

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA)
)
 v.)
)
 ABT ASSOCIATES INC.,)
)
 Defendant.)

DEFERRED PROSECUTION AGREEMENT

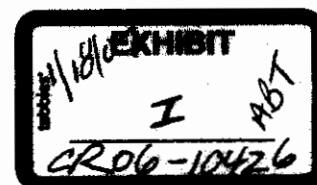
The United States Attorney's Office for the District of Massachusetts (hereinafter "the Government"), and the defendant, Abt Associates Inc. ("Abt Associates"), by its undersigned attorneys, pursuant to authority granted by its Board of Directors in the form of a Board Resolution (a copy of which is attached hereto as Exhibit A), hereby enter into this Deferred Prosecution Agreement (the "Agreement"). For purposes of this Agreement, all references to Abt Associates shall include subsidiaries of Abt Associates.

The Information

1. Abt Associates will consent to the filing of a seven-count Information ("the Information") in the United States District Court for the District of Massachusetts charging Abt Associates with violating Title 18, United States Code, Section 287. A copy of the Information is attached hereto as Exhibit B.

Acceptance of Responsibility

2. In light of Abt Associates' willingness to: (a) acknowledge responsibility for its conduct, and (b) comport its future conduct with the law, the Government has determined that



the interests of justice will best be served by entry into this Agreement on the following terms and conditions:

3. Abt Associates acknowledges, stipulates to the accuracy of, and accepts responsibility for the conduct set forth in the Agreed Statement of Facts, attached hereto as Exhibit C, which is incorporated by reference into this Agreement. Abt Associates agrees that it will not contest the admissibility into evidence of Exhibit C in any subsequent criminal proceedings occurring in the event of a breach of this Agreement.

4. Abt Associates agrees that it shall not itself, or through present or future attorneys, or through present or future representatives or agents, make any statement contradicting any statement of fact contained in Exhibit C. Any such contradictory statement shall constitute a breach of this Agreement, and Abt Associates thereafter will be subject to prosecution pursuant to the terms of this Agreement. This paragraph will not restrict any individuals acting in an individual capacity (including, without limitation, current or former Abt Associates employees) from making any statements in defense of criminal, civil or administrative proceedings brought against them, and such statements shall not constitute a breach of this Agreement.

5. On the Effective Date of this Agreement as set forth in paragraph 28, and in accordance with paragraph 18 hereafter, Abt Associates shall pay the amount of \$2,900,000, to be credited as follows:

- (a) restitution to USAID in the amount of \$194,578 (to be credited by an amount of \$144,878 in prior repayments);
- (b) \$2,705,422 million, shall be paid to the United States Treasury, less \$583,734 paid in resolution of civil claims by the United States pursuant to Exhibit D;

The payments set forth above are a material term of this Agreement and failure to make payment on the Effective Date renders all remaining terms of this Agreement null and void. Abt Associates agrees that no portion of the payments detailed above that Abt Associates has agreed to pay to the United States under the terms of this Agreement is deductible on any Federal or State tax return.

The Compliance and Ethics Program

6. Abt Associates agrees that it has established a Foreign Currency Transaction Policy and Procedure (“Foreign Currency Transaction Policy”) and that this policy is designed (a) to ensure that foreign currency expenditures are converted to U.S. Dollars using a consistent and reasonable methodology, and (b) to ensure that foreign labor costs reflected in bills submitted to the U.S. Government are accurate and reflect Abt Associates’ true foreign labor costs. Abt Associates further agrees that it will review and update this policy annually and that it will cause its Chief Financial Officer (“CFO”) to certify in writing to Abt Associates’ Board of Directors annually that the Foreign Currency Transaction Policy is being maintained and that Abt Associates is in compliance with this policy.

7. Abt Associates agrees that it is currently in compliance with its policies and procedures regarding foreign currency transaction accounting and has established and will maintain a system of internal controls to ensure compliance, including those enumerated in paragraphs 8 - 13 below.

8. Abt Associates agrees that it has established and will maintain and staff an internal auditing program that encompasses international operations and: (a) independently tests the accuracy of the accounting for foreign currency disbursements and compliance with Abt

Associates' Foreign Currency Transaction Policy, and (b) reports on the results of internal audit tests in these areas in writing to Abt Associates' Audit Committee of the Board of Directors on an annual basis.

9. Abt Associates agrees that it will, on an annual basis and at its own expense, for the term of this Agreement, engage a third party auditor/CPA firm to conduct a review of Abt Associates' billing system and prepare a written report summarizing its procedures and findings, certifying that Abt Associates is billing USAID in accordance with its contractual agreements with USAID, and noting any exceptions. The review conducted shall be similar in scope and nature to Defense Contract Audit Agency ("DCAA") Billing System and Internal Control Review (Activity Code 11010) Audit Program. The written report shall be presented to the Audit Committee of the Board of Directors annually with a copy to the Government Administrative Contracting Officer (ACO) and USAID's Cost Audit and Support Division (M/OAA/CAS).

10. Abt Associates agrees that it will notify the Government Administrative Contracting Officer (ACO), presently at USAID, the Director of Procurement for USAID, and the USAID Lead Contract Specialist in writing within 20 calendar days of the discovery of any billing error or adjustment in excess of \$100 identified as the result of any management, internal auditing, or third-party audit/CPA review.

11. Abt Associates agrees that it has established and will maintain an ongoing compliance and ethics training program to ensure that all employees with Government contract management responsibilities, including Senior Managers, Division Managers, Associate Division Managers, Chiefs of Party, Project Directors, and site finance and accounting staff, are aware of proper Government contract compliance issues. These training sessions will be conducted

annually and employees receiving this annual training must certify that they have received this training. A record of employee certifications will be maintained and made available to the Government upon request.

