U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 22880 / November 26, 2013

***Securities and Exchange Commission v. Weatherford International Ltd.*, Civil Action No. 4:13-CV-03500 (S.D. Tex.)**

SEC Charges Weatherford International with FCPA Violations

The Securities and Exchange Commission today charged oilfield services company Weatherford International with violating the Foreign Corrupt Practices Act (FCPA) by authorizing bribes and improper travel and entertainment for foreign officials in the Middle East and Africa to win business, including kickbacks in Iraq to obtain United Nations Oil-for-Food contracts.

The SEC alleges that Weatherford and its subsidiaries falsified its books and records to conceal not only these illicit payments, but also commercial transactions with Cuba, Iran, Syria, and Sudan that violated U.S. sanctions and export control laws. Weatherford failed to establish an effective system of internal accounting controls to monitor risks of improper payments and prevent or detect misconduct. The company reaped more than $59.3 million in profits from business obtained through improper payments, and more than $30 million in profits from its improper sales to sanctioned countries.

Swiss-based Weatherford, which has substantial operations in Houston, has agreed to pay more than $250 million to settle the SEC's charges and parallel actions by the Department of Justice's Fraud Section, U.S. Attorney's Office for the Southern District of Texas, Department of Commerce's Bureau of Industry and Security, and Department of Treasury's Office of Foreign Assets Control.

According to the SEC's complaint filed in federal court in Houston, the misconduct occurred from at least 2002 to 2011. In Angola, for example, Weatherford's legal department permitted its subsidiary to use an agent who insisted that an FCPA clause be omitted from the consultancy agreement. The company took no steps to determine whether the agent was paying bribes to foreign officials, and the agent used sham work orders and invoices to pay bribes that ensured the renewal of a lucrative oil services contract for Weatherford in Angola. The same agent made illicit payments to obtain commercial contracts for Weatherford in Congo. The company also allowed its subsidiary to enter into a joint venture agreement with companies whose beneficial owners included Angolan oil company officials and a relative of an Angolan Minister in order to win business. A Weatherford employee reported in a 2006 ethics questionnaire that Weatherford personnel were making payments to government officials in Angola and elsewhere, but the company failed to investigate.

The SEC's complaint also alleges that Weatherford failed to perform due diligence on a distributor suggested by an official at a national oil company in the Middle East. From 2005 to 2011, Weatherford and its subsidiaries

awarded more than $11.8 million in improper "volume discounts" to the distributor – money intended for the creation of a slush fund to pay foreign officials.

According to the SEC's complaint, the misconduct went beyond the use of agents or other third parties. Weatherford provided improper travel and entertainment to officials of a state-owned company in Algeria with no legitimate business purpose. For example, Weatherford paid for a 2006 FIFA World Cup trip by two of the officials, the July 2006 honeymoon of an official's daughter, and an October 2005 religious trip to Saudi Arabia by an official and his family that was improperly recorded as a donation in Weatherford's books and records. Weatherford's Middle East subsidiary also made more than $1.4 million in improper payments to obtain nine contracts under the Oil-for-Food program in 2002. Iraqi ministries demanded improper "inland transportation fees" in an effort to subvert the UN program. Weatherford's subsidiary complied with the Iraqi demands and paid more than $115,000 in fees despite invoices that included charges inconsistent with the actual deliveries. Weatherford obtained more than $7 million in profits from the misconduct.

The SEC further alleges that managers at Weatherford's subsidiary in Italy flouted the lack of internal controls and misappropriated more than $200,000 in company funds, some of which was improperly paid to Albanian tax auditors. The managers misreported cash advances, diverted payments on previously paid invoices, misappropriated government rebate checks, and received reimbursement for such purchases as golf equipment and perfume that did not relate to business activities.

According to the SEC's complaint, Weatherford employees created false accounting and inventory records from 2002 to 2007 to hide the illegal commercial sales to Cuba, Syria, Sudan, and Iran. During this time period, exporting or re-exporting goods or services from the U.S. to these sanctioned countries was prohibited. The falsified financial statements and books and records of Weatherford subsidiaries involved in the misconduct were consolidated into the financial statements of the parent company.

The SEC's complaint alleges that Weatherford violated the anti-bribery, books and records, and internal accounting controls provisions of the FCPA, specifically Sections 30A, 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934. Weatherford agreed to pay $90,984,844 in disgorgement, $4,399,423.34 in pre-judgment interest, and a $1.875 million civil penalty assessed in part for lack of cooperation during the investigation. $31,646,907 of the payment to the SEC will be satisfied by Weatherford's agreement to pay an equal amount to the U.S. Attorney's Office. Weatherford agreed to pay $87 million in criminal fines to the Department of Justice for the FCPA violations, and $100 million to the other three agencies for the sanctions violations. The company also must comply with certain undertakings, including the retention of an independent compliance monitor for 18 months and self-reporting to the SEC staff for an additional 18 months.

The SEC's investigation, which is continuing, has been conducted by Tracy L. Price, Kelly G. Kilroy, and Stanley Cichinski of the FCPA Unit as well as Natalie Lentz and Robert Dodge. The SEC appreciates the assistance of the Justice Department, Commerce Department, Treasury Department, and U.S. Attorney's Office in Houston.

- SEC Complaint

http://www.sec.gov/litigation/litreleases/2013/lr22880.htm

Home | Previous Page

Modified: 11/26/2013