

COPY

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

2003 FEB 27
U.S. DISTRICT COURT
DISTRICT OF MASS.

UNITED STATES OF AMERICA,

Plaintiff,

v.

RAYTHEON COMPANY, and
RAYTHEON CANADA LTD.,

Defendants

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 27th day of February 2003, by and among the United States Attorney for the District of Massachusetts, the United States Customs Service, the Office of Defense Trade Controls ("ODTC") of the United States Department of State (hereinafter collectively referred to as the "United States"), Raytheon Company, a company incorporated in the State of Delaware and doing business in the Commonwealth of Massachusetts and elsewhere, with its Executive Offices located in Lexington, Massachusetts, and Raytheon Canada Ltd. ("Raytheon Canada"), a wholly-owned foreign subsidiary of Raytheon Company located in Waterloo, Canada (hereinafter collectively referred to as "Raytheon").

A. Factual Background

This Settlement Agreement arises from an investigation conducted by the United States Attorney for the District of Massachusetts ("United States Attorney") and the United States Customs Service into possible violations of the Arms Export Control Act, 22 U.S.C. §2778, relating to, among other things, activities of Raytheon Company and various of its employees in

Massachusetts, and activities of Raytheon Canada, and various of Raytheon Canada's employees. The activities which formed the basis for the investigation were the alleged illegal export and attempted export of defense articles, defense services and technical data appearing on the U.S. Munitions List, 22 C.F.R. § 121, from Raytheon facilities in the United States and Canada to the country and government of Pakistan.

The parties hereto agree on certain facts and disagree on other facts, but concur that this matter may be concluded in an appropriate manner based on the facts as understood by each party. This Settlement Agreement represents a compromise among the parties to avoid the risks and costs of litigation. Set forth below are certain recitals and a Statement of Facts relevant to this Settlement Agreement.

B. Statement of Facts

1. "Troposcatter communication systems" were designed and manufactured by Raytheon Company and other companies under contract with the United States Department of Defense during the 1970s. Mobile troposcatter systems utilize high-powered microwave transmissions which are reflected off the troposphere, the lower level of the earth's atmosphere, for long-range communications to other fixed or mobile systems.

2. Troposcatter systems have traditionally been used where line-of-sight radios cannot be used due to difficult topography or other harsh conditions. This factor, in conjunction with their relatively easy mobility over rough terrain, made troposcatter systems suitable for many military campaigns.

3. Troposcatter communication systems were used in great numbers by the U.S. military during Operation Desert Storm. Those systems sold by Raytheon Company over the years have been sold to the United States Department of Defense exclusively, with the exception of one approved foreign military sale made by Raytheon Company through the United States

Government in 1989 to the United Arab Emirates. Raytheon's military troposcatter system – the AN/TRC-170 – has not been in production for the United States military since Operation Desert Storm.

4. Starting in the late 1980s, Raytheon engaged in detailed discussions with officers of the Pakistan Army in an attempt to sell AN/TRC-170 troposcatter communication systems to that Army pursuant to a Foreign Military Sale ("FMS"), with the potential for further substantial sales. Having almost reached consensus on the sale by October 1990, negotiations between Raytheon and the Pakistanis were sidetracked when the United States implemented the Pressler Amendment that month, prohibiting military sales by the U.S. Government to Pakistan and restricting the issuance of licenses for such exports by private companies, following Pakistan's continued refusal to sign onto the nuclear antiproliferation treaty.

5. In 1988, Raytheon personnel from within its Communications Systems Directorate in Marlborough, Massachusetts had first been introduced to the pertinent personnel in the Pakistan Army through Raytheon's Pakistan representative and broker. From at least 1990 through 1997, that broker signed annual representative agreements with Raytheon. For his agent services on behalf of Raytheon, he was to receive a percentage of the value of any sales made to Pakistan. The broker was paid and collected in excess of \$1,000,000 from Raytheon during that time period.