12. Abt Associates agrees that the most senior site finance and accounting manager at each international site will be supervised by both the Chief of Party or Project Director in the country and a U.S. based accounting manager. Each fiscal year, an auditor assigned to Abt Associates' internal audit department will meet personally with each of these managers for the purpose of reviewing and evaluating: (a) their knowledge of, and compliance with, Abt Associates' accounting policies and procedures, the billing requirements applicable to USAID contracts, and the Company's Code of Conduct; (b) the quality of their record keeping and reporting systems; and (c) the causes of any accounting or billing errors identified by any source with respect to that manager's site during the previous 12 months. The results of these reviews and evaluations, together with recommendations for any appropriate corrective action, will be compiled in an annual written report signed by the Director of Internal Audit and submitted to the Audit Committee of the Board of Directors.

13. Abt Associates agrees to implement an on-the-spot cash award system to encourage employees to uncover and report significant Government billing errors of any type and to compensate those employees for their efforts. For purposes of this Agreement, "significant" includes any billing error of more than \$500.00. Under this system, Abt Associates' employees will receive an on the spot cash award of \$100.00 or more for uncovering and reporting significant government billing errors. Annually, Abt Associates will report the granting of any on-the-spot awards and the basis for such award to the ACO.

14. It shall be a material breach of this agreement if Abt Associates fails to maintain, in all material respects, the policies, procedures, and other controls set forth in paragraphs 6 - 13.

Deferral of Prosecution

15. In consideration of Abt Associates' entry into this Agreement and its commitment to: (a) accept and acknowledge responsibility for its conduct; (b) make the payment specified in this Agreement; and (c) otherwise comply with all of the terms and conditions of this Agreement, for the period beginning with the Effective Date of this Agreement (as defined in paragraph 28) and ending twenty-seven (27) months thereafter (hereinafter the "Deferred Prosecution Period"), the Government shall recommend to the Court that prosecution of Abt Associates on the Information be deferred for the Deferred Prosecution Period. Abt Associates expressly waives Indictment and all rights to a speedy trial pursuant to the Sixth Amendment of the United States Constitution, Title 18, United States Code, Section 3161, Federal Rule of Criminal Procedure 48(b), and any applicable Local Rules of the United States District Court for the District of Massachusetts for the Deferred Prosecution Period.

16. The Government agrees that, if Abt Associates is in compliance with all of its material obligations under this Agreement, the Government will, within thirty days of the expiration of the Deferred Prosecution Period, seek dismissal with prejudice as to Abt Associates of the Information filed against Abt Associates pursuant to paragraphs 1 and 22 of this Agreement. Except in the event of a material breach by Abt Associates of any terms of this Agreement, the Government will bring no additional charges against Abt Associates relating to its conduct, as set forth in the Agreed Statement of Facts.

17. This Agreement does not provide any protection against prosecution for any

crimes except those arising out of the conduct set forth in the Information and the Agreed Statement of Facts and does not apply to any individual or entity other than Abt Associates.

18. Abt Associates and the Government understand that the Agreement to defer prosecution of Abt Associates must be approved by the Court in accordance with 18 U.S.C. §3161(h)(2); specifically, the Court must approve the delay within which a trial on the Information must commence for purposes of the Speedy Trial Act in order to allow Abt Associates sufficient time to demonstrate its good conduct. Should the Court decline to approve the Agreement to defer prosecution for any reason, both the Government and Abt Associates are released from any obligation imposed upon them by this Agreement, and this Agreement shall be null and void.

19. It is further understood that should the Government in its sole discretion determine that Abt Associates has, after the date of the execution of this Agreement: (a) given materially false, incomplete or misleading information, (b) committed any crime other than a minor state violation, or (c) otherwise violated any material provision of this Agreement, then the Agreement shall become null and void and the Government may thereafter initiate criminal prosecution based on the Information or the conduct described therein. In any such prosecution all statements made by or on behalf of Abt Associates to the Government and USAID, including but not limited to the Agreed Statement of Facts, or any testimony given by Abt Associates or by any agent of Abt Associates before a grand jury, or elsewhere, whether before or after the date of this Agreement, or any leads from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings hereinafter brought by the Government against Abt Associates. In addition, Abt Associates shall not assert any claim under the United States

Constitution, Rule 11(f) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence, or any other federal rule, that statements made by or on behalf of Abt Associates before or after the date of this Agreement, or any leads derived therefrom, should be suppressed or otherwise excluded from evidence. It is the intent of this Agreement to waive any and all rights in the foregoing respects.

20. In addition, in the event that the Government initiates a criminal prosecution based on the Information or the conduct described therein following a breach of this Agreement, or in the event that the Court does not approve this Agreement in accordance with 18 U.S.C. §3161(h)(2), Abt Associates agrees that any such prosecutions that are not time-barred by the applicable statute of limitations on the date of this Agreement may be commenced against Abt Associates within the applicable period governing the state of limitations. Thus, Abt Associates agrees that the applicable statute of limitations period for any such prosecutions shall be tolled for a period of time equal to the term of this Agreement, so that prosecutions may be commenced against Abt Associates in accordance with this Agreement notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the expiration of this Agreement.

21. This Agreement shall remain in effect for the Deferred Prosecution Period plus thirty days.

22. It is understood and agreed by all parties that this Agreement along with the Information shall be publicly filed in the United States District Court for the District of Massachusetts upon its full execution.

The Government's Discretion

23. Abt Associates agrees that it is within the Government's sole discretion to choose, in the event of a material violation, the remedy contained in paragraph 19 above, or instead to choose to extend the Deferred Prosecution Period for a period not to exceed an additional 20 months from the date of the violation. Abt Associates understands and agrees that the exercise of the Government's discretion under this Agreement is unreviewable by any Court. Should the Government determine that Abt Associates has violated this Agreement, the Government shall provide written notice to Abt Associates of that determination and provide Abt Associates with an opportunity to make a presentation to the Government to demonstrate that no material violation occurred, or, to the extent applicable, that the violation should not result in the exercise of those remedies or in an extension of the Deferred Prosecution Period.

24. Abt Associates agrees that if it sells or merges all or substantially all of its business operations as they exist as of the date of this Agreement to or into a single purchaser or group of affiliated purchasers during the term of this Agreement, it shall include in any contract for sale or merger a provision binding the purchaser/successor to the obligations described in this Agreement.

