



Foreign Commerce Compliance & Anti-Corruption Manual

Introduction

Hammond Group, Inc., on behalf of all Hammond Group product divisions (collectively, “Hammond”), hereby establishes policies and procedures to ensure compliance with the various U.S. export control laws and regulations, particularly the Export Administration Regulations (“EAR”), and if required, the International traffic in Arms Regulations (“ITAR”). All Hammond Employees must be cognizant of these regulations and have in place policies and procedures to help protect against unauthorized exports of EAR or ITAR controlled equipment, technical data, services, or other controlled items to foreign persons.

Moreover, Hammond is committed to ensuring that the goods and services it provides to foreign persons are not subject to blocking or embargo designations by the U.S. Department of Treasury Office of Foreign Assets Control (“OFAC”).

Finally, Hammond is dedicated to conducting its foreign business activities from a level playing field without the corrosive influence of foreign bribery and other forms of corruption as defined in the Foreign Corrupt Practices Act (“FCPA”).

The scope and purpose of this Manual is to identify Hammond’s commitment to compliance with U.S. export control, foreign commerce, and anti-corruption regulations, and to establish the policy and high-level processes/procedures for implementation by Hammond for compliance with the EAR, ITAR, OFAC, FCPA, and related regulations (collectively, “foreign commerce compliance”). Through this Manual, Hammond further designates the creation of a “Foreign Commerce Compliance Officer” who shall be responsible for implementing the policies and procedures called out in the Manual and should update the Manual, as appropriate, to reflect the proper designated roles within the company.

Foreign commerce compliance starts at the top of the company, and senior management is responsible to ensure that the company has in place the procedures and resources to meet the company’s needs for a fully effective compliance program. Senior management, in connection with the Foreign Commerce Compliance Officer shall effectively oversee, develop, train, update and enforce compliance policies and procedures.

Hammond personnel who violate the policies announced in this Manual shall be subject to appropriate disciplinary action, including potential termination.

Section I – ITAR Compliance



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The Arms Export Control Act and presidential executive orders grant the U.S. Department of State authority to designate and control the export and import of “defense articles” and services. The term defense articles is defined by a broad list called the United States Munitions List (“USML”) which details finished products, components of finished products, and services that have potential military uses. Depending on the country of export, the ITAR provides outright bars to the export of certain defense articles and requires a license for others. The ITAR broadly defines an export as any taking or sending of a defense article out of the United States, disclosing (including oral or visual disclosure) technical data to a foreign person whether in the U.S. or in a foreign country, or performing a defense service on behalf of a foreign person whether in the U.S. or in a foreign country.

Hammond employees must be aware that violations of the ITAR carry serious repercussions. Willful violations of the ITAR can be punishable by a term of imprisonment of not more than 20 years and a fine of not more than \$1,000,000. Civil violations of ITAR may be subject to a fine of not more than \$500,000 per violation.

Materials that can be considered commodities can be designated by the USML for control under the ITAR even if that commodity has an inherently non-military purpose. While it is relatively unlikely that a Hammond product will be classified as a defense article, at times USML classifications cover broad categories of items. For example, a product designed by Hammond for use in a submarine or ground vehicle could have military uses in a submersible military vessel or ground vehicle designed for a military purpose.

It shall be the responsibility of each manager of each Hammond division, in consultation with Hammond’s Foreign Commerce Compliance Officer to ensure that all Hammond products and services that are exported to a foreign customer are screened against the USML for exposure to the ITAR. Upon the implantation of the policies announced in this Manual, the Foreign Commerce Compliance Officer shall oversee the screening all current Hammond products and services for an initial classification under the USML (as well as the EAR’s Commerce Control List (“CCL”) as described in further detail below). With respect to commodities, it is possible that a product could be subject to both USML and CCL designations. While many of Hammond’s products can be self-classified under the USML and CCL, the Foreign Commerce Compliance Officer shall be responsible for resolving any ambiguities by consulting with the Directorate of Defense Trade Controls (DDTC)



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and/or the Bureau of Industry and Security (“BIS”) to receive an official classification for the product from the U.S. government. It shall be the continuing responsibility of each manager of a Hammond business unit and the Foreign Commerce Compliance Officer to screen each new Hammond product or service for possible USML or CCL exposure before such new products are brought to any foreign market. In the event that it is determined that the export of a product or service requires a license under the ITAR, the acquisition of such a license shall be the responsibility of the manager of the applicable Hammond business unit and the Foreign Commerce Compliance Officer.

