



U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 19747 / June 28, 2006

SEC v. Raytheon Company, Daniel P. Burnham, and Aldo R. Servello,
Civil Action No. 06-CV-1182 (GK) (D.D.C. filed June 28, 2006)

**SEC Settles with Raytheon Company, Former CEO, and Subsidiary
Controller for Improper Disclosure and Accounting Practices**

**Raytheon Agrees To Pay \$12 Million Penalty; Former Officers Agree
To Pay Disgorgement and Penalties**

The Securities and Exchange Commission (SEC) announced today that it has instituted settled enforcement proceedings against Raytheon Company (Raytheon), its former Chairman and CEO, Daniel P. Burnham (Burnham), and the former Deputy CFO and Controller of Raytheon Aircraft Company (RAC), Aldo R. Servello (Servello). The SEC charged that, in periodic reports filed with the Commission from 1997 to 2001, Raytheon made false and misleading disclosures and used improper accounting practices that operated as a fraud by failing to adequately and accurately disclose the declining financial results and deteriorating business of Raytheon's commercial aircraft manufacturing subsidiary, RAC. The SEC also charged that certain of these disclosures and accounting practices were undertaken with the knowledge of Burnham in 2000 and 2001 and Servello in 2000. Without admitting or denying the SEC's findings, Raytheon, Burnham, and Servello agreed to settle these charges by consenting to the entry of a Cease-and-Desist Order by the Commission.

The SEC's Order finds that, 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. According to the SEC's Order, these practices resulted in material overstatements of RAC's reported annual net sales revenue and operating income in 1997 and 1998 and enabled both Raytheon and RAC to meet certain internal and external earnings targets.

The SEC's Order also finds that, between 1997 and 2001, Raytheon engaged in improper disclosure and accounting practices 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. According to the SEC's Order, 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. The SEC's Order finds that 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. According to the SEC's Order, 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.

The SEC's Order finds that, between 1997 and 2001, Raytheon violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (Securities Act), Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 (Exchange Act), and Rules 12b-20, 13a-1, 13a-13, and 13b2-1. The Order also finds that, with respect to fiscal years 2000 and 2001, Burnham violated Sections 17(a)(2) and 17(a)(3) of the Securities Act and caused Raytheon's violations of Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-13, and 13b2-1. Finally, the Order finds that, for fiscal year 2000, Servello caused Raytheon's violations of Sections 13(a) and 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-13, and 13b2-1. Each respondent has agreed to cease and desist from committing or causing the violations charged as well as any future violations of these provisions.

Raytheon, Burnham, and Servello also consented to the entry of a final judgment in a related civil action filed today in the U.S. District Court for the District of Columbia for the purposes of awarding civil monetary penalties and disgorgement. As part of the settlement, Raytheon consented to pay a penalty of \$12 million and \$1 in disgorgement. Burnham and Servello agreed to pay disgorgement of certain past bonus amounts, pre-judgment interest, and penalties in the total amounts of \$1,238,344 and \$34,628, respectively.

The Commission's investigation as to other individuals involved in this matter is continuing.

- ▶ [SEC Complaint in this matter](#)
- ▶ [Administrative Proceeding No. 33-8715](#)

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