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CLERK U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
LOS ANGELES

BY _____

6 Attorneys for Qui Tam Plaintiff [under seal]
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UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

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CV06-2951

PLA

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[UNDER SEAL],

Case No.:

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Plaintiffs,

COMPLAINT COMPLAINT FOR
VIOLATION OF FEDERAL FALSE
CLAIMS ACT [31 U.S.C. §3729 et seq.]

13

vs.

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15

[UNDER SEAL],

FILED IN CAMERA AND UNDER SEAL
(AS REQUIRED BY 31 U.S.C. §3730 (a)(2))

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Defendants.

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6 Attorneys for Qui Tam Plaintiff Allen Davis

7 UNITED STATES DISTRICT COURT
8 FOR THE CENTRAL DISTRICT OF CALIFORNIA

9 UNITED STATES OF AMERICA *EX REL.*
10 ALLEN DAVIS,
11 Plaintiffs,
12 vs.
13 NORTHROP GRUMMAN SYSTEMS
CORPORATION; LITTON SYSTEMS INC.,
14 Defendants.

Case No.:
COMPLAINT FOR VIOLATION OF
FEDERAL FALSE CLAIMS ACT [31 U.S.C.
§3729 et seq.]
JURY TRIAL DEMANDED
FILED IN CAMERA AND UNDER SEAL
(AS REQUIRED BY 31 U.S.C. §3730 (a)(2))

1 Plaintiff relator, Allen Davis, through his attorneys Phillips & Cohen LLP, on behalf of the
2 United States of America for this Complaint against Defendants, Northrop Grumman Systems
3 Corporation and Litton Systems Inc., alleges based upon personal knowledge, relevant documents,
4 and information and belief, as follows:

5 **I. NATURE OF THE ACTION**

6 1. This is an action to recover damages and civil penalties on behalf of the United
7 States of America arising from false and/or fraudulent statements, records, and claims made and
8 caused to be made by Defendants and/or their agents, and employees in violation of the Federal
9 False Claims Act, 31 U.S.C. §§ 3729 et seq. ("FCA"). The Complaint alleges that Defendants
10 knowingly submitted, or caused to be submitted, claims for payment to the United States
11 Government for high reliability industrial parts that were not screened as required and for which
12 screening the Government paid a premium, all in violation of 31 U.S.C. § 3729(a)(1) and (a)(2).

13 2. The FCA was originally enacted during the Civil War to redress fraud against the
14 Government. Congress substantially amended the Act in 1986 to enhance the Government's
15 ability to recover losses sustained as a result of fraud against the United States after finding that
16 fraud in federal programs was pervasive and that the Act, which Congress characterized as the
17 primary tool for combating Government fraud, was in need of modernization. Congress intended
18 the amendments to create incentives for individuals with knowledge of fraud against the
19 Government to disclose the information without fear of reprisals or Government inaction, and to
20 encourage the private bar to commit legal resources to prosecuting fraud on the Government's
21 behalf.

22 3. The FCA provides that any person who presents or causes to be presented false or
23 fraudulent claims for payment or approval to the United States Government, or knowingly makes,
24 uses, or causes to be made or used false records and statements to induce the United States to pay
25 or approve false and fraudulent claims, is liable for a civil penalty of up to \$11,000 for each such
26 claim, plus three times the amount of the damages sustained by the federal Government.

27 4. The FCA allows any person having information about false or fraudulent claims to
28 bring an action on behalf of the government, and to share in any recovery. The FCA requires that

1 the complaint be filed under seal for a minimum of 60 days (without service on the Defendants
2 during that time) to enable the United States to: (a) conduct its own investigation without the
3 Defendants' knowledge, and (b) determine whether to join the action.

4 5. Based on the FCA, qui tam plaintiff and relator Allen Davis seeks to recover all
5 available damages, civil penalties, and other relief for the federal violations alleged herein.

6 **II. INTRODUCTION**

7 6. The United States Department of Defense spends millions of dollars each year on
8 electronic parts, such as microcircuits, resistors, and other components. These parts are
9 incorporated into the navigation, internal measurement units and other systems for a wide array of
10 military equipment, including airplanes, helicopters, and submarines. Many of the component
11 parts that are used in these systems are available commercially, but are not tested by their
12 manufacturers to meet the potentially more stringent conditions of military use. Accordingly,
13 Defendants' contracts require the Defendants to ensure that the component parts they use are
14 screened to validate that the parts will function appropriately in the more extreme environmental
15 conditions to which military uses may subject them. The added labor, tooling and other costs to
16 meet these requirements are added to the price the Government pays for the component parts.

