

UNITED STATES DEPARTMENT OF STATE  
BUREAU OF POLITICAL MILITARY AFFAIRS  
WASHINGTON, D.C. 20520

In the Matter of:

AAR International, Inc.

An Illinois corporation

Respondent

CONSENT AGREEMENT

WHEREAS, the Office of the Directorate of Defense Trade Controls, Bureau of Political-Military Affairs, U.S. Department of State (“Department”) has notified AAR International, Inc. (“Respondent”) of its intent to institute an administrative proceeding pursuant to section 38 of the Arms Export Control Act, as amended (“AECA”) (22 U.S.C. §§ 2778-2780), and its implementing regulations, the International Traffic in Arms Regulations (“ITAR”) (22 C.F.R. Parts 120-130) based on exporting activities by Presidential Airways, Inc. (which, together with its affiliates Aviation Worldwide Services, LLC; Air Quest, Inc.; STI Aviation, Inc.; and EP Aviation, LLC, is collectively referred to as “Presidential”) in violation of the AECA and ITAR;

WHEREAS, the Department acknowledges that (i) AAR CORP., the ultimate parent company of Respondent, through its indirect wholly-

owned subsidiary AAR Airlift, LLC (“AAR Airlift”), is purchasing Presidential effective as of the date hereof, (ii) Presidential’s violations of the AECA and ITAR were committed prior to AAR Airlift’s acquisition, (iii) Respondent does not have actual knowledge of the specific details of the AECA and ITAR violations set forth in the Proposed Charging Letter and is assuming, for the purposes of this Agreement, and without independent verification, the accuracy of the description of the violations as set forth therein, (iv) Presidential has already implemented certain remedial measures to its international trade compliance program, and (v) Respondent plans to implement additional improvements to Presidential’s compliance program as described herein;

WHEREAS, Respondent has reviewed the Proposed Charging Letter and this Consent Agreement, fully understands these documents, and enters into this Consent Agreement voluntarily and with full knowledge of its rights;

WHEREAS, Respondent wishes to settle and dispose of all potential civil charges, penalties and sanctions arising from the Proposed Charging Letter by entering into this Consent Agreement;

WHEREAS, Respondent agrees that this Consent Agreement will remain in effect for a period of 18 months from the date of the order, subject to the terms and conditions set forth below;

WHEREAS, Respondent agrees that if the Department finds that this Consent Agreement was negotiated based on Respondent’s knowingly providing materially false or misleading information to the Department, the Department may revoke this Consent Agreement and the related administrative order (“Order”), and bring additional charges against Respondent. Additionally, Respondent understands that a violation of this Consent Agreement is considered a violation of the Order; and

WHEREAS, the Department and Respondent agree to be bound by this Consent Agreement and the Order to be entered by the Assistant Secretary of State for Political-Military Affairs.

Now, WHEREFORE, the Department and Respondent agree as follows:

### Parties

(1) The Parties to this Consent Agreement are the Department and Respondent; and assignees and successors, and in the event of reorganization, the terms of this agreement will follow and apply to all affected entities or units.

### Jurisdiction

(2) The Department has jurisdiction over Respondent under the AECA and the ITAR in connection with the matters identified in the Proposed Charging Letter.

### Remedial Measures

(3) Respondent, reflecting its commitment to conduct its business in full compliance with the AECA and the ITAR, and in order to ensure, in particular, that there are no unauthorized exports or temporary imports of ITAR-controlled defense articles, including technical data, and the provision of defense services, will implement the remedial measures described in this Consent Agreement and such additional measures as may be mutually agreed upon by Respondent and the Director, Office of Defense Trade Controls Compliance (DTCC), and agrees further that these measures will remain in effect for a period of 18 months, subject to the terms and conditions set forth below, as part of this Consent Agreement entered into with the Department.

(4) Further, Respondent agrees that these measures will be applied to any future business acquisitions by AAR Airlift that are involved in the design, manufacture, sale, export or temporary import of ITAR-controlled defense articles, to include technical data, and the provision of defense services within six (6) months of that acquisition.

(5) Further, if Respondent sells any of Presidential's business units or subsidiaries, Respondent agrees to notify DDTCC sixty (60) days prior to such sale, and further to notify the purchaser in writing, and to require the purchaser to acknowledge in writing, prior to the sale that the purchaser will be bound by the terms and conditions of this Consent Agreement.

