

DOJ Settlement Overview

1. The Five Individuals and the Sham Small Businesses

Five now-former employees and officers of Paragon (the “Five Individuals”) were at the center of the fraudulent misconduct:

- Leslie Kaciban, Former President of Paragon Protective Services Division
- Matthew Kaciban, Former Cost and Pricing Manager
- Michael Kaciban, Former Contracts and Compliance Manager
- Robert Rubin, Former Senior Vice President
- Grady Baker, Former Vice President

These individuals exercised significant control of Paragon’s contracting and payroll processes, and using this control, created sham disadvantaged small businesses – using their immediate family members and close friends to “head” the companies – to enter into subcontract relationships with Paragon as well as small business set-aside prime contracts with the United States Government. Three small businesses were at the center of the scheme:

- Athena Services International, LLC;
- Patronus Systems, Inc.; and
- Praetorian Shield Inc.

The Five Individuals also created several limited liability partnerships through which they paid themselves for “consulting fees” that the Government believes amounted to kickbacks.

2. The Depth of the Fraud

Often, the “Five Individuals” ran the entirety of these small businesses’ operations, using Paragon’s resources, and even reassigning Paragon’s guards to work for them. This included using Paragon’s access and connections within the Valiant payroll system to manage payroll and invoicing for the sham small businesses. The Five Individuals used the small business front companies to perform work as subcontractors for Paragon on over 20 government contracts and served as prime contractors on five small business set-asides.

By using all of Paragon’s resources to run these small businesses, the Five Individuals were able to pocket all profit and operating expenses – receiving over 15 million dollars during the course of 6 years.

While Paragon received an anonymous complaint regarding possible conflicts of interest and the impropriety of the relationships between Paragon and the small businesses, a full investigation was never conducted. This was in part due to the fact that these complaints were often reviewed by the Five Individuals, who were then able to downplay bad behavior and curtail internal investigations.

3. The Impact of the Fraud

In addition to wrongfully obtaining from the government, the Five Individuals stole time and resources from Paragon employees. The Five Individuals frequently instructed back-office employees to review contracts, conduct HR activities, and even process payroll for the small businesses under the guise of being a “good mentor” in the mentor-protégé program. They also forced Paragon PSOs to “transfer” to the small businesses, which often impacted those PSOs’ benefits. The Five Individuals further engaged in inappropriate and hostile behavior to get employees to carry out their orders, including name calling, bullying, and yelling.

Eventually, the Department of Justice learned of the fraudulent scheme through a whistleblower complaint and opened an investigation. Paragon fully cooperated and conducted its own investigation into the origin and actors involved. As soon as Paragon determined that the Five Individuals were involved, Paragon terminated the employment of the four remaining executives.

After close to two years of investigation, Paragon settled with the DOJ for over 50 million dollars – despite that the Five Individuals were acting of their own accord and had already been fired. Each of the Five Individuals, and their family members and friends, were also subject to DOJ investigations. Some have settled individually with DOJ, paying individually anywhere from \$221,000 to \$1.6 million. Some are still in the process of reaching settlement or heading to litigation. Some are likely under criminal investigation.

Importantly, when an individual or company lies to the government for the purpose of obtaining money, or a discount, that it is not legally entitled to, this is called a false claim. There are extreme monetary and even criminal penalties for making false claims as the False Claims act permits the Government not only to recover the amount that an individual falsely obtains but also up to three times the amount as damages, and a penalty of over \$28,000 per false claim.

Facing this magnitude of penalties, companies could easily go out of business. Moreover, involved individuals can face bankruptcy and even prison time. Lastly, the Government can bar people and companies from working with or for the federal government for years.

4. Paragon’s Commitment to Compliance

Since discovering the kickback scheme and the depth of the fraud the Five Individuals perpetuated, Paragon has made significant changes to its compliance program. Paragon has updated its training and policies. It has also improved the process for elevating and escalating ethics concerns. Paragon hired a dedicated Vice President of Government Compliance to ensure that this kind of misconduct never occurs again. More significantly, however, Paragon wants to ensure that all its employees, including the PSOs, know that they can and should report ethical concerns to Paragon’s leadership, without fear of reprisal or retribution. This

information can be found in Paragon's Code of Conduct – which is available on the company website.

Paragon encourages all its employees to report any concerns of conflicts of interest. This does not mean the individual reporting the concern, or the individual at the center of the concern, will face punishment or employment action. Instead, Paragon will ensure that appropriate steps are taken to identify possible conflicts or ethical issues and take steps to remedy those issues.

Please reach out with any concerns at all to your Project Manager, Paragon's Vice President of Government Compliance, Mr. Adam Fegely, or even through the anonymous company hotline. Anyone may contact a Company Hotline Communications Specialist by dialing 1-800-574-8637 or go on-line to www.SCIShotline.com or www.paragonhotline.com to confidentially file a report, seven days per week, 24 hours a day. All calls and web reports will be promptly assigned to the designated company contact for an investigation and response.