



Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

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Three Arrested for Illegal Scheme to Export Controlled Data and Defraud the Department of Defense

Defendants Allegedly Sent Technical Data Drawings Related to U.S. Military Projects to China and then Supplied the Department of Defense with Prohibited Chinese-Origin Items

A federal indictment was unsealed today following the arrest of three defendants and their initial appearances in the U.S. District Court in the Western District of Kentucky.

According to court documents, Phil Pascoe, 60, of Floyds Knobs, Indiana; Monica Pascoe, 45, of Floyds Knobs, Indiana; Scott Tubbs, 59, of Georgetown, Kentucky; and Quadrant Magnetics LLC are charged with wire fraud, violations of the Arms Export Control Act, and smuggling of goods for their roles in an illegal scheme to send export-controlled defense-related technical data to China and to unlawfully supply U.S. Department of Defense (DOD) with Chinese-origin rare earth magnets for aviation systems and military items.

The indictment alleges that between January 2012 and December 2018, the defendants conspired to send approximately 70 drawings containing export-controlled technical data to a company located in China without a license from the U.S. government, in violation of the Arms Export Control Act and the International Traffic in Arms Regulations. The technical data drawings were the property of two U.S. companies and related to end-use items for aviation, submarine, radar, tank, mortars, missiles, infrared and thermal imaging targeting systems, and fire control systems for DOD.

The indictment further alleges that Quadrant Magnetics imported rare earth magnets that were smelted and magnetized by a company in China. Quadrant then sold these magnets to two U.S. companies which included them in components sold to DOD for use in the F-16, the F-18, and other defense assets in violation of the Defense Acquisition Regulations System (DFARS). Under the DFARS specialty metal clause, rare earth magnets sold to DOD must be produced and magnetized in the United States or an approved country. China is not an approved country.

Arraignments will be scheduled before a U.S. Magistrate Judge in the U.S. District Court for the Western District of Kentucky. If convicted, Phil Pascoe, Monica Pascoe and Scott Tubbs face statutory maximum penalties of up to 20 years in prison for each count of wire fraud; 20 years in prison for each count of exporting technical data without a license; and 10 years in prison for smuggling goods from the United States. Monica Pascoe and her co-defendants face a penalty of up to five years for conspiracy to defraud the United States. A federal district court judge will determine any sentence after considering the U.S. Sentencing Guidelines and other statutory factors.

Assistant Attorney General Matthew G. Olsen of the Justice Department's National Security Division, U.S. Attorney Michael A. Bennett for the Western District of Kentucky, Assistant Director Alan E. Kohler Jr. of the FBI Counterintelligence Division and Special Agent in Charge Jodi Cohen of the FBI Louisville Field Office made the announcement.

The Defense Criminal Investigative Service, FBI, Homeland Security Investigations' Louisville, San Diego, and San Francisco Field Offices, the IRS - Criminal Investigation, the Naval Criminal Investigative Service, and the Department of Energy's Office of

Inspector General are investigating the case.

Assistant U.S. Attorneys Joshua Judd and Christopher Tieke for the Western District of Kentucky and Trial Attorneys David Recker and Liz Abraham with the National Security Division's Counterintelligence and Export Control Section are prosecuting the case.

An indictment is merely an allegation, and all defendants are presumed innocent until proven guilty beyond a reasonable doubt in a court of law.

Topic(s):

Countering Nation-State Threats

Counterintelligence

Component(s):

Federal Bureau of Investigation (FBI).

National Security Division (NSD).

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