17 7. From at least 2002 to 2006, Defendants knowingly submitted claims to the
18 Government, or caused others to submit claims to the Government, for payment for high reliability
19 industrial parts that were not screened as required. Defendants purchase over 25,000 individual
20 component part numbers from other vendors, which are then incorporated into Defendants'
21 products. Of those 25,000 part numbers, the precise number of unscreened part numbers is
22 unknown, but the number is substantial and the parts are incorporated into many different military
23 systems and platforms. While a non-screened commercial part may function appropriately in a
24 military platform, the Government pays for the cost of screening to ensure that the part will
25 perform. By failing to perform the screening process, Defendants substantially overcharged the
26 Government for the parts.

1 **III. PARTIES**

2 **A. The Relator**

3 8. Plaintiff/relator Allen Davis is an individual residing in Salt Lake City, Utah.
4 Davis has worked for Defendants from July 2004 to the present as a Quality Assurance Manager
5 for the Salt Lake City, Utah facility. In that capacity, he manages a team of inspectors and quality
6 engineers.

7 **B. The Defendants**

8 9. Defendant Northrop Grumman Systems Corporation (“Northrop Grumman”) is
9 incorporated in Delaware and maintains its headquarters in Century City, California. Northrop
10 Grumman provides a wide range of products and services in the aerospace, electronics, and
11 shipbuilding fields. Northrop Grumman’s products are used in military air, land, sea and space
12 systems.

13 10. Defendant Litton Systems Inc. (“Litton”) is a wholly owned subsidiary of Northrop
14 Grumman and is incorporated in Delaware. Litton is headquartered in Woodland Hills, California.

15 **IV. JURISDICTION AND VENUE**

16 11. This Court has jurisdiction over the subject matter of this action pursuant to 28
17 U.S.C. § 1331, 28 U.S.C. § 1367, and 31 U.S.C. § 3732, the latter of which specifically confers
18 jurisdiction on this Court for actions brought pursuant to 31 U.S.C. §§ 3729 and 3730. The
19 Complaint is not based upon allegations or transactions that have been publicly disclosed under 31
20 U.S.C. § 3730(e). In addition, the relator has direct and independent knowledge of the
21 information on which the allegations and transactions are based and voluntarily provided the
22 information to the Government before filing this action.

23 12. Personal jurisdiction and venue are proper in this judicial district pursuant to 28
24 U.S.C. §§ 1391(b) and 1395(a) and 31 U.S.C. § 3732(a), as the Defendants are found in, have or
25 have had an agent or agents, have or have had contacts, and transact or have transacted business in
26 this district.

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1 **V. DEFENDANTS' FRAUDULENT PRACTICES**

2 **A. High Reliability Industrial Parts**

3 13. Defendants sell products directly to the Government, or as a subcontractor to
4 Government prime contractors. Defendants incorporate into their products a number of standard
5 commercial and industrial electronic component parts. These parts are used in commercial
6 applications such as automotive, desktop computing, and telecommunications that have
7 significantly lower testing requirements. Under Defendants' contracts with the Government, and
8 with prime contractors for the Government, these parts can be bought from the same sources used
9 for commercial platforms, but must be subjected to an "up screening" testing process that will
10 demonstrate that these parts would meet the more extreme environmental conditions to which they
11 will be subjected for military uses. The tests that must be performed to ensure that these parts can
12 be relied upon are expensive to perform and monitor. Building the necessary tooling to perform
13 the tests is also expensive. These costs are passed on to the Government, which pays more for the
14 parts than it would pay for standard commercial or industrial electronic components. The cost of
15 the tooling is sometimes passed on in the cost of the part, and sometimes charged separately as a
16 nonrecurring expense.

17 **B. The Single Process Initiative**

18 14. The screening tests that must be performed are governed by the Defendants' Single
19 Process Initiative ("SPI") and contractual requirements. The SPI is a document that implements a
20 Government reform of the military procurement process in the 1990s. At that time, the
21 Government authorized contractors to adopt protocols, or SPIs, that explain how the contractor
22 will implement its engineering, quality assurance, and parts management requirements. Once an
23 SPI is approved, the contractor must follow the protocol set forth in its SPI, rather than the
24 relevant military standard. Litton Guidance & Control Systems, which Northrop Grumman
25 acquired, adopted an SPI (No. 408603) for parts control and management in 1998. The
26 Defendants' contracts with its customers incorporate this SPI.

