

ENFORCEMENT INFORMATION FOR DECEMBER 20, 2018

Information concerning the civil penalties process can be found in the Office of Foreign Assets Control (OFAC) regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. These references, as well as recent final civil penalties and enforcement information, can be found on OFAC's website at www.treasury.gov/ofac/enforcement.

ENTITIES – 31 CFR 501.805(d)(1)(i)

Zoltek Companies, Inc. Settles Potential Civil Liability for Apparent Violations of the Belarus Sanctions Regulations. Zoltek Companies, Inc. (“Zoltek”) — a holding company headquartered in Bridgeton, Missouri, and the owner of Zoltek Corporation (“Zoltek U.S.”), located in the United States, and Zoltek Vegyipari ZRT (“Zoltek ZRT”), located in Hungary — has agreed to pay \$7,772,102 to settle its potential civil liability for 26 apparent violations of the Belarus Sanctions Regulations, 31 C.F.R. part 548 (BSR). Zoltek and/or Zoltek U.S. appear to have violated § 548.201 of the BSR by dealing in the blocked property or interests in property of J.S.C. Naftan (“Naftan”), a Belarusian entity OFAC designated on August 11, 2011 pursuant to Executive Order 13405 of June 16, 2006, “Blocking Property of Certain Persons Undermining Democratic Processes or Institutions in Belarus,” and identified on OFAC’s List of Specially Designated Nationals and Blocked Persons (the “SDN List”). Specifically, between on or about January 18, 2012 to on or about October 27, 2015, Zoltek U.S. appears to have approved 26 purchases of acrylonitrile (“ACN”), a chemical used in the production of carbon fiber, between Zoltek ZRT and Naftan.

For a number of years, up to and including 2015, Zoltek’s foreign subsidiary located in Hungary, Zoltek ZRT, purchased ACN from Naftan. Throughout this period, purchase decisions made by Zoltek ZRT were reviewed and approved by senior-level executives of Zoltek U.S. in the United States, specifically including the Chief Executive Officer (CEO) or, beginning in or around June 2014, the Executive Vice President for Production and Technology (EVPPT). Other senior Zoltek U.S. managers, such as the Chief Operating Officer (COO) and/or the Chief Financial Officer (CFO), were often consulted and participated in the review process associated with these decisions.

On or around August 16, 2011, and in direct response to OFAC’s designation of Naftan approximately five days before, a Zoltek ZRT employee notified the COO of Zoltek U.S. about OFAC’s designation of Naftan and questioned whether the sanctions posed any issues for Zoltek ZRT’s continued purchase and acquisition of ACN from Naftan. Notwithstanding the concerns raised by Zoltek ZRT to the COO of Zoltek U.S., Zoltek U.S. continued to review and approve transactions that dealt in the property or interests in property of Naftan.

Beginning no later than February 2015, multiple Zoltek U.S. employees — including (i) the CEO, COO, and President of Zoltek U.S.; (ii) the CFO of Zoltek U.S.; (iii) the EVPPT of Zoltek U.S.; and (iv) the Director of Global Operations of Zoltek U.S. — engaged in multiple conversations regarding the economic sanctions imposed against Naftan. These conversations

included input from third-party companies confirming that Zoltek ZRT's trading partner, OJSC Polymir in Belarus, was a subsidiary of Naftan, and that Naftan was on the SDN List and subject to U.S. economic and trade sanctions administered and enforced by OFAC. Despite multiple senior managers within Zoltek U.S. and Zoltek ZRT having actual knowledge of Naftan's status as an OFAC-sanctioned party, Zoltek U.S. continued to review and approve Zoltek ZRT's transactions involving Naftan.

OFAC determined that Zoltek and Zoltek U.S. voluntarily self-disclosed the apparent violations to OFAC, and that the apparent violations that occurred prior to February 2015 constitute a non-egregious case. OFAC determined that the apparent violations that occurred after February 2015 — during which multiple senior managers in Zoltek U.S. engaged in conversations about, and demonstrated actual knowledge of, Naftan's status as an OFAC-sanctioned person identified on the SDN List — constitute an egregious case. The statutory maximum civil monetary penalty amount for the apparent violations was \$37,824,392, and the base civil monetary penalty amount for the apparent violations was \$11,957,081.¹

For more information regarding the conduct that led to the apparent violations, please see the Settlement Agreement between OFAC and Zoltek [here](#).

The settlement amount reflects OFAC's consideration of the following facts and circumstances, pursuant to the General Factors under OFAC's Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A.

OFAC considered the following to be aggravating factors: (1) Zoltek U.S. acted with reckless disregard for U.S. economic sanctions requirements and/or failed to exercise a minimal degree of caution or care in avoiding the conduct that led to the apparent violations and failed to incorporate OFAC compliance checks in their overall risk mitigation strategy; (2) multiple Zoltek U.S. personnel, including senior and executive-level managers, as well as individuals from Zoltek ZRT, were aware of — and participated in — the conduct that led to the apparent violations; (3) Zoltek U.S. approved Zoltek ZRT's purchase of a significant volume of ACN from Naftan for a period of several years, resulting in significant harm to the sanctions program objectives of the BSR and conferring more than \$18 million to a Belarusian government entity; and (4) Zoltek and Zoltek U.S. are large entities that engage in a significant volume of international trade and cross-border transactions.

OFAC considered the following to be an additional aggravating factor with respect to the egregious transactions that occurred in or after February 2015: (1) Senior Zoltek U.S. personnel, including executive-level managers, actively discussed U.S. sanctions issues related to Naftan raised by third parties but did not review the company's U.S. legal obligations and continued to approve transactions with the OFAC-sanctioned party.

OFAC considered the following to be mitigating factors: (1) neither Zoltek nor Zoltek U.S. have received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest date of the transactions giving rise to the apparent violations; (2) Zoltek and Zoltek U.S.

¹ The base civil monetary penalty amount for the non-egregious transactions totaled \$1,513,535, and the base civil monetary penalty amount for the egregious transactions totaled \$10,443,546.

cooperated with OFAC's investigation, including by voluntarily self-disclosing the apparent violations, providing detailed and well-organized information for OFAC's review, and by agreeing to toll the statute of limitations for a total of 643 days; and (3) Zoltek and Zoltek U.S. have confirmed to OFAC that they have terminated the conduct that led to the apparent violations and have taken the following steps to minimize the risk of recurrence of similar conduct in the future:

- Zoltek U.S. expanded its Director of Global Compliance position, which initially focused only on export/import controls, to include U.S. sanctions issues;
- Zoltek implemented the use of sanctions software to screen its vendors, and their parent and subsidiary companies, against government restricted lists on a daily basis; and
- Zoltek created a "learning academy" to train all new and current Zoltek employees on U.S. economic sanctions and adherence to U.S. export controls.

This enforcement action highlights the risks for companies with overseas operations that do not implement OFAC compliance programs or that implement compliance programs that fail to address the sanctions regulations administered by OFAC. Effective sanctions compliance programs have policies, procedures, and controls designed to identify prospective and in-process transactions, as well as customers and counter-parties, for potential OFAC issues, as well as mechanisms designed to adequately respond to warning signs and raise sanctions-related issues to a sanctions compliance officer or point-of-contact. Additionally, this case highlights the need for U.S. parent companies to take care to segregate certain business operations of their overseas subsidiaries so that the U.S. parent and its employees do not violate U.S. sanctions regulations by facilitating the actions of its subsidiaries.

For more information regarding OFAC regulations, please go to: www.treasury.gov/ofac.