



# Department of Justice

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District of Oregon

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## **COOS BAY COMPANY, ITS OWNER AND SIX EMPLOYEES INDICTED FOR FRAUD ON DEFENSE CONTRACTS**

EUGENE, Ore. — A Coos Bay business, its owner and six employees were arraigned in federal court today on an indictment returned by a federal grand jury on December 14, 2011. The indictment alleges that Kustom Products, Inc. (KPI), a vehicle parts supply business located at 1084 South 5th Street, Coos Bay, Oregon, its owner and six employees committed fraud on contracts with the United States Department of Defense (DoD) valued at over \$7.5 million. The indicted owner is Harold Ray Bettencourt II. The indicted employees are Bettencourt's former wife (Kathy Sue Bettencourt), three of his sons (Harold Ray Bettencourt III [Bo], Nicholas Ryan Bettencourt and Peter Tracy Bettencourt), his office manager (Margo Antonette Densmore), and his purchasing agent (Joshua Lee Kemp). The indictment alleges that KPI, Bettencourt and the others committed wire fraud, conspiracy to commit wire fraud, fraud involving aircraft parts, money laundering, and conspiracy to commit money laundering. It also alleges that all proceeds traceable to the fraud are to be forfeited including \$365,503.26 in funds from 20 bank accounts, eight vehicles, one boat, two boat trailers, two jet skis, and three all-terrain vehicles.

Harold Ray Bettencourt II is 57 years of age and resides at 644 9<sup>th</sup> Avenue in Coos Bay, Oregon. Kathy Sue Bettencourt is 54 years of age and resides at 96159 Gravelford Lane in Myrtle Point, Oregon. Bo Bettencourt is 31 years of age and resides at 2180 Garfield Street in North Bend, Oregon. Nicholas Ryan Bettencourt is 29 years of age and resides at 2190 Garfield Street in North Bend, Oregon. Peter Tracy Bettencourt is 25 years of age and resides at 2145 Garfield Street in North Bend, Oregon. Margo Antonette Densmore is 40 years of age and resides at 644 9<sup>th</sup> Avenue in Coos Bay, Oregon. Joshua Lee Kemp is 37 years of age and resides at 1026 Sanford Avenue in Coos Bay, Oregon.

The indictment alleges that KPI and a predecessor business, Southern Oregon Sterling Parts and Service (SOS), provided nonconforming, defective and counterfeit products to the DoD for the purpose of increasing their profit margin. It alleges that KPI and SOS committed fraud on at least 392 contracts resulting in payments of \$7,523,406.59. The indictment alleges that the various nonconforming and counterfeit products were provided to the DoD from KPI through DoD supply centers in Columbus, Ohio; Philadelphia, Pennsylvania; and Richmond, Virginia. Some of the products were critical application items, defined as items essential to weapons systems performance or operation, or the preservation of life or safety of operational personnel. Examples were defective aviation locknuts for the Kiowa helicopter. These locknuts were used on the main rotor assembly of the Kiowa helicopter and were flight critical because the failure of

the main rotary assembly could be catastrophic, resulting in death or serious injury to military personnel. Other critical application items included clamp loops used in C-5 military transport plane engines and other aircraft.

The indictment alleges that Harold Bettencourt II facilitated the scheme by directing other defendants to carry out actions on behalf of KPI and its predecessor SOS, such as making false representations in contracts, providing non-conforming and counterfeit products, and providing false documents to the DoD. The indictment includes a number of examples of how the fraud was committed, and explains how some products were counterfeited in Mexico or obtained in China, even though KPI represented them to be from DoD-approved manufacturers in the United States. The DoD-approved manufacturers whose parts were counterfeited or otherwise misrepresented to be genuine include Caterpillar, Inc., BAE Systems Land and Armaments, Freightliner, Pacific Industrial Components, Inc., and SPS Technologies. The indictment also alleges that KPI and its predecessor SOS counterfeited heat treatment certifications of Timber Products Inspection, Inc. on wood packaging materials in order to decrease expenses and increase profits.

The indictment charges all defendants with wire fraud and conspiracy to commit wire fraud. The maximum statutory penalty for wire fraud and conspiracy to commit wire fraud is a 20 year term of imprisonment and a \$250,000.00 fine, followed by a three year term of supervised release. It also charges Harold Ray Bettencourt II, Nicholas Ryan Bettencourt and Joshua Lee Kemp with fraud involving aircraft parts. The maximum statutory penalty for fraud involving aircraft parts is a 10 year term of imprisonment and \$250,000.00 fine, followed by a three year term of supervised release. The indictment also charges Harold Ray Bettencourt II, Kathy Sue Bettencourt, Bo Bettencourt, Nicholas Ryan Bettencourt, Margo Antoinette Densmore and KPI with money laundering and conspiracy to commit money laundering. The maximum statutory penalty for money laundering is a 10 year term of imprisonment and \$250,000.00 fine, followed by a three year term of supervised release.

The matter is scheduled for trial before United States District Judge Michael R. Hogan on June 27, 2012. All defendants were released on conditions pending trial.

S. Amanda Marshall, United States Attorney for the District of Oregon, emphasized the serious nature of the charges: "The allegation that military personnel were placed in harm's way for the sole purpose of financial profit warrants vigorous investigation and prosecution."

A criminal indictment is only an allegation and not evidence of guilt. All defendants are presumed to be innocent unless and until proven guilty.

The case is being investigated by the Department of Defense/Office of Inspector General/Defense Criminal Investigative Service, the Army Criminal Investigative Division Major Procurement Fraud Unit, the Federal Bureau of Investigation, the Internal Revenue Service Criminal Investigation Division, the Social Security Administration/Office of Inspector General, and Immigration and Customs Enforcement. The case is being prosecuted by Assistant U. S. Attorney Sean B. Hoar.

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