25. The parties acknowledge that a separate Settlement Agreement, attached hereto as Exhibit D, was executed by Abt Associates and the Government prior to the execution of this Agreement.

26. The Government acknowledges that under a separate Compliance Agreement entered into between Abt Associates and the United States Agency for International Development (USAID), attached hereto as Exhibit E, it has been determined that there shall be no suspension,

debarment or other administrative sanction of Abt Associates by any government department, agency, or instrumentality based on the matters set forth in Exhibit E.

Limits of This Agreement

27. It is understood that this Agreement is binding on the Government but specifically does not bind any state or local law enforcement agencies, any licensing authorities, or any regulatory authorities. However, if requested by Abt Associates or its attorneys, the Government will bring to the attention of any such agencies, including but not limited to any licensing authorities, the Agreement, and Abt Associates' performance of its obligations under this Agreement.

Effective Date

28. This Agreement shall become effective upon: (a) execution of the Agreement by Abt Associates and the Government; (b) approval by the Court in accordance with 18 U.S.C. §3161 (h)(2) as specified in paragraph 18; and (c) execution of the Compliance Agreement identified in paragraph 26. The date when all of these criteria are met shall be the Effective Date of this Agreement.

Complete Agreement

29. This Agreement contains the complete agreement between the parties and sets forth all the terms of the deferred prosecution. No promises, representations or agreements have been made other than those set forth in this Agreement. This Agreement may not be modified except in writing signed by all the parties. Abt Associates agrees that should a dispute between Abt Associates and the Government arise as to the meaning of any of the provisions of this Agreement, any ambiguities as to the terms of this Agreement shall be construed in favor of the

Government. This Agreement may be executed in counterparts.

ON BEHALF OF THE GOVERNMENT:

MICHAEL J. SULLIVAN
United States Attorney

By: *Diane C. Freniere* 1/18/07
Diane C. Freniere
DIANE C. FRENIERE
Assistant U.S. Attorney

ON BEHALF OF THE DEFENDANT, ABT ASSOCIATES, INC.

Accepted and agreed to:



ROBERT LUSKIN
Patton Boggs, LLP

EXHIBIT A
BOARD RESOLUTION

EXHIBIT B
INFORMATION

EXHIBIT C
AGREED STATEMENT OF FACTS

EXHIBIT D
SETTLEMENT AGREEMENT

EXHIBIT E
COMPLIANCE AGREEMENT

(h)(2) as specified in paragraph 18; and (c) execution of the Compliance Agreement identified in paragraph 26. The date when all of these criteria are met shall be the Effective Date of this Agreement.

Complete Agreement

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ON BEHALF OF THE GOVERNMENT:

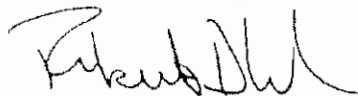
MICHAEL J. SULLIVAN
United States Attorney

By:

DIANE C. FRENIERE
Assistant U.S. Attorney

ON BEHALF OF THE DEFENDANT, ABT ASSOCIATES, INC.

Accepted and agreed to:



ROBERT LUSKIN
Patton Boggs, LLP

EXHIBIT A
BOARD RESOLUTION

DEC 28, 2006 05:08P

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VOTED:

That Wendell Knox and John Shane, acting jointly, are hereby authorized to execute and deliver, or direct counsel to the Company to execute and deliver, a Deferred Prosecution Agreement, a Settlement Agreement and Compliance Agreement (collectively, the "Agreements") in connection with the Government's investigation of alleged foreign currency matters, each of such Agreements to be in form and substance satisfactory to them, provided, however, that the aggregate sums to be paid by the Company in connection with such Agreements shall not exceed \$2,900,000.

ADOPTED DECEMBER 21, 2006
ABF ASSOCIATES INC., BOARD OF DIRECTORS


John Shane, Chair

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA)	CRIMINAL NO.
)	
v.)	VIOLATIONS:
)	
Abt Associates Inc.,)	18 U.S.C. § 287 (False Claims)
)	
Defendant.)	
)	

INFORMATION

The United States Attorney charges that at all times material to this Information:

INTRODUCTION

1. Defendant **Abt Associates Inc.** (hereinafter, "**Abt Associates**"), was an employee-owned, for-profit government and business research and consulting firm headquartered in Cambridge, Massachusetts. **Abt Associates** maintained seven corporate offices in the United States and approximately 50 project sites in 30 countries throughout the world. **Abt Associates** employed more than 1000 people. Approximately one-third of **Abt Associate's** business revenues were generated from its international contracts.

2. The United States Agency for International Development (hereinafter, "USAID") is an agency of the United States that was created by the Foreign Assistance Act of 1961, 22 U.S.C. § 2381, et seq. USAID is responsible for administering many of the

foreign economic programs of the United States.

3. **Abt Associates** was one of USAID's largest contractors. Since January 2000, **Abt Associates** had been awarded and/or completed over \$1 billion in USAID contracts. One type of contract that **Abt Associates** and USAID entered into were so-called Cost Plus Fixed Fee ("CPFF") contracts. In general terms, CPFF contracts provided that USAID would pay **Abt Associates** for its actual incurred costs plus an agreed upon margin.

4. **Abt Associates** administered numerous foreign-based projects for USAID, including projects in Egypt, South Africa, and Zambia, Dominican Republic, Guatemala, Honduras and Rwanda, among other places.

5. In administering foreign-based projects for USAID, **Abt Associates** often established offices, employed staff, and incurred expenses in the foreign countries where the work specified in the contracts took place. Typically, in a foreign-based CPFF contract, **Abt Associates** was compensated by USAID for such incurred expenses, to include foreign-based labor costs.

6. For each foreign-based CPFF contract, **Abt Associates** prepared a monthly voucher or invoice which detailed the costs incurred by **Abt Associates** in running the project for the billing period. **Abt Associates** then submitted these vouchers/invoices for payment to USAID on Standard Form 1034, Public Voucher For

Purchases and Services Other Than Personal. As part of the SF1034, **Abt Associate's** government billing manager certified on behalf of the company that "the sum claimed under this contract is proper and due."

