional price quotes, the Circle salesmen typically informed Circle's management of the request, and provided Circle's management with the Circle price quote that the salesmen had given, or would be giving, to the School Purchasing Officials. Using the letterhead of other companies, Circle employees, at the direction of Circle's management, then prepared two fake price quotes, purportedly from these two companies, indicating prices higher than what Circle had quoted, or would be quoting, to the School Purchasing Officials. These fake quotes

were then transmitted to the School Purchasing Officials by mail, by fax, or by hand-delivery.

10. In many instances, these fake quotes were submitted to the School Purchasing Officials under circumstances in which the School Purchasing Officials knew, or should have known, that the price quotes were fake. For example, on some occasions, School Purchasing Officials asked for two additional quotes after the School Purchasing Officials had caused goods or services to be purchased from Circle, and in these circumstances, the additional purported price quotes reflected dates at or about the time of the actual purchase, which had occurred before the date that the additional price quotes were requested and delivered.

11. Throughout the course of the conspiracy, Circle submitted at least hundreds of such fake quotes.

#### Fraudulent Inflation of Invoices

12. As a regular part of Circle's business, Circle's management also authorized Circle and its employees to make gifts and donations to Schools and School Purchasing Officials, as well as other charitable causes.

13. Circle, however, sometimes reimbursed itself for these gifts and donations by fraudulently inflating invoices to the Schools for reconditioning services or new equipment orders

in order to recoup the amount of money that Circle had expended for these gifts and donations. This fraudulent inflation of invoices was done without the knowledge of the Schools, but sometimes with the knowledge of the School Purchasing Officials with whom Circle dealt.

14. For example, in 2004, a New Jersey School Purchasing Official asked a Circle salesman for a set of golf clubs for himself. The Circle salesman paid \$503.00 for the clubs, and then was reimbursed by Circle. Circle in turn, not only recouped the \$503 expenditure from the School, but also built in a \$297 profit by fraudulently inflating an invoice to the School for new football jerseys by \$800.

15. Another example occurred in or about 2006 when a Circle salesman took a School Purchasing Official on a shopping trip and paid \$481.72 for clothing and other items for the wife of the School Purchasing Official. Circle reimbursed the salesman and then recouped that money, along with a profit, by fraudulently billing the School for "video equipment" in the amount of \$750.00.

16. Yet another example occurred in or about 2007 when a Circle salesman placed an order for approximately \$1,152.00 worth of clothing (including a leather jacket, a suede jacket, a lamb skin jacket, sweaters, and coach's shirts) for a School

Purchasing Official and indicated to the School Purchasing Official that there would be no charge. Circle, however, actually recouped its costs, along with a small profit, by fraudulently billing Schools supervised by the School Purchasing Official for the reconditioning of equipment bags. The total of these fraudulent reconditioning bills was \$1,240.32.

17. Similarly, Circle sometimes submitted price quotations to Schools for goods and reconditioning services that were lower than the prices that Circle would have to charge in order for Circle to cover its costs and achieve its desired profits. On many occasions in these circumstances, Circle would bill the Schools at the quoted prices and then achieve its desired profits by fraudulently inflating other invoices to those Schools for reconditioning services.

18. Circle fraudulently inflated invoices to Schools in the manner described above on hundreds of occasions during the course of the conspiracy.

#### Fraudulent Paperwork Submitted With the Knowledge of School Purchasing Officials

19. School Purchasing Officials with whom Circle dealt generally operated on fiscal year budgets for goods and reconditioning services, which budgets were usually set by the Schools prior to, or at the beginning of, the fiscal year. In

New Jersey, this fiscal year period was usually from July 1 to June 30 of the next calendar year.

