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12 Attorneys for Plaintiff  
13 United States of America

14 UNITED STATES DISTRICT COURT  
15 FOR THE CENTRAL DISTRICT OF CALIFORNIA  
16 SOUTHERN DIVISION

17 UNITED STATES OF AMERICA, ) SA CR 09-00162 \_\_\_\_\_  
18 )  
Plaintiff, ) GOVERNMENT'S SENTENCING  
19 ) MEMORANDUM  
v. )  
20 )  
CONTROL COMPONENTS, INC., )  
21 )  
Defendant. )  
22 \_\_\_\_\_)

23  
24  
25 Plaintiff United States of America, by and through its  
26 attorneys of record, the United States Department of Justice,  
27 Criminal Division, Fraud Section, and the United States Attorney  
28 for the Central District of California (collectively, "the

1 government"), hereby files its sentencing memorandum regarding  
2 defendant Control Components, Inc. ("defendant"). For the  
3 reasons outlined in the government's sentencing memorandum, the  
4 government respectfully submits that the Court should accept  
5 defendant's guilty pleas and sentence defendant in accordance  
6 with the parties' agreement. The government's memorandum is  
7 based upon the attached Memorandum of Points and Authorities, the  
8 files and records in this matter, as well as any evidence or  
9 argument presented at hearing on this matter.

10 DATED: July 24, 2009

Respectfully submitted,

11 THOMAS P. O'BRIEN  
12 United States Attorney

13 ROBB C. ADKINS  
14 Assistant United States Attorney  
Chief, Santa Ana Office

15 /s/

16 \_\_\_\_\_  
DOUGLAS F. McCORMICK  
Assistant United States Attorney

17 MARK F. MENDELSON, Acting Chief  
18 HANK BOND WALTHER, Assistant Chief  
19 Fraud Section, Criminal Division  
United States Department of Justice

20 /s/

21 \_\_\_\_\_  
ANDREW GENTIN  
22 Trial Attorney  
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**MEMORANDUM OF POINTS AND AUTHORITIES**

1  
2 The government has entered into a binding plea agreement  
3 pursuant to Federal Rule of Criminal Procedure 11(c)(1)(C) with  
4 defendant Control Components Inc. ("CCI" or "defendant"). CCI  
5 has agreed to plead guilty to a three-count information that  
6 charges the company with making corrupt payments to officers and  
7 employees of foreign state-owned and privately-owned customers.  
8 The stipulated sentence in the plea agreement calls for CCI to  
9 pay a criminal fine of \$18,200,000; create and implement a  
10 comprehensive anti-bribery compliance program; retain an  
11 independent compliance monitor for a three-year period to assess  
12 and monitor CCI's compliance with the terms of its plea  
13 agreement, review the design and implementation of CCI's anti-  
14 bribery compliance program, and make periodic reports to CCI and  
15 the government; and serve a three-year term of organizational  
16 probation. The plea agreement also requires CCI to continue its  
17 cooperation with the government. The government submits this  
18 sentencing memorandum in support of the stipulated sentence, and  
19 requests that the Court sentence defendant immediately following  
20 its change of plea.

21 A. The Corporate Defendant

22 CCI is a Delaware corporation headquartered in Rancho Santa  
23 Margarita, California. CCI is a wholly-owned subsidiary of IMI  
24 plc ("IMI"), a company organized under the laws of England and  
25 Wales. CCI designs and manufactures control valves for use in  
26 the nuclear, oil and gas, and power generations industries. CCI  
27 sells its valves to both foreign state-owned and private  
28 companies in over thirty countries around the world.

1 As a company organized under the laws of a state of the  
2 United States and with its principal place of business in the  
3 United States, CCI is a "domestic concern" as that term is  
4 defined in the Foreign Corrupt Practice Act ("FCPA"), Title 15,  
5 United States Code, Section 78dd-2.

