

JUSTICE NEWS

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Panasonic Avionics Corporation Agrees to Pay \$137 Million to Resolve Foreign Corrupt Practices Act Charges

Panasonic Avionics Corporation (PAC), a subsidiary of multinational electronics company Panasonic Corporation (Panasonic), has agreed to pay a \$137.4 million criminal penalty to resolve charges arising out of a scheme to retain consultants for improper purposes and conceal payments to third-party sales agents, in violation of the accounting provisions of the Foreign Corrupt Practices Act (FCPA).

Acting Assistant Attorney General John P. Cronan of the Justice Department's Criminal Division and Acting Assistant Director Christopher Hacker of the FBI's Criminal Investigative Division made the announcement.

"When Panasonic Avionics Corporation caused its publicly-traded parent company to falsify its books and records, it distorted the information available to legitimate investors," said Acting Assistant Attorney General Cronan. "The Criminal Division will take all appropriate action to ensure that the investing public is able to trust the accuracy of the financial statements of companies that avail themselves of American securities exchanges."

"Enforcement of the Foreign Corrupt Practices Act is critical in maintaining a fair and competitive international market to which all businesses are entitled," said Acting Assistant Director Hacker. "Along with our federal partners and the Department of Justice, the FBI will continue to aggressively investigate violations of the Foreign Corrupt Practices Act."

PAC, based in Lake Forest, California, designs and distributes in-flight entertainment systems and global communications services for airlines and airplane manufacturers. According to admissions and court documents, PAC knowingly and willfully caused Panasonic to falsify its books and records with respect to PAC's retention of consultants for improper purposes. The consultants, which did little or no actual consulting work for PAC, were retained through a third-party service provider and were paid for out of a budget over which a senior PAC executive had complete control and discretion, without meaningful oversight by anyone at PAC or Panasonic. One such individual was offered the consulting position by PAC at the time that he was employed by a state-owned airline and involved in negotiating a lucrative contract amendment on behalf of the airline with PAC. According to court documents, that consultant was

subsequently paid \$875,000 by PAC over a six-year period and PAC earned over \$92 million in profits from portions of the contract over which the consultant had some involvement or influence while employed with the airline. PAC admitted that it mischaracterized these payments as “consultant payments” on its general ledger, which it knew caused Panasonic to incorrectly designate those payments as “selling and general administrative expenses” on Panasonic’s books, records, and accounts.

PAC also admitted that employees in its Asia region concealed PAC’s use of certain sales agents, which did not pass the Company’s internal diligence requirements. According to admissions and court documents, PAC formally terminated its relationship with these sales agents, as required by its compliance policies, but PAC employees then secretly continued to use the agents by having them rehired as sub-agents of another company, which had passed PAC’s due diligence checks. Through this process, PAC employees hid more than \$7 million in payments to at least 13 sub-agents.

By mischaracterizing the payments made to consultants and sales agents and providing false or incomplete representations and Sarbanes-Oxley subcertifications to Panasonic about PAC’s financials and financial controls, PAC caused Panasonic to falsify its books, records, and accounts in violation of the FCPA.

PAC entered into a deferred prosecution agreement (DPA) in connection with a criminal information, filed today in the U.S. District Court for the District of Columbia, charging the company with one count of knowingly and willfully causing the falsification of the books, records, and accounts of its parent company Panasonic. As part of the DPA, PAC will pay a total criminal penalty of \$137,403,812. PAC also agreed to continue to cooperate with the department’s investigation, enhance its compliance program, implement rigorous internal controls and retain an independent corporate compliance monitor for at least two years.

In a related proceeding, the U.S. Securities and Exchange Commission (SEC) filed a cease and desist order against Panasonic, whereby the company agreed to pay approximately \$143 million in disgorgement to the SEC, including prejudgment interest. Thus, the combined total amount of U.S. criminal and regulatory penalties to be paid by Panasonic and PAC is over \$280 million.

The Criminal Division’s Fraud Section reached this resolution based on a number of factors, including the fact that PAC did not timely voluntarily self-disclose the conduct, but did cooperate with the department’s investigation after receiving a request for documents from the SEC. PAC received a 20 percent discount off the low end of the U.S. Sentencing Guidelines fine range because of its cooperation and remediation, which, although untimely in certain respects, did include causing several senior executives who were either involved in or aware of the misconduct to be separated from PAC or Panasonic. Because many of the company’s compliance enhancements were more recent, and therefore have not been tested, the DPA imposes an independent compliance monitor for a term of two years, followed by an additional year of self-reporting to the department.

The case is being investigated by the FBI’s International Corruption Squad in Los Angeles. Fraud Section Trial Attorneys Dennis R. Kihm and Jeremy R. Sanders prosecuted the case. The Fraud Section

appreciates the significant cooperation and assistance provided by the SEC in this matter. The Criminal Division's Office of International Affairs also provided assistance during the investigation.

The Fraud Section is responsible for investigating and prosecuting all FCPA matters. Additional information about the Justice Department's FCPA enforcement efforts can be found at www.justice.gov/criminal/fraud/fcpa.

Attachment(s):

[Download PAC DPA](#)

[Download PAC Information](#)

Topic(s):

Financial Fraud

Component(s):

[Criminal Division](#)

[Criminal Investigative Division \(FBI\)](#)

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