

## **SETTLEMENT AGREEMENT**

This Settlement Agreement (“Agreement”) is entered into among the United States of America, acting through the United States Department of Justice and on behalf of the Department of Homeland Security (“DHS”) (collectively the “United States”), Paragon Systems, Inc. (“Paragon”), and Todd Pattison (“Relator”) (hereafter collectively referred to as “the Parties”), through their authorized representatives.

### **RECITALS**

A. Paragon, an Alabama corporation, headquartered at 13900 Lincoln Park Drive, Suite 300, Herndon, Virginia, is one of the Federal government’s largest providers of specialized security, fire and emergency response, and mission support services. The company has more than 10,000 employees throughout the United States. Paragon’s parent company is a subsidiary of a Swedish company, which itself has more than 350,000 employees worldwide. From 2016 through 2023, Paragon was the prime contractor on at least twenty contracts awarded by the Federal Protective Service (“FPS”), a component of DHS, for protective security at federal buildings under which Athena Services International, LLC (“ASI”), Patronus Systems, Inc. (“PSI”), Praetorian Shield, Inc. (“Praetorian”), or TNG Associates, LLC (“TNG”) served as Paragon’s subcontractors. Additionally, during this period, Paragon served as a subcontractor on four contracts on which Patronus, Athena Joint Venture Services, LLC (“AJVS”), or ASI were the prime contractor.

B. On December 22, 2021, Pattison filed a *qui tam* action in the United States District Court for the District of Maryland captioned *United States ex rel. Pattison v. Paragon Systems, Inc., et al.*, No. 21-cv-3260-TDC (D. Md.), pursuant to the *qui tam*

provisions of the False Claims Act, 31 U.S.C. § 3730(b) (the Civil Action), naming Paragon as a defendants, among other parties. The United States intervened in the Civil Action on or about August 30, 2024.

C. The United States contends that it has certain civil claims against Paragon, arising from the following conduct occurring from January 1, 2015 through December 31, 2023 (hereinafter referred to as the “Covered Conduct”):

1. Paragon, acting through certain former high-ranking corporate executives, knowingly engaged in a scheme to use purported small businesses that they controlled to obtain DHS set-aside contracts reserved for Woman-Owned Small Businesses (WOSBs), Service-Disabled Veteran Owned Small Businesses (SDVOSBs), and other small businesses.

2. The former high-ranking Paragon officials who carried out this scheme included the company’s President, Vice President of Business Development, Vice President of Operations, Director of Compliance, and Director of Contracting (collectively, the “Paragon Executives”). Among other things, the Paragon Executives engaged female relatives and friends to serve as figurehead owners for purported small businesses in order for those companies to qualify as WOSBs, SDVOSBs, and/or 8(a) companies while operating under the operational control of Paragon. The Paragon Executives conspired with others to create three small businesses – Athena Services International, LLC (“Athena”), Patronus Systems, Inc. (“Patronus”), and Praetorian Shield, Inc. (“Praetorian”) – and formed joint ventures with Athena and Patronus. Later, the Paragon employees created a similar business relationship with an existing Paragon small business subcontractor. Paragon and the Paragon Executives knew that Athena, Patronus, and Praetorian were ineligible small businesses. Paragon and the Paragon Executives knew that the alleged scheme deprived legitimate small businesses of contracting opportunities intended for small businesses including WOSBs, and SDVOSBs.

3. For example, one purported small business, Praetorian, was formed by the wife of a Paragon Vice President, and in an effort to conceal her relationship to him, she formed the company using her middle name and maiden name, even though she did not employ these in any other settings. Her elderly father, who resided in a retirement community, was designated as the figurehead owner of one purported small business because he was a service-disabled veteran whom the company could leverage to obtain SDVOSB status.