Publicly accessible ITAR guidance, including the USML in its entirety is available online at: https://www.pmdotc.state.gov/regulations_laws/itar.html.

The Foreign Commerce Compliance Officer shall monitor updates to the USML posted to this website on no less than a quarterly basis to remain current with any possible changes to USML classifications that could affect Hammond’s product and service lines. All Hammond employees must immediately report any concerns with Hammond’s USML classifications or overall ITAR compliance to their immediate supervisor or directly to the Foreign Commerce Compliance Officer. Supervisors at all levels are required to forward all non-frivolous ITAR concerns to the manager of the supervisor’s respective Hammond business unit and to the Foreign Commerce Compliance Officer.



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Section II – EAR Compliance

Where the ITAR is intended to regulate articles which bear a direct impact on national security through their military applications, the EAR, as administered through the U.S. Department of Commerce, principally regulates dual-use items, including commodities which have both civilian and military applications. Items subject to EAR regulation are listed in the Commerce Control List (“CCL”).

Hammond employees must be aware that violations of the EAR have serious ramifications to both the company and the individuals involved in a violation. Willful violations of the EAR can be punished criminally by fines reaching \$1,000,000 and 20 years imprisonment per violation, and administrative penalties can reach the greater of \$250,000 per violation or twice the amount of the transaction that is the basis of the violation. Administrative monetary penalties can reach \$11,000 per violation, and \$120,000 per violation in cases involving items controlled for national security reasons. In addition to civil fines and the potential for criminal sanctions, including imprisonment, for willful violations of the EAR, violations of the EAR may be further punishable by a loss of future export privileges.

The CCL contains a list of commercial or “dual-use” commodities and related technology subject to the export controls of the EAR. The CCL is contained at 15 CFR Part 774. There are 10 Chapters to the CCL and items controlled for export under the EAR are listed in the applicable chapter under an Export Control Classification Number (“ECCN”). Hammond is responsible for identifying the appropriate classification (ECCN or EAR99) for any commercial product, software or technology it is exporting.

Due to the nature of the items controlled, the EAR is much more flexible than the ITAR in terms of which exports are regulated and when a license is needed. Depending on the country of export, the EAR regulates items for reasons preventing the spread of chemical and biological weapons, nuclear non-proliferation, national security, the safeguarding of missile technologies, regional stability, firearms controls, crime controls, and anti-terrorism. Should the manager of a Hammond business unit and/or the Foreign Commerce Compliance Officer determine that an item is classified as controlled under the CCL, it shall be the responsibility of the same manager and the Foreign Commerce Compliance Officer to determine whether



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a license is needed in relation to any of these concerns on a country-by-country basis.

Publicly accessible EAR guidance, including a link to the CCL in its entirety, is available online at: <https://www.bis.doc.gov/index.php/regulations/commerce-control-list-ccl>.

Upon the implementation of this policy, it shall be the responsibility of the manager of a Hammond business unit, in consultation with the Foreign Commerce Compliance Officer, to make an initial determination as to whether any existing Hammond products are subject to the CCL. It shall be the continuing responsibility of the manager and the Foreign Commerce Compliance Officer to screen all new Hammond products against the CCL before they are brought to foreign market. Finally, it shall be the continuing responsibility of the Foreign Commerce Compliance Officer to monitor the CCL on no less than a quarterly basis to determine whether any change to the CCL could affect the classification of a Hammond product.

The CCL is intended to be a positive list, which means that if an item is listed on the CCL, it is regulated, and if it is not listed, then it is not. However, in practice, CCL classifications can be ambiguous. To resolve any ambiguity, Hammond can submit a formal request to the Department of Commerce, Bureau of Industry and Security (“BIS”) to review and assign an ECCN to a commercial or dual use item. Guidance on submitting a commodity classification request is available online at: http://www.bis.doc.gov/licensing/bis_eccn.pdf. As with ITAR classifications, it shall be the duty of the Foreign Commerce Compliance Officer to seek any advisory guidance from BIS.

As with the ITAR, all Hammond employees shall immediately raise any concerns with Hammond’s CCL classifications and EAR compliance with their immediate supervisor and/or the Foreign Commerce Compliance Officer. Supervisors at all levels are required to forward all non-frivolous EAR concerns to the manager of the supervisor’s respective Hammond business unit.



