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Former Pacific Consolidated Industries LP Executive Pleads Guilty in Connection with Bribes Paid to U.K. Ministry of Defense Official

The former director of sales and marketing for Pacific Consolidated Industries LP (PCI) pleaded guilty today to charges related to the bribery of a U.K. Ministry of Defense (UK-MOD) official in order to obtain lucrative equipment contracts with the U.K. Royal Air Force, in violation of the Foreign Corrupt Practices Act (FCPA).

Leo Winston Smith, 73, of Chula Vista, Calif., pleaded guilty today before Judge Andrew J. Guilford in U.S. District Court in Santa Ana, Calif. Smith pleaded guilty to a two-count superseding information charging him with conspiracy to violate the FCPA in connection with the illicit payment of bribes for the benefit of a UK-MOD official in exchange for obtaining and retaining lucrative contracts for PCI, and with corruptly obstructing and impeding the due administration of the internal revenue laws. The UK-MOD official pleaded guilty in the United Kingdom to accepting more than \$300,000 in bribes from PCI and was sentenced to two years in prison.

According to court documents, PCI was a private company headquartered in Santa Ana that manufactured air separation units (ASUs), nitrogen concentration trolleys (NCTs) and other equipment for defense departments throughout the world. ASUs and NCTs generate oxygen and nitrogen in remote, extreme and confined locations for aircraft support and military hospitals. As director of sales and marketing, Smith's main responsibility was to obtain business from and negotiate contracts with various domestic and international clients, including the U.K. Royal Air Force.

According to the plea agreement, Smith, along with the president of PCI, created a sham marketing agreement between PCI and a relative of the UK-MOD official to facilitate the payment of bribes. According to the plea agreement, more than \$70,000 in bribe payments was made using this arrangement. Smith admitted that in return for the payments, PCI obtained UK-MOD contracts. In addition, Smith admitted that he under-reported income on his 2003 tax return and that he failed to file a 2003 tax return for his company, Design Smith Inc.

"Bribery cannot be viewed as standard operating procedure when representatives from U.S. companies seek contracts abroad," said Assistant Attorney General for the Criminal Division Lanny A. Breuer. "As demonstrated by this case, the Department will hold accountable corporate representatives who solicit and make bribe payments to foreign government officials."

"Over the decades, U.S. businesses have been credited with many advancements in the global market; the fostering of corrupt business relationships is not one of them," said Salvador Hernandez, Assistant Director in Charge of the FBI in Los Angeles. "This activity not only gives unfair competitive advantage to the company involved, it casts a shadow on the thousands of American businesses that operate legitimately abroad. The FBI, with its partners, will continue to actively search for - and counter - these corrupting influences."

"U.S. companies, as well as their officers, directors, and agents who engage in illegal activity for their financial benefit, will be held accountable," said Eileen C. Mayer, Chief of Internal Revenue Service - Criminal Investigation (IRS-CI). "We are steadfast in our determination to combat domestic and international tax fraud, corruption and money laundering, and will continue our efforts to ensure the integrity of our tax system worldwide."

An evidentiary hearing related to sentencing is scheduled for Dec. 15, 2009. Smith is scheduled to be sentenced on Dec. 18, 2009. Smith faces a maximum penalty of eight years in prison.

In 2003, after the conduct alleged in court documents occurred, PCI was acquired by a group of investors and re-named Pacific Consolidated Industries LLC (PCI LLC). PCI LLC referred the matter to the Department of Justice and cooperated in the government's investigation.

On May 8, 2008, Martin Eric Self, a U.S. citizen and a partial owner and former president of PCI, pleaded guilty to a two-count information charging him with violating the FCPA in connection with the illicit payment of more than \$70,000 in bribes for the benefit of the UK-MOD official in exchange for obtaining and retaining lucrative contracts for PCI. He was sentenced on Nov. 17, 2008, to two years of probation.

The criminal case is being prosecuted by Senior Trial Attorney Jonathan E. Lopez and Trial Attorney Nicola J. Mrazek of the Criminal Division's Fraud Section and Assistant U.S. Attorney Jennifer Waier from the U.S. Attorney's Office for the Central District of California. The Criminal Division's Office of International Affairs provided assistance in the case. British authorities also provided significant assistance in this matter. The case was investigated by agents of the FBI's Los Angeles Field Office at the Santa Ana Resident Agency and the IRS-CI Los Angeles Field Office.

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