Fried Frank
ITAR ENFORCEMENT DIGEST

July 2012

FRIED FRANK

ITAR Enforcement Digest
Editorial Board

Foreword

The purpose of this digest is to provide a legal and compliance practitioner's reference guide on the enforcement of international defense trade controls in the United States, with an emphasis on the U.S. State Department's civil and administrative enforcement program. Though it is useful to take note both of administrative and criminal enforcement trends, it is predominantly through its considerable administrative enforcement powers that the State Department most clearly and consistently signals to regulated parties its expectations for what constitutes adequate compliance.

Part 1 is an executive summary of U.S. defense trade controls and their enforcement by the U.S. federal government. Part 2 is a detailed chronological digest of all reported civil penalty cases that the State Department has settled since 2001. Part 3 is a chronological table of those cases intended to provide a "snapshot" of key enforcement data.

This digest is provided for general informational purposes only, and does not constitute the provision of legal advice or professional services.

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About Fried Frank's Aerospace & Defense Practice

The aerospace and defense industry requires support from legal counsel with a sophisticated and comprehensive grasp of the complex business, legal and non-market dimensions of this highly competitive, highly scrutinized sector. Our practice leverages the Firm's pre-eminent advisory, transactional, regulatory, and litigation expertise to provide integrated strategic and tactical solutions that meet the specialized needs of our global aerospace and defense clients.

With defense companies looking to reshape their portfolios, and investors looking to capitalize on change in the aerospace and defense sector, transaction activity is expected to remain robust. However, with scrutiny intensifying from governmental, regulatory, and political authorities, aerospace and defense companies must enhance their operational performance, compliance profile, and policy and regulatory acuity to prosper. Our experience allows us to effectively partner with clients to forge creative, practical and cost-efficient solutions to exploit opportunities and help mitigate the related risks posed by political or regulatory scrutiny, or by adverse market or industry conditions.

Anchored in the world's leading financial centers, political capitals, and clusters of aerospace and defense industry activity, our practice is informed by the years of combined private sector, senior U.S. and UK government, and military experience of our practitioners. Our highly-regarded aerospace and defense team includes a former U.S. Under Secretary of Commerce for Industry and Security, a former trial attorney and Assistant to the General Counsel in the Office of the General Counsel of the Navy, and a former Legal Adviser to the UK House of Commons European Scrutiny Select Committee and to the Regulatory Reform Select Committee.

For more information about our upcoming 2012 Global Aerospace and Defense Executive Seminar, please contact Mario Mancuso at +1.202.639.7055 or mario.mancuso@friedfrank.com

Part 1. Executive Summary of U.S. Defense Trade Controls Enforcement

Overview

The U.S. State Department's Directorate of Defense Trade Controls ("**DDTC**") administers the International Traffic in Arms Regulations (the "**ITAR**"), 22 C.F.R. Parts 120 – 130, which implement the Arms Export Control Act (the "**AECA**") and regulate international defense trade involving the United States. In most cases, companies in the United States that engage in ITAR-regulated activities must register with DDTC and pay an annual fee.

The ITAR regulate the permanent and temporary exportation from the United States, temporary importation into the United States, and retransfer from an authorized end user, of defense articles and technical data identified on the U.S. Munitions List at Part 121 of the ITAR. The ITAR also regulate the provision by U.S. persons of defense services to non-U.S. persons, as well as certain defense brokering activities whether conducted by U.S. or non-U.S. persons. ITAR-regulated activities require prior DDTC authorization unless a specific ITAR exemption applies.

Strict Enforcement

As reflected by the AECA, DDTC's mission and authority are driven by no less than the "furtherance of world peace and the security and foreign policy of the United States...." DDTC views the privilege to engage in defense trade as one which must be exercised with extraordinary integrity, transparency, and competency. Against this ideological backdrop it is unsurprising that the U.S. government has enforced defense trade controls aggressively. Because of the potential for serious harm to vital national interests, even technical or unintentional violations may carry substantial penalties to serve as a deterrent for careless behavior. Collateral consequences include negative publicity and corresponding reputational damage.

Criminal Penalties

Criminal penalties for willful misconduct under the AECA and ITAR include a fine of up to $1 million and imprisonment for up to twenty years, per violation. To establish willfulness, the government typically must prove there was a specific intent to violate a known legal duty.[1]

Civil Penalties and Administrative Enforcement

DDTC is authorized to impose a civil penalty of up to $500,000 per violation. The standard of intent for civil penalties is strict liability; i.e., no intent is required to violate the law. In accordance with well-settled principles, DDTC often holds parent companies liable for the acts of their subsidiaries. And when a company with compliance problems is sold off, DDTC may assess penalties against both the seller and buyer under theories of predecessor and successor liability, as it has done in several cases.

Agency officials have explained publicly that DDTC pursues civil penalties for significant violations that impact U.S. national security or foreign policy interests, as well as for significant violations that challenge the U.S. government's regulatory authority. Many cases have involved unauthorized technology transfers and exports to China and other countries of concern to the United States. And to the latter point, cases settled in recent years have reflected a trend for DDTC to penalize companies that it perceives have flouted DDTC's authority, questioned its judgment, or deceived the agency in some manner.

For example, a 2006 case against Boeing, which resulted in a $15 million fine and burdensome mandatory compliance requirements, was driven largely by the fact that the company, following advice of counsel, disregarded DDTC's position on the classification of an aircraft guidance component and defied the agency's mandates. A companion case against Goodrich Corporation and L 3 Communications was advanced on the premise that Goodrich misled DDTC by omitting material information in a request for a commodity jurisdiction determination. In its draft charging letter, DDTC publicly rebuked the company's outside attorneys for "aiding and abetting" the alleged misconduct and L 3 paid for violations that occurred before it acquired the company.

[1] Jurisprudence varies in different federal judicial circuits on the precise legal elements for establishing willful intent to violate federal criminal law.

Civil penalties may be assessed together with or independent from criminal penalties. Typically, DDTC pursues civil penalties through a negotiated settlement process that begins with the presentation of a proposed or draft charging letter describing the violations DDTC intends to charge, and concludes with the execution of a consent agreement and order resolving the case.

Over the years, DDTC has established a reputation for calculating civil penalties aggressively and often has charged a separate violation for each instance of repetitive conduct. For example, in a case involving numerous unauthorized shipments of the same type of defense article or technical data to the same end user, DDTC may assess a separate fine for each shipment, which can result in staggering cumulative penalties. In addition, one transaction may result in multiple violations. For example, shipping a defense article or transferring controlled technical data improperly may, depending on the circumstances, lead to several distinct charges, including making an unauthorized exportation, conspiring to violate the ITAR, aiding and abetting a violation, and making a false statement or omitting a material fact on a related shipping document.

A formal hearing procedure before an administrative law judge is available under Part 128 the ITAR, with evidentiary safeguards and rights to a rehearing and an appeal. But for all intents and purposes, administrative due process has been nonexistent to date. No reported administrative enforcement matter has ever involved such a hearing. As a practical matter, DDTC's authority (and demonstrated willingness) to suspend defense trade activities pending the outcome of an enforcement case has discouraged anyone from ever pursuing a formal hearing beyond the preliminary phase. As a further disincentive to challenge its authority, DDTC asserts the position that defense trade enforcement is largely immune from judicial review under the Administrative Procedure Act because of the sensitive national security and foreign policy interests implicated.

Debarment, Denial, Revocation, and Suspension

Debarment is a prohibition from engaging directly or indirectly in ITAR-regulated defense trade. A criminal conviction under the AECA, the Export Administration Act, the Foreign Corrupt Practices Act, U.S. sanctions laws, or other specified national security laws triggers an automatic statutory debarment for three years. And any violation of the ITAR, regardless of intent, may trigger discretionary administrative debarment, likewise for a period of three years.

Reinstatement of defense trade privileges is not automatic; the debarred party must petition DDTC and demonstrate that it has mitigated law enforcement concerns raised by the conduct triggering debarment. As a matter of administrative discretion, DDTC often will waive the three-year period and permit a debarred party to petition for reinstatement after one year. Nevertheless, reinstatement is a costly, burdensome, and often lengthy process.

An indictment under the AECA or the other specified criminal statutes, ineligibility to contract with the U.S. government, denial of export or import privileges by another government agency, imposition of missile proliferation sanctions, or even the mere suspicion of violations of U.S. trade controls, provides DDTC with discretionary authority to deny, revoke, or suspend defense trade authorizations. In such cases, the petition process and timing for restoration of defense trade privileges varies depending on the precise nature of the conduct triggering the adverse action.

The ability to control and deny access to the U.S. defense market provides DDTC with powerful leverage to compel even non-U.S. companies to comply with its mandates.

Directed Remediation

In addition to a fine and the prospect of debarment or other limitations on defense trade privileges, administrative enforcement generally includes execution of a consent agreement under which the respondent is required to institute enhanced compliance measures, usually for a period of three to five years.

These measures include appointing a Special Compliance Official, often from outside the company, as well as conducting compliance audits with DDTC-approved outside auditors, instituting a "cradle-to-grave" export tracking system, and dedicating a specified and typically substantial amount of money to compliance improvements. Each consent agreement is tailored to the nature of the violations, the level of cooperation, and the adequacy of existing compliance measures at the time of settlement.

Voluntary Disclosure

DDTC has created powerful incentives for companies to make voluntary disclosures of suspected violations. Although no guarantees are offered, submission of a voluntary disclosure is well-recognized as a substantial mitigating factor, and often

results in DDTC taking no enforcement action. In fact, agency officials have stated publicly that they expect regulated companies to submit voluntary disclosures as a reflection of transparency and a commitment that their compliance programs actually work to detect and correct violations.

For example, at a defense trade compliance conference in Washington, D.C. in July 2010, Lisa Aguirre, Esq., who became director of DDTC's compliance and enforcement office in early 2010, articulated with heretofore unusual clarity the agency's vision for enforcement going forward. Ms. Aguirre explained that "if there has been a voluntary submission of information and the company is generally working with our office, it is extremely unlikely—I can't say it can't happen—but I say it is unlikely and it is not our practice to impose monetary penalties." She also explained that DDTC will give mitigating credit for disclosures made at any time, even if another federal agency already knew about the potential violation. She emphasized that "working with our office, volunteering information, being honest and open, and just generally trying to fix the issues, will go an extremely long way."

In contrast to the benefits earned through voluntary disclosure, DDTC looks suspiciously upon companies without a track record for making them, and perceives those companies as having something to hide. Moreover, nondisclosure is treated as an aggravating factor in calculating penalties when violations are discovered—as often they are—through other sources. The risk that violations will be revealed independently is significant because of the participation of other parties in a defense trade transaction such as suppliers or shippers who themselves may be inclined to make a disclosure to protect their own interests. Other variables include the possibility of a Customs seizure when paperwork is not in order, the prospect of a competitor who believes the other company is gaining an unfair advantage by not following the rules, a disgruntled employee or whistleblower, and investigative media reporting.

In some cases, what is perceived as a voluntary decision may actually be a mandatory duty to disclose. For example, Section 126.1(e) of the ITAR requires that "[a]ny person who knows or has reason to know of ... a proposed or actual sale" of ITAR-controlled defense articles, defense services or technical data to an ITAR-proscribed country (e.g., China) "must immediately inform" DDTC. In addition, the failure to disclose a prior violation may constitute a material omission on a subsequent license application or a public company securities report, or cause a false statement on a subsequent compliance certification.

Statistics and Trends

DDTC publishes on its website copies of final settlement documents for ITAR administrative enforcement cases (i.e., draft charging letters, consent agreements, and orders). See http://www.pmddtc.state.gov/compliance/consent_agreements.html (last visited on April 25, 2012).

While it is unclear if the list of published cases is exhaustive, available documentation reflects that the State Department has settled forty-eight cases since 1978 (with one additional undated case). On average, the State Department has settled approximately two cases per year, and in no year has the number of cases exceeded five. Several companies have been penalized multiple times; e.g., Boeing (five times); Lockheed Martin (three times); L 3 (two times); Raytheon (two times); ITT (two times); Hughes (two times); Security Assistance International (two times).

In fiscal year 2009, DDTC reported that its database contained 9,322 registrants, which suggests the odds of a company becoming the target of an ITAR administrative enforcement action are statistically insignificant. Nevertheless, DDTC's enforcement program has had a well-recognized *in terrorem* effect on the defense industry, both in the United States and abroad. As noted above, DDTC has used its considerable powers aggressively over the years to make harsh examples of targeted companies.

It remains to be seen whether Ms. Aguirre's July 2010 remarks to industry truly confirm a "kinder, gentler" enforcement posture toward industry. But in addition to explaining that candid, comprehensive voluntary disclosures generally will not trigger monetary penalties, Ms. Aguirre suggested that DDTC's focus increasingly will be on helping companies strengthen their ITAR compliance programs through greater reliance on directed remediation. She added that monetary penalties of the magnitude previously seen will likely be reserved for situations where voluntary disclosure either has not been made at all or where such disclosure is deemed inadequate, as well as where the violations involve the longstanding criteria of harm to national security/foreign policy or a challenge to DDTC's authority.

Finally, during her July 2010 remarks, Ms. Aguirre explained that DDTC will not pursue a consent agreement unless the agency is "ready to do a real charging letter with an administrative law judge in place". Whether this remark signals the possibility that cases will be adjudicated under ITAR Part 128's hearing procedures also remains to be seen, but it is reasonable to infer that the remark was meant to suggest, at a minimum, that DDTC only pursues cases in which it believes it can prevail.

Learning from ITAR Enforcement Cases

Whatever the odds that any given company will become the target of an ITAR enforcement action, a close study of DDTC cases, especially more recent examples summarized in this digest, provides invaluable information about DDTC's priorities, concerns, and expectations. In particular, the often sharp and reproachful rhetoric in proposed and draft charging letters effectively illustrates the types of conduct that DDTC finds especially egregious.

Perhaps more importantly, as a reflection of what DDTC expects from companies to strengthen their compliance programs in the wake of settled violations, the directed remediation measures set forth in consent agreements provide a blueprint of best practices that every company should consider when benchmarking its own program.

