

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

<b>UNITED STATES OF AMERICA</b>	:	
v.	:	<b>CRIMINAL NO. 07 -</b>
<b>E-STAR, INC.</b>	:	

**GUILTY PLEA AGREEMENT**

Under Rule 11 of the Federal Rules of Criminal Procedure, the government, the defendant, and the defendant's counsel enter into the following guilty plea agreement. Any reference to the United States or the government in this agreement shall mean the Office of the United States Attorney for the Eastern District of Pennsylvania.

1. The defendant agrees to plead guilty to Count 1 of a criminal Information charging it with willfully failing to collect, account for and pay over tax to the Internal Revenue Service ("IRS"), in violation of Title 26, United States Code, Section 7202, arising from the defendant's participation in a scheme to pay certain employees of the defendant and of other related companies, bonuses in the form of shares of stock of Hon Hai Precision Industry Company, Ltd. ("Hon Hai"), the ultimate parent company of the defendant, without collecting, accounting for or paying over to the IRS, the social security taxes ("FICA") due upon those employee stock bonuses ("the scheme").

2. Defendant will acknowledge acceptance of this plea agreement by the signature of its counsel and of a responsible corporate officer or director of E-Star, Inc. Defendant shall provide to the government for attachment to this plea agreement a notarized

resolution of the Board of Directors of Hon Hai, authorizing E-Star, Inc. to enter a plea of guilty and authorizing that responsible corporate officer or director to execute this agreement.

3. The defendant agrees to pay the special victims/witness assessment in the amount of \$400 before the time of sentencing and shall provide a receipt from the Clerk to the government before sentencing as proof of this payment.

4. Defendant waives any claim under the Hyde Amendment, 18 U.S.C. §3006A (Statutory Note), for attorney's fees and other litigation expenses arising out of the investigation or prosecution of this matter.

5. The defendant agrees to pay a fine of \$6,928,872 at or before the time of sentencing. The defendant further agrees that restitution, fine, assessment, tax, interest or other payments in this case do not constitute extraordinary acceptance of responsibility or provide any basis to seek a downward departure from the applicable Sentencing Guideline range.

6. The government agrees that it will bring no other criminal charges arising out of or relating to the scheme to be charged in the criminal Information, against defendant E-Star; the defendant's ultimate parent company, Hon Hai; the parent company of E-Star, Hon Hai Precision Industry Company, Ltd., U.S. Branch ("Hon Hai U.S. branch"); the United States subsidiaries of Hon Hai; or the present or former directors, officers or employees of E-Star, Hon Hai, Hon Hai U.S. branch, or the United States subsidiaries of Hon Hai (the present and former directors, officers and employees of E-Star, Hon Hai, Hon Hai U.S. branch, and the United States subsidiaries of Hon Hai are referred to collectively as "the present and former directors, officers and employees"). The government's agreement not to prosecute the present or former directors, officers or employees is contingent upon the filing by those directors, officers and employees

who received stock bonuses, of accurate amended federal income tax returns reporting those stock bonuses as income in the years they were received, no later than April 10, 2007.

7. This agreement is made pursuant to Federal Rule of Criminal Procedure 11(c)(1)(C), and the government and the defendant agree that the following specific sentence is the appropriate disposition of this case:

- a. The Sentencing Guideline governing this offense is § 2T1.6;
- b. The government and the defendant agree that the amount of the back taxes due is approximately \$3,464,436; therefore, the defendant's base offense level is 24. See § 2T4.1(J) (U.S.S.G. effective November 1, 2005).
- c. The parties agree and stipulate further that under § 8C2.5(a), the base culpability score is 5. Under § 8C2.5(b)(3), because the defendant had 200 or more employees and a person within high-level personnel participated in, condoned or was wilfully ignorant of the offense, 3 points are added, for an intermediate culpability score of 8.
- d. The parties agree and stipulate further that because the defendant clearly demonstrated acceptance of responsibility for its criminal conduct, 1 point is subtracted per § 8C2.5(g)(2), making the final culpability score 7.
- e. The parties agree and stipulate further that under § 8C2.6, the fine multiplier is 1.40 to 2.80.

