

March 9, 2012

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By Fax 703-604-8310 and USPS

Ms. Lynne M. Halbrooks
Acting Inspector General
Office of the Inspector General
United States Department of Defense
4800 Mark Center Drive
Alexandria, VA 22350-1500

Re: *USA Today* stories concerning Leonie Industries, LLC ("Leonie")

Dear Ms. Halbrooks:

Background

We represent Leonie, a U.S. government information operations contractor that has been the subject of several recent stories in *USA Today* (attached) concerning, principally, the owners' (Camille Chidiac and Rema DuPont) personal federal income tax liability. The initial story resulted in a call by Rep. John Tierney for an investigation by your office, and other legislators have likewise expressed concern about the issues raised in these articles.

We are writing to apprise you of material omissions and/or misleading impressions in these stories, and we believe that once you are so apprised, you (and those legislators) will conclude that, at least insofar as Leonie and its owners are concerned, there is, in fact, nothing to investigate.

Federal Tax Issues

In the last few years, Leonie experienced some financial challenges not unusual for a government contractor of its size that, because they had each used their personal resources to assist the company during this time period, resulted in the owners of the business having to pay a portion of their federal income tax liabilities through an installment plan with the Internal Revenue Service ("IRS"). (The most significant challenge was the failure of a large Department of Defense prime contractor to reimburse Leonie for services rendered.) Ms. DuPont and Mr. Chidiac each has since faithfully made timely payments to the IRS. (If requested, we are

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happy to provide documentation concerning the payment plans with the IRS under separate cover.)

Their remaining federal tax liability could have been satisfied by now, but for the fact that a significant payment to Leonie from its government customer, expected to be paid within thirty days, is as yet unpaid after some fourteen months, even though the invoice has been approved for payment, due to various processing delays. We have been assured that the payment will be made within the next thirty days. Once that payment is made, both Mr. Chidiac and Ms. DuPont will have the funds necessary to pay their respective outstanding obligations to the IRS in full.

Leonie provided all of the foregoing information to *USA Today* regarding the reason for the owners' outstanding federal income tax obligations; their having entered into a payment plan with the IRS; and our expectation that Leonie will soon receive funds sufficient to enable them to retire these obligations, but the paper chose either not to include these material facts at all in one or another of the three stories published to date or to de-emphasize and obscure them. Had all of this information been included by the paper in the first story and properly emphasized, it would have likely been the *only* story because the legislators in question would have known that the IRS payment plan that they, understandably, called for is, in fact, in place, and has been for some time, and that the taxes at issue should be paid in full by the end of this month.

Furthermore, with respect to the questions about federal tax liability and federal contract eligibility raised in Senators Carper's and Coburn's letter to Secretary Panetta referenced in the most recent story, while the Consolidated Appropriations Act of 2012 bars covered agencies (including, the Department of Defense) from using funds to contract with a company that has been convicted of a felony or that has (or whose owners have) an unpaid federal tax *delinquency*, unless that company has been considered for suspension or debarment and the agency determines that further action is unnecessary to protect the interests of the government, Federal Acquisition Regulation (FAR) 9.406-2(b)(1)(v)(B)(3) provides that a taxpayer who has entered into an installment agreement with the IRS is not *delinquent*. To the same effect is an April 20, 2010, Department of Justice Procurement Guidance Document 10-06 addressing the foregoing 2008 revised provision which states:

Meaning of Tax Delinquency

Tax delinquency means that a tax has been assessed and that it cannot be further challenged--either administratively or judicially. A taxpayer or contractor is deemed delinquent only if the taxpayer has refused to pay taxes when due and required. **It should be noted, however, that a taxpayer who has entered into an installment agreement with the Internal Revenue Service or who has filed for bankruptcy would not be considered delinquent.** (Emphasis added)

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Similarly, because of Leonie's owners having entered into a payment plan with the IRS, Leonie may (and does) accurately certify with ORCA, the federal government's online representation and certification application for contractors, that neither it nor its owners (nor other "principals") has a federal tax *delinquency* in excess of \$3000.

Heating/Medical Issues

While, as noted above, the principal focus of the initial story was on federal tax issues, there was a reference to problems with Leonie's providing heat and access to medical care to its employees and partners under its contract in Afghanistan. The problems arose early during the life of the contract due primarily to the difficulty of doing business in a war zone (including problems with the Afghan banking system). But when Leonie learned of these problems, the company responded quickly to fix them, receiving a letter from their government customer verifying "full operational capability." (We can provide this letter, too, under separate cover.)

Lack of Prior Military Experience

In addition to the heating/medical issues, the initial *USA Today* story suggested that Leonie was unqualified for information operations work because its owners had "no apparent experience working with the military." First, Leonie has been providing critical mission supporting services to the U.S. government since 2004 and is in fact one of the more experienced and cost-effective military information support contractors. Second, Leonie's teams are made up of a majority of highly experienced and decorated information operations military veterans with decades of experience in the field. (Approximately 70% of Leonie personnel are veterans, in fact.) Furthermore, a key part of the Defense Department's rationale for contracting out information operations was, to the extent possible, to distance the U.S. military itself from these activities so as to maximize message credibility and leverage professional information operations expertise.

Additional Relevant Information

A number of additional facts should be noted that were either omitted or under-emphasized in the *USA Today* stories. First, Leonie's performance as a contractor in the important field of information operations in the critically important war zone of Afghanistan, and that of individual employees, has been *regularly* praised by the U.S. government (see attachments).

Second, Leonie's books have been audited on a number of occasions by the Defense Contract Auditing Agency and the company has always passed those audits.

Third, Leonie has consistently provided superior service to the U.S. Government at good value for the U.S. taxpayer. With respect to its contract in Afghanistan, awarded in September 2009 to

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Leonie and two other bidders, Leonie bid the lowest price, between \$65 and \$111 million less than the other two awardees. Similarly, in Iraq, Leonie's prices for its services have consistently been the lowest among its fellow American, British, and Iraqi competitors, while maintaining the highest levels of performance.

Fourth, all of Leonie's contracts are based on firm fixed price, as opposed to cost-plus contracts. Accordingly, all of the risk of contract performance exceeding contract price has been borne by Leonie and its owners. Further, all the contracts were awarded pursuant to full and open competition.

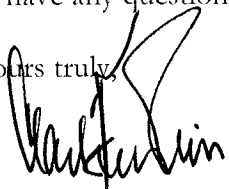
Fifth, in the last two years, Leonie employees have been awarded a total of six civilian service medals for outstanding support to the U.S. government.

Conclusion

As we say above, we believe that, based on the contents of this letter, no investigation of Leonie and its owners is warranted. The issues raised in the three news articles and by several legislators have either all been addressed or are being addressed.

If, however, you decide to conduct an investigation, Leonie, and we as its counsel, intend to cooperate fully. Please contact me if you have any questions or need any additional information.

Yours truly,



Clark K. Ervin
Admitted only in Texas

CKE:rx05224716

Attachments

cc: The Hon. Leon Panetta
Rep. John Tierney
Sen. Tom Carper
Sen. Tom Coburn
Sen. Claire McCaskill