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Section III - Marking Export Controlled Items

The EAR and ITAR require exporters to put certain statements on invoices and bills of lading for exports to alert recipients of U.S. export controlled equipment and of the restrictions on reuse and transfer of that equipment. In the event that it is determined that a Hammond product is subject to EAR or ITAR control, Hammond is responsible for establishing procedures for marking shipping invoices with the required statements according to the ITAR or EAR, as applicable to the equipment/parts that are being exported. Hammond shall use the following statements to clearly mark ITAR/EAR controlled exports:

ITAR STATEMENT

Shipping invoices and Bills of Lading for exports of ITAR controlled items shall be plainly marked:

“These commodities are authorized by the U.S. Government for export only to **[named country of ultimate destination pursuant to the license, or exemption]** for use by **[named end-user pursuant to the license or exemption]**.¹ They may not be transferred, transshipped on a non-continuous voyage, or otherwise be disposed of in any other country, either in their original form or after being incorporated into other end items, without the prior written approval of the U.S. Department of State.”

EAR STATEMENT

Shipping invoices and Bills of Lading for exports of EAR controlled hardware must include the following statement:

“These commodities, software or technology were exported from the United States in accordance with the Export Administration Regulations (EAR). Diversion contrary to U. S law prohibited.”²

¹ Bolded text must be updated for each shipment.

² Hardware with a classification of EAR99 is not required to be marked as indicated above. However, as a general policy, any time Hammond is exporting any EAR commodity, this statement should be included on export documents.



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Section IV – OFAC Compliance

The U.S. Department of Treasury’s Office of Foreign Asset Controls (“OFAC”) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security interests. Some sanctions are based on United Nations and other international mandates, others are based on executive orders from the President of the United States or the Secretary of the Treasury in relation to various U.S. interests. Sanctions are country and entity specific, and are subject to frequent change based on changing geo-political realities and shifting priorities of U.S. foreign policy and law enforcement. In addition to foreign countries and regimes, OFAC imposes sanctions on individuals, such as people the U.S. government deems to be terrorists and narcotics traffickers. Possible penalties for violations of OFAC sanctions follow a matrix which includes many factors; however, violations can result in fines in excess of \$1 million or twice the amount of the underlying transaction and criminal penalties of up to 20 years imprisonment.

OFAC provisions apply to: (1) U.S. persons (loosely defined as U.S. citizen, permanent resident legal aliens, and U.S. business entities) wherever they are located; (2) certain merchandise of U.S. origin which is transferred in international commerce; and (3) foreign persons located in the United States. In addition, the United States may assert jurisdiction over transactions by foreign subsidiaries of the U.S. companies without regard to whether any U.S. person or U.S. origin goods are involved in the transactions. In short, OFAC’s regulatory reach is exceptionally broad and no Hammond employee should engage in any transaction in which that employee has an OFAC-based concern without prior consultation with and express prior authorization from the Foreign Commerce Compliance Officer. U.S. law prohibits the routing of sales or transactions through foreign subsidiaries as a method of circumventing an OFAC embargo. It shall be the responsibility of the Foreign Commerce Compliance Officer to ensure that all Hammond-affiliated business units, whether based in the United States or in a foreign country remain compliant with OFAC policy.

The U.S. administers and enforces many different trade sanctions, which can be separated into “Country-Based” and “List-Based” sanction programs. Publicly available guidance related to OFAC’s sanction programs with respect to U.S. Trade embargos is available online at: (<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>). In addition, OFAC maintains a public list of designated entities of Specialty Designated Nationals (the “SDN” list) available at: <http://www.treasury.gov/ofac/downloads/t11sdn.pdf>. The “Country-Based” sanctions programs apply to nearly all activities with a designated country and its nationals. The “List-Based” sanctions programs restrict dealings with persons or entities that can be designated for a variety of reasons.



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To prevent violations of U.S. sanction laws, it is Hammond’s policy to screen all parties to any transaction potentially involving a foreign entity against the SDN list and to limit transactions with countries listed in the “Country-Based Sanctions” section. No Hammond employee shall engage in, facilitate, or approve any transaction involving a designated country, organization, or entity without express prior authorization of the Foreign Commerce Compliance Officer. The Foreign Commerce Compliance Officer shall have the authority to designate procedures for repeat transactions involving entities who have already been screened against the SDN.