- f. The parties agree and stipulate further that under § 8C2.7, the guideline fine range is approximately \$4,850,210 to \$9,700,421, as measured by multiplying the pecuniary loss/gain from the offense by the fine multiplier above. Section 8C2.4(a)(2) and (a)(3).
- g. The government and the defendant agree that the Court shall sentence the defendant to pay a fine of \$6,928,872, payable on or before the date sentence is imposed by the Court; and
- h. If the Court does not accept the sentence set forth in this paragraph, the parties agree that this plea agreement shall be submitted to the Court under Rule 11(c)(1)(B) and shall be considered to be an agreement under Rule 11(c)(1)(B). In this event, the government will urge in the strongest possible terms its support for each term of this agreement and the Closing Agreement referred to in paragraph 12, below, and attached hereto as Exhibit A.

8. The government and the defendant agree that the government will not seek any upward departures under the Sentencing Guidelines; and that the defendant will not seek any downward departures under the Sentencing Guidelines.

- 9. The parties agree to ask the Court to:
  - a. find, pursuant to Rule 32(c)(1) of the Federal Rules of Criminal Procedure, that the information in the record is sufficient to enable the Court to meaningfully exercise its sentencing authority and explain its findings on the record without the requirement of a



presentence investigation or a presentence investigation report; and

- b. sentence the defendant immediately following entry of the guilty plea.

The parties understand that the Court retains the authority to delay sentencing and/or request a presentence investigation report.

10. At the time of sentencing, the government will:

- a. Comment on the evidence and circumstances of the case; bring to the Court's attention all facts relevant to sentencing including evidence relating to dismissed counts, if any, and to the character and any criminal conduct of the defendant; address the Court regarding the nature and seriousness of the offense; respond factually to questions raised by the Court; correct factual inaccuracies in the presentence report or sentencing record; and rebut any statement of facts made by or on behalf of the defendant at sentencing.
- b. Nothing in this agreement shall limit the government in its comments in, and responses to, any post-sentencing matters.

11. The defendant understands, agrees and has had explained to it by counsel that the Court may impose the following statutory maximum sentence: Count 1, willfully failing to collect, account for and pay over tax to the IRS, in violation of Title 26, United States Code, Section 7202, a fine of up to twice the gross loss or gain resulting from the offense, five years of probation, and a \$400 special assessment.

12. The parties hereby incorporate the Closing Agreement which is attached as Exhibit A, as part of this guilty plea agreement. The defendant further agrees that adherence to the Closing Agreement, and payment of any assessment, tax, interest or other payments in this case do not constitute extraordinary acceptance of responsibility or provide any basis to seek a downward departure from the applicable Sentencing Guideline range.

13. In exchange for the undertakings made by the government in entering this plea agreement, the defendant voluntarily and expressly waives all rights to appeal or collaterally attack the defendant's conviction, sentence, or any other matter relating to this prosecution, whether such a right to appeal or collateral attack arises under 18 U.S.C. § 3742, 28 U.S.C. § 1291, 28 U.S.C. § 2255, or any other provision of law.

a. Notwithstanding the waiver provision above, if the government appeals from the sentence, then the defendant may file a direct appeal of its sentence.

b. If the government does not appeal, then notwithstanding the waiver provision set forth in the paragraph above, the defendant may file a direct appeal but may raise only claims that:

1. the defendant's sentence exceeds the statutory maximum as set forth in paragraph 11, above;
2. the sentencing judge erroneously departed upward pursuant to the Sentencing Guidelines; or
3. the sentencing judge, exercising the Court's discretion pursuant to United States v. Booker, 125 S.Ct. 738 (2005), imposed an unreasonable sentence above the final Sentencing Guideline range

determined by the Court.

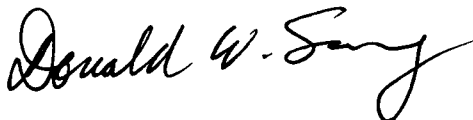
If the defendant does appeal pursuant to this paragraph, no issue may be presented by the defendant on appeal other than those described in this paragraph.