4. The Paragon Executives controlled nearly all day-to-day operations of the purported small businesses. Paragon personnel provided

substantially all administrative support, managed finances and hiring, and provided all contracting support, including preparing bids and other proposals to be submitted in the names of the purported small businesses and controlling their bank accounts. The now-former Paragon Director of Compliance and now former Director of Contracts used anonymized email addresses set up by the purported small businesses to conceal their identities while they operated those businesses and interacted with other Paragon employees, third parties, and government personnel. Because of the operational control exercised by Paragon, the purported small businesses were affiliated with Paragon under applicable SBA rules, and, as a result, the Paragon Executives knew that the purported small businesses were not eligible for the set-aside contracts awarded to them. Nonetheless, at the direction of the Paragon Executives, the purported small businesses obtained Federal set-aside contracts from DHS and subcontracted substantially all work under the contracts to Paragon.

5. The Paragon Executives used the purported small businesses and small business joint ventures that it controlled to obtain small business set-aside contracts on which Paragon served as the subcontractor. Paragon, given its size, was ineligible to bid on these contracts and used these purported small businesses to hide Paragon's operational control of the purported small businesses. Paragon and the Paragon Executives knew that the purported small businesses and the small business joint ventures were ineligible for the set-aside contracts at issue.

6. Additionally, in DHS contracts awarded to Paragon, the company falsely represented that it satisfied DHS small business subcontracting requirements by subcontracting with the purported small business concerns that the Paragon Executives knew were, in fact, affiliates fully controlled by Paragon. While many of the Paragon subcontracts were formally awarded after the Paragon bids were submitted, in certain cases, the Paragon Executives determined which of the four subcontractors would receive the subcontractor prior to the submission of the bid.

7. In connection with the DHS contracts awarded to Paragon and to the purported small businesses that Paragon controlled, the purported small businesses surreptitiously paid substantial sums of money to the Paragon Executives in violation of the Anti-Kickback Act (AKA), 41 U.S.C. § 8702. The Paragon Executives and the purported small businesses attempted to conceal these kickbacks as purported "consulting payments" made to various shell companies formed by the Paragon Executives. The purported small businesses controlled by Paragon made over 300 separate payments to the Paragon Executives, totaling more than \$11 million. While the financial records of the purported small businesses identified the payments as compensation for "consulting services," the shell companies were not operating businesses, and the parties referred to the payments as "distributions" in their private email and text message communications. The amounts of the kickbacks were also improperly included in the contract prices charged to DHS in further violation of the AKA.

8. During the course of the United States' investigation of this matter, Paragon terminated the employment the Paragon Executives who had not already separated from their employment with Paragon.

D. This Settlement Agreement is neither an admission of liability by Paragon nor a concession by the United States that its claims are not well founded.

E. Relator claims entitlement under 31 U.S.C. § 3730(d) to a share of the proceeds of this Settlement Agreement and to Relator's reasonable expenses, attorneys' fees and costs.

To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, and in consideration of the mutual promises and obligations of this Settlement Agreement, the Parties agree and covenant as follows:

#### TERMS AND CONDITIONS

1. Paragon shall pay to the United States \$52,000,000, plus interest accrued at the rate of 4.36% per annum from September 12, 2024, and continuing until and including the day before the final payment is made under this Agreement ("Settlement Amount"). Of the Settlement Amount, \$26,000,000 is restitution. Paragon shall pay the Settlement Amount according to the payment schedule set forth in Attachment A by electronic funds transfer pursuant to written instructions to be provided by the Civil Division of the Department of Justice.

2. Conditioned upon the United States receiving the Settlement Amount payments from Paragon, United States agrees that it shall pay to Relator by electronic funds transfer 17.5 percent of each such payment received under the Settlement Agreement ("Relator's Share") as soon as feasible after receipt of the payment. No other

relator share payments shall be made by the United States with respect to the payments made by Paragon pursuant to this Agreement.

3. Paragon shall pay \$134,796.49 in attorney's fees and expenses to the Relator's attorneys pursuant to 31 U.S.C. §§ 3730(d) no later than 10 days after the effective date of this Agreement, pursuant to wiring instructions to be provided by Relator's counsel.