20. At various times, School Purchasing Officials were sometimes confronted with the dilemma of having money that had been budgeted, but would likely not be expended, for goods and reconditioning services that, in the judgment of the School Purchasing Officials, were not necessary during that fiscal year. Moreover, these School Purchasing Officials generally believed that, if they did not use the money that had been budgeted by the Schools, they would "lose" most of the money in future budgets. In other words, these School Purchasing Officials believed that the amount budgeted for the purchase of goods or reconditioning services would likely be lower in future budgets because they did not expend all the money that had been budgeted in that fiscal year.

21. In an effort to increase Circle's sales, Circle salesmen, with the knowledge and approval of Circle's management, offered School Purchasing Officials a means by which they could, through Circle's creation of fraudulent paperwork for submission to the Schools, use the money in their budgets so that it would appear that the money had been used for budgeted items in the current fiscal year, when in fact it would be used either (i) in the next fiscal year for whatever goods and reconditioning

services that the School Purchasing Officials wanted to purchase, or (ii) in the current fiscal year for goods and reconditioning services different from those for which the money had been budgeted.

22. One example of the use of fraudulent paperwork to hide the timing and nature of particular purchases occurred at a New Jersey School in 2004. In that case, the School Purchasing Official requested that Circle send a fraudulent invoice to the School falsely indicating that Circle had performed reconditioning services for the School in the amount of \$1,303.80 in June. When the School paid Circle the invoiced amount of \$1,303.80, Circle credited that money to the School's internal account at Circle so that the School Purchasing Official could use that credit to purchase goods and reconditioning services at a later time.

23. When the School Purchasing Official later purchased goods and services using that credit, Circle did not send invoices to the School indicating that the School had purchased those goods and services. Thus, any examination of the School's official records of purchases from Circle would indicate that the School had purchased and received \$1,303.80 in reconditioning services from Circle in June 2004, and that the School had paid for those services at or about that time. The

records would not indicate the true nature of the transactions, namely, that the School had not received \$1,303.80 in reconditioning services in June 2004, but rather had essentially prepaid Circle for goods and reconditioning services that would be ordered and received at a later time. These records would also not indicate exactly what the School paid for and received from Circle at this later time.

24. An example of the use of fraudulent paperwork to hide the nature of the transactions occurred at another New Jersey School in or about 2006. In that case, the School Purchasing Official used money that had been budgeted for reconditioning services to purchase new equipment. Circle in turn sent a fraudulent invoice to the School falsely indicating that Circle had performed reconditioning services for the School in the amount of \$2,195.00, when in fact Circle had actually delivered \$2,110.00 of new ice hockey equipment.

25. Again, any examination of the School's official records of purchases from Circle would indicate that the School had purchased and received \$2,195.00 in reconditioning services from Circle. The records would not indicate the true nature of the transactions, namely, that the School had actually purchased \$2,110.00 of new hockey equipment.

26. Throughout the course of the conspiracy, Circle

engaged in at least hundreds of transactions involving fraudulent paperwork of the type described above.

Circle's Improper Retention of Overpayments by Schools

27. After the completion of a sale to a School, Circle typically sent an invoice to the School indicating the products and services delivered and the amount that was due and owing to Circle from the School. Circle also typically sent a monthly statement to the School indicating any outstanding sales and indicating whether any money was due and owing to Circle. Circle's invoices and statements were strikingly similar in form and appearance, including the color of the documents, except for the words "Statement" or "Invoice" at top of the respective documents.

28. At various times, Schools paid Circle's invoices and also paid for the same items when they received Circle's statements. In other words, these Schools paid for the same items twice.

29. Throughout the course of the conspiracy, Circle received hundreds of duplicate payments from Schools. Rather than return these duplicate payments, at least one member of Circle's management instructed Circle employees to deposit the money into Circle's bank account.

30. At least one member of Circle's management also

kept account of these duplicate payments in something called the "Z Account," which was simply a paper account in Circle's general ledger into which these duplicate payments were directed for accounting purposes. If a School recognized its mistake and questioned Circle about the duplicate payment, the money would be refunded or credited to the School. Otherwise, the money would remain with Circle in the Z Account, and after a period of time, portions would be used for the benefit of at least one member of Circle's management.