The United States regularly updates the lists of countries and individuals that may be subject to sanctions. These sources must be checked regularly. On no less than a quarterly basis, it shall be the responsibility of the Foreign Commerce Compliance Officer to cross reference Hammond’s records of the entities and countries in which Hammond does business against the most current guidance promulgated by OFAC. In the event that a previously screened Hammond customer or shipping destination is subsequently designated by OFAC, the Foreign Commerce Compliance Officer shall take immediate action to halt the export of all Hammond products to that entity or location.

Country-Based Sanctions: U.S. law restricts persons subject to the jurisdiction of the U.S. from virtually all commercial and financial transactions with certain countries and with persons located in those countries. Other countries are subject to comprehensive restrictions that are short of an outright embargo. These restrictions apply to U.S. persons, wherever they are located, foreign persons acting while in the United States, and in some instances apply to foreign subsidiaries of U.S. companies. As of the date of this Manual revision, the countries that are subject to sanctions by the United States are:

- Balkans (as defined by OFAC)
- Belarus
- Burundi
- Central African Republic
- Cuba
- Democratic Republic of the Congo
- Iran
- Iraq
- Lebanon
- Libya
- North Korea
- Somalia
- Sudan and Darfur
- South Sudan
- Syria
- Ukraine/Russia
- Venezuela
- Yemen
- Zimbabwe



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No Hammond business unit can engage in any transaction that it knows, or has any reason to believe, is destined for any of the above countries without consultation with and express approval from the Foreign Commerce Enforcement Officer.

List-Based Sanctions: In addition to the country-level sanctions, OFAC trade sanctions restrict or prohibit transactions with specially designated nationals (SDNs). Before each transaction, this list must be checked to see if any party to the transaction has been designated by OFAC. Please refer to the website of <http://sdnsearch.ofac.treas.gov>. Note that it is necessary to use “fuzzy logic” in searching SDN’s as the names are generally transliterations from another language. If there is any ambiguity as to whether an entity has been designated as an SDN, consultation with the Foreign Commerce Compliance Officer is mandatory before proceeding with a transaction.

All Hammond employees shall immediately raise any concerns with Hammond’s OFAC compliance with their immediate supervisor and/or the Foreign Commerce Compliance Officer. Supervisors at all levels are required to forward all non-frivolous OFAC concerns to the manager of the supervisor’s respective Hammond Business Unit and the Foreign Commerce Compliance Officer.



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Section V – FCPA Compliance

The FCPA was enacted by Congress in 1977 to combat the perceived evils of corporate bribery’s effect on the stability of overseas business and the competitive balance of domestic business by creating a level playing field free of corrupt practices. The FCPA contains anti-bribery and accounting provisions. The anti-bribery provisions regulate interactions with foreign government officials, a broad term defined in detail below, and the accounting provisions prohibit businesses and individuals from falsifying books and records, knowingly circumventing or failing to implement a system of controls. These FCPA provisions are principally enforced by the U.S. Department of Justice (“DOJ”) and the U.S. Securities and Exchange Commissions (“SEC”). Willful violations of the FCPA are punishable by fines of up to \$5 million and 20 years imprisonment. **The controls announced in this Manual must be followed at all times by all Hammond employees.**

In general, the FCPA prohibits offering to pay, paying, promising to pay, or authorizing the payment of money or anything of value to a foreign official in order to influence any act or decision of the foreign official in his or her official capacity or to secure any other improper advantage in order to obtain or retain business. The FCPA uses many terms of art and concepts that must be understood by all Hammond employees engaged in foreign commerce in any capacity. These concepts are summarized in this section; however, these summaries are designed to be a starting point only for an employee to understand the requirements of U.S. law. Hammond will supplement these materials with periodic training sessions for affected employees. Moreover, employees are directed to consult with Hammond’s Foreign Commerce Compliance Officer to resolve any ambiguities on conduct covered by the FCPA before taking any action that may result in FCPA liability.

In Which Localities Does the FCPA Apply?

The FCPA principally applies to “domestic concerns,” which are defined as any individual who is a citizen, national, or resident of the United States, or any corporation, partnership, association, joint-stock company, business trust, unincorporated organization, or sole proprietorship that is organized under the laws of the United States or its states, territories, possessions, or commonwealths or that has its principal place of business in the United States. For purposes of this Policy, Hammond, its foreign subsidiaries, and its employees shall be considered domestic concerns.