4. Subject to the exceptions in Paragraph 6 (concerning reserved claims) below and subject to Paragraph 14 (concerning default), and Paragraph 15 (concerning bankruptcy) below, and upon the United States' receipt of the Settlement Amount, the United States releases Paragon from any civil or administrative monetary claim the United States has for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733; the Anti-Kickback Act, 41 U.S.C. § 8706(a)(1), (2); the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; or the common law theories of payment by mistake, unjust enrichment, and fraud.

5. Subject to the exceptions in Paragraph 6 (concerning reserved claims) below and subject to Paragraph 14 (concerning default), and Paragraph 15 (concerning bankruptcy) below, and upon the United States' receipt of the Settlement Amount, Relator, for himself and for his heirs, successors, attorneys, agents, and assigns, releases Paragon from any civil monetary claim the Relator has on behalf of the United States for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733.

6. Notwithstanding the releases given in Paragraph 4 of this Agreement, or any other term of this Agreement, the following claims and rights of the United States are specifically reserved and are not released:

- a. Any liability arising under Title 26, U.S. Code (Internal Revenue Code);
- b. Any criminal liability;
- c. Except as explicitly stated in this Agreement, any administrative liability or enforcement right, or any administrative remedy, including the suspension and debarment rights of any federal agency;
- d. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;
- e. Any liability based upon obligations created by this Agreement;
- f. Any liability of individuals;
- g. Any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services;
- h. Any liability for failure to deliver goods or services due; and
- i. Any liability for personal injury or property damage or for other consequential damages arising from the Covered Conduct.

7. Relator and his heirs, successors, attorneys, agents, and assigns shall not object to this Agreement but agree and confirm that this Agreement is fair, adequate, and reasonable under all the circumstances, pursuant to 31 U.S.C. § 3730(c)(2)(B).

Conditioned upon Relator's receipt of the Relator's Share, Relator and his heirs, successors, attorneys, agents, and assigns fully and finally release, waive, and forever discharge the United States, its agencies, officers, agents, employees, and servants, from

any claims arising from the filing of the Civil Action or under 31 U.S.C. § 3730, and from any claims to a share of the proceeds of this Agreement and/or the Civil Action with respect to Paragon only.

8. Relator, for himself, and for his heirs, successors, attorneys, agents, and assigns, releases Paragon from any liability to Relator arising from the filing of the Civil Action, or under 31 U.S.C. § 3730(d) for expenses or attorneys' fees and costs.

9. Paragon waives and shall not assert any defenses Paragon may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

10. Paragon fully and finally releases the United States, its agencies, officers, agents, employees, and servants, from any claims (including attorneys' fees, costs, and expenses of every kind and however denominated) that Paragon has asserted, could have asserted, or may assert in the future against the United States, its agencies, officers, agents, employees, and servants, related to the Covered Conduct or the United States' investigation or prosecution thereof.

11. Paragon fully and finally releases the Relators from any claims (including attorneys' fees, costs, and expenses of every kind and however denominated) that Paragon has asserted, could have asserted, or may assert in the future against the Relator, related to the Covered Conduct and the Relator's investigation and prosecution thereof.

12. a. Unallowable Costs Defined: All costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47) incurred by or on behalf of Paragon, and its present or former officers, directors, employees, shareholders, and agents in connection with:

- (1) the matters covered by this Agreement;
- (2) the United States' audit(s) and civil investigation(s) of the matters covered by this Agreement;
- (3) Paragon's investigation, defense, and corrective actions undertaken in response to the United States' audit(s) and civil investigation(s) in connection with the matters covered by this Agreement (including attorneys' fees);
- (4) the negotiation and performance of this Agreement;
- (5) the payment Paragon makes to the United States pursuant to this Agreement and any payments that Paragon may make to Relator, including costs and attorneys' fees,

are unallowable costs for government contracting purposes (hereinafter referred to as Unallowable Costs).