7. In administering foreign-based USAID contracts, **Abt Associates** typically hired local labor to staff and implement the projects. **Abt Associates** paid these local employees labor costs in the local currency. However, in accordance with its contracts with USAID, **Abt Associates** billed USAID in U.S. dollars for these labor costs.

8. In order to convert the local employee labor costs from the foreign currency to U.S. dollars, **Abt Associates** established equivalent U.S. dollar pay rates for local employees. This equivalent U.S. dollar pay rate was based on the exchange rate at the time the employee was hired. Even though **Abt Associates** billed USAID for foreign-based labor costs monthly, it did not recalculate the equivalent U.S. dollar pay rate more than annually.

9. In late 1999-early 2000, and thereafter, the local currency began to devalue in several foreign countries in which **Abt Associates** had significant USAID CPFF work. In many countries, this currency slide continued month after month.

10. As a result of the devaluing local currency, **Abt Associate's** actual local labor costs were less, in terms of U.S.

dollars. However, because **Abt Associates** failed to update the equivalent U.S. dollar pay rates in its billing system, it over-billed USAID for its foreign-based labor costs.

11. From at least May, 1999 to April 3, 2002, **Abt Associates** submitted more than 110 false vouchers to USAID on CPFF contracts based in Egypt, South Africa and Zambia in that they over-billed USAID for foreign labor costs. **Abt Associates** submitted additional false vouchers during the same period for CPFF contracts in the Dominican Republic, Guatemala, Honduras and Rwanda.

12. Although senior management at **Abt Associates** knew that the company was over-billing USAID in countries where the local currency was devaluating relative to the U.S. dollar, they did not stop the over-billing.

13. From at least May, 1999 to April 3, 2002, **Abt Associates** submitted vouchers/invoices to USAID which overstated the amount it paid for local labor costs in implementing foreign-based CPFF contracts by over \$194,000, including the vouchers specifically identified in counts 1 through 7.

COUNTS ONE THROUGH SEVEN

18 U.S.C. § 287 (False Claims)

14. Paragraphs 1 through 13 are incorporated herein by reference.

15. From at least May, 1999 to April 3, 2002, in the District of Massachusetts and elsewhere, the defendant,

Abt Associates Inc.,

presented to the United States and to a department and agency of the United States; namely, the United States Agency for International Development, claims upon and against the United States, and a department and agency of the United States, knowing that such claims were materially false, fictitious, and fraudulent; to wit, the vouchers detailed below:

Count	Date	Country	Project/Voucher No.	Amount
1	08/30/01	So. Africa	674-C-00-97- 00054/6592-64	\$97,569.57
2	10/12/01	Egypt	263-C-00-99- 00011/7022-30	\$279,712.01
3	10/18/01	So. Africa	674-C-00-97- 00054/6592-65	\$104,337.68
4	11/05/01	So. Africa	674-C-00-97- 00054/6592-66	\$104,059.20

Count	Date	Country	Project/Voucher No.	Amount
5	03/20/02	Egypt	263-C-00-99- 00011/7022-35	\$186,068.05
6	04/02/02	Egypt	263-C-00-99- 00011/7022-36	\$237,783.56
7	04/03/02	Zambia	690-C-00-99- 00012/6982-38	\$216,700.51

All in violation of Title 18, United States Code, Section
287.

MICHAEL J. SULLIVAN
United States Attorney

By: *Diane C. Freniere*
Diane C. Freniere
Assistant U.S. Attorney

EXHIBIT C - AGREED STATEMENT OF FACTS

Background

1. Unless a time period is otherwise stated with more specificity, the relevant time period for purposes of this statement of facts is from May 1999 through April 2002.
2. Abt Associates, Inc. ("Abt Associates") is an employee-owned company headquartered in Cambridge, Massachusetts. Abt Associates provides research and consulting services in the fields of social, economic, and health policy; international development; business research and consulting; and clinical trials and registries.
3. The United States Agency for International Development ("USAID") is an agency of the United States that was created by the Foreign Assistance Act of 1961, 22 U.S.C. §2381, et seq. USAID is responsible for administering many of the foreign economic assistance programs of the United States.
4. Abt Associates is one of USAID's largest contractors. Since January 2000, Abt Associates has been awarded or completed more than \$1 billion in USAID contracts. Pursuant to contracts awarded by USAID, Abt Associates helps foreign governments worldwide to implement economic development programs, and it provides technical assistance to facilitate policy reforms in countries moving to market-oriented economies. In addition, Abt Associates also provides developing countries with technical assistance in agriculture, health, the environment, and trade.

Billing on Government Contracts in Foreign Countries

5. Numerous USAID contracts required Abt Associates to perform work in foreign countries. Abt Associates typically set up offices in such countries, organized by contract, and staffed those offices with locally recruited employees who were citizens and/or residents of those countries, as well as with American citizens recruited in the United States. When required by the governing USAID contracts, the locally recruited employees were paid in the local currency (e.g., Egyptian Pounds, South African Rand, and Zambian Kwacha), rather than in U.S. Dollars. However, Abt Associates was required to submit its contract invoices to USAID in U.S. Dollars.
6. Many of Abt Associates' contracts with USAID were designated "Cost Plus Fixed Fee" ("CPFF") contracts. Under CPFF contracts, Abt Associates was entitled to be reimbursed for allowable costs incurred in performing the contract, including local labor costs, plus a contractually agreed upon fee.

