



U.S. Securities and Exchange Commission

SEC Settles With Former Raytheon Officers for Improper Disclosure and Accounting Practices

Former CFO, Controller, and Subsidiary CFO Agree to Pay Over \$1.5 Million in Disgorgement and Penalties

FOR IMMEDIATE RELEASE 2007-45

Washington, D.C., March 15, 2007 - The Securities and Exchange Commission announced today that it has instituted settled enforcement proceedings against three former financial officers of Raytheon Company and one of its subsidiaries. The SEC charged that they were each involved in or aware of certain improper accounting practices that operated as a fraud by failing to adequately and accurately disclose the deteriorating financial results and business of Raytheon's commercial aircraft manufacturing subsidiary. The SEC also charged that each officer was involved in or aware of certain false and misleading disclosures in Raytheon's periodic reports.

Named in the SEC's enforcement actions were Franklyn A. Caine, the former CFO of Raytheon, Edward S. Pliner, Raytheon's former Controller and former lead auditor, and James E. Gray, the former CFO of Raytheon Aircraft Company (RAC). Without admitting or denying the SEC's allegations or findings, Caine, Pliner, and Gray agreed to pay more than \$1.5 million combined to settle the Commission's charges.

"Today's announcement emphasizes that we will continue to hold senior financial officers responsible when they engage in improper disclosures and accounting practices, whether they are officers at the corporate or subsidiary level" said Linda Chatman Thomsen, the SEC's Director of Enforcement.

According to the allegations in SEC's complaints filed today in the U.S. District Court for the District of Columbia:

- Between 1997 and 1999, Raytheon improperly recognized revenue on RAC's sale of unfinished aircraft through "bill and hold" sales transactions that did not comply with Generally Accepted Accounting Principles. These practices resulted in material overstatements of RAC's reported annual net sales revenue and operating income in 1997 and 1998, enabling both RAC and Raytheon to meet certain internal and external earnings targets. According to the SEC, Gray was personally involved in these premature revenue recognition practices, and Pliner was aware of them as the company's lead outside auditor.

- Between 1997 and 2001, there were certain improper disclosure and accounting practices at Raytheon related to RAC's commuter aircraft business, including the failure to adequately disclose in the company's periodic reports material risks, trends, and uncertainties associated with the deterioration of that business line. These practices resulted in the failure to recognize between \$67 million and \$240 million in losses that were inherent in a planned "soft landing" of the commuter aircraft line at year-end 2000, which would have reduced Raytheon's 2000 profit before taxes by 8 to 27 percent. These losses were instead improperly taken during the third quarter of 2001, when Raytheon recorded a \$693 million charge related to its commuter assets after September 11, 2001. Given the charge that should have been taken at year-end 2000, Raytheon's third quarter 2001 commuter loss provision was overstated by 10 to 53 percent. According to the SEC, as the company's CFO, Caine was personally involved in and aware of these practices throughout 2000 and 2001. In addition, as Raytheon's lead auditor between 1997 and 1999, and as the company's Controller in 2000 and 2001, Pliner was aware of and later personally involved in these improper practices.

In an Administrative Order issued today, the SEC found that, during 2000 and 2001, Caine violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and caused Raytheon's violations of Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Exchange Act Rules 12b-20, 13a-1, 13a-13, and 13b2-1. Caine was ordered to cease and desist from committing or causing the violations charged as well as any future violations of these provisions. Caine also consented to the entry of a final judgment in the related civil action for the purposes of awarding civil monetary penalties and disgorgement. As part of the settlement, Caine consented to pay \$706,072 in disgorgement of certain past bonus amounts plus pre-judgment interest, and a \$125,000 civil penalty.

In addition, Pliner consented to the entry of a court order, which permanently enjoins him from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act and from aiding and abetting violations of Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 12b-20, 13a-1, 13a-13, and 13b2-1. Pliner was ordered to pay \$415,042 in disgorgement of certain past bonus amounts plus pre-judgment interest, and a \$150,000 civil penalty. Pliner also consented to the entry of a Commission order that will suspend him, based on entry of the injunction in the related civil action, from appearing and practicing before the Commission as an accountant for three years pursuant to Rule 102(e)(3) of the Commission's Rules of Practice.

Finally, Gray consented to the entry of a court order, which permanently enjoins him from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act and from aiding and abetting violations of Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 12b-20, 13a-1, 13a-13, and 13b2-1. Gray was also ordered to pay disgorgement of certain past bonus amounts and pre-judgment interest in the total amount of \$105,753.

For additional information concerning this matter, see [Litigation Release No. LR-19747](#) (June 28, 2006) and [Administrative Proceeding Release No. 33-](#)

[8715](#) (June 28, 2006).

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