

Weldon D. Waites
Vice President, Business Development
STARTECH International Security

Testimony

The Responsibility of the Department of Homeland Security and the Federal Protective Service to Ensure Contract Guards Protect Federal Employees and Their Workplaces

Thank you for inviting me to share today my experience and thoughts regarding this topic. I can give only my limited perspective, but perhaps it can be helpful and offer insight in to the limitations and challenges of small service contract companies.

Two retired army officers, Marion Pinckney and Randall Ford, formed Systems Training and Resource Technologies, STARTECH, approximately 18 years ago. In the early years, STARTECH experienced moderate growth until the company entered the 8A set aside business and the aftermath of 9-11.

In the fall of 2004, Marion Pinckney asked me to help STARTECH managers reorganize and modernize the company's administrative policies and procedures. Shortly after initial discussions both Pinckney and Ford were diagnosed with cancer.

It was during this time that both owners asked me if I would be interested in purchasing the 1000 shares of outstanding stock and the ownership of STARTECH. I was interested, but I expressed reluctance due to my lack of necessary capital. Anticipating my dilemma, they provided the name of a contact at Bank of America, and after meeting with him I agreed to allow the loan underwriting process to begin. During the process, Pinkney died, leaving his stock to his wife.

Pinkney's death and Ford's health issues slowed the process, and it took over eight months to finalize the sale, which closed in late May 2005. Ford insisted on keeping 25 percent of the stock, as well as an employment agreement that provided him a private office in our headquarters facility and an annual salary of \$125,000.

As we plowed through the due diligence process, it became obvious that administrative and operating changes were necessary if STARTECH was to remain competitive in federal government procurement. In particular, we discovered a dozen or more invoices that company records showed to be unpaid. We also discovered invoices that had not been prepared for work done.

In regard to the Bank of America loan, STARTECH was granted a \$12 million facility comprising a 5-year term loan and borrowing base that financed the purchase price and two months of operating capital. STARTECH operated for about 12 months under this arrangement and did not miss a payment. It was during that time the government slowed its payment process, thereby causing our borrowing base to shrink. Our eligible

receivables aged to more than 90 days, thereby reducing our operating capital. As a result, Bank of America called our loan, and we began seeking a new lending partner. This can be time consuming, so we felt compelled to use personal funds in the amount of \$400,000 to cover payroll.

Please also note that about the same time the DHS region 11 contracting department experienced several administrative changes. This meant that we worked with three contracting officers, two interim contracting officers, and several contract specialists, who were moved from the Navy Yard to downtown D.C.

After Bank of America called our loan, we interviewed several banks, all of which completed internal audits as part of their due diligence. STARTECH passed all audits and selected First Horizon as its new banking partner. We were approved for a \$10 million facility that also included the unpaid balance of the purchase price and 45 days of working capital. The experience with First Horizon was quite similar to that with Bank of America. This time it took only six months for our borrowing base to shrink: The over 90 day accounts receivable were increasingly difficult to collect and, once again, reduced our borrowing availability.

First Horizon called our loan two weeks before Christmas 2006. Having been through this once before, we knew that the process to secure new funding would be long, tedious, and expensive due to attorneys' fees, accountants' fees, and fees associated with bank required work-out specialists. We kept all options open for funding, this time selecting Marquette Commercial Financing, a factoring company that would purchase most outstanding invoices.

As we looked for new financing, and feeling the pressure from a \$12,000,000 accounts receivable base, we sought the assistance of two U.S. Congressmen. After a complete review of our accounts receivable aging, they initiated a Congressional inquiry regarding the outstanding receivables. Although this inquiry is currently underway and is showing positive results, it came too late to save STARTECH.

In mid March 2006, during the Marquette post audit process, it was discovered that a few of the invoices that had been certified and authenticated by a contract officer employed by DHS, region 11, actually had been paid. About the same time, I underwent a procedure know as radiofrequency catheter ablation to treat a heart condition known as atrial fibrillation. My recovery consisted of rest including no travel for ten days. My brother also was seriously ill and died three weeks later. During this time Marquette staff insisted that we meet with them in Washington, D.C. My doctor had not cleared me for travel so I agreed to a meeting in Columbia, S.C. At that meeting we assured them the invoices in question were not intentionally misrepresented. Keep in mind these invoices were certified and authenticated.

The meeting ended with Marquette employees assuring us that they were not in the practice of closing down businesses and looked forward to working through the situation with us. Two days later they notified us of their decision to call our loan. Although they

agreed to fund our payroll two more times, they stopped funding our payroll effective May 4, 2007, and applied over \$5,000,000 of invoice payments to the outstanding loan balance. Today, the debt is \$2,500,000.

As you might well imagine, May 2007 was a stressful and tense time as we struggled to meet payroll. We borrowed \$1,000,000 from a personal friend and withdrew an additional \$500,000 from my personal retirement account. That means that today I have used all personal funds available to me and owe an additional \$1,000,000.

I am deeply sorry for the failure of STARTECH on June 1, 2007, and the resulting distress to so many employees. I did everything I knew at the time to avoid it.

Perhaps it is merely ironic, but today I am in negotiations to sell what remains of the company. Preliminary figures provided by an independent CPA firm indicate there will be adequate funds remaining in accounts receivable to pay Marquette in full, previously unpaid salaries, outstanding employee benefits, and accounts payable.

STARTECH was never bankrupt, but help has come too late.

I appreciate this opportunity to present these facts to this Subcommittee today.