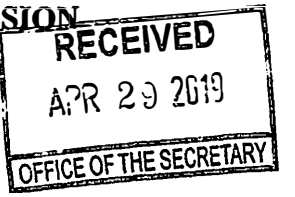
UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING
File No. 3-17950

In the Matter of, **David Pruitt, CPA** **Respondent.**	**ANSWER AND AFFIRMATIVE DEFENSES OF RESPONDENT DAVID PRUITT**

Pursuant to Rule 220 of the Securities and Exchange Commission's ("SEC" or the "Commission") Rules of Practice and the Court's April 22, 2019 Order Extending Answer Deadline ("April 22 Order"),[1] Respondent David N. Pruitt ("Mr. Pruitt"), through his undersigned counsel, respectfully submits this Answer and Affirmative Defenses to the proposed Amended Order Instituting Administrative and Cease-and-Desist Proceedings ("OIP") pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 102(e)(1)(iii) of the Commission's Rules of Practice filed as an exhibit to the Division of Enforcement's (the "Division") April 8, 2019 Motion to Amend the Order Instituting Proceedings ("Motion to Amend").[2]

[1] Admin. Proc. Rulings Release No. 6547, *In the Matter of David Pruitt, CPA*, Admin. Proc. File No. 3-17950 (Apr. 22, 2019).

[2] Although the Division's Motion to Amend is still pending, the Court indicated in its April 22 Order that it "intend[s] to grant the Division's motion [to amend the OIP] in a future order." As that Order has not issued yet, Respondent respectfully reserves all rights to amend his Answer and Affirmative Defenses following the Court's ruling on the Division's Motion to Amend and the filing of an Amended OIP.

INTRODUCTORY STATEMENT

Respondent has opposed the Division's Motion to Amend that is currently pending before this Court because a number of the allegations made by the Division in the OIP are legally and factually defective. Respondent submits this amended Answer in order to comply with the Court's April 22 Order. By answering the allegations below, Mr. Pruitt does not intend to forfeit or waive his arguments that the Division's proposed amended OIP should be rejected as the amendments are not within the scope of the original OIP and are thus not properly before the Court or permitted by Rule of Practice 200(d)(2), and for the other reasons set forth in Respondent's opposition to the Division's Motion to Amend.[3]

Despite the fact that more than five years have passed since the events at issue took place, Mr. Pruitt still does not have, and is unable to obtain, sufficient information to admit or deny a number of the allegations herein. Moreover, the Division, despite knowledge to the contrary, continues to put forth allegations it knows are no longer true and cannot be maintained in good faith in violation of the Rules of Practice. In the paragraphs that follow, unless otherwise indicated, Mr. Pruitt states that he is without sufficient knowledge or information to admit, and therefore, denies any allegation relating to any other person or entity. Any allegation not expressly admitted is denied. To the extent that various paragraphs of the OIP purport to refer to specific documents, Mr. Pruitt states that the documents speak for themselves and denies any allegation or characterization that varies from the language of the specific document referenced. In addition, to the extent various paragraphs of the OIP state legal conclusions and/or summarize the Division's general theory of its case, no responsive pleading is required, but, to the extent

[3] *See* Respondent David Pruitt's Opposition to Division of Enforcement's Motion to Amend the Order Instituting Proceedings, *In the Matter of David Pruitt, CPA*, Admin. Proc. File No. 3-17950 (Apr. 15, 2019).

that one is, Mr. Pruitt denies them, unless otherwise indicated. Sections III and IV of the OIP state actions of the SEC as to which no response is required, and, to the extent a response is required, Mr. Pruitt denies any allegations set forth in those Sections. The headings used in the OIP do not require a response, but to the extent they contain allegations against Mr. Pruitt, any such allegations are denied. Mr. Pruitt answers the specific allegations of the OIP and states his defenses as follows:

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against David Pruitt, CPA ("Pruitt" or "Respondent") pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

ANSWER: Part I of the OIP contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies that it is appropriate that public administrative and cease-and-desist proceedings be instituted against him. Mr. Pruitt further denies that the Commission is entitled to institute proceedings pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and reserves the right to file a federal court action to enjoin these proceedings and declare them unconstitutional. By filing and serving this Answer, Mr. Pruitt does not intend to waive, and is not waiving, his rights to pursue a federal court action, and raises all constitutional objections here to preserve them. This Answer is filed without prejudice to and expressly preserves all claims and contentions that may be asserted in any federal court action.

II.

After an investigation, the Division of Enforcement alleges that:

A. SUMMARY

1. These proceedings arise out of L3 Technologies, Inc.'s (formerly known as L-3 Communications Holdings, Inc.) ("L3") improper recognition of $17.9 million in revenue at its Army Sustainment Division ("ASD") subsidiary in 2013 and Q1 2014. The improperly

recognized revenue was related to a fixed-price aircraft maintenance contract between ASD and the U.S. Army, referred to as the C-12 Contract.

ANSWER: The allegations in paragraph 1 of the OIP represent a summary of the SEC's allegations and therefore no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 1, and further denies that Army Sustainment was a Division of L3,except admits that L3 Technologies, Inc. was formerly known as L-3 Communications Holdings, Inc. and that the C-12 Contract was a fixed-price aircraft maintenance contract.

2. In late December 2013, Pruitt—the VP of Finance at ASD—instructed a subordinate to create 63 invoices related to unresolved claims under the C-12 Contract in L3's internal accounting system ("SAP"), and withhold delivery of those invoices from the U.S. Army. However, other than a handful of invoices that were delivered to the U.S. Army in early 2014, the vast majority of these invoices were never submitted to the U.S. Army, but instead were discovered during an investigation of ASD's finances approximately six months later. By entering the invoices in SAP, ASD improperly recognized approximately $17.9 million in additional revenue at the end of 2013, and in Q1 2014.

ANSWER: The allegations in paragraph 2 of the OIP represent a summary of the SEC's allegations and therefore no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 2, except admits that in late December 2013, Mr. Pruitt served as the VP of Finance at ASD. The Division is also aware that, despite a slight modification, allegations in this paragraph are still factually inaccurate, cannot be maintained in good faith, and should be stricken.

3. On October 10, 2014, L3 filed a Form 10-K/A for the fiscal year ended December 31, 2013, and a Form 10-Q/A the first quarter of 2014. Among other things, L3 disclosed in its amendments that it was revising its financial statements to record aggregate pre-tax charges of $94 million in the Aerospace Systems segment for periods prior to 2011 up to 2013, and approximately $75 million for the first and second quarters of 2014. Of the adjustments, $69 million were attributable to the C-12 Contract, and $15.4 million of the adjustments were related to the improper revenue recognition related to the invoices.

ANSWER: The allegations in paragraph 3 of the OIP represent a summary of the SEC's allegations and therefore no response is required. To the extent a response is required, Mr. Pruitt

does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 3.

B. RESPONDENT

4. Pruitt, 60 years old, is a resident of Owens Cross Roads, AL. Pruitt began working for L3 in 2003, and served as the VP of Finance for ASD from January 2013 until January 2014. In January 2014, he was reassigned to the position of Senior Director of Finance for Army Fleet Support at ASD, and served in that role until his termination from L3 on July 30, 2014. Pruitt is a certified public accountant ("CPA") (licensed in Kentucky), certified management accountant, certified government financial manager, and certified defense financial manager.

ANSWER: Mr. Pruitt admits the allegations in paragraph 4 except that he denies that he is 60 years old.

C. OTHER RELEVANT ENTITY

5. L3, (NYSE ticker: LLL), a Delaware corporation with its principal place of business in New York, NY, is a prime contractor for various foreign and U.S. Government agencies, including the U.S. Department of Defense. L3's securities are registered with the Commission pursuant to Section 12(b) of the Exchange Act. L3 is a prime contractor in aerospace systems and national security solutions. For fiscal year 2013, L3 reported net sales of $12.6 billion and an operating income of $1.2 billion on its consolidated statements of operations.

ANSWER: Mr. Pruitt admits that L3 is a Delaware corporation with its principal place of business in New York, NY. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the remaining allegations in paragraph 5.

D. BACKGROUND

6. Aerospace Systems is one of four business segments of L3, delivering integrated solutions for the global intelligence market and providing maintenance and logistics support for a wide variety of aircraft and ground systems. Each business segment is comprised of multiple business "sectors," and each business sector is comprised of multiple business "divisions." Of relevance to this matter are the Logistics Solutions sector of Aerospace Systems, which provides, among other things, logistics support and aircraft maintenance services to its military customers, and ASD, a subsidiary of Logistics Solutions, which provides support for United States Army aircraft at bases throughout the United States and around the world.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 6.

7. L3, through its subsidiary Vertex, and later ASD, contracted to maintain a fleet of approximately 100 fixed-wing C-12 airplanes for the U.S. Army pursuant to the C-12 Contract. The contract had a five year term, commencing on June 2, 2010, and ending on January 31, 2015, with the partial initial year referred to as a "base year" and each subsequent twelve-month period referred to as an "option year." Almost immediately after receiving the results of its first quarter of operations under the C-12 Contract, Vertex realized that it underbid for the contract, and that the margins going forward would be very low—in the range of 1-2%—creating significant obstacles for Vertex's management. ASD was formed at the beginning of 2013, in large part to take over the C-12 Contract from Vertex, and improve L3's performance under the contract. ASD, and particularly Pruitt, worked through 2013 to resolve various issues with the C-12 Contract.

ANSWER: Mr. Pruitt admits the first and second sentences of paragraph 7. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations contained in the third sentence of paragraph 7. Mr. Pruitt admits that ASD was formed at the beginning of 2013 but denies the rest of the fourth sentence of paragraph 7. Mr. Pruitt denies the fifth sentence of paragraph 7.

