JUSTICE NEWS

Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

Monday, December 27, 2010

Alcatel-Lucent S.A. and Three Subsidiaries Agree to Pay $92 Million to Resolve Foreign Corrupt Practices Act Investigation

Coordinated Enforcement Actions by Department of Justice and SEC Result in Penalties of more than $137 Million

WASHINGTON – Alcatel-Lucent S.A. and three of its subsidiaries have agreed to pay a combined $92 million penalty to resolve a Foreign Corrupt Practices Act (FCPA) investigation into the worldwide sales practices of Alcatel S.A. prior to its 2006 merger with Lucent Technologies Inc., the Department of Justice announced.

As part of the agreed resolution, the department today filed a criminal information in U.S. District Court for the Southern District of Florida charging Alcatel-Lucent with one count of violating the internal control provisions of the FCPA, and one count of violating the books and records provisions of the FCPA. The department and Alcatel-Lucent agreed to resolve the charges by entering into a deferred prosecution agreement for a term of three years.

The department also filed a criminal information charging three subsidiaries: Alcatel-Lucent France S.A., formerly known as Alcatel CIT S.A.; Alcatel-Lucent Trade International A.G., formerly known as Alcatel Standard A.G.; and Alcatel Centroamerica S.A., formerly known as Alcatel de Costa Rica S.A. The three subsidiaries were each charged with conspiring to violate the anti-bribery, books and records, and internal controls provisions of the FCPA. Each of the three subsidiaries has agreed to plead guilty to the charges.

"Foreign bribery weakens economic development, erodes confidence in the marketplace and distorts competition," said Mythili Raman, Principal Deputy Assistant Attorney General of the Criminal Division. "The resolutions announced today and our related prosecutions of corporate executives demonstrate our sustained commitment to combating such conduct wherever we find it."

In addition to the $92 million penalty, Alcatel-Lucent and its three subsidiaries agreed to implement rigorous compliance enhancements. Alcatel-Lucent also agreed to retain an independent compliance monitor for a three-year period to oversee the company's implementation and maintenance of an enhanced FCPA compliance program and to submit yearly reports to the Department of Justice. The charging documents and penalty reflect, among other things, that there was limited and inadequate cooperation by the company for a substantial period of time, but that after the merger, Alcatel-Lucent substantially improved its cooperation with the department's investigation. In addition, the charging documents also credit Alcatel-Lucent for, on its own initiative and at a substantial financial cost, making an unprecedented pledge to stop using third-party sales and marketing agents in conducting its worldwide business.

According to court documents, Alcatel-Lucent was formed in late 2006 after Lucent Technologies merged with Alcatel, a French telecommunications equipment and services company. Starting in the 1990s and continuing through late 2006, Alcatel pursued many of its business opportunities around the world through subsidiaries like Alcatel CIT and Alcatel de Costa Rica using third-party agents and consultants who were retained by Alcatel Standard. This business model was shown to be prone to corruption, as consultants were repeatedly used as conduits for bribe payments to foreign officials and business executives of private customers to obtain or retain business in many countries.

Alcatel-Lucent's three subsidiaries paid millions of dollars in improper payments to foreign officials for the purpose of obtaining and retaining business in Costa Rica, Honduras, Malaysia and Taiwan. In addition to the improper payments, Alcatel-Lucent also admitted that it violated the internal controls and books and records provisions of the FCPA related to the hiring of third-party agents in Kenya, Nigeria, Bangladesh, Ecuador, Nicaragua, Angola, Ivory Coast, Uganda and Mali. Overall, Alcatel-Lucent admitted that the company earned approximately $48.1 million in profits as a result of these improper payments.

Specifically, Alcatel CIT won three contracts in Costa Rica worth a combined total of more than $300 million as a result of corrupt payments to government officials and from which Alcatel reaped a profit of more than $23 million, according to court documents. Alcatel CIT wired more than $18 million to two consultants in Costa Rica, which had been retained by Alcatel Standard, in connection with obtaining business in that country. According to court documents, more than half of this money was then passed on by the consultants to various Costa Rican government officials for assisting Alcatel CIT and Alcatel de Costa Rica in obtaining and retaining business. As part of the scheme, the consultants created phony invoices that they then submitted to Alcatel CIT. According to court documents, senior Alcatel executives approved the retention of and payments to the consultants despite obvious indications that the consultants were performing little or no legitimate work.

In addition, according to court documents, Alcatel Standard hired a consultant in Honduras who was a perfume distributor with no experience in telecommunications. The consultant was retained after being personally selected by the brother of a senior Honduran government official. Alcatel CIT executives knew that a significant portion of the money paid to the consultant would be paid to the family of the senior Honduran government official in exchange for favorable treatment of Alcatel CIT. As a result of these payments, Alcatel CIT was able to retain contracts worth approximately $47 million and from which Alcatel earned $870,000.

In addition, according to court documents, Alcatel Standard retained two consultants on behalf of another Alcatel subsidiary in Taiwan to assist in obtaining an axle counting contract worth approximately $19.2 million. Alcatel and its joint venture paid these two consultants more than $950,000 despite the fact that neither consultant had telecommunications experience. In fact, according to court documents, Alcatel Standard's purpose for hiring the consultants was so that Alcatel SEL could funnel payments through the consultants to Taiwanese legislators who had influence in the award of the contract. Alcatel earned approximately $4.34 million from this contract.

In a related case, two former Alcatel executives, Christian Sapsizian, a French citizen and Alcatel CIT executive, and Edgar Valverde Acosta, a Costa Rican citizen and president of Alcatel de Costa Rica, were charged in March 2007 with conspiring to violate the FCPA, making corrupt payments in violation of the FCPA, and laundering the bribe payments through a third-party. Sapsizian was arrested in Miami in late 2006 and pleaded guilty on June 6, 2007, to FCPA violations. He was sentenced on Sept. 23, 2008, in the U.S. District Court for the Southern District of Florida to 30 months in prison. Sapsizian admitted that from February 2000 through September 2004, he conspired with Valverde and others to make millions of dollars in bribe payments to Costa Rican officials in order to obtain a telecommunications contract on behalf of Alcatel. Valverde remains a fugitive, and is considered innocent until proven guilty in a court of law.

In a related matter, the U.S. Securities and Exchange Commission (SEC) reached a settlement filed today in which Alcatel-Lucent consented to the entry of a permanent injunction against FCPA violations and agreed to pay $45,372,000 in disgorgement and prejudgment interest. Alcatel-Lucent also agreed with the SEC to comply with certain undertakings regarding its FCPA compliance program.

In January 2010, Alcatel-Lucent also agreed to pay $10 million to settle a corruption case brought by the government of Costa Rica arising out of the bribery of Costa Rican officials by the company. The settlement marked the first time in Costa Rica's history that a foreign corporation agreed to pay the government damages for corruption.

The case is being prosecuted by Deputy Chief Charles E. Duross and Trial Attorney Andrew Gentin of the Criminal Division's Fraud Section. The department also acknowledges the significant contributions to this investigation by Assistant U.S. Attorney Mary K. Dimke, formerly of the Fraud Section. Significant assistance was provided by the SEC's Miami Regional Office, the Criminal Division's Office of International Affairs, the U.S. Attorney's Office for the Southern District of Florida, the FBI, U.S. Immigration and Customs Enforcement, the Office of the Attorney General in Costa Rica, the Fiscalia de Delitos Economicos, Corrupcion y Tributarios in Costa Rica, the French Ministry of Justice, the Tribunal de Grande Instance de Paris, and Service Central de Prévention de la Corruption.

10-1481
Criminal Division