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ABC CORPORATION

**MANUAL OF
ACCOUNTING POLICIES**

Last Revised Date

September 1, 200X

Managers and Employees
of the ABC Corporation
Anywhere, USA

I am furnishing you with a copy of the Manual of Accounting Policies. This contains the official financial management and accounting policies of the Corporation.

This Manual was developed to codify the organization's policies to strengthen its traditional financial management and accounting functions. This Manual also contains our policies on contract integrity, cost estimating, property management and compensation. In this period of increased auditor scrutiny of contractor's practices, this Policy Manual and the enforcement of these policies are essential to safeguard the organization's assets and practice.

More than simply collecting dust on one's shelf, these policies are intended to be observed. Your performance will be judged, in part, by your adherence to these policies.

It is our intention to keep this Manual up to date. For your part, after reading it, we would appreciate your input on how these policies could be made more relevant to your job and your suggestions for new or changed policies.

It is our goal to keep ABC Corporation a strong and viable operation, and we consider this Manual to be an important step in that direction.

Sincerely,

ABC Corporation

I. M. Smart
V.P. Finance

ABC CORPORATION

MANUAL OF ACCOUNTING POLICIES

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201 General Business Conduct and Disclosure

- A. Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of ABC Corporation depend to a very large extent on the following considerations.

Each employee must apply his/her own sense of personal ethics, which should extend beyond compliance with applicable laws in business situations, to govern behavior where no existing regulation provides a guideline. It is your responsibility to apply common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this code in specific situations, ask yourself the following questions:

1. Is my action legal?
2. Is my action ethical?
3. Does my action comply with corporate policy?
4. Am I sure that my action doesn't appear inappropriate?
5. Am I sure that I would not be embarrassed or compromised if my action became known within the Corporation or publicly?
6. Am I sure that my action meets my personal code of ethics and behavior?

You should be able to answer "yes" to all these questions before taking action.

Each supervisor is responsible for the ethical business behavior of his/her subordinates. Supervisors must weigh carefully all courses of action suggested in ethical as well as economic terms and base their decisions on the guidelines provided by this code as well as their personal sense of right and wrong.

Implementation of the provisions of this code is one of the standards by which the performance of all levels of employees will be measured.

- B. In recommending or proposing a particular business transaction or course of action for approval, those involved must disclose to their superiors or to the board of directors of the Corporation, if the recommendation is to the board, all the pertinent information they know about such transactions and the

persons involved. The disclosure should include significant information that they may have reason to believe has been omitted by others.

- C. Specifically, the Corporation does not tolerate the willful violation or circumvention of any laws of the United States, its states, counties, cities or a foreign country by an employee during the course of that person's employment; nor does the Corporation tolerate the disregard or circumvention of corporate policy or engagement in unscrupulous dealings. Employees should not attempt to accomplish by indirect means, through agents and intermediaries, what is directly forbidden.

Failure to comply with the standards contained in this code will result in disciplinary action that may include termination, referral for criminal prosecution, and reimbursement to the Corporation or the government for any losses or damage resulting from the violation. As with all matters involving disciplinary action, principles of fairness will apply. Any employee charged with a violation of this code will be afforded an opportunity to explain his or her actions before disciplinary action is taken.

Disciplinary action will be taken:

1. Against employees who authorize or participate directly in actions which are a violation of this code
2. Against any employee who has deliberately failed to report a violation or deliberately withheld relevant and material information concerning a violation of this code
3. Against any supervisor who attempts to retaliate, directly or indirectly, or encourages others to do so, against any employee who reports a violation of this code.

203 Compliance with Laws

A. General

In complying with the laws and regulations that apply to business at all government levels in the United States and abroad, we believe you will find the following information useful.

Please bear in mind as you read these materials that the laws and customs of one country may conflict with those of another. If you have international responsibilities, you must learn to recognize such discrepancies and, if a conflict appears, report the matter to the Legal Counsel.