The defendant also waives all rights, whether asserted directly or by a representative, to request or receive from any department or agency of the United States any records pertaining to the investigation or prosecution of this case, including without limitation any records that may be sought under the Freedom of Information Act, 5 U.S.C. § 552, or the Privacy Act, 5 U.S.C. § 552a.

14. The defendant is satisfied with the legal representation provided by the defendant's lawyers; the defendant and its lawyers have fully discussed this plea agreement; and the defendant is agreeing to plead guilty because the defendant admits that it is guilty.

15. It is agreed that the parties' guilty plea agreement contains no additional promises, agreements or understandings other than those set forth in this written guilty plea agreement, and that no additional promises, agreements or understandings will be entered into

unless in writing and signed by all parties.



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DONALD W. SUNG  
Director or Officer, on behalf of  
Defendant E-STAR, INC.

PATRICK L. MEEHAN  
United States Attorney

LINDA DALE HOFFA  
Chief, Criminal Division  
Assistant United States Attorney

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BRIAN SUN  
Counsel for Defendant E-STAR, INC.

MARY E. CRAWLEY  
Assistant United States Attorney

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RONALD H. LEVINE  
Counsel for Defendant E-STAR, INC.

PETER D. HARDY  
Assistant United States Attorney


Date: 2/15/ 2007

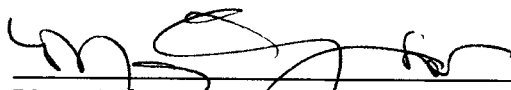






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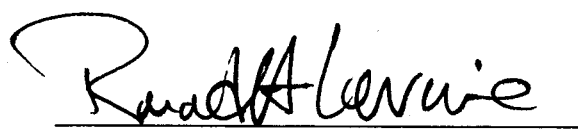
PATRICK L. MEEHAN  
United States Attorney

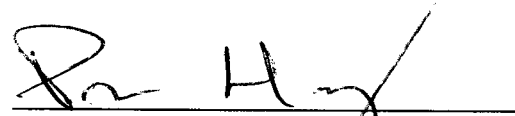
  
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Counsel for Defendant E-STAR, INC.

  
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RONALD H. LEVINE  
Counsel for Defendant E-STAR, INC.

  
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Attachment

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA :  
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E-STAR, INC. :

ACKNOWLEDGMENT OF RIGHTS

I hereby acknowledge that I have certain rights that I will be giving up by pleading guilty.

9. I understand that I do not have to plead guilty.
10. I may plead not guilty and insist upon a trial.
11. At that trial, I understand
  - a. that I would have the right to be tried by a jury that would be selected from the Eastern District of Pennsylvania and that along with my attorney, I would have the right to participate in the selection of that jury;
  - b. that the jury could only convict me if all twelve jurors agreed that they were convinced of my guilt beyond a reasonable doubt;
  - c. that the government would have the burden of proving my guilt beyond a reasonable doubt and that I would not have to prove anything;
  - d. that I would be presumed innocent unless and until such time as the jury was convinced beyond a reasonable doubt that the government had proven that I was guilty;
  - e. that I would have the right to be represented by a lawyer at this trial and at any appeal following the trial, and that if I could not afford to hire a lawyer, the court would appoint one for me free of charge;
  - f. that through my lawyer I would have the right to confront and cross examine the witnesses against me;
  - g. that I could testify in my own defense if I wanted to and I could subpoena witnesses to testify in my defense if I wanted to;



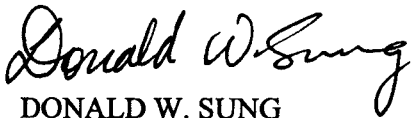
h. that I would not have to testify or otherwise present any defense if I did not want to and that if I did not present any evidence, the jury could not hold that against me.

12. I understand that if I plead guilty, there will be no trial and I would be giving up all of the rights listed above.

13. I understand that if I decide to enter a plea of guilty, the judge will ask me questions under oath and that if I lie in answering those questions, I could be prosecuted for the crime of perjury, that is, for lying under oath.

