



Bombardier, Inc.: Bribery, Deception, Trial — Hollywood or Reality?

Description

Things seem to have gone from bad to worse for one of Canada's premier transportation companies. This past week, a Swedish court detained a Bombardier employee in pre-trial custody on allegations of bribery in a case that is straight out of a Hollywood movie.

The Swedish court alleges that Evgeny Pavlov, an employee of **Bombardier, Inc.** ([TSX:BBD.B](#)) in the company's Swedish offices, is suspected to have colluded with Azerbaijan officials and railway authorities to manipulate the bidding process for a \$339 million contract for train-signaling systems in the former Soviet state. Lead prosecutor Thomas Forsberg has stated in his arguments that both Bombardier and Mr. Pavlov had access to the bidding documents well before they were made public and had knowledge of the \$340 million budget, which Bombardier was able to secure at \$339 million, despite four other bids which came in lower.

The lowest bidder, Czech firm AZD Praha, submitted a bid for \$288 million but was rejected for technical reasons. A whistle-blower from the Czech company subsequently sent a letter to the World Bank citing concerns about the bidding process and, specifically, that one of the companies involved in the Bombardier consortium that won the deal, Trans-Signal-Rabita, had employees working simultaneously for the Azerbaijani railway authority at the time of the bid.

A separate World Bank investigation is underway, with auditors seemingly skeptical of some of the details of the transaction. The World Bank provided 85% of the funding for the deal, and should the World Bank's investigation show wrongdoing on the part of Bombardier, the potential effect from being shut out of numerous emerging-market deals the Canadian transportation manufacturer has relied on for years would be devastating to the firm — more than 48% of Bombardier's revenue came from its transportation segment, according to the company's most recent quarterly financial statements, making this the most profitable business segment for the company, further increasing the stakes for Bombardier and its management team.

The trial is ongoing, and more details are expected to come. At this time, the situation does not look good for Bombardier, both for the company's culture as well as the potential impact on the company's operations a negative ruling would have. The company has stated it is not able to comment on the trial,

given the legal proceedings are ongoing.

In addition to the pending court matter the Canadian transportation manufacturer is dealing with, news that the company had lost a \$32 billion New York subway bid due to past delays in delivering streetcars to domestic clients such as the Toronto Transit Commission (TTC), [covered](#) well by fellow Fool contributor Demetris Afxentiou, is very concerning for those currently invested in the Canadian transportation giant.

Bottom line

I have revised my outlook for Bombardier from one of caution to one of downright concern over the company's ability to operate in the long term. The overwhelming evidence in this case combined with the potential impact of any sort of negative ruling makes Bombardier far too speculative of a play for any investor not willing to lose a significant portion of their investment in a short period of time.

In this case, I do not see a situation where Bombardier can walk away unscathed. If the company is convicted of wrongdoing, or if somehow Bombardier and its officials are able to escape the grasp of Swedish law enforcement and the World Bank audit, the way the company manages its commercial transactions will be questioned for some time by others in the industry.

I am going to stay far, far away from Bombardier for the foreseeable future, and I suggest others do the same.

Stay Foolish, my friends.

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