B. Securities

Information about the Corporation's plans or operations that can have a significant impact on corporate earnings and has not been released to the public must remain confidential. This material, non-public information, often called "inside information," is not the property of the individual directors, officers, or other employees. It belongs to the Corporation. For anyone to use this information for personal benefit or to disclose it to others outside the Corporation violates the Corporation's interest and may be illegal. This is especially true in connection with public trading of the Corporation's securities, where use or disclosure of material, non-public information would perpetrate a fraud and victimize uninformed actual and potential investors trading in the same market as insiders with such information. Information may be "material" if it is likely to affect the market value of the Corporation's securities or influence decisions to buy, sell, or hold securities. Securities laws impose severe penalties on any individual engaging in this practice, and liability can extend to the organization as well. Penalties include injunctions, criminal fines, imprisonment, and monetary judgments for damages. You must observe the following guidelines:

1. Inside information must not be disclosed to anyone other than corporate employees who have established their need to know.
2. If you possess material, non-public information about the Corporation, or about firms with which the Corporation is negotiating or competing, you may not sell or buy the Corporation's securities or the securities of those firms, nor disclose such information to persons outside the Corporation until the information has been effectively disclosed to the public.
3. Individuals who are damaged because they purchased, held or sold the Corporation's securities at a time when employees with material, non-public information about the Corporation are purchasing or selling such securities may be able to recover their losses from such employees. For liability purposes, the person to whom the employee passes on the material, non-public information as a "tip" may be regarded as standing in the shoes of the "tipping" employee.
4. The Insider Trading Sanctions Act of 1984 permits the courts to impose fines triple the amount of profit gained or loss avoided from conduct that violates the securities laws and would apply to giving material, non-public information to outside parties ("tipping"). The law also provides a maximum fine of \$100,000 for securities fraud (which includes misuse of material, non-public information), market manipulation, and other violations.

5. Inquiries from financial analysts and others affiliated with the financial and investment communities should be answered only by the Corporation's Chairperson of the Board, President, Vice President-Finance, or their designees.

The securities laws also prohibit all officers, directors, employees, and agents of the Corporation from making any payments to officials of foreign governments, directly or indirectly, including using agents or intermediaries, with a view toward influencing an action or decision. No such payments are to be made under any circumstances.

C. Disclosure of Corporation Information

The Corporation's trade secret, financial, and administrative information is a valuable, intangible property asset. Protection of this information is vital to our continued growth and our ability to compete. Under our country's laws and those of most other countries, this type of information is treated as intellectual property, usually in the form of information, knowledge, or know-how, the possession of which gives the owner some advantage over competitors who do not possess it. To be protected under law, such information must not be generally or publicly known or must be patented or copyrighted if publicly disclosed. The Corporation's intellectual property assets are not always of a technical nature. Typical of such information are:

1. Corporate business, research and new product plans
2. Operating or marketing plans
3. Program and product sales profits, and any unpublished financial or pricing information
4. Designs, efficiencies and capacities of corporate production facilities, methods and systems
5. Salary, wage and benefits data
6. Employee, customer and vendor lists
7. Detailed information regarding customer requirements, preferences and plans, except where such information is publicly available.

This list, while obviously not complete, suggests the wide scope and variety of corporate information that must be safeguarded. Special safeguards should be observed for organization trade secret, financial, or administrative information. Such information is usually marked with a notice that imposes restrictions on the need to know within the Corporation. However, most of

what we know about our own jobs and the jobs of others, even without these classifications, should remain in the plant or office when we finish the day's work. If we leave the employ of the Corporation, our legal obligation is to protect the Corporation's intellectual property until it becomes clear what it has become publicly available or the Corporation no longer considers it necessary to restrict its use. We should remember also that correspondence, printed matter, documents or records of any kind, specific process knowledge, procedures, and special corporate ways of doing things are all the property of and must remain at the Corporation.

D. Political Contributions

No funds or assets of the Corporation may be contributed to any political party or organization or to any individual who either holds public office or is a candidate for public office. The direct or indirect use of any funds or other assets of the Corporation for political contributions in any form, whether in cash or other property, services, or the use of facilities, is strictly prohibited. The Corporation also cannot be involved with any committee or other organization that raises funds for political purposes. This rule applies both inside and outside the United States, except in those cases permitted by law and expressly authorized by the Board of Directors of the ABC Corporation.

Following are examples of prohibited activities

1. Contributions by an employee that are reimbursed through expense accounts or in other ways
2. Purchase by the organization of tickets for political fundraising events
3. Contributions in kind, such as lending employees to political parties or using Corporation assets in political campaigns
4. Indirect contributions by the Corporation through suppliers, customers or agents.

E. Government Officials

In the United States and in foreign countries, the organization is legally prohibited from offering, promising, or bestowing money, gifts, loans, rewards, services, use of facilities, lavish or extensive entertainment, or other favors to a government official or employee with a view toward influencing or inducing such official or employee to use his/her influence to effect an action or decision. You must refrain from such acts.