14. I understand that if I plead guilty, I have waived my right to appeal, except as set forth in appellate waiver provisions of my plea agreement.

15. Understanding that I have all these rights and that by pleading guilty I am giving them up, I still wish to plead guilty.



DONALD W. SUNG  
Director or Officer, on behalf of  
Defendant E-STAR, INC.

BRIAN SUN  
Counsel for the Defendant

RONALD H. LEVINE  
Counsel for the Defendant



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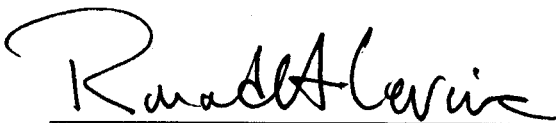
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DONALD W. SUNG  
Director or Officer, on behalf of  
Defendant E-STAR, INC.



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BRIAN SUN  
Counsel for the Defendant



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RONALD H. LEVINE  
Counsel for the Defendant

**ATTACHMENT A TO GUILTY PLEA AGREEMENT**

**Department of the Treasury – Internal Revenue Service**

**Closing Agreement On Final Determination**  
**Covering Specific Matters**

Under section 7121 of the Internal Revenue Code (hereinafter referred to as the "Code"), Hon Hai Precision Industry Company, Ltd. – U.S. Branch (EIN -33-0872500), 6122 Katella Avenue, Cypress, California 90630 ("U.S. Branch") and the Commissioner of Internal Revenue (hereinafter referred to as the "Commissioner") enter into a Closing Agreement On Final Determination Covering Specific Matters ("Closing Agreement");

Whereas, U.S. Branch is the U.S. Branch of Hon Hai Precision Industry Company Ltd. ("Hon Hai"), a Taiwan-based multi-national corporation with operations in the U.S., including the subsidiaries and affiliates in the United States listed on Exhibit A annexed to this Closing Agreement (Hon Hai, the U.S. Branch, and subsidiaries and affiliates listed on Exhibit A collectively referred to herein as "Taxpayer", with the U.S. Branch acting on behalf of Taxpayer herein); and

Whereas, in the taxable years ended 1998 through 2005 Hon Hai issued stock (the "Stock Issuances") to a wide range of recipients, including employees of Taxpayer (the "U.S. employees"); and

Whereas, Taxpayer should have withheld, accounted for, reported and paid over to the Internal Revenue Service Federal income taxes pursuant to Section 3402 of the Internal Revenue Code with respect to the fair market value of stock issued to U.S. Employees during the taxable years ended 1998 through 2002, but failed to do so; and

Whereas, Taxpayer should have withheld, accounted for, reported and paid over both the employer and employee shares of Federal Insurance Contribution Act ("FICA") taxes to the Internal Revenue Service pursuant to Sections 3101 and 3111 of the Internal Revenue Code with respect to the fair market value of stock issued to U.S. Employees during the taxable years 1998 through 2002, but failed to do so; and

Whereas, some U.S. employees who received stock as part of the Stock Issuances did not report the value of such stock on their Individual Federal Income Tax Returns (Forms 1040) for the taxable years 1998 through 2002, did not pay income taxes with respect to the fair market value of such stock, nor did they pay the employee share of FICA taxes attributable to the value of such stock; and

Whereas, those U.S. employees who received stock as part of the Stock Issuances and did not report such receipt or pay individual income tax or employee's share of FICA

with respect to such receipt, may file amended Individual Federal Income Tax Returns (Forms 1040) and pay all required Federal income taxes, the employee share of FICA taxes, as well as applicable interest with respect to the value of the stock by no later than April 10, 2007, or make arrangements in writing with the Internal Revenue Service to file such returns and pay the requisite taxes and interest by no later than April 10, 2007; and

Whereas, the Internal Revenue Service has advised the Taxpayer that it will not impose any civil penalties against the employees subject to U.S. taxes arising out of the Stock Issuances if such U.S. employees file all amended Individual Federal Income Tax Returns (Forms 1040) as required by law, pay all Federal income taxes and employment taxes required by law, as well as applicable interest required by law, with respect to such stock receipts by no later than April 10, 2007; and

