



July 27th, 2015

Remarks on DOJ Public Announcement

Why is this the first time we are hearing about this?

Because of the sensitive nature of the ongoing government investigation we had to limit our responses to inquiries. Now that the investigation has been resolved with respect to Harry Krantz, we can say more.

What was the subject of the investigation?

The investigation concerned sales of remarked parts during 2005 to 2008, at a time when the industry was just beginning to recognize and deal with the growing threat of remarked and/or counterfeit parts. The Company cooperated fully with the investigation. The Company believes that during 2005 to 2008 its quality control procedures were above industry standards. Nonetheless, the investigation revealed that one product, sourced in China, was sold after Jeff Krantz had reason to suspect that the product was remarked.

Background of the Investigation

During the mid-2000s, the entire industry, from OEMs to Defense Department end customers, as well as leading independent distributors like Harry Krantz, confronted serious challenges posed by the risks of remarked products entering the supply chain from Asia. The Department of Commerce found that “the proliferation of these parts is not limited to occasional, isolated incidents, but is increasingly present at every level of the supply chain.” The Department of Commerce further concluded that “no type of company or organization has been untouched by these electronic parts. Even the most reliable of parts sources have discovered remarked parts within their inventories.” Further, the Committee on Armed Services of the United States Senate described its investigation of the defense supply chain in its May 21, 2012 report “Inquiry Into Counterfeit Electronic Parts in the Department of Defense Supply Chain,” and found a major problem endemic in the industry where large numbers of counterfeit parts from Asia were in the entire defense systems supply chain. The challenges faced by everyone in the industry, including distributors, contractors and the military, in detecting inauthentic parts during the mid-2000s is thoroughly described in that Senate Report.

What happened as a result of the investigation?

Jeff Krantz has taken responsibility for this failure and entered a guilty plea. Jeff has resigned from his position as CEO and will have no involvement, going forward, in the management or operation of the Company. No charges were filed against the Company and our understanding is that no charges will ever be filed against the Company.

Who is on the new management team?

David Friede is now CEO of the Company and Anne Poncheri will assume the role of COO. Anne Poncheri has been working with the Harry Krantz Company in a consulting role since January of 2014. In June of 2015, she accepted a permanent position as the VP of Operations. Ms. Poncheri is a member of the SAE Aerospace G19 Counterfeit Electronic Components Committee that is chartered to address aspects of preventing, detecting, responding to and counteracting the threat of counterfeit electronic components. She is also actively involved in the development of AS6171 Authentication Testing for Electronic Parts - Testing Services as well as the co-chairman of the subcommittee developing the External Visual Inspection for counterfeit detection requirements.

Why should we continue to do business with Harry Krantz?

Beginning as early as 2009, the Company has moved steadily to develop best-in-class quality control and counterfeit detection programs. The Company that Harry Krantz was prior to 2009 is far different from the company that it is today. Management has established a zero-tolerance program requiring that all employees perform their jobs at levels which comply with all of the standards and certifications held by Harry Krantz. Here are just a few examples:

- All current QC staff have come on board or moved into those roles since 2012
- All current QC inspectors are trained or certified under:
 - IDEA ICE-3000
 - CCCI-102
- Harry Krantz has passed their Stage 1 audit for AS6081 and their Stage 2 audit is scheduled in early August, 2015.
- Salaries for QC inspectors have been doubled to assure we attract and retain the best talent
- Over \$650,000 invested in testing facilities, tracking software and staff training since 2012

Harry Krantz has established best practices internally for the benefit of the company, its suppliers, customers and the entire supply chain as a whole. The Company continues to refine and improve its quality control practices.

We have a capable management team, quality control protocol with improved systems, tracking software, staff training, industry standard certifications and numerous third-party customer audits. We can now take a leadership position in sharing what we have learned with others in our industry. We are committed to promoting all of our best practices so that Harry Krantz Company can assist in creating a counterfeit free zone for the entire supply chain.

See attached letter from the U.S. Department of Justice.



U.S. Department of Justice

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July 28, 2015

Richard D. Owens
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Dear Attorney Owens:

I write regarding the investigation by the United States Attorney's Office for the District of Connecticut (the "Office") into sales of certain electronic components by Harry Krantz and Co. (the "Company"). During the course of the investigation, you have provided certain information to the Office concerning the underlying events, the Company's historical operations, and its current operations and management. Based upon the information that has been made available to us to date, we have closed our inquiry into this matter with respect to the Company. We have taken this step based on a number of factors, including, but not limited to, the Company's cooperation in this matter, and the steps that the Company has taken in the past and continues to take to enhance its quality control, recordkeeping and compliance programs as well as changes in management and quality control personnel.

Very truly yours,

DEIRDRE M. DALY
UNITED STATES ATTORNEY

/s/ Felice M. Duffy
FELICE M. DUFFY
ASSISTANT UNITED STATES ATTORNEY