Part 2. ITAR Administrative Enforcement Digest (2012 – 2001)

AECA: Arms Export Control Act
DCIS: Defense Criminal Investigative Service
DDTC: State Department, Directorate of Defense Trade Controls
EAR: Export Administration Regulations, 15 C.F.R. Parts 730 – 774
ICE: Immigration and Customs Enforcement
ISCO: Internal Special/Senior Compliance Officer/Official
ITAR: International Traffic in Arms Regulations, 22 C.F.R. Parts 120 – 130
SCO: Special/Senior Compliance Officer/Official
USML: U.S. Munitions List (ITAR Part 121)

Notes:

(1) Citations to the applicable provisions of the ITAR for similar violations sometimes are inconsistent from case to case, which is a reflection of DDTC enforcement practice.

(2) Regarding directed remediation in particular, the summaries below reflect our editorial judgment. Readers are encouraged to review the specific terms of individual consent agreements for a more exhaustive and nuanced description of compliance requirements imposed in a particular case.

2012

United Technologies Corporation

Civil Case

Settled
June 28, 2012

Summary
United Technologies Corporation ("**UTC**") settled over five hundred charges in connection with alleged violations of the AECA and the ITAR, as well alleged violations by its subsidiaries Hamilton Sundstrand Corporation ("**HSC**"), Kidde Technologies, Inc. ("**KTI**"), and Pratt & Whitney Canada Corp. ("**PWC**"), among others, caused by the company's unauthorized export and transfer of defense articles, including technical data, and unauthorized provision of defense services to proscribed countries.

UTC's Canadian subsidiary, PWC, manufactures aircraft engines for civil aircraft and modifies the civil engines using U.S.-origin, ITAR-controlled defense articles and technical data. PWC entered into negotiations with the China Aviation Industry Corporation II of the People's Republic of China ("**PRC**") to develop and sell engines for Chinese helicopters. Internal PWC documents demonstrated that PWC discussed using these engines on Chinese Z-10 helicopters, which have been described as the PRC's first modern military attack helicopters. The engines developed for the civil helicopters were identical to the engines used in the military helicopters and were therefore determined not to be ITAR-controlled. However, the Electronic Engine Control ("**EEC**") software that was developed to test the engines was modified to interface with military helicopters and at that point became a defense article and ITAR-controlled. PWC relied on UTC's subsidiary in the United States, HSC, to modify the EEC software. HSC exported test versions of modified EEC software to PWC eleven times between 2002 and 2003 without authorizations. PWC reexported the modified EEC software six times to the PRC during 2002-2003. In early 2004, HSC terminated work on the project because of concerns relating to export controls compliance. Later, in 2004-2005, PWC modified the EEC software without HSC's assistance and reexported it to the PRC four additional times without the appropriate authorizations.

In February 2006, two years after HSC voluntarily terminated its work on this project, UTC received an email inquiry from an institutional investor about PWC's participation in developing Chinese Z-10 combat helicopters. According to official U.S. government documents, UTC initiated an internal review in July 2006, following the investor inquiry. UTC, HSC, and PWC submitted voluntary disclosure letters to DDTC in July through September 2006 describing unauthorized reexports to the PRC. According to the U.S. government, these voluntary disclosures contained materially false statements regarding PWC's knowledge of the military nature of the Z-10 helicopters program.

In addition, KTI (UTC's U.S. subsidiary) had a history of noncompliance that had not been properly remediated. HSC submitted a voluntary disclosure to DDTC describing violations that occurred in June 2011 when two ITAR-controlled aircraft parts were exported to Singapore and then reexported to airline customers in the PRC and the Republic of Korea. HSC's voluntary disclosure included information about a previous unauthorized export of ITAR-controlled parts to Singapore in May 2009. DDTC indicated in the proposed charging letter that these violations evidenced the "systemic, corporate-wide failure to maintain effective ITAR controls" throughout UTC's operating units.

This case is notable because it appears that UTC's disclosure to DDTC was instigated by investor inquiries about the company's involvement in defense trade with the PRC. In addition this case involved close coordination among many U.S. government agencies. UTC, HSC, and PWC entered into global settlements with the DDTC and the U.S. Justice Department to resolve respective civil and criminal allegations (see criminal allegations below).

Despite the aggravating factors described above, DDTC gave mitigating consideration to the fact that: (1) UTC voluntarily disclosed the violations; and (2) UTC engaged in remedial compliance measures.

Charges

Five hundred seventy-six violations, as follows:

(1) Thirteen charges of exporting specially modified software for use in a military attack helicopter without authorization to Canada (ITAR § 127.1(a)(1)).

(2) Eleven charges of reexporting specially modified software for use in a military attack helicopter without the appropriate authorizations to China (ITAR § 127.1(a)(1)).

(3) One charge of exporting a defense article to Canada without filing the required export information with U.S. Customs and Border Protection (ITAR § 123.22(b)).

(4) One charge of failing to notify DDTC immediately after UTC knew of the sale/transfer of a defense article to a proscribed country (ITAR § 126.1(e)).

(5) Fifty-eight charges of exporting defense articles incorrectly determined not to be ITAR-controlled to fifteen countries without the appropriate authorizations (ITAR § 127.1(a)(1)).

(6) One charge of exporting an avionics intermediate maintenance test stand to the Venezuelan Defense Ministry/Air Force without the appropriate authorization (ITAR § 127.1(a)(1)).

(7) Fifty-one charges of UTC's subsidiary, P&W U.S., exporting technical data and automation tools to an Indian company and its engineer employees without authorization (ITAR § 127.1(a)(1)).

(8) One charge of UTC's subsidiary, HSC, exporting a laptop containing technical data to the PRC without authorization (ITAR § 127.1(a)(1)).

(9) Four hundred thirty-seven charges of failing to abide by the terms and conditions of its technical assistance agreements, manufacturing license agreements, and warehouse and distribution agreements (ITAR §§ 127.1(a)(4), 127.2 and 124.1(c)).

(10) Two charges of UTC's subsidiary, KTI, exporting defense articles to Singapore without the appropriate authorization (ITAR § 127.1(a)(1)).

Penalty
$55 million, allocated as follows: (1) $35 million, payable in five $7 million annual installments commencing within ten days of settlement; (2) $5 million will be suspended if applied toward remedial compliance measures; and (3) $15 million will be suspended if applied to remedial compliance measures over a four-year period.

In addition, PWC was debarred from ITAR-controlled defense trade, subject to the availability of specific transaction exceptions for activities deemed to be in the national security and foreign policy interests of the United States, with eligibility to seek reinstatement after one year.

UTC, HSC, and PWC also agreed to pay approximately $20.7 million pursuant to the Deferred Prosecution Agreement with the U.S. Justice Department, as described below.

Directed Remediation

(1) Appoint an outside SCO, (who may also serve as the independent monitor required in connection with the related criminal matter described below), subject to DDTC approval, for a minimum of two years and up to four years, unless UTC petitions for the SCO to be succeeded by an ISCO for an additional two years, with a requirement that UTC's Senior Vice President and General Counsel will brief the board of directors or appropriate committees thereof, on findings and recommendations of the SCO and UTC's response and implementation regarding the status of AECA and ITAR compliance, at least annually.

(2) Continue to promote and publicize the availability of the company's employee reporting mechanisms for allegations of violations of the AECA and the ITAR.

(3) Strengthen compliance policies, procedures, and training within twelve months of settlement.

(4) Continue to implement a comprehensive automated export compliance system to strengthen internal controls for ensuring AECA and ITAR compliance. The system will cover the initial identification of all technical data and technical assistance and will be accessible to DDTC on request.

(5) Develop and implement policies, procedures, and training to ensure accurate identification and tracking of ITAR-controlled technical data that is transferred electronically, including by email and transfers outside of UTC's information technology networks.

(6) Conduct a study to identify feasible enterprise improvements to maximize automation of the identification and tracking of ITAR-controlled technical data and, on the basis of such study, propose an implementation plan and submit the implementation plan to DDTC within one hundred twenty days of settlement.

(7) Review and verify the export control jurisdiction of all hardware (including software), and any defense services or technical data directly related to such hardware, that have been exported in the past five years and conclude such jurisdiction review no later than twenty-four months after the settlement.

(8) Conduct two external audits using an outside consultant with expertise in AECA/ITAR matters, subject to DDTC's approval of the consultant and supervised by the SCO, the first audit to be planned within six months of settlement and a written report to be submitted within twelve months after settlement, and the second audit to be planned within thirty-six months after settlement and a written report to be submitted within forty-two months of the settlement.

(9) Certify to DDTC three months prior to the four-year anniversary of the settlement whether all remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Criminal Case

Settled
June 28, 2012

Summary
On June 28, 2012, UTC, HSC, PWC, the U.S. Justice Department, and the U.S. Attorney's Office for the District of Connecticut (the "**Office**") entered into a Deferred Prosecution Agreement. PWC and the Office entered into a separate plea agreement in which PWC pled guilty to two out of three criminal charges. In the information the Office alleged that

PWC knew that China was developing a military attack helicopter from the start and that PWC withheld such information from UTC and HSC. The Office also alleged that PWC hid its concerns regarding defense article classification and export compliance from UTC and HSC until years later. From 2002-2003, PWC led HSC to believe that its EEC software was being used in civil non-military Chinese helicopters.

The Office agreed to request deferred prosecution for two years for UTC and HSC on Count 2 and PWC and HSC on Count 3 because of their remedial actions and their willingness to: (1) continue corrective action and undertake remedial measures; (2) acknowledge responsibility for their behavior; (3) continue their cooperation with the Office and other government regulatory agencies; (4) demonstrate their future good conduct and full compliance with export laws and regulations; and (5) consent to pay penalties. If UTC, HSC, and PWC are in compliance with all of their obligations under the deferred prosecution agreement within thirty days after the two-year deferral period, as determined by the Office, the Office will file a motion to dismiss the deferred counts.

Charges

Three counts, as follows:

(1) Against PWC Only: Willfully exporting defense articles without a license in violation of the AECA (on or between January 2002 and October 2003) (22 U.S.C. §§ 2778(b)(2) and 2778(c); 18 U.S.C. § 2; and (c); ITAR §§ 127.1(a) and 127.3). PWC pled guilty to this count.

(2) Against UTC, HSC and PWC: Making false statements to DDTC (on or between July 2006 and September 2006) (18 U.S.C. § 1001). PWC pled guilty to this count. The Office agreed to request deferred prosecution for UTC and HSC on this count for two years.

(3) Against PWC and HSC: Willfully failing to timely inform DDTC of the export of defense articles without a license to an embargoed country (on or between 2002 and July 2006 for PWC and on or between 2004 and July 2006 for HSC) (22 U.S.C. § 2778(c); ITAR §§ 126.1(a) and (e)). The Office agreed to request deferred prosecution on this count for two years.

Penalty

$20,700,800, allocated as follows: (1) $4.6 million as a criminal fine equal to twice the value of PWC's total gross gain from activities described in Count 1; (2) $800 as a special assessment on PWC's convictions ($400 per count); (3) $2.3 million as a forfeiture of proceeds equal to the estimated value of PWC's total gross profit earned on activities described in Count 1; and (4) $13,800,000 as a deferred prosecution monetary penalty. PWC agreed to pay the amounts listed in (1), (2) and (3). The U.S. Justice Department did not allocate any penalty funds toward directed remediation.

Directed Remediation

UTC, HSC and PWC agree to:

(1) Retain an independent monitor to oversee UTC, HSC and PWC's compliance with the Deferred Prosecution Agreement, the AECA, the ITAR, the Export Administration Act, the EAR and the International Emergency Economic Powers Act.

(2) Meet annually, or more frequently if appropriate, with the Office to discuss the monitorship.

(3) Submit a Training Program proposal to the independent monitor within one hundred twenty days, which includes:

   a. obligations imposed by federal export laws and regulations, including disclosure obligations;

   b. proper internal controls and procedures;

   c. discovering and recognizing export compliance issues; and

   d. obligations assumed by, and responses expected of, employees upon learning of improper or potentially illegal acts relating to export compliance.

(4) Undertake a training program no later than ninety days after the Training Program proposal is approved.

(5) Maintain records of training programs provided, including the names and titles of individuals who received training, for at least five years.

(6) Submit an annual compliance certification to the independent monitor signed by UTC's Chairman, President & CEO, the Senior Vice President and General Counsel who serves as the empowered official, and the Associate General Counsel with oversight for export control compliance.

Alpine Aerospace Corporation/TS Trade Tech

Settled
March 28, 2012

Summary
Each of Alpine Aerospace Corporation ("**Alpine**") and TS Trade Tech Incorporated ("**TS Trade**") settled charges alleging that each company violated the AECA and ITAR with nine violations. Each of Alpine and TS Trade allegedly: (1) participated in unauthorized exports of defense articles; (2) misrepresented and omitted materials facts on an export control document; and (3) failed to obtain required nontransfer and use certificates.

Alpine's president and the Chief Executive Officer of TS Trade, Mr. Tae Hoon Kim, participated in international sales of replacement parts produced by Alpine and TS Trade. Alpine and TS Trade are owned by the same person. Between July 1, 2005 and January 31, 2007 Mr. Tae Hoon Kim exported missile components on behalf of Alpine and TS Trade six times and, in certain cases, did so under U.S. export licenses authorizing the export of aircraft engine parts (not the missile parts that were sent).

Alpine sent these parts to the Republic of Korea Air Force in South Korea and the items exported were: (1) four flywheels; (2) thirty lever locks; (3) thirty electron tubes; (4) four spiders; and (5) two connecting links. All of these parts were classified under the USML either as Category IV(h) or XI(c). Alpine did not obtain a DSP-83 Non-Transfer and Use Certificate for its exports. Alpine violated ITAR §127.2(a) when it declared incorrectly that its exports were covered by an export license for airplane parts. On September 1, 2006, TS Trade exported twenty flanges that were classified under the USML as Category VIII(h) without the necessary authorizations. In its charging letter, DDTC indicated that neither Alpine nor TS Trade had sufficient policies and procedures regarding export compliance.

DDTC discovered the apparent violations of the ITAR after a joint investigation by DCIS and ICE uncovered illegal exports that were sent to South Korea. A criminal information was filed in federal court charging Alpine with violating 18 U.S.C. § 1001 (making false statements). On October 27, 2010, Alpine pled guilty to the allegations that Alpine included false statements on its shipper export declaration forms stating that the defense articles Alpine exported were aircraft and engine parts instead of indicating that such items were missile components. Although TS Trade was not involved in the DCIS and ICE investigation or the criminal charges, TS Trade submitted a voluntary disclosure describing its ITAR violations pursuant to ITAR §127.12.

