



***United States Attorney  
Southern District of New York***

---

**FOR IMMEDIATE RELEASE  
December 17, 2008**

**CONTACT: U.S. ATTORNEY'S OFFICE  
YUSILL SCRIBNER  
REBEKAH CARMICHAEL  
JANICE OH  
PUBLIC INFORMATION OFFICE  
(212) 637-2600**

**U.S. RESOLVES PROBE OF FOOD SERVICE MANAGEMENT COMPANY**

LEV L. DASSIN, the Acting United States Attorney for the Southern District of New York, and BRIAN HAASER, the Special Agent-in-Charge for the United States Department of Agriculture's Office of Inspector General, announced today that FHC Delaware, Inc., formerly known as Fine Host Corporation ("Fine Host") has resolved criminal and civil investigations into fraudulent conduct at the company that victimized New York schools, school districts, and other customers. In resolving the criminal investigation, Fine Host, which ceased operating as a separate company in late 2002 after selling its assets to another company, entered into a non-prosecution agreement, in which it agreed to finish making full restitution to victims—a process that is already substantially complete—within the next 180 days. In resolving the civil investigation, Fine Host agreed to pay more than \$3.5 million to settle civil fraud charges brought by the United States. United States District Judge JOHN G. KOELTL approved the civil settlement yesterday in Manhattan federal court.

According to the civil Complaint filed on December 15, 2008, under the federal False Claims Act in Manhattan federal court:

Until approximately the end of 2002, Fine Host operated as a food service management company based in Connecticut. One of Fine Host's major lines of business was to provide food services to more than 100 schools and school districts located in New York State, including in Westchester County, Long Island, and New York City. Many of those schools and school districts, as well as other Fine Host customers, contracted to pay Fine Host the costs Fine Host incurred in providing food services, plus a management fee.

Beginning around 1998, Fine Host began a practice known primarily as "Volume Purchase Incentive" ("VPI"). In brief, Fine Host asked its own suppliers to submit artificially inflated invoices, which Fine Host then paid. Fine Host then billed school districts and other customers based on the inflated invoice amounts without disclosing that they had been inflated. Fine Hosts's suppliers then kicked back the inflated amounts to Fine Host, usually on a quarterly basis. Fine Host thereby pocketed the artificially-inflated amounts, at the expense of the schools, school districts and other customers. From approximately 1998 through August 2002, Fine Host obtained approximately \$2.6 million in VPI from school district customers and more than \$2.6 million in VPI from other customers. Moreover, many of the school districts participated in the National School Lunch Program ("NSLP") administered by the United States Department of Agriculture's Food and Nutrition Service and used NSLP funds to pay Fine Host, thereby elevating Fine Host's artificially-inflated invoices to a fraud and false claim against the United States.

Fine Host stopped the VPI practice in late 2002 and voluntarily disclosed it to the United States Attorney's Office in 2003. Fine Host thereafter cooperated with the Government's civil and criminal investigations into the VPI practice and into certain other unlawful conduct, unrelated to the VPI program, disclosed during the investigation. Fine Host has already returned to its former customers, including affected school districts, more than \$3 million in restitution, and is in the process of paying the remaining restitution amounts.

Pursuant to the civil settlement approved by the Court yesterday, Fine Host agreed to pay \$3.557 million to the Government to resolve the Government's civil charges. In agreeing to the settlement, Fine Host did not admit to any wrongdoing or liability. Pursuant to the non-prosecution agreement, which resolves the criminal investigation, Fine Host has undertaken to complete payment of full restitution to the victims of the VPI-related conduct. The non-prosecution agreement also requires Fine Host to pay restitution for the other unlawful conduct disclosed during the investigation, namely the fraudulent inflation, in the amount of approximately \$4.3 million, of invoices for goods and services provided to schools serviced by Fine Host's Ronkonkoma, Long Island, office.

Mr. DASSIN said that the decision to enter into the non-prosecution agreement with Fine Host was based on a careful consideration of the factors set out in the Department of

Justice's Principles of Federal Prosecution of Business Organizations. Of particular weight in this case were: Fine Host's voluntary and complete disclosure of all its illegal conduct to the Government; its substantial efforts to cooperate in the Government's civil and criminal investigations; its voluntary payment of restitution to the great majority of the victims of its conduct, and its undertaking to pay off the remaining restitution; and the fact that Fine Host is no longer an operating entity.

MR. DASSIN praised the investigative work and assistance of the United States Department of Agriculture's Office of Inspector General.

Assistant United States Attorney ROSS E. MORRISON is in charge of the Civil Division's investigation. Assistant United States Attorney DANIEL W. LEVY is in charge of the Criminal Division's investigation.

08-332

###