27 15. Defendants' SPI for parts management provides that standard commercial
28 electronic components and or industrial components must be screened to be able to perform at

1 -55 degrees and 125 degrees in order to be considered high reliability industrial parts. Defendants'
2 SPI provides that the particular testing process to implement these requirements will be
3 established by the electronics designer, components engineer, and reliability engineer. These
4 requirements are incorporated into an "Inspection Instruction" or "II" with which 100 percent of
5 the parts in question must comply. The SPI provides that the components must be extensively
6 tested at the component level, rather than once the parts are incorporated into a system or platform.
7 The testing is validated by the Defendants' receiving and/or receiving inspection function.

8 **C. Discovery of the Failure to Screen Parts in 2002**

9 16. In 2002, Defendants discovered that a part used in the cockpit display systems for
10 the MH60 military helicopter program had not been screened as required. The cockpit display
11 systems at issue were the CAMFD (Common Avionics Multi-Function Display) and the SFMD
12 (Smart Multi-Function Display), each of which contains a number of component parts that require
13 screening under the SPI and that were sold to Defendants' customer Lockheed Martin
14 Corporation. The part in question was part number 927595-0001, ASIC (SCSI Interface). The
15 Defendants convened a "stock sweep," or meeting to assess the risk from use of the unscreened
16 parts. The assessment concluded that the risk from nonscreening was not significant, but advised
17 that going forward the Defendant would ensure that the inspection instruction was properly
18 implemented. The unscreened parts that were used in the CAMFD and SFMD for the MH60 are
19 also used in a number of other systems that Defendants sold to the Government. Once aware that
20 the parts had not been screened for the CAMFD and the SFMD, Defendants knew that component
21 parts of other systems sold to the Government or Government prime contractors had not been
22 screened.

23 17. In December 2002, Defendants issued a letter to Lockheed Martin Corporation
24 informing the customer that screening of the parts would begin "upon the availability of the HRIP
25 [High Reliability Industrial Parts] Test Program," which was expected within 90 days of the letter.
26 Exhibit 1. John Alston and William Vanier, who were then in charge of the quality assurance
27 program in Woodland Hills, were copied on the letter. In fact, Defendants failed to perform the
28 promised screening.

1 **D. 2005 Investigation of Failure to Screen**

2 18. In the spring of 2005, Defendants' inspectors again flagged unscreened parts for the
3 MH60 helicopter program. William Vanier assigned Paul Kelley to assess the problem. In March
4 2005, Kelley presented a powerpoint presentation of his initial findings, which showed that only
5 28 inspection instructions had been issued out of the 97 required for the parts used for the MH60
6 program. Exhibit 2. Relator Davis, who attended a meeting about the failure to screen, asked his
7 director, John Alston, whether he should take steps to address the problem. Alston responded that
8 Davis should not address the problem because it was being handled "at higher levels." Relator
9 Davis informed James Baxter, from the Salt Lake City office of the DCMA, that he was concerned
10 about a possible unscreened parts issue, but that he was not yet sure of the scope of the problem.

11 19. After Kelley informed his supervisors that the parts were non-compliant, his
12 supervisors, William Vanier and John Golombeck, directed him to investigate the problem.
13 Kelley's initial investigation revealed that notwithstanding Defendants' earlier discovery in 2002
14 of the failure to screen parts for the MH60, over 250 part numbers were not being screened.
15 Kelley prepared a spreadsheet identifying the unscreened parts and the level of testing. He
16 concluded that the problem was of a much greater magnitude than he thought and informed his
17 supervisors that the task of screening and validating the parts would take a significant amount of
18 engineering and other resources. Kelley resigned in October 2005. The Defendants did not
19 inform the Government of the failure to screen parts and continued to ship unscreened parts.

20 **E. 2006 Investigation of Failure to Screen**

21 20. In early 2006, Defendants' employees again identified unscreened parts that had
22 been delivered to Utah, including the same part numbers that had been identified in 2002 and 2005
23 as unscreened. A meeting was convened in March 2006 to assess the problem.