This case is noteworthy because of the interagency work that brought the violations to the DDTC's attention and the low penalties charged to the companies for these violations.

Charges
Each of Alpine and TS Trade settled nine charges, as follows:

(1) Seven charges of violating of exporting items categorized under USML Categories IV, VIII, and XI to South Korea without the appropriate authorizations (ITAR §127.1(a)(1)).

(2) One charge for using export control documents containing misrepresentations and omissions of facts relating to exports of defense articles under USML Categories IV and XI (ITAR §127.2(a)).

(3) One charge for failing to obtain Non-Transfer and Use Certificates (Form DSP-83) for the export of Category VI or XI defense articles (ITAR §127.1).

Penalty
Alpine shall pay $30,000 which shall be applied over a two-year period to defray a portion of the costs associated with the directed remediation compliance measures.

TS Trade shall pay $20,000 which shall be applied over a two-year period to defray a portion of the costs associated with the directed remediation compliance measures.

Directed Remediation
Each of Alpine and TS Trade agreed to remedial measures, as follows:

(1) Ensure that adequate resources are dedicated to ITAR compliance.

(2) Establish policies and procedures for all Alpine and TS Trade employees outlining employees with responsibility for ITAR compliance that specifically identifies lines of authority, staffing increases, performance evaluations, career paths, promotions, and compensation.

(3) Ensure effective export control oversight, infrastructure, policies, and procedures are in place for ITAR-regulated activities.

(4) Implement strengthened corporate export control procedures, within one year of settlement, such that: (a) all employees engaged in ITAR-regulated activities are familiar with the AECA and ITAR, and each employee is aware of the employee's and Alpine's or TS Trade's (as applicable) responsibilities to comply with such laws and regulations; (b) all persons responsible for supervising the employees are knowledgeable about the underlying policies and principles of the AECA and ITAR; and (c) there are records indicating the names of employees, trainers, and level and area of training received by each.

(5) Conduct two external audits (the first within one year of settlement and the second within two years of settlement) subject to prior DDTC approval of the auditor and audit plan, and submit to DDTC a final report of findings and recommendations for each audit.

(6) For the duration of the consent agreement, incorporate the foregoing measures into any business acquisitions and notify DDTC sixty days prior to the sale of Alpine, TS Trade, or any of their business units or divisions, and require the purchaser in such case to agree in writing to be bound by the terms and conditions of the settlement, including the foregoing measures.

2011

BAE Systems plc

Settled
May 16, 2011

Summary
BAE Systems plc, United Kingdom ("**BAE UK**"), settled a staggering two thousand five hundred ninety-nine charges for it, its businesses, units, subsidiaries, and operating divisions.[2] The charges, which span from 1998 to 2011, concerned unauthorized brokering and related activities, failure to report commissions to third parties, and recordkeeping violations. The charges related to: (1) marketing JAS-39 "**Gripen**" military aircraft to Brazil, Chile, the Czech Republic, Hungary, the Philippines, Poland, and South Africa; (2) exporting "**Hawk**" Trainer aircraft to Australia, Bahrain, Canada, India, Indonesia, and South Africa; (3) marketing or exporting EF-2000 Eurofighter "**Typhoon**" aircraft to Australia, Austria, the Czech Republic, Denmark, Greece, Japan, the Netherlands, Norway, Poland, Saudi Arabia, Singapore, South Korea, and Switzerland; (4) marketing three refurbished Type 23 frigates to Chile; and (5) other unspecified defense trade transactions.[3]

DDTC initiated its investigation in relation to a March 2010 plea agreement between BAE UK and the U.S. Justice Department alleging criminal conspiracy to violate U.S. federal laws, including the ITAR by failing to report commissions paid to third parties. The plea agreement capped a global criminal settlement involving both the U.S. Justice Department

[2] DDTC determined that BAE UK's U.S. subsidiary, BAE Systems, Inc. (including its subsidiaries, collectively, "BAE US"), was not involved in the activities in question and excluded BAE US from this enforcement action.

[3] The proposed charging letter reflects that certain activities related to the "Gripen" aircraft commenced as early as 1995, but the charges reflect the fact that the ITAR brokering requirements became effective in 1998.

and the U.K. Serious Fraud Office, which followed a long-ranging international fraud and bribery investigation against BAE UK, and which resulted in a total of nearly $450 million in criminal fines that BAE UK paid to the United States (approximately $400 million) and to the United Kingdom (approximately $47 million).

Following the U.S. plea agreement, DDTC imposed an "administrative hold" on ITAR authorizations involving BAE UK and its covered affiliates, and conducted its own civil investigation. DDTC gave mitigating consideration to the fact that BAE UK: (1) made changes to its senior management and Board of Directors; and (2) implemented remedial compliance measures, in connection with the criminal investigation.

On the other hand, DDTC considered as serious aggravating factors: (1) BAE UK's "failure to cooperate fully" throughout the fourteen-month investigation; (2) its incomplete responses to requests for information; (3) its failure to maintain or produce relevant records; (4) the frequency and type of violations; (5) the complicity of former senior management in authorizing the violations; (6) the systemic, widespread, and sustained nature of the violations (more than ten years); and (7) the fact that BAE UK only disclosed three violations itself at DDTC's direction, and not voluntarily. Citing BAE UK's lack of cooperation and inability to produce requested information (in part, in stated reliance on UK secrecy laws), DDTC noted that it was unable to complete a full review and was forced instead to make a "reasoned approximation" of the nature and type of violations by relying on collateral sources.

This case is notable because it involves the most proposed charges and the largest civil penalty for a consent agreement to date.

Charges
Two thousand five hundred ninety-one violations, as follows:

(1) Fourteen charges of failing to register as a broker while engaging brokering activities from 1998 to 2011 (ITAR § 129.3).

(2) One thousand one hundred thirty charges of engaging in unauthorized brokering activities from 1998 to 2007 (eight charges concerning JAS-39 "**Gripen**" aircraft; thirteen concerning EF-2000 Eurofighter "**Typhoon**" aircraft; six concerning "**Hawk**" trainer aircraft; three concerning Type 23 frigates; one hundred (estimated) concerning unspecified instances in which BAE UK financed brokering by making payments to unidentified brokers; and one thousand (estimated) concerning unspecified instances in which Red Diamond Trading Ltd., acting on behalf of and at the direction of BAE UK, financed brokering by making payments to unidentified brokers) (ITAR § 129.6).

(3) Thirteen charges of failing to provide an annual report of brokering activities from 1998 to 2010 (ITAR § 129.9).

(4) Three hundred charges of causing unauthorized brokering from 1998 to 2007 by using unauthorized brokers (ITAR § 127.1(d)).

(5) Three charges of failing to disclose payments in respect of a sale for which a license or other approval was required (ITAR § 130.9).

(6) One thousand one hundred thirty-one charges of failing to maintain records of brokering and financing of brokering by payments to other brokers (one hundred thirty-one charges concerning BAE UK and one thousand (estimated) concerning Red Diamond Trading Ltd, acting on behalf of and at the direction of BAE UK) (ITAR § 129.4(c)).

Penalty
$79 million, allocated as follows: (1) $69 million, of which $18 million is payable within ten days of settlement, and the remainder is payable in annual installments of $17 million each beginning one year from the date of settlement; (2) $10 million suspended in the following manner: (a) $3 million credited for pre-consent agreement remedial compliance measures, if determined to be eligible; and (b) $7 million applied to directed remediation over four years.

BAE UK was statutorily debarred in connection with its criminal plea and pre-settlement ITAR authorizations were placed on "administrative hold." DDTC immediately lifted the debarment in connection with the settlement, but imposed a denial policy against three BAE UK entities; namely, BAE Systems CS&S International, Red Diamond Trading Ltd., and Poseidon Trading Investments Ltd. (including their divisions, business units, and successor entities). Specific transaction exceptions

to the denial policy may be granted on a case-by-case basis, when based on overriding national security and foreign policy interests. Authorizations for the denied entities that were issued prior to settlement remain valid.

Directed Remediation

(1) Nominate an external, unaffiliated SCO, to be appointed within fifteen days of DDTC concurrence, who will oversee and support ITAR compliance, for no less than the first three years of the consent agreement. If DDTC does not extend the SCO's term or extends the term for less than the four-year duration of the consent agreement, the SCO shall recommend an internal successor to serve as an ISCO. The SCO or ISCO shall be responsible for: (a) monitoring ITAR compliance policies and procedures; (b) overseeing the compliance program; and (c) reporting on compliance to DDTC at specified times.

(2) Conduct an internal review within one hundred twenty days of ITAR compliance resources directed toward the types of violations included in the proposed charging letter, to include an estimate of the current number and types of personnel engaged in brokering activities, and provide a report of the same to the SCO and DDTC.

(3) Strengthen policies, procedures, and training within twelve months of settlement, with a focus on ITAR brokering (ITAR Part 129) and financial reporting (ITAR Part 130) requirements.

(4) Review and where necessary improve current technology systems for tracking ITAR-controlled activities. Train employees regarding the same.

(5) Conduct two external audits, subject to prior DDTC approval of the auditor and audit plan, and oversight by the SCO or ISCO, and submit to DDTC a final report of findings and recommendations, the first within one year of settlement, and the second within forty-two months of settlement. Agree not to assert attorney-client privilege over the audit results and report.

(6) Publicize internally the availability of the company's ethics helpline for reporting concerns, and include with required reports to DDTC an assessment of the hotline's effectiveness.

(7) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement.

(8) Ensure continued legal department support for ITAR compliance.

(9) For the duration of the consent agreement, incorporate the foregoing measures into any business acquisitions involving ITAR-controlled activities, and require the purchaser in any divestiture involving ITAR-controlled activities to agree to be bound by the terms of the settlement, including the foregoing measures.

2010

Xe Services LLC

Settled
August 18, 2010

Summary
Xe Services LLC (formerly EP Investments, LLC, a.k.a. Blackwater Worldwide) settled hundreds of charges for it and its five subsidiaries: GSD Manufacturing, LLC (formerly Blackwater Target Systems, LLC); Aviation Worldwide Services, LLC; Presidential Airways, Inc.; Total Intelligence Solutions, LLC; and Paravant, LLC. The charges concerned making proposals to a proscribed country, the unauthorized exportation of technical data and defense articles (including firearms), providing defense services and access to ITAR-controlled activities to unauthorized foreign persons, failing to maintain proper records, and making false statements, misrepresentations, and omissions of material fact on several disclosures. The charges were the result of a two-and-a-half year investigation involving thirty-one disclosures, sixteen of which were directed and fifteen of which were voluntary.

DDTC gave mitigating consideration to the fact that: (1) the violations occurred while servicing U.S. government programs; (2) several disclosures were voluntary; (3) Xe Services implemented remedial compliance measures during the latter part of

the investigation; (4) Xe Services cooperated with the State Department during the latter part of the investigation; and (5) there was no actual harm to national security.

On the other hand, DDTC considered several aggravating factors when determining Xe Services LLC's penalty, including: (1) an "historic inability" to comply with ITAR; (2) the frequency and nature of the violations; (3) failure to cooperate during the first eighteen months of the investigation; (4) failure to maintain proper records; (5) failure to disclose most violations until directed; (6) issuing false statements and inaccurate or incomplete disclosures; and (7) the national security implications involved.

Charges

Two hundred eighty-eight violations, as follows:

(1) Ten charges of violating the terms, conditions, or provisos of eight DSP-73 licenses involving firearms (ITAR § 127.1(a)(4)).

(2) One charge of making proposals to provide defense services to proscribed country (Sudan), and failing to notify the State Department of the proposals (ITAR § 126.1(e)).

(3) Three charges of providing false statements, misrepresentations, or omissions of material facts regarding its activities (ITAR § 127.2(a)).

(4) One hundred three charges of violating provisos of technical assistance agreements involving military/security training (ITAR § 127.1(a)(4)).

(5) Seventy-seven charges of exporting technical data and defense services involving military/security training to various foreign end users without authorization (conducted internationally) (ITAR § 127.1(a)(1)).

(6) Seventy-seven charges of exporting technical data and defense services involving military/security training to various foreign end users without authorization (conducted domestically) (ITAR § 127.1(a)(1)).

(7) Seventeen charges of exporting defense articles without authorization, including significant military equipment, to Afghanistan, the Bahamas, Burkina Faso, and Iraq (ITAR § 127.1(a)(1)).

(8) One charge of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation and re-exportation of significant military equipment (ITAR §§ 123.10(a) and 127.1).

(9) Nine charges of providing unauthorized defense services and access to technical data to foreign person employees and consultants (ITAR § 127.1(a)(1)).

(10) One charge of violating the administrative requirements associated with DDTC-approved agreements (ITAR §§ 124.4(a) and 123.22(b)(3)).

(11) One charge of failing to properly maintain required license records (ITAR § 122.5).

Penalty

$42 million, allocated as follows: (1) $30 million payable in annual installments over a four-year period (five $6 million payments); and (2) $12 million suspended in the following manner: (a) $6 million credited for pre-consent agreement remedial compliance measures, if determined to be eligible; and (b) $6 million applied to directed remediation over four years.

Directed Remediation

(1) Nominate an external, unaffiliated SCO, to be appointed within fifteen days of DDTC concurrence, who will oversee and support ITAR compliance, for the first three years of the consent agreement. The SCO shall nominate an internal successor to serve as an ISCO beginning on the third anniversary of the settlement. The SCO or ISCO shall be responsible for: (a) monitoring ITAR compliance policies and procedures; (b) overseeing the compliance program; and (c) reporting on compliance to DDTC at specified times.

(2) Conduct an internal review within one hundred twenty days to establish the necessary actions to ensure that sufficient resources are dedicated to compliance, including the use of additional resources for compliance cross-trained employees on a part time basis when needed. Ensure that adequate resources are dedicated to ITAR compliance and establish policies and procedures to address lines of authority, staffing, performance evaluations,

career paths, promotions, and compensation for employees with ITAR compliance responsibility. Provide semi-annual ITAR compliance program enhancements and resource levels status reports to DDTC.

(3) Strengthen policies, procedures, and training within twelve months of settlement.