(6) Respondent acknowledges and accepts its obligation to continue and maintain effective defense trade control oversight, infrastructure, policies and procedures for its AECA/ITAR-regulated activities within Presidential.

Official Designated for Consent Agreement Compliance and Oversight

(7) Respondent shall appoint a qualified individual from inside Respondent to serve as an Internal Special Compliance Official (ISCO) within Presidential for the 18 months of the term of this Consent Agreement. The term, authorities, and responsibilities of the ISCO are described below.

(8) Respondent shall nominate a person to serve as ISCO within thirty (30) days from the date of the Order, and the nomination shall be subject to the written approval of the Director, DTCC. Within fifteen (15) days following the date of the approval of the nomination by the Director, DTCC, Respondent shall appoint the person to the position of ISCO.

(9) Within 15 days of appointment of the ISCO, Respondent shall empower the ISCO with a written delegation of authority and statement of work approved by the Director, DTCC, to permit the ISCO to monitor, oversee and promote Presidential's AECA and ITAR compliance with the terms of this Consent Agreement in a manner consistent with the purpose of this Consent Agreement and the Order, its specific terms and conditions, and other activities subject to the ITAR and the AECA. The ISCO will report to Respondent's President and the Director, DTCC as set forth herein. The ISCO shall perform his/her duties in consultation with DTCC as described herein.

(10) If for any reason the ISCO is unable to serve the full period of his/her appointment, or temporarily is unable to carry out the responsibilities described herein greater than thirty (30) days, or if the Director, DTCC decides that the ISCO shall be removed for failure to perform his/her duties satisfactorily, Respondent shall recommend a successor acceptable to the Director, DTCC.

(11) The Director, DTCC's agreement to the replacement shall be confirmed in writing to Respondent. Such recommendation shall be made at least thirty (30) days in advance of a new appointment unless a

shorter period is agreed to by the Director, DTCC. If a successor ISCO is not appointed within thirty (30) days of the termination or removal of the appointed ISCO then AAR CORP.'s General Counsel shall assume the duties and authorities of the ISCO in the interim. Respondent will not be without an ISCO for more than thirty (30) days unless the Director, DTCC grants an extension.

(12) If the ISCO for any reason is unable to carry out the responsibilities described herein on a temporary basis, not to exceed thirty (30) days, then AAR CORP.'s General Counsel shall assume the duties and authorities of the ISCO in the interim. The written delegation of authority and statement of work described in paragraph (9) above shall make provision for this event.

(13) The ISCO shall have three (3) principal areas of responsibility:

(a) Policy and Procedure: The ISCO shall monitor Presidential's AECA and ITAR compliance program, including but not limited to the remedial measures already established by Presidential, with specific attention to the following policies and procedures:

1. Policies and procedures that incorporate AECA and ITAR compliance into Presidential's management business plans at the senior executive level;
2. Meeting and maintaining adequate AECA and ITAR compliance staffing levels at Presidential;
3. Policies and procedures for conducting internal compliance monitoring and audits;
4. Policies and procedures for the identification, classification, monitoring, and management of defense services;
5. Policies and procedures for the identification and classification of defense articles, including technical data;
6. Policies and procedures for screening all U.S. and foreign persons, including suppliers and visitors who are the subject of a license request or regulatory exemption;

7. Policies and procedures for complying with the terms, conditions, and provisos of licenses and other approvals (*e.g.*, agreements);
8. Policies and procedures for preventing, detecting, and reporting AECA and ITAR violations;
9. Policies and procedures that encourage Presidential's employees to report ITAR compliance problems without fear of reprisal. These policies and procedures should include multiple avenues by which problems can be reported safe from reprisals and a method of documenting the event under review, management's action, and the result of any action taken by management in resolving the issue;
10. Policies and procedures for submitting voluntary disclosures to the Department of State;
11. Policies and procedures for tracking and ensuring the timely return to the United States of any defense articles exported temporarily;
12. Policies and procedures for ensuring physical security of facilities where ITAR-controlled activity occurs;
13. Policies and procedures to maintain Respondent's technology control plan;
14. Policies and procedures for the proper use of ITAR exemptions;
15. Policies and procedures for foreign travel involving ITAR-controlled activities;
16. Policies and procedures for the screening and control of foreign-person visitors;
17. Policies and procedures for maintaining appropriate ITAR records;