E. THE REVENUE RECOVERY INITIATIVE AND LEGAL ENTITLEMENT

8. In the summer of 2013, Pruitt and the President of ASD ("ASD President") learned that ASD had unaccounted for costs on its balance sheet related to the C-12 Contract in the range of $30 to $35 million. The business manager on the C-12 contract (the "C-12 Business Manager") believed the growth in that particular balance was a result of cost overruns that would result in a large loss to ASD. The C-12 Business Manager informed Pruitt of the costs, and prepared him for a meeting with the ASD President and the President of Logistics Solutions—the corporate parent of ASD—to discuss the potential loss.

ANSWER: Mr. Pruitt denies the allegation that ASD had unaccounted for costs on its balance sheet related to the C-12 Contract in the range of $30 to $35 million. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny what the C-12 Business Manager believed. Mr. Pruitt denies the remaining allegations in paragraph 8.

9. On or about September 20, 2013, Pruitt, the ASD President, and the C-12 Business Manager reported to the President of Logistics Solutions that they had identified a growing work in progress ("WIP") balance on ASD's books arising from the C-12 Contract, and that the Division may need to write off some of the WIP (approximately $8-9 million). The report angered the President of Logistics Solutions, and he asked members of ASD to re-check their numbers and verify that it was true. The President of Logistics Solutions also directed ASD to determine what work the WIP balance related to, and asked Pruitt, the ASD President, and other members of ASD to determine how to bill it to the U.S. Army. The President of Logistics Solutions requested weekly meetings—and later, daily meetings—with ASD officers, including the ASD President and Pruitt, to obtain a better understanding of the WIP balance. Pruitt and the ASD President were in constant communication with each other from September to December 2013 concerning the status of the review. During the September time period, Pruitt and the ASD President were aware that ASD would not likely meet its annual operating plan EBIT (Earnings Before Interest and Taxes), and it was also evident at the time that ASD was at risk of falling below the required EBIT threshold (i.e., 75% of plan) necessary for management to receive incentive bonuses.

ANSWER: Mr. Pruitt denies the allegations in paragraph 9.

10. The ASD President directed the C-12 Contract team at ASD to review the contract in detail to determine if there were items not billed to the Army that should have been billed. This became known as the Revenue Recovery Initiative. By mid-November 2013, the C-12 Contract Manager identified approximately $50.6 million in work performed by ASD under the contract that was not billed to the Army. The $50.6 million value was comprised of nine different work stream items and costs under the C-12 Contract.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 10.

11. During the fall of 2013, the focus of the Revenue Recovery Initiative turned to identifying ways to recognize revenue on the unbilled $50.6 million. Based on the President of Logistics Solutions' words and conduct, Pruitt and the ASD President believed that the President of Logistics Solutions expected ASD to achieve some accounting benefit on the $50.6 million revenue recovery items by the end of 2013. On November 8, 2013, after reviewing operations review slides prepared by the ASD President, the President of Logistics Solutions sent an email (copying Pruitt) directing the ASD President to "please identify with coordination with [the VP of Finance and CFO of the Aerospace Systems segment ("Aerospace Systems CFO")] the C-12 Army accounting to be used for Q4, specifically, which costs will be deferred related to the claims, and take this accounting into consideration on your LRE [i.e. long range estimate] so we know where we expect to get to in EBIT for 2013."

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 11 including allegations of what other individuals thought or

said. Mr. Pruitt denies that LRE stands for "long range estimate" and denies the remaining allegations in paragraph 11.

12. Also during the fall of 2013, certain individuals at ASD and Logistics Solutions began discussing the possibility of recognizing revenue on the $50.6 million in claims based on a concept called "legal entitlement," even though the claims had not been resolved with the Army. Pruitt and the ASD President both participated in discussions concerning the recognition of revenue based on legal entitlement.

ANSWER: Mr. Pruitt admits that senior management of ASD discussed recognizing revenue in 2013. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the remaining allegations in paragraph 12.

13. On November 22, 2013, there was a conference call among Pruitt, the Aerospace Systems CFO, and others to discuss certain options for how to record revenue pursuant to legal entitlement. The Aerospace Systems CFO recalled that the task was for the C-12 Contract experts—i.e., the General Counsel of ASD and the General Counsel of Logistics Solutions —to find clauses in the C-12 Contract that entitled ASD to payment, show that the government did not follow its obligations under the clauses, determine what to submit as a request for equitable adjustment ("REA"), and estimate based on the contract's history how much the Army would pay. REAs were formal methods under the C-12 Contract by which ASD could request an equitable adjustment to the funding amounts for each Contract Line Item ("CLIN").

ANSWER: Mr. Pruitt denies that he was asked to prepare a request for equitable adjustment. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the remaining allegations in paragraph 13.

14. At Pruitt's request, the General Counsels of ASD and of Logistics Solutions estimated that ASD was likely to recover approximately $30 million of the entire $50.6 million, based on their history of negotiations with the government. Between Thanksgiving and December 5, 2013, Pruitt asked the General Counsels of ASD and of Logistics Solutions to prepare letters of legal entitlement that would be used to support the revenue recognition. The General Counsel of ASD indicated that as to one legal entitlement letter, Pruitt drafted it and put the General Counsel of ASD's name on the signature block, asking him to sign it. Because the letter was drafted without his permission, the General Counsel of ASD refused to sign it, and indicated that he was upset that Pruitt had attempted to draft a letter purporting to be from him.

ANSWER: Mr. Pruitt denies the allegations in paragraph 14.

15. Pruitt recalls discussing three options with the President of Logistics Solutions and the Aerospace Systems CFO about how to address the revenue recovery items in November 2013: (1) record the transactions as inventory, increasing the WIP balance; (2) accrue the revenue associated with the legal entitlement issues; and (3) invoice the Army for amounts to which ASD believed it was legally entitled. While no contemporaneous documents corroborate Pruitt's account that invoicing was considered, Pruitt further claims that he input the transactions in L3's live SAP system to analyze and evaluate the output before a decision was made with respect to recording legal entitlement. After the analysis was complete, according to Pruitt, the transactions were reversed out of SAP.

ANSWER: Mr. Pruitt denies the allegations in paragraph 15. Moreover, the Division has been in possession of sworn testimony from the Aerospace Systems CFO that clearly indicates invoicing was discussed and ultimately approved by the Aerospace Systems CFO, Mr. Pruitt's accounting supervisor. Notwithstanding this information, the Division continues to put forth allegations that it knows are factually inaccurate, cannot be maintained in good faith, and should be stricken.

16. In November 2013, a decision was made by the ASD President and the President of Logistics Solutions to reassign Pruitt from his role as VP of Finance at ASD, based on his performance related to working through several accounting issues including disclosure statements. The ASD President notified Pruitt in early December 2013 of the decision, but kept Pruitt on in his role until the end of January 2014.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny when or why the ASD President and the President of Logistics Solutions made a decision to reassign him from his role as VP of Finance at ASD. Mr. Pruitt admits that he stayed in his role as VP of Finance until the end of January 2014 and was later reassigned. Mr. Pruitt denies the remaining allegations in paragraph 16.

17. The Aerospace Systems CFO learned in or around May 2014 that Pruitt was not preparing estimates at completion ("EACs") for the C-12 Contract while the contract was in effect as he was required to do. EACs allowed divisions to project revenue and EBIT, and were therefore relied on by ASD to create forecasts and the annual operating plan. Pruitt falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny what the Aerospace Systems CFO learned in or around May 2014. Mr. Pruitt denies the remaining allegations in paragraph 17.

18. On December 3, 2013, the ASD President presented an operations review regarding ASD to the President of Logistics Solutions. Included was a slide entitled, "Army C-12 Contract Dispute Summary," which listed a table of ten rows with separate "REA/Claim Values" adding up to $50.6 million. A column on the table was entitled "Legal Entitlement" and applied a discount of either 50% or 60% to each claim value that comprised the $50.6 million. The presentation also included detailed slides on six of the claims, and noted that ASD planned to meet with the government to reach an amicable resolution and that, "[a]fter the negotiations with the government, L3 is postured to immediately invoice and bill the government."

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 18, and what the ASD President presented more than five years ago.

19. The revenue recovery claims were presented by ASD to the U.S. Army in meetings that took place in late November and early December 2013. On December 5, 2013, the C-12 Contract Manager and the General Counsel of ASD met with representatives of the U.S. Army to discuss the C-12 contract disputes. An email from the C-12 Contract Manager to the President of Logistics Solutions reporting on this meeting indicates that the U.S. Army planned to meet internally on December 17, 2013, and begin meeting with L3 after the new year with the "intent [] to resolve every one of the disputes outside of the REA/Claim process... as quickly as possible." Nothing in the email indicates any request by the U.S. Army to invoice any of the claims before the end of the year. In fact, neither Pruitt nor the ASD President expected to resolve the disputes concerning the revenue recovery items by the end of 2013.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the first three sentences in paragraph 19. Mr. Pruitt denies the remaining allegations in paragraph 19. Moreover, the Division has been in possession of sworn statements that make clear the allegations in this paragraph are no longer factually accurate, cannot be maintained in good faith, and should be stricken.