(4) Implement or make improvements to a comprehensive automated defense trade compliance system that will track the decision process from authorization request initiation to conclusion, cover the initial identification of all technical data to be disclosed to foreign persons, track whether exports were properly filed with the Automated Export System and endorse with the Customs and Border Patrol, and be available to DDTC upon request. Develop within Xe Services LLC's email system the capability to alert users to ITAR requirements on electronic transmission of technical data and display a login banner describing ITAR requirements and providing relevant contact information. Report to DDTC on the status of the system semi-annually, and train relevant employees on proper handling of electronic transfers of ITAR-controlled technical data.

(5) Conduct two external audits, subject to prior DDTC approval of the auditor and audit plan, and oversight by the SCO or ISCO, and submit to DDTC a final report of findings and recommendations, the first within one year of settlement, and the second within forty-six months of settlement. Agree Xe Services LLC will not assert attorney-client privilege over the audit results and report.

(6) Publicize internally the availability of the company's ethics hotline for reporting concerns, and include with required reports to DDTC an assessment of the hotline's effectiveness.

(7) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement.

(8) Ensure continued legal department oversight for ITAR compliance.

(9) For the duration of the consent agreement, incorporate the foregoing measures into any business acquisitions, notify DDTC as soon as practical before, but no later than fourteen days prior to, the sale of Xe Services LLC and/or any of its business units or subsidiaries, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

AAR International, Inc.

Settled
July 15, 2010

Summary
AAR settled charges concerning the unauthorized exportation to several destinations of military helicopters and associated equipment, including gun mounts, as well as military communications and countermeasures equipment.

AAR assumed successor liability for the violations, which were committed by several business units that AAR acquired from Xe Services, LLC (formerly Blackwater USA), prior to the acquisition. DDTC noted that AAR did not have actual knowledge of the violations, and that AAR met with DDTC prior to purchasing the businesses in question to assist in resolving the matter.

DDTC gave mitigating consideration to the fact that: (1) the violations occurred prior to acquisition; (2) the majority of the violations took place in the context of activities undertaken in support of overseas protective service contracts on behalf of the U.S. government; (3) the predecessor companies had already begun to implement remedial compliance measures; and (4) AAR agreed to implement additional remedial measures.

Conversely, DDTC deemed as aggravating an "historic lack of sufficient ITAR oversight" on the part of the predecessor companies. This case is notable in that DDTC did not impose a monetary penalty on AAR.

Charges
Thirteen violations, as follows:

(1) Twelve charges of exporting defense articles without authorization, including significant military equipment, to Afghanistan, the Bahamas, Burkina Faso, and Iraq (ITAR § 127.1(a)(1)).

(2) One charge of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation and reexportation of significant military equipment (ITAR § 123.10(a)).

Penalty
No monetary penalties.

Directed Remediation (applicable to acquired business operations)

(1) Nominate an ISCO within thirty days of settlement, to be appointed within fifteen days of DDTC concurrence, who will oversee and support ITAR compliance, for the eighteen-month term of the consent agreement. The internal ISCO will be responsible for: (a) monitoring ITAR compliance policies and procedures (spelled out in heretofore unusually granular detail in the consent agreement); (b) overseeing the compliance program; and (c) reporting on compliance to DDTC and AAR management and legal officials at specified times.

(2) Conduct an internal review within one hundred twenty days to establish the necessary actions to ensure that sufficient resources are dedicated to compliance, including the use of additional resources from compliance cross-trained employees on a part-time basis when needed. Ensure that adequate resources are dedicated to ITAR compliance and establish policies and procedures to address lines of authority, staffing, performance evaluations, career paths, promotions, and compensation for employees with ITAR compliance responsibility.

(3) Strengthen policies, procedures, and training within twelve months of settlement.

(4) Implement or make improvements to a comprehensive automated defense trade compliance system on a timeline to be established between AAR and DDTC, report to DDTC on the status of the system semi-annually, and train relevant employees on proper handling of electronic transfers of ITAR-controlled technical data.

(5) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and oversight by the ISCO, and submit to DDTC a final report of findings and recommendations within sixteen months of settlement.

(6) Publicize internally the availability of the company's ethics hotline for reporting concerns, and include with required reports to DDTC an assessment of the hotline's effectiveness.

(7) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement.

(8) Ensure continued legal department oversight for ITAR compliance.

(9) For the duration of the consent agreement, incorporate the foregoing measures into any business acquisitions, notify DDTC sixty days prior to any contemplated sale of any division, subsidiary, or other affiliate, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

Interturbine Aviation Logistics GmbH/Interturbine Aviation Logistics GmbH, LLC

Settled
January 4, 2010

Summary
Interturbine Aviation Logistics GmbH, a German company, and its Texas-based branch office, settled charges concerning the unauthorized exportation of DC 93-104 to Germany.

DC 93-104 is an ITAR-controlled ablative material and sealant manufactured by Dow Corning. It is a heat resistant protective coating that can be used, inter alia, on missiles to protect high heat areas. Because of its military capabilities, DC 93-104 is controlled by the ITAR as significant military equipment that requires enhanced end use assurances.

DDTC noted that Interturbine only disclosed the violations—which involved a business development employee of the German parent purposefully misrepresenting the export control status of DC 93-104—following a criminal investigation by federal prosecutors and ICE. The investigation concluded with a decision not to prosecute the company for criminal violations, but DDTC elected to impose civil penalties because of the "national security interests involved," as well as Interturbine's failure to make a voluntary disclosure prior to initiation of the criminal investigation. Nevertheless, DDTC gave significant mitigating consideration to the fact that Interturbine had cooperated and implemented remedial compliance measures.

Charges
Seven violations, as follows:

(1) One charge against Interturbine Texas of exporting defense articles constituting significant military equipment without authorization (ITAR § 127.1(a)(1)).

(2) One charge against Interturbine Texas of using an export control document containing misrepresentations and omissions of fact for the purpose of exporting a defense article (i.e., filing a Shipper's Export Declaration falsely indicating that no license was required) (ITAR § 127.2(a)).

(3) Two charges against Interturbine Germany of willfully causing an unauthorized exportation for conspiring with and willfully causing and permitting Interturbine Texas to: (a) export significant military equipment without authorization; and (b) use an export control document containing misrepresentations (ITAR §§ 127.1(a) and 127.1(d)).

(4) One charge against Interturbine Texas of exporting a defense article without being registered with the State Department (ITAR § 122.1(a)).

(5) One charge against Interturbine Texas of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation of significant military equipment (ITAR § 123.10(a)).

(6) One charge against Interturbine Germany of retransferring significant military equipment without authorization (ITAR § 127.1(a)).

Penalty
$1 million, allocated as follows: (1) $50,000 payable within fifteen days of settlement; (2) $50,000 due within one year of settlement; and (3) $900,000 suspended in the following manner: (a) $400,000 suspended on the condition that Interturbine Texas neither commits any ITAR violations for a two-year period following settlement nor seeks reinstatement of its registration (should Interturbine Texas seek reinstatement of its registration within the two-year period, then the $400,000 would be credited toward directed remediation); and (b) $500,000 credited toward previously implemented compliance program improvements.

Directed Remediation

(1) Devote adequate resources to compliance with U.S. export controls through Interturbine's Office of Export Compliance Management, especially to ensure that no ITAR-controlled activities are undertaken for the two-year duration of the consent agreement. This includes providing legal oversight and support when necessary.

(2) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement.

(3) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within twelve months of settlement. A key objective of the audit is to ensure that no ITAR-controlled activities take place for the duration of the consent agreement.

(4) For the duration of the consent agreement, incorporate the foregoing measures into any business acquisitions, notify DDTC sixty days prior to any contemplated sale of any division, subsidiary, or other affiliate, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

2009

Air Shunt Instruments, Inc.

Settled
July 8, 2009

Summary
Air Shunt Instruments settled charges concerning the unauthorized exportation of military aircraft parts to the United Arab Emirates and to Thailand.

DDTC noted that Air Shunt Instruments did not voluntarily disclose the violations, which became known to DDTC only following notice that the company was being prosecuted in federal court for a criminal violation of the AECA in connection with the matter. Although the State Department elected to impose civil penalties because of the "national security and foreign policy interests involved", DDTC gave mitigating consideration to the fact that Air Shunt Instruments had implemented remedial compliance measures at the time of the settlement.

Charges
Four violations, as follows:

(1) Three charges of exporting defense articles without authorization; two charges pertain to the exportation of military aircraft parts to the United Arab Emirates, and one charge pertains to the exportation of a military aircraft gyroscope to Thailand (ITAR § 127.1(a)(1)).

(2) One charge of misrepresenting and omitting material facts by filing a Shipper's Export Declaration falsely indicating that no license was required (ITAR § 127.2(a)).

Penalty
$100,000, of which $70,000 is suspended on the condition that it is eligible to be credited toward preexisting compliance measures, and $30,000 of which is suspended on the condition that it is to be applied over a two-year period to directed remediation.

Directed Remediation

(1) Strengthen policies, procedures, and training within twelve months of settlement.

(2) Ensure that adequate resources are devoted to ITAR compliance.

(3) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement, which is no sooner than thirty months after settlement and following a determination by DDTC that the terms of the agreement have been fulfilled.

(4) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within twelve months of settlement. Complete a follow-up audit to confirm implementation of any recommended improvements within twenty-four months of settlement.

(5) Incorporate the foregoing measures into any ITAR-affected business acquisitions, notify DDTC sixty days prior to any contemplated sale of its business or any division, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

Analytical Methods, Inc.

Settled
February 18, 2009

Summary
Analytical Methods settled charges concerning the unauthorized exportation of ITAR-controlled technical data and defense services pertaining to computational dynamic fluid simulation software, which is used for design testing in a virtual environment that simulates flying through air or traveling through water.

DDTC noted that Analytical Methods voluntarily disclosed the violations and cooperated in the investigation, which the State Department considered a significant mitigating factor in determining sanctions. But as noted in the proposed charging letter, DDTC elected nonetheless to impose penalties because of the "significant national security interests involved as well as the systemic and repetitive nature of the violations...."

Charges
Twenty-nine violations, as follows:

(1) Six charges of exporting technical data without authorization; five charges pertain to China and one to Turkey (ITAR § 127.1(a)(1)).

(2) Six charges of causing the unauthorized exportation of technical data to China by providing the data to a U.S. person with knowledge that it would be transferred (ITAR § 127.1(a)(3)).

(3) One charge of failing to report an exportation to a proscribed country (ITAR § 126.1(e)).

(4) Thirteen charges of providing unauthorized defense services to Turkey, Singapore, the United Kingdom, and Israel (ITAR § 127.1(a)(1)).

(5) Two charges of engaging in the unregistered manufacture and exportation of defense articles and defense services (ITAR § 127.1(a)(5)).

(6) One charge of misrepresenting and omitting material facts by filing export control documents with false statements about the classification of software (ITAR § 127.2(a)).

Penalty
$500,000, of which $100,000 is payable within fifteen days of settlement, $200,000 is eligible to be credited toward preexisting compliance measures, and $200,000 is applied over a three-year period to directed remediation.

Directed Remediation

(1) Appoint an ISCO within thirty days of settlement, with DDTC concurrence, who will oversee and support ITAR compliance.

(2) Implement a formal ITAR compliance program that includes annual training and a compliance manual.

(3) Ensure that the SCO has appropriate legal support and oversight.

(4) Agree to arrange and facilitate a DDTC on-site review with minimum notice for the duration of the consent agreement, which is no sooner than three years after settlement and following a determination by DDTC that the terms of the agreement have been fulfilled.

(5) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within eighteen months of settlement. Complete a follow-up audit to confirm implementation of any recommended improvements before the two-and-a-half year anniversary of settlement.

(6) Certify to DDTC three months before the three-year anniversary of settlement that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate, with the understanding that the terms of the consent agreement remain in force until DDTC lifts them following certification.

2008

Qioptiq

Settled
December 19, 2008

Summary
In a case related to the landmark ITT enforcement matter described below, Qioptiq settled numerous charges concerning the unauthorized exportation and retransfer by predecessor companies of ITAR-controlled technical data and defense articles pertaining to military optical components incorporated into night vision equipment.

DDTC noted that Qioptiq voluntarily disclosed a number of the violations and cooperated in the investigation, which the State Department considered a significant mitigating factor in determining sanctions. DDTC also gave mitigating consideration to the fact that the violations took place before Qioptiq acquired the companies that actually engaged in the transgressions. But as noted in the proposed charging letter, DDTC elected nonetheless to impose penalties: (1) because "[m]any of the violations identified in [the] proposed charging letter...were not voluntarily disclosed but were uncovered based on directed questioning by the Government"; and (2) due to "the significant national security interests involved as well as the systemic and longstanding nature of the violations...."

Concerning the systemic and longstanding nature of the violations, DDTC reproduced in its proposed charging letter excerpts from internal records of Thales, the previous owner of the companies that actually engaged in the transgressions, to establish that business units involved in ITAR-regulated activities had "limited or no ITAR training and a longstanding lack of support for ITAR compliance."

Charges

One hundred sixty-three violations, as follows:

(1) Ten charges of exporting night vision-related technical data without authorization by exceeding the scope of a technical assistance agreement and exporting the data to Singapore, as well as by exporting prior to the execution of the agreement (ITAR §§ 127.1(a)(1), 127.1(a)(4), and 127.1(d)).

(2) One charge of transferring classified ITAR technical data without authorization (ITAR § 125.3(b)).

(3) One charge of misrepresenting and omitting material facts by filing export control documents containing false statements that unauthorized exports of technical data were authorized under a technical assistance agreement (ITAR § 127.2(a)).

(4) Eighty-one charges of retransferring technical data without authorization to employees and subcontractors in China, a proscribed country (ITAR §§ 127.1(a)(1) and 126.1(a)(1)).

(5) Fourteen charges of exporting defense articles without authorization to Israel, France, and Singapore (ITAR § 127.1(a)(1)).

(6) Thirteen charges of retransferring technical data (exported to Singapore with and without authorization) to third country foreign national employees and subcontractors prohibited by proviso in Singapore without authorization (ITAR §§ 127.1(a)(1) and 127.1(a)(4)).

(7) Thirty charges of retransferring without authorization night vision components manufactured using U.S.-origin ITAR-controlled technical data to NATO countries, Israel, Egypt, and Pakistan (ITAR § 127.1(a)(1)).

(8) One charge of transferring without authorization U.S.-origin ITAR-controlled technical data, and defense articles manufactured using such technical data, to Iran, a proscribed country (ITAR §§ 127.1(a)(1) and 126.1(a)(1)).