6 B. Summary of Criminal Conduct

7 Over the course of approximately ten years, CCI's senior  
8 management directed its salespeople to identify and cultivate  
9 so-called "friends-in-camp" ("FICs") to whom CCI would pay a  
10 "commission" if the FIC successfully assisted CCI in obtaining  
11 business. The majority of FICs were employees of CCI customers  
12 and either had direct power to award contracts or had the power  
13 to dictate the technical specifications of an order in a way that  
14 would favor CCI. Once a CCI employee had identified an FIC who  
15 had influence over the bidding process, the CCI employee would  
16 seek authorization from senior management to pay the FIC --  
17 either directly or via an agent who had been engaged by CCI -- in  
18 return for awarding the contract to CCI. Once the corrupt  
19 payment was approved, CCI would then submit a bid to the  
20 customer. When CCI was awarded the contract, CCI would then pay  
21 the predetermined commission to the FIC -- either directly or via  
22 CCI's agent -- after CCI had received payment from the customer  
23 for the parts or service CCI was providing.

24 In some instances, CCI employees made corrupt payments  
25 directly to the FICs. In other instances, CCI employees made  
26 corrupt payments through CCI's representatives by inflating the  
27 fee paid by CCI to the representative by the amount of the  
28 corrupt payment. In other instances, CCI used a "consultant" as

1 a pass-through for corrupt payments. These consultants would  
2 perform few, if any, legitimate services for CCI and were often  
3 owned either by the recipient of the corrupt payment or a friend  
4 or relative of the recipient.

5 From 1998 through 2007, CCI made hundreds of corrupt  
6 payments to individuals at both foreign state-owned and private  
7 companies for the purpose of obtaining and retaining business.  
8 From 2003 to 2007, CCI made approximately 236 improper payments  
9 in thirty-six different countries; 154 of these payments were  
10 government customer-associated payments and eighty-two were  
11 private customer-associated payments. The government customer-  
12 associated improper payments totaled \$4,904,719 and resulted in  
13 net profits to CCI of \$31,704,307. The private customer-  
14 associated improper payments totaled \$1,950,044 and resulted in  
15 net profits to CCI of \$14,821,987. In sum, CCI's improper  
16 payments to state-owned and private companies totaled \$6,854,763  
17 and resulted in net profits to CCI of \$46,526,294.

18 C. Summary of Criminal Charges

19 On July 22, 2009, the United States filed an information  
20 charging CCI with: (1) conspiracy to commit offenses against the  
21 United States, that is, to violate the anti-bribery provisions of  
22 the FCPA and the Travel Act (18 U.S.C. § 1952), all in violation  
23 of 18 U.S.C. § 371 (Count One); and (2) two substantive  
24 violations of an anti-bribery provision of the FCPA, 15 U.S.C. §  
25 78dd-2 (Counts Two and Three).

26 D. Summary of Plea Agreement

27 The proposed plea agreement contains the following core  
28 terms: (a) CCI agrees to plead guilty to the charges in the

1 information; (b) CCI agrees to pay a criminal fine in the amount  
2 of \$18,200,000 and a mandatory special assessment of \$1,200; (c)  
3 CCI agrees to implement a corporate compliance program designed  
4 to detect and deter violations of the FCPA, commercial bribery  
5 laws and other applicable foreign bribery laws; (d) CCI agrees to  
6 retain an independent corporate monitor responsible for assessing  
7 and monitoring CCI's compliance with the terms of the plea  
8 agreement and evaluating the implementation and effectiveness of  
9 CCI's corporate compliance program, internal controls, and  
10 financial reporting policies and procedures as they relate to  
11 CCI's compliance with the anti-bribery portions of the FCPA and  
12 other applicable bribery laws; (e) CCI agrees to a three-year  
13 term of organizational probation; and (f) CCI agrees to continue  
14 to cooperate fully with the government.

15 In accordance with the Department of Justice's Principles of  
16 Federal Prosecution of Business Organizations, the government  
17 considered a number of factors in its decision to resolve the  
18 case as described above. Those factors included, but were not  
19 limited to: the nature and seriousness of CCI's offense conduct,  
20 the pervasiveness of the offense conduct within the company, the  
21 company's history of similar conduct, the company's timely and  
22 voluntary disclosure of its wrongdoing, the company's willingness  
23 to cooperate with the government's investigation, the company's  
24 remedial program, the adequacy of individual prosecutions, and  
25 the adequacy of civil and regulatory enforcement measures. The  
26 government weighed these factors to reach the conclusion that the  
27 resolution contained in the plea agreement is appropriate under  
28 all of the circumstances.