Whereas, pursuant to an overall civil and criminal tax settlement relating to the Stock Issuances, an affiliate of Taxpayer, E-Star, Inc. has pled guilty to one count of violating Title 26, United States Code, Section 7202 , Willful Failure to Collect, Account For, and Pay Over Tax; and

Whereas, in a good faith effort to facilitate payment of employment taxes due and owing with respect to Stock Issuances in the years 2003 through 2005, Taxpayer offered the stock recipients the option of making voluntary payments of taxes with respect to the Stock Issuances, collected such voluntary payments, deposited those amounts with the Internal Revenue Service as Form 945 payments of tax on non-wage income, and filed with the Internal Revenue Service Forms 1099-MISC, reporting the value of stock as non-employee compensation, as well as reporting the amounts deposited on behalf of the employees as taxes paid, in the following amounts:

<u>Date of Deposit</u>	<u>Taxable Year</u>	<u>Amount</u>
January 20, 2004	2003	\$5,838,891.28
January 18, 2005	2004	\$2,652,388.05
December 29, 2005	2005	\$629,882.71

Whereas, with respect to the deposits referred to in the preceding paragraph, the Internal Revenue Service assessed penalties for late deposits in the following amounts

<u>Date of Assessment</u>	<u>Taxable Year</u>	<u>Amount of Penalty Assessed</u>
March 29, 2004	2003	\$583,889.12
April 25, 2005	2004	\$265,238.81
February 27, 2006	2005	\$62,998.27

Whereas on March 29, 2004, the Internal Revenue Service abated the late deposit penalty assessed on March 29, 2004 , with respect to the 2003 taxable year, but did

not abate any late deposit penalties assessed on April 25, 2005 and February 27, 2006, with respect to the 2004 and 2005 taxable years; and

Whereas, the Taxpayer has instituted procedures to ensure future compliance with its Federal reporting and employment tax requirements with respect to the Stock Issuances to its affected employees and will institute a training program for its accounting department staff to ensure future compliance; and

Whereas, in furtherance of the settlement of the Taxpayer's Federal tax liabilities in connection with the Stock Issuances, Taxpayer and the Internal Revenue Service wish to reach agreement as to Taxpayer's civil tax liability for the taxable years ended 1998 through 2005, with respect to all issues arising out of, or relating to, the Stock Issuances.

**THEREFORE, IT IS HEREBY DETERMINED AND AGREED THAT:**

1. Concurrent with execution of this Closing Agreement, the Taxpayer shall pay to the Service the total amount of \$13,214,580 which is comprised of the following employment taxes and penalties in full discharge of any Federal taxes it may owe resulting from the Stock Issuances for the 1998 through 2002 taxable years. The Taxpayer further agrees that it is liable for the following taxes and penalties and further agrees that the Service may assess the following taxes and penalties against the Taxpayer, as well as applicable interest as required by law:

Year	Employer's FICA	Section 6662 Penalty	Section 6721 Penalty	Section 6663 Penalty	Interest up to 2/9/07
1998	\$ 424,707	\$ 84,941	\$ 250,000		\$385,315
1999	\$ 478,366	\$ 95,673	\$ 250,000		\$358,250
2000	\$ 1,287,448	\$ 257,490	\$ 250,000		\$760,662
2001	\$ 488,602	\$ 97,720	\$ 250,000		\$219,237
2002	\$ 785,313			\$ 588,985.	\$401,871
Total	\$ 3,464,436	\$ 535,824	\$ 1,000,000	\$ 588,985	\$2,125,335

2. Concurrent with the execution of this Closing Agreement, the Taxpayer shall pay \$5,500,000 (Five Million Five Hundred Thousand Dollars) as a penalty pursuant to Section 6662 of the Internal Revenue Code which will be assessed by the Service against the Taxpayer's account with respect to the 2002 taxable year.
3. The Internal Revenue Service agrees that the deposits made by the Taxpayer on January 20, 2004, January 18, 2005 and December 29, 2005 which were assessed by the Internal Revenue Service on March 29, 2004, February 28, 2005 and February 27, 2006 constitute full satisfaction of the Taxpayer's obligations to withhold, collect and pay over to the



Internal Revenue Service Federal employment taxes with respect to Stock Issuances for the 2003, 2004 and 2005 taxable years.