(9) Two charges of transferring without authorization a defense article manufactured using U.S.-origin ITAR-controlled technical data to Cyprus, a proscribed country (ITAR §§ 127.1(a)(1) and 126.1(a)(1)).

(10) Ten charges of retransferring technical data without authorization to subcontractors in Belgium, Germany, Hungary, the Netherlands, Russia, Singapore, Switzerland, and the United Kingdom (ITAR §§ 127.1(a)(1) and 127.1(a)(4)).

Penalty

$25 million, of which $15 million is payable within thirty days of settlement, $5 million is eligible to be credited toward preexisting compliance measures, and $5 million is applied over a three-year period toward directed remediation.

Directed Remediation

(1) Appoint within forty-five days of settlement an ISCO, subject to DDTC's prior and continuing approval, with a requirement that the SCO report on compliance to senior corporate and legal management, and to DDTC, at specified times for the appointment term.

(2) Conduct an internal review within one hundred twenty days to establish the necessary actions to ensure that sufficient resources are dedicated to compliance, including the use of additional resources from compliance cross-trained employees on a part-time basis when needed. Ensure that adequate resources are dedicated to ITAR compliance and establish policies and procedures to address lines of authority, staffing, performance evaluations, career paths, promotions, and compensation for employees with ITAR compliance responsibility.

(3) Establish legal department oversight of trade compliance within thirty days of settlement.

(4) Agree to arrange and facilitate DDTC on-site reviews with minimum notice for the term of the consent agreement.

(5) Strengthen policies, procedures, and training within twelve months of settlement.

(6) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within eighteen months of settlement. Complete a follow-up audit to confirm implementation of any recommended improvements before the two-and-a-half year anniversary of settlement.

(7) Certify to DDTC three months before the three-year anniversary of settlement that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate, with the understanding that the terms of the consent agreement remain in force until DDTC lifts them following certification.

Lockheed Martin Corporation

Settled
August 1, 2008.

Summary
Lockheed settled charges concerning the unauthorized exportation of classified and unclassified technical data pertaining to missile systems, as well as charges concerning the failure to provided required notice to DDTC for proposals to sell significant military equipment. DDTC noted that Lockheed voluntarily disclosed the violations and implemented remedial measures, which the State Department considered a significant mitigating factor in determining sanctions.

Charges
Eight violations, as follows:

(1) Three charges of failing to provide prior notice for proposals to sell significant military equipment; namely, Hellfire missiles to the United Arab Emirates (ITAR § 126.8(a)(2)).

(2) One charge of exporting technical data in the form of performance specifications for the Hellfire missile without authorization to the United Arab Emirates (ITAR § 127.1(a)(1)).

(3) One charge of exporting classified technical data in the form of performance specifications for the Hellfire missile without authorization to the United Arab Emirates (ITAR § 125.3(a)).

(4) Two charges of failing to follow proper Defense Department procedures for exporting to foreign persons classified technical data concerning, inter alia, the Joint Air-to-Surface Standoff missile (ITAR § 125.3(b)).

(5) One charge of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation of classified technical data (ITAR § 123.10(a)).

Penalty
$4 million, of which $1 million is applied over two years to directed remediation.

Directed Remediation
(1) Establish full corporate legal department oversight of trade compliance within thirty days of settlement and continue local legal department oversight at the operating level.

(2) Appoint an ISCO, subject to DDTC's prior and continuing approval, within sixty days of settlement for two years, with a requirement that the SCO report on compliance to senior corporate and legal management, and to DDTC, at specified times for the appointment term.

(3) Conduct an internal review of ITAR compliance resources throughout four specified business units within its Electronic Systems business segment within one hundred twenty days of settlement.

(4) Provide status reports to DDTC on compliance program improvements within six month of settlement and semi annually thereafter.

(5) Modify procedures as necessary within thirty days of settlement to ensure compliance with ITAR notification and authorization requirements regarding proposals and presentations concerning the sale of significant military equipment to foreign persons.

(6) Agree to arrange and facilitate a DDTC on-site review with minimum notice for two years.

(7) Ensure that adequate resources are dedicated to ITAR compliance and establish policies and procedures to address lines of authority, staffing, performance evaluations, career paths, promotions, and compensation for employees with ITAR compliance responsibility.

(8) Provide external training within one hundred twenty days of settlement, with a focus on the areas of concern identified in the draft charging letter. Commission an independent evaluation of the effectiveness of the training within prescribed timelines. Maintain detailed training records.

(9) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within two years of settlement.

(10) Certify to DDTC at the conclusion of the two-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

(11) Incorporate the foregoing measures into any ITAR-affected business acquisitions, notify DDTC thirty days prior to any contemplated sale of the Missiles and Fire Control business unit, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

The Boeing Company

Settled
June 17, 2008

Summary
Boeing settled charges that it engaged in what DDTC characterized in its charging letter as a "serious, systemic, and longstanding" pattern of administrative violations over the course of a thirty-year period in connection with the valuation of manufacturing license agreements. DDTC noted that Boeing voluntarily disclosed the violations and implemented remedial measures, which the State Department considered a significant mitigating factor in determining sanctions.

Charges
Forty violations, as follows:

(1) Twenty charges of violating license conditions by exceeding the values of DDTC-approved manufacturing license agreements (ITAR § 127.1(a)(4)).

(2) Ten charges of failing to submit required amendments DDTC-approved manufacturing license agreements (ITAR § 124.1(c)).

(3) Five charges of omitting material facts from submissions for the approval of manufacturing license agreements by understating the value of the agreements (ITAR § 127.2(a)).

(4) Five charges of failing to abide by the administrative terms and conditions associated with the approval of manufacturing license agreements (ITAR §§ 127.1(a)(4), 127.2, and 124.1(c)).

Penalty
$3 million, none of which is allocated to directed remediation.

Directed Remediation

(1) Strengthen policies, procedures, and training within twelve months of settlement, especially regarding the administration of manufacturing license agreements and technical assistance agreements. Maintain detailed training records.

(2) Continue to implement an automated export compliance system to strengthen internal controls over the administration of manufacturing license agreements and technical assistance agreements.

(3) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within eighteen months of settlement. Complete a follow-up audit to confirm implementation of any recommended improvements before the two-and-a-half year anniversary of settlement.

(4) Certify to DDTC at the conclusion of the three-year term of the consent agreement that remedial measures have been implemented pursuant to the agreement and that the compliance program is adequate.

(5) Incorporate the foregoing measures into any business acquisitions that are involved in the administration of manufacturing license agreements or technical assistance agreements within six months of acquisition.

Northrop Grumman Corporation

Settled
March 25, 2008

Summary
Northrop settled charges that, between 1994 and 2003, Northrop and its predecessor in interest, Litton Industries, Inc. (acquired in 2001), exported militarized versions of aircraft inertial navigation systems, as well as related software source code and defense services, to unauthorized end users, including in proscribed destinations. DDTC noted that Northrop voluntarily disclosed the violations and cooperated with DDTC's subsequent investigation, which the State Department considered a significant mitigating factor in determining sanctions.

Charges
One hundred ten violations, as follows:

(1) One charge of exporting technical data in the form of software related to significant military equipment used for Air Force One without authorization to an end user in Russia (ITAR § 127.1(a)(1)).

(2) Twenty-seven charges of exporting defense articles constituting significant military equipment, including technical data in the form of embedded software, without authorization to ITAR-proscribed countries; namely, Angola, Indonesia, China, and Ukraine (ITAR § 126.1(e)).

(3) Twenty-seven charges of failing to report an exportation to a proscribed country (ITAR § 126.1(e)).

(4) Forty-six charges of exporting defense articles constituting significant military equipment, including technical data in the form of embedded software, without authorization to end users in Austria, Brazil, Brunei, Greece, Israel, Malaysia, Singapore, South Korea, Thailand, the United Kingdom, and Yemen (ITAR § 127.1(a)(1)).

(5) One charge of exporting defense services to end users in Brazil, Indonesia, Israel, Malaysia, Singapore, and the United Kingdom (ITAR § 127.1(a)(1)).

(6) One charge of exporting technical data constituting significant military equipment in the form of software without authorization to Canada (ITAR § 127.1(a)(1)).

(7) One charge of reexporting defense articles constituting significant military equipment, including technical data in the form of embedded software, without authorization to end users in Romania, South Korea, Indonesia, and the United Kingdom (ITAR § 127.1(a)(1)).

(8) Five charges of exporting technical data constituting significant military equipment in the form of software without authorization to the United Kingdom (ITAR § 127.1(a)(1)).

(9) One charge of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation and reexportation of significant military equipment; namely, defense articles and technical data in the form of software (ITAR § 123.10(a)).

Penalty
$15 million, allocated as follows: (1) $10 million payable in annual installments over a three-year period (three $3 million payments and one $1 million payment); (2) $5 million suspended on the condition that $4 million be allocated toward directed remediation over three years, with $1 million credited for compliance measures implemented since 2004.

Directed Remediation
(1) Appoint an ISCO, subject to DDTC's prior and continuing approval, within sixty days of settlement for three years, with a requirement that the SCO report on compliance to the senior management, the Compliance, Public Issues and Policy Committee of the Board of Directors ("**CPIP**"), the Export/Import Policy Council, and DDTC at specified times for the appointment term.

(2) Conduct an internal review of ITAR compliance resources within one hundred twenty days of settlement.

(3) Establish legal department oversight of trade compliance within thirty days of settlement.

(4) Agree to arrange and facilitate a DDTC on-site review with minimum notice for three years.

(5) Strengthen policies, procedures, and training within twelve months of settlement, including training Empowered Officials on identifying ITAR controlled items and services, and preparing commodity jurisdiction requests, within one hundred eighty days of settlement.

(6) Conduct an external audit, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations within eighteen months of settlement. Conduct a follow-up audit to confirm implementation of any recommended improvements at the two-and-a-half year anniversary of settlement.

(7) Continue to implement comprehensive automated export compliance systems to strengthen internal controls for ensuring ITAR compliance, and provide to DDTC semi-annual updates outlining the status of the systems commencing six months from settlement. The systems will automate processes involving jurisdiction/classification, license requests, hardware shipments, exportation of technical data and defense services, and denied party screening. Additionally, the systems will track the decision process from the initiation of a request for potential export authorization or clarification of an existing authorization to its conclusion to facilitate oversight and monitoring, as well as cover the identification, review, and approval of technical data and defense services prior to exportation.

(8) Develop a means to alert users to ITAR requirements regarding electronic transmissions of ITAR-controlled technical data, and train all employees with electronic accounts to prevent unintentional or accidental unauthorized transmissions.

(9) Issue a reminder within thirty days of settlement of the availability of the company's ethics hotline for reporting concerns, and submit an annual report to DDTC evaluating the hotline's effectiveness.

(10) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

(11) Incorporate the foregoing measures into any ITAR-affected business acquisitions, notify DDTC three months prior to any contemplated sale of the Electronic Systems Sector, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

2007

ITT Corporation

Civil Case

Settled
December 21, 2007

Summary
ITT settled charges that it violated the ITAR in connection with the unauthorized exportation of night vision products and technology.

Charges
Two hundred eight[4] violations, as follows:

(1) One charge of misrepresenting and omitting material facts in connection with a prior voluntary disclosure (ITAR § 127.2(a)).

(2) One hundred sixty-two charges of exporting technical data constituting significant military equipment to Singapore, Hong Kong, and Canada (ITAR § 127.1(a)(1)) .

[4] The draft charging letter contains a discrepancy; i.e., two hundred eight charges are alleged but two hundred seven charges are described in the corresponding charging paragraphs.

(3) Two charges of exporting defense articles without authorization to China, an ITAR-proscribed country (ITAR §§ 127.1(a)(1) and 126.1(a)).

(4) Thirty-six charges of causing or conspiring to make the unauthorized exportation of technical data to Singapore, Israel, India, and Hong Kong (ITAR § 127.1(a)(3)).

(5) One charge of causing or conspiring to make the unauthorized exportation of technical data to China, an ITAR proscribed country (ITAR § 127.1(d)).

(6) One charge of failing to report an exportation to a proscribed country (ITAR § 126.1(e)).

(7) One charge of misrepresenting and omitting material facts from a permanent export license application (ITAR § 127.2(a)).

(8) One charge of failing to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the exportation of significant military equipment and classified technical data (ITAR § 123.10(a)).

(9) One charge of exporting classified technical data without authorization to the United Kingdom (ITAR §§ 127.1(a)(1) and 125.3).

(10) One charge of failing to file a Shippers Export Declaration in connection with an unauthorized exportation of technical data (ITAR § 123.22(b)).

Penalty

$28 million, allocated as follows: (1) $20 million, payable in $4 million annual installments commencing within ten days of settlement; and (2) $8 million, $3 million of which is credited from the prior 2004 settlement with DDTC described further below and $5 million of which is applied toward directed remediation over a five-year period.

In addition, ITT Night Vision Division was debarred from ITAR-controlled defense trade for three years, with leave to petition for reinstatement after March 28, 2007. Specific transaction exceptions to the debarment may be granted on a case-by case basis, when based on overriding national security and foreign policy interests.[5]

Directed Remediation

(1) Appoint an outside SCO, (who may also serve as the independent monitor required in connection with the related criminal matter described below), subject to DDTC approval, for a minimum of four years, to be succeeded by an ISCO for an additional year, with a requirement that the SCO report on compliance to senior management, the board of directors, and DDTC every ninety days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Continue to promote and publicize the availability of the company's Ombudsman Program for reporting suspected violations without fear of retaliation, and report on the program's effectiveness semiannually.

(3) Strengthen compliance policies, procedures, and training within twelve months of settlement.

(4) Continue to implement a comprehensive automated export compliance system to strengthen internal controls for ensuring ITAR compliance. The system will cover the initial identification of all technical data and technical assistance and will be accessible to DDTC on request.

(5) Continue the internal export process review of ITT Night Vision as required under the previous 2004 settlement with DDTC, under the supervision of a process analysis expert independent from the existing export compliance function at ITT Night Vision. Provide DDTC with the status of the verification plan for the review within sixty days of settlement and a final report within one hundred twenty days of receipt of DDTC's final comments on the verification plan.

(6) Conduct an external audit using outside legal counsel, subject to prior DDTC approval of the auditor and audit plan, and submit a final report of findings and recommendations to DDTC within twenty-four months of settlement.