24 21. The unscreened part numbers that generated the March 2006 meeting were
25 component parts used in the CAMFD, SMFD displays and LN100 systems, which is a
26 microcircuit that is used in many different military platforms. In addition to the LN100, the
27 unscreened part numbers that were identified included parts for the CAMFD and the SMFD
28 displays for the MH-60, which had been the subject of the 2002 and 2005 problems with

1 unscreened parts. The meeting focused on the shipment of unscreened parts to a single customer -
2 - Lockheed Martin Corporation -- and whether to obtain a waiver of the screening requirement
3 from the customer. Relator Davis pointed out to his superiors that the same parts are used in many
4 other systems and the LN100 systems are sold to many other customers, and therefore the problem
5 was much larger than a single customer and these particular part numbers. In March 2006, Relator
6 Davis met with Michael Peterson, from the Salt Lake City office of the DCMA. He explained to
7 Peterson that if the part number was not screened for one customer, that meant that there was no
8 screening for the same parts incorporated into the systems shipped to other customers either.

9 22. In April, after a month during which Defendants had taken no steps to inform their
10 other customers of the problem, Relator Davis informed his supervisor, John Alston, that he would
11 issue a stop shipment order for all LN-100s, not just those for Lockheed Martin, unless ordered
12 not to do so. Alston instructed him not to issue such an order. Exhibit 3. Shortly thereafter, the
13 Defendants began compiling lists of affected customers and preparing a letter to notify customers
14 of the existence of unscreened parts. The letter that was sent to customers, including the
15 Government, stated that Defendants had discovered only "recently" that the screening for some
16 parts "may" not have been done or "may" not have been adequately documented. The letter
17 offered an extended warranty for parts that fail. Exhibit 4. The letter did not explain the true
18 scope of the problem, nor did the letter inform the customers that the Defendants had been aware
19 of the problem for some time. The letter did not address the overcharge for the parts.

20 **E. The False Claims: Overcharging for Electronic Component Parts Supplied to**
21 **the Government**

22 23. By failing to perform the screening as represented in its SPI and as required in its
23 contracts with the Government and with prime contractors for the Government, the Defendants
24 substantially overcharged, or caused others to overcharge, the Government for high reliability
25 industrial parts. The Government pays a premium for the screening, without which the part is no
26 different from a part that could be, and was, purchased commercially for a lower price.

27 24. Defendants have been aware that parts have not been screened as required since at
28 least 2002, when they discovered the failure to test the parts supplied to Lockheed Martin

1 Corporation. Despite being on notice that parts were not being screened, Defendants did not
2 address the problem. In 2005, Defendants were again put on notice that parts were not being
3 screened, but did not take steps to notify the Government or to correct the problem.

4 25. In 2006, Defendants again were alerted to the failure to screen parts. At this point,
5 Defendants finally commenced steps to address the problem going forward, but have not informed
6 the Government of the scope of the failure to test and the substantial overcharges. Instead,
7 Defendants have presented the failure to screen as a problem that came to their attention
8 “recently,” when in fact Defendants have been on notice of the problem since at least 2002. In
9 addition, Defendants represented the problem as one that can be remedied after the fact by testing
10 the parts at the system level and showing that the parts are unlikely to fail, contrary to their
11 contractual requirements and certificates of conformance.

12 26. The specific systems that include component parts that Defendants failed to screen
13 include, but are not limited to, the following:

14 LN100	G-2000	LN-100G	LN-120
15 LN-250	LN-270	LN-100R	LN-200
16 LWWAAA	LN-100E	LN-92	LN-260

17 These systems, each of which includes multiple unscreened component parts, are distributed to
18 many military customers and military prime contractors. The systems are used in many different
19 types of military equipment, including the Comanche helicopter, the Global Hawk, the F-4
20 Phantom Jet, F-16 Fighter, F-22 Stealth fighter, Boeing C-17, the F/A – Hornet, and the Virginia
21 class submarines.

22 27. As an example of the scope of the failure to screen, a single system such as the
23 CAMFD, includes multiple component parts that require screening. The CAMFD has six
24 component parts that were not screened:

25 926994-0001 CR001	929658-0001 U102	926865-0002 U75
26 927220-0003 U34	927227-0003 U51	929149-0005

27 28. Similarly, the LN100, contains at least 36 component parts that were not screened:

28 929013-0004	929088-0001	929151-0001
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1	929014-0002	929090-0001	929151-0002
2	929023-0001	929100-0001	929167-0001
3	929075-0001	929102-0002	929168-0002
4	929084-0001	929143-0001	929211-0001
5	929214-0001	929215-0001	929218-0001
6	929218-0003	929219-0001	929221-0001
7	929227-0001	929245-0001	929247-0001
8	929250-0001	929257-0001	929392-0001
9	929285-0002	929519-0004	929519-0005
10	929587-0001	929641-0001	929800-0001
11	971946-0671	973674-0004	973732-0002

12 29. Each such system is then shipped to many different customers for use in a variety
13 of platforms. For example, the LN100 systems are shipped to Wright Patterson Air Force Base,
14 Naval Air Systems Command, Naval Inventory Control Point, the United States Coast Guard, the
15 Airforce, Naval Air Warfare Center, Marine Corp Systems Command, Naval Sea Systems
16 Command, Raytheon, Sikorsky Aircraft, and Boeing, among others.

