

1 Re: Travel and Expense Policy Guidelines for Executives

2 In light of recent corporate events, it has become increasingly important to adequately
3 document and establish a proper travel and entertainment ("T&E") expense approval process and
4 policy for company executives of the Company. This memorandum is intended to (i) provide a
5 clear and consistent understanding of the internal review process and approval standards, (ii)
6 establish a policy that complies with all applicable provisions under the Internal Revenue Code
7 of 1986, as amended (the "Code") and the United States Treasury Regulations promulgated
8 thereunder (the "Regulations"), (iii) ensure that adequate cost controls are in place, (iv) ensure
9 that executive T&E expenditures are appropriate, (v) provide internal audit staff and members of
10 the Audit Committee with a uniform and consistent approach for evaluating T&E expenses
11 incurred by the Company's executives, and (vi) establish the scope of the Audit Committee's
12 review of T&E expenses by Company executives.

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14 The Code and the Regulations require that T&E expenses associated with the use of
15 Company property will be disallowed unless the taxpayer substantiates by adequate records or by
16 sufficient evidence corroborating the amount, time, place and business purpose of the
17 expenditure. In addition, the expenses must be ordinary and necessary to the taxpayer's business,
18 recorded at or near the time when the expense was incurred and must be directly related to or
19 associated with the active conduct of that business. However, T&E expenses associated with the
20 use of Company property solely for personal use will generally only be allowed as a business
21 deduction if the executive reports the value attributed to the personal use of the property as
22 additional compensation.

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24 The details required by the Regulations and outlined in this policy are important because
25 they are the basis upon which a proper allocation between personal and business expenses can be
26 made. Therefore, it is important that executives maintain adequate records of all expenses in
27 accordance with this policy in order to provide full disclosure to auditors and avoid improper tax
28 treatment of expenses. Moreover, it is essential that the internal audit staff and the Audit
29 Committee understand the requirements for an appropriate deduction under the Regulations in
30 order to make informed decisions as to the deductions.

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32 *Adequate T&E Expense Records*

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34 In order to establish a proper business deduction, executives are required to provide
35 adequate records or sufficient evidence of each T&E expense associated with the use of
36 Company property. The records and documentary evidence, made at or near the time of the
37 expenditure, must adequately establish the following elements:

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- Amount of each separate expense (if reasonable) or use of the property based on appropriate measures;
- Number, identity and relationship of all individuals receiving a benefit from the expense or use of the property;
- Location where the property was used;
- Dates the property was used; and
- Purpose (business, personal or both) for the use of the property.

The following descriptive and documentary evidence satisfy the substantiation requirements under the Code and Regulations:

- A summary of expenses in the form of an account book, diary, report, log, statement of expense, trip sheets, or similar records (i.e., an expense account or expense voucher that is kept either manually or electronically) made at or near the time of the expenditure or use, and
- Original receipts provided by the vendor (not a credit card receipt or statement). Photocopies or facsimiles will not be accepted as substitutes. When original receipts are lost, and all reasonable efforts are made to obtain another receipt from the vendor are in vain, the individual may sign an affidavit detailing the expenses incurred, and have it approved by his/her approving authority as a substitute for the original receipt.
 - More than one document may be required to establish elements of an expense. For example, a bill for a business meal may establish the place, date and total people served. A canceled check payable to the restaurant may establish the amount. Together, the documents supply the necessary elements of the expense under the Regulations.

However, except as noted below for the use of a Company aircraft, it is not necessary to record information in an account book, diary, log, statement of expense, trip sheet, or similar record which duplicates information reflected on a receipt so long as the account book, etc. and receipt complement each other in an orderly manner. If an executive has not fully substantiated a particular element for the use of the property, then the executive may establish such element by his own statement, whether written or oral, containing specific information in detail as to such element and other corroborative evidence sufficient to establish such element.