The FCPA’s anti-bribery provisions can apply to conduct both inside and outside the United States. Domestic concerns – as well as their officers, directors, employees, agents, or stockholders – may be prosecuted for using the U.S. mails or any means or instrumentality of interstate commerce in furtherance of a corrupt payment to a foreign official. The FCPA defines “interstate commerce” as “trade,

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commerce, transportation, or communication among the several States, or between any foreign country and any State or between any State and any place or ship outside thereof” The term also includes the intrastate use of any interstate means of communication, or any other interstate instrumentality. In short, these provisions are so broad that even placing a telephone call or sending an e-mail, text message, or fax from, to, or through the United States involves interstate commerce—as does sending a wire transfer from or to a U.S. bank or otherwise using the U.S. banking system, or traveling across state borders or internationally to or from the United States.

What Conduct Is Covered by the FCPA? – The Business Purpose Test

The FCPA applies only to payments intended to induce or influence a foreign official to use his or her position in order to assist in obtaining or retaining business for or with, or directing business to, any person. This requirement is known as the “business purpose test” and is broadly interpreted. Examples of actions taken to obtain or retain business include: winning a contract; influencing the procurement process; circumventing the rules for importation of products; gaining access to non-public bid tender information; obtaining favorable tax treatment, including evading taxes or penalties; influencing the adjudication of lawsuits or enforcement actions; obtaining exceptions to regulations; and avoiding contract termination. While the FCPA does not necessarily cover every type of bribe paid around the world for every purpose, it is intentionally written to include a broad base of payments made to secure a wide variety of unfair business advantages.

For example, Hammond would be in violation should an employee engage in bribery with local elected officials to receive favorable tax breaks.

What Does Corruptly Mean?

The FCPA prohibits offers, promises, authorizations of payment, and payments to foreign government officials when those actions are taken with a corrupt purpose. The term “corruptly” in the FCPA means an intent or desire to wrongfully influence the recipient, namely an action taken to induce the recipient to misuse his or her official position. Examples of corrupt intent include actions taken to wrongfully to direct business to the payor or his client, to obtain preferential legislation or regulations, or to induce a foreign official to fail to perform an official function. The FCPA focuses on intent for a reason—this focus allows for broader enforcement powers that cover attempts to violate the FCPA; there is no requirement that a corrupt act succeed in its purpose. The focus on intent also allows for enforcement actions even where the person acting with corrupt intent does not know the identity of the recipient. For example, if a Hammond employee authorized others to pay “whoever you need to” in a foreign government to obtain a contract, that conduct could constitute a violation of the FCPA even if no bribe is ultimately paid or if a bribe paid fails to accomplish its intended purpose.

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For an action to constitute a criminal violation of the FCPA, a person must act “willfully.” The term willfully is not expressly defined by the FCPA, but it has been generally interpreted to require that an act be taken voluntarily and for a bad purpose.

Who Is a Foreign Official?

The FCPA’s anti-bribery provisions apply to corrupt payments made to: (1) “any foreign official”; (2) “any foreign political party or official thereof”; (3) “any candidate for foreign political office”; or (4) any person, while knowing that all or a portion of the payment will be offered, given, or promised to an individual falling within one of these three categories. Although the statute distinguishes between a “foreign official,” “foreign political party or official thereof,” and “candidate for foreign political office,” the term “foreign official” in this guide generally refers to an individual falling within any of these three categories. The FCPA defines “foreign official” to include any officer or employee of a foreign government or any department, agency, or instrumentality thereof, or of a public international organization, or any person acting in an official capacity for or on behalf of any such government or department, agency, or instrumentality, or for or on behalf of any such public international organization. The FCPA applies to “any” officers or employees of a foreign government and makes no distinction between low-level employees and high-ranking officials.