b. Future Treatment of Unallowable Costs: Unallowable Costs will be separately determined and accounted for by Paragon, and Paragon shall not charge such Unallowable Costs directly or indirectly to any contract with the United States.

c. Treatment of Unallowable Costs Previously Submitted for Payment: Within 90 days of the Effective Date of this Agreement, Paragon



shall identify and repay by adjustment to future claims for payment or otherwise any Unallowable Costs included in payments previously sought by Paragon or any of its subsidiaries or affiliates from the United States. Paragon agree that the United States, at a minimum, shall be entitled to recoup from Paragon any overpayment plus applicable interest and penalties as a result of the inclusion of such Unallowable Costs on previously-submitted requests for payment. The United States, including the Department of Justice and/or the affected agencies, reserves its rights to audit, examine, or re-examine Paragon's books and records and to disagree with any calculations submitted by Paragon or any of its subsidiaries or affiliates regarding any Unallowable Costs included in payments previously sought by Paragon, or the effect of any such Unallowable Costs on the amount of such payments.

13. Paragon agrees to cooperate fully and truthfully with the United States' investigation of individuals and entities not released in this Agreement. Upon reasonable notice, Paragon shall encourage, and agrees not to impair, the cooperation of Paragon's current and former directors, officers, and employees, and shall use best efforts to make available, and encourage, the cooperation of former directors, officers, and employees for interviews and testimony, consistent with the rights and privileges of such individuals. Paragon further agrees to furnish to the United States, upon request, complete and unredacted copies of all non-privileged documents, reports, memoranda of interviews, and records in its possession, custody, or control concerning any investigation of the

Covered Conduct that it has undertaken, or that has been performed by another on its behalf, to the extent that the documents have not already been produced.

14. The Settlement Amount represents the amount the United States is willing to accept in compromise of its civil claims arising from the Covered Conduct.

a. In the event that Paragon fails to pay the Settlement Amount as provided in the payment schedule set forth in Attachment A, Paragon shall be in Default of Paragon's payment obligations ("Default"). The United States will provide a written Notice of Default, and Paragon shall have an opportunity to cure such Default within seven (7) calendar days from the date of receipt of the Notice of Default by making the payment due under the payment schedule and paying any additional interest accruing under the Settlement Agreement up to the date of payment. Notice of Default will be delivered to Paragon, or to such other representative as Paragon shall designate in advance in writing. If Paragon fails to cure the Default within seven (7) calendar days of receiving the Notice of Default and in the absence of an agreement with the United States to a modified payment schedule ("Uncured Default"), the remaining unpaid balance of the Settlement Amount shall become immediately due and payable, and interest on the remaining unpaid balance shall thereafter accrue at the rate of 12% per annum, compounded daily from the date of Default, on the remaining unpaid total (principal and interest balance).

b. In the event of Uncured Default, Paragon agrees that the United States, at its sole discretion, may (i) retain any payments previously made, rescind this Agreement and pursue the Civil Action or bring any civil and/or administrative

claim, action, or proceeding against Paragon for the claims that would otherwise be covered by the releases provided in Paragraph 4 above, with any recovery reduced by the amount of any payments previously made by Paragon to the United States under this Agreement; (ii) take any action to enforce this Agreement in a new action or by reinstating the Civil Action; (iii) offset the remaining unpaid balance from any amounts due and owing to Paragon and/or affiliated companies by any department, agency, or agent of the United States at the time of Default or subsequently; and/or (iv) exercise any other right granted by law, or under the terms of this Agreement, or recognizable at common law or in equity. The United States shall be entitled to any other rights granted by law or in equity by reason of Default, including referral of this matter for private collection. In the event the United States pursues a collection action, Paragon agrees immediately to pay the United States the greater of (i) a ten-percent (10%) surcharge of the amount collected, as allowed by 28 U.S.C. § 3011(a), or (ii) the United States' reasonable attorneys' fees and expenses incurred in such an action. In the event that the United States opts to rescind this Agreement pursuant to this paragraph, Paragon waives and agrees not to plead, argue, or otherwise raise any defenses of statute of limitations, laches, estoppel or similar theories, to any civil or administrative claims that are (i) filed by the United States against Paragon within 120 days of written notification that this Agreement has been rescinded, and (ii) relate to the Covered Conduct, except to the extent these defenses were available on December 21, 2021. Paragon agrees not to contest any offset, recoupment, and /or collection action undertaken by the United States pursuant to this paragraph, either

