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 John W. Beatty, Esq. (0012730)  
 Attorney for Defendant

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 UNITED STATES DISTRICT COURT  
 SOUTHERN DISTRICT OF OHIO 1992 JUL 22 P 3:45  
 WESTERN DIVISION

U.S. DISTRICT COURT  
 SOUTHERN DISTRICT OF OHIO  
 WEST DIVISION  
 CR 192-87

UNITED STATES OF AMERICA, : CRIMINAL NO.  
 : (JUDGE RUBIN)  
 Plaintiff, :  
 :  
 -vs- :  
 :  
 GENERAL ELECTRIC COMPANY, : MEMORANDUM ON BEHALF OF  
 : GENERAL ELECTRIC COMPANY  
 : CONCERNING PLEA AGREEMENT  
 Defendant. :

The General Electric Company ("GE") respectfully submits this memorandum to the Court in connection with the proceedings to be held on July 22, 1992, concerning a Plea Agreement reached between GE and the United States. In Part I, we summarize the terms of the Plea Agreement. In Part II, we describe the problems that led to the Plea Agreement. In Part III, we describe GE's response to those problems.

We wish to stress two points: One, the company accepts responsibility for the misconduct involved. Two, GE has responded vigorously and constructively since its senior management discovered the problem in December 1990, demonstrating the company's full and abiding commitment to integrity in all of its business practices.

**I. The Plea Agreement**

GE and the United States have entered into a Plea Agreement whose principal terms are as follows:

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- \* GE will plead guilty to four counts alleging violations of 18 U.S.C. §371 (conspiracy), 18 U.S.C. §287 (false claims), 18 U.S.C. §1957 (monetary transactions in property derived from unlawful activity), and 15 U.S.C. §§78m(b)(2)(a) and 78ff(a) (failure to make and keep accurate books and records);
- \* GE and the United States have agreed, pursuant to Rule 11(e)(1)(C) of the Federal Rules of Criminal Procedure, that an appropriate sentence would be a total fine of \$9,500,000;
- \* the United States will not bring any further criminal prosecution against GE for any other federal violations relating to the allegations of wrongdoing in the Information, Statement of Facts, or any of the complaints filed in the civil False Claims Act case brought against GE (CA NO. C-1-90-792) or relating to matters concerning certain contracts that GE has disclosed to the Department of Justice.

Under Rule 11(e)(1)(C), the Court may accept or reject the plea agreement in its entirety; but, if the Court accepts the plea, it may not under that Rule vary the terms of the Plea Agreement or impose any sentence other than the \$9,500,000 fine specified therein.

GE has agreed to waive any presentence investigation, and the United States has advised the Court that it sees no need for any presentence investigation. Accordingly, as the Court has been advised, it is the contemplation and desire of both parties that, if the Court

accepts GE's plea, the Court will sentence GE during the plea proceedings to be held on July 22 without any delay.

Brian Rowe, the chief executive officer of GE Aircraft Engines and a Senior Vice President of GE, will be present in Court on July 22 to enter the plea on behalf of the corporation. Mr. Rowe has been authorized by the corporation to enter a plea on its behalf. Mr. Rowe will be present in his capacity as a corporate officer who has executive responsibility for GE Aircraft Engines, the GE business where these problems arose. Mr. Rowe is not being charged personally with any violation, nor do the Information or Statement of Facts allege he engaged in any misconduct. Mr. Rowe does not have first-hand knowledge of the matters alleged in the Information and Statement of Facts. He will, of course, be fully familiar with those documents as well as the Plea Agreement.

As we have advised the United States, GE does not have actual or first-hand knowledge of everything alleged in the Information and the Statement of Facts because some allegations relate to the conduct or knowledge of persons other than GE or its personnel. The United States has represented that it believes all the facts alleged in the Information and the Statement of Facts are true and correct. GE has accepted those representations for purposes of these proceedings alone and will enter its guilty plea willingly on this basis.

Finally, as the Court is aware, GE has also entered into a settlement agreement with the United States to resolve the civil False Claims Act suit. After dismissal of that action on July 22, GE will pay into the Court registry the sum of \$59,500,000.

## **II. The Problem**

This case relates to one of GE's thirteen business, GE Aircraft Engines. GE Aircraft Engines, headquartered in Evendale, is the world's leading aircraft engines manufacturer. It is a large business with over 33,000 employees worldwide.

The misconduct involving GE Aircraft Engines alleged in the Information was confined to one relatively small and uniquely regulated part of its business -- direct military sales of jet engines and support equipment to Israel during the period 1984-1990 financed by the Foreign Military Financing ("FMF") Program of the United States Department of Defense. The problem does not relate in any way to GE Aircraft Engines' contracts with the United States or to its commercial contracts.