F. GENERATION OF INVOICES AND IMPROPER REVENUE RECOGNITION

20. In late December 2013, Pruitt approached the C-12 Business Manager and asked him to explain how revenue was recorded on ASD's books. The C-12 Business Manager told Pruitt that it was either billed or accrued. Pruitt subsequently asked him at what point along the path revenue was recognized. With respect to the unresolved claims concerning the C-12 Contract, the C-12 Business Manager explained that in order to recognize revenue, a sales order must be created and then released to the Billing Clerk at ASD. The Billing Clerk then generated an invoice in SAP, at which point revenue was recognized on ASD's books. The invoice was then supposed to be submitted into Wide Area Work Flow ("WAWF"), which transmits invoices to the customer, but the submission of the invoice into WAWF did not have to occur in order for ASD to recognize revenue.

ANSWER: Mr. Pruitt denies the allegations in paragraph 20.

21. Pruitt and the Aerospace Systems CFO had a telephone call on or about Friday, December 20, 2013. Pruitt claims they discussed a one-page list of the revenue recovery claims that he purportedly emailed the Aerospace Systems CFO prior to the call. Pruitt claims that he and the Aerospace Systems CFO went down the list and the Aerospace Systems CFO instructed Pruitt which items to invoice and which to accrue. The Aerospace Systems CFO denied giving Pruitt blanket authority to invoice for the claims, but did recall a conversation in which he told Pruitt that he could invoice for work performed during option year 3 (i.e., 2013).

ANSWER: Mr. Pruitt admits that he discussed with the Aerospace Systems CFO which items to invoice and which items to accrue. The Division has been in possession of sworn testimony provided by the Aerospace Systems CFO that makes clear that despite a slight modification of tense, allegations in this paragraph are still factually inaccurate, cannot be maintained in good faith, and must be stricken. Specifically, the Aerospace Systems CFO, Mr. Pruitt's accounting supervisor, stated under oath that "during one telephone call [he] direct[ed] Mr. Pruitt to invoice most of the revenue recovery items and accrue for two others." The Aerospace Systems CFO also testified that "Mr. Pruitt did not have authority to determine the accounting treatment to be applied to [the revenue recovery] items on his own and [Mr. Pruitt] consulted superiors in the finance groups and legal counsel regarding the proper treatment to be applied." Mr. Pruitt denies the remaining allegations in paragraph 21.

22. On Monday, December 23, 2013, Pruitt emailed the C-12 Business Manager "billing amounts" for seven of the revenue recovery items. The C-12 Business Manager emailed ASD's Controller, copying the C-12 Contract Manager and Pruitt, asking the individual to "[p]lease add planned revenue . . . for the revenue recovery billings that I did today," and further stating, "I believe the current course of action is that they are not to be released to the government."

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 22.

23. At Pruitt's direction, the C-12 Business Manager set up unique "sales orders" so that billings and revenues could be recorded in L3's internal accounting system for revenue recovery items. Pruitt directed the C-12 Business Manager to create a unique work breakdown structure ("WBS") for the transactions associated with the unresolved revenue recovery items, and use the word "claim" in the unique WBS. With respect to one invoice generated, the particular associated sub-CLIN did not have enough funding. As such, the invoice could not be generated against that particular sub-CLIN, as required. However, the overall CLIN had the appropriate funding, so the invoice was generated against the overall CLIN rather than the sub-CLIN, which was an inappropriate method of invoicing under the C-12 Contract. Many of the amounts on these invoices were for round dollar numbers, which was unusual. In addition, invoices to the customer were usually submitted with Authorizations to Proceed ("ATPs") and completion documents related to the ATP that were signed by both an L3 and USG representative, but that these were missing. Of the 63 invoices generated from these sham sales orders, 15 were for amounts in excess of $500,000 and an additional five were above $250,000.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 23. Mr. Pruitt also denies the portion of the last sentence in paragraph 23 that there were "sham sales orders."

24. To physically generate the invoices, ASD had to seek the assistance of Vertex's Shared Services department in Madison, AL, because ASD's invoicing specialist was out of the office. Two clerks in Vertex's billing department indicated that not entering invoices through WAWF was unusual, and one conferred with a supervisor, the Controller of Vertex. The Controller of Vertex had seen this type of practice on other smaller accounts while working for an audit firm, but had never seen it at L3 and recognized that not submitting the invoices through WAWF would violate certain "work procedures." The Controller of Vertex called Pruitt, and Pruitt said that based on an agreement with the U.S. Army, ASD and the U.S. Army were going to negotiate each invoice before submitting it through WAWF. The Controller of Vertex was appeased by this conversation, and 63 invoices were generated in SAP but withheld from WAWF, causing ASD to recognize approximately $17.9 million in revenue, without delivery of the related invoices to the Army by WAWF.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny that two clerks in Vertex's billing department indicated that not entering invoices through WAWF was unusual, and one conferred with a supervisor, the Controller of Vertex. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny that the Controller of Vertex had seen this type of practice on other smaller accounts while working for an audit firm, but had never seen it at L3 and recognized that not submitting the invoices through WAWF would violate certain "work procedures." Mr. Pruitt denies the remaining allegations in paragraph 24.

25. The C-12 Business Manager reported concerns with Pruitt's invoicing request to the C-12 Contract Manager on Friday, December 27, 2013, in a conversation that was memorialized in an email that night:

> It appears as thought [sic] the Revenue Recovery items are being handled outside of the L3 corporate policy. I cannot quote the policy, however, I know that a revenue accrual the size of the one that it would take to account for the Revenue Recovery would require Corporate approval. To avoid that Corporate approval, we have been directed to cut invoices through the billing system, but not send the invoices to the government. I believe that is being done to avoid Corporate policy and try to "hide" this from the auditors. I could be mistaken, but this doesn't pass the smell test.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 25. Mr. Pruitt denies that any actions were taken to avoid corporate policy or approval or to "hide" anything from the auditors.

26. That same day, the C-12 Contract Manager had a conversation with Pruitt in which the C-12 Contract Manager relayed the C-12 Business Manager's issues, and also noted that certain employees were concerned regarding "invoice directives" from ASD. Pruitt explained, as the C-12 Contract Manager later wrote in a report to L3's ethics office on December 31, 2013 ("Ethics"), that:

> [I]nvoicing in SAP with no immediate intent to extend the invoice to the Government was a "technique" to utilize since New York had forbid [ASD] to accrue the designated Army C-12 Revenue Recovery amounts. This technique had the same year and effect on the financials that accrual would have had—potentially up to $18M revenue and associated EBIT recognition. I asked [Pruitt] if this "technique" was known to and approved by New York. [Pruitt] answered that he

did not know, but that Group had directed him to take this path. I asked if we had this direction in writing and the answer was no.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 26. Mr. Pruitt denies that the language quoted in paragraph 25 above accurately relays the conversation he may have had with the C-12 Contract Manager.

27. In that same December 31, 2013 email, the C-12 Contract Manager also reported on a conversation that occurred on Monday, December 30, 2013, stating:

> Yesterday in a conversation with [the C-12 Business Manager] and the [ASD Controller] over year end close outs, [Pruitt], according to the [C-12 Business Manager], stated that the Army C-12 year end numbers needed to be whatever they had to be in order for Division to make $40M EBIT. I'm sure [Pruitt] meant something other than how the comment was taken. However, we, and especially the CFO, need to be careful with what we say—in particular in this current environment.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 27. Mr. Pruitt denies that he ever stated that the numbers needed to be whatever they had to be in order for the Division to make $40M EBIT. Mr. Pruitt denies the remaining allegations in paragraph 27.

28. ASD, with the revenue from the invoices, met the required 75% of their plan to make bonuses. Pruitt received a bonus of $62,100 on a base salary of $189,673 attributable to ASD achieving 75% of plan. This bonus was later rescinded by L3.

ANSWER: Mr. Pruitt admits that ASD met 75% of its plan but denies that the issuance of invoices by Mr. Pruitt caused ASD to reach the 75% bonus threshold. The Division has been in possession of sworn testimony provided by the Aerospace Systems CFO that makes clear the allegations in this paragraph are false, can no longer be maintained in good faith, and must be stricken. Specifically, the Aerospace Systems CFO made clear that the invoices at issue did not cause ASD to make plan. Instead, it was several post-close adjustments made by Mr. Pruitt's superiors after year-end that shifted certain costs and expenses for the purpose of calculating the

management incentive bonus. Without these adjustments, over which Mr. Pruitt had no control, ASD would not have reached the bonus threshold. The Aerospace Systems CFO testified that Mr. Pruitt was not involved in these discussions, nor could he have known in advance what, if any, adjustments would be made to ASD's financial results. Mr. Pruitt admits that the deferred bonus was later returned to L3. Mr. Pruitt denies the remaining allegations in the first sentence of paragraph 28.

G. JANUARY 2014 ISSUES REGARDING ACCRUALS AND INVOICES

29. As part of the year-end close, Pruitt also requested that the C-12 Business Manager enter $8.8 million of accruals related to three revenue recovery items. In connection with these accruals, the Aerospace Systems CFO sought approval from the head of audit and the Corporate Controller to reverse costs charged in prior option years based on anticipated recovery from the government.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 29.

30. The Corporate Controller did not allow the accrual of these items. As the Aerospace Systems CFO explained to Pruitt on January 7, 2014, "[b]ased on consultation with [the Corporate Controller and another individual from L3 Corporate] ... the following needs to take place: 1. reverse the [$8.8M] entries [ ]...[and] Record as billed A/R and revenue the Option Year 3 amounts that are approximately $2.8M for the PMO Support and $450k for the Reduced Payments." The Aerospace Systems CFO further explained, "[t]he reversal of cost of sales charged in prior option years is not allowed under [Staff Accounting Bulletin] 104, so we will not be allowed to pick up that profit."

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 30.