This includes any employee of a Federal, state or local government agency.

No employee of ABC Corporation will offer, give, or promise to offer or give, directly or indirectly, any money, gratuities or other thing of value to any U.S. government employee with current or possible responsibility on an award of the organization. A gratuity includes any gift, favor, entertainment or other item having monetary value of over \$10 per event or presentation. This phrase includes services, conference fees, vendor promotional training, transportation, lodging and meals, as well as discounts not available to the general public and loans extended to anyone other than a bank or financial institution.

If you have international responsibilities, you must become familiar with the Foreign Corrupt Practices Act of 1977, which imposes a fine of up to \$1 million on the organization if it makes direct payments to any foreign government official to influence his/her actions or decisions or to induce him/her to use his/her influence to help the organization. Anyone who willfully violates the Act may be fined as much as \$10,000 and imprisoned up to five years.

The provisions of this code apply fully to anyone who acts for the organization. For example, you may not allow an agent to act on behalf of the Corporation. If you know or have reason to believe that the agent would disregard the code or any law in performing his duties, bring it to the attention of the Legal Counsel.

F. Commercial Bribery

You are not allowed to make a payment either directly or indirectly or as a kickback to influence someone else, nor are you allowed to accept anything of value from someone who wants to do business with the Corporation. With the exception of government officials acting on a procurement, inexpensive advertising and promotional items are not considered to have "value," and an occasional business meal may be accepted or given if it has a value of under \$25.

In some business relationships outside the government, an occasional gift is appropriate.

The Corporation strongly discourages any gifts to any individual, but in the event a gift is proposed to be made, approval must be secured in advance from both the cognizant officer of the operating area involved and the Legal Counsel. However, you may only accept inexpensive gifts of an advertising and promotional nature. Gifts which do not fit this category must be returned. If the return of a gift is not practicable because of its nature, it may be given to a charitable institution and the giver informed of its disposition.

You may neither give nor receive any lavish or expensive entertainment, but occasional normal and customary social business amenities are permitted.

If you are asked to make or accept a payment or gift in any form prohibited by this code, report the matter to your supervisor immediately.

G. Record Keeping

To provide an accurate and auditable record of all financial transactions, Corporation books, records, and accounts must be maintained in conformity with generally accepted accounting principles and the standards established by the Foreign Corrupt Practices Act of 1977. You are responsible for safeguarding Corporation assets under your control and for maintaining an auditable record of financial transactions.

Further, the Corporation specifically requires that:

1. No funds or accounts may be established or maintained for purposes that are not fully and accurately described on the books and records of the Corporation
2. Receipts and disbursements must be fully and accurately described on the books and records of the Corporation
3. No false entries may be made on the books or records nor any false or misleading reports issued
4. Payments may be made only to the contracting party or a valid assigned and only for the actual services rendered or products delivered. No false or fictitious invoices may be paid.

If you have reason to believe that the Corporation's books and records are not in accord with the foregoing requirements, report the matter to the Legal Counsel.

H. Antitrust

1. Sherman Antitrust Act - Essence of the Law. The Sherman Antitrust Act is the most important of the antitrust laws. It prohibits and makes unlawful any contract, combination, or conspiracy in restraint of trade (e.g., rigged bids). Most cases in which individuals have been subjected to criminal prosecutions resulting in fines and imprisonment have arisen under this law. The Sherman Antitrust Act covers any contract, agreement, understanding, arrangement, plan or scheme, written or unwritten, formal or informal, expressed or inferred from conduct or circumstances, with any competitor or the employee or representative of

any, competitor, with respect to such matters as: (a) prices; (b) terms and conditions of sale or credit; (c) allocation or division of territories, sales, customers or jobs; (d) limitations on production or distribution; or (e) group boycotts or concerted refusals to deal with customers. All are examples of so-called "per se" violations, which are violations in and of themselves and for this there is no justification or defense.

The Act also prohibits the use of trade relations and reciprocity in relations with suppliers. It does not prohibit the Corporation from purchasing products from companies that purchase from us, but it does prohibit any understanding or agreement that purchases by one party are conditional upon purchases by the other.

