



Department of Justice

United States Attorney Rodger A. Heaton
Central District of Illinois

FOR IMMEDIATE RELEASE
FRIDAY, JULY 20, 2007
www.usdoj.gov/usao/ilc/

CONTACT: SHARON PAUL
PHONE: (217) 492-4450

**FORMER EGL HOUSTON EXECUTIVE ADMITS GIVING “PERKS”
TO KBR EMPLOYEES AND LYING TO FEDERAL INVESTIGATORS**

ROCK ISLAND, IL – The United States Attorney for the Central District of Illinois, Rodger A. Heaton, announced that a former executive for Eagle Global Logistics, Inc. (EGL) pleaded guilty today to providing “perks” to gain or reward favorable treatment related to military subcontracts and lying to federal investigators. Kevin Andre Smoot, age 43, of The Woodlands, Texas, waived indictment and pled guilty to making a false statement and violation of the Anti-Kickback Act before U.S. District Judge Michael M. Mihm in Rock Island, Illinois.

U.S. Attorney Heaton stated, “With respect to government contracts, the law is clear and straightforward. Kickbacks are unacceptable and will not be tolerated. Government contractors like Mr. Smoot, who crossed the line and lied to investigators, should expect vigorous prosecution.”

During the time when the offenses occurred, Smoot was the managing director of EGL Houston’s Freight Forwarding Station. Another EGL employee, Christopher Cahill, served as EGL’s regional vice president for the Middle East and India and was stationed at its regional office in Dubai. Cahill pled guilty and was sentenced in August 2006 to 30 months in prison for inflating invoices for military shipments to Baghdad through EGL’s subcontract with Kellogg, Brown and Root (KBR) under the LOGCAP III prime contract.

LOGCAP (Logistics Civil Augmentation Program) is a U.S. Army program that uses civilian contractors to support the logistical needs of the U.S. military forces. In December 2001, the LOGCAP III prime contract was awarded to KBR by the U.S. Army Operations Support Command, with headquarters at the Rock Island Arsenal in Rock Island, Illinois. The contract was administered by the Army Field Support Command, also at the Rock Island Arsenal.

In the plea agreement and during court proceedings today, Smoot admitted that he lied to federal investigators on two occasions: when he was interviewed on November 15, 2004 by agents with the Defense Criminal Investigative Service (DCIS), and again on March 3, 2005, when he was interviewed by agents with DCIS and the Federal Bureau of Investigation. Smoot was interviewed regarding his knowledge of Cahill’s scheme to inflate invoices by adding a “war risk surcharge” of \$.50 for each kilogram of freight transported to Baghdad. Cahill added the

(More)

surcharge after learning that an EGL competitor was seeking “war risk” insurance to resume air cargo flights into Baghdad after the competitor’s cargo plane had been shot down in Iraq in November 2003. At the time, however, Cahill knew that the air charter company EGL had contracted with to perform the air cargo flights had not instituted such a fee.

Smoot admitted that at the time he was interviewed, in or before November 2004, he knew the war risk surcharges were not legitimate and that as of March 2005, he knew that Cahill had caused false documents to be created to conceal the fraudulent nature of the war risk surcharges.

From November 22, 2003, through July 20, 2004, EGL performed approximately 379 air cargo shipments of military goods from Dubai to Baghdad under EGL’s subcontract with KBR. The total amount of the EGL invoices was approximately \$13.26 million including \$1.14 million in fraudulent war risk surcharges.

The increased profits from the war risk surcharge were initially credited to EGL’s Dubai regional office but were later credited to EGL’s Houston headquarters ultimately resulting in an increase in the incentive bonus paid to Smoot for fiscal year 2004.

Smoot further admitted that from January 2002 through April 2005, in violation of the Anti-Kickback Act, he provided or authorized entertainment and other gratuities to five Houston-based KBR transportation department employees to obtain or reward favorable treatment in connection with LOGCAP III transportation subcontracts. Smoot admitted he personally provided gratuities valued at approximately \$25,337, on approximately 90 different occasions, to KBR personnel and that he authorized a subordinate employee to provide additional gratuities of approximately \$8,494 bringing the total value of gratuities provided to approximately \$33,831. Gratuities included such items as meals, drinks, golf outings, tickets to rodeo events, baseball and football games and other entertainment events. Further Smoot admitted that beginning in June 2004, he and the subordinate employee began a practice of either falsely listing recipients’ names or simply not listing recipient names on EGL expense reports.

At sentencing, scheduled December 14, 2007, in Rock Island, the maximum statutory penalty for violating the Anti-Kickback Act is 10 years in prison, and a fine of up to \$250,000. For making a false statement, the penalty is up to five years in prison and a fine of up to \$250,000. The defendant may also be ordered to pay restitution. According to the plea agreement the parties have not reached a final determination of the total amount of restitution; however, the parties have agreed that restitution shall include the amount of the incentive bonus Smoot received in connection with the underlying offenses.

Agencies conducting the investigation include the Defense Criminal Investigative Service, Houston, Texas, and the Federal Bureau of Investigation, Springfield Division. Also participating in the investigation were the Internal Revenue Service, Criminal Investigation Division, and the U.S. Army Criminal Investigation Division, North Central Fraud Field Office.

The case is being prosecuted by Jeffrey B. Lang, Supervisory Assistant U.S. Attorney, Rock Island Division; Gregory R. Walters, Assistant U.S. Attorney, Peoria Division; and John Michelich, Senior Trial Attorney, Criminal Division, Fraud Section, U.S. Department of Justice.

In October 2006, Deputy Attorney General Paul J. McNulty announced the formation of a National Procurement Fraud Task Force designed to promote the early detection, identification, prevention and prosecution of procurement fraud associated with the increase in contracting activity for national security and other government programs. The Procurement Fraud Task Force, chaired by Assistant Attorney General Fisher, includes the Federal Bureau of Investigation, the U.S. Inspectors General community, the Executive Office for United States Attorneys and others.

####