



Monograph on U.S. Defense Trade Enforcement

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Foreword

The purpose of this monograph 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. 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 monograph is provided for general informational purposes only, and does not constitute the provision of legal advice or professional services. Corrections, criticisms, and suggestions are welcomed.

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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 enforces defense trade controls aggressively. Because of the potential for serious harm to vital national interests, even technical or unintentional violations 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 ten 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

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

problems is sold off, DDTC may assess penalties against both the seller and buyer under the theory of 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, recent cases 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 lawyers for "aiding and abetting" the alleged misconduct and L-3 paid for violations that occurred before it acquired the company.

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 draft charging letter describing the violations DDTC intends to charge, and concludes with the execution of a consent agreement and order resolving the case.

DDTC calculates civil penalties aggressively, and often charges 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 typically assesses a separate fine for each shipment, which can result in staggering cumulative penalties. In addition, one transaction often results in multiple violations. For example, shipping a defense article or transferring controlled technical data improperly will, 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 is nonexistent. No reported administrative enforcement matter to date 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. 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.

Conversely, DDTC looks suspiciously upon companies without a track record for making disclosures, perceiving them 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.pmdt.c.state.gov/compliance/consent_agreements.html>>.

While it is unclear if the list of published cases is exhaustive, available documentation reflects that the State Department has settled forty-one 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).

Available information reflects that approximately 5,700 companies presently are registered with DDTC, 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 a well-recognized *in terrorem* effect on the defense industry, both in the United States and abroad. As noted above, DDTC uses its considerable powers aggressively to make harsh examples of targeted companies.

Learning from ITAR Enforcement Cases

Whatever the odds that any given company will become the target of an enforcement action, a close study of DDTC cases, especially more recent examples as summarized in this monograph, provides invaluable information about DDTC's priorities, concerns, and expectations. In particular, the often sharp and reproachful rhetoric in 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 (2001 – 2009)

AECA: Arms Export Control Act
DDTC: State Department, Directorate of Defense Trade Controls
EAR: Export Administration Regulations, 15 C.F.R. Parts 730 - 774
ITAR: International Traffic in Arms Regulations, 22 C.F.R. Parts 120 – 130
SCO: Special/Senior Compliance Officer/Official

Note: 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.

2009

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 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 internal SCO 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 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 internal SCO, 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 provide 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 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 classified technical data concerning the Joint Air-to-Surface Standoff missile to the United Arab Emirates (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 internal SCO, 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 120 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 120 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 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 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 internal SCO, 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 120 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 180 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 eight³ 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)).
- (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)).

³ The draft charging letter contains a discrepancy; i.e., 208 charges are alleged but 207 charges are described in the corresponding charging paragraphs.

- (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; (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 is 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 requested on a case-by-case basis, when based on overriding national security and foreign policy interests.

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 internal SCO 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 120 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.
- (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 under which ITT agreed to plead guilty to criminal charges filed by the Department concerning the unauthorized exportation of night vision products and technology. The Department and ITT agreed to file a "joint deferral motion" and the 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 Justice Department review, the 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 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 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;
- 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 internal SCO, 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 120 days of settlement, especially concerning classified information procedures and compliance with agreement provisos.
- (4) Submit to DDTC for review and concurrence within 150 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 180 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 210 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

L-3 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 L-3's acquisition of Titan, L-3 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 L-3'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 120 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 internal SCO 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 L-3: (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 U.S. Munitions List); and (2) exported or caused the exportation of the QRS-11 without authorization. L-3 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 L-3, and \$3.75 million is applied to directed remediation over three years (\$1.75 million for Goodrich and \$2 million for L-3).

Directed Remediation

Applicable both to Goodrich and L-3:

- (1) Appoint an internal SCO, 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 L-3'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 270 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 150 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 L-3) 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 internal SCO 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 120 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 DirecTV) (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 180 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 270 days of settlement.
- (3) Submit to DDTC within 180 days of settlement a white paper proposing the establishment of an automated export compliance system, and implement the system within 180 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 120 days of settlement of draft verification plan, and submit a final report of findings and recommendations to DDTC within 210 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 120 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 180 days of DDTC's concurrence with proposal.
- (4) Establish legal department oversight of trade compliance within 120 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 internal SCO 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 180 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 120 days of DDTC's concurrence with proposal.
- (4) Establish legal department oversight of trade compliance within 180 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 internal SCO 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 120 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 120 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 120 days of settlement.
- (2) Establish legal department oversight of trade compliance within 120 days of settlement.
- (3) Submit to DDTC within 120 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 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 an internal SCO 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 120 days of settlement.
- (3) Hughes to institute a comprehensive computerized document control system within 120 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 120 days of settlement.
- (5) Establish a hotline for reporting defense trade concerns within 120 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 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 an internal SCO 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 internal SCO 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 120 days of settlement.
- (3) Institute a comprehensive computerized document control system within 120 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 120 days of settlement.
- (5) Establish a hotline for reporting defense trade concerns within 120 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 180 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 (2001 – 2009)

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
2009								
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
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 Improprieties regarding the valuation of MLAs	40	\$3 million	0	Yes	No	Not identified	Numerous	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
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	<u>Civil</u> 208 (but 207 violations described in charging letter) <u>Criminal</u> 3 counts (one deferred/eligible for dismissal)	<u>Civil</u> \$28 million (\$3 million credited to prior settlement) <u>Criminal</u> \$100 million (including \$20 million of the civil penalty listed above)	<u>Civil</u> \$5 million <u>Criminal</u> 0	Yes	Yes, for ITT Night Vision Division	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

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
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
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

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
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
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

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
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

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
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