[5] UPDATE: DDTC lifted ITT Night Vision Division's debarment, effective February 4, 2010.

(7) Develop a means to alert users to ITAR requirements regarding electronic transmissions of ITAR-controlled technical data, and train all employees with electronic accounts to prevent unintentional or accidental unauthorized transmissions.

(8) Agree to arrange and facilitate a DDTC on-site review with minimum notice for three years, with the understanding that any such review may be coordinated with reviews conducted pursuant to the settlement terms of the related criminal matter described below.

(9) Certify to DDTC at the conclusion of the five-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

(10) Incorporate the foregoing measures into any ITAR-affected business acquisitions within six months of acquisition, notify DDTC thirty days prior to any contemplated sale of the Night Vision or Aerospace/Communications business divisions, and require the purchaser in such case to agree to be bound by the terms of the settlement, including the foregoing measures.

Criminal Case

Settled
March 27, 2007

Summary
On March 27, 2007, ITT and the U.S. Justice Department entered into a Deferred Prosecution Agreement ("**Agreement**") under which ITT agreed to plead guilty to criminal charges filed by the U.S. Justice Department concerning the unauthorized exportation of night vision products and technology. The U.S. Justice Department and ITT agreed to file a "joint deferral motion" and the U.S. Justice Department agreed to seek dismissal of one of the charges if ITT complies with all of its obligations under the Agreement at the end of the five-year deferral period. If ITT has fully and successfully implemented an agreed Remedial Action Plan under the Agreement in three years, as determined by a U.S. Justice Department review, the U.S. Justice Department will seek an earlier dismissal of the charge in question, and the Agreement will be considered completed, except for the investments in advanced night vision technology, which will continue for the full five-year period.

Charges
Three counts, as follows:

(1) Willful exportation of defense articles without a license (on or between March 2001 and August 2001) (22 U.S.C. §§ 2778(b)(2) and (b)(3); ITAR §§ 127.1(a) and 127.3).

(2) Willful omission of statements of material fact in arms exports reports (on or between April 2000 and October 2004) (22 U.S.C. § 2778(c); 18 U.S.C. § 2).

(3) Willful exportation of defense articles without a license (on or between January 1996 and May 2006) (22 U.S.C. §§ 2778(b)(2) and (b)(3); ITAR §§ 127.1(a) and 127.3). The U.S. Justice Department agreed to defer and seek dismissal of this charge.

Penalty
$100,000,800, allocated as follows: (1) $2,000,800 for fines and special assessments; (2) $28,000,000 for forfeited proceeds and reimbursement of U.S. government investigative costs; (3) $50,000,000 for research and development of advanced night vision technology for the benefit of the U.S. government over a five-year period (in lieu of a suspended criminal penalty); and (4) $20,000,000 civil penalty to DDTC (in connection with a consent agreement the terms of which are summarized above). In addition, DDTC debarred ITT Night Vision Division, permitting petition for reinstatement after March 28, 2007. The U.S. Justice Department did not allocate any penalty funds toward directed remediation.

Directed Remediation

(1) Retain an independent monitor selected by the United States to monitor ITT's compliance with the Remedial Action Plan for five years after the date of the order granting the joint deferral motion.

(2) Undertake a Remedial Action Plan, which includes:

a. annual compliance certifications by business unit leaders and the CEO, to be provided no later than June for each year the Agreement is in effect;

b. establishing an Executive Manager of Compliance;

c. annual training programs, the first of which is to take place within nine months of the order granting the joint deferral motion;

d. maintaining a record of all training for ten years after the order granting the joint deferral motion;

e. mandatory reporting of all ITAR/EAR violations within one week of discovery;

f. completing a classified materials disclosure and security audit within one year of the order granting the joint deferral motion; and

g. performing a compliance audit within two years of the order granting the joint deferral motion, and correcting identified deficiencies within thirty months of the order.

2006

Lockheed Martin Sippican

Settled
December 12, 2006

Summary
Lockheed settled charges that its subsidiary (then Sippican, Inc.) violated the conditions of technology transfer approvals related to a joint U.S.-Australia naval missile decoy program. Although the alleged violations predate Lockheed's acquisition of Sippican, Lockheed was charged under the theory of successor liability.

Charges
Six violations, as follows:

(1) One charge of disclosing technical data exceeding the scope of the applicable technical assistance agreement and in violation of one of the agreement's provisos (ITAR § 127.1(a)(4)).

(2) One charge of disclosing technical data following the lapse of the applicable technical assistance agreement (ITAR § 127.1(a)).

(3) One charge of disclosing technical data to unauthorized recipients (ITAR § 127.1).

(4) One charge of failing to establish a Defense Security Service approved Technology Control Plan and provide a copy of the same to DDTC, as required by the applicable technical assistance agreement (ITAR § 127.1(a)(4)).

(5) One charge of transferring unauthorized classified technical data (ITAR § 125.3).

(6) One charge of using an export control document containing a false statement or misrepresenting or omitting a material fact for failing to notify DDTC in a subsequent application for a technical assistance agreement that unauthorized technical data transfers took place outside the scope of the previous related agreement data (ITAR § 127.2(a)).

Penalty
$3 million, none of which is allocated to directed remediation.

Directed Remediation

(1) Establish legal department oversight of trade compliance within thirty days of settlement.

(2) Appoint an ISCO, subject to DDTC approval, within sixty days of settlement for two years, with a requirement that the SCO report on compliance to the senior management and to DDTC semi-annually for the appointment term.

(3) Strengthen compliance training within one hundred twenty days of settlement, especially concerning classified information procedures and compliance with agreement provisos.

(4) Submit to DDTC for review and concurrence within one hundred fifty days of settlement a white paper proposing the establishment of a comprehensive export compliance system, accessible to DDTC, to strengthen internal controls for tracking the decision process from the initiation of a request for potential export authorization or clarification of an existing authorization to its conclusion. Implement the same within one hundred eighty days of DDTC's concurrence with the proposal.

(5) Conduct an internal audit, subject to DDTC approval of a draft verification plan to be submitted within twelve months of settlement, and submit a final report of findings and recommendations to DDTC within two hundred ten days of DDTC's concurrence with verification plan.

(6) Agree to arrange and facilitate a DDTC audit with minimal notice for two years.

(7) Certify to DDTC at the conclusion of the two-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Security Assistance International , Inc. and Henry L. Lavery III

Settled
December 12, 2006

Summary
Defense trade consulting firm settled charges that it committed improprieties concerning the submission of an ITAR license application on behalf of a client not properly registered with DDTC and the failure to comply with ITAR administrative requirements.

Charges
Four violations, as follows:

(1) One charge of omitting material facts from a temporary export license application (ITAR § 127.2(a)).

(2) One charge of aiding and abetting an unregistered U.S. company in obtaining a temporary export license that it was ineligible to receive (ITAR § 127.1(d)).

(3) One charge of failing to maintain records as prescribed by the ITAR (ITAR §§ 127.1(d) and 122.5).

(4) One charge of violating the terms of a temporary import license by failing to provide required export documentation (ITAR § 127.1(a)(4)).

Penalty
$75,000 (suspended) and administrative debarment, with leave to apply for reinstatement after one year.

Directed Remediation
None.

L3 Communications Corporation/L3 Titan Corporation

Settled
October 18, 2006

Summary
L3 settled charges that its subsidiary Titan failed to report commissions paid to third parties in its applications for exports of defense articles to France, Japan, and Sri Lanka, and that Titan made false statements in those applications that there were no reportable commissions. Although the alleged violations predate L3's acquisition of Titan, L3 was charged under the theory of successor liability.

Charges
Six violations, as follows:

(1) Three charges of making false statements on an export or temporary control document (ITAR §§ 127.1(d) and 127.2).

(2) Three charges of failing to report commissions as required by ITAR Part 130 (ITAR §§ 127.1(d), 130.9 and 130.10).

Penalty
$1.5 million, of which $500,000 is applied over three years to directed remediation.

Directed Remediation

(1) Strengthen policies, procedures, and training within six months of settlement, especially in the areas of fees and commissions (ITAR Part 130), brokering, exemptions, role of empowered official, and fines and penalties.

(2) Engage an outside advisor within thirty days of settlement to improve Part 130 compliance.

(3) Submit improved Part 130 compliance policies and procedures to DDTC within nine months of settlement.

(4) Conduct an external audit of Part 130 compliance within twelve months of settlement, and report findings and recommendations to DDTC within eighteen months of settlement.

(5) Agree to arrange and facilitate a DDTC audit with minimal notice for three years.

(6) Issue a reminder within thirty days of settlement that L3's general counsel office provides oversight on trade compliance.

(7) Certify to DDTC on the second anniversary of settlement and at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

The Boeing Company

Settled
March 28, 2006

Summary
Boeing settled charges concerning the unauthorized exportation of the QRS-11 quartz rate sensor, a defense article controlled under Category XII of the U.S. Munitions List.

Charges
Eighty-six violations, as follows:

(1) Seventeen charges of exporting defense articles without authorization after the manufacturer informed the respondent that the QRS-11 was a defense article (all instances involving China, an ITAR-proscribed country) (ITAR §§ 127.1(a)(1), 126.1(a) and 126.1(e)).

(2) Two charges of exporting defense articles without authorization after DDTC informed the respondent that the QRS-11 was a defense article (one instance involving China) (ITAR §§ 127.1(a)(1), 126.1(a) and 126.1(e)).

(3) Forty charges of exporting defense articles without authorization after DDTC's Managing Director informed the respondent that the QRS-11 was a defense article (two instances involving China) (ITAR §§ 127.1(a)(1), 126.1(a) and 126.1(e)).

(4) Eight charges of misrepresenting or omitting material facts on an export or temporary control document (ITAR § 127.2(a)).

(5) Fifteen charges of making false statements on an export or temporary control document (ITAR § 127.2(a)).

(6) Three charges of failing to file a Shipper's Export Declaration (ITAR § 123.22(b)).

(7) One charge of failing to report an exportation to a proscribed country (ITAR § 126.1(e)).

Penalty
$15 million. Noting Boeing's enforcement record (three prior settlements since 1998), DDTC did not allocate any penalty funds to directed remediation, requiring instead that Boeing pay those costs out of pocket.

Directed Remediation

(1) Create a senior management position within one hundred twenty days of settlement responsible for compliance throughout the company, with a position description to DDTC, and a requirement to provide annual compliance reports to DDTC for three years, as well as meet with the SCO on no less than a quarterly basis for three years.

(2) Appoint an outside SCO, subject to DDTC approval, for a minimum of two years, to be succeeded by an ISCO for an additional year, with a requirement that the SCO report on compliance to senior management, the board of directors, and DDTC every ninety days for the first six months, and semi-annually thereafter for the remainder of the term.

(3) Strengthen compliance policies, procedures, and training, especially in the area of commodity classification.

(4) Conduct an external audit no later than eighteen months after settlement, subject to prior DDTC approval of audit plan, and report findings and recommendations to DDTC no later than two years after settlement.

(5) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

(6) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Goodrich Corporation/L3 Communications Corporation

Settled
March 28, 2006

Summary
Goodrich and L 3 Communications settled charges that a former Goodrich subsidiary acquired by L3: (1) omitted material facts in a commodity jurisdiction determination (specifically, that the commodity in question contained the QRS-11 quartz rate sensor, a defense article controlled under Category XII of the USML); and (2) exported or caused the exportation of the QRS-11 without authorization. L3 was charged under the theory of successor liability.

Charges
Twenty-six violations, as follows:

(1) One charge of omitting material facts from an export or temporary control document (ITAR § 127.2).

(2) Twenty-five charges of exporting defense articles without authorization (ITAR §§ 127.1(a)(1) and 127.1(a)(3)).

Penalty
$7 million, of which $1.25 million is payable by Goodrich and $2 million by L3, and $3.75 million is applied to directed remediation over three years ($1.75 million for Goodrich and $2 million for L3).

Directed Remediation
Applicable both to Goodrich and L3:

(1) Appoint an ISCO, subject to DDTC approval, within fifteen days of settlement for three years, with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC every ninety days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Submit to DDTC a draft plan for a review (to be conducted by an independent consultant in L3's case) of export classification procedures and practices spanning the previous seven years, within ninety days of settlement, and following the review report findings and recommendations to senior management and DDTC within twelve months of settlement.

(3) Submit to DDTC within sixty days of settlement a plan to strengthen compliance policies, procedures, and training within two hundred seventy days, especially in the area of commodity classification.

(4) Issue a reminder within thirty days of settlement that the company's general counsel office provides oversight on trade compliance.

(5) Submit to DDTC within one hundred fifty days of settlement a white paper proposing the establishment of an electronic export compliance system to track the classification and jurisdiction of products down to the component and part level, and implement the initial phase of the system within twelve months of settlement.

(6) Issue a reminder within thirty days of settlement (sixty for L3) of the availability of the company's ethics hotline for reporting concerns, and submit an annual report to DDTC evaluating the hotline's effectiveness.

(7) Conduct an external audit, subject to prior DDTC approval of audit plan, to be commenced no later than two years after settlement, and report findings and recommendations to DDTC by the third anniversary.

(8) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

(9) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

2005

Orbit/FR Inc.

Settled
August 29, 2005

Summary
Orbit/FR settled civil charges arising from its guilty plea in 2000 to two criminal violations of the AECA related to the unauthorized exportation of a missile and military aircraft radome measurement system, and the provision of defense services related to an antenna measurement system.

Charges
Four violations, as follows:

(1) Two charges of exporting defense articles without authorization to China, an ITAR-proscribed country (ITAR §§ 127.1(a)(1) and 126.1(e)).

(2) Two charges of providing unauthorized defense services to China (ITAR §§ 127.1(a)(1) and 126.1(e)).

Penalty
$500,000, of which $200,000 is applied to directed remediation over three years, and $200,000 is suspended.

Directed Remediation

(1) Appoint an outside SCO, subject to DDTC approval, for a minimum of two years, to be succeeded by an ISCO for an additional year, with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC every sixty days for the first six months, and every ninety days thereafter for the remainder of the term.

(2) Strengthen policies, procedures, and training within one hundred twenty days of settlement.

(3) Establish senior management and legal department oversight of trade compliance within thirty days of settlement.

(4) Issue a reminder within thirty days of settlement of the availability of the company's ethics hotline for reporting concerns, and submit a quarterly report to senior management and DDTC evaluating the hotline's effectiveness.

