

Man Pleads Guilty to Selling Fake Chips to US Navy

IDG News Service — A 32-year-old California man has pleaded guilty to charges that he sold thousands of counterfeit chips to the U.S. Navy.

In a plea agreement reached on Friday, Neil Felahy of Newport Coast, California, pleaded guilty to conspiracy and counterfeit-goods trafficking for his role in an alleged chip-counterfeiting scam that ran between 2007 and 2009. Felahy, his wife Marwah Felahy, and her brother Mustafa Abdul Aljaff operated several microchip brokerage companies that imported chips from Shenzhen, in China's Guangdong province.

They would buy counterfeit chips from China or else take legitimate chips, sand off the brand markings and melt the plastic casings with acid to make them appear to be of higher quality or a different brand, the U.S. Department of Justice said in a [press release](#). [1]

According to court filings, the accused imported more than 13,000 fake chips, worth more than US\$140,000. They sold counterfeit Intel, Fujitsu, Via, National Semiconductor and Analog Devices chips, filings state.

The three operated companies under a variety of names including MVP Micro, Red Hat Distributors, Force-One Electronics and Pentagon Components.

The counterfeit chips were allegedly sold to Naval Sea Systems Command, the Washington, D.C., group responsible for maintaining the U.S. Navy's ships and systems, as well as an unnamed vacuum-cleaner manufacturer in the Midwest. The U.S. Department of Defense did not respond to requests for comment about the incident.

Felahy faces up to 51 months in prison and millions of dollars in fines. He is expected to be sentenced next year in U.S. District Court for the District of Columbia. He entered his guilty plea on the condition that charges would be dropped against his wife, but he has agreed to cooperate with the government, which is still pressing charges against his brother-in-law, Aljaff.

Tougher, military-grade integrated circuits can fetch a better price than regular chips, giving unscrupulous brokers an incentive to counterfeit them. In an Oct. 2 investigative piece, BusinessWeek [reported](#) [2] that chip counterfeiting is an open business in southeast China, where workers remove components from old computer boards and repackage them as newer items.

Because integrated circuits are used in everything from fighter jets to telephones,

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fake and unreliable chips are a serious worry to the military. Two years ago, the Defense Advanced Research Projects Agency funded a program called Trust in Integrated Circuits, to investigate the problem.

The next year, the U.S. Federal Bureau of Investigation (FBI) broke up a distribution network for counterfeit Cisco Systems routers, seizing \$3.5 million worth of components. According to a leaked FBI presentation on its Cisco Raider operation, fake Cisco routers, switches and cards were sold to the U.S. Navy, Marine Corps, Air Force, Federal Aviation Administration, and even the FBI itself.

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[1] <http://www.cybercrime.gov/felahyPlea.pdf>

[2]

http://www.businessweek.com/print/magazine/content/08_41/b4103034193886.htm