Guidelines for Compliance. In the normal course of business, some communication with employees and representatives of competitors is necessary and proper. However, such communications must be kept to a minimum, and you must be careful that they do not form the basis for misinterpretation or for inferences of illegal activity. You may not communicate with any competitors or their employees or representatives about: (a) prices to be charged; (b) terms and conditions of sale or credit other than in arms-length negotiations; (c) allocation or division of territories, sales, customers or jobs; (d) limitations on production or distribution; (e) boycotts or refusals to deal with customers; or (f) any similar matters. This prohibition is especially important if you attend trade association meetings.

You may not enter into any agreement, expressed or implied, with any purchaser or supplier to fix prices for resale of products purchased.

Concealment is prohibited. You do not have the authority, need, or reason to engage in any concealment activities if the policies, procedures, and instructions of this code are observed.

Laws prohibiting price-fixing (the Sherman Antitrust Act and similar state laws) are based on a faith in competition as the way to carry on business. Violations can subject the Corporation and employees involved to criminal action and severe criminal penalties. For example, the Sherman Act provides fines of up to \$1 million for guilty Corporations, and punishment to individual violators by fines of up to \$100,000, imprisonment not to exceed three years, or both. Triple damages are also recoverable in civil actions by damaged parties.

2. Other Laws. Other Federal and state laws, such as the Clayton Act, Robinson-Patman Act, and Federal Trade Commission Act, contain various prohibitions and restrictions against price discrimination; exclusive dealing arrangements; "tying arrangements" (a seller requiring

a buyer to take a product or service as a condition of purchase of another product); and unfair trade practices.

The antitrust laws also apply to corporate acquisitions and mergers, and the Legal Counsel should be consulted at an early stage of consideration of any proposed acquisition.

In order to comply with the notification requirements of Federal legislation known as the Hart-Scott-Rodino Act, the Legal Counsel should be advised prior to the commencement of any formal negotiations.

International operations, practices and transactions that directly or indirectly affect the commerce of the United States come within the purview of the U.S. antitrust laws. In addition, international operations, practices and transactions may be subject to foreign antitrust laws, either of the country involved or of a multinational organization such as the European Economic Community.

3. Available Legal Assistance. The Legal Counsel is responsible for assisting you in complying with these laws. If you have any questions about the laws themselves or their application, you should contact the Legal Counsel for advice and assistance before taking any action that might violate these policies or the law.

Legal Counsel. Questions regarding this Antitrust section should usually be addressed by the Legal Counsel. However, any employee or attorney may wish to refer policy questions to the Legal Counsel. In all cases, you must report suspected violations to the Legal Counsel.

205 Employee Conflict of Interest

A. General

You have a primary business responsibility to the Corporation and are expected to avoid any activity that may interfere, or have the appearance of interfering, with the performance of this responsibility. Similarly, you may not use nor disclose confidential or proprietary information in any outside activity.

A conflict of interest exists if certain of your outside business or other interests may adversely affect your motivation or performance.

How can you tell if you have a conflict of interest? The test criteria include not only whether you actually are improperly influenced but also whether the situation lends itself to improperly influencing you. Even if you are the most

conscientious person, a conflicting interest may unconsciously influence you, and the mere existence of that interest may cause the propriety of your acts to be questioned.

If you take inventory of your outside interests, it should be possible to determine whether you actually are improperly influenced, but also whether the situation lends itself to improperly influencing you.

B. Investments

For the purpose of this policy, competitors, vendors and customers are classified as either "publicly owned" or "non-publicly owned." A publicly owned Corporation has its securities listed for trading on a national securities exchange, such as the New York Stock Exchange, American Stock Exchange, or an over-the-counter market. All others are non-publicly owned.

You may not hold financial interests in non-publicly owned competitors of the organization. You may own securities of any publicly owned competitor if the holdings do not exceed one-tenth of one percent of the competitor's outstanding securities. There is a corollary to this rule: you are also limited in such an investment to a maximum of ten percent of your own total assets since that could be a substantial investment in a large company. However, as a general rule, we discourage investments in companies in our industry with which we have or may have business relationships in the future.

If your job makes it possible to influence in any way the Corporation's relationship with a non-publicly owned actual or potential vendor or customer, you may not have any financial interest in that firm.

Further, you may not have any financial interest in any publicly owned actual or potential vendor or customer if the business between the Corporation and that firm is substantial, which means business that could dramatically affect the earnings of the Corporation. If the company is small, almost any Corporation business with it would be substantial. However, you may have a financial interest if the business between ABC Corporation and the other company is not substantial, subject to the one-tenth-of-one percent/ten percent rules defined above.