31. The Controller's office requested through the Aerospace Systems CFO that ASD obtain a letter from the U.S. Army indicating that ASD had permission to bill for the $3.2 million Option Year 3 claims. In connection with seeking this letter, Pruitt received from the C-12 Contract Manager two separate email chains from late December and early January, neither of which Pruitt had been copied on previously, discussing whether L3 should invoice for all of the revenue recovery items (i.e., not just the $3.2 million). Both email chains suggest that the U.S. Army intended for L3 to send invoices that would be paid if justified or denied. In one of the

email chains, the C-12 Contract Manager specifically asks, "[j]ust to be clear . . . .are you telling me to invoice (bill) the government for what we believe we are owed to start the conversation? Or are you telling me to file a claim? I see those as two different actions." The response was, "I think the first step is to invoice the Government, then a claim will follow if the invoice is denied." Neither email chain mentioned invoicing in L3's SAP system but withholding the invoice from the U.S. Army.

ANSWER: The Division has been in possession of sworn statements that make clear the allegations in this paragraph are false, can no longer be maintained in good faith, and must be amended or stricken. The Division knows that the U.S. Army requested invoices from L3 in mid-December 2018 prior to the generation of those invoices by ASD. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the remaining allegations in paragraph 31.

H. PRUITT MISLEADS L3's AUDITORS

32. While ASD was focused on obtaining the letter from the U.S. Army, L3's external auditor sampled ASD invoices and noticed 12 were "pending coordination with the government." L3's auditor requested "the WAWF acceptance document or proof of cash receipt as proof of the billing." On January 14, Pruitt sent a draft explanation to ASD's Controller (copying the General Counsels of ASD and Logistics Solutions) stating, "[l]et's review prior to providing to [L3's auditor]." The document states, in part:

> The USG Fixed Wing Division Chief of Contracting ["Army Contracting Officer"] has requested that we coordinate certain 2013 invoices with her prior to submitting to the ACO via WAWF. These invoices are related to contractual interpretation of the contract for which we have a legal basis for our interpretation. This is a slight change in the invoice approval routing process since [the Army Contracting Officer] is not currently in the WAWF routing and she desires to review these invoices prior to the ACO, who is the first level of USG approval in the WAWF.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 32.

33. This statement, provided to L3's auditor, was false and misleading in several respects. First, it omitted that the invoices had not been delivered to the U.S. Army, through WAWF or otherwise. Notably, when the invoices had been generated, Pruitt told the C-12 Business Manager and the C-12 Contract Manager that the procedure was a "technique" to utilize since Corporate had forbidden ASD from accruing revenue. Pruitt told the C-12 Contract Manager that group was directing it, not that the U.S. Army had requested the change (as noted in the email). Later, when the Controller of Vertex questioned why ASD was withholding the

invoices from WAWF, Pruitt said that they were going to negotiate each invoice. Moreover, after having just seen the two email chains the C-12 Contract Manager had sent him indicating confusion as to whether or not to invoice the U.S. Army, Pruitt understood that the Army Contracting Officer had not requested ASD to follow the detailed procedure he explained to L3's auditor. But Pruitt's misleading statement had the intended effect. –L3's auditor took comfort that the invoices in question would in fact be presented to the U.S. Army.

ANSWER: Mr. Pruitt denies the allegations in paragraph 33.

I. THE MISLEADING LETTER TO L3 CORPORATE

34. On January 17, 2014 – three days after Pruitt sent the above explanation to L3's auditor – the General Counsel of ASD met with the Army Contracting Officer regarding three revenue recovery issues. Pruitt reported to the Aerospace Systems CFO that the General Counsel of ASD "addressed the letter on the invoicing process [with the Army Contracting Officer] and [the Army Contracting Officer] stated [they] would [get ASD a letter] but needed to route through their legal prior to release" and that the General Counsel of ASD "believes it may be possible when they meet legal next Friday." The Aerospace Systems CFO spoke to the President of Logistics Solutions, who then called the President of ASD to reiterate the importance of urgently getting the letter from the U.S. Army. The General Counsel of ASD then sent the Army Contracting Officer an e-mail – drafted by Pruitt – requesting the Army Contracting Officer's acknowledgment that ASD could issue invoices to the U.S. Army. The e-mail reads as follows:

> We appreciate the opportunity to address our contract status with you today. We would like to confirm our understanding of the process going forward. L3 intends to present each contract request with supporting documentation and invoice to the USG Contracting Office for review prior to submitting into WAWF for system processing. We agree this is the most efficient manner to resolve pass [sp.] due invoice actions and we intend to follow the same format presented to you today for Option Year 3. We would appreciate your understanding and acknowledgment of this process.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 34.

35. The Army Contracting Officer responded the same day with the following message:

> I acknowledge that this is the process we agreed to earlier. It would be an exercise in futility to submit invoices for these requested contract funding adjustments at this point, as they would be rejected by the DCMA Administrative Contracting Officer. If we are able to reach resolution on these issues (which is the ultimate goal), my office will do one of two things: 1) Prepare a modification to the contract,

adding additional funding if required; 2) Communicate our acknowledgment/acceptance of the proposed invoices to the DCMA ACO. (emphasis added)

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 35.

36. The General Counsel of ASD then forwarded the Army Contracting Officer's reply to Pruitt and the President of ASD. Pruitt asked the General Counsel of ASD to delete the sentence stating that "[i]t would be an exercise in futility to submit invoices . . ." and forward the doctored e-mail to L3 Corporate. The General Counsel of ASD told Pruitt he was "out of [his] freaking mind." Pruitt and the President of ASD then asked the General Counsel of ASD to go back to the Army Contracting Officer to ask the Army Contracting Officer to remove that sentence. Initially, the General Counsel of ASD adamantly opposed going back to the Army Contracting Officer, and even threatened to quit, but eventually agreed to do so. The Army Contracting Officer then sent a new e-mail to the General Counsel of ASD removing the "exercise in futility" sentence, which was satisfactory to Pruitt and the President of ASD. The e-mail was later forwarded to L3 Corporate. L3's auditor claims that based in part on the e-mail exchange between ASD and the U.S. Army, it believed that the Army Contracting Officer was aware of the revenue recovery invoices, but that the invoices were being reviewed by the U.S. Army before they were submitted into WAWF.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny what other individuals thought or said more than five years ago. Mr. Pruitt denies the remaining allegations in paragraph 36.

37. The modified e-mail that Pruitt and the President of ASD procured from the Army Contracting Officer is deceptive, however, because it gave L3 Corporate and L3's auditor the impression that ASD had permission to invoice the U.S. Army for unresolved claims, when that was not actually the case. Pruitt knew, based on his prior conversations with the General Counsel of ASD, as well as the Army Contracting Officer's original e-mail, that the U.S. Army was not prepared to accept invoices.

ANSWER: The Division has been in possession of sworn statements that make clear the allegations in this paragraph are false, cannot be maintained in good faith, and should be stricken. The Division knows that the U.S. Army requested invoices from L3 in mid-December 2018 prior to the generation of those invoices by ASD. Mr. Pruitt denies the remaining allegations in paragraph 37.

J. PRUITT'S ADDITIONAL MISSTATEMENTS TO L3's AUDITOR

38. In April 2014, L3's auditor requested information from L3 to explain why the accounts receivable balance at ASD had grown by $18.5 million from Q1 2013 to Q1 2014. Pruitt drafted the below explanation, which was communicated to L3's auditor:

> The Army C-12 Program has experienced a $18.5M growth in Accounts Receivable (AR) bills created in SAP for the period ending 3-28-14 compared to the previous year's Q1 ending AR balance. Of this variance, $17.9M is directly associated with L3 and the USG regarding contract technical review. The USG has requested extensive documentation beyond the normal requirements to complete their review. These invoices cross multiple contract years and involve technical over and above requirements that also cross over functional government oversight boundaries. Although we expected a reasonable response time from the USG, we understand their requirement to conduct due diligence.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 38 except that Mr. Pruitt denies making any misstatements to L3's auditor.

39. The statement is misleading because it suggested that invoices had already been delivered to the U.S. Army. Also the sentence that "[t]he USG has requested extensive documentation beyond the normal requirements to complete their review" was not accurate because there was no expectation for the government to respond and perform due diligence on claims that had not yet been submitted.

ANSWER: Mr. Pruitt denies the allegations in paragraph 39.

K. L3's INVESTIGATION AND DISCOVERY OF IMPROPER ACCOUNTING

40. In June 2014 – approximately six months after the invoice allegations were first raised – L3 investigators discovered a billing supervisor at L3 had kept the hard copy revenue invoices on a shelf in her office. The invoices had not been delivered to the U.S. Army, in violation of a specific internal control of L3 that required delivery of invoices.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in the first sentence of paragraph 38. Mr. Pruitt denies the remaining allegations in paragraph 40, including that a specific internal control was violated.

41. Accounting Standards Codification 605-10-25-1 provides that revenue can be recognized when it is realized or realizable and earned. Consistent with the authoritative

literature, paragraph (A)(1) of the Codification of Staff Accounting Bulletins, Topic 13: Revenue Recognition (which provides guidance on the C-12 Contract) states ("Topic 13(A)(1)") that collectability be reasonably assured and that the amount of revenue be fixed or determinable as conditions to recognizing revenue. By failing to deliver the invoices, ASD's recognition of the $17.9 million in revenue violated these standards and therefore did not comply with U.S. GAAP.

ANSWER: Paragraph 41 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 41.

42. L3 filed its Form 10-K for the fiscal year ending December 31, 2013 on February 25 and its Form 10-Q for the quarter ending March 31, 2014 on May 1, 2014. These filings were inaccurate.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the dates L3 filed its Form 10-K and Form 10-Q. Mr. Pruitt denies that any filings were inaccurate as a result of his conduct.