The problem began with an illicit scheme between a now former GE Aircraft Engines employee, Herbert Steindler, and a now former Israeli Air Force Brigadier General, Rami Dotan. Steindler was not an officer of the company. GE fired Steindler in March, 1991. Israel prosecuted Dotan, and he is now serving a 13-year prison sentence. He was charged, among other things, with stealing large sums from GE.

Steindler and Dotan successfully manipulated certain other GE Aircraft Engines employees (who did not receive direct financial gain) to disregard GE policies, good business practices, and common sense by appeals to customer satisfaction, the aura and security needs of the Israeli Air Force, and the personal charisma of General Dotan. As a result, employees in certain GE Aircraft Engines business units that worked on these contracts

violated GE policies by going along with requests to prepare inaccurate documents. For example, they certified, after Israeli Air Force officers had done so, that certain contract work had been completed when it had not; and they invoiced Israel for this work. These false claims are at the core of the case.

GE Aircraft Engines' training programs for FMF Program business should have prevented these diversions of funds to non-contract uses, and its compliance systems for that Program should have caught them. But, where there is a conspiracy between an employee and a customer relating to a relatively small part of the business governed by unique governmental guidelines, it is particularly difficult to ferret out misconduct. These inherent difficulties were exacerbated in this case by the failure of certain employees who had knowledge of the problem to come forward on a timely basis. Other employees failed to perform their duties in an adequate manner. GE Aircraft Engines' systems, which have functioned well in contracts with the United States, proved inadequate with respect to direct military sales to Israel funded by the FMF Program.

The result was twofold. First, Dotan and Steindler were able to siphon approximately \$11 million in money designated by the United States for contract work into secret Swiss bank accounts they controlled. Second, Dotan and his accomplices in Israel, in league with Steindler, were able to divert additional United States military aid dollars to military projects in Israel other than those approved by the Department of Defense.

### **III. GE's Response to the Problem**

While GE accepts corporate responsibility for these problems, GE's response to them is also highly relevant and, we submit, highly commendable. Since learning of the problem in December 1990, GE has taken every step a responsible corporation could take in such circumstances:

- \* GE immediately disclosed what it knew to the Departments of Defense and Justice. GE promised its complete cooperation, and it has kept that promise.
- \* GE conducted a searching factual investigation and then disclosed the results to the Department of Justice and the agencies working with it. The Department of Justice has advised GE that GE's cooperation substantially assisted the United States' investigation, facilitated the negotiation of the resolution of this matter, and enabled the parties to reach an agreement in principle on the resolution of this matter by May 22, 1992. GE is similarly cooperating with the Defense Logistics Agency of the Department of Defense, the House Subcommittee on Oversight and Investigations, and other government agencies.
- \* GE undertook to make complete restitution to the United States for damages incurred as a result of GE Aircraft Engines' actions. GE has done so, to the Government's entire satisfaction, in connection with this guilty plea and the settlement of the civil False Claims Act case.

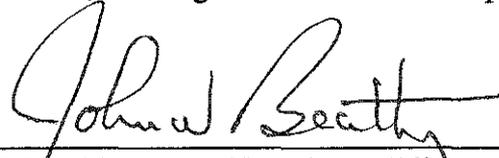
- \* GE imposed tough but fair discipline on twenty managers and employees whose conduct contributed to the problem or who had direct managerial responsibility for GE Aircraft Engine units which failed to perform adequately in the specialized area of FMF sales. These actions send a clear message to the entire organization that integrity is and must be a first priority in all of GE's business.
- \* GE has analyzed how the illicit schemes between Steindler and Dotan were able to flourish in the somewhat unique niche of direct military sales to Israel funded under the FMF Program. As a result, GE has adopted structural and other systems improvements that address these problems and build on GE's existing strong compliance, education, and training programs involving sales to the United States.

GE has not stonewalled or mounted a scorched earth defense. GE's cooperation contributed mightily to the prompt resolution of a complicated case that might otherwise have taken years to investigate and prosecute.

Finally, we must add, GE did not take these actions because it had notice of any "whistleblower" suit or governmental investigation. GE had no knowledge in December 1990 -- when it disclosed what it then knew and promised to cooperate by disclosing the results of the internal investigation it was about to undertake -- that a "*qui tam*" suit had been brought under seal or that the Government had opened an investigation a mere three weeks before. GE took these steps because it was the right thing to do.

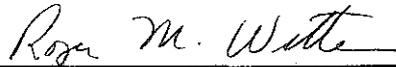
CONCLUSION

GE is committed at the most senior management level to build the success of the company on a bedrock of integrity. Its actions since the discovery of the problem prove that GE accepts responsibility for the conduct that led to this case. GE is prepared to enter a guilty plea on the terms set forth in the Plea Agreement, and urges the Court to accept that Plea Agreement.



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July 22, 1992