(5) Conduct an external audit, subject to prior DDTC approval of audit plan, to be commenced no later than twelve months after settlement, and report findings and recommendations to DDTC by the second anniversary.

(6) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

(7) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Additional Undertakings

(1) Respondent's Israeli corporate parent agreed that its direct and indirect foreign subsidiaries would refrain from engaging in even wholly-non-U.S. defense trade with ITAR-proscribed countries (e.g., China) for three years, and agreed to provide DDTC with compliance assurances prior to the resumption of such activities.

(2) Respondent agreed that its direct and indirect foreign subsidiaries would refrain from engaging in even wholly non-U.S. defense trade with ITAR-proscribed countries (e.g., China) for six years, and agreed to provide DDTC with compliance assurances prior to the resumption of such activities.

The DirecTV Group and Hughes Network Systems Inc.

Settled
January 26, 2005

Summary
Hughes Network Systems and its parent, DirecTV Group, settled charges concerning the unauthorized exportation of satellite-related technical data, defense services, and defense articles to foreign person employees and other end users, including in ITAR-proscribed countries.

Charges
Fifty-six violations, as follows:

(1) Nineteen charges of failing to report the exportation of technical data and defense services to China and India, ITAR-proscribed countries at the time (ITAR § 126.1(e)).

(2) Nineteen charges of exporting technical data and defense services without authorization to China and India (ITAR § 127.1(a)(1)).

(3) Three charges of willfully causing, or aiding and abetting, ITAR violations (ITAR § 127.1(d)).

(4) Fifteen charges of exporting technical data, defense services, and defense articles without authorization to non proscribed countries (ITAR § 127.1(a)(1)).

Penalty
$5 million, of which $1 million is applied over three years to directed remediation. In addition, DDTC debarred Hughes Network Systems (Beijing) Co. Ltd., permitting petition for reinstatement after May 14, 2005.

Directed Remediation

(1) Continue to implement directed remedial measures imposed under March 2003 consent agreement between DDTC and Hughes Electronics Corporation (now DirectTV) (see below).

(2) Participate on a "lessons learned" panel during a 2005 defense trade seminar sponsored by the Society for International Affairs

(3) Review existing compliance program and provide report of findings to DDTC within ninety days of settlement.

(4) Conduct an audit within one hundred eighty days of Hughes Network Systems (Beijing) Co. Ltd. and other foreign subsidiaries involved in the activities at issue, and report findings and recommendations within thirty days of completing audit.

(5) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

2004

ITT Industries

Settled
November 1, 2004

Summary
ITT Industries settled charges concerning the unauthorized exportation of night vision products and the unauthorized exportation of space remote sensing technical data and defense services.

Charges
Ninety-five violations, as follows:

(1) Twenty-one charges of violating the terms of temporary export licenses (ITAR §§ 123.5(a) and 127.1(a)(4)).

(2) Seventy-two charges of failing to comply with license provisos when exporting defense articles (ITAR § 127.1(a)(4)).

(3) Two charges of failing to comply with technical assistance agreement provisos when exporting technical data and defense services (ITAR § 127.1(a)(4)).

Penalty
$8 million, of which $5 million is applied to directed remediation over five years.

Directed Remediation

(1) Designate a Director, International Trade and Compliance, who must report on compliance to the senior management, board of directors, and DDTC every ninety days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Strengthen policies, procedures, and training within two hundred seventy days of settlement.

(3) Submit to DDTC within one hundred eighty days of settlement a white paper proposing the establishment of an automated export compliance system, and implement the system within one hundred eighty days of DDTC's concurrence with proposal.

(4) Establish legal department oversight of trade compliance within thirty days of settlement.

(5) Publicize within sixty days of settlement the availability of the company's Ombudsman Program for reporting concerns, with a semi-annual report to senior management and DDTC evaluating the hotline's effectiveness.

(6) Conduct an independent audit of ITT Night Vision, subject to DDTC approval within one hundred twenty days of settlement of draft verification plan, and submit a final report of findings and recommendations to DDTC within two hundred ten days of DDTC's concurrence with verification plan.

(7) Conduct a comprehensive audit of directed remedial measures within twelve months of DDTC approval of audit plan, which must be submitted to DDTC within twelve months of settlement.

(8) Agree to arrange and facilitate a DDTC audit with minimum notice for five years.

(9) Certify to DDTC at the conclusion of the five-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

General Motors Corporation and General Dynamics Corporation

Settled
November 1, 2004

Summary
General Motors, and General Dynamics as successor owner of portions of General Motors' defense activities, settled charges concerning the unauthorized exportation of technical data about light armored vehicles to foreign person employees, including nationals of proscribed countries.

Charges
Two hundred forty-eight violations, as follows:

(1) Thirteen charges of failing to report the exportation of technical data to foreign person employees who were nationals of ITAR-proscribed countries; specifically, China, Syria, Iran, and Afghanistan (ITAR § 126.1(e)).

(2) Thirteen charges of exporting technical data without authorization to foreign person employees who were nationals of ITAR-proscribed countries (ITAR § 127.1(a)(1)).

(3) Thirteen charges of willfully causing, or aiding and abetting, ITAR violations (ITAR § 127.1(d)).

(4) Fifty-four charges of violating license conditions (ITAR § 127.1(a)(4)).

(5) Fifty-four charges of failing to account for the acts of employees, agents, and authorized persons (ITAR § 127.1(b)).

(6) Fifty charges of exporting technical data without authorization to employees who were foreign nationals or dual nationals (ITAR § 127.1(a)(1)).

(7) Fifty charges of exporting technical data and defense services without authorization to foreign vendors and suppliers (ITAR §§ 127.1(a)(1) and 126.5).

(8) One charge of misrepresenting or omitting material facts on an export or temporary control document (ITAR § 127.2(a)).

Penalty

$20 million, of which $10 million is payable by General Motors, and $10 million is applied to directed remediation ($5 million each to General Motors and General Dynamics) for five years.

Directed Remediation

General Dynamics

(1) Designate a Director, Trade Compliance, who must report on compliance to the senior management, board of directors, and DDTC every sixty days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Strengthen compliance training within one hundred twenty days of settlement.

(3) Submit to DDTC within ninety days of settlement a white paper proposing the establishment of a Computer Compliance Control System, and implement the system within one hundred eighty days of DDTC's concurrence with proposal.

(4) Establish legal department oversight of trade compliance within one hundred twenty days of settlement.

(5) Issue a reminder within thirty days of settlement of the availability of the company's ethics hotline for reporting concerns, with a semi-annual report to senior management and DDTC evaluating the hotline's effectiveness.

(6) Conduct a comprehensive audit of directed remedial measures within twelve months of DDTC final comments on audit plan, which must be submitted to DDTC within twelve months of settlement, and report findings and recommendations to senior management and DDTC by the second anniversary of settlement.

(7) Agree to arrange and facilitate DDTC audit with minimum notice for five years.

(8) Certify to DDTC at the conclusion of the five-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

General Motors

(1) Appoint an outside SCO, subject to DDTC approval, for three years, to be succeeded by an ISCO for two years, with a requirement that the SCO report on compliance to the senior management and DDTC every sixty days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Strengthen compliance training within one hundred eighty days of settlement.

(3) Submit to DDTC within sixty days of settlement a white paper proposing the establishment of a comprehensive computerized export tracking system, and implement the system within one hundred twenty days of DDTC's concurrence with proposal.

(4) Establish legal department oversight of trade compliance within one hundred eighty days of settlement.

(5) Establish and publish within thirty days of settlement the availability of a hotline for reporting defense trade concerns, and submit a quarterly report to senior management and DDTC evaluating the hotline's effectiveness.

(6) Conduct a comprehensive audit of directed remedial measures within twelve months of DDTC final comments on audit plan, which must be submitted to DDTC within twelve months of settlement, and report findings and recommendations to senior management and DDTC.

(7) Agree to arrange and facilitate a DDTC audit with minimum notice for five years.

(8) Certify to DDTC at the conclusion of the five-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

2003

EDO Corporation

Settled
November 24, 2003

Summary
EDO Corporation, as successor to Condor Systems, Inc., settled civil charges arising from Condor's 2003 guilty plea to federal criminal charges regarding the unlawful exportation of a signal processing system to Sweden.

Charges
Forty-seven violations, as follows:

(1) Four charges of exporting classified technical data without authorization (ITAR § 127.1(a)(1)).

(2) Eleven charges of exporting unclassified technical data without authorization (ITAR § 127.1(a)(1)).

(3) Four charges of exporting defense services without authorization (ITAR § 127.1(a)(1)).

(4) Twelve charges of violating license conditions (ITAR § 127.1(a)(4)).

(5) Three charges of making false statements on an export or temporary control document (ITAR § 127.2).

(6) Thirteen charges of omitting material facts from an export or temporary control document (ITAR § 127.2).

Penalty
$2.5 million, of which $575,000 is applied to directed remediation over three years, and $175,000 is credited for existing remedial measures.

Directed Remediation

(1) Appoint an outside SCO, subject to DDTC approval, for one year, to be succeeded by an ISCO for two years, with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC every sixty days for the first six months, and every ninety days thereafter for the remainder of the term.

(2) Strengthen policies, procedures, and training within one hundred twenty days of settlement, especially in the area of acquisition due diligence.

(3) Establish legal department oversight of trade compliance within thirty days of settlement.

(4) Issue a reminder within thirty days of settlement of the availability of the company's ethics hotline for reporting concerns, and submit a quarterly report to senior management and DDTC evaluating the hotline's effectiveness.

(5) Conduct an external audit, subject to prior DDTC approval of audit plan, to be completed within one hundred twenty days of settlement, and report findings and recommendations to DDTC.

(6) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

(7) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Multigen-Paradigm Inc.

Settled
September 25, 2003

Summary
Multigen-Paradigm Inc. ("**MPI**") settled charges that it exported ITAR-controlled visual sensor simulation software, associated technical data, and defense services without authorization to numerous countries, including China. Computer Associates International Inc. ("**CA**") acquired MPI in 2000 and voluntarily disclosed the violations, which predated the acquisition. Although not named as a respondent, CA was specifically identified in the draft charging letter as being ultimately responsible for MPI's compliance both before and after the acquisition.

Charges
Twenty-four charges of exporting defense articles, technical data, and defense services without authorization to numerous countries, including China, an ITAR-proscribed country (ITAR §§ 127.1(a)1, 126.1(a) and 126.1(e)).

Penalty
$2 million, of which $250,000 is applied to directed remediation for three years, and $1.5 million is credited for existing remedial measures.

Directed Remediation
(1) Strengthen compliance training within one hundred twenty days of settlement.

(2) Establish legal department oversight of trade compliance within one hundred twenty days of settlement.

(3) Submit to DDTC within one hundred twenty days of settlement a report outlining an electronic tracking system that will enable the U.S. government to monitor the respondent's technical data and proposed technical assistance.

(4) Conduct a comprehensive audit of directed remedial measures within eighteen months of settlement, subject to DDTC's prior review of the audit plan, and report findings and recommendations to DDTC by the second anniversary of settlement.

(5) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

(6) Certify to DDTC at the conclusion of the three-year term that remedial measures have been implemented pursuant to the consent agreement and that the compliance program is adequate.

Agilent Technologies Inc.

Settled
August 20, 2003

Summary
Agilent settled charges that SAFCO Technologies Inc., which it acquired in 2000, exported ITAR-controlled signal processing equipment to Israel and Singapore without authorization, prior to Agilent's acquisition of SAFCO.

Charges
Three charges of exporting defense articles without authorization (ITAR § 127.1(a)(1)).

Penalty
$225,000.

Directed Remediation
None.

Hughes Electronics Corporation & Boeing Satellite Systems

Settled
March 4, 2003

Summary
Hughes Electronics Corporation ("**Hughes**") and Boeing Satellite Systems ("**BSS**") settled charges concerning the unauthorized exportation of satellite technology to China. The Boeing Company acquired BSS (formerly Hughes Space and Communications) in 2000, and BSS was charged under a theory of successor liability.

Charges
One hundred twenty-three violations as follows:

(1) One hundred thirteen charges of exporting technical data and defense services without authorization to China, an ITAR-proscribed country (ITAR §127.1(a)(1)).

(2) Five charges of proposing the exportation of defense services, or failing to report the exportation of technical data and defense services, to China, an ITAR-proscribed country (ITAR § 126.1(e)).

(3) One charge of conspiring or causing the unauthorized exportation of defense services (ITAR §127.1(a)(3)).

(4) Two charges of willfully causing, aiding, abetting, counseling, demanding, inducing, procuring, or permitting ITAR violations (ITAR § 127.1(d)).

(5) One charge of misrepresenting or omitting material facts on an export or temporary control document (ITAR § 127.2).

(6) One charge of failing to report commissions as required by ITAR Part 130 (ITAR § 130.9).

Penalty
$32 million, of which $8 million is applied to directed remediation over seven years ($6 million to BSS and $2 million to Hughes), and $4 million is credited to existing remedial measures ($2 million to each respondent).

Directed Remediation
Applicable both to Hughes and BSS:

(1) Appoint an outside SCO, subject to DDTC approval, for three years, to be succeeded by ISCO for two years, with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC every sixty days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Strengthen compliance training within one hundred twenty days of settlement.

(3) Hughes to institute a comprehensive computerized document control system within one hundred twenty days of settlement that will enable the U.S. government to monitor the respondent's technical data and proposed technical assistance. BSS to provide DDTC with access to existing "**Space Link System**" within sixty days.

(4) Establish legal department oversight of trade compliance within one hundred twenty days of settlement.

(5) Establish a hotline for reporting defense trade concerns within one hundred twenty days of settlement (thirty days for BSS), and submit a quarterly report to in-house counsel and DDTC evaluating the hotline's effectiveness.

(6) Conduct a comprehensive audit of directed remedial measures within eighteen months of settlement, subject to DDTC's prior review of the audit plan, and report findings and recommendations to DDTC by the second anniversary of settlement.

(7) Agree to arrange and facilitate a DDTC audit with minimum notice for seven years.

Raytheon Company

Settled
February 27, 2003

Summary
Raytheon Company settled civil charges with the U.S. Justice Department concerning the unauthorized exportation of defense articles, technical data, and defense services to Canada and to Pakistan, and the unauthorized retransfer of defense articles through Canada to Pakistan, concerning the AN/TRC-170 troposcatter system.

