Department of Justice

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Eastern District of Virginia

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Security Contractors Plead Guilty To Illegally Obtaining $31 Million From Contracts Intended For Disadvantaged Small Businesses

ALEXANDRIA, Va. – Executives at two Arlington-based businesses have pleaded guilty to fraudulently obtaining more than $31 million in government contract payments that should have gone to disadvantaged small businesses.

The guilty pleas were announced today by U.S. Attorney for the Eastern District of Virginia Neil H. MacBride, Acting Assistant Attorney General Mythili Raman of the Justice Department's Criminal Division and NASA Inspector General Paul K. Martin.

"These executives used their knowledge and experience to abuse a program created to ensure minority small business owners could compete for government contracts," said U.S. Attorney MacBride. "They not only illegally obtained millions from the United States, they also victimized legitimate minority owners who didn't get the bids."

"Keith Hedman and his co-conspirators fraudulently obtained valuable government contracts intended for minority-owned small businesses, and pocketed millions of dollars for themselves," said Acting Assistant Attorney General Raman. "They abused an important government program, and will now face the consequences."

"This investigation confirmed that these executives repeatedly took actions that gave them a fraudulent advantage in the contracting process," said NASA Inspector General Martin. "I commend the outstanding efforts of our agents and our law enforcement partners involved in this case in protecting the integrity of the 8(a) program."

According to court documents, Keith Hedman, 53, of Arlington, Va., formed an Arlington-based security service consulting company in approximately 2001. Hedman formed the company, listed as Company A in court filings, with an African-American woman who was listed as its president and CEO to enable the company to participate in the Small Business Administration's (SBA) Section 8(a) program, which enables certain small businesses to receive sole-source and competitive-bid contracts set aside for minority-owned and disadvantaged small businesses. In 2001, Hedman's company received approval to participate in the 8(a) program on the basis of the African-American president and CEO's listed role, but when she left the company in 2003, Hedman became its sole owner and the company was no longer 8(a)-eligible.

Hedman admitted that in 2003 he created a shell company, listed as Company B in court records, to ensure he could continue to gain access to 8(a) contracting preferences for which Company A was not qualified. Prior to applying for the shell company'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, when in reality the new company would be managed by Hedman and senior leadership at Company A. To deceive the SBA, they falsely claimed that Hamilton formed and founded the company and that she was the only member of the company's management. They continued to mislead the SBA through 2012, even lying to the SBA to overcome a protest filed by another company accusing Hedman's former company and the shell company of being inappropriately affiliated.

From Company B's creation through February 2012, Hedman – not Hamilton – exercised ultimate decision-making authority and control over the company by controlling its finances, allocation of personnel and government contracting activities. Hedman nonetheless maintained the impression that Hamilton was leading the company, including through forgeries of signatures by Hamilton to documents she had not seen or drafted. Hedman also retained ultimate control over the shell business's bank accounts throughout its existence. In 2011, Hedman withdrew $1 million in cash from Company B's accounts and gave the funds in cash to Hamilton and three other co-conspirators. In total, Hedman and Hamilton secured through the shell company more than $31 million in government contract payments, which generated more than $6 million in salary and payments for the conspirators that they were not entitled to receive.

In addition, Hedman admitted that he agreed to pay a $50,000 bribe through the shell business to a U.S. government contracting official for the official's help in securing contracts for Company B.

Hedman and Hamilton pleaded guilty on March 13 and March 15, 2013, respectively, in U.S. District Court for the Eastern District of Virginia to major government fraud and face a maximum penalty of 10 years in prison and a multimillion-dollar fine for that charge. Hedman also pleaded guilty to conspiracy to commit bribery, which carries a maximum penalty of five years in prison. Hedman agreed to forfeit more than $6.3 million, and Hamilton agreed to forfeit more than $1.2 million. Hedman is scheduled to be sentenced on June 21, 2013, before U.S. District Judge Gerald Bruce Lee. Hamilton's sentencing is scheduled for June 21, 2013, before U.S. District Judge T. S. Ellis, III.

In addition, the following individuals have also pleaded guilty to major fraud or conspiracy to commit major fraud:

- David George Lux, 66, of Springfield, Va., pleaded guilty today before U.S. District Judge Leonie M. Brinkema. Lux served as the chief financial officer at Company A from 2007 through February 2012 and performed work for Company B throughout that time while officially on Company A's payroll. He is scheduled to be sentenced on June 14, 2013, by Judge Brinkema.

- Joseph Richards, 51, of Arlington, Va., pleaded guilty on March 14, 2013, before U.S. District Judge Brinkema in the Eastern District of Virginia. Richards served as the chief operating officer and chief of staff for Company A from 2005 through 2008 and then vice president from 2010 through February 2012. He also served as Company B's chief of staff from 2008 through 2010. According to court documents, Richards performed work for Company B throughout his time at both companies. He is scheduled to be sentenced on June 14, 2013, by Judge Brinkema.

- David Sanborn, 60, of Lexington, S.C., pleaded guilty on March 13, 2013, before U.S. District Judge Claude M. Hilton in the Eastern District of Virginia. Sanborn served as vice president at Company A from 2001 through 2009 and the company's president from 2010 through February 2012. According to court documents, Sanborn performed work for Company B from its inception while on Company A's payroll. He is scheduled to be sentenced on June 28, 2013, by Judge Hilton.

This case was investigated by the NASA Office of the Inspector General (OIG), the SBA OIG, the Defense Criminal Investigative Service, the General Services Administration OIG and the Department of Homeland Security OIG. 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.

A copy of this press release may be found on the website of the United States Attorney's Office for the Eastern District of Virginia at http://www.justice.gov/usao/vae. Related court documents and information may be found on the website of the District Court for the Eastern District of Virginia at http://www.vaed.uscourts.gov or on https://pcl.uscourts.gov.

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