administratively or in any state or federal court, except on the grounds of actual payment to the United States.

15. In exchange for valuable consideration provided in this Agreement, Paragon and Relator acknowledge the following:

a. Paragon has reviewed its financial situation and warrants that it is solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(1)(B)(ii)(I) and shall remain solvent following payment to the United States of the Settlement Amount.

b. In evaluating whether to execute this Agreement, the Parties intend that the mutual promises, covenants, and obligations set forth herein constitute a contemporaneous exchange for new value given to Paragon, within the meaning of 11 U.S.C. § 547(c)(1), and the Parties conclude that these mutual promises, covenants, and obligations do, in fact, constitute such a contemporaneous exchange.

c. The mutual promises, covenants, and obligations set forth herein are intended by the Parties to, and do in fact, constitute a reasonably equivalent exchange of value.

d. The Parties do not intend to hinder, delay, or defraud any entity to which Paragon was or became indebted to on or after the date of any transfer contemplated in this Agreement, within the meaning of 11 U.S.C. § 548(a)(1).

e. If any of Paragon's payments or obligations under this Agreement are avoided for any reason (including but not limited to, through the exercise of a trustee's avoidance powers under the Bankruptcy Code) or if, before the

Settlement Amount is paid in full, Paragon or a third party commences a case, proceeding, or other action under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors seeking any order for relief of Paragon's debts, or to adjudicate Paragon as bankrupt or insolvent; or seeking appointment of a receiver, trustee, custodian, or other similar official for Paragon or for all or any substantial part of Paragon's assets:

- (i) the United States may rescind the releases in this Agreement and bring any civil and/or administrative claim, action, or proceeding against Paragon for the claims that would otherwise be covered by the releases provided in Paragraph 4 above;
- (ii) the United States has an undisputed, noncontingent, and liquidated allowed claim against Paragon in the amount of \$201,282,492, less any payments received pursuant to Paragraph 1 of this Agreement, provided, however, that such payments are not otherwise avoided and recovered from the United States by a receiver, trustee, creditor, custodian, or similar official;
- (iii) if any payments are avoided and recovered by a receiver, trustee, creditor, custodian, or similar official, the United States shall not be responsible for the return of any amounts already paid by the United States to the Relator; and
- (iv) if, notwithstanding subparagraph (iii), any amounts already paid by the United States to the Relator pursuant to Paragraph 2 are recovered from the United States in an action or proceeding filed by a

receiver, trustee, creditor, custodian, or similar official in or in connection with a bankruptcy case that is filed within two years of the Effective Date of this Agreement or of any payment made under Paragraph 1 of this Agreement, Relator shall, within thirty days of written notice from the United States to the undersigned Relator's counsel, return to the United States all amounts recovered from the United States.

f. Paragon agrees that any civil and/or administrative claim, action, or proceeding brought by the United States under Paragraph 17.e is not subject to an "automatic stay" pursuant to 11 U.S.C. § 362(a) because it would be an exercise of the United States' police and regulatory power. Paragon shall not argue or otherwise contend that the United States' claim, action, or proceeding is subject to an automatic stay and, to the extent necessary, consents to relief from the automatic stay for cause under 11 U.S.C. § 362(d)(1). Paragon waives and shall not plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any such civil or administrative claim, action, or proceeding brought by the United States within 120 days of written notification to Paragon that the releases have been rescinded pursuant to this paragraph, except to the extent such defenses were available on December 21, 2021.

