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Massachusetts Man Charged with Selling Counterfeit Semiconductors Intended for Use on Nuclear Submarines

Peter Picone, 40, of Methuen, Mass., has been charged with importing counterfeit semiconductors from China for sale in the United States.

The charges were announced today by Acting Assistant Attorney General Mythili Raman of the Justice Department's Criminal Division; Acting U.S. Attorney for the District of Connecticut Deirdre M. Daly; Special Agent in Charge Bruce Foucart of U.S. Immigration and Customs Enforcement (ICE) - Homeland Security Investigations (HSI) in Boston; Acting Special Agent in Charge of Defense Criminal Investigative Service (DCIS) Northeast Field Office Craig W. Rupert; and Special Agent in Charge of the Naval Criminal Investigative Service (NCIS) Northeast Field Office Cheryl A. DiPrizio.

The eight-count indictment charges Picone with conspiring to traffic in counterfeit goods, conspiring to traffic in counterfeit military goods, trafficking in counterfeit goods, conspiring to commit wire fraud, wire fraud and conspiring to commit money laundering. The indictment was returned by a federal grand jury in New Haven on June 25, 2013, and was unsealed today.

The indictment charges that from February 2007 through April 2012, Picone, through two companies he owned and operated, Tytronix Inc. and Epic International Electronics, purchased counterfeit semiconductors from sources in Hong Kong and China. According to the indictment, Picone made false representations about the semiconductors and sold them to customers throughout the United States, including companies believed by Picone to be defense contractors in Connecticut and Florida. Certain semiconductors sold by Picone were intended for use on nuclear submarines.

“By allegedly purchasing and reselling counterfeit semiconductors for military applications, Peter Picone put personal gain above the safety and well-being of dedicated U.S. servicemen and women,” said Acting Assistant Attorney General Raman. “As charged in the indictment, Picone went to great lengths to conceal the true origin of counterfeit semiconductors in order to sell the devices as seemingly legitimate and reliable components for use in nuclear submarines and other complex machinery. The charges unsealed today demonstrate our steadfast commitment to working with our law enforcement partners to prosecute counterfeiters and others who risk the security of the men and women of the U.S. military.”

“Counterfeit semiconductors pose a serious health and safety risk to consumers and end-users, and an even greater threat to the safety of the men and women of our armed services when they are sold for use in the military,” said Acting U.S. Attorney Daly. “We will prosecute these types of cases to the fullest extent of the law.”

“Today’s charges demonstrate the continued commitment of the Defense Criminal Investigative Service and our peer agencies to protect the Department of Defense’s supply chain from being infiltrated and compromised with inferior components,” said DCIS Northeast Field Office Acting Special Agent in Charge Rupert. “Safeguarding our warfighters and ensuring their equipment functions at the absolute highest levels is vital to our nation’s defense and readiness. Detecting and dismantling the operations of suppliers who choose to make a profit by supplying counterfeit or inferior products is a DCIS priority. I applaud the agents and prosecutors who worked tirelessly to bring about this result.”

“Trafficking in counterfeit sensitive technologies is an extremely dangerous practice on several fronts. Not only are there significant risks associated with the transportation of this faulty equipment, but our own American servicemembers are also put in harm’s way when they encounter substandard equipment,” said ICE-HSI Special Agent in Charge Foucart. “One of HSI’s top enforcement priorities is protecting the integrity of U.S. military products and other sensitive technology.”

“Counterfeit semiconductors represent a serious threat to the safety of our military service members and raise national security concerns,” said NCIS Special Agent in Charge DiPrizio. “The introduction of defective equipment into the military supply chain can result in product failure, property damage and even serious bodily injury, including death. Some of these counterfeit devices can also be preprogrammed with malicious code and enable computer network intrusion. NCIS has worked closely with our law enforcement partners at DCIS and ICE-HSI in identifying unscrupulous suppliers and bringing them to justice.”

Picone was arraigned before U.S. Magistrate Judge Donna F. Martinez of the District of Connecticut in Hartford, Conn., and was released on bond. Trial is scheduled for Sept. 9, 2013, before U.S. District Judge Alvin W. Thompson in Hartford.

If convicted of conspiracy to traffic in counterfeit goods, Picone faces a maximum penalty of five years in prison. If convicted of conspiracy to traffic in counterfeit military goods, Picone faces a maximum term of 20 years in prison. If convicted of trafficking in counterfeit goods, Picone faces a maximum term of 10 years in prison. If convicted of conspiracy to commit wire fraud, or wire fraud, Picone faces a maximum penalty of 20 years in prison. If convicted of conspiracy to commit money laundering, Picone faces a maximum term of 20 years in prison.

The indictment also seeks forfeiture of proceeds from illicit trafficking in counterfeit goods and wire fraud as well as the seizure of the goods and any property involved in the money laundering conspiracy.

The charges and allegations contained in the indictment are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

The case was jointly investigated by HSI, DCIS and NCIS. The case is being prosecuted by Assistant U.S. Attorney Edward Chang of the District of Connecticut and Trial Attorneys Kendra Ervin and Carol Sipperly of the Criminal Division's Computer Crime and Intellectual Property Section. Trial Attorney Kristen M. Warden of the Criminal Division's Asset Forfeiture and Money Laundering Section is assisting with the forfeiture aspects of the case.

The enforcement action announced today is one of many efforts being undertaken by the Department of Justice Task Force on Intellectual Property (IP Task Force). Attorney General Eric Holder created the IP Task Force to combat the growing number of domestic and international intellectual property crimes, protect the health and safety of American consumers, and safeguard the nation's economic security against those who seek to profit illegally from American creativity, innovation, and hard work. The IP Task Force seeks to strengthen intellectual property rights protection through heightened criminal and civil enforcement, greater coordination among federal, state, and local law enforcement partners, and increased focus on international enforcement efforts, including reinforcing relationships with key foreign partners and U.S. industry leaders. To learn more about the IP Task Force, go to www.justice.gov/dag/iptaskforce/.

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Criminal Division