Foreign officials under the FCPA include officers or employees of a department, agency, or instrumentality of a foreign government. The term “instrumentality” is broad and can include state-owned or state-controlled entities. Some foreign governments are organized in similar fashion to the U.S.; others are structured in highly divergent ways. State-owned and state-controlled entities, in such areas as aerospace and defense manufacturing, banking and finance, healthcare and life sciences, energy and extractive industries, telecommunications, and transportation can often constitute government instrumentalities. Hammond employees must engage in a country-by-country analysis to determine what constitutes a government official. The responsibility for making these determinations shall ultimately fall to the manager of the applicable Hammond business unit in consultation with the Foreign Commerce Compliance Officer. Factors for this analysis include: (1) the foreign state’s extent of ownership of the entity; (2) the foreign state’s degree of control over the entity (including whether key officers and directors of the entity are, or are appointed by, government officials); (3) the foreign state’s characterization of the entity and its employees; (4) the circumstances surrounding the entity’s creation; (5) the purpose of the entity’s activities; (6) the entity’s obligations and privileges under the foreign state’s law; (7) the exclusive or controlling power vested in the entity to administer its designated functions; (8) the

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level of financial support by the foreign state (including subsidies, special tax treatment, (9) government-mandated fees, and loans; (10) the entity's provision of services to the jurisdiction's residents; (11) whether the governmental end or purpose sought to be achieved is expressed in the policies of the foreign government; and (12) the general perception that the entity is performing official or governmental functions.

The FCPA also considers employees and representatives of public international organizations to be foreign officials. A "public international organization" is any organization designated as such by Executive Order under the International Organizations Immunities Act, 22 U.S.C. § 288, or any other organization that the President so designates. At the time of this Policy, public international organizations include entities such as the World Bank, the International Monetary Fund, the World Intellectual Property Organization, the World Trade Organization, the OECD, the Organization of American States, and numerous others. A comprehensive list of organizations designated as public international organizations can be found online at: <http://www.gpo.gov/fdsys/>.

Companies also may violate the FCPA if they give payments or gifts to third parties, like an official's family members, as an indirect way of corruptly influencing a foreign official. For example, a Hammond employee may not pay the personal bills or provide airline tickets to a cousin and close friend of a foreign official whose influence the Hammond employee sought in obtaining contracts.

Finally, with respect to the definition of foreign officials, the FCPA expressly prohibits corrupt payments made through third parties and intermediaries. Specifically, the FCPA prohibits payments made to "any person, while knowing that all or a portion of such money or thing of value will be offered, given, or promised, directly or indirectly," to a foreign official. While doing business in a foreign country, Hammond may retain a local individual or company to help conduct business. The FCPA permits these foreign agents may provide entirely legitimate advice regarding local customs and procedures and may help facilitate business transactions; however any Hammond employee who seeks the services of a third party must be aware of the risks involved in engaging third-party agents or intermediaries. The fact that a bribe is paid by a third party does not eliminate the potential for criminal or civil FCPA liability. The FCPA does contain protections for U.S. companies against a third-party acting completely on its own without the knowledge or consent of the engaging U.S. company to violate the FCPA. Specially, the FCPA covers the conduct of third-parties when the person or company engaging the third-party is aware of a high probability of the existence of prohibited conduct. In short, the FCPA is meant to impose liability not only on those with actual knowledge of wrongdoing, but also on those who purposefully avoid actual knowledge. Common red flags associated with third parties include:



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(1) excessive commissions to third-party agents or consultants; (2) unreasonably large discounts to third-party distributors; (3) third-party “consulting agreements” that include only vaguely described services; (4) the third-party consultant is in a different line of business than that for which it has been engaged; (5) the third party is related to or closely associated with the foreign official; (6) the third party became part of the transaction at the express request or insistence of the foreign official; (7) the third party is merely a shell company incorporated in an offshore jurisdiction; and (8) the third party requests payment to offshore bank accounts.

An example of a third-party agent acting on Hammond’s behalf is the business relationship with Sorfin Yoshimura. Sorfin performs sales for which they receive commission and oversees the import/export process for Hammond’s goods. Under the FCPA, Hammond would be liable if an individual at Sorfin engaged in any of the aforementioned violations.

Hammond employees must consult with the manager of the applicable business unit and/or the Foreign Commerce Compliance Officer before engaging the services third-party in a foreign country that could give rise to FCPA liability.

What Does “Anything of Value” Mean?

The FCPA prohibits bribes in many forms, including corrupt offers, payments, promises to pay, or authorizations of payments of any money, or offers, gifts, promises to give, or authorizations of the giving of “anything of value to” a foreign official. An improper benefit can take many forms. Most traditional bribes involve payments of cash (sometimes in the guise of “consulting fees” or “commissions” given through intermediaries), but bribes can also come in the form of travel expenses and expensive gifts. The FCPA does not contain a minimum threshold amount for corrupt gifts or payments. Indeed, what might be considered a modest payment in the United States could be a larger and much more significant amount in a foreign country. A small gift or token of esteem or gratitude is often an appropriate way for business people to display respect for each other. Some hallmarks of appropriate gift-giving are when the gift is given openly and transparently, properly recorded in the giver’s books and records, provided only to reflect esteem or gratitude, and permitted under local law.