Charges
Twenty-six violations, as follows:

(1) Fifteen charges of exporting defense articles and technical data without authorization (ITAR §127.1(a)(1)).

(2) Six charges of conspiring or causing the unauthorized exportation of defense articles or defense services (ITAR §127.1(a)(3)).

(3) Four charges of omitting material facts or making false statements on an export or temporary control document (ITAR § 127.2).

(4) One charge of willfully inducing, or aiding and abetting, ITAR violations (ITAR § 127.1(d)).

Penalty
$25 million, of which $20 million is payable to U.S. Customs in lieu of forfeiture, $3 million is payable as a civil penalty, and $2 million is applied to directed remediation.

Directed Remediation

(1) Appoint an outside SCO, subject to DDTC approval, for one year, to be succeeded by ISCO for two years (which DDTC in its discretion may waive if satisfied by remedial measures within the first year), with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC quarterly for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Agree to arrange and facilitate a DDTC audit with minimum notice for the settlement term. 2002

Dr. Wah Lim

Settled
January 10, 2002

Summary
Dr. Lim settled charges arising from his conduct related to the Space Systems/Loral case described immediately below.

Penalty
$100,000, of which $50,000 is suspended. In addition, Dr. Lim was debarred for three years, with debarment suspended after the first year on the condition that he comply with the ITAR.

Directed Remediation
None.

Space Systems/Loral Inc.

Settled
January 9, 2002

Summary
Space Systems/Loral Inc. settled charges that it violated the express terms and conditions of munitions licenses, and committed other violations, related to the unauthorized exportation of satellite technology to China.

Charges
Sixty-four violations, as follows:

(1) Sixty charges of violating the express terms and conditions of munitions licenses by exporting technical data and defense services without authorization (ITAR § 127.1)

(2) One charge of transferring or proposing to transfer defense services to China, an ITAR-proscribed country (ITAR § 126.1(e)).

(3) Three charges of misrepresenting or omitting material facts on an export or temporary control document (ITAR § 127.2).

Penalty
$20 million, of which $6 million is applied to directed remediation over seven years.

Directed Remediation

(1) Appoint an outside SCO, subject to DDTC approval, for two years, to be succeeded by an ISCO for two years, with a requirement that the SCO report on compliance to the senior management, board of directors, and DDTC every sixty days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Strengthen compliance training within one hundred twenty days of settlement.

(3) Institute a comprehensive computerized document control system within one hundred twenty days of settlement that will enable the U.S. government to monitor the respondent's technical data and proposed technical assistance.

(4) Establish legal department oversight of trade compliance within one hundred twenty days of settlement.

(5) Establish a hotline for reporting defense trade concerns within one hundred twenty days of settlement, and submit a quarterly report to in-house counsel and DDTC evaluating the hotline's effectiveness.

(6) Conduct a comprehensive audit of directed remedial measures within eighteen months of settlement, subject to DDTC's prior review of the audit plan, and report findings and recommendations to DDTC by the second anniversary of settlement.

(7) Agree to arrange and facilitate a DDTC audit with minimum notice for four years.

2001

Motorola Corporation

Settled
May 3, 2001

Summary
Motorola settled charges that it exported satellite technology to Germany and Russia in violation of the express terms and conditions of munitions licenses.

Charges
Twenty-five charges of violating the express terms and conditions of munitions licenses by exporting technical data and defense services without authorization (ITAR § 127.1).

Penalty
$750,000, of which $150,000 is applied within three years to directed remediation.

Directed Remediation

(1) Establish legal department oversight of defense trade compliance.

(2) Institute computerized document control system that will enable the U.S. government to monitor the respondent's technical data and proposed technical assistance.

(3) Attest that corrective measures have been implemented in accordance with representations to DDTC.

(4) Conduct a comprehensive audit of directed remedial measures and report findings and recommendations to DDTC within one hundred eighty days of settlement.

(5) Provide an account of compliance expenditures on the first anniversary of settlement.

(6) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

The Boeing Company

Settled
March 30, 2001

Summary
The Boeing Company settled charges concerning the unauthorized exportation between 1979 and 1999 of airborne early warning system technology to Australia, Italy, Malaysia, Singapore, Spain, and Turkey.

Charges
One hundred ten violations, as follows:

(1) One hundred seven charges of exporting defense articles, technical data, and defense services without authorization, mostly in violation of the express terms and conditions of munitions licenses (ITAR § 127.1).

(2) Three charges of omitting material facts from an export or temporary control document (ITAR § 127.2).

Penalty
$4.2 million, of which $400,000 is applied toward directed remediation for a three-year period.

Directed Remediation

(1) Appoint an internal Special Officer for three years to ensure defense trade compliance, with a requirement that he report his finding and recommendations to senior management and DDTC every sixty days for the first six months, and semi-annually thereafter for the remainder of the term.

(2) Agree to arrange and facilitate a DDTC audit with minimum notice for three years.

Part 3. ITAR Administrative Enforcement Case Table (2012 – 2001)

Respondent/ Summary	Number of Violations	Total Penalty	Compliance Allocation	Directed Remediation	Debarment, Denial, etc.	USML Categories	Countries (Bold type signifies ITAR-proscribed country at time of violation)	Successor Liability
2012								
United Technologies Corporation Exportation of helicopter engine software and other defense articles and technical data, and making false statements in voluntary self-disclosures	Civil 576 Criminal 3 counts	Civil $55 million Criminal $20 million	Civil $20 million ($5 million credit and $15 million credit over 4 years) Criminal 0	Yes	Yes, for certain activities of PWC	Not identified	Numerous, including Brazil, Bulgaria, Canada, **China**, Colombia, Germany, Greece, Indonesia, Ireland, Italy, Mexico, Saudi Arabia, Singapore, South Korea, Spain, Switzerland, Turkey	No
Alpine Aerospace Corporation Exportation of missile system components	9	$30,000	$30,000 ($3,000 may be used for pre-Consent Agreement credit and the remainder shall be used within 2 years)	Yes	No	IV, VIII, XI	South Korea	No
TS Trade Tech Incorporated Exportation of missile system components	9	$20,000	$20,000 ($2,000 may be used for pre-Consent Agreement credit and the remainder shall be used within 2 years)	Yes	No	IV, VIII, XI	South Korea	No
2011								
BAE Systems plc Brokering and associated activities, unreported commissions, and recordkeeping violations	2,591	$79 million	$10 million compliance allocation ($3 million credit and $7 million over 4 years)	Yes	Yes (statutory debarment lifted but denial policy imposed on 3 affiliates)	IV, VI, VIII, XI and unspecified categories	Australia, Austria, Bahrain, Brazil, Canada, Chile, the Czech Republic, Denmark, Greece, Hungary, India, Indonesia, Japan, the Netherlands, Norway, the Philippines, Poland, Saudi Arabia, Singapore, South Africa, South Korea, Switzerland, Thailand	No

Respondent/ Summary	Number of Violations	Total Penalty	Compliance Allocation	Directed Remediation	Debarment, Denial, etc.	USML Categories	Countries (Bold type signifies ITAR-proscribed country at time of violation)	Successor Liability
2010								
Xe Services LLC Making proposals to a proscribed country, exportation of technical data and defense articles, providing defense services to unauthorized foreign persons, record- keeping violations, and false statements	288	$42 million	$12 million compliance allocation ($6 million credit and $6 million over 4 years)	Yes	No	1, 11, III, IV, V, VI, VII, VIII, IX, X, XI, XII, XIII	Afghanistan, Azerbaijan, the Bahamas, Burkina Faso, Canada, the Cayman Islands, **China**, Columbia, Finland, Germany, India, **Iran**, Iraq, Jamaica, Japan, Jordan, Kuwait, Nepal, the Netherlands, Niger, Pakistan, Paraguay, the Philippines, Saudi Arabia, South Africa, **Sudan**, Sweden, Taiwan, the United Kingdom	No
AAR International, Inc. Exportation of military helicopter, communications, and countermeasure equipment	13	0	0	Yes	No	II, VIII, XI	Afghanistan, the Bahamas, Burkina Faso, Iraq	Yes
Interturbine Aviation Logistics GmbH/LLC Exportation/retransfer of ablative materials	7	$1 million	$900,000 ($400,000 of which is suspended on condition that company forgo ITAR activities for 2 years)	Yes	No	IV	Germany	No
2009								
Air Shunt Instruments, Inc. Exportation of military aircraft parts	4	$100,000	$100,000 ($70,000 credit and $30,000 over 2 years)	Yes	No	VIII	Thailand, United Arab Emirates	No
Analytical Methods, Inc. Computational dynamic fluid simulation software, and associated technical data and defense services	29	$500,000	$400,000 ($200,000 credit and $200,000 over 3 years)	Yes	No	VIII, XI, XX	**China**, Israel, Turkey, Singapore, United Kingdom	No
2008								
Qioptiq Exportation of night vision hardware and technology	163	$25 million	$10 million ($5 million credit and $5 million over 3 years)	Yes	No	XII	Numerous, including Belgium, **China, Cyprus**, Egypt, Germany, Hungary, **Iran**, Israel, the Netherlands, Pakistan, Russia, Singapore, Switzerland, United Kingdom	Yes

Respondent/ Summary	Number of Violations	Total Penalty	Compliance Allocation	Directed Remediation	Debarment, Denial, etc.	USML Categories	Countries (Bold type signifies ITAR-proscribed country at time of violation)	Successor Liability
Lockheed Martin Exportation of classified and unclassified technical data, and failure to follow proposal notification requirements	8	$4 million	$1 million	Yes	No	IV	United Arab Emirates	No
Boeing	40	$3 million	0	Yes	No	Not	Numerous	Yes
Northrop Grumman Aircraft inertial navigation systems, and associated technical data and defense services	110	$15 million	$4 million	Yes	No	VIII	Numerous, including **Angola, Indonesia, China, Ukraine**	Yes
2007								
ITT Corporation Exportation of night vision hardware and technology and omissions of material fact	Civil 208 (but 207 violations described in charging letter) Criminal 3 counts (one deferred/ eligible for dismissal)	Civil $28 million ($3 million credited to prior settlement) Criminal $100 million (including $20 million of the civil penalty listed above)	Civil $5 million Criminal 0	Yes	Yes, for ITT Night Vision Division Lifted February 4, 2010	XII	Numerous, including **China**, Singapore, United Kingdom	No
2006								
Lockheed Martin Sippican Violated TAA provisos, exports after TAA lapsed, unauthorized recipients, failure to establish Technology Control Plan, transfer of classified data	6	$3 million	0	Yes	No	XI(a)	Australia	Yes
Security Assistance International, Inc. and Henry L. Lavery III Omission of facts in license application, aiding and abetting unauthorized company to obtain export license, recordkeeping, violating license terms	4	$75,000 (suspended)	0	No	Yes	XII	Colombia, Germany, South Africa	No

Respondent/ Summary	Number of Violations	Total Penalty	Compliance Allocation	Directed Remediation	Debarment, Denial, etc.	USML Categories	Countries (Bold type signifies ITAR-proscribed country at time of violation)	Successor Liability
L-3/Titan Unreported commissions	6	$1.5 million	$500,000 over 3 years	Yes	No (denial policy lifted following settlement)	Not identified	France, Japan, Sri Lanka	Yes
Boeing Aircraft guidance component (QRS-11) exports	86	$15 million	0	Yes	No	XII	**China**	No
Goodrich/L-3 Material omission in commodity jurisdiction request related to QRS- 11 and unauthorized exports of same	26	$7 million	$3.75 million over 3 years ($1.75 million for Goodrich and $2 million for L-3)	Yes	No	XII	Numerous	Yes
2005								
Orbit/FR Inc. Radome measurement system exports and related defense services	4	$500,000 ($200,000 suspended)	$200,000 over 3 years	Yes	No (debarment and denial lifted post settlement)	XI	**China**	No
DirecTV/Hughes Network Systems Satellite technology transfers	56	$5 million	$1 million over 3 years	Yes	Yes, for Hughes China	VI, XIII	**China, India**, South Africa, South Korea, Taiwan, Turkey	Yes
2004								
ITT Industries Night vision and space remote sensing exports and technology transfers	95	$8 million	$5 million over 5 years	Yes	No	XII	Numerous	No
General Motors / General Dynamics Light armored vehicle technology transfers	248	$20 million	$10 million over 5 years ($5 million for each company)	Yes	No	VII	**Afghanistan, China, Iran, Syria**	Yes
2003								
EDO Radar technology transfers	47	$2.5 million ($175,000 credit for existing compliance)	$575,000 over 3 years	Yes	No (denial policy lifted following settlement)	XI	Sweden	Yes

Respondent/ Summary	Number of Violations	Total Penalty	Compliance Allocation	Directed Remediation	Debarment, Denial, etc.	USML Categories	Countries (Bold type signifies ITAR-proscribed country at time of violation)	Successor Liability
Multigen-Paradigm Visual sensor simulation software exports and related technology transfers	24	$2 million ($1.5 million credit for existing compliance)	$250,000 over 3 years	Yes	No	IX	Australia, Canada, **China**, Czech Republic, France, India, Israel, Italy, Japan, Peru, Singapore, South Korea, Spain, Sweden Taiwan, United Kingdom	Yes
Agilent Technologies Signal processing equipment exports	3	$225,000	0	No	No	XI	Israel, Singapore	Yes
Hughes Electronics/Boeing Satellite Systems Satellite technology transfers	123	$32 million ($4 million credit for existing compliance)	$ 8 million over 7 years ($6 million for BSS and $2 million for Hughes)	Yes	No	Not identified	**China**	Yes
Raytheon Troposcatter system exports and related technology transfers	26	$25 million ($3 million toward civil fine; $20 million to Customs)	$2 million	Yes	No	Not identified	Canada, Pakistan	No
2002								
Dr. Wah Lim Satellite technology transfers	Not identified	$100,000 ($50,000 suspended)	0	No	Yes	IV	**China**	N/A
Space Systems/Loral Satellite technology transfers	64	$20 million	$6 million over 7 years	Yes	No	IV	**China**	No
2001								
Motorola Satellite technology transfers	25	$750,000	$150,000 over 3 years	Yes	No	Not identified	Germany, Russia	No
Boeing Airborne early warning system technology (business proposals)	110	$4.2 million	$400,000 over 3 years	Yes	No	Not identified	Australia, Italy, Malaysia, Singapore, Spain, Turkey	No