L. L3's REVISED FINANCIAL STATEMENTS

43. On October 10, 2014, L3 filed a Form 10-K/A for the fiscal year ended December 31, 2013, and a Form 10-Q/A the first quarter of 2014. Among other items, the amended filings disclosed that with respect to its Aerospace Systems segment, L3 identified and recorded pre-tax charges of $60 million for 2013; $25 million for 2012; $5 million for 2011; $4 million for periods prior to 2011; $20 million for 1Q:14; and $55 million for 2Q:14, for a total of $169 million in the segment. Of the adjustments, $69 million were attributable to the C-12 Contract due to "cost overruns inappropriately deferred, sales invoices inappropriately prepared, and the failure to timely and accurately perform contract estimates at completion and valuation assessments of inventories and receivables," at the Army Sustainment Division. Of the $69 million, $15.4 million in pre-tax income was related to the creation of invoices related to unresolved claims.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the dates L3 filed its amended filings or what caused the adjustments in those filings. Mr. Pruitt denies the remaining allegations in paragraph 42 including the allegation that invoices were inappropriately prepared.

M. L3'S INTERNAL CONTROLS AND CORPORATE POLICIES

44. As a public company, L3 is required by Section 13(b)(2)(B) of the Exchange Act to have a system of internal accounting controls to ensure, among other things, that transactions are recorded as appropriate in conformity with generally accepted accounting principles.

ANSWER: Paragraph 44 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 44.

45. During the relevant period, these controls consisted of a document entitled "Internal Controls Over Financial Reporting," dated September 9, 2013, that details approximately 500 controls ("L3's ICFRs').

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 45.

46. The controls Pruitt circumvented by the conduct described above fall under five categories of L3's ICFRs: Period-End Financial Reporting ("FR") controls (9 in total), Invoicing and Receivable ("IR") controls (7 in total), Contract Estimating ("EAC" controls) (3 in total), Revenue & Cost of Sales – Job Cost Environment ("R") controls (4 in total) and Revenue & Cost of Sales – Product Line Environment ("R-PL") controls (2 in total). Certain of these controls cross reference each other and incorporate by reference specific L3 policy statements, including Corporate Accounting Policy No. 102 that established "general guidelines for the recognition of revenues and costs of sales for revenue arrangements (contracts) that provide fixed-price services not related to the production of tangible assets," L3's "Code of Ethics and Business Conduct" and Federal Acquisition Regulations.

ANSWER: The allegations in paragraph 46 of the OIP represent a summary of the SEC's allegations and therefore no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 46.

47. Pruitt was aware of L3's internal controls. For instance, on March 30, 2013, following an ASD leadership conference, Pruitt circulated the then-current controls, together with the associated process narratives, to others, including the ASD President, the General Counsel of ASD and the C-12 Contract Manager.

ANSWER: Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the allegations in paragraph 47.

48. The subject matter of the controls Pruitt circumvented concern four general categories: (a) Controls Relating to Invoicing; (b) Controls Relating to Revenue Recognition and Corporate Approvals; (c) Controls Relating to Contract Estimating; and (d) Controls Relating to Management Certifications. Specifically, by taking the actions described above, Respondent circumvented the following of L3's ICFRs:

ANSWER: The allegations in paragraph 48 of the OIP represent a summary of the SEC's allegations and therefore no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 48.

a. Controls Relating to Invoicing:

i. As a general matter, Respondent circumvented these L3 ICFRs by directing the preparation of invoices that lacked valid Revenue Arrangements. The revenue recovery items were claims, REAs, disputes, and unresolved changes orders to the C-12 contract that lacked contractual funding and agreement with the customer. The invoices at issue were invalid, because they concerned claims for which there was no contractual agreement with the customer and were not created in accordance with contractual billing terms and methods. Further, the failure to deliver the invoices to the customer contravened L3's ICFRs.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(i).

ii. **IR 1, Invoicing and Receivables, General**: "In order for timely customer invoicing in accordance with the contractual billing terms and methods, including applicable Federal Acquisition Regulations provisions, the Finance Department personnel responsible for invoicing customers (i.e. the Invoicing Department), (i) obtain all Revenue Arrangements from the Contracts Administration Department, or equivalent, when the Revenue Arrangement becomes effective, or is received by the Business Unit, and (ii) perform a review of the Revenue Arrangement to understand and document the contractual billing and payment terms and methods of each Revenue Arrangement." Respondent knowingly circumvented this internal control by, among other things, directing the preparation of invoices that lacked any valid Revenue Arrangements. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(ii).

iii. **IR 2, Invoicing and Receivables, General**: "The Invoicing Department accumulates and retains the data necessary to prepare and support billings to customers on timely (sic) basis in accordance with the billing terms and methods for each Revenue Arrangement." Respondent circumvented this control by causing the Invoicing Department to create invoices at specified amounts without valid documentation and underlying data supporting valid

billing terms, approved billable amounts, ATPs, job cost records, and without a valid Revenue Arrangement. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(iii).

iv. **IR 3, Invoicing and Receivables, General**: "In order to comply with the contractual billing and payment terms of each Revenue Arrangement and to internally monitor/track the status of invoices, the Invoicing Department uses pre- numbered invoices that includes, but is not limited to, the following information for each type of billing method: .... the Job Number or Sales Order Number for the related revenue arrangement." The invoices created at Respondent's direction did not comply with the contractual billing and payment terms of any legitimate Revenue Arrangement because they were based on sham sales orders that had not been agreed to by the customer. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(iv).

v. **IR 3A, Invoicing and Receivables, General**: "The Invoicing Department (1) prepares the customer invoice using the pre-number form in IR 3 above, based on the contractual billing and payment terms in IR 1 above, and (2) agrees the contractually allowable costs invoiced to the job cost system and/or other supporting worksheets or documentation accumulated in IR 2 above and that 'customer acceptance' and 'documentation that conditions for billing these items have been satisfied.'" Here, the invoices prepared at Respondent's direction were not based on the contractual billing and payment terms with the U.S. Army, which had not agreed to be invoiced for these items so there was no customer acceptance. The conditions for billing the items had not been satisfied. (¶ 34-37.) Additionally, Respondent caused invoices to be prepared for amounts that were not reconciled to, nor did they agree with, contractually allowable costs per the job cost system. (¶23.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(v).

vi. **IR 4, Invoicing and Receivables, General**: "The Finance Department posts each invoicing transaction upon its preparation and distribution to the customer to a separate subsidiary ledger or general ledger account for each type of billing method used by the Financial Reporting Location, which records information about the invoice . . . ." Respondent directed that the invoices corresponding to the $17.9 million in revenue that was impermissible be withheld from the U.S. Army. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(vi).

vii. **IR 5, Invoicing and Receivables, General**: "An individual in the Finance Department at a supervisory level reviews each invoice for the invoice information listed above in Control No. (3), and the items listed below [including, among other things, unallowable costs, unresolved billing disputes,

and ensuring that unit price and unit quantity match the purchase or sales orders] . . . and approves the customer invoice prior to its submission to the customer . . . ." Respondent, who was in the Finance Department at a supervisory level, directed that ASD recognize $17.9 million in impermissible revenue and withhold the corresponding invoicing from the U.S. Army. By causing L3 to recognize revenue notwithstanding the fact that he knew the billing disputes with the Army had not been resolved (and would not be considered by the Army until 2014), he circumvented IR 5, which required verification of the terms of the invoice. He also caused certain invoices not to be submitted to the customer, as contemplated by IR 5. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(vii).

viii. **IR 17, Invoicing and Receivables, Billed Accounts Receivables Aging**: "An accounts receivable aging report (based on contractual payment due date) broken down into current, 1-30, 31-60, 61-90, 91-180, 181-360 and over 360 days past due buckets is prepared monthly and agreed to the accounts receivable subsidiary ledger.The aging report is reviewed by the VP of Finance/Controller or an individual authorized by the VP of Finance/Controller to ensure performance, mathematical accuracy and to identify potential uncollectible accounts." Respondent circumvented this control, which required that he, as the Vice President of Finance, identify potentially uncollectible accounts on the Billed Accounts Receivable Aging Report. Respondent did not identify the uncollectible invoices included in the Billed Accounts Receivable Aging. Rather, he twice misled L3's auditor with regard to these invoices included on the Billed Accounts Receivable Aging. (¶¶ 32-33; 38- 39.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(a)(viii).

b. Controls Relating to Revenue Recognition and Corporate Approvals:

i. As a general matter, Respondent circumvented the L3 ICFRs by directing the recognition of revenue on the 63 invoices. The L3 policies require specific evaluation of "conditions precedent" that must be satisfied before a revenue arrangement is enforceable. The 63 invoices had conditions precedent, e.g., agreement with the customer and funding on the particular sub-CLINs that were not satisfied. Respondent directed the C-12 Business Manager to create fictitious sales orders for the invoices, which circumvented these L3 ICFRs. Respondent failed to contact the Corporate Controller's office for concurrence on the revenue recognition of the invoices, which circumvented these L3 ICFRs, because there was no fixed or determinable sales price for these claims, REAs, and disputed items.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(i).

ii. **R 7, Revenue and Cost of Sales – Jobs Cost Environment, Revenue Arrangements Processing**: "The Contracts Administration Department and/or

the Accounting Department validates that each revenue arrangement is a legally binding agreement and ensures that each revenue arrangement: (i) is signed and dated by authorized Business Unit/Employees and authorized representatives of the customer; (ii) contains the date the contract is effective." Respondent caused Contracts Administration to generate fictitious sales orders against which revenue recognition invoices were generated. (¶23.) These did not constitute valid revenue arrangements because the invoices lacked consent and/or contractual documentation executed by the customer and there was no legally binding agreement against which revenue could be recorded.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(ii).