If your duties are totally removed from possible influence upon negotiations or other business dealings between the Corporation and other companies, you may hold a financial interest in a non-publicly owned vendor or customer under one condition: that you disclose such holdings to the Legal Counsel for confirmation that no conflict of interest exists.

This code does not prohibit you from investing in the Corporation's Investment Plan or in mutual funds, even though such programs may own securities of the Corporation's competitors, vendors or customers.

C. Outside Activities

You may not serve as a consultant to, or as a director, officer, or part-time employee of a company that competes or deals with the Corporation or that seeks to do so, unless you have obtained the prior express consent of your supervisor. Even if you receive no pay from the other company and have no direct or indirect contact with it in your job, this conflict of interest exists because you may inadvertently disclose proprietary information to the other company or benefit it through your Corporation contacts and general knowledge of how the Corporation operates.

You may also have a conflict of interest if your outside activities which in and of themselves may not be conflicts of interest are so demanding on your time that they interfere with your job performance.

D. Employment of Current and Former U.S. Government Employees

To ensure the utmost propriety in relations with government personnel (civilian and military), the Corporation's Policy on Restrictions on Employment of Current and Former U.S. Government Employees must be strictly followed. This directive established the policy for the recruiting and hiring of current or former employees of the U.S. government, both civilian and military, and establishes the post-employment restrictions on such employees. As provided in this policy, employment discussions may not be held with a current U.S. government employee until he or she has obtained a recusal from his or her current contract responsibilities related to ABC Corporation and provided a copy of this statement to the Corporation. Federal laws and regulations and this policy directive establish a number of post-employment restrictions on former government employees: all employees are expected to strictly comply with the restrictions which apply to them. It is your responsibility to determine your obligations, if any, under such regulations.

E. Responsibility of Employees' Relatives

Since everyone tends to identify his or her interests with those of members of his immediate family, you should keep such family members from doing anything that would be improper for you as an employee to do. In addition, it is a good general rule not to discuss the Corporation's business with anyone, including relatives, who are not the Corporation's employees. Members of your immediate family should be asked not to discuss corporate business in the presence of others.

F. Corporate Assistance

You should review your personal and job situations and eliminate any possible conflicts of interest that exist. Discuss possible conflicts of interest with your supervisor, who may in turn refer the matter to the Legal Counsel. If you wish, you may consult the Legal Counsel directly, with the understanding that the Legal Counsel will hold disclosures in confidence unless they involve violations of law or failure to eliminate conflicts within a reasonable time. If necessary, the Legal Counsel will report the disclosure to senior management or the proper authorities.

G. Employee's Duty to Report Conflicts of Interest

It is your duty to report to your supervisor or the Legal Counsel any known conflicts of interest within the organization. Further, you should report to the Legal Counsel any instances that come to your attention where non-corporate personnel misrepresent themselves and organization officials or employees.

207 Ethical Standards in Bidding, Negotiation and Performance of Government Awards

- A. The Corporation will strictly observe the laws, rules and regulations which govern acquisition of goods and services by the U.S. government. We will compete fairly and ethically for such business opportunities. Employees must strictly adhere to regulations regarding the acceptance of classified documents. Employees are responsible to protect and control all classified documents in their possession. Any questions regarding classified document control should be referred to the Legal Counsel.
- B. Employees involved in the negotiation of contracts will make all reasonable efforts to assure that all statements, communications and representations to customer representatives are accurate and current. Care should be taken by personnel in a position to know that there are no material substitutions from specifications and the products meet or exceed contractual specifications.

209 Organizational Conflict of Interest or Self-Dealing

The Corporation may not be organized and operated for the benefit of an affiliated or unaffiliated organization or an individual in his or her own private capacity, unless the private benefit is considered merely incidental. This private benefit preclusion will extend to:

- A. Sale or exchange, or leasing, or property between the agency and an affiliated or unaffiliated organization or a private individual

- B. Lending of money or other extension of credit between an agency and an affiliated or unaffiliated organization or a private individual
- C. Furnishing of goods, services or facilities between the agency and an affiliated or unaffiliated organization or a private individual
- D. Payment of compensation, unless authorized by the Board of Directors or its governing body, by an organization to an affiliated or unaffiliated organization or a private individual
- E. Transfer to, use by, or for the benefit of a private individual of the income or assets of an organization.