6. Envisioning an end to the company's potential FMS of military troposcatter systems to Pakistan after United States government implementation of the Pressler Amendment, several of Raytheon's agents and employees identified other potential opportunities for the sale of troposcatter communication systems to Pakistan. During the period from October 1990 through March 1993, certain Raytheon personnel familiar with the TRC-170 program expressed

uncertainty as to whether the State Department would issue a license for the export of TRC-170 equipment to Pakistan via direct sale (as opposed to an FMS). In response to this uncertainty, Raytheon developed two alternative plans for the potential opportunities it had identified for the sale of troposcatter equipment to Pakistan: a direct sale of the TRC-170 itself; or, if the former would not be approved by the State Department post-Pressler Amendment, a direct sale of commercialized troposcatter equipment. In March of 1993, upon the State Department's advice to Raytheon (by means of rejecting a requested technical data license to provide TRC-170 information to Pakistan) that a license would not issue for a direct sale of the TRC-170 to Pakistan, Raytheon began to focus on its alternative plan to sell commercial troposcatter equipment to Pakistan.

7. Raytheon thereafter introduced modifications to the TRC-170 by, *inter alia*: deleting certain features of the TRC-170; adding components and hardware that Raytheon characterized as commercial; and manufacturing and testing the modified system in accordance with commercial ISO-9000 standards. Raytheon spent in excess of 15,000 hours and approximately \$2,000,000 on various tasks associated exclusively with the effort to modify the TRC-170 and create a commercial troposcatter system.

8. Raytheon applied to the U.S. EximBank for financing in connection with its contemplated sale of commercialized troposcatter systems to the National Logistic Cell ("NLC") in Pakistan. The NLC had held itself out as a civilian organization and provided certain documents to Raytheon in an effort to show that it was engaged in civilian transportation services and disaster relief operations within Pakistan; the NLC further represented to Raytheon that it received its funding from the civilian Ministry of Planning and Development for the Government of Pakistan, and provided supporting documentation. These representations

notwithstanding, there were numerous Pakistani military officers involved with the NLC, and uniformed personnel participated in the evaluation and assessment of the troposcatter systems being proposed for sale to Pakistan. In October 1993, EximBank – which is legislatively prohibited from financing the sale of any equipment (military or commercial) for possible military use – denied Raytheon’s application for financing based, among other things, upon its concern that the NLC had ties to the Pakistan military and might use the equipment for strategic military purposes.

9. Following EximBank’s denial of Raytheon’s application for financing, Raytheon’s Canadian subsidiary, Raytheon Canada Limited (“RCL”), initiated discussions with Canada’s financing agency, the Export Development Corporation (“EDC”), regarding financing for the sale. The EDC agreed to finance the project, provided that the end product was at least 60% Canadian.

10. On December 8, 1994, RCL and the NLC signed a contract for the provision of six modified troposcatter systems, denominated the RCT-44 (for Raytheon Commercial Troposcatter) to the NLC, along with support equipment, training, spare parts, and manuals. After the signing of the contract, RCL assumed the role of primary contractor, while Raytheon Company served as a subcontractor, providing manufacturing support for the project. A Raytheon employee familiar with the TRC-170 program was identified as overall program manager. RCL’s other subcontractors included companies providing, *inter alia*, line-of-sight radios, switches, multiplexers, shelters, exportable encryption equipment and trucks for transporting the RCT-44.

11. In connection with the contemplated sale of troposcatter equipment to Pakistan, Raytheon personnel made various presentations to the Pakistanis on troposcatter communications

technology generally, and Raytheon's troposcatter equipment in particular. Although Raytheon had previously provided much or all of this material to the Pakistanis pursuant to a 1983 State Department license authorizing Raytheon to share technical data regarding the TRC-170 with Pakistan, Raytheon was on notice through subsequent exchanges with the State Department that there could be concerns with the continued sharing of similar material after the Pressler Amendment provisions were triggered in October 1990. Raytheon erred in not seeking permission from the State Department for those presentations that were made to Pakistan after October 1990.

12. On several different occasions during the time period from 1992 to 1995, Raytheon's Directors of Export Control discussed the RCT-44 project with Raytheon personnel, and analyzed the export implications of the sale. These Directors, including a long time employee with many years' experience as Raytheon's principal in-house source of export control knowledge and expertise, failed adequately to address the important military versus commercial issues posed by the contemplated sale of the RCT-44 to Pakistan, and incorrectly failed to seek State Department authorization for export of the RCT-44.