iii. **R-PL 34, Revenue and Cost of Sales – Product Line Environment, Other General Controls**: "The Finance Department maintains a complete listing of all Sales Order Numbers that contain unsatisfied conditions precedent(s) that would preclude revenue recognition of revenue arrangements that are not considered to be legally enforceable or customer acceptance provisions that have not been satisfied, and ensure that no revenue is recorded until all the conditions precedent(s) have been satisfied." The sales orders at issue here had unsatisfied conditions precedent, because they were not accepted by the customer. Rather than recording revenue based on the sales orders, pursuant to internal control R-PL 34, revenue should not have been recorded until all conditions precedent were satisfied, and the sales orders should have been placed on a list of sales orders with unsatisfied conditions.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(iii).

iv. **FR 4A / R 12, Revenue Recognition Evaluation**: The Army Sustainment Division finance department must perform a revenue recognition evaluation "for each revenue arrangement at its inception or before revenue is recorded to [among other things] . . . select the revenue recognition method for each unit of accounting and obtain an accounting review and approval from the L-3 Corporate Controller's Office when required . . . ." FR4A also requires that the finance department "evaluate and document . . . whether there are any 'conditions precedent(s)' that must be satisfied before the revenue arrangement becomes legally enforceable (e.g., . . . proper approval / authorization by the customer . . .)." No revenue recognition evaluation was performed before Respondent caused revenue to be recorded based upon the 63 invoices generated pursuant to the revenue recovery initiative and no accounting review and approval from L-3 Corporate Controller's Office was received. Or, in the alternative, to the extent that any such "recognition evaluation" was performed, it was premised on false information because the U.S. Army did not provide the requisite approvals and contractual authorization for the revenue that Respondent recognized, which was a "condition precedent" for the revenue arrangement to be legally enforceable. (¶¶ 2, 20-28, 34-37, 40-42.) Further, Respondent took substantial steps to hide from L3 and its external auditors the status of discussions with the U.S. Army in connection with the invoices. (¶¶

24, 32-39.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(iv).

v. **FR 4B, Revenue Recognition Evaluation:** "The selection of revenue recognition methodology is reviewed and approved by the VP of Finance / Controller. The approval is documented in the Revenue Arrangement File." Respondent, the former Vice President of Finance and principal accounting officer at ASD (¶ 4), knowingly reviewed and approved a revenue recognition methodology that violated GAAP. That "methodology" included directing ASD employees to generate invoices (which led to the recognition of revenue on L3's financial statements) but to withhold those invoices from the U.S. Army. (¶¶ 22-26.) Respondent took substantial steps to conceal his misconduct from L3's corporate office and the company's external auditor. (¶¶ 32-39.) Respondent did not document his "methodology" to recognize revenue. (¶ 26.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(v).

vi. **FR 8 / R 63, Unpriced Change Orders with Approved Scope**: "If the Business Unit has an Unpriced Change Order for which the scope of work is defined and approved by the customer, which the Finance Department has evaluated as probable of resulting in a modification(s) of the original contract, and is expected to increase the contract price, the Finance Department must formally contact the L-3 Corporate Controller's Office to review and obtain approval to record revenue for the Unpriced Change Orders. . . . This consultation is mandatory for each individual Unpriced Change Order with Approved Scope of Work that is $500,000 or more, and 1% or more of pre-tax operating income. (Consultation with the L-3 Corporate Controller's Office on items below this threshold is optional)."

Respondent's direction to create 63 invoices, for which the scope of work for each lacked approval of the U.S. Army and lacked formal contract authorization and/or ATPs, resulted in the recognition of revenue without Controller Office approval, violating this ICFR, which implicates Internal Controls FR 8 and R 63. In other words, had proper steps been taken in connection with the Revenue Recognition Initiative to create sales orders and invoices based on work that the U.S. Army had approved, or for which the U.S. Army approved and authorized with formal documentation evidencing that fact, the scope approved by either a change order or an REA would have to have been developed with full proper substantiation demonstrating such approval from the U.S. Army, along with proper approvals from L-3's Corporate Controller based on the value. No such approvals or authorizations existed with respect to the 63 invoices nor did any formal change order requests exist.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(vi).

vii. **FR 8A / R 62, Unapproved Change Orders with Respect to Both Scope and Price:** "The Finance Department ensures that no revenue or profit is recorded, or costs deferred and capitalized into inventory on Unpriced Change Orders which are in dispute or unapproved by the customer in regard to both scope of work and price without obtaining approval from the L-3 Corporate Controller's Office. . . . Note: This consultation is mandatory for each Unapproved Change Orders with Respect to Both Scope and Price (a) which individually is $250,000 or more, and is 1% or more of pre-tax operating income, or (b) which in the aggregate for the current fiscal year is $1,000,000 or more and is 5% or more of pre-tax operating income. (Consultation with the L-3 Corporate Controller's Office on items below this threshold is optional)."

Respondent's directions to create 63 invoices and recognize revenues for work for which both the scope of work and price was not formally approved by the U.S. Army, in effect recognized revenue for unapproved change orders as to both scope and price, which implicates Internal Controls FR 8A and R 62. Here, rather than ensuring that no revenue was recorded where the Unpriced Change Orders were in dispute or unapproved by the customer, Respondent took steps to ensure that the revenue was recognized. Respondent did not consult with L3's Corporate Controller's Office regarding the appropriate accounting treatment for the revenue recovery invoices.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(vii).

viii. **FR 9 / R-PL 37, Claims and Requests for Equitable Adjustment:** "The Finance Department ensures that no revenue or profit is recorded, or costs deferred and capitalized into inventory, on a claim or request for equitable adjustment, without obtaining approval from the L-3 Corporate Controller's Office. Note: This consultation is mandatory for all revenue arrangements with claims and requests for equitable adjustments which individually are equal to or greater than $250,000. (Consultation with the L-3 Corporate Controller's Office on items below this threshold is optional)." Respondent directed that ASD recognize revenue based on unresolved claims before negotiations with the U.S. Army had even started. Respondent, in effect directed the recording of revenue for the revenue recovery items without consulting with L3 's Corporate Controller's Office regarding the appropriate accounting treatment for these items. (¶¶ 2, 20-28, 34-37, 40-42.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(b)(viii).

c. Controls Relating to Contract Estimating:

i. As a general matter, Respondent circumvented these L3 ICFRs by failing to provide accurate EACs for the C-12 contract, which met the criteria of contract value in excess of $5M and in a loss position, and/or contract value of $50M or more. Respondent's conduct resulted in the over-recognition of revenue on the C-12 contract, due to the 63 invoices, as well as Respondent's

failure to record forward loss provisions to account for the estimated losses upon completion of the C-12 program, as required by the ICFRs.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(i).

ii. **FR 5C, EAC Review and Approval**: "The VP of Finance or Controller reviews and approves changes to each EAC, including those for the EAC profit rate, loss contracts and scope of work changes." Respondent did not prepare and update accurate EACs for the C-12 contract, as required, while the contract was in effect. (¶ 17.) Likewise, he did not carry out the supervisory responsibilities assigned to him in FR 5C, which applies to the C-12 contract as a loss contract. Respondent was required to ensure a forward loss provision was recorded for the full extent of the expected loss at completion on the C-12 program, which he did not. Respondent falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year. (Id.) In addition, L3's Form10-K/A filed on October 10, 2014 disclosed that "$69mm of adjustments were attributable to the C-12 contract due to . . . failure to timely and accurately perform contract estimates at completion...." (¶ 43.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(ii).

iii. **FR25B, Reporting Major Contract EACs**: "On a quarterly basis, all HFM financial reporting locations, shall prepare a schedule that includes information on the division's Major Contract EAC's, and submit the schedule to the Corporate Controller's Office." This was required for the C-12 contract. But respondent did not prepare accurate EACs for the C-12 contract, and did not record a forward loss provision for the expected losses on the C-12 contract at completion while the contract was in effect as he was required to do. (¶ 17.) Respondent falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year. (Id.) In addition, L3's Form10-K/A filed on October 10, 2014 disclosed that "$69mm of adjustments were attributable to the C- 12 contract due to . . . failure to timely and accurately perform contract estimates at completion...." (¶ 43.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(iii).

iv. **EAC 14, Contract Value**: "The contract value used on theContract EAC does not include amounts for unsettled claims, Request for Equitable Adjustments (REA's) and unapproved change orders with the customer unless consulted with and approved by the Corporate Controllers Office. . . ." Respondent did not prepare accurate EACs for the C-12 Contract while the contract was in effect as he was required to do. (¶ 17.) Respondent falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year. The inaccurate EACs included revenue recorded on the RRI invoices, and did not include a forward loss provision, as required, for the expected loss at completion on the C-12 contract. Respondent directed that ASD recognize revenue based on unresolved claims without

consultation or approval by the Corporate Controllers Office and before negotiations with the Army had even started. (¶¶ 2, 20-28, 34-37, 40-42.) The revenue from these unresolved claims were inaccurately included as revenue in the EACs prepared and reviewed by the CFO.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(iv).