7. Abt Associates had two accounting systems. The Deltek system was used by Abt Associates to prepare billings on all contracts, including foreign-based contracts with the U.S. government. A second system, unrelated to Deltek, was used by Abt Associates to calculate and pay local labor expenses, including salaries.
8. Using the Deltek system, Abt Associates generated invoices to the U.S. government for foreign-based labor costs which were calculated by multiplying the number of hours an individual worked by that individual's hourly salary rate. The number of hours an individual worked was taken from employee time sheets that were sent on a weekly basis from the foreign offices to Abt Associates' Cambridge office. It was the individual hourly salary information maintained on the Deltek system which was not routinely updated and was inflated at many times during the relevant time period, that gave rise to Abt Associates' over-billing of the government on CPFF contracts.
9. The salary rate information maintained in Deltek for an individual employee was initially entered when an employee was hired. The salary rate entered was the U.S. Dollar equivalent of the employee's salary, which was paid in local currency. Abt Associates' procedures called for this Deltek salary information to be adjusted annually as pay increases were awarded. In a stable exchange rate environment, the Deltek salary information would accurately reflect, in U.S. Dollars, the amounts paid to the local employees, and thus the labor costs billed to USAID based on that Deltek information would accurately reflect Abt Associates' foreign labor costs. However, when local currencies fell against the U.S. Dollar and the salary rates in the Deltek system were not adjusted to reflect the currency fluctuations, the contract invoices based on information from the Deltek system overstated Abt Associates' actual labor costs.

Deltek Billing, Currency Fluctuations, and Over-billing

10. Prior to 1999, the foreign currency - U.S. Dollar exchange rates in the countries in which Abt Associates performed work for USAID were generally stable. However, starting in 1999 (in South Africa) and mid-2000 (in Egypt), the exchange rates began to fluctuate significantly. As exchange rates fluctuated, notably devaluing in Egypt, South Africa, Zambia and other countries, Abt Associates was able to purchase the local currencies to pay its local employees for fewer U.S. Dollars. Said another way, Abt Associates' true foreign labor costs in dollars decreased. Yet, because the salary information in Deltek was static and incorrect, Abt Associates billed USAID for more than its true local labor costs, resulting in the over-billing that is the subject of this deferred prosecution.
11. Salary and exchange rate information in Deltek could have been updated by Abt Associates by making manual entries, employee by employee, to reflect all of the exchange rate fluctuations in countries in which USAID CPFF contracts were being performed. In fact, Abt Associates had a policy in place which specified that exchange rates were to be adjusted when exchange rates changed by more than 5 percent in any

quarterly period. This was not done. Instead, Abt Associates generally updated the Deltek salary information annually to coincide with the cycle of employee raises. Abt Associates' update of salary and exchange rate information mitigated the over-billing amount in countries where the local currency was falling, although the practice of annually updating the salary information in Deltek was not consistently observed for all countries.

12. Abt Associates had no uniform oversight over the accounting procedures of the local foreign offices.
13. In that one-third of Abt Associates' work was international, tracking the exchange rates for the various countries in which it performed work was just a routine part of everyday business. For example, on a monthly basis, the Egyptian Administrator sent an e-mail to the Abt Associates' stateside employees informing them of the exchange rate that she received at the local bank for the monthly wire transfer from Cambridge. Similar information was provided by employees resident in other countries in which Abt Associates performed work and converted U.S. Dollars into the local currency.
14. After a fairly stable run, in 1999 and into 2000 the local currency began to devalue in a number of countries in which Abt Associates had significant CPFF government contracts. In many countries, the currency slide continued month after month. Senior management at Abt Associates discussed the exchange rate fluctuation and Abt Associates' use of fixed U.S. Dollar currency conversion rates which, in turn, created billing issues.
15. By at least June 2000, several members of Abt Associates' management team knew that its static, fixed-rate Deltek billing system, in the environment of a fluctuating exchange rate, was resulting in inaccurate billing to its customers, among them the U.S. government.
16. Although Abt Associates hoped to bring a new billing system, Oracle, online to replace the Deltek system, Oracle's implementation was repeatedly delayed until sometime in mid-2002, after the investigation resulting in this deferred prosecution began.
17. Between the clear uncovering of the billing inaccuracies in mid-2000 until the fall of 2000, Abt Associates' personnel did little more than to discuss this issue. After much internal discussion, in November 2000, Abt Associates' International Support Unit ("ISU") published ISU Bulletin No. 15, a written policy regarding Local Hire Guidelines. The bulletin detailed Abt Associates' response to the billing issues created by exchange rate fluctuations. In brief, the bulletin directed Abt Associates' International Finance Unit to check exchange rate fluctuations on a quarterly basis and to make adjustments to the exchange rate/salary information in the Deltek system if the exchange rate fluctuated by more than 5%. If implemented, ISU No. 15 could have corrected, or at least significantly reduced, billing errors attributable to exchange rate fluctuations. However, Abt

Associates never implemented ISU No. 15. Instead, Abt Associates continued to bill USAID for local labor costs using exchange rates that were not frequently updated to reflect currency exchange rate fluctuations, and as a result, Abt Associates' invoices to USAID were inaccurate because they were based on out-of-date foreign currency exchange rates.

The Presentation of False Claims to the Government

18. Abt Associates' invoices to USAID were presented on a Standard Form 1034, Public Voucher for Purchases and Services Other Than Personnel. Abt Associates' government billing manager prepared the SF1034s during most of the pertinent time period. As part of the SF1034, Abt Associates' government billing manager certified on behalf of the Company that "the sum claimed under this contract is proper and due" and "that all costs of contract performance . . . have been paid."
19. As an example, SF1034 vouchers were submitted to USAID monthly, for each ongoing contract in Egypt. The vouchers were consecutively numbered, by contract, month-to-month, and sent from Cambridge to USAID's Financial Management office at USAID in Cairo, which was responsible for directing the transfer of government funds to Abt Associates' bank account in Massachusetts.
20. There were at least 110 vouchers submitted on Cost Plus Fixed Fee (CPFF) contracts in Egypt, South Africa, and Zambia that were false in that they over-billed USAID because Abt Associates used outdated and higher exchange rates to calculate local labor costs.
21. In addition to these 110 vouchers, Abt Associates also submitted vouchers for CPFF contracts in the Dominican Republic, Guatemala, Honduras, and Rwanda that similarly overstated the then-current U.S. Dollar value of Abt Associates' local labor costs.
22. Abt Associates submitted each of the vouchers enumerated in paragraph 15 of the Information, counts 1 through 7, to USAID knowing that those vouchers contained materially false information, specifically the total labor costs incurred by Abt Associates during the billing cycle covered by the voucher in violation of 18 U.S.C. §287.

