



United States Department of State

Bureau of Political-Military Affairs

Washington, D.C. 20520-6817

United States Department of State
Bureau of Political Military Affairs
Washington D.C. 20520

In the Matter of:

THE DIRECTV GROUP INC.
HUGHES NETWORK SYSTEMS INC.

Respondents

CONSENT AGREEMENT

WHEREAS, the Directorate, Defense Trade Controls, Bureau of Political Military Affairs, U.S. Department of State ("Department") has notified The DIRECTV Group Inc. ("DTV") and its wholly owned subsidiary, Hughes Network Systems Inc ("HNS") (together, the "Respondents") of its intent to institute an administrative proceeding pursuant to the Arms Export Control Act (the "Act") (22 U.S.C. § 2778 (e)) and its implementing regulations, the International Traffic in Arms Regulations ("ITAR" or "Regulations") (22 C.F.R. § 120-130), based on allegations of violations of Section 38 of the Act and § 127 of the Regulations as set forth in a Draft Charging Letter issued to the Respondents, attached hereto and incorporated by reference herein. The alleged violations committed by HNS include its unauthorized export of technical data, defense services and defense articles to foreign person employees, to include those of proscribed countries, and other matters as set forth herein concerning their business activities;

WHEREAS, the Respondents, having reviewed the Draft Charging Letter and this Consent Agreement, fully understand these documents and enter into this Agreement voluntarily and with full knowledge of their rights;

WHEREAS, the Respondents, by entering into this Consent Agreement, wish to settle and dispose of all civil charges, penalties and sanctions associated with alleged violations of Section 38 of the Act or Regulations arising from the facts which the Respondents have disclosed in writing to the Department or have been identified in the Draft Charging Letter;

WHEREAS, the Department acknowledges that the Respondents described these matters in voluntary disclosures submitted to the Department and cooperated with the Department's investigation of this matter;

WHEREAS, the Department and the Respondents agree to be bound by this Agreement and a related administrative order ("Order") (attached) to be entered by the Assistant Secretary of State for Political Military Affairs.

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

Parties

(1) The Parties to this Agreement are the Department, The DIRECTV Group, Inc, and Hughes Network Systems, Inc. including the companies' assignees and successors, in particular their business units engaged in the manufacture and/or export of defense articles and defense services related to Very Small Aperture Terminals ("VSATs") and related ground-segment equipment, for use in satellite-based telecommunications networks.

Jurisdiction

(2) The Department has jurisdiction over the Respondents under the Act and the Regulations in connection with the matters identified in the Draft Charging Letter.

Defense Services and Foreign Defense Articles

(3) The Respondents acknowledge their understanding and accept the definition of "defense services" in the Regulations which sets out responsibilities and requirements which are binding as a matter of law and regulation on them, and that the furnishing of defense services to foreign persons, as defined in the ITAR, including in particular § 120.9 and § 124.1

(a), is appropriately subjected to control under the Regulations by the Department 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).

Penalty

(4) The Respondents agree that they shall pay in fines and remedial compliance measures a civil penalty of \$5,000,000 (five million dollars), comprised of the amounts stipulated in subparagraphs (a) and (b), in complete settlement of all alleged civil violations pursuant to Section 38 of the Act as set forth in the Department's Draft Charging Letter. This civil penalty shall be payable as follows:

- a. DTV shall pay a fine of \$4,000,000 (four million dollars) divided as follows: \$1,000,000 (one million dollars) shall be paid by DTV to the Department of State within ten days of the signing of the Order and \$1,000,000 (one million dollars) shall be paid by DTV in future installments to the Department on the first, second, and third anniversary of the signing of the Order. The Respondents agree that the effect of any statutory limitation to the collection of the civil penalty imposed by this Agreement be tolled until the last payment is made and all terms of this Consent Agreement are satisfied.
- b. An additional civil penalty of \$1,000,000 (one million dollars) is hereby assessed for enhanced remedial compliance measures at HNS and its subsidiaries. HNS will apply this amount over a three (3) year period for the purpose of defraying a portion of costs associated with the remedial compliance measures specified in the Annex of Compliance Measures. HNS has already strengthened compliance measures that have been identified by the Respondents to the Department and were evaluated by the Department as a mitigating factor in the assessment of the additional civil penalty for remedial compliance measures. HNS will provide annually to the Department on the anniversary of the date of the Order written accounting of the expenditures associated with this penalty, as specified in the Annex of Compliance Measures, as described below. For as long as HNS is a

wholly-owned subsidiary of DTV, this written accounting of expenditures report will also be certified by DTV.