4. The Service agrees to abate the late deposit penalties which were assessed against the Taxpayer on April 25, 2005 and February 27, 2006 in connection with the 2004 and 2005 taxable years.
5. The Taxpayer agrees not to file any claims for refund or credits with respect to the specific items or taxes paid in connection with this Closing Agreement, or to claim any type of tax deduction for the amounts paid in connection with this Closing Agreement provided however that Taxpayer may file claims for refund to the extent the amounts of penalties abated in paragraph 4 have been collected and the Internal Revenue Service shall refund such amounts.

This Closing Agreement is final and conclusive between the parties except:

- (a) the matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact;
- (b) it is subject to the Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code section 7122) notwithstanding any other law or rule of law; and
- (c) if it relates to a tax period ending after the effective date of this Closing Agreement, it is subject to any law, enacted after the agreement date, that applies to that tax period.

IN WITNESS WHEREOF, the above parties to this Closing Agreement On Final Determination Covering Specific Matters have executed this Closing Agreement, the parties certify that they have read and agreed to its terms.

Hon Hai Precision Industry Company, Ltd.

By: Donald W. Sung Date Signed 2/15/07

Title: \_\_\_\_\_

Commissioner of Internal Revenue

By: Will G. [Signature] Date Signed 2-22-2007

Title: Technical Services Group Manager

I have examined the specific matters involved and recommend the acceptance of the proposed agreement.

Lark Otter

(Receiving Officer)

2/20/07

(Date)

Revenue Agent

(Title)

I have reviewed the specific matters involved and recommend approval of the proposed agreement.

Jill Weener

(Reviewing Officer)

2/20/07

(Date)

Group Manager 1557

(Title)

Exhibit A: Hon Hai and Affiliates

Hon Hai Precision Industry Co., Ltd.  
Hon Hai Precision Industry Co., Ltd., U.S. Branch  
Foxconn Electronics, Inc.  
Actuone Inc.  
Forward Management, Inc.  
Foxconn/Hon Hai Logistics California LLC  
Foxconn International, Inc.  
Hon Hai Precision Industry USA  
I/O Engineering  
Meart Technology, Inc.  
BM Engineering, Inc.  
CaseEdge, Inc.  
Foxflow Thermal Technology, Inc.  
PCE Industry, Inc.  
Q-Run Corporation  
Q-Edge Corporation  
Q-Edge Management, LLC  
Sutech Industry, Inc.(California)  
Sutech Industry, Inc.(Florida)  
Q-Run Technology, LLC  
Q-Hub Logistics Corporation  
FAT USA BRANCH  
Q-Run Technologies Corporation (US Branch)  
Forward Technology, Inc.  
NWE Technology, Inc.  
NWEA, LLC  
NSG Technology, Inc.  
Foxconn Optical Technology, Inc. (US Branch)  
FOTI Technology, Inc.  
Foxconn Asset Management, LLC  
Foxconn Corporation  
Foxconn eMS, Inc.  
Foxconn/Hon Hai Logistics Texas, LLC  
Foxconn Intergration, Inc.  
Foxconn Precision Components (USA Branch)  
QHUB Logistics Corp.  
Acutone Houston, Inc.  
Foxconn Assembly, LLC  
FCMP, Inc.  
PCE Technology, Inc.  
E-Star, Inc.  
Ambit Microsystems, Inc.  
Eimo Americas Technologies, LP  
Eimo Americas Holding Co., LLC  
Eimo Americas, Inc.

Dynacept Corporation  
Addvalue Management, Inc.  
Enterway, Inc.  
Foxconn Assembly Holding Corporation  
Wexteq Corporation