SETTLEMENT AGREEMENT

I. PARTIES

This Settlement Agreement is entered into this 28th day of December, 2006, between the UNITED STATES OF AMERICA, acting through the Department of Justice and on behalf of the United States Agency for International Development ("USAID") (collectively the "United States"), and ABT ASSOCIATES INC. ("Abt Associates"). Collectively, all of the above will be referred to as "the Parties." For purposes of this Settlement Agreement, all references to Abt Associates shall include subsidiaries of Abt Associates.

II. PREAMBLE

As a preamble to this Settlement Agreement, the Parties agree to the following:

A. Abt Associates Inc. is an employee-owned company headquartered in Cambridge, Massachusetts. Abt Associates offers a wide variety of research and consulting services to global businesses, organizations, and governments. The company's business research operations include market research, customer satisfaction measurement, and strategic marketing consulting. In addition to its market research services, Abt Associates also designs and implements clinical trials and serves the public sector through its work in policy analysis for international economic development. International operations account for about one-third of the company's revenues.

B. The United States asserts that Abt Associates submitted or caused to be submitted claims for payment to USAID.

C. The United States contends that it has certain civil claims, as specified in the Agreed Statement of Facts, which is an exhibit to the Deferred Prosecution Agreement referenced below. The Agreed Statement of Facts will hereinafter be referred to as "the Covered Conduct."

D. The United States contends also that it has certain administrative claims against Abt Associates for engaging in the Covered Conduct.

E. Abt Associates and the United States have also entered into (1) the Deferred Prosecution Agreement, to which this Settlement Agreement is exhibited; and (2) the Compliance Agreement, which is an exhibit to the Deferred Prosecution Agreement.

F. In order to avoid the delay, uncertainty, inconvenience and expense of protracted litigation of these claims, the Parties reach a full and final settlement as set forth below.

III. TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual promises, covenants, and obligations set forth below, and for good and valuable consideration as stated herein, the Parties agree as follows:

1. Abt Associates agrees to pay the United States, in full satisfaction and accord, a total of \$583,734 (the "Settlement Amount"). This sum shall constitute a debt immediately due and owing to the United States. The debt is to be discharged by payment to the United States Treasury by electronic funds transfer pursuant to written instructions to be provided by the United States Attorney's Office for the District of Massachusetts. Abt Associates agrees to make this electronic funds transfer no later than the Effective Date, as defined below.

2. Subject to paragraph 3 below, in consideration of the obligations of Abt Associates set forth in the Settlement Agreement, and conditioned upon Abt Associates' full payment of the Settlement Amount, the United States (on behalf of itself, its officers, agents, agencies, and departments) agrees to release, waive, and discharge Abt Associates, its current and former affiliates, subsidiaries, divisions, or subdivisions, its successors and assigns and all of their respective current and former officers, directors, employees, agents or representatives, from any

civil, administrative or contract claims, demands, causes of action, suits, liabilities, costs, damages or expenses the United States has or may have under common law; the False Claims Act, 31 U.S.C. §§ 3729 - 3733; the Civil Monetary Penalties Law, 42 U.S.C. § 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; the Contracts Disputes Act, 41 U.S.C. § 601 *et seq.*; or any other statute creating causes of action for civil damages or penalties, for the Covered Conduct.

3. The United States does not release, and specifically reserves the right to assert, the following claims, as to which Abt Associates, its current and former officers, directors, employees, affiliates, successors and assigns, reserve the right to assert all defenses:

- a) Any claims arising under Title 26, U.S. Code (Internal Revenue Code);
- b) Any criminal liability, except as otherwise provided for in the Deferred Prosecution Agreement;
- c) Except as explicitly stated in this Settlement Agreement, any administrative liability;
- d) Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;
- e) Any claims based upon such obligations as are created by this Settlement Agreement;
- f) Any express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services, provided by Abt Associates.

4. Abt Associates waives and will not assert any defenses Abt Associates may have to any criminal prosecution or administrative action relating to the Covered Conduct, which

defenses may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Settlement Agreement bars a remedy sought in such criminal prosecution or administrative action. Abt Associates agrees that this Settlement Agreement is not punitive in purpose or effect.

5. Abt Associates expressly warrants that it has reviewed its financial situation and that it is currently solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(1)(B)(ii)(I), and will remain solvent following payment to the United States hereunder. Further, the Parties expressly warrant that, in evaluating whether to execute this Settlement Agreement, the Parties (a) have intended that the mutual promises, covenants and obligations set forth herein constitute a contemporaneous exchange for new value given to Abt Associates, within the meaning of 11 U.S.C. § 547(c)(1), and (b) have concluded that these mutual promises, covenants and obligations do, in fact, constitute such a contemporaneous exchange.

6. Abt Associates, its current and former affiliates, subsidiaries, divisions, or subdivisions, its successors and assigns and all of their respective current and former officers, directors, employees, agents or representatives, fully and finally releases the United States, its agencies, employees, servants, and agents from any claims (including attorney's fees, costs, and expenses of every kind and however designated) that Abt Associates has asserted, could have asserted, or may assert in the future against the United States, its agencies, departments, employees, servants, and agents, related to the Covered Conduct and the United States' investigation and prosecution thereof.

7. It is agreed that all costs (as defined in Federal Acquisition Regulation § 31.205-47) incurred by or on behalf of Abt Associates and its officers, directors, agents, representatives and

employees in connection with (1) the government's investigation of the matters covered by this Settlement Agreement; (2) Abt Associates' investigation and defense of the matters covered by this Settlement Agreement and any resultant corrective action; (3) the negotiation of this Settlement Agreement; and (4) the payment made to the United States pursuant to this Settlement Agreement shall be unallowable costs for government contract accounting purposes. These amounts shall be separately accounted for by Abt Associates.