13. On December 22, 1994, RCL applied for, and was granted, an export license from the Export Controls Division of Canada's Bureau of External Affairs and International Trade ("External Affairs") to ship troposcatter radio and ancillary equipment to the NLC. This license expired in January, 1997. In February, 1997, RCL reapplied for a new export license. After receiving RCL's renewed request, External Affairs informed RCL that a license was not required for export of the RCT-44 to Pakistan.

14. Commencing in October 1993, and continuing until March 1997, Raytheon shipped various drawings, manuals, aperture cards (containing TRC-170-related drawings and

diagrams), residual TRC-170 parts, and other manufacturing materials relating to the TRC-170 to RCL for use on the RCT-44 project. Raytheon also shipped several TRC-170 test stations to RCL. In addition, Raytheon sent personnel to RCL to assist in the manufacturing effort.

15. Raytheon did not obtain U.S. export licenses for these shipments to Canada and, in certain instances, misstated on the shipping documents that Canada, rather than Pakistan, was the ultimate destination for these shipments. Raytheon also failed to obtain a U.S. export license for the shipment of the troposcatter systems themselves to Pakistan. Raytheon did direct two of its suppliers to apply for and obtain U.S. export licenses for the components they were providing - encryption equipment and the shelters that housed the troposcatter equipment.

16. In failing to seek U.S. export licenses for the contemplated export of the RCT-44 systems to Pakistan and the related shipments to Canada, Raytheon advises, and the U.S. Attorney's investigation has confirmed, that the Company relied upon the determinations by its Export Control Department both that no export license was required for shipment of the modified systems to Pakistan, and that no export approval was required for the materials shipped and the services provided to Canada. While Raytheon's Export Control Directors and other export personnel did not intend to circumvent U.S. export laws with their determinations that no U.S. export licenses were required, the information they relied upon was not accurate in all respects and they did not fully appreciate the similarities and differences between the two systems.

17. At various times during the procurement process, Raytheon advises, and the U.S. Attorney's investigation has confirmed, that members of Raytheon's senior management directed program personnel to take appropriate steps to ensure that all export licensing requirements were satisfied and all related issues regarding the contemplated sale of troposcatter systems to Pakistan were reviewed and resolved. In authorizing the sale to proceed, senior management

relied in good faith upon its Export Control Directors' determination that no export license was required for export of the modified systems to Pakistan. Senior management was not, however, made fully aware of all facts pertinent to the export of troposcatter systems to Pakistan, nor were members of management informed that the Company's Export Control Directors had rendered their advice without having first contacted the State Department.

18. Raytheon acknowledges and regrets that it erred in failing to seek the State Department's opinion as to whether it had, in fact, successfully commercialized its troposcatter equipment prior to readying the systems for shipment to Pakistan. The State Department has since reviewed the two systems and determined that, notwithstanding Raytheon's modifications of its troposcatter equipment, the modified version remains subject to control as a defense article and required a license from the State Department for export to Pakistan. The State Department has further determined that export licenses from the State Department were required for the TRC-170 parts and other materials shipped and services provided from the United States to Canada in connection with the RCT-44 project. Raytheon does not contest the State Department's determinations and acknowledges that such licenses are required for the export of its troposcatter equipment to Pakistan.

19. Raytheon recognizes and regrets the seriousness of its errors and export compliance oversights in connection with the RCT-44 project and, in recognition thereof and in order to improve its export compliance process, has:

- provided cooperation throughout the investigation, and represented and warranted that it will continue to provide such cooperation as may be required in the future;

- undertaken substantial efforts to enhance its export compliance policies, procedures and programs (including enhanced training of personnel and the organizational relocation of the Export Control Department to the Office of General Counsel) to ensure that errors like those made in connection with the contemplated sale of troposcatter equipment to Pakistan will not recur in the future;
- retained a new Director of Export Control with over 20 years' experience in export control compliance in the defense industry and expanded its staff of export control personnel (the Directors of Export Control who were employed by Raytheon during the time period relevant to the Government's investigation are no longer employed by the Company);
- agreed to pay \$25 million to the United States Government (of which \$2 million may be allocated to Raytheon's costs of infrastructure improvement); and
- agreed to comply with various remedial administrative measures in order to ensure that it is and remains in compliance with all U.S. export laws and regulations, including the appointment of a special compliance officer to monitor and oversee compliance by Raytheon's Communications Systems Business Unit with all applicable U.S. export requirements.