Thus, an agency will be guided by the principle of arms-length standards with all affiliated or unaffiliated organizations or with a private individual(s).

211* Fraud Policy

ABC Corporation considers acts of malfeasance, fraud, misrepresentation, or defalcation committed by its staff members to be reprehensible and, in response, will take all disciplinary or other action that the organization deems appropriate. Malfeasance may include falsifying time sheets or documents, abuse of sick time, theft, etc. Defalcation includes the misuse or stealing of funds or other organization resources. Any questions should be directed to Human Relations or Audit.

211* Fraud Policy

- A. Our greatest assets are our customers and our people who serve them. We are obligated to both, and to our industry to operate according to the highest standards of personal and corporate behavior.
- B. ABC Corporation will strive to detect and deter fraudulent activity, protecting our customers from increased premiums resulting from inappropriate utilization of services and products.

Definition: Fraud is an intentional act of deception, misrepresentation, impropriety, or concealment to gain something of value at the detriment of another.

Types: Fraudulent acts can include forgery or alteration of any document or policy; mis-appropriation of premiums or policy values; billing for services not performed and other irregular billing practices; inflating charges for services or products; false claims; falsifying time sheets or documents; theft; and other improprieties.

- C. In order to detect and deter fraudulent activity, ABC Corporation recognizes its responsibility to establish high standards of performance to govern all business practices.
- D. We will aggressively investigate and pursue prosecution for fraud, abuse and overutilization by employees, contract labor or subcontractors without regard to their position/title, length of service, or relationship with the Company.
- E. ABC Corporation is committed to complying with the laws and regulations, and will cooperate with appropriate law enforcement or regulatory agencies. All suspected potential fraud will be investigated and if appropriate, pursued for prosecution.
- F. Disciplinary action will include any of the following: warnings, suspension, sanctions, termination of employment or contracts, recommendation of any license revocation, recommendation of criminal prosecution, civil litigation and restitution.
- G. Fraud awareness training will be an ongoing process encouraged and supported by the Company so that the highest quality service at a reasonable cost can be provided to our customers.
- H. Managers are responsible for knowing what types of fraud can occur in their departments and for being alert for symptoms of wrongdoing. Upon discovery of any potential wrongdoing, managers are responsible for immediately notifying the Legal Counsel/Audit representative. They are not to investigate the activity or confront the suspected individual(s).
- I. Legal Counsel/Audit coordinates the detection and investigation of possible fraud or fraudulent activity and to deter fraud. Legal Counsel/Audit will monitor and recommend modifications to the corporate anti-fraud strategy as considered necessary. The current anti-fraud strategy objectives are as follows:
 - 1. Ongoing review of the fraud program to detect and investigate possible fraudulent activity.
 - 2. To continue to monitor and improve, if necessary, training programs to identify certain activities or events that may indicate possible fraud or fraudulent activity.
 - 3. Recommend modifications to existing policies and procedures as investigations warrant of ABC Corporation's business activities change.
 - 4. At the direction of Legal Counsel, investigations will be performed by Audit with the assistance of Legal Counsel. Results of all investigations

will be communicated to Legal Counsel so that a disposition can be determined and reported to appropriate agencies.

213 Board of Directors Authorities

The Board of Directors shall have the sole authority to approve and will incorporate into its own minutes such matters as (i) changes of the organization's name, (ii) adoption of the annual operating budgets, (iii) selection or termination of the chief executive officer, chief operating officer, vice presidents, and department heads, (iv) senior staff promotions and salary changes, (v) incurrence of debt, mortgages or other encumbrances and their covenants and restrictions, (vi) payment or performance guarantees of third parties or of the shareholders or their affiliates, (vii) investment policies and investments of over \$XX,000, (viii) depository and investment banks and brokerage firms (annually), (ix) issuance of stock, (x) issuance of additional shares or reduction of stated capital, (xi) declaration of dividends, (xii) purchase or sale of property over \$XXX,000, (xiii) contracts or subcontracts of over \$X,000,000, (xiv) entering into any license or technology transfer agreement, (xv) joint venture and partnerships, (xvi) leasing of real property involving an overall outlay of \$XXX,000 for a duration of over X years, (xvii) risk management decisions involving more than \$XXX,000, (xviii) institution, termination or settlement of any litigation in controversies exceeding \$XX,000, (xix) opening up or closing checking or savings accounts, (xx) selection of the organization's public accountants, (xxi) etc.