- c. Any failure by HNS to apply funds appropriately for the required purposes cited in paragraph (b) for remedial compliance enhancements or to provide a satisfactory accounting shall result in HNS being required to pay immediately the balance of the civil penalty for remedial compliance measures to the Department.
- d. HNS is precluded from applying the amounts expended for remedial compliance programs as reimbursable costs in any contract with any agency of the U.S. Government, either as a prime contractor or indirectly as a sub-contractor. In the event HNS violates this prohibition, the Department will deem it a "failure to apply funds appropriately for the required purposes", specified in paragraph (c).
- e. As enumerated in paragraph (b) above, the accounting shall be accompanied by individual statements from HNS and DTV (in the case of DTV, for so long as HNS is a wholly-owned subsidiary of DTV), that the expenditures meet the requirements of paragraph (b) and also certify that these expenditures have not been billed to or recovered from the U.S. Government as reimbursable costs allocated to any U.S. Government contract for reimbursement.

Debarment

(6) The offenses alleged in the Draft Charging Letter relate to the HNS' regulated activities with respect to the unauthorized export of technical data, defense services and defense articles to foreign person employees to include those of proscribed countries, and concerns about the reliability of the business units involved in this matter.¹ The Department has advised DTV and HNS that Hughes Network Systems (Beijing) Co. Ltd. (HNS China), HNS' wholly owned subsidiary, is to be debarred due to their actions in this matter. This debarment will remain in place until lifted by the

¹ On January 4, 2005, the Department notified DTV in a sanction letter, that it was placing HNS under a Policy of Denial for one year, effective May 14, 2004, when the Department placed HNS under a Policy of Denial. The Policy of Denial of HNS was a result of its violations of an existing Consent Agreement with the Department.

Department. DTV or HNS or their successors may request that this debarment be lifted after May 14, 2005. Reinstatement is not automatic but is contingent on full compliance with the terms of this Consent Agreement and evidence that the underlying problems that gave rise to these violations have been addressed.

(7) A debarment of DTV and HNS is not appropriate at this time in view of their acknowledgement of the seriousness of the alleged violations outlined in the Draft Charging Letter and for the consequences of those alleged violations, and their agreement to take significant remedial actions, including efforts to improve their corporate compliance programs as specified herein. The Department reserves the right to consider imposing additional sanctions, including debarment of DTV or HNS or any of their subsidiaries, as appropriate, in the event that DTV or HNS for any reason does not fulfill the provisions of this Consent Agreement or are responsible for other violations under the Act or other statutes specified in 22 C.F.R. § 120.27.

Appointment of a Special Compliance Official

(8) DTV will appoint an official from outside the corporation to serve as a Special Compliance Official. The authorities and responsibilities of this official are described in the Annex of Compliance Measures of the March 4, 2003 Consent Agreement relating to HNS. Notwithstanding the provisions of the Annex of Compliance Measures of the March 4, 2003 Consent Agreement, the term of the Special Compliance Official shall be three (3) years from the date of the signing of the Order.

On-Site Audits

(9) For the purpose of assessing compliance with the provisions of the Act, the Regulations and future munitions licenses and authorizations, the Respondents agree to arrange and facilitate, with minimum advance notice, on-site audits of their business units involved in activities subject to the Regulations and Act, and in particular business units involved in the production of ITAR controlled parts, wherever situated, by the Department during the three year (3) period of this Agreement, commencing on the signing of the Order.

Understandings

(10) No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, when entered, nor shall this 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 herein, except as otherwise noted. Specifically, the Respondents acknowledge and accept that there is no understanding expressed or implied through this Agreement with respect to a final decision by the Department of State concerning their interest in the approval of licenses or other U.S. Government export authorizations. The Department agrees, assuming the Respondents' adherence to the terms of this Agreement, and the Act and the Regulations more broadly, that decisions concerning future export license applications for the Respondents will be made on the basis of the security and foreign policy interests of the United States, without reference to the Department's previously expressed concerns regarding the Respondents' reliability, which concerns are considered to be appropriately mitigated through the operation of various provisions of this Agreement.

(11) The Department and the Respondents agree that this Agreement is for settlement purposes only. For purposes of this Agreement, the Respondents neither admit nor deny the allegations in the Draft Charging Letter (including without limitation those set forth in the "Relevant Facts" and "Charges" section of that letter). The Respondents acknowledge the nature and seriousness of the offenses alleged by the Department in the Draft Charging Letter, and wish to make amends through the payment of the penalties, as set forth in this Agreement, and also through the establishment of an effective corporate compliance program that will seek to prevent any future violations such as those addressed in the Draft Charging Letter. If this Consent Agreement is not approved pursuant to an Order entered into by the Assistant Secretary for Political Military Affairs, the Department and the Respondents agree that they may not use this Agreement in any administrative or judicial proceeding and that none of the parties shall be

bound by the factual matters admitted in this Agreement in any subsequent administrative or judicial proceeding.

(12) The Department agrees that, upon signing of the Order and entry into force of this Agreement, this Agreement resolves with respect to the Respondents any civil penalties or sanctions imposed with respect to violations of Section 38 of the Act or Regulations alleged in the Draft Charging Letter or arising from facts that the Respondents have disclosed in writing to the Department or that have been identified in the Draft Charging Letter.

Waiver

(13) The Respondents agree that, upon signing of the Order and entry into force of this Consent Agreement, they waive all rights to seek administrative or judicial consideration or review of, or to otherwise contest, the validity of this Consent Agreement, the Order or this matter, including in any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement except that neither of the Respondents waives their aforesaid rights with regard to any alleged violations of this Agreement.