20. Raytheon has demonstrated acceptance of responsibility for its conduct in connection with the contemplated sale of troposcatter equipment to Pakistan. Specifically, upon being advised of the Government's concerns regarding the proposed export, Raytheon voluntarily suspended shipment of the equipment and cooperated fully with the Government's

requests for documents, testimony and other materials. In addition, Raytheon has acknowledged the seriousness of its errors, has agreed to fair and reasonable settlement terms, and has implemented a comprehensive, enhanced export compliance program, with new export compliance personnel, to address the deficiencies in its export compliance program that were identified during the course of the Government's investigation.

C. The Civil Litigation

As a consequence of the investigation described above, the United States Attorney for the District of Massachusetts has filed a Civil Complaint against Raytheon in the United States District Court in Boston, Massachusetts. The Complaint, attached hereto as Exhibit A, alleges a cause of action against Raytheon and seeks, among other things, injunctive relief enjoining the alleged criminal conduct under 18 U.S.C. § 1345 from recurring in the future.

Raytheon has reviewed the Civil Complaint and understands it. While Raytheon denies the claims set forth therein, Raytheon wishes to settle and dispose of all charges set forth therein by entering into this Settlement Agreement. Raytheon and the United States further agree to be bound by this Settlement Agreement as a resolution of all charges set forth in that Civil Complaint and of additional claims related to those charges and other charges which could be brought by the United States for the forfeiture of certain Raytheon property pursuant to 22 U.S.C. §401. The parties further agree that this settlement concludes the pending investigation by the United States Attorney for the District of Massachusetts into alleged criminal wrongdoing by Raytheon concerning the sale of troposcatter equipment to Pakistan.

D. Administrative Charges by the U.S. Department of State

As an additional consequence of the above-described activities by Raytheon, the U.S. Department of State ("DOS") has notified Raytheon of its intent to institute an administrative proceeding pursuant to the Arms Export Control Act, 22 U.S.C. § 2778 ("the Act"), and its

implementing regulations, the International Traffic in Arms Regulations, 22 C.F.R. §§ 120-130 ("ITAR"), based on allegations that Raytheon violated various sections of the Act and the ITAR in connection with its involvement in the Pakistan project, as set forth in a draft Charging Letter attached hereto as Exhibit B.

Raytheon has reviewed the draft Charging Letter and understands it. While Raytheon neither admits nor denies the validity of the claims set forth therein, Raytheon wishes to settle and dispose of all civil administrative charges by entering into this Settlement Agreement as well. Raytheon and DOS further agree to be bound by this Settlement Agreement as a resolution of all civil administrative charges set forth in that draft Charging Letter and any other potential charges that DOS might have brought.

E. Basis for Settlement of the Civil Litigation and the Administrative Charges

To avoid the risks and costs of litigation, the parties have agreed that it is in their interests to settle these existing and potential claims. It is also noted that:

- (1) Raytheon has provided cooperation throughout the investigation, and has represented and warranted that it will continue to provide such cooperation as to any continuing civil, criminal or administrative investigation and further proceedings;
- (2) As further described below, Raytheon wishes to make amends through the payment of \$25 million, as set forth in this Agreement, and also through an effective corporate compliance program that will prevent any future actions such as those addressed in the Complaint and the draft Charging Letter, and has agreed to:

- (a) Acknowledge the nature and seriousness of the offenses alleged by the United States in the Complaint and by the Department of State in the draft Charging Letter; and
- (b) Upon execution of this Settlement Agreement, pay twenty million dollars (\$20 million) to the United States Customs Service in lieu of the United States filing a forfeiture action against certain Raytheon property allegedly exported illegally to Canada and subject to civil forfeiture pursuant to 22 U.S.C. § 401, which property includes specific components of the six troposcatter systems described in the Civil Complaint; and
- (c) Upon execution of this Settlement Agreement, pay a civil administrative penalty in the amount of three million dollars (\$3 million) to the United States Department of State and comply with additional remedial measures as set forth below, in full and complete satisfaction of the charges set forth in the draft Charging Letter; and
- (d) An additional civil penalty of two million dollars (\$2 million) is hereby assessed, but its payment shall be suspended on the condition that Raytheon will apply this amount during the term of the Special Compliance Officer (as described below) for the purpose of defraying a portion of the costs associated with the remedial compliance specified herein, including the costs associated with the Special Compliance Officer and with implementation of that Officer's recommendations. Raytheon will provide annually to the Department of State on the anniversary of the date of the Agreement written accounting(s) of the expenditures

associated with this additional penalty, and failure to use these funds appropriately for this purpose or to provide a satisfactory accounting shall result in a lifting of the suspension, in which case Raytheon shall be required to pay this amount to the Department of State immediately.

- (3) The subject matter of the investigation described above has no bearing upon the overwhelming majority of Raytheon's business and personnel; and
- (4) Raytheon has agreed to enforce its existing compliance policies and procedures with respect to the licensing of its exports, and has adopted new and additional policies and procedures to ensure such compliance.

NOW THEREFORE, in consideration of the foregoing and of the terms and conditions set forth hereinafter, the United States Attorney for the District of Massachusetts, the United States Customs Service, the Office of Defense Trade Controls of the United States Department of State, Raytheon Company and Raytheon Canada, for good and valuable consideration, including but not limited to the United States' forbearance from prosecution of the claims set forth in the Civil Complaint and forbearance from seeking forfeiture of the Raytheon property allegedly illegally exported to Canada, hereby agree as follows:

F. Terms and Conditions of Settlement

(1) General Provisions

- (a) Upon execution by all parties, this Settlement Agreement shall be filed with the United States District Court for the District of Massachusetts in the above-captioned action, at which time a Notice of Dismissal of the Civil Complaint shall also be filed;

- (b) The United States and Raytheon agree that the settlement of this matter upon the terms and conditions set forth herein shall be in full, final, and complete satisfaction of the claims asserted by the United States in the Civil Complaint and the draft Charging Letter. The United States hereby releases Raytheon from those claims upon full and complete payment by Raytheon of the monetary payments set forth in this Settlement Agreement;
- (c) Raytheon unconditionally releases, indemnifies and holds harmless the United States, its officers, agents, employees and/or representatives, both past and present, including but not limited to, the United States Department of Justice, the United States Department of State, and the United States Customs Service, and their officers, agents, and employees from and against any and all claims, demands, damages, causes of action, or suits, of whatever kind and/or description and wheresoever situated, which might now or ever exist by reason of, or grow out of or affect, directly or indirectly, the investigation leading to the instant action or arising from the provisions of the instant Settlement Agreement;
- (d) Raytheon agrees to, and does hereby, waive any and all statutory or constitutional defenses it may have to the Civil Complaint and the administrative charges and the settlement thereof, including, but not limited to, any claims based on any statute of limitations, the Fourth Amendment, the Double Jeopardy Clause of the Fifth Amendment, or the Excessive Fines Clause of the Eighth Amendment to the United States

Constitution. Raytheon specifically waives any defenses it may have on the basis of personal jurisdiction, sufficiency of process, and service of process. All rights of appeal with regard to the instant action are hereby waived by Raytheon;