80 This policy provides for special rules and requirements when executives are provided
81 with a flight on an employer-provided aircraft. Executives must provide the following informa-
82 tion regarding the use of a Company aircraft:

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- 84 • travel itinerary consisting of time and destinations (including all stops);
- 85 • copies of the flight log (or suitable substitute flight records);
- 86 • number of passengers in executive's party (excluding passengers under two years
87 of age); and
- 88 • business purpose of the flight, if any, associated with the use of the property.
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90 *Approval Process for Use of Company Property*

91 The use of Company property by executives may be obtained by making a written request
92 to the Chief Financial Officer or to another officer appropriately designated in writing by the
93 Chief Financial Officer and corporate counsel. If the Chief Financial Officer is requesting the
94 use of the Company property, the request must be made to the [Controller] or another officer
95 appropriately designated in writing by the [Controller] with decision-making authority and
96 corporate counsel. All requests must be reviewed and approved by the Chief Financial Officer,
97 the [Controller] or other officer appropriately designated in writing by the Chief Financial Officer
98 or the [Controller], as the case may be, and corporate counsel prior to the executive's use of the
99 property. An executive may not review or authorize any use of Company property in which they
100 participate or will receive a benefit in any respect. Approval for the use of Company property
101 may be granted only after the following information is verified:

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- 103 • If for business use:
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 - 105 • Expense is ordinary, necessary and directly related to official business; and
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 - 107 • Expenses conform to the requirements imposed by the Internal Revenue
 - 108 Service (the "IRS"), granting agencies or other sponsors as applicable.
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- 110 • If for personal use:
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 - 112 • Property is available;
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 - 114 • Expense to Company is appropriate and reasonable; and
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 - 116 • Expenses conform to the requirements imposed by the IRS, granting
 - 117 agencies or other sponsors as applicable.
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119 *[Expense Advances]*

120 Travel advances related to anticipated out-of-pocket expenses for T&E are available by
121 making a written request to the [Chief Financial Officer] or another officer appropriately

122 designated in writing by the [Chief Financial Officer]. If the [Chief Financial Officer] is
123 requesting the travel advance, the written request must be made to the [Controller] or another
124 officer appropriately designated in writing by the [Controller] with approval authority. The
125 advance request must provide sufficient information, including amounts of each individual
126 expense and the business purpose, in order to justify the amount requested. Advances will be
127 issued no earlier than one week prior to the executive's departure or expected expenditure date.
128 Advances will be deducted from the traveler's next submitted T&E expense report. Advances in
129 excess of substantiated expenses must be returned within [10 / 20 / 30] days after the expense is
130 paid or incurred by the executive, as documented on original receipts which must be provided for
131 substantiation of the expense.]
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133 *[T&E Expense and Advance Reporting Period*

134 Executives will be required to provide appropriate substantiation and a completed T&E
135 expense report (see below for details) for all T&E expenses and advances within [10 / 20 / 30]
136 days of the date that the expense was paid or incurred. All T&E expense reports must contain
137 original receipts, if any. Original receipts are those receipts provided by the vendor (not a credit
138 card receipt or statement). Photocopies or facsimiles will not be accepted as substitutes. When
139 original receipts are lost, and all reasonable efforts are made to obtain another receipt from the
140 vendor are in vain, the individual may sign an affidavit detailing the expenses incurred, and have
141 it approved by his/her approving authority as a substitute for the original receipt.
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143 All properly substantiated T&E expense reports will be paid through the accounts payable
144 system, not through the payroll system. Expenses not submitted for reimbursement with proper
145 substantiation within [10 / 20 / 30] days from the date the expense is paid or incurred by the
146 executive or expenses that do not meet the criteria of this policy will be reported to the IRS as
147 taxable income. Once the taxable income is reported to the payroll department for inclusion in
148 the executive's wages, subsequent substantiation will not reverse this action under any
149 circumstance. Amounts included in the executive's gross income may be subjected to
150 withholding for income, FICA, and Medicare taxes. Advances in excess of the properly
151 substantiated amount which are not returned to the Company within [10 / 20 / 30] days after the
152 expense is paid or incurred by the executive will be included in the executive's gross income to
153 the extent of the excess in the first payroll period following the end of the 90 day period, and may
154 be subjected to withholding for income, FICA, and Medicare taxes.]
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156 *T&E Expense Report*

