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**SIEMENS U.S. SUBSIDIARY, EMPLOYEES AND MINORITY PARTNERS  
INDICTED IN ALLEGED FRAUD SCHEME INVOLVING \$49 MILLION  
COOK COUNTY HOSPITAL RADIOLOGY EQUIPMENT CONTRACT**

CHICAGO – **Siemens Medical Solutions USA Inc.**, two of its employees, and two partners in a joint venture were indicted on federal fraud charges relating to a \$49 million radiology equipment contract that required minority business participation and was awarded during the construction of Cook County’s new Stroger Hospital, federal authorities announced today. The company allegedly formed a sham joint venture with a minority business enterprise (MBE) to successfully bid on the public contract in 2000, and its employees allegedly schemed to cover up the initial fraud when the contract was challenged by a competitor in a federal court lawsuit. The sham joint venture partners, **Faustech Industries, Inc.**, a local consulting firm that was certified by Cook County as a minority-owned business, and its sole owner, **Faust Villazan**, were re-indicted for allegedly paying a \$20,000 bribe to a county contract compliance official a month after the contract to provide and service the hospital’s radiology equipment was awarded to Siemens-Faustech.

Between May 2000 and November 2001, the indictment alleges that the defendants engaged in a fraud scheme by creating a sham joint venture in which they represented to Cook County that

Villazan, through Faustech, was a true joint venture partner with Siemens Medical Solutions (SMS), and that it shared in the risks and rewards in proportion with its declared 30 percent ownership in the joint venture. The defendants allegedly knew, however, that the Siemens-Faustech relationship was a facade that did not comply with the county's bid requirements because Faustech and Villazan's risk in the venture was zero and Villazan's compensation was a flat fee of \$500,000, which was not tied to the venture's loss or profit.

Five defendants – two companies and three individuals – were charged in a five-count superseding indictment that was returned by a federal grand jury late yesterday, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, and Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation.

“Sham joint ventures deprive legitimate minority businesses of a level playing field in seeking contracts,” Mr. Fitzgerald said. “When individuals or companies compete for public contracts they must be honest about describing whether the minority participation is real, and not enter into secret side agreements. If instead they commit fraud, they will face criminal prosecution. In addition, corporations and their employees, including their attorneys – like everyone else – have a duty to tell the truth when they speak to investigators or testify under oath. No one has the right to withhold documents from the Court or to lie about the facts to investigators or, worse yet, under oath in Court,” he added.

Mr. Grant noted that the indictment brings to eight the number of defendants who have been indicted in recent months in connection with alleged bribery and procurement fraud in Cook County's hospital system. “We are determined to ensure that public contracts, especially those in the lucrative healthcare industry, are obtained based on merit and are not tainted by corruption. The investigation is continuing,” he said.

The defendants and the charges are as follows:

**Siemens Medical Solutions USA, Inc.**, formerly known as Siemens Medical Systems – one count of wire fraud and one count of mail fraud. Based in Malvern, Pa., SMS is the wholly-owned U.S. medical supply subsidiary of Siemens AG, which is publicly-traded and headquartered in Erlangen, Germany. SMS, which has a field office in suburban Hoffman Estates and is one of the world's largest suppliers to the healthcare industry, owned 70 percent of DD Industries, LLC, (also known as Siemens/Faustech), the joint venture entity that was formed to bid on and was awarded the Stroger Hospital radiology contract;

**Faust Villazan**, – one count each of wire fraud, mail fraud and bribery. Villazan, 44, of Western Springs, was the chief executive officer and sole owner of Faustech Industries;

**Faustech Industries, Inc.** – one count each of wire fraud, mail fraud and bribery. Faustech, then located in suburban River Grove, was certified by Cook County as a minority business enterprise. On paper, Faustech owned 30 percent of DD Industries;

**Daniel Desmond** – one count each of wire fraud, mail fraud and perjury. Desmond, 43, of Arlington Heights, was the district business administrator of the SMS office in Hoffman Estates and the president of DD Industries, the bidding entity that was named after him; and

**Ellen Roth** – one count each of wire fraud, mail fraud and making false statements to the FBI. Roth, 61, of Ridgewood, N.J., was an in-house attorney for Siemens USA. She was the principal corporate decision-maker responsible for creating DD Industries and drafting certain portions of the radiology bid package, including a sworn statement submitted by DD Industries attesting to the Siemens-Faustech joint venture arrangement.

All five defendants will be arraigned at a later date in U.S. District Court in Chicago. A status hearing previously was set for Jan. 25 on the bribery charges that were filed last September against Villazan and Faustech. The case is assigned to U.S. District Judge John Darrah.

On May 15, 2000, Cook County officials announced they were seeking bids for a complete turnkey package – known as Bid Package No. 3 – for radiology equipment and a Picture Archiving and Communication System for a new hospital on the westside of Chicago. DD Industries was among three entities that bid on the contract. Under a county ordinance in place at the time, bidders

were required to set aside at least 30 percent of such contracts for the participation of certified minority businesses. If the MBE requirement was to be satisfied by a joint venture, the county required that MBE must share in the ownership, control, management responsibilities, risks and profits in proportion with the MBE ownership percentage, that the MBE partner be responsible for clearly defined portion of the work using its own workforce and equipment, and the MBE must perform work that it has the skill and expertise to perform and which is clearly designated in a joint venture agreement.