18. Policies and procedures for the shipping department responsible for exporting ITAR-controlled articles;
19. Policies and procedures for the employment of foreign persons who may be engaged in ITAR-controlled activity or have access to ITAR-controlled technical data;
20. Policies and procedures for ensuring that exports of classified technical data and classified defense articles are in compliance with § 125.3 of the ITAR; and
21. Policies and procedures to ensure compliance with Part 129 and Part 130 of the ITAR.

(b) Oversight: The ISCO shall oversee the following specific areas:

1. Presidential's continuation of the compliance measures required by this Consent Agreement;
2. Presidential's corporate oversight of ITAR compliance and performance of its responsibilities under this Consent Agreement and the Order in a timely and satisfactory manner;
3. The continued incorporation of ITAR compliance into Presidential's management business plans at the senior executive level;
4. Verifying the reports to Defense Trade Control Compliance ("DTCC") required by paragraph (13)(c) as to each license or other approval in the relevant reporting period;
5. Verifying the reports to DTCC required by paragraph (13)(c) using ITAR exemptions in the relevant reporting period;
6. Overseeing the implementation of an automated defense trade control and compliance system;
7. Overseeing internal ITAR audits; and

8. Continuation and implementation of additional policies and procedures that encourage Presidential's employees to report ITAR compliance problems without fear of reprisal.

(c) Reporting: The ISCO is responsible for the following reporting requirements:

1. Tracking, evaluating and reporting on Respondent's review of Presidential's ITAR violations and compliance resources;
2. Providing to the Director, DTCC, Respondent's President and AAR CORP.'s General Counsel, within six (6) months from the date of the Order and at the one-year anniversary from the date of the Order a report on the status of Presidential's ITAR compliance program, any enhancements thereto, and resource levels and their impact on or benefit to ensuring ITAR compliance.

These reports should also include information concerning Presidential's compliance with this Consent Agreement; findings, conclusions and any recommendations necessary to ensure compliance with the ITAR; and a description of any and all instances of previous recommendations advanced by the ISCO.

Additionally, these reports may, in a separate annex, include any relevant comments or input by Respondent. Respondent shall continue ITAR compliance oversight to ensure that best practices learned are implemented throughout Presidential and its ITAR-regulated businesses. Any such reports shall not affect Respondent's use of the Voluntary Disclosure procedures set forth in § 127.12 of the ITAR or Respondent's ability to gain mitigation benefits from such voluntary disclosures; and

3. Providing to the Director, DTCC, a semi-annual report for the first year that includes a certification by the ISCO as to each license or other approval, or use of an exemption, employed by Presidential during the reporting period, addressing whether all

provisions of each license or other approval and each exemption, have been complied with, whether all training of relevant personnel necessary to implement the licenses, other authorizations and exemptions was completed, and whether appropriate internal controls were in place.

(14) The ISCO shall have full and complete access to all personnel, books, records, documents, audits, reports, facilities and technical information relating to compliance with this Consent Agreement, and to all munitions authorizations, licenses, and Respondent's guidance relating to the export of defense articles, including technical data and defense services.

(15) Respondent will ensure that Presidential cooperate with all reasonable requests of the ISCO, including requests for assistance to obtain necessary security clearances, and shall take no action to interfere with or impede the ISCO's ability to monitor Presidential's compliance with this Consent Agreement, the Order and the AECA and the ITAR, or to carry out the ISCO's other responsibilities set forth in this Consent Agreement. The ISCO shall notify DTCC and appropriate Respondent's officials whenever the ISCO encounters any difficulties in exercising the duties and responsibilities assigned under this Consent Agreement.

(16) The ISCO may be requested to perform additional defense trade oversight, monitoring and coordination of activities as agreed to by Respondent and the Director, DTCC.

(17) In fulfilling the responsibilities set forth in this Consent Agreement, the ISCO may, at his/her sole discretion, present any defense trade compliance-related issue directly to any or all among Respondent's President or AAR CORP.'s General Counsel, and if necessary the Director, DTCC.