E. Sentencing Guidelines Calculation and Criminal Penalties

1. Sentencing Guidelines Calculation

As set forth in paragraph 14 of the plea agreement, the parties agree that the following Sentencing Guidelines provisions, using the 2007 Sentencing Guidelines Manual, apply based on the facts of this case, for purposes of determining an advisory guideline range:

CALCULATION OF OFFENSE LEVEL

Base Offense Level (U.S.S.G. § 2C1.1(a))	:	12
More than one bribe (U.S.S.G. § 2C1.1(b)(1))	:	+2
Benefit received of more than \$20 million but less than \$50 million (U.S.S.G. §§ 2C1.1(b)(2)(a), 2B1.1(b)(1)(L))	:	<u>+22</u>
<b>TOTAL OFFENSE LEVEL:</b>		<b>36</b>

CALCULATION OF CULPABILITY SCORE

Base Score (U.S.S.G. § 8C2.5(a))	:	5
Involvement in or tolerance of criminal activity in an organization of 200 or more employees and an individual within high-level personnel of the organization participated in, condoned, or was willfully ignorant of the offense (U.S.S.G. § 8C2.5(b)(3)(A))	:	+3
Self-reporting, cooperation, acceptance of responsibility (U.S.S.G. § 8C2.5(g)(1))	:	<u>-5</u>
<b>TOTAL CULPABILITY SCORE:</b>		<b>3</b>

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1 began to interview CCI's management. As a result of those  
2 interviews, CCI learned that CCI had engaged in corrupt payments  
3 not only in Korea, but throughout the world. CCI further learned  
4 that such practices had been initiated and encouraged since the  
5 late 1990s by CCI's former Chief Executive Officer, Stuart  
6 Carson, who retired in 2005, and Paul Cosgrove, the second-  
7 highest ranking executive at the company. CCI also learned that  
8 several other executives were actively involved in encouraging,  
9 facilitating, or approving the corrupt payments.

10 CCI conducted a comprehensive internal investigation and  
11 provided the government with oral summaries of the criminal  
12 conduct it uncovered. CCI also facilitated the interviews of  
13 certain employees. CCI produced a large volume of documents to  
14 the government and assisted the government in identifying corrupt  
15 payments. CCI's cooperation was extensive and assisted the  
16 government in identifying specific corrupt payments involving  
17 numerous countries.

18 CCI's cooperation has substantially assisted the government  
19 in the prosecution of former CCI personnel involved in the  
20 corrupt payments scheme. On January 8, 2009, Mario Covino, CCI's  
21 former Director of Worldwide Factory Sales, pleaded guilty to a  
22 conspiracy to violate the FCPA and agreed to cooperate with the  
23 government's ongoing investigation. United States v. Covino,  
24 Case No. SA CR 08-00336-JVS. On February 3, 2009, Richard  
25 Morlok, CCI's former Finance Director, also pleaded guilty to a  
26 conspiracy to violate the FCPA and agreed to cooperate with the  
27 government's ongoing investigation. United States v. Morlok,  
28 Case No. SA CR 09-00005-JVS. The government indicted Stuart

1 Carson, Paul Cosgrove, and four other former senior CCI  
2 executives for FCPA and Travel Act violations on April 8, 2009.  
3 United States v. Stuart Carson et al., Case No. SA CR 09-00077-  
4 JVS. The Carson et al. case is currently scheduled for trial  
5 before this Court on December 8, 2009.

6 CCI's plea agreement obligates the company to continue to  
7 cooperate with the government's prosecution of these individuals.

8 2. CCI's Remedial Efforts

9 CCI's remedial efforts have been extensive. It has  
10 identified and removed the employees who were responsible for its  
11 criminal conduct. CCI's internal investigation and uncovering of  
12 the extensive criminal conduct led to the termination or  
13 resignation of 31 employees, including its entire Middle East  
14 sales team and over half of its finance department. CCI has also  
15 identified other employees whose involvement in the corrupt  
16 payments was minor or who were lower level employees acting at  
17 the direction of senior management. Those employees have been  
18 formally disciplined and required to participate in a  
19 rehabilitation program that includes additional compliance  
20 training, supervision, and monitoring. CCI also moved many of  
21 these employees to new jobs within the company to reduce their  
22 contacts with customers and agents.