- (e) The parties shall bear their own fees, including, but not limited to attorney's fees, costs, and expenses incurred in connection with any of the proceedings pertaining directly or indirectly to this civil action;
- (f) Raytheon acknowledges that it is, and has been, represented by competent counsel in connection with the negotiation, preparation and execution of this Settlement Agreement, that the provisions of this Settlement Agreement and the legal effects thereof have been explained to it, and that it is entering into this Settlement Agreement freely and voluntarily, without coercion, duress, or undue influence;
- (g) This Settlement Agreement shall constitute the entire agreement between the parties hereto with respect to the settlement of this matter;
- (h) The parties agree that this Settlement Agreement may be executed by counterpart signature pages;
- (i) This Settlement Agreement shall be final and binding only upon signing by all parties hereto; and
- (j) Signatories to this Settlement Agreement on behalf of Raytheon represent that they have the full power and authority to enter into this Settlement Agreement and to perform the obligations set forth herein. In support of this representation, Raytheon Company and Raytheon Canada shall

provide to the U.S. Attorney's Office together with the executed settlement documents a corporate resolution indicating that Raytheon Company and Raytheon Canada have authority to enter into this Settlement Agreement and to make payments as set forth herein.

- (k) Nothing in this Settlement Agreement is intended to or does settle the liability, if any, that Raytheon has or may have arising under Title 26, United States Code (Internal Revenue Code), or the regulations thereunder.
- (1) Raytheon agrees that all costs (as defined in the Federal Acquisition Regulations ("FAR") § 31.205-47) incurred by or on behalf of Raytheon and its divisions, subsidiaries and affiliates, and present and former officers, directors, agents, shareholders, and employees in connection with (1) the matters covered by this Settlement Agreement, (2) the United States Government's audit and investigation of the matters covered by this Settlement Agreement, (3) Raytheon's investigation and defense of the matters covered by this Settlement Agreement, (4) the negotiation of this Settlement Agreement, and (5) the payments made pursuant to this Settlement Agreement, shall be unallowable costs for government contract accounting purposes. These unallowable costs will be separately estimated and accounted for by Raytheon, and Raytheon will not charge such unallowable costs directly or indirectly to any contracts with the United States nor will Raytheon seek payment for such unallowable costs.

(m) Raytheon further agrees that it will not export any defense articles or defense services appearing on the U.S. Munitions List, and for which an export license or permission to export is required from the United States Department of State under the International Traffic in Arms Regulations at 22 C.F.R. §§120-130, without having first sought and obtained such permission or license to export from the Department of State, and will strive to ensure the accuracy of its submissions to the U.S. Customs Service and to other agencies of the United States in the export of its goods and technology.

(2) Remedial Administrative Measures in Further Settlement of United States Department of State Administrative Charges

Raytheon hereby agrees that it will undertake and comply with the following remedial administrative measures with the concurrence of the United States Department of State, in order to ensure that it may continue to seek permission to export defense articles and defense services to foreign countries:

a. Appointment of Special Compliance Officer

(i) The Chairman and Chief Executive Officer of Raytheon shall appoint an individual from outside the corporation to serve as a Special Compliance Officer for an initial term of one year, to be succeeded by an individual from inside the corporation who will serve for an additional two years, in both instances reporting to the senior management of Raytheon, its Board of Directors and the Office of Defense Trade Controls (ODTC). The outside Special Compliance Officer shall not have been employed in any prior capacity nor previously represented Raytheon, or any of its subsidiaries, including Raytheon Canada, and shall agree to forsake for all time as a condition of this appointment any such future employment or

representation. The appointment shall be made within forty-five (45) days of the signing of this Agreement and, unless agreed to prior to, or at the time of, settlement, the appointment shall be subject to the written approval of the Director, ODTC.

(ii) The Special Compliance Officer shall have the authority to monitor the compliance of Raytheon's Communications Systems Business Unit with the terms of this Settlement Agreement, shall have access to information concerning the compliance policies and procedures of all other Raytheon business units, and shall reasonably exercise such power and authority and carry out the duties and responsibilities of the Special Compliance Officer as set forth herein in a manner consistent with the purpose of this Settlement Agreement, the specific terms and conditions of munitions license authorizations approved by the Department of State, and in consultation with the Office of Defense Trade Controls.

