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House of Representatives

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Opening Statement

Representative Ro Khanna

**Hearing on “DOD Inspector General Report on Excess Profits by TransDigm Group, Inc.”
May 15, 2019**

Good morning and thank you all for being here.

Our nation has been at war for almost two decades. We owe it to our servicemembers to give them everything they need to fulfill their missions in the battlefield.

What we will not tolerate are war profiteers—those who use the fact that we are at war to hold us hostage and hike their prices on mission-critical defense articles to astronomical levels because they know we have nowhere else to go. We will not tolerate those who get rich off threatening to withhold spare parts for aircraft that will be grounded without them.

Unfortunately, that is exactly what today’s hearing is about.

Two years ago, I asked the Inspector General of the Department of Defense to investigate a defense contractor named TransDigm. TransDigm supplies spare parts for a number of military aircraft that we use in Afghanistan, Iraq, and around the world. Today, we will hear directly from the Inspector General about TransDigm’s actions, and they are reprehensible.

TransDigm’s basic business model consists of identifying relatively small companies that make spare parts for the military—especially parts that no other companies make. TransDigm then buys up these small companies, purchases the rights to produce their products, and then jacks up the prices. The Pentagon has to pay knowing that they have a monopoly.

As a result, contracting officers are in an impossible position. They have generals calling them from the field and demanding these spare parts to get their aircraft off the ground. But the prices they are charged are unconscionable. Let me give you an example.

TransDigm manufactures a small spare part for the Freedom Fighter F-5. This part is called a “quick disconnect coupling half.” According to information that TransDigm provided to the Inspector General and the Committee, the part costs only \$173 to make. But the company charged the Defense Department \$6,986. The Inspector General found that even after factoring in all costs and assigning a generous profit margin of 15%, the price TransDigm charged the Pentagon gave them excess profits of 3,930%.

TransDigm is going to tell us that the Inspector General's \$173 cost figure isn't fair because it doesn't incorporate the costs associated with restarting production or making a small number of parts. Those excuses simply do not ring true. The Inspector General's cost figure is based on TransDigm's own information. If TransDigm thought that additional labor and capital costs should be incorporated into the cost analysis, it would have provided it to the Inspector General, or better yet, to the contracting officer. TransDigm couldn't justify its price and is now trying to obscure the truth.

Here is another example. TransDigm makes a spare part called a nonvehicular clutch disk, which is used in the C-135 Stratolifter. It costs TransDigm \$32 to make this part. But they charged the Defense Department \$1,443. That means TransDigm made excess profits of 4436%.

These are not isolated incidents—they are the norm. The Inspector General reviewed 47 TransDigm contracts, and they identified excess profits for 46 of the 47 parts they reviewed. And this is just a small sampling of the contracts TransDigm has with the Defense Department.

TransDigm also isn't a first-time offender. In 2006, the Inspector General found that TransDigm engaged in the exact same type of behavior to overcharge DOD by \$5.3 million.

While the company bilked taxpayers, its CEO was one of the highest paid executives in America. In 2017, Mr. Howley earned a total compensation of \$61 million, receiving more compensation than the CEOs of Microsoft, IBM, and Boeing combined. I am glad Mr. Howley has agreed to appear today and to cooperate with our investigation, but we are going to have some very difficult questions for him.

As part of the Committee's investigation, our staff—on both sides of the aisle—talked to whistleblowers and former company officials who condemned these activities. For example, one former company official told us that TransDigm overcharging the Pentagon was like “taking candy from a baby.”

These whistleblowers also told us how company officials concealed information from the Defense Department about their true costs to produce these spare parts. One former Director of Sales told us employees were “coached not to provide cost data.” A former Director of Operations told us, “We were going out of our way not to disclose costs to the government.”

The Committee also obtained documents showing TransDigm employees and Pentagon officials communicating about breaking contracts into multiple smaller contracts to avoid certain reporting requirements. If that is true, it would violate federal contracting rules.

Overall, the Inspector General found that TransDigm made more than \$16 million in excess profits just from the contracts reviewed in their small sample. The Pentagon asked TransDigm to pay that money back, but the company refused. We will not leave here today without a commitment from TransDigm that it will repay its excess profits. Mr. Stein, we are demanding TransDigm to pay back an amount that is less than TransDigm paid you this year. I hope you will make that commitment in your opening statement.

Finally, I want to thank Ranking Member Jordan and his staff for their cooperation and assistance on this hearing. This truly is a bipartisan investigation. And I now yield to him for his opening statement.

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