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NEWS RELEASE

MT. POCONO COMPANY AGREES TO PAY CIVIL SETTLEMENT OF \$500,000 TO THE U.S. GOVERNMENT AND COMPANY SALES MANAGER SENTENCED TO ONE YEAR OF PROBATION FOR VIOLATION OF THE FALSE CLAIMS AND BUY AMERICAN ACTS

Thomas A. Marino, United States Attorney for the Middle District of Pennsylvania, announced today a settlement in a substantial false claims action against the Moritz Embroidery Works, a Mt. Pocono, Pennsylvania company. In addition, the sales manager of the company pleaded guilty to conspiring to cause the filing of a false "Buy American Act" certification to the United States government.

According to U.S. Attorney Marino, in April 2004, the Moritz Embroidery Works, a long-established manufacturer of embroidered emblems and patches used by social, police, military, and other organizations, won a competitively bid contract with the Department of Defense to produce a minimum of 3,000,000 up to a maximum of 7,200,000 U.S. flag patches for use on the military uniforms of the men and women serving in the U.S. armed forces. The Government agreed to pay Moritz \$0.22 for each flag patch produced. As part of the contract specifications, Moritz agreed to comply with a pair of statutes commonly known as the "Buy American Act" and the "Berry Amendment." These statutes prohibit the Department of Defense from procuring items of clothing that have not been grown or produced in the United States.

The United States was initially alerted to Moritz's conduct when Action Embroidery Corp., a California-based corporation that had lost out to Moritz in bidding for the defense contract, filed a civil False Claims Act qui tam suit against Moritz on behalf of

the United States. Based on the information provided to the United States by Action Embroidery, special agents from the Department of Defense, Defense Criminal Investigation Service ("DCIS") executed a search warrant on the Moritz facility in Mt. Pocono and confirmed that production of the flag patches had been outsourced to the Sheen Ray Embroidery Company, Ltd., Chiang Mai, Thailand, in violation of the contract, the Buy American Act and the Berry Amendment. In order to obtain payment, the Moritz company filed false certifications that the flag patches had been made in the United States.

As part of the settlement of the civil False Claims Act case, Moritz has agreed to pay to the United States the sum of \$500,000 in damages and penalties. Of this amount, 20% (\$100,000) will be shared with Action Embroidery. This is a share set by the False Claims Act which is intended to encourage private citizens and corporations who become aware of fraud being committed against the government to report that fraud.

Brian Moritz, age 33, of Stroudsburg, the company's sales manager who was involved in the production of the flag patches and submission of the contract paperwork to the Government, pleaded guilty to conspiring to cause the filing of a false certification. Magistrate Judge Thomas M. Blewitt sentenced him to serve one year on federal probation, pay a \$500 fine and a \$25 special assessment, and complete 100 hours of community service.

U.S. Attorney Marino noted that the civil settlement and criminal prosecution represented the culmination of a two-year investigation. He added, "The men and women of our armed forces courageously protect our freedoms every day. They deserve our respect and admiration for upholding the rights that each of us enjoy. Unfortunately, the Moritz company believed that U.S. soldiers shedding their blood on foreign battlefields could do so wearing uniforms with U.S. flag patches not manufactured in the United States, but rather in a Thailand sweatshop. My office's civil and criminal divisions conducted parallel, coordinated investigations in this matter. I want to commend the Department of Defense and its agents for their excellent investigation of this case, and thank the Action Embroidery Company for their valuable assistance in bringing Moritz's fraud to light."

This case was investigated by the Department of Defense, Defense Criminal Investigation Service and handled by Assistant U.S. Attorney Stephen R. Cerutti, II and Assistant U.S. Attorney Christian A. Fisanick, Chief of the Criminal Division.