(18) The ISCO shall, with the approval of the Director, DTCC and the concurrence of Respondent, have the authority to employ in a support capacity at the expense of Respondent, such assistants and other professional staff as are reasonably necessary to assist the ISCO to carry out his/her duties and responsibilities.

(19) The Director, DTCC shall on his/her own initiative or at the request of the ISCO issue such guidance as may be necessary or appropriate to help ensure compliance with the AECA, ITAR, and the terms and conditions of authorizations DDTC has provided to Presidential.

#### Compliance Resources and Program Enhancements

(20) Under this Consent Agreement, Respondent shall dedicate adequate resources to ITAR compliance throughout Presidential. Respondent shall continue policies and procedures, and make enhancements as Respondent deems necessary in accordance with this Consent Agreement, for all Presidential employees with responsibility for AECA and ITAR compliance that address lines of authority, staffing increases, performance evaluations, career paths, promotions and compensation.

(21) Within 120 days from the date of the Order, Respondent, in coordination with the ISCO, shall conduct an internal review of AECA and ITAR compliance resources within Presidential and its ITAR-regulated business units and subsidiaries, and establish the necessary actions to ensure that sufficient resources are dedicated to compliance, including the use of additional resources from compliance cross-trained employees on a part time basis when needed.

#### Strengthened Compliance Policies, Procedures, and Training

(22) Within twelve (12) months from the date of the Order, Respondent will have instituted strengthened corporate export compliance procedures ensuring that Presidential's business operations continue to address the following:

(a) All Presidential personnel engaged in ITAR-regulated activities are familiar with the AECA and the ITAR, and their own and Presidential's responsibilities thereunder;

(b) All persons responsible for supervising those employees, including senior managers are knowledgeable about the underlying policies and principles of the AECA and the ITAR;

(c) All new employees to receive basic ITAR compliance training at orientation or shortly thereafter;

(d) All Presidential personnel engaged in ITAR-regulated activities to receive on-going web-based (or its equivalent) general and focused face-to-face ITAR training on at least an annual basis and specialized or tailored annual ITAR compliance training as the ISCO deems necessary, for personnel in business development, procurement, human resources, information technology, facility security, trade compliance, engineering, program management, and shipping; and

(e) Maintenance of training data indicating the names of employees, trainers (for face-to-face training), and level and area of training received (*e.g.*, providing technical data, use of public domain information in performing defense services, applicability of ITAR to foreign origin defense articles).

#### Automated Export Compliance System

(23) Respondent shall implement or make improvements to a comprehensive automated defense trade compliance system to strengthen Presidential's internal controls for ensuring compliance with the AECA and the ITAR. The timing of implementation and mechanisms included in this automated system (*e.g.* specific tracking capabilities, email system alerts) will be agreed upon by Respondent and the Director, DDTC. Respondent shall provide status updates on recommendations and activity to enhance IT system in the semi-annual reports.

(24) In order to prevent unintentional or accidental transmissions to unauthorized recipients, Respondent will also provide training to all Presidential employees to ensure that any type of electronic transmissions of ITAR-controlled technical data are sent in accordance with Respondent's defense trade compliance policies and procedures.

#### Audits

(25) Respondent shall have an outside consultant with expertise in AECA and ITAR matters, approved by the Director, DTCC, perform an audit of Presidential during the term of this Consent Agreement. The audit will be conducted under the supervision of the ISCO.

(26) Within one year from the date of the Order, a draft audit plan for the audit shall be submitted to the Director, DTCC, for review and approval. Within fifteen (15) months from the date of the Order, the audit will be completed along with a written report containing recommendations for improvements, if any, with respect to Consent Agreement measures, or compliance with the AECA or the ITAR more generally. Such audit results and report will be submitted by Respondent to the Director, DTCC by sixteen (16) months from the date of the Order, along with Respondent's plan to address recommendations, if any.

(27) The audit shall provide a thorough assessment of the effectiveness of Presidential's compliance with requirements of this Consent Agreement with focus on those actions undertaken prior to and after the date of the Order to address the compliance problems identified in the Proposed Charging Letter, the policies, procedures, and tracking mechanisms for ITAR activity, and training established by Presidential, and such other areas as may be identified in the audit plan. Additionally, this audit will assess the overall effectiveness of ITAR compliance programs within Presidential.