March 4, 2003 Consent Agreement and Annex of Compliance Measures

(14) The Respondents agree that the terms and conditions of the Consent Agreement and Annex of Compliance Measures that was signed on March 4, 2003, between the Department and Hughes Electronics Corporation (now DTV) are still binding. Further, that additional compliance measures outlined as an addendum to this Agreement will also be implemented and included to the Annex of Compliance Measures of March 4, 2003, and are binding on DTV, HNS and any successor company.

Documents to be Made Public

(15) The Respondents understand that the Department will make this Agreement, including the Annex of Compliance Measures, the Draft Charging Letter and the Order, when entered, available to the public in accordance with the Department's practices and procedures.

(16) This Consent Agreement shall become binding on the Department, HNS and DTV 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 after full administrative hearing on the record.

Certifications

(17) At the conclusion of the three (3) year term of this Consent Agreement, the Presidents, General Counsels and the Director, Export Compliance of HNS and DTV and the SCO appointed by DTV pursuant to the Annex of Compliance Measures, will submit to the Director, DTCC, written certifications, on behalf of each company, that all aspects of the Consent Agreement have been implemented, that they have assessed their respective company's current compliance program, and attest that it is adequate to prevent and identify violations of the Act and Regulations to the maximum degree possible and that all fines that were to be directed toward enhanced compliance measures were not billed to any U.S. Government contract for reimbursement.

U.S. Department of State

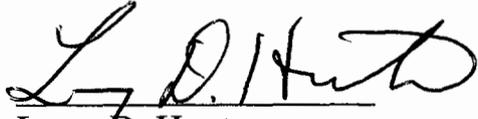


Rose M. Likins

Acting Assistant Secretary for
Political Military Affairs

January 26, 2005
(Date)

The DIRECTV Group, Inc.

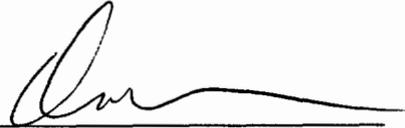


Larry D. Hunter

Executive Vice President, General Counsel and Secretary

January 19, 2005
(Date)

Hughes Network Systems, Inc.



Dean Manson

General Counsel

January 19, 2005
(Date)

Addendum to March 4, 2003 Schedule of Compliance Measures

The DIRECTV Group, Inc. (DTV) and Hughes Network Systems, Inc. (HNS) (together, the "Respondents") reflecting their commitment to conduct their businesses in full compliance with the Arms Export Control Act (the "Act") and the International Traffic in Arms Regulations (the "ITAR" or "Regulations"), and in order to ensure, in particular, that there are no unauthorized exports of ITAR controlled defense articles or defense services whatsoever to any foreign person, including any of its foreign partners, or any other defense article or defense service agree to implement the following additional remedial compliance measures (in addition to those already imposed by the March 4, 2003 Consent Agreement) and such additional measures as may be mutually agreed upon by the Respondents and the Director, Defense Trade Controls Compliance ("DTCC"), and agree further that these new measures will be honored for a three year period, unless otherwise noted, as part of the Consent Agreement entered into with the Department of State:

Participation in a Society For International Affairs Panel Discussion

1. The Respondents agree to participate in a panel discussion at a Society for International Affairs Conference during calendar year 2005. This panel discussion, which will be comprised of DTV and HNS and Defense Trade Controls Compliance senior executives, will be a case study, presenting "lessons learned" as a result of this matter.

Review Existing Export Controls Compliance Program

2. The Respondents agree to review, in coordination with the SCO, their existing export compliance program to ensure that there are written policies, procedures and guidelines for complying with export control laws and regulations describing in detail the export control assignments and responsibilities within the organization and provide a written report to the Director, Defense Trade Controls Compliance (DTCC) within 90 days of the signing of the Order providing a status of that review, adequacy of the current program and changes that are recommended. This report shall include recommendations to address program shortcomings regarding

oversight, lines of responsibility and adequacy of legal support provided to responsible company officials.

Enhanced Export Controls for Hughes Network Systems (Beijing), Ltd
(HNS China)

3. The Respondents have been advised that HNS China shall be debarred from engaging in any defense export control business. The Respondents agree to conduct an export compliance audit of HNS China and other foreign subsidiaries (specifically, Hughes Escorts Communications Ltd. and Hughes Network Systems Ltd.) involved in this matter within 180 days of the signing of the Order to assess such entities' current policies and procedures including, inter alia, management controls, level of legal guidance provided by HNS and DTV, internal control process for adherence to export licenses and exemptions, record keeping, commission payments, brokering activity and whether and to what extent adequate training has been provided to HNS China employees to control any future unauthorized release of ITAR controlled technical data or defense services to foreign customers or foreign persons. The Respondents shall submit a written report within 30 days of the conclusion of that audit containing recommendations for improvements with respect to the aforesaid measures or compliance with the Act or Regulations more generally.