v. **EAC 19, EAC Review and Approval**: "The VP of Finance or Controller or individual authorized by the VP of Finance/Controller reviews and approves the initial EAC's and ensures that an EAC is prepared for each unit of accounting identified in the contract that will be used to recognize revenue and profit in accordance with the L-3 Communications revenue recognition guidelines." Respondent did not prepare accurate EACs for the C-12 Contract while the contract was in effect, as he was required to do (¶ 17) , and failed to record a required forward loss provision for the expected loss at completion on the C-12 contract. Respondent falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year. (Id.) Respondent directed that ASD recognize revenue based on unresolved claims before negotiations with the Army had even started which revenue was included in the inaccurateEACs. (¶¶ 2, 17, 20-28, 34-37, 40-42.) In addition, L3's October 10, 2014 for 10-K/A disclosed that "$69mm of adjustments were attributable to the C-12 contract due to . . . failure to timely and accurately perform Estimates at Completion." (¶ 43.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(v).

vi. **EAC 20, EAC Review and Approval: "**Each contract EAC is updated at least quarterly to reflect actual incurred costs and revisions to estimates to complete, performance schedules and scope of work changes." Respondent did not prepare accurate EACs for the C-12 Contract while the contract was in effect as he was required to do. (¶ 17.) Respondent falsely represented to the Aerospace Systems CFO and others at group meetings that EACs were completed for each option year. (Id.) Respondent, therefore, circumvented internal control EAC 20 because he did not update EACs at least quarterly to reflect appropriate, accurate revisions to estimates to complete, which would have disclosed the need to record a forward loss provision for the expected loss at completion on the C-12 contract.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(c)(vi).

d. Controls Relating to Management Certifications:

i. As a general matter, Respondent circumvented these L3 ICFRs through his role in providing, as VP of Finance at ASD, fraudulent management certifications, without disclosing he was aware of the improper revenue recognition for the 63 invoices, and that L3's financial statements were not prepared in accordance with GAAP and L3's corporate accounting policies and ICFRs.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(d)(i).

ii. **FR 23, Management Certifications**: "[T]he President and VP of Finance or Controller obtain a written representation ... in connection with the preparation of the financial statements from personnel reporting directly to them that states that the signer is: i) not aware of any fraud involving management, employees or any third parties ... [and] ii) the financial statements are in accordance with GAAP and L-3 Corporate Accounting Policies...." Respondent signed, dated, and submitted to Corporate written management representations regarding effective internal controls on January 23, 2015 (as to 2013) and April 25, 2014 (as to the first quarter of 2014) while simultaneously circumventing L3's internal controls. At those times, Respondent, the Vice President of Finance at ASD, knew that as a result of his improper revenue recognition, L3's financial statements were not prepared in accordance with GAAP and L3's corporate accounting policies. Respondent violated GAAP by directing employees of ASD to generate invoices (which led to the recognition of revenue on L3's financial statements) but withhold those invoices from the Army. (¶¶ 2, 20-28, 34-37, 40-42.) Respondent took substantial steps to conceal his misconduct from L3's corporate staff and the company's external auditor. (¶¶ 32-39.)

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(d)(ii).

iii. **FR24A, Management Certifications**: "For the March, June, September, December month ends, the President, VP Finance, Controller, and Sarbanes-Oxley Representative sign, date, and submit to Corporate written management representation regarding maintaining effective internal controls over financial reporting during the period. . . ." Respondent signed, dated, and submitted to Corporate written management representations regarding effective internal controls on January 23, 2015 (as to 2013) and April 25, 2014 (as to the first quarter of 2014) while simultaneously circumventing scores of internal controls.

ANSWER: Mr. Pruitt denies the allegations in paragraph 48(d)(iii).

N. VIOLATIONS

49. As a result of the conduct described above, Pruitt caused L3's violations of Section 13(b)(2)(A) of the Exchange Act, which requires an issuer to make and keep books, records, and accounts, which in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

ANSWER: Paragraph 49 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 49.

50. As a result of the conduct described above, Pruitt willfully violated Section 13(b)(5) of the Exchange Act, which prohibits any person from knowingly circumventing or

knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record, or account of an issuer.

ANSWER: Paragraph 50 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 50.

51. As a result of the conduct described above, Pruitt willfully violated Rule 13b2-1 of the Exchange Act, which prohibits any person from, directly or indirectly, falsifying or causing to be falsified, any book, record, or account that the Exchange Act requires an issuer to maintain.

ANSWER: Paragraph 51 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 51.

AFFIRMATIVE DEFENSES

Mr. Pruitt alleges the following affirmative defenses to the claims alleged in the OIP without assuming the burden of proof where the burden would otherwise rest on the Division or the Commission:

1. The claims alleged in the OIP are barred, in whole or in part, because they fail to state a claim upon which relief may be granted.

2. Certain claims or relief sought are barred by the Statutes of Limitation applicable herein.

3. The claims alleged in the OIP are barred, in whole or in part, by the doctrine of laches because the Division of Enforcement delayed unreasonably and inexcusably in commencing this action and Mr. Pruitt suffered prejudice as a result.

4. The claims alleged in the OIP are barred by the doctrine of laches because the Commission (i) was aware that its ALJs had not been appointed in accordance with

Article II of the Constitution; (ii) designated an ALJ who had not been appointed in accordance with the Constitution to preside over a proceeding involving Respondent; and (iii) now purports to subject Respondent to a second administrative proceeding more than two years after the first proceeding was initiated.

5. The claims alleged in the OIP are barred, in whole or in part, because they fail to allege, and in any event are not supported by admissible evidence.

6. The claims alleged in the OIP are barred, in whole or in part, because they concern matters for which Mr. Pruitt disclosed all pertinent facts to various experts and legal counsel, and relied in good faith on the advice of such counsel.

7. The claims alleged in the OIP are barred, in whole or in part, because Mr. Pruitt was not a culpable participant in any alleged primary or secondary violation of the securities laws.

8. The claims alleged in the OIP are barred, in whole or in part, because at all times mentioned in the OIP and with respect to all matters contained therein, Mr. Pruitt acted in good faith and exercised reasonable care and diligence and did not know, and in the exercise of reasonable care could not have known, of any alleged misconduct, inaccuracy, untruth, or any other action alleged by the OIP that allegedly gives rise to liability under the law.

9. At all times relevant hereto, Mr. Pruitt acted in good faith and at no time acted either willfully, intentionally, knowingly, negligently, or recklessly with respect to any matter alleged in the OIP.

10. The OIP fails to state a claim regarding the purported violations of Section 13(b)(2)(A) and Rule 13b2-1 of the Exchange Act, which requires an issuer to make and keep books, records, and accounts, which in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer because the OIP still does not identify with particularity the specific book, record, or account that is inaccurate nor the specific inaccuracy contained therein.

11. The OIP fails to state a claim regarding the purported violations of Section 13(b)(2)(A) and Rule 13b2-1 of the Exchange Act because it identifies books, records and accounts that an issuer is not required to make, keep or maintain.

12. The OIP fails to state a claim regarding the purported violations of Section 13(b)(2)(A) and Rule 13b2-1 of the Exchange Act as the books, records, and accounts of L3 were made and kept in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

13. The OIP fails to state a claim regarding the purported violation of Section 13(b)(5) of the Exchange Act, which prohibits any person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record, or account of an issuer because the OIP does not identify with particularity the specific internal control that was circumvented or failed to be implemented and no such internal control existed during the period covered by the OIP or in the alternative, the OIP describes internal controls that are not applicable to the facts alleged therein, including, without limitation, the generation of invoices and the recognition of revenue.

14. The OIP fails to state a claim regarding the purported violations of Sections 13(b)(5) and 13(b)(2)(A) and Rule 13b2-1 of the Exchange Act as it does not meet the pleading standards of the Rules of Practice as set forth in the Court's March 28, 2019 Order Requiring More Definite Statement, Admin. Proc. Rulings Release No. 6528.

15. The proceeding is not warranted and is not supported by substantial evidence, and constitutes arbitrary and capricious agency action.

16. The claims in the OIP are barred, in whole or in part, because this administrative proceeding is the product of an impermissible delegation of legislative authority in contravention of Article I of the United States Constitution.

17. The claims alleged in the OIP are barred, in whole or in part, because SEC Administrative Law Judges are inferior officers who are impermissibly shielded from the President's removal powers in contravention of Article II of the United States Constitution and cannot adjudicate the claims set forth in the OIP.

18. The claims alleged in the OIP are barred, in whole or in part, because this administrative proceeding violates the doctrine of separation of powers.

19. The claims alleged in the OIP are barred, in whole or in part, because this administrative proceeding violates Mr. Pruitt's right to equal protection under the United States Constitution. Where the government affords similarly situated citizens the right to a jury trial, the procedural protections of the Federal Rules of Civil Procedure and Evidence, and the reasonable time to prepare a defense as afforded in federal district court but arbitrarily and solely within its discretion, deprives other

citizens, like Mr. Pruitt, of those same rights by commencing the instant administrative proceeding, the government has deprived Mr. Pruitt of his right to equal protection of the laws.