157 In order to be reimbursed for any T&E expense or expenditure amounts in excess of any
158 approved advances, the information contained on the T&E expense report and in the
159 accompanying documentation must be complete, accurate and in accordance with this policy.
160 T&E expense reports will not be accepted unless the executive submits a written expense report
161 with the following information:

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- ~~163~~ • Original receipts and other appropriate documentation;
- 165 • Date, origin, destination and purpose of the trip, including a description of each
~~166~~ separate business or personal activity;
- 168 • Number, identity and relationship of individuals receiving a benefit from the
~~169~~ expense or use of the property;
- 171 • An itinerary consisting of time and destinations (including all stops and details
~~172~~ regarding time and purpose of all stops);
- 174 • Approval from the Chief Financial Officer, the Controller] or another officer
175 appropriately designated in writing by the Chief Financial Officer or the
~~176~~ [Controller], as the case may be, and corporate counsel; and
- 178 • Signature of the executive.
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180 *Review Process and Internal Approval*

181 All T&E expense reports will be reviewed by the internal audit staff or a designated
182 agent. The review is to designed verify the following information:

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- ~~184~~ • Business purposes claimed are valid and directly related to official business;
- ~~185~~ • Total cost of the trip was within the approved budget (if required);
- 188 • Documented and reported expenses were actually spent;
- ~~189~~ • Expenses are charged to the proper accounts; and
- 192 • Amount of compensation is accurately calculated and properly recorded as
~~193~~ additional compensation to the executive (if necessary);
- 195 • Records and documentation provided conform to the requirements imposed by the
196 IRS, granting agencies or other sponsors as applicable.
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198 After review of the T&E expense report, the internal audit staff will compile a detailed
199 report, including all records and documentation provided by the executive, for review and
200 approval. The Chief Executive Officer is responsible for approving all T&E expense reports in
201 excess of \$[_____]. If the Chief Executive Officer is requesting the approval of expenses in
202 excess of \$[_____], the report must be approved by the Chief Financial Officer or another
203 officer appropriately designated in writing by the Chief Financial Officer. The Chief Financial
204 Officer or another officer appropriately designated in writing by the Chief Executive Officer with
205 approval authority will approval T&E expense reports below \$[_____]. If the Chief Financial
206 Officer is requesting the approval of the T&E expense, the report must be approved by the Chief
207 Executive Officer or another officer appropriately designated in writing by the Chief Executive

208 Officer. The [Chief Executive Officer], the [Chief Financial Officer] or the officer appropriately
209 designated in writing by the [Chief Executive Officer] or the [Chief Financial Officer], as the
210 case may be, may not approve any T&E expense report in which they participated or received a
211 benefit in any respect.
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213 *Audit Committee Review*

214 Prior to the quarterly meetings of the Audit Committee, or more frequently if requested,
215 the internal audit staff will prepare a report containing information for all T&E expense reports
216 submitted by executives separated into business and other expense categories. For business-
217 related T&E expense reports, the report will contain a list of the submitted and approved T&E
218 expense reports and a certification from the [Chief Financial Officer] verifying that such T&E
219 expense reports have been reviewed and approved by the established procedures. In addition, the
220 [Chief Financial Officer] will certify that the T&E expense reports and documentation provided
221 conform to the requirements under the Code and the Regulations for a proper business deduction.
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223 In addition, for T&E expenses incurred by executives of the Company arising from the
224 use of Company property, the report will also contain the following supplemental information:
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- 226 • Particular purpose for which the Company property was used by the executive;
- 227 • Total amount of expenses incurred by the Company;
- 228 • Amount of compensation included as additional income to the executive;
- 229 • A signed copy of the approved request form;
- 230 • A signed copy of the T&E expense report and the accompanying documentation
231 provided by the executive; and
- 232 • A signed copy of the internal review file given to the [Chief Executive Officer],
233 [Chief Financial Officer] or other officer appropriately designated in writing.

234 If requested, the report will also be accompanied by any additional information necessary
240 for the Audit Committee understand how the executive used the Company property (i.e., a
241 detailed written or oral statement from the executive or other corroborative evidence) and to
242 make a fully informed review.
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