8. This Settlement Agreement is made in compromise of disputed claims. Except as explicitly set forth in the Deferred Prosecution Agreement, neither this Settlement Agreement, its execution or performance of any obligation under it, including payment of damages, nor the fact of the settlement, is intended to be, or shall be understood as, an admission by Abt Associates of a violation of any law or regulation.

9. In no event are the terms of this Settlement Agreement intended to, nor are they to be construed to, work as a release of liability or in any way create a benefit in favor of any person not a party to this Settlement Agreement.

10. The Parties each represent that this Settlement Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

11. The provisions of this Settlement Agreement shall be binding upon the parties to it, their affiliated entities, and their collective successors and assigns.

12. All parties consent to the public disclosure of this Settlement Agreement.

13. This Settlement Agreement and its exhibits constitute the complete agreement between the Parties. This Settlement Agreement may not be amended except by written consent of the Parties.

14. Each person who signs this Settlement Agreement in a representative capacity warrants that he or she is duly authorized to do so.

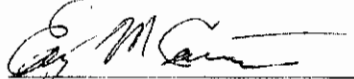
15. This Settlement Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between and among the Parties under this Settlement Agreement will be the United States District Court for the District of Massachusetts, except that disputes arising under the Compliance Agreement incorporated herein by reference shall be resolved through the dispute resolution provisions set forth in the Compliance Agreement.

16. This Settlement Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

17. This Settlement Agreement shall become effective only upon: (a) execution of the Settlement Agreement by Abt Associates and the United States; (b) execution of the aforementioned Deferred Prosecution Agreement and Compliance Agreement; and (c) Court approval of the Deferred Prosecution Agreement in accordance with 18 U.S.C. §3161 (h)(2). The date when all of these criteria are met shall be the Effective Date of this Agreement.

IN WITNESS WHEREOF, the parties hereto affix their signatures.

UNITED STATES OF AMERICA



Eugenia M. Carris
Assistant United States Attorney
District of Massachusetts

Dated: 12/28/06

Abt Associates



Wendell J. Knox
President and Chief Executive Officer

Dated: 12/28/06

Robert D. Luskin
Patton Boggs LLP
2550 M Street NW
Washington, D.C. 20037
Counsel for Abt Associates

Dated: _____

Abt Associates

Wendell J. Knox
President and Chief Executive Officer

Dated: _____



Robert D. Luskin
Patton Boggs LLP
2550 M Street NW
Washington, D.C. 20037
Counsel for Abt Associates

Dated: 18 December 2006

COMPLIANCE AGREEMENT

THIS AGREEMENT is made by and between Abt Associates Inc. ("Abt Associates"), 55 Wheeler Street, Cambridge, Massachusetts 02138, and the United States Agency for International Development ("USAID"), 1300 Pennsylvania Avenue, NW, Washington, DC 20523.

WHEREAS, USAID and the Office of the United States Attorney, Boston, Massachusetts, investigated certain billing inaccuracies made by Abt Associates in its contracts with USAID during the period from 1999 to 2002; specifically, invoices on which foreign currency expenses were converted to U.S. Dollars on invoices submitted to USAID on cost-plus-fixed-fee contracts;

WHEREAS, upon the conclusion of that investigation, Abt Associates consented to the contemporaneous filing of a Deferred Prosecution Agreement, to which this Agreement is exhibited, and a Settlement Agreement, also exhibited in the Deferred Prosecution Agreement;

WHEREAS, Abt Associates agreed to implement measures to change its foreign currency conversion procedures to conform to the corresponding contracts and other agreements with USAID, and has established other procedures to promote compliance with its other obligations under contracts with USAID and other U.S. Government agencies;

WHEREAS, for purposes of this Agreement, USAID is acting as lead agency for all other U.S. Government departments, agencies, or instrumentalities, including those that have contracts with Abt Associates on the effective date of this Agreement, or had contracts during the period encompassed by the investigation (collectively, the "U.S. Government Contract Clients");

NOW, THEREFORE, in consideration of the foregoing and the mutual obligations set forth in this Compliance Agreement (“Agreement”), Abt Associates and USAID agree as follows:

1. Effective Date and Term.

This Agreement shall be effective only upon: (i) execution by all parties to this Agreement, including USAID, acting as the lead Government Contracting Agency for all U.S. Government Contract Clients; (ii) execution by all parties to the aforementioned Deferred Prosecution Agreement and Settlement Agreement; and (iii) Court approval of the Deferred Prosecution Agreement in accordance with 18 U.S.C. §3161 (h)(2). The term of this Agreement (the “Compliance Period”) shall expire 27 months from the execution date of this Agreement.

2. Compliance Obligations of Abt Associates.

During the Compliance Period, Abt Associates shall comply with the following:

2.1 Abt Associates shall fully comply with the obligations under the Deferred Prosecution Agreement and its Exhibits, including without limitation, the obligations set forth in those agreements regarding the maintenance of a Foreign Currency Transaction Policy, as well as required internal controls, internal and independent audit procedures, reporting and production requirements, and compliance and ethics training.

2.2 Abt Associates’ management will **continue** to conduct an annual international site risk assessment for all international sites, and within 60 days of the effective date of this Agreement, shall produce written operating procedures for such assessments. The assessments shall consist of at least the following steps: (i) detailed written questionnaires are completed by the Chiefs of Party in Abt Associates’ overseas projects, and their Finance and Administrative staff, to assess management risk in compliance/audit categories such as: contract management, payroll, time

reporting, cash (including petty cash), compliance with local laws, standards of conduct, etc.; (ii) in addition to answering a series of questions in each category, each international site assigns a risk ranking to each category--high, medium or low; (iii) Abt Associates' Division Management and Department Management also rank each site on the same categories and a written summary is produced for each site; (iv) communications are conducted with each Chief of Party to review and reconcile the risk rankings, and to agree upon the areas of risk and required follow-up action steps; and (v) Division and Department Management are responsible for ensuring that all follow-up action steps are completed.

