



PATTERSON PUMP COMPANY

EXPORT CONTROL

COMPLIANCE MANUAL

Revised January 31, 2020

TO: All Employees, Distributors and Representatives
SUBJECT: Patterson Pump Company – Export Policy Statement

As a global company which operates in the United States, Patterson Pump Company is governed by U. S. export control rules and regulations regarding the export and/or re-export of products, spare parts, accessories, training materials and technical data. It is the policy of Patterson Pump Company that under no circumstances will sales be made contrary to U. S. Export control law and regulations or the policies and procedures of Patterson Pump Company's Export Management and Compliance Program.

Every employee, distributor or representative of Patterson Pump Company must remember that exporting our products is a privilege, not a right, granted by the U. S. Government. This is critical for Patterson Pump Company because an increasing number of our sales take place in the international market place. Although most of our products do not require Export Licenses prior to shipment to most countries, many products are now more tightly controlled because of concerns regarding the proliferation of chemical and biological weapons, missile technology and nuclear weapons. Accordingly, Patterson Pump Company as an exporter must assume even greater responsibility for screening its customers and transactions. Careful review of both the end-use and the end-users involved with our international transactions is required to ensure export control compliance.

Patterson Pump Company asks that each of you take this issue very seriously and support the company in this effort. If you have any questions concerning the legitimacy of a transaction or potential violation, please contact:

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who is responsible for disseminating this Statement throughout the organization via Patterson Pump Company's Export Management and Compliance Program Manual updates, incorporation into training and presentations, and posting on Patterson Pump Company's Intranet and Website.

Note: This Statement of Corporate Commitment to Export Compliance will be issued if necessitated by personnel changes, changes in management, or regulatory changes.

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Exhibit A – Certificate of Final Destination

INTRODUCTION

It is the policy of Patterson Pump Company (“Patterson”) to comply with all U.S. Government export control laws and regulations. No transactions are to be conducted by or on behalf of Patterson contrary to U.S. export regulations. This company supports U.S. efforts to fight the battle against terrorism and prevent transactions involving entities engaged in prohibited missile, nuclear, chemical and biological warfare activities. In addition to affirming Patterson’s commitment to full compliance with all applicable laws and regulations this manual is intended to be used as a resource for ensuring compliance. In addition, this manual is designed to serve as a guide for Patterson’s employees (and outside parties reviewing Patterson’s business practices) to company policies and procedures related to embargo and export control compliance.

The U.S. Government has the authority to control all exports from the United States. This authority is exercised by various agencies, including the Bureau of Industry and Security (“BIS”) at the Commerce Department, the Office of Foreign Assets Control (“OFAC”) at the Department of the Treasury, the Directorate of Defense Trade Controls (“DDTC”) at the U.S. State Department, and numerous other agencies with smaller roles in export control. To enforce these regulations on exports, the U.S. Government restricts a limited number of exports and financial transactions based on: (1) the sensitive nature of the item to be exported, (2) the purpose for which the exported item will be used, (3) the country of destination, and (4) the identity of the end-user.

Penalties for violations of U.S. export control laws and regulations may be imposed by law and may include substantial fines and/or imprisonment. In addition, violations could subject Patterson to administrative action, including the denial of export privileges. Accordingly, Patterson will view the failure of any employee to comply with this policy statement as a violation of company policy, and, depending on the nature of the violation, the employee may be subject to disciplinary action, including a warning, reprimand placed in the personnel file, probation, suspension, reduction in salary, demotion, or dismissal. Violations will be dealt with promptly.

Any employee that has reason to suspect that a transaction is illegitimate or that a violation of the United States export regulations has either occurred or is about to occur is required to report his or her concerns immediately. Patterson has a designated export compliance officer (ECO) who is the primary contact point for export control and embargo issues. All company personnel are encouraged first to communicate any questions or new issues involving embargoes or exports to the ECO, who, in turn, will contact legal counsel when appropriate to ensure that Patterson complies with U.S. laws.

The official hard copy of the Manual will be maintained in the Contract Department by the ECO and will be updated from time to time as required by developments in U.S. law.

