

May 30, 2008

Raytheon Company  
870 Winter Street  
Waltham, MA 02451

Dear Sir or Madam:

Sometime in the next few weeks, the Project On Government Oversight (POGO) will update its Federal Contractor Misconduct Database (<http://www.contractormisconduct.org/>), a compilation of information from public resources regarding government contractors, including Raytheon. On August 16, 2005, December 2, 2005 and November 14, 2006, we sent Raytheon information regarding findings in POGO's database. As of today, we have not received a response from you. I have enclosed the findings relevant to your company, and I am seeking verification of this data.

Any response would be greatly appreciated, as the accuracy of this information is in the best interest of all parties. Out of fairness to Raytheon, please be assured that any response received by POGO will be posted on the website along with the data.

The biggest change we will be making to the database is the inclusion of more federal contractors (the top 100). We are also adding new instances that we have found in recent months and updating instances already in the database with new information. Please note that the database also includes pending instances, but these are kept separate from resolved instances and are not included in the totals.

If you have any questions, I can be reached at (202) 347-1122. Thank you for your time and consideration.

Sincerely,

Neil Gordon  
Investigator

Enclosure

## **Instances**

### 1. Aircraft Maintenance Overcharge

Date: 01/08/1999 (Date of Settlement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: Civil

Amount: \$400,000

Disposition: Settlement

Synopsis: “Raytheon Aerospace Company has paid the government more than \$400,000 to settle claims that it overcharged the government under a settlement reached on January 8...The government claimed that a Raytheon subsidiary, Beech Aerospace Systems, Inc., double-billed the Department of Defense for certain parts under a 1991 aircraft maintenance contract”, violating the False Claims Act, 31 USC § 3729 et seq.

### 2. Contractor Kickbacks

Date: 06/30/1996 (Date of Settlement)

Misconduct Type: Ethics

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: undisclosed/unknown

Amount: \$115,310

Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Raytheon paid \$115,310 to settle allegations related to “contractor/subcontractor kickbacks.”

### 3. Defective Pricing

Date: 11/30/1997 (Date of Settlement)

Misconduct Type: Defective Pricing

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: undisclosed/unknown

Amount: \$2,099,042

Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Raytheon paid \$2,099,042 to settle allegations of “Defective Pricing.”

### 4. F-14 and F-15 Aircraft Contract False Claims Act Violations

Date: 03/01/2000 (Date of Settlement - approximate)

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – General

Contracting Party: Defense - Air Force

Court Type: Civil

Amount: \$2,113,000

Disposition: Settlement

Synopsis: Hughes Aircraft Company, a Raytheon subsidiary, paid \$2,113,000 to settle alleged violations of the False Claims Act, 31 USC § 3729 et seq. According to the government, "contract specifications required Hughes Aircraft Company to perform performance and acceptance tests on traveling wave tubes, components used in radar systems on F-14 and F-15 aircraft. Such testing was not accomplished on three different models of the tubes, and investigation also determined Hughes inflated labor hours billed to the Government."

#### 5. Improper Classification of Costs

Date: 04/09/1998 (Date of Settlement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: Civil

Amount: \$2,700,000

Disposition: Settlement

Synopsis: Raytheon paid \$2.7 million to settle allegations that the company "charged the Government for costs incurred in marketing products to foreign governments. Since 1986, Raytheon's cost accounting procedures have provided for separate accounting treatment of foreign and domestic marketing costs. These procedures, and the Cost Accounting Standards of the Federal Acquisition Regulations, require the allocation of Raytheon's foreign marketing costs to contracts between Raytheon and its foreign customers, and allocation of its domestic marketing costs to U.S. Government contracts. The Government asserted that most of the activities of the Raytheon international development function were foreign marketing activities and that Raytheon improperly classified the costs as 'division administration' costs allocable to Government contracts."

#### 6. Improper Communications Equipment Export

Date: 02/27/2003 (Date of Settlement)

Misconduct Type: Import/Export

Enforcement Agency: State Dept.