#### Compliance Hot-Line and Anonymous Reporting Program

(28) Respondent will publicize to its Presidential employees the availability of Respondent's procedure for reporting concerns, complaints and perceived violations involving the AECA and the ITAR to ensure that such concerns, complaints and violations may be readily reported via this channel, without fear of recrimination or retaliation. Once such complaints, concerns or violations involving AECA or ITAR have been reported, Respondent will ensure that this information is forwarded to AAR CORP.'s General Counsel and the ISCO. The General Counsel and ISCO will be responsible for resolving such matters.

(29) If the General Counsel or the ISCO is the subject of the complaint, concern or violation involving AECA or ITAR, the matter will be referred to Respondent's President for resolution. The ISCO shall include in its report pursuant to paragraph (13)(c) above an assessment of the effectiveness of the reporting program relating to Presidential's export matters. This report will be in sufficient detail such that the

Department may, consistent with its responsibilities under law and regulation, form an opinion about the seriousness of the alleged violations, without disclosing employee confidentiality.

#### Penalty

(30) There will be no civil penalty levied with this Consent Agreement.

#### Debarment

(31) Respondent was not involved in ITAR violations identified in the Proposed Charging Letter, as Presidential committed these violations prior to its acquisition by AAR Airlift. Also, Respondent has taken meaningful steps to improve its compliance programs and to incorporate its compliance programs into Presidential, and it has hired or will hire additional ITAR compliance personnel. For these reasons, the Department has determined that an administrative debarment of Respondent or Presidential based on the civil charges in the Proposed Charging Letter is not appropriate. The Department reserves the right to consider imposing additional sanctions, including debarment under the ITAR, against Respondent or any subsidiary or other affiliate, if it does not fulfill the provisions of this Consent Agreement, or is responsible for other compliance or law enforcement concerns under the AECA, or other statutes enumerated in § 120.27 of the ITAR.

#### Defense Articles and Defense Services

(32) Respondent, its subsidiaries, and other affiliates acknowledge and accept the authority of the Department to designate an item as a defense article, and that the ITAR requires written authorization or exercise of an exemption before such articles are exported or temporarily imported, regardless of whether the underlying defense article is used in a commercial system or product.

(33) Respondent, its subsidiaries, and other affiliates acknowledge and accept the authority of the Department to designate what constitutes a defense service based on the following:

- (1) The definition of "defense services" in Section 120.9 of the ITAR is clear and understood by them as setting out

responsibilities and requirements which are binding as a matter of law and regulation on them;

- (2) The furnishing of defense services to foreign persons regardless of whether the underlying defense article(s) is of U.S. or foreign origin is appropriately subject to the Department's control under the ITAR, even when no technical data is involved (*e.g.*, all the information relied upon in furnishing defense services to a foreign government or foreign person is in the public domain);
- (3) The law and regulations governing "defense services" and proposals to foreign persons are sufficiently clear and specific as to be enforceable by the U.S. Government on criminal and civil grounds; and
- (4) Respondent is responsible and obligated as a matter of law and regulation to comply with the requirements of such law and regulations as they pertain to "defense services" and related matters.

#### Material Facts in a Commodity Jurisdiction Request

(34) Respondent acknowledges that the Commodity Jurisdiction ("CJ") process under § 120.4 of the ITAR is the mechanism for resolving questions as to whether an item is a defense article subject to the Department's jurisdiction under the ITAR. Respondent further acknowledges that the incorporation of a defense article into an item subject to a CJ request is a material fact within the meaning of Section 127.2 of the ITAR, which must be disclosed in the CJ request, and that such request and any related documents are export control documents under the ITAR.

#### Legal Department Support

(35) AAR CORP.'s General Counsel's office shall provide support to Presidential for all matters involving the AECA and the ITAR. This support will continue to be structured to achieve Respondent's compliance with AECA and the ITAR throughout Presidential. Additionally, AAR CORP.'s General Counsel's office shall ensure that

appropriate legal support is made available as necessary to the principal Presidential personnel responsible for compliance with the AECA and the ITAR, and appropriate legal oversight is performed in each with respect to such matters.