17 30. The specific contracts for these parts that reflect the requirement for screening
18 include, but are not limited to, the following active contracts for the LN100 systems alone:

- 19 N00383-03-D-004G-7039 (Naval Inventory Control Point)
- 20 HSCG38-05-P-700260 (U.S. Coast Guard)
- 21 N00383-01-G-015G-5049 (Navy Inventory Control Point)
- 22 DAAB07-03-D-B412-0001(U.S. Army CECOM)
- 23 FA8103-05-C-0209 (U.S. Air Force)
- 24 N00019-00-F-0123 (Naval Air Systems Command)
- 25 N00421-01-C-0260 (Naval Air Warfare Center)
- 26 W58RGZ-04-P-0707 (U.S. Army Aviation and Missile Command)
- 27 N00024-97-G-4176-YC39 (Naval Sea Systems Command)
- 28 M67854-02-D-2000-0025 (Marine Corps Systems Command)

1 M67854-02-D-2000-0025 (Marine Corps Systems Command)

2 Because the failure to screen parts has been ongoing since at least 2002, and involves many more
3 systems than the LN100 systems, the number of affected contracts is much greater.

4 31. The overcharges for the unscreened parts are reflected in the requests for payment
5 submitted under the Defendants' contracts for systems that incorporate the parts, including but not
6 limited to those identified in paragraph 30. Each invoice submitted under the contracts for the
7 unscreened parts constitutes a false claim for payment.

8 32. At the time of each shipment, Defendants sign a certificate of conformance
9 attesting to compliance with contractual specifications. Each certificate of conformance
10 constitutes a false statement in support of a false claim for payment.

11 **Count I**

12 **False Claims Act 31 U.S.C. §§ 3729(a)(1) and (a)(2)**

13 33. Relator repeats and realleges each and every allegation contained in paragraphs 1
14 through 32 above as though fully set forth herein.

15 34. This is a claim for treble (don't know this word) damages and penalties under the
16 False Claims Act, 31 U.S.C. § 3729, et seq., as amended.

17 35. By virtue of the acts described above, Defendants knowingly presented or caused to
18 be presented, false or fraudulent claims to officers, employees or agents of the United States
19 Government for payment or approval within the meaning of 31 U.S.C. § 3729(a)(1).

20 36. By virtue of the acts described above, Defendants knowingly made, used, or caused
21 to be made or used false or fraudulent records and statements, and omitted material facts, to get
22 false and fraudulent claims paid or approved, within the meaning of 31 U.S.C. § 3729(a)(2).

23 37. The United States, unaware of the falsity of the records, statements and claims
24 made or caused to be made by the Defendants, paid claims that would not have been paid but for
25 Defendants' unlawful conduct.

26 38. By reason of the Defendants' acts, the United States has been damaged, and
27 continues to be damaged, in a substantial amount to be determined at trial.

28

1 39. Additionally, the United States is entitled to the maximum penalty of \$11,000 for
2 each and every violation of 31 U.S.C. § 3729 arising from Defendants' unlawful conduct as
3 described herein.

4 **Prayer**

5 WHEREFORE, Relator prays for judgment against the Defendants as follows:

- 6 1. that Defendants cease and desist from violating 31 U.S.C. § 3729 et seq.,
7 2. that this Court enter judgment against Defendants in an amount equal to three times
8 the amount of damages the United States has sustained because of Defendants' actions, plus a civil
9 penalty of not less than \$5,000 and not more than \$11,000 for each violation of 31 U.S.C. § 3729;
10 3. that Relator be awarded the maximum amount allowed pursuant to § 3730(d) of the
11 False Claims Act,
12 4. that Relator be awarded all costs of this action, including attorneys' fees and
13 expenses; and
14 5. that Relator recover such other relief as the Court deems just and proper.

15 **Demand for Jury Trial**

16 Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Relator hereby demands a
17 trial by jury.

18
19 Dated: May 15, 2006

PHILLIPS & COHEN LLP

20
21 By: 

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