16. This Agreement is intended to be for the benefit of the Parties only.

17. Upon receipt of the initial payment set forth in Attachment 1, the United States and the Relator shall promptly sign and file in the Civil Action a Joint Stipulation of Dismissal as to Paragon only pursuant to Rule 41(a)(1).

18. Except as provided in Paragraph 3, above, each Party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

19. Each Party and signatory to this Agreement represents that it freely and voluntarily enters into this Agreement without any degree of duress or compulsion.

20. This Agreement is governed by the laws of the United States. The exclusive venue for any dispute relating to this Agreement is the United States District Court for the District of Maryland. For purposes of construing this Agreement, this Agreement shall be deemed to have been drafted by all Parties to this Agreement and shall not, therefore, be construed against any Party for that reason in any subsequent dispute.

21. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties. Forbearance by the United States from pursuing any remedy or relief available to it under this Agreement shall not constitute a waiver of rights under this Agreement.

22. The undersigned counsel represents and warrant that they are fully authorized to execute this Agreement on behalf of the persons and entities indicated below.

23. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same Agreement.

24. This Agreement is binding on Paragon's successors, transferees, heirs, and assigns.

25. This Agreement is binding on Relator's successors, transferees, heirs, and assigns.

26. All Parties consent to the United States' disclosure of this Agreement, and information about this Agreement, to the public.

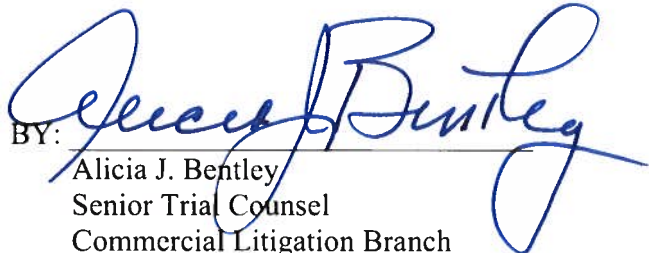
27. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date of this Agreement). Facsimiles and electronic copies of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

[SIGNATURE PAGES FOLLOW]




**THE UNITED STATES OF AMERICA**

DATED: November 5, 2024

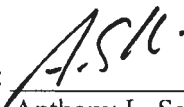
BY:   
Alicia J. Bentley  
Senior Trial Counsel  
Commercial Litigation Branch  
Civil Division  
United States Department of Justice

DATED: November 04, 2024


BY:   
Sarah Marquardt  
Assistant United States Attorney  
Office of the United States Attorney  
District of Maryland

PARAGON SYSTEMS, INC.

DATED: November 03, 2024

BY:   
\_\_\_\_\_  
Anthony L. Sabatino  
Chief Executive Officer  
Paragon Systems, Inc.

DATED: November \_\_, 2024

BY:   
\_\_\_\_\_  
Paul A. DeBolt, Esq.  
Venable, LLC  
Counsel for Paragon Systems, LLC

**RELATOR TODD PATTISON**

DATED: November 1, 2024

BY: Todd Pattison  
Todd Pattison  
Relator

DATED: November 4, 2024

BY: John Tremblay  
John Tremblay, Esq.  
Peter W. Chatfield, Esq.  
Phillips & Cohen LLP  
Counsel for Relator

**ATTACHMENT 1**

| <b><u>Payment Date</u></b> | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Total Payment</u></b> |
|----------------------------|-------------------------|------------------------|-----------------------------|
| January 8, 2025            | \$17,333,333.33         | \$732,957.81           | \$18,066,291.14             |
| July 8, 2025               | \$17,333,333.33         | \$749,521.83           | \$18,082,855.16             |
| October 15, 2025           | \$17,333,333.34         | \$204,979.73           | \$17,538,313.07             |
| <b>TOTAL</b>               | <b>\$52,000,000.00</b>  | <b>\$1,687,459.37</b>  | <b>\$53,687,459.39</b>      |