Contracting Party: None

Court Type: Civil

Amount: \$25,000,000

Disposition: Settlement

Synopsis: Raytheon settled charges that the company had improperly attempted to export troposcatter communications equipment to Pakistan between 1992 and 1997 in violation of the Arms Export Control Act and the International Traffic in Arms Regulations.

#### 7. Improper Export of Defense Articles and Technical Data

Date: 10/28/1999 (Date of Agreement)

Misconduct Type: Import/Export

Enforcement Agency: State Dept.

Contracting Party: International

Court Type: Administrative

Amount: \$550,000

Disposition: Administrative Agreement

Synopsis: Raytheon Company entered into a Consent Agreement to settle allegations that it violated the Arms Export Control Act, 22 U.S.C. § 2778(e), by exporting defense articles and technical data covered by the U.S. Munitions List to Canada without the required approvals from the Department of State, and in other circumstances, violated the terms and conditions of approvals that were provided by the State Department. Under the agreement, Raytheon will pay a civil penalty of \$500,000 and a suspended penalty of \$50,000 to be applied to the cost of an independent compliance audit.

#### 8. Electronic Equipment Testing False Claims Act Violations

Date: 09/10/1996 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: Civil

Amount: \$4,050,000

Disposition: Settlement

Synopsis: “Hughes Aircraft Company [paid] the United States \$4,050,000 to settle claims the company failed to perform certain tests on components used in advanced electronic equipment such as radar units for military aircraft, missile guidance units and delicate tracking equipment.” Allegedly, “Hughes supervisors instructed employees in the Environmental Test Area... to omit tests, to shorten required procedures,” in violation of the False Claims Act, 31 USC § 3729 et seq.

#### 9. Substitution/Nonconforming Product (1996)

Date: 02/13/1996 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: undisclosed/unknown

Amount: \$82,000

Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Raytheon paid \$82,000 to settle allegations of providing the government with a “Substitution/Nonconforming Product.”

#### 10. Substitution/Nonconforming Product (1995)

Date: 08/31/1995

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – General

Contracting Party: Defense - General

Court Type: undisclosed/unknown

Amount: \$95,000

Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Raytheon paid \$95,000 to settle allegations of providing the government with a “Substitution/Nonconforming Product.”

11. United States v. Hughes Aircraft (Department of Defense Contract False Claims Act Violations)

Date: 06/12/1997 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – Navy

Contracting Party: Defense - Navy

Court Type: Civil

Amount: \$500,000

Disposition: Settlement

Synopsis: Hughes Aircraft Co. and Hughes Aircraft Mississippi, Inc., subsidiaries of Raytheon, paid “\$500,000 to settle allegations that they defrauded the government by not properly testing certain components of torpedoes as required under a military contract and using non-conforming fasteners under several other Department of Defense contracts,” in violation of the False Claims Act, 31 USC § 3729 et seq. “An investigation by the Defense Criminal Investigative Service and the Naval Criminal Investigative Service revealed that Hughes failed to properly test certain electronic components of Advanced Capacity Mark 48 torpedoes sold to the United States Navy. It also concluded that Hughes used flawed fasteners such as stainless steel screws that failed to meet specifications contained in several other military contracts.”

12. Yslava v. Hughes Aircraft (Drinking Water Contamination)

Date: 02/08/2000 (Date of Settlement)

Misconduct Type: Health

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$13,000,000

Disposition: Settlement

Synopsis: Hughes Aircraft, a subsidiary of Raytheon, allegedly contaminated the drinking water of Tucson, Arizona residents as the result of the dumping of TCE, a toxin. The company agreed to settle two related lawsuits in the matter for approximately \$13 million, which included a medical monitoring program for residents.

13. Raytheon Securities Litigation

Date: 05/01/2004 (Date of Settlement)

Misconduct Type: Securities

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$410,000,000

Disposition: Settlement

Synopsis: “In late 1999, the Company and two of its officers were named as defendants in several class action lawsuits. These lawsuits were consolidated into a single complaint in June 2000, when four additional former or present officers were named as defendants in a Consolidated and Amended Class Action Complaint (the “Consolidated Complaint”) with the caption In re: Raytheon Securities Litigation (Civil Action No. 12142-PBS), filed in the U.S.