(iii) Within sixty (60) days of the signing of this Settlement Agreement, Raytheon shall confer on the Special Compliance Officer all rights and powers necessary to permit the Special Compliance Officer to have access to information concerning the compliance policies and procedures of all Raytheon business units and to monitor and to ensure and promote the compliance of Raytheon's Communications Systems Business Unit with the terms of this Settlement Agreement in a manner consistent with the purposes of the Agreement, and the specific terms and conditions of munitions license authorizations relating to international sales and programs. Such rights and powers shall be conferred in writing, shall be made known throughout Raytheon, and a certified copy shall be deposited by the seventy-fifth (75th) day after the signing of the Settlement Agreement with the Office of Defense Trade Controls.

(iv) The Special Compliance Officer shall have full and complete access to Raytheon's personnel, books, records, documents, facilities and technical information relating to compliance

with this Settlement Agreement and Munitions authorizations, licenses, guidance and the like relating to the export of defense articles and defense services by Raytheon's Communications Systems Business Unit and the compliance policies and procedures of all other Raytheon business units.

(v) Raytheon shall cooperate with any reasonable request of the Special Compliance Officer, including any request for assistance to obtain any necessary security clearances, and shall take no action to interfere with or impede the Special Compliance Officer's ability to monitor Raytheon's compliance with this Settlement Agreement.

(vi) The Special Compliance Officer with Raytheon's consent, which shall not be unreasonably withheld, shall have the authority to employ, at the expense of Raytheon, such consultants, auditors, accountants, attorneys and other assistants, including Raytheon personnel to the extent appropriate, as are reasonably necessary to carry out the Special Compliance Officer's duties and responsibilities.

(vii) The Office of Defense Trade Controls may, on its own initiative or at the request of the Special Compliance Officer, issue such additional guidance or directions as may be necessary or appropriate to ensure compliance with the ITAR and the terms and conditions of authorizations which it has provided to Raytheon.

(viii) The Special Compliance Officer shall report to the Chief Executive Officer of Raytheon and, on a day-to-day basis, to the Raytheon General Counsel and shall also make periodic reports to the Raytheon Board of Directors, as well as to the Director of the Department of State's Office of Defense Trade Controls concerning Raytheon's compliance with this Settlement Agreement, as well as with such other U.S. Government Munitions authorizations, licenses, guidance and the like then in force pertaining to programs within Raytheon's

Communications Systems Business Unit. These reports shall include conclusions, and any recommendations necessary to ensure strict compliance, state whether the Special Compliance Officer has encountered any difficulties in executing duties and responsibilities assigned herein, describe any and all instances of non-compliance, advise on progress in implementing previous recommendations advanced by the Special Compliance Officer, and be provided:

- Quarterly for a period of six (6) months from the date of the signing of the Settlement Agreement; and
- Semi-annually thereafter during the remainder of the Special Compliance Officer's period of appointment.

(ix) If, at the end of the first year of the signing of this Settlement Agreement, the Director of the Office of Defense Trade Controls determines that Raytheon has fully complied with all requirements established by the Special Compliance Officer during that entire one-year period, the duties of the Special Compliance Officer shall be deemed to expire, and Raytheon shall not be under any duty to appoint an individual from inside the corporation to serve as Special Compliance Officer for the two year period otherwise contemplated by paragraph F(2)(a)(i), above.

b. Miscellaneous Administrative Provisions

(i) For the purpose of assessing compliance with the provisions of the Arms Export Control Act, the ITAR and future munitions licenses and other authorizations, Raytheon agrees to arrange and facilitate, with minimum advance notice, on-site audits of its business units, wherever situated, by the Department of State during the term of the Special Compliance Officer.

(ii) No agreement, understanding, representation or interpretation not contained in this Settlement Agreement may be used to vary or otherwise affect the

terms of this Settlement Agreement, nor shall this Settlement Agreement serve to bind, constrain, or otherwise limit any action, including without limitation debarment or suspension, by any other agency or department of the United States Government (except as otherwise provided in clause (2)(b)(vi) below in respect of the Department of State) with respect to the facts and circumstances addressed herein.

(iii) The Department of State agrees that this Settlement Agreement resolves any civil penalties with respect to possible violations of Section 38 of the Act or the ITAR which have been described in the Civil Complaint and draft Charging Letter with respect to the matters addressed herein.