#### On-site Reviews by the Department

(36) For the purpose of assessing compliance with the provisions of the AECA, the ITAR and future munitions licenses and other authorizations, Respondent agrees to arrange and facilitate, with advance notice, on-site reviews by the Department while this Consent Agreement remains in effect.

#### Understandings

(37) No agreement, understanding, representation or interpretation not contained in this Consent Agreement may be used to vary or otherwise affect the terms of this Consent Agreement or the Order, when entered, nor shall this Consent Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed in the Proposed Charging Letter. Respondent acknowledges and accepts that there is no understanding expressed or implied through this Consent Agreement with respect to a final decision by the Department of State concerning export licenses or other U.S. Government authorizations.

(38) Respondent acknowledges the nature and seriousness of the offenses charged in the Proposed Charging Letter, including the potential risk of harm to the security and foreign policy interests of the United States. If this Consent Agreement is not approved pursuant to an Order entered by the Assistant Secretary for Political-Military Affairs, the Department and Respondent agree that they may not use this Consent Agreement in any administrative or judicial proceeding, and that the parties shall not be bound by the terms contained in this Consent Agreement.

(39) The Department agrees that, upon signing of the Order, this Consent Agreement resolves with respect to Respondent and Presidential the civil penalties or administrative sanctions with respect to violations of Section

38 of the AECA or the ITAR arising from facts that have been identified in the Proposed Charging Letter.

Waiver

(40) Respondent waives, upon the signing of the Order, all rights to seek any further steps in this matter, including a formal administrative hearing pursuant to Part 128 of the ITAR. The Respondent also waives any such rights with respect to any penalty assessed by the Director, DTCC in connection with an alleged material violation of this Consent Agreement (which penalty, if imposed, shall be limited to five hundred thousand dollars (\$500,000)), except as follows: In the event that the Director, Office of Defense Trade Controls Compliance, determines that Respondent has materially violated this Consent Agreement and imposes such additional penalty, and Respondent disputes such determination, Respondent may appeal such determination to the Assistant Secretary for Political-Military Affairs. The decision of the Assistant Secretary for Political-Military Affairs shall be the final determination in the matter, which may not be appealed.

(41) Respondent also agrees that any such civil penalty shall be nondischargeable under Section 523(a)(7) of the Federal Bankruptcy Code. Respondent also waives the right to contest the validity of this Consent Agreement or the Order, including in any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement or Order.

Certification

(42) No earlier than one month prior to the conclusion of the 18-month term of this Consent Agreement, the President of Respondent shall submit to the Director, DTCC, a written certification that all compliance measures set forth in this Consent Agreement have been implemented, and that Respondent has assessed Presidential's current ITAR compliance program and certifies that it is adequate to identify, prevent, detect, correct and report violations of the AECA and the ITAR.

(43) The Consent Agreement shall remain in force beyond the 18-month term until such certification is submitted and the Director, DTCC determines based on this certification and other factors that all

compliance measures referenced in this Consent Agreement have been continued or implemented, and that Respondent's ITAR compliance program is adequate to identify, prevent, detect, correct and report violations of the AECA and the ITAR.

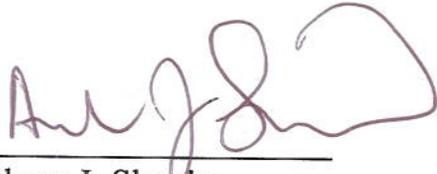
Documents to be Made Public

(44) Respondent understands that the Department will make this Consent Agreement, the Proposed Charging Letter and the Order, when entered, available to the public.

When Order Becomes Effective

(45) This Consent Agreement shall become binding on the Department only when the Assistant Secretary for Political-Military Affairs approves it by entering the Order, which will have the same force and effect as a decision and Order issued after a full administrative hearing on the record.

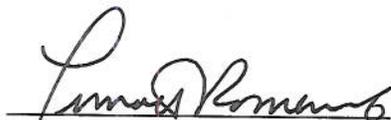
U.S. Department of State



Andrew J. Shapiro  
Assistant Secretary for  
Political-Military Affairs

7/15/10  
Date

AAR International, Inc.



Timothy J. Romenesko  
President

JUL 15 2010  
Date