Items of nominal value, such as cab fare, reasonable meals and entertainment expenses, or company promotional items, are unlikely to improperly influence an official, and, as a result, are not, without more, items that have resulted in FCPA enforcement actions.

FCPA enforcement entities may heavily scrutinize travel and entertainment expenses. The following examples have been deemed to be improper expenses under the FCPA: (1) a \$12,000 birthday trip for a government decision-maker from Mexico

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that included visits to wineries and dinners; (2) \$10,000 spent on dinners, drinks, and entertainment for a government official; (3) a trip to Italy for eight Iraqi government officials that consisted primarily of sightseeing and included \$1,000 in “pocket money” for each official; (4) a trip to Paris for a government official and his wife that consisted primarily of touring activities via a chauffeur-driven vehicle; (5) hundreds of trips purported to be for training purposes to locations to locations where the company had no training facilities; and (6) trips with the purported purpose of touring a company’s facilities during which minimal time was spent at the facilities and instead foreign officials were taken to tourist destinations such as Hawaii, Las Vegas, and Disney World.

Companies often engage in charitable giving as part of legitimate local outreach. While the FCPA does not prohibit charitable contributions or prevent corporations from acting as good corporate citizens, companies are prohibited from using the pretense of charitable contributions as a way to funnel bribes to government officials.

Great care must be taken by all Hammond employees to ensure that no gifts, entertainment expenses, or charitable contributions could be interpreted as bribes or improper forms of compensation or payment.

Gifts to government officials may only be made when they are (1) made to promote general good will and not as a quid pro quo for any official action; (2) of modest value (under \$50.00 USD); (3) never in the form of cash money; (4) permitted under local laws of the host country, with associated documentary support provided; (5) customary in type and value in that country; (6) given openly, with appropriate justification and not secretly; and (7) accurately reflected in the books and records of the Hammond business unit on whose behalf they are made or otherwise granted. Any gift that does not plainly meet the criteria above may not be conferred without express prior approval of the Foreign Commerce Compliance Officer.

Proper due diligence is required for all charitable contributions affecting a foreign interest. Before any contribution is made, the Hammond employee responsible for authorizing the contribution must ask: (1) What is the purpose of the payment?; (2) Is the payment consistent with the company’s internal guidelines on charitable giving?; (3) Is the payment at the request of a foreign official?; (4) Is a foreign official associated with the charity and, if so, can the foreign official make decisions regarding your business in that country?; and (5) Is the payment conditioned upon receiving business or other benefits?

All Hammond travel expenses involving a foreign government official must be tied to a legitimate Hammond business function. Trips that involve transporting foreign



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government officials to any location other than a Hammond facility, must be approved in advance by the manager of the applicable Hammond business unit. If ambiguities arise as to whether gifts, entertainment expenses, charitable contributions, or travel expense could give rise to FCPA liability, an inquiry should be made to the Foreign Commerce Compliance Officer.

When transactions are effected by foreign business units of U.S. companies, U.S. law may be violated if U.S. Persons of those business units, including any U.S. Nationals who are Hammond personnel or any agents of a Hammond business unit, regardless of the nationality of the agent, are involved in such transactions. Similarly, if U.S. Persons affiliated with foreign business units (of U.S. companies) approve or facilitate those transactions, U.S. law may be violated. If there is any ambiguity as to whether a transaction involves Hammond personnel, a Hammond business unit, or a Hammond foreign affiliate or subsidiary, consultation with the Foreign Commerce Compliance Officer is mandatory.

Prohibited Conduct

Pursuant to this Policy all Hammond employees are expressly prohibited from corruptly offering anything of value to a foreign government official, including through a third-party as described above. Prohibited conduct includes, but is not limited to, kickbacks, bribes and payoffs, as well as any gifts, entertainment or promises to provide any kickbacks, bribes, payoffs, gifts or entertainment provided for the purpose of influencing a decision of the customer or foreign official. Included within the offering of a thing of value are such payments that are made directly or indirectly, including payments made by or received through agents. Corrupt offerings of anything of value to a foreign government official are considered to be illegal, unethical and immoral and against this Policy. Corrupt offerings reflect negatively on the integrity of management and may result in the assessment of substantial penalties against Hammond and its employees.