2.3 Within 60 days of the effective date of this Agreement, Abt Associates will modify its conflict of interest policies and procedures to implement the following requirements applicable to communications with U.S. Government employees regarding prospective employment at Abt Associates. Upon the initiation of any discussions between Abt Associates and a U.S. Government employee or the spouse or immediate family member of a U.S. Government employee concerning prospective employment by Abt Associates, whether the discussions are initiated by the employee or Abt Associates, that potential employee shall be informed in writing by Abt Associates that all such discussions shall be suspended until the potential employee receives an ethics opinion from the cognizant ethics official at the applicable U.S. Government agency. Abt Associates may resume employment-related discussions with that potential employee, and may extend an offer of employment, only if: (i) a copy of the ethics opinion is provided to Abt Associates; and (ii) the ethics opinion authorizes the individual to continue such discussions, subject to any recusals or other restrictions that may be imposed. This procedure shall apply to U.S. Government employees at or above the GS-11 grade level or FS-04 level in the Foreign Service system.

2.4 Within 60 days of the effective date of this Agreement, Abt Associates will modify its conflict of interest policies and procedures to implement the following requirements

applicable to actual or prospective conflicts of interest identified by Abt Associates. Whenever Abt Associates identifies a prospective conflict of interest, or the appearance of a conflict of interest, arising from (i) a spousal or other familial relationship between an Abt Associates employee and a U.S. Government employee; or (ii) a financial, contractual or other commercial relationship between an Abt Associates employee and a U.S. Government employee, Abt Associates shall provide written notice to the responsible U.S. Government Contracting Officer. The notice shall request comment, and if appropriate, referral to the cognizant U.S. Government agency ethics official. As directed by the Contracting Officer in response to such notices, Abt Associates shall confer with the U.S. Government agency regarding recusals and/or other measures, if any, which may be necessary to mitigate or avoid a conflict of interest.

2.5 Within 60 days of the effective date of this Agreement, Abt Associates shall propose the services of an independent auditing or consulting firm. Upon approval by USAID, Abt shall retain the services of the firm to assure compliance with this Agreement. The independent auditor/consultant shall, no less than on an annual basis, contemporaneously produce a certified report to the Board of Directors for Abt Associates and to USAID on Abt Associates' compliance with Paragraphs 2.2, 2.3 and 2.4 of this Agreement, and report on the implementation, adequacy, and effectiveness of Abt Associates' ethics program. The independent auditing/consulting firm shall have full and complete access to, and the right to make copies of, all books, records, accounts, correspondence, files, and other documents and electronic records of Abt Associates and its officers, agents and employees. The independent auditing/consulting firm shall treat financial information as confidential and accordingly shall limit distribution of such financial information to parties to this agreement and the related agreements described above. Abt Associates shall direct all officers, employees, agents and consultants to cooperate fully with the independent auditor/consultant, including providing documents and submitting to interviews. All cost incurred

by Abt Associates for the services of an auditing/consulting firm as required by this paragraph, and any cost incurred to undertake corrective measures necessitated by the findings rendered by the auditing/consulting firm, shall be deemed to be unallowable costs, whether direct or indirect, and shall be borne solely by Abt Associates with no right of recovery, offset or reimbursement out of any federal funds or funds originally derived from the federal government.

3. No Debarment, Suspension or Administrative Sanctions.

In consideration of Abt Associates' compliance with the terms of this Agreement, together with the Deferred Prosecution Agreement and Settlement Agreement, USAID and the U.S. Government Contract Clients shall not suspend, debar, propose suspension or debarment of, or impose any other administrative sanction on, Abt Associates based on: (i) the information, allegations or agreed facts recited in those agreements; (ii) the fact that Abt Associates entered into the Deferred Prosecution Agreement and/or the Settlement Agreement; or (iii) any related criminal conviction, judgment, or settlement resulting therefrom. USAID represents it has authority to act as lead agency on behalf of all the U.S. Government Contract Clients for purposes of this Agreement. This paragraph shall survive expiration of the Compliance Period.

4. General Provisions.

4.1 This Agreement relates solely to the subject matter described herein, and nothing in this Agreement shall waive any criminal, contractual, or administrative remedy or right which USAID or the Government Contracting Agencies may be entitled to pursue for conduct other than described by this Agreement, the Deferred Prosecution Agreement or the Settlement Agreement.

4.2 In the event Abt Associates knowingly violates any provision of this Agreement, this Agreement shall terminate, and USAID and the Government Contracting Agencies shall be entitled to pursue any remedies provided by law, including administrative action, without regard to the terms of this Agreement. If a breach is alleged, Abt Associates shall be provided with written notice and 30 calendar days to present evidence that no breach occurred. Whether or not a breach has occurred under this document shall be within the sole discretion of USAID.

4.3 For purposes of this Agreement, all references to Abt Associates shall include subsidiaries of Abt Associates. Abt Associates agrees that if it sells or merges all or substantially all of its business operations as they exist on the effective date of this Agreement to or into a single purchaser or group of affiliated purchasers during the Compliance Period, it shall include in any contract for sale or merger a provision binding the purchaser/successor to the obligations described in this Agreement.

4.4 Abt Associates shall maintain documentation sufficient to demonstrate its compliance with the requirements of this Agreement and shall produce such documentation to USAID within 14 calendar days of a request that such documents be produced.

4.5 All notices pursuant to this Agreement shall be mailed to the following:

If to USAID:

Chief Acquisition Officer
Office of Acquisition and Assistance
U.S. Agency for International Development
Rm. 7.09-099, RRB
1300 Pennsylvania Avenue NW
Washington DC 20523

If to Abt Associates:

Chief Operating Officer
Abt Associates Inc.
55 Wheeler Street
Cambridge, Massachusetts 02138

4.6 Each person who signs this Agreement in a representative capacity warrants he or she is duly authorized to do so

4.7 This Agreement constitutes the complete agreement between the parties, and may not be amended except by written instrument executed by all parties. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

FOR USAID:



Dated: December 27, 2006

FOR ABT ASSOCIATES INC.:



Dated: 12/28/06