31. In fact, between at least as early as in or about 1998 and at least in or about 2007, Circle improperly retained and converted to its own use and benefit at least approximately \$500,000.00 in overpayments from various Schools with which it did business.

#### Misreporting Helmet Testing Data

32. At all times relevant to this Information, Circle was a member of the National Athletic Equipment Reconditioners Association (NAERA). As a member of NAERA, Circle was supposed to recondition athletic helmets in accordance with guidelines and procedures established by the National Operating Committee on Safety in Athletic Equipment (NOCSAE). One of these guidelines and procedures was the requirement that a reconditioner such as Circle conduct impact tests on a "statistically relevant sample"

of all the helmets that it reconditioned. NAERA and NOCSAE recommended that impact tests be performed on at least 2% of all helmets reconditioned.

33. As a member of NAERA, Circle was allowed to place stickers on each helmet that it reconditioned indicating that Circle had reconditioned the helmet in accordance with the procedures and guidelines established by NOCSAE. Circle was also supposed to pay a fee to NAERA and NOCSAE for each helmet that Circle reconditioned.

34. During the course of the conspiracy, Circle did not always follow the guidelines and procedures specified by NOCSAE for the reconditioning of helmets. For example, Circle conducted impact tests on less than 2% of the helmets that it reconditioned. Moreover, Circle submitted false and misleading information to NAERA and NOCSAE to conceal these facts. Circle also under-reported the number of helmets that it reconditioned so that it would have to pay lower fees to NAERA and NOCSAE than it otherwise should have paid.

35. As a result of these fraudulent actions, Circle was able to lower its costs and thus increase its profits.

#### Use of the Mails and Interstate Wires

36. Throughout the course of the conspiracy, many of

the fake quotes were sent to the Schools via the United States Mail or via fax from Pennsylvania to other states, including New Jersey. Moreover, most of the fraudulent paperwork created by Circle was sent to Schools, many of which were in New Jersey, via the United States Mail, as were most of the checks that were sent to Circle by the Schools in payment of Circle's invoices and statements.

#### Result of the Conspiracy

37. As a result of this conspiracy, Circle made more sales to the Schools, and consequently more money, than it otherwise would have made had Circle not submitted fake quotes and fraudulent paperwork to the Schools; Circle fraudulently obtained money from Schools as a result of fraudulently inflating invoices to the Schools in order to achieve its desired profits and to recoup some of its expenses; Circle improperly retained and converted to its own use at least approximately \$500,000.00 in overpayments from Schools that should have been returned or credited to the Schools; Schools were deprived of the honest services of the School Purchasing Officials who participated in the conspiracy; Schools were deprived of accurate records concerning the true nature and timing of some of the Schools' transactions with Circle and thus deprived of accurate information on which to allocate their resources for the purchase

of goods and reconditioning services; Schools, NAERA, and NOCSAE were defrauded into believing that Circle had complied with NOCSAE's guidelines and procedures for the reconditioning of helmets; and NAERA and NOCSAE were deprived of revenue from Circle to which it was entitled.

OVERT ACTS

38. In furtherance of the conspiracy and to effect its unlawful objects, the defendant DAVID DRILL, and others, committed the following overt acts, among others, in the District of New Jersey and elsewhere:

a. In or about November 2003, the defendant DAVID DRILL approved, and assisted in preparing, fake quotes that Circle submitted to a New Jersey School in or about November 2003.

b. In or about November 2004, the defendant DAVID DRILL approved, and assisted in preparing, fake quotes that Circle submitted to a New Jersey School in or about November 2004.

c. In or about April 2005, the defendant DAVID DRILL approved, and assisted in preparing, fake quotes that Circle submitted to a New Jersey School in or about May 2005.

All in violation of Title 18, United States Code,  
Section 371.

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RALPH J. MARRA, JR.  
ACTING UNITED STATES ATTORNEY