Hammond Personnel who directly or indirectly make or receive any corrupt offering of a thing of value to a foreign government official shall be subject to appropriate disciplinary action, including immediate termination and legal actions. In addition, any out-of-the-ordinary payment made from funds of Hammond for the purpose of obtaining or retaining business, or unduly influencing in some matter (such as a tax decision) in favor of such company, should be considered a corrupt offering of a thing of value to a foreign government official and is prohibited. Note that such a payment can take the form of extravagant entertainment, gift of significant value, or reimbursement of travel expenses for non-business travel as described above. If any question exists as to a proposed transaction or payment, the matter should be referred to the employee's immediate supervisor, the Foreign Commerce Compliance Officer, and/or to the President prior to entering into the transaction.



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Additionally, Hammond shall not retain or hire an employee or consultant, or any person affiliated with a foreign official or customer by family, economic, or business relationship.

Furthermore, no Hammond business unit or employee may give anything of value to a foreign government official for the purpose of influencing or securing any improper advantage from such official.

Bona Fide And Reasonable Reimbursement Of Business Expenses

Hammond shall not provide travel and lodging expenses to customers or foreign government officials unless those expenses are reasonable and relate directly to the promotion, demonstration or explanation of products or services and/or performance of a contract with a government or government-owned/controlled enterprise. Any payment of travel or lodging expenses must be made directly to the service provider (e.g. airline, hotel, etc.) selected by Hammond and must be documented and the business purpose of the expense must be recorded.

Reportable Red Flags

Hammond employees are to report to the Foreign Commerce Compliance Officer all “red flags” that may indicate a violation of this policy. The following is a non-exclusive list of red flags:

- Requests that payment be made outside of the country in which the services are performed or the service provider is located.
- Requests for payments in cash, goods or non-local currency.
- Transactions that employ unnecessary third parties or multiple intermediaries.
- Requests for payments to a third party rather than to the service provider.
- Unusually large commissions or invoices that exceed the fair value of the services provided.
- Unusual timing or payment methods for commissions.
- Requests for political or charitable contributions in a foreign country.
- Poorly or falsely documented Company transactions or payments outside of the United States. Offers to purchase goods at a higher price than would otherwise be required.



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- Requests to create a separate set of invoices at a different value.

If an employee has any reason to believe that a violation of this policy is likely to occur and fails to report it, they may be subject to disciplinary action, including possible termination. No retaliation may be made against any employee for making a good faith report, which will be treated as confidential to the fullest extent.



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Section VI – Ongoing Compliance Obligations and Records Retention

Each manager of a Hammond business unit shall be responsible for the enforcement of and compliance with this policy including distribution of this policy to all employees for review and signature. Any Hammond employee who becomes aware of a failure to abide by the policies detailed in this Manual shall contact the Foreign Commerce Compliance Officer.

Records of all regulated export activities, namely activities regulated by the ITAR, EAR, or OFAC, and matters affecting the FCPA must be retained for 5 years after the completion of the activity and made available to the appropriate regulating authority(ies) upon request. Records that should be retained include all memoranda, notes, correspondence (including email), financial records, shipping documentation, as well as any other information related to the export activities. It shall be the responsibility of the Foreign Commerce Compliance Officer to designate specific protocols and procedures for the retention of records. All questions regarding whether records need to be retained or the manner in which records should be retained should be directed to the Foreign Commerce Compliance Officer.



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Section VII – Certification of Compliance

In signing this certification of compliance, I acknowledge that I have received, reviewed and understand the protocols and policies set forth in this Foreign Commerce Compliance & Anti-Corruption Manual. I further certify to the best of my knowledge and belief as of the date of my signing of this certification, that I am unaware of any possible violation of the policies set forth in this manual either by me or any other employee of Hammond Group, Inc. I further agree to comply with this policy in the future and to report promptly any questions or concerns that I may have consistent with the reporting protocols set forth in this manual, including by submitting an anonymous report to Hammond’s compliance officer at www.hmndgroup.com/anticorruption. In recognition of my ongoing responsibilities, I acknowledge that, on no less than an annual basis, I will be required to execute a certification of compliance with Hammond’s foreign compliance and anti-corruption policies.

Signature of Employee

Printed Name of Employee

Date