On June 20, 2000, DD Industries submitted its bid, including a sworn statement attesting that: SMS would share profit and loss in proportion with SMS' 70 percent ownership and 30 percent for Faustech; there were no other ownership interests or agreements that restricted ownership or control; and there were no other agreements other than the joint venture agreement between the partners. The Cook County Board found DD Industries to be the lowest qualified bidder and formally awarded the contract on August 9, 2000.

On October 24, 2000, GE Medical Systems filed a civil lawsuit against Cook County in federal court in Chicago seeking to block the radiology contract based on claims it was fraudulently obtained by DD Industries. An evidentiary hearing was held before U.S. Magistrate Judge Geraldine Soat Brown in January 2001. *GE Co. v. County of Cook*, 00 C 6587 (N.D. Ill.) Ultimately, the parties settled the lawsuit and almost all of the Stroger Hospital radiology contract was transferred to GE.

According to the indictment, on May 25, 2000, Villazan and SMS Manager A working in Hoffman Estates negotiated a flat fee compensation agreement calling for SMS to pay Villazan \$450,000 on a payment schedule and a \$50,000 bonus if certain conditions were met. That same

day, the secretary of SMS Manager A sent an e-mail to Roth and upper-level management at SMS reciting the agreed payment schedule:

- ▶ \$50,000 if the purchase order was issued to SMS by August 2000;
- ▶ \$100,000 upon issuance of the purchase order;
- ▶ \$200,000 when SMS received a payment of the delivery portion from the County;
- ▶ \$150,000 when the County made its final payment; and
- ▶ \$450,000 guaranteed total from the deal.

The indictment alleges that Roth received the e-mail and SMS' Manager A discussed the agreement with Desmond.

The fraud scheme also alleges that an SMS official told Villazan that while SMS expected Villazan to perform some work, SMS and Villazan intended that Faustech's role was solely to create the appearance that SMS had a true joint venture MBE partner and to liaison with Cook County and not to perform a commercially useful function on the contract.

On May 26, 2000, top-level SMS management personnel approved SMS' flat fee agreement with Villazan, knowing that it was a commission payment for his anticipated work in obtaining the contract and acting as liaison with county personnel, if necessary. During the next month, Roth drafted and/or reviewed paperwork and portions of the bid documents – including the joint venture affidavit signed by various principals including Villazan, Desmond and SMS Officer A – which were reviewed by Desmond and others before Desmond, Villazan, and other SMS executives signed and submitted them to Cook County. Roth determined which aspects of the SMS-Faustech relationship would be disclosed to or hidden from Cook County, the indictment alleges.

On June 20, 2000, Roth sent an e-mail to Villazan's attorney, Desmond and others at SMS, informing them that she was withholding or concealing from the County the "services agreements" with Faustech and SMS, including information about the payment schedules and milestones, even though Cook County required the joint venture to include all written agreements with the bid. Roth allegedly directed that the payment schedules and milestones "are, and should be treated as, confidential to the parties."

In August 2000, Villazan requested that SMS immediately pay him \$300,000, instead of following the agreed payment terms. Based on Roth's representations to SMS management that the \$500,000 flat fee was the only compensation agreement between them, SMS paid Villazan \$300,000 on approximately August 23, 2000, as a partial payment for obtaining the radiology contract.

On September 23, 2000, the indictment alleges that Villazan and Faustech paid \$20,000 to an unnamed employee of the Cook County Office of Contract Compliance with intent to influence the awarding of the hospital's radiology contract.

The indictment alleges that during the GE litigation between October 2000 and November 2001, to protect and preserve the fraudulently obtained contract, the defendants and others hid the \$500,000 flat fee agreement from Cook County and the court, claiming instead that Faustech would share in the profits and losses in proportion with its 30 percent ownership, and that the \$500,000 fee agreement was merely an "advance of profits." During the litigation, SMS allegedly did not produce requested documents relating to the flat fee agreement and represented through witnesses and in arguments that no flat fee agreement existed.

Desmond was charged in both the fraud scheme and the perjury count with allegedly falsely and fraudulently testifying at trial that the joint venture affidavit was true and accurate (even though SMS had failed to disclose the \$500,000 fee agreement) and that the \$300,000 payment to Faustech

was an advance of profits. An in-house attorney for SMS attended court proceedings, and reported regularly to Roth and to SMS management, including SMS Officers A and B, the company's positions in the litigation, including its false and fraudulent position in court papers and proceedings that SMS did not have a flat fee agreement with Faustech and Villazan. To preserve and protect the contract, SMS and Roth took no steps to correct the ongoing misrepresentations and false and fraudulent testimony presented to the court, according to the indictment.

The false statements count against Roth alleges that on September 14, 2004, she lied to FBI agents when she said that she had no idea what was meant by an e-mail confirming the \$500,000 flat fee agreement between SMS and Villazan; she would have been shocked if SMS had participated in any agreements other than what was disclosed to the County; and SMS' payments to Villazan were an advance of profits.

The government is being represented by Assistant U.S. Attorneys Barry Miller and Lisa Noller.

If convicted, the charges in the indictment carry the following maximum penalties – mail fraud, wire fraud, perjury and false statements – five years in prison and a \$250,000 fine, and bribery – 10 years in prison and a \$250,000 fine. Faustech faces a maximum penalty of five years probation and a \$500,000 fine on each count. The Court, however, would determine the appropriate sentence.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

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