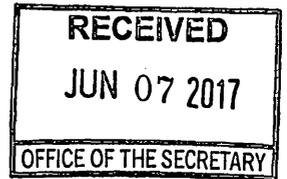


UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION



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, Respondent David N. Pruitt ("Mr. Pruitt"), through his undersigned counsel, respectfully submits this Answer to the 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 dated April 28, 2017.

INTRODUCTORY STATEMENT

Mr. Pruitt incorporates by reference the requests and supporting arguments made in his contemporaneously-filed Motion for a More Definite Statement. A number of the allegations made by the Division of Enforcement (the "Division") in its OIP lack sufficient detail so as to allow Mr. Pruitt to provide substantive answers and to formulate all applicable affirmative defenses. By answering the allegations below, Mr. Pruitt does not intend to forfeit or waive his argument that the Division should provide a more definite statement regarding the allegations identified in Mr. Pruitt's Motion for a More Definite Statement, and to amend this Answer to provide such substantive answers and affirmative defenses, if necessary.

The Division has only recently produced more than 85,000 documents that Mr. Pruitt has not had the opportunity to review in advance of preparing this Answer. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny many of the allegations herein. 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 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 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, 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 69 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.

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.

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.

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 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 almost four 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.

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 denies giving Pruitt blanket authority to invoice for the claims, but does 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, but Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny the dates on which such conversations took place. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny what the Aerospace Systems CFO recalls. 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. 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 69 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 23.

24. 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 though [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 24. Mr. Pruitt denies that any actions were taken to avoid corporate approval or “hide” anything from the auditors.

25. 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 25. 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.

26. 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 26. 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 26.

27. 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 plan but denies the remaining allegations in the first sentence of paragraph 27. Mr. Pruitt denies that he received a bonus of \$62,100 on a base salary

of \$189,673 attributable to ASD achieving 75% of plan as the bonus was deferred. Mr. Pruitt admits that the deferred bonus was later returned to L3.

G. JANUARY 2014 ISSUES REGARDING ACCRUALS AND INVOICES

28. 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 28.

29. 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 29.

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

H. **PRUITT MISLEADS L3's AUDITORS**

31. 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, "[I]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 31.

32. 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 32.

I. THE MISLEADING LETTER TO L3 CORPORATE

33. 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 33.

34. 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 34.

35. 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 denies the allegations in paragraph 35. Mr. Pruitt does not have, and is unable to obtain, sufficient information to admit or deny what other individuals thought or said more than three years ago.

36. 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:** Mr. Pruitt denies the allegations in paragraph 36.

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

37. 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 37.

38. 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 38.

K. L3’s INVESTIGATION AND DISCOVERY OF IMPROPER ACCOUNTING

39. 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 denies the allegations in paragraph 39.

40. 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 40 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 40.

41. 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

42. 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. VIOLATIONS

43. 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 43 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 43.

44. 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 44 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 44.

45. 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 45 contains legal conclusions to which no response is required. To the extent a response is required, Mr. Pruitt denies the allegations in paragraph 45.

### **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, in whole or in part, because they fail to allege, and in any event are not supported by admissible evidence.
5. 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.

6. 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.
7. 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.
8. 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.
9. 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 does not identify with particularity the specific book, record, or account that is inaccurate nor the specific inaccuracy contained therein.
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 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.

11. 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.
12. The proceeding is not warranted and is not supported by substantial evidence, and constitutes arbitrary and capricious agency action.
13. 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.
14. 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.
15. The claims alleged in the OIP are barred, in whole or in part, because the presiding Administrative Law Judge is an "inferior officer" under Article II of the United States Constitution but was not appointed by the Commissioners, the President, or the courts—all in violation of Article II of the United States Constitution. *See Bandimere v. SEC*, 844 F.3d 1168 (10th Cir. 2016).

16. The claims alleged in the OIP are barred, in whole or in part, because this administrative proceeding violates the doctrine of separation of powers.
17. 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.
18. 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 no more than 10 months. Mr. Pruitt's defense will necessarily be prejudiced in light of the need to review and digest the massive investigative file consisting of *more than 85,000 documents* that the SEC has collected over the course of its almost three-year investigation, and do all the other necessary things that go into defending complex litigation. 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.

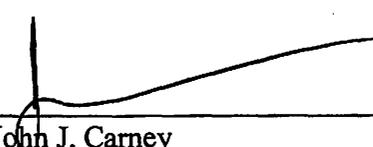
- d. Mr. Pruitt is deprived of a trial by jury in violation of the Fifth, Sixth, Seventh, and Fourteenth Amendments to the United States Constitution.
- e. The Commission's rules fail to afford Mr. Pruitt the protection of the Federal Rules of Evidence, which keep unreliable evidence from the finder 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.

19. 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.

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

Dated: June 6, 2017  
New York, New York

By: \_\_\_\_\_

  
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