



Former Security Contractor Executives Sentenced For Illegally Obtaining More Than \$31 Million Intended For Disadvantaged Small Businesses

FOR IMMEDIATE RELEASE

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ALEXANDRIA, Va. – Two former executives at a Virginia-based security contracting firm were sentenced in the Eastern District of Virginia for their roles in using a front company to obtain more than \$31 million intended for disadvantaged small businesses as part of the Small Business Administration’s (SBA) Section 8(a) program. This program allows qualified small businesses to receive sole-source and competitive-bid contracts set aside for minority-owned and disadvantaged small businesses.

Neil H. MacBride, United States Attorney for the Eastern District of Virginia; Acting Assistant Attorney General Mythili Raman of the Justice Department’s Criminal Division; National Aeronautics and Space Administration (NASA) Inspector General Paul K. Martin; SBA Inspector General Peggy E. Gustafson; Defense Criminal Investigative Service (DCIS) Special Agent in Charge of Mid-Atlantic Field Office Robert E. Craig; General Services Administration (GSA) Inspector General Brian D. Miller; and Department of Homeland Security (DHS) Deputy Inspector General Charles K. Edwards made the announcement after sentencing by United States District Judge Leonie M. Brinkema.

Joseph Richards, 52, of Arlington, Va., and David Lux, 66, of Springfield, Va., were sentenced today to 27 and 15 months in prison, respectively, after pleading guilty to conspiracy to commit major government fraud in March 2013. The court imposed restitution in the amount of \$120,378.73 against Richards and required Lux to forfeit \$115,556.96.

According to court documents, Richards and Lux were executives at an Arlington-based security contractor referred to in court documents as Company A. In approximately 2001, Keith Hedman, 53, of Arlington, formed Company A, which was approved to participate in the 8(a) program based on the 8(a) eligibility of its listed president and CEO, an African-American female. When the listed president and CEO left Company A in 2003, Hedman became its sole owner, and the company was no longer 8(a)-eligible.

In 2003, Hedman created Company B, another Arlington-based security contractor, to ensure that he could continue to gain access to 8(a) contracting preferences for which Company A was no longer qualified. Prior to applying for Company B’s 8(a) status, Hedman selected an employee, Dawn Hamilton, 48, of Brownsville, Md., to serve as a figurehead owner based on her Portuguese heritage and history of social disadvantage. In reality, the new company was managed by Hedman and Company A

senior leadership in violation of 8(a) rules and regulations. To deceive the SBA, the co-conspirators falsely claimed that Hamilton formed and founded the company and that she was the only member of the company's management. Based on those misrepresentations, Company B obtained 8(a) status in 2004. From 2004 through February 2012, Hedman – not Hamilton – impermissibly exercised ultimate decision-making authority and control over Company B by directing its finances, allocation of personnel, and government contracting activities.

Richards and Lux joined the scheme in 2005 and 2008, respectively. Hedman offered Richards and Lux ownership stakes in Company B in exchange for their assistance in misleading the SBA and other U.S. government agencies, and both men accepted. Once they joined the conspiracy, Richards and Lux took a variety of actions to further the fraud against the United States. In 2008, for example, both Richards and Lux helped Company B overcome a protest by another company that accused Company A and Company B of improperly obtaining a \$48 million Coast Guard contract.

From 2008 to 2010, Richards moved to Company B's payroll to help Hedman illegally operate Company B. In 2010, Lux helped Hedman withdraw more than \$1 million in cash from Company B's accounts, which Hedman then disbursed to various conspirators, including \$100,000 in cash to both Richards and Lux. Richards and Lux also assisted Hedman, Hamilton, and other co-conspirators prepare false documents, including annual reviews, to submit to SBA and other government agencies.

In total, the scheme netted government contracts valued at more than \$153 million, from which Company B obtained more than \$31 million in contract payments. The various conspirators netted more than \$6.1 million that they were not entitled to receive from those payments.

Six other defendants have pleaded guilty in the scheme:

- Hedman is scheduled to be sentenced by U.S. District Judge Gerald Bruce Lee on June 21, 2013.
- Hamilton is scheduled to be sentenced by U.S. District Judge T. S. Ellis, III on June 28, 2013.
- David Sanborn, 60, of Lexington, S.C., Company A's former President, is scheduled to be sentenced by U.S. District Judge Claude M. Hilton on July 19, 2013.
- John Hertogs, 42, of Winter Springs, Fl., Company B's former director of operations, is scheduled to be sentenced by Judge Hilton on July 12, 2013, for submitting a fraudulent 8(a) application for a follow-on company that Hedman and Hamilton intended to use once Company B graduated from the 8(a) program.
- Derek Matthews, 47, of Harwood, Md., former Regional Director for the National Capital Region of the Federal Protective Service, is scheduled to be sentenced by Judge Brinkema on July 19, 2013, for a related bribery scheme in which Hedman agreed to pay Matthews \$50,000 and a percentage of new business in exchange for Matthews helping Company B obtain contracts.
- Michael Dunkel, 59, of Merritt Island, Fl., is scheduled to be sentenced by Judge Lee on Oct. 4, 2013, for obtaining more than \$4.4 million in payments by using Company B as a pass-through company on NASA contracts.

This case was investigated by NASA Office of the Inspector General (OIG), the SBA -OIG, DCIS-OIG, GSA-OIG, and DHS-OIG, with assistance from the Defense Contract Audit Agency. Assistant U.S. Attorneys Chad Golder and Ryan Faulconer, a former Trial Attorney for the Criminal Division's Fraud Section, are prosecuting the case on behalf of the United States.