(iv) Raytheon agrees that, upon the signing of this Settlement Agreement, it waives all rights to further procedural steps in the matter, including an administrative hearing, pursuant to Part 128 of the ITAR (except with respect to any alleged violations of this Agreement). Raytheon also waives its rights to seek judicial or administrative consideration or review of, or otherwise contest, the validity of this Settlement Agreement, including in any action that may be brought for the enforcement of any civil fine or penalty in connection with this Settlement Agreement.

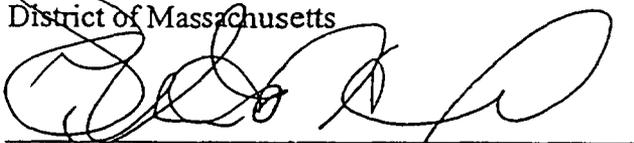
(v) Raytheon understands that the Civil Complaint, the draft Charging Letter and this Settlement Agreement shall be available to the public.

(vi) The offenses in the Civil Complaint and in the draft Charging Letter relate to Raytheon's regulated activities with respect to Canada and Pakistan. The United States Department of State has now determined that a prospective debarment of Raytheon is not appropriate at this time in view of: Raytheon's remorse for participating in the attempted export of troposcatter equipment and the export of related materials to

Pakistan without prior clearance by the Department of State, and for the consequences of that action; its acknowledgement of the seriousness of the alleged offenses; its desire to make amends; and its agreement to significant remedial actions including efforts to enhance Raytheon's corporate compliance program as specified herein. The Department reserves the right to consider imposing additional sanctions, including debarment, in the event that Raytheon for any reason does not fulfill the provisions of this Settlement Agreement.

(vii) Finally, Raytheon agrees that, with respect to all of the troposcatter equipment and related items which are the subject of the Civil Complaint, Charging Letter and this Settlement Agreement, whether currently located in Canada or in the United States, Raytheon shall resolve all matters relating to any further export of those items by complying with the administrative procedures of the Office of Defense Trade Controls of the U.S. Department of State and with all requirements of the Arms Export Control Act and the International Traffic in Arms Regulations.

MICHAEL J. SULLIVAN
United States Attorney
District of Massachusetts



STEPHEN G. HUGGARD
Assistant United States Attorney
United State Courthouse
One Courthouse Way
Boston, Massachusetts 02210

Date: 9/27/03

FOR THE U.S. DEPARTMENT OF STATE

David C Trimble

DAVID C. TRIMBLE
Director, Office of Defense Trade Controls
Compliance

Date: 2/27/03

FOR THE U.S. CUSTOMS SERVICE

ROBIN M. AVERS
Special Agent in Charge
Boston, Massachusetts

Date: _____

FOR RAYTHEON COMPANY

EDWARD S. PLINER
Senior Vice President and
Chief Financial Officer

Date: _____

FOR RAYTHEON COMPANY

JOAN MCPHEE, ESQ.
JOHN MONTGOMERY, ESQ.
Ropes & Gray

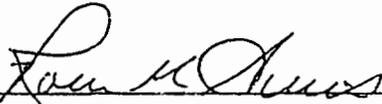
Date: _____

FOR THE U.S. DEPARTMENT OF STATE

WILLIAM LOWELL
Director, Office of Defense Trade Controls

Date: _____

FOR THE U.S. CUSTOMS SERVICE



ROBIN M. AVERS
Special Agent in Charge
Boston, Massachusetts

Date: 2/27/03

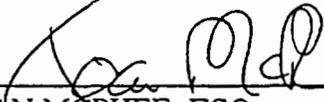
FOR RAYTHEON COMPANY



EDWARD S. PLINER
Senior Vice President and
Chief Financial Officer

Date: 2/27/03

FOR RAYTHEON COMPANY



JOAN MCPHEE, ESQ.
JOHN MONTGOMERY, ESQ.
Ropes & Gray

Date: 2/27/03

FOR RAYTHEON CANADA LTD.



PHILLIP L. RADOFF
Secretary

Date: 27 February 2003

FOR RAYTHEON CANADA LTD.



JOAN MCPHEE, ESQ.
JOHN MONTGOMERY, ESQ.
Ropes & Gray

Date: 2/27/03