1.0 IDENTIFYING THE EXPORT

Before determining whether export controls apply, it is important to determine just what is being exported. An export, by definition, is an actual shipment or transmission of items out of the United States. This includes items sent to military bases or U.S. Navy vessels abroad, foreign affiliates and distributors, and any foreign person, company, entity or government. Exports can be commodities, software, or technology. Exports include those sent via mail, freight forwarder, hand-carried with someone traveling abroad, and faxed, emailed or sent via other electronic means across the U.S. border. Re-export transactions involving shipments of U.S.-origin Patterson products from a foreign country to another foreign country are also controlled for export by U.S. laws and regulations. To the extent Patterson personnel know about such transfers in advance of export of our product from the U.S., or we assist with or participate in such transactions, Patterson may need to ensure compliance with U.S. laws related to such transactions.

“Technology” includes technical data and technical assistance that conveys specific information “required” for the “development,” “production,” or “use” of products, including drawings, operation, installation (including on-site installation), maintenance (checking), repair, overhaul and refurbishing instructions. Only certain technology relating to the development, production and use of controlled products is controlled for export. Information that is publicly available (as strictly defined in the regulations) is not considered to be controlled for export. Published standard manuals and items available to anyone over the internet are not controlled for export. Typically, information required for the safe installation and operation of our products is not controlled for export so long as the export of the product is legal without an export license or an export license or license exception is obtained or properly used. License exception TSU (Technology and Software Unrestricted) (found at 15 C.F.R. § 740) under the Export Administration Regulations (“EAR”) can be used for exports of most installation and operation technology for licensable exports.

An export of technology can occur by providing technical information related to controlled product(s) to anyone – including customers, suppliers, subsidiaries, employees or visitors – who is either in a foreign country or who is a foreign national located in the U.S. An export violation would occur if the controlled technology was released without obtaining a license or properly using a license

exception to a recipient located in a country that requires a license before the technology is released there or to a recipient who is a citizen of a controlled country regardless of where that citizen is located. This includes information sent via e-mail and through other electronic means.

A deemed export occurs within the U.S. when an exporter "releases" controlled technology to foreign nationals in the U.S. Technology is "released" when it is made available to foreign nationals for visual inspection (such as reading technical specifications, plans, blueprints, etc.); when technology is exchanged orally; or when technology is made available by practice or application under the guidance of persons with knowledge of the technology.¹ Any foreign national (even a company employee) from a country requiring an export license for the controlled product(s) is subject to the "deemed export" rule except a foreign national who (1) is granted permanent residence, as demonstrated by the issuance of a permanent resident visa (i.e., "Green Card"); (2) is granted U.S. citizenship; or (3) is granted status as a "protected person" under 8 U.S.C. § 1324b(a)(3) (this is a specialized and rare refugee status).

Again, exporters are responsible for both exports and reexports. A reexport is an actual shipment or transmission of items from one foreign country to another foreign country. Generally, the export or reexport of items that will transit through a country or countries, or be transshipped in a country or countries to a new country, or are intended for reexport to the new country, are deemed to be exports to the new country.

2.0 EXPORT CHECKLIST

For each proposed export either from the United States or of U.S. origin, the following seven questions must be answered. If the answer to any question is "yes," the item may require an export license before it can be exported legally, and you should contact the ECO before exporting the item. If necessary, the ECO will contact legal counsel to discuss such exports in more detail before shipment occurs.

(1) **Do export or re-export controls apply to the item for foreign policy or national security reasons?**

BIS controls the export of certain items because their export may undermine a foreign policy or national security goal of the U.S. Government. Each item to be exported must have

1 See 15 C.F.R. § 734.2(b)(3)

an Export Classification Control Number (“ECCN”). This number helps determine whether the company must obtain an export license for shipment of the item to the destination country.

(2) Is the item included on the U.S. Munitions List?

The State Department controls the export of defense articles and services, including ammunition, firearms, and military vehicles. Any item that is either on the munitions list located at 22 C.F.R., Part 121 or specially designed or modified for military use is subject to State Department export controls.

(3) Is the item specially designed for nuclear uses?

The Department of Energy and the Nuclear Regulatory Commission control the export of articles and technology related to nuclear facilities, including power plants and certain nuclear materials.

(4) Does the item contain encryption technology?

BIS controls the export of many forms of encryption technology.

(5) Is the item being exported to a prohibited destination?
(Prohibited destinations currently include Cuba, Iran, North Korea, Sudan and Syria).

U.S. persons or entities may not export to these prohibited destinations or conduct any financial transactions involving any of these prohibited locations, except in very limited situations that generally do not apply to Patterson. In addition, limited sanctions apply to many other countries. After determining that an export is bound for a destination subject to limited sanctions, you should carefully coordinate any activity with legal counsel before proceeding. See the OFAC Website