600 COST ACCOUNTING POLICIES

601 Consistency in Cost Accounting

Practices used by ABC Corporation in estimating costs in preparing its contract proposals will be consistent with its accounting practices used in accumulating and reporting costs. Accounting practices used by ABC Corporation in accumulating and reporting actual costs for a contract with the contracting agency will be consistent with its practices used in estimating costs in its contract proposals. Moreover, all costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to contracts. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose in like circumstances, have been included as a direct cost of that or any other final cost objective.

603 Unallowable Costs

Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, will be identified in separate accounts and excluded from a billing, claim or grant applicable to a contract with the contracting agency. These costs will include: alcoholic beverage costs, bad debts and directly associated collection and legal costs, a portion of stock options

and deferred compensation, congressional lobbying, contingency provisions as such, contributions and donations, entertainment costs, certain employee morale activities, executive lobbying costs, fines and penalties, first-class air travel unless authorized under specific circumstances and documented and justified, acquired goodwill, step-up of assets under a merger or acquisition, gains or losses on disposition of capital assets other than depreciable assets, cost of idle facilities except in limited circumstances, retroactive or backdated insurance, interest costs for operating funds, legal fees defending fraud and litigating appeals against the U.S. government, long-term leases of property and equipment and leases from related parties limited to cost reimbursement to the cost of ownership, losses on other contracts, organization costs, product advertising, promotional items, social club memberships, professional service costs to prosecute claims against the U.S., and certain taxes.

605* Detailed Records of Unallowable Costs

ABC Corporation will maintain separate records in its direct cost categories and in each of its indirect cost pools for all expressly and mutually agreed unallowable costs.

607* Separate Records of Unallowable Costs

ABC Corporation will maintain separate records in the form of memoranda accounts/spreadsheets/collateral records of all expressly and mutually agreed unallowable costs.

609* Statistical Sampling for Unallowable Costs

Because of considerations of materiality, ABC Corporation has reached agreement with the Contracting Officer on a method other than specific identification of unallowable costs, namely statistical sampling.

611 Cost Accounting Period

The fiscal year of ABC Corporation will be January 1st to December 31st. The same accounting period will be used for all adjusting entries, accruals and deferrals as well as accumulating costs in an indirect cost pool and establishing its base.

613 Direct and Indirect Costs

- A. Costs incurred specifically for a final cost objective will be treated as direct cost. Costs benefiting more than one cost objective will be consistently treated as overhead or burden costs. Costs necessary for the overall operation of the business will be treatment as general and administrative costs.
- B. ABC Corporation has one composite indirect cost pool combining all indirect costs/two indirect cost pools--a separate overhead and a G&A pool/three

indirect cost pools --a separate fringe benefits pool, an overhead pool and a G&A pool. The base of allocation for (name of pool/name of pool/name of pool) is (fill in for each pool).

- C. ABC Corporation will treat all fringe benefits including compensated personal absences, as a part of the overhead pool/as allocated between overhead and G&A/as allocated among direct labor, overhead and G&A/in a separate fringe benefits pool.
- D. Each of the individual cost elements will be treated consistently as shown in the following exhibit.

Exhibit
 ABC Corporation
 Treatment of Elements of Cost

Element of Cost	Direct Material	Direct Labor	Other Direct Costs	Indirect Only	Factor: Sometms Dir/ Direct/ Sometms Ind Indir.
Material					
Cash discounts on material					
Income from scrap					
Inventory adjustments					
Purchasing					
Trade discounts					
Labor					
- Executive & supervisory					
- Technical					
- Administrative support					
Health insurance					
Holiday premium pay					
Overtime premium pay					
Pension costs					
Shift premium pay					
Site premium pay					
Training					
Travel & subsistence					
Vacation pay					
Purchased labor of direct nature					
Rearrangement costs					
Research costs					
Royalties					
Scrap work					
Special tooling and test equipment					
Subcontract costs					

Exhibit (continued)

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Element of Cost	Direct Material	Direct Labor	Other Direct Costs	Indirect Only	Factor: Somets Dir/ Direct/ Somets Ind Indir.
Warranty costs					
Bid & proposal costs					
Selling & marketing					
Depreciation expense					
Automated data processing					
Legal costs					
Copier use and supplies					
Space costs					
Specialized faci- lities					
Consultant fees					
Telephone & communications					
Credits from insurance refunds					