23 CCI implemented a disclosure program to notify its customers  
24 of the improper payments under investigation. After uncovering  
25 the corrupt payments, CCI did not accept new orders from any  
26 customer until the customer had received a customer bulletin  
27 describing CCI's internal investigation. CCI also accepted no  
28 orders from either existing or new customers until it had

1 conducted a screening process to ensure that any compliance  
2 concerns were satisfied.

3 Another central element of CCI's remedial efforts was a  
4 review of all of its agency relationships, as its investigation  
5 revealed that many improper payments were made through agents or  
6 third-party intermediaries. CCI reviewed its agents to ensure  
7 that there were no compliance problems. As a result of its  
8 review, CCI terminated 35 agents. The surviving agents were  
9 required to sign a new standard agency agreement that contained  
10 representations forbidding any corrupt payment activity. CCI  
11 also implemented a due diligence process for new agents.

12 CCI has established several new procedures to ensure its  
13 compliance with anti-corruption laws. It has established and  
14 filled the position of general counsel, whose responsibilities  
15 include compliance. It has conducted worldwide compliance  
16 training. It has implemented a whistleblower program that  
17 permits employees to report compliance issues anonymously and  
18 confidentially. Finally, in accordance with the terms of the  
19 plea agreement, CCI will engage an independent compliance monitor  
20 for a period of three years to evaluate the effectiveness of its  
21 procedures and policies and to monitor CCI's ongoing compliance.

22 G. Imposition of Sentence Without a Presentence Report

23 The government requests that the Court find pursuant to  
24 Federal Rule of Criminal Procedure 32(c)(1)(A)(ii) that the  
25 information in the record is sufficient to enable the Court to  
26 exercise its sentencing authority without the preparation of a  
27 presentence report. The information contained in the parties'  
28 plea agreement, which includes a 15-page statement of facts, as

1 well as the parties' respective sentencing memoranda, is  
2 sufficient to enable the Court to exercise its sentencing  
3 discretion under 18 U.S.C. § 3553(a) without a presentence  
4 report. If the Court determines that it can sentence CCI without  
5 a presentence report, the government further requests that the  
6 Court impose sentence immediately following the change-of-plea  
7 hearing.

8 H. Conclusion

9 For the foregoing reasons, the government respectfully  
10 recommends that the Court impose a sentence in accordance with  
11 the parties' Rule 11(c)(1)(C) plea agreement, and sentence CCI to  
12 a fine of \$18,200,000, a special assessment of \$1,200, and a  
13 three-year term of organizational probation with a condition  
14 requiring the retention of an independent compliance monitor for  
15 the period of probation.

CERTIFICATE OF SERVICE

I am a citizen of the United States and a resident of Orange County, California. I am over 18 years of age, and I am not a party to the above-entitled action. My business address is the United States Attorney's Office, Ronald Reagan Federal Building and United States Courthouse, 411 West Fourth Street, Suite 8000, Santa Ana, California 92701.

On this date, July 24, 2009, I served a copy of the above entitled document(s), GOVERNMENT'S SENTENCING MEMORANDUM as follows:

- by personal delivery to the person specified below:
- by placing the document in a sealed envelope, addressed to the person specified below, and placing it for interoffice delivery within the courthouse:
- by placing the document in a sealed envelope, addressed as follows and with postage placed thereon, and placing it for delivery via the U.S. Postal Service:

Patrick M. Norton  
Brian M. Heberlig  
**STEPTOE & JOHNSON LLP**  
1330 Connecticut Avenue N.W.  
Washington, DC 20036

- by fax to the person and fax number specified below:
- by e-mailing a pdf. version of the document to the e-mail address specified below:

I declare under penalty of perjury that the foregoing is true and correct. Executed on July 24, 2009, at Santa Ana, California.

\_\_\_\_\_/s/\_\_\_\_\_  
LINDA B. HEYE