



Department of Justice

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Flowserve Corporation to Pay \$4 Million Penalty for Kickback Payments to the Iraqi Government under the U.N. Oil for Food Program

WASHINGTON – Flowserve Corporation (Flowserve) has agreed to pay a \$4 million penalty as part of an agreement with the U.S. government regarding charges brought in connection with an ongoing investigation related to the United Nations Oil for Food program, Assistant Attorney General Alice S. Fisher of the Criminal Division announced today.

The Department of Justice today filed an agreement with Flowserve Corporation, as well as a criminal information against a Flowserve subsidiary, Flowserve Pompes SAS (Flowserve Pompes), in the U.S. District Court for the District of Columbia. The Information charges that Flowserve Pompes engaged in a conspiracy to commit wire fraud and to violate the books and records provisions of the Foreign Corrupt Practices Act.

According to the agreement, Flowserve has acknowledged responsibility for the actions of its subsidiary, whose employees and agents paid kickbacks to the Iraqi government in order to obtain contracts for the sale of large-scale water pumps and spare parts for use in Iraqi oil refineries. The agreement requires the company to cooperate fully with the Department's ongoing Oil for Food investigations.

According to the criminal information and the agreement filed today, between July 2002 and February 2003, employees of Flowserve Pompes: paid a total of approximately \$604,651 and offered to pay an additional \$173,758 in kickbacks to the Iraqi government by inflating the price of contracts by approximately 10 percent before submitting them to the United Nations for approval; and concealed from the United Nations the fact that the contract prices contained a kickback to the Iraqi government.

In a related matter, Flowserve reached a settlement today with the Securities and Exchange Commission (SEC) under which it agreed to pay a \$3 million civil penalty and approximately \$3.5 million in disgorgement of all profits, including pre-judgment interest, in connection with contracts for which its subsidiary paid kickbacks to the Iraqi government. In total, Flowserve has agreed to pay approximately \$10.5 million in penalties in the criminal and SEC cases.

In recognition of Flowserve's thorough review of the improper payments and the company's implementation of enhanced compliance policies and procedures, the Department has agreed to defer prosecution of Flowserve Pompes for three years. If Flowserve and Flowserve Pompes abide by the terms of the agreement, the Department will dismiss the Criminal Information.

The Oil for Food Program was established by the United Nations to enable Iraq to sell its oil for humanitarian purposes in the context of an extensive international sanctions regime. The program mandated that the proceeds of oil sales be deposited in a U.N. bank account and that those proceeds be used by the Iraqi government only to purchase humanitarian goods and services approved by the United Nations, such as food and medicine. Beginning in 2000, the Iraqi government began requiring companies wishing to sell humanitarian goods to government ministries to pay a kickback, often mischaracterized as an "after sales services fee," to the government in order to be granted a contract. The amount of that fee was usually 10 percent of the contract price. Such payments were not permitted under the Oil for Food Program or other sanction regimes then in place.

The Department's investigation of Flowserve is being conducted by the Fraud Section of the Criminal Division along with the FBI's Washington Field Office. This case is being prosecuted by Trial Attorney Stacey Luck with assistance from Assistant Chiefs William B. Jacobson and Robertson Park.

The Department acknowledges and expresses its appreciation of the significant, ongoing assistance provided by the Enforcement Division of the SEC in the Department's Oil for Food investigations.

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