District Court in Massachusetts. The Consolidated Complaint principally alleged that the defendants violated federal securities laws by purportedly making misleading statements and by failing to disclose material information concerning the Company's financial performance during the class period. In May 2004, without admitting any liability or wrongdoing, the Company reached an agreement to settle this class action lawsuit on behalf of the Company and all individual defendants. The terms of the settlement included a cash payment of \$210 million and the issuance of warrants for the Company's stock with a stipulated value of \$200 million."

#### 14. Violations of SEC Rules

Date: 06/28/2006 (Date of Settlement Announcement)

Misconduct Type: Securities

Enforcement Agency: SEC

Contracting Party: None

Court Type: Criminal

Amount: \$14,774,840

Disposition: Settlement

Synopsis: In June 2006, Raytheon, its former Chairman and CEO, Daniel P. Burnham, and the former Deputy CFO and Controller of Raytheon Aircraft Company (RAC), Aldo R. Servello, settled with the SEC following an investigation into improper disclosure and accounting practices relating to Raytheon's commercial aircraft manufacturing subsidiary. Pursuant to the settlement, Raytheon agreed 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. In March 2007, the SEC settled enforcement proceedings in the same matter against 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 RAC. The SEC charged that they were each involved in or aware of the improper practices. Without admitting or denying the SEC's allegations or findings, Caine, Pliner, and Gray agreed to pay a combined total of \$1,501,867 to settle the charges.

#### 15. EEOC v. Raytheon Technical Services (Racial Discrimination)

Date: 11/05/2004 (Date of Consent Decree)

Misconduct Type: Labor

Enforcement Agency: EEOC

Contracting Party: None

Court Type: Administrative

Amount: \$165,000

Disposition: Administrative Agreement

Synopsis: The Equal Employment Opportunity Commission filed a suit against Raytheon subsidiary Raytheon Technical Services, alleging that the company "failed to hire charging party as a painter when it became the new contractor at the military base because of his race, black." When it became apparent that the painter had more experience than the other painters that were hired, "the parties resolved the case through a consent decree providing \$165,000 to charging party."

#### 16. Water Contamination (Tucson, AZ)

Date: 07/13/2007 (Date of Press Release)

Misconduct Type: Environment  
Enforcement Agency: EPA  
Contracting Party: Defense - Air Force  
Court Type: Administrative  
Amount: \$0

Disposition: Administrative Agreement

Synopsis: The U.S. Environmental Protection Agency ordered Raytheon and the U.S. Air Force to clean up a migrating plume of contaminated groundwater found near a water treatment plant that serves 50,000 residents of Tucson, Arizona. Groundwater contaminated with excessive amounts of trichloroethylene (TCE) and dioxane (DX), chemical solvents believed to be human carcinogens, was found near the Tucson International Airport Area Superfund Site, where Raytheon and the Air Force share a facility called Air Force Plant 44. The contaminants migrated north of the facility and into the water treatment plant. For more than 50 years, aircraft and electronics facilities (including Raytheon and its predecessor, Hughes Aircraft) and unlined landfills have deposited various chemical contaminants into the site. The EPA's order requires Raytheon and the Air Force to install and operate an advanced oxidation process system to treat the solvents in the plume. If they disobey the order, the EPA will fine the parties up to \$32,500 per day, per violation.

### **Pending Instances**

Swartout v. Raytheon (Groundwater Contamination)

Date: 04/14/2008 (Date of Filing)

Misconduct Type: Environment

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$0

Disposition: Pending

Synopsis: Residents of the Azalea district of St. Petersburg, Florida filed a class action lawsuit against Raytheon, which operates an electronics manufacturing plant in their community. They claim that toxic chemicals discharged by the plant, including dioxane, trichloroethylene (TCE) and vinyl chloride, have contaminated the groundwater and endanger the health of the residents.