20. In pursuing relief through an administrative proceeding, the Commission has sought to, and if the Commission succeeds it will, deprive Mr. Pruitt of property without due process of law, in violation of the Fifth and Fourteenth Amendments to the United States Constitution. In this proceeding, the Commission seeks to impose substantial civil penalties that could have significant consequences on Mr. Pruitt's ability to practice as a CPA and threaten his professional license. There is a substantial punitive element to the relief sought by the Commission in this action, and if the Commission is successful, it will have the effect of depriving Mr. Pruitt of substantial property, including his livelihood, monetary harm, and his professional license, without due process or the ability to have this case heard before a judge appointed pursuant to Article III of the United States Constitution. The absence of due process is shown by all the following:

    a. This proceeding will be had on an accelerated schedule with limited opportunity for discovery by Mr. Pruitt, even though the Commission has, for almost three years, had an opportunity to take unfettered discovery, fully investigate the matter, take sworn testimony from witnesses, and gather documents together by subpoena. Mr. Pruitt is deprived of the same opportunity to take unfettered sworn testimony and his ability to confront and cross examine witnesses against him in advance of the hearing is

impermissibly and arbitrarily limited by the Rules of Practice governing these proceedings.

b. This proceeding is held on an accelerated schedule as required by the Commission's rules. The Commission's enforcement staff has had several years to prepare, while Mr. Pruitt will be required to present his defense, and meet the Commission's allegations, in less than 7 months. This is particularly unfair given the SEC has had an almost unlimited amount of time to prepare its case.

c. Mr. Pruitt is deprived of the opportunity to present his case to a neutral and disinterested fact finder. The Administrative Law Judge to whom this matter is assigned is an employee of the Commission. Even if the Administrative Law Judge constitutes a neutral and disinterested fact finder, the Commission itself may accept or reject any or all of the Administrative Law Judge's findings of fact and conclusions of law, and substitute its own, unilateral and arbitrary judgment for that of the Administrative Law Judge. In a very real sense, the Commission is the investigator, prosecutor, judge, jury, and at least in the first instance, court of appeals. Such does not comport with even elementary notions of due process, or of adherence to the rule of law. In addition, in authorizing this action, the Commission has already been provided with an *ex parte* presentation of facts cherry-picked by the Division of Enforcement thereby preventing the Commission from being neutral or disinterested when it reviews any findings from this proceeding.

d. Mr. Pruitt is deprived of a trial by jury in violation of the Fifth, Sixth, Seventh, and Fourteenth Amendments to the United States Constitution.

e. The Commission's rules fail to afford Mr. Pruitt the protection of the Federal Rules of Evidence, which keep unreliable evidence from the finder of fact, and ensure that Mr. Pruitt has an opportunity to confront evidence and witnesses against him.

f. No statutory or regulatory standards guide the Division's choice of forum. The Division is empowered to arbitrarily choose in order to gain an unfair tactical advantage from the accelerated timing of the administrative forum, whether to bring an action, such as this, in an administrative forum or in federal district court.

g. The Division has selectively amended the OIP in these proceedings and is moving forward with allegations it knows are no longer true and that cannot be maintained in good faith. The Division is in possession of sworn statements from at least three witnesses that make material portions of this OIP false. The Division's Amended OIP continues to put forth these false allegations. Due process requires these false allegations be stricken or amended.

h. The Commission continues to deny Respondent his due process by failing to order the Division to amend the OIP in accordance with Respondent's motion to amend the OIP. This proceeding is moving forward and Respondent is forced to litigate against allegations that can no longer be maintained in good

faith. This includes making prehearing motions that are predicated on the truthfulness of the allegations in the OIP, effectively denying Respondent the relief afforded to him by the SEC Rules of Practice.

21. No liability, civil penalties, or industry bar is warranted because Mr. Pruitt did not act willfully, the OIP fails to state sufficient allegations that he acted willfully, and Mr. Pruitt did not obtain any tangible benefit from the conduct alleged in the OIP. Since Mr. Pruitt did not personally benefit or profit from the alleged misconduct, the allegations fail to state a claim and fail to support civil penalties or any bar.

22. Mr. Pruitt reserves the right to assert additional affirmative defenses as this case proceeds into discovery.

Dated: April 25, 2019
New York, New York

By: _____
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April 25, 2019

VIA E-MAIL

Paul Gizzi, Esq.
Senior Trial Counsel
U.S. Securities and Exchange Commission
New York Regional Office
200 Vesey Street, Suite 400
New York, NY 10281-1022

Re: In the Matter of David Pruitt, CPA, Admin. Proc. File No. 3-17950

Dear Mr. Gizzi:

Respondent provides this letter in response to the information contained in the Division of Enforcement's (the "Division") April 8, 2019 letter concerning the "categories of materials that the Division believes Respondent caused to not accurately and fairly reflect the transactions and dispositions of L3's assets" (the "April 8 Letter"). This letter is being provided to you in accordance with Rule 220(d) of the Rules of Practice and the Court's March 28, 2019 Order Requiring More Definite Statement.

The responses contained herein should be read in conjunction with, and incorporate by reference, the defenses contained in the Answer and Affirmative Defenses of Respondent David Pruitt filed in this proceeding.[1]

Primarily, the items of information contained in your April 8 Letter are not allegations capable of an answer, and do not describe books, records, or accounts that an issuer is required to maintain pursuant to Section 13(b)(2)(A). In addition, to the extent a response is required, Mr.

[1] *See* Answer and Affirmative Defenses of Respondent David Pruitt, *In the Matter of David Pruitt, CPA*, Admin. Proc. File No. 3-17950 (Apr. 25, 2019).

Pruitt still does not have, and is unable to obtain, sufficient information to admit or deny a number of the allegations herein. Any allegation not expressly admitted is denied.

Specific categories (numbered to correspond to the March 28, 2019 Order) (exemplary bates numbers parenthetically):

1. L3's general ledger

Division's response:

- General ledger accounts –Vertex (PwC-L3-Pruitt-00011639)
- Billed Rec. US Govt. & Other LT Contracts A/C# 100025
- Inventory - US Govt. & Other LT Contracts A/C# 100050
- Sales – revenue A/C# 3000005
- Other Cost of Sales A/C# 400010

ANSWER: No response is required as this is not an allegation that is capable of an answer. To the extent a response is required, Mr. Pruitt denies these allegations and states that at all relevant times the books, records, and accounts of L3 were accurate and maintained in reasonable detail.

2. L3's trial balance and balance sheet

Division's response:

- Vertex Trial Balances
- Vertex Trial Balance 12/31/13 (Pwc-L3-Pruitt-00011639)
- Vertex Trial Balance 3/31/14 (PwC-L3-00000466)
- Vertex Trial Balance 6/30/14 (PwC-L3-00003569)
- Accounts Receivable Aging Reports
- L3 Vertex Accounts Receivable Aging Report 12/31/13 (L3-DOJ-SEC 000424642)
- L3 Vertex Accounts Receivable Aging Report 3/31/14 (L3-DOJ-SEC 000429091)
- L3 Vertex Accounts Receivable Aging Report 6/30/14 (L3-DOJ-SEC 000429094)

ANSWER: No response is required as this is not an allegation that is capable of an answer. To the extent a response is required, Mr. Pruitt denies these allegations and states that at all relevant times the books, records, and accounts of L3 were accurate and maintained in reasonable detail.

3. L3's consolidation schedules (showing how the financial statements of L3's Army Sustainment Division rolled up through L3's consolidated financial statements)

Division's response:

- L3 Balance Sheet Consolidating Schedule 12/31/13 (PwC-L3-00003770)
- L3 Income Statement Consolidating Schedule 2013 (PwC-L3-00003772)
- L3 Consolidated Balance Sheet 12/31/13 (L-3-DOJ-SEC-0000405370)
- L3 Consolidated Balance Sheet line items
- Billed receivables
- Contracts in process
- Retained earnings
- L3 Consolidated Statement of Operations 12/31/13 (L-3-DOJ-SEC- 0000405370)
- Net sales (services)
- Cost of sales (services)
- Income from continuing operations before income taxes
- Net income
- Basic earnings per share
- Diluted earnings per share
- Footnotes to the Consolidated Financial Statements 12/31/13 (L-3-DOJ-SEC-0000405370)
- Footnote #23 Segment Information
- Footnote #25 Unaudited Quarterly Financial Data

ANSWER: No response is required as this is not an allegation that is capable of an answer. To the extent a response is required, Mr. Pruitt denies these allegations and states that at all relevant times the books, records, and accounts of L3 were accurate and maintained in reasonable detail.

6. L3's auditor's work papers that reflect information provided by L3

Division's response:

- January 14, 2014 email from Pruitt "Invoice Explanation" (L-3-DOJ-SEC-0000245)
- Test of Receivable Reconciliation 12/31/13 (PwC-L-3-0000741)
- SAS 99 Fraud Inquiry Procedures (PwC-L-3-00003363)
- Summary of Aggregated Deficiencies (PwC-L3-Pruitt 00019722)
- PwC Vertex Divisional Inquiries 12/31/13 (PwC-L3-Pruitt 00012279)
- Corporate SAD 12/31/13 (PwC-L3-00004019)

- Fourth Quarter Analytics 12/31/13 (PwC-L3-00001500)
- February 13, 2014 email from Pruitt "Agreement with PM FW" (PwC-L3- Pruitt 00003651)
- February 12, 2014 email from Scott Eads "C-12 Contract Inventory" (PwC- L3-Pruitt-00014725)
- WBS# 1SVSP22 claim
- Estimates at Completion
- Major Contract EACs
- Management Certifica

ANSWER: No response is required as this is not an allegation that is capable of an answer. To the extent a response is required, Mr. Pruitt denies these allegations and states that at all relevant times the books, records, and accounts of L3 were accurate and maintained in reasonable detail.

Sincerely,

John J. Carney

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-17950

In the Matter of

David Pruitt, CPA

Respondent.

CERTIFICATE OF SERVICE

I, Bari R. Nadworny, an associate at the law firm of Baker & Hostetler LLP located at 45 Rockefeller Plaza, New York, New York 10111, hereby certify that on the 25th day of April, 2019, I caused to be served a true copy of: (1) Answer and Affirmative Defenses of Respondent David Pruitt, and (2) Letter to Division of Enforcement dated April 25, 2019, via electronic mail upon the following parties and other persons entitled to notice:

Honorable James E. Grimes
Administrative Law Judge
Email: alj@sec.gov
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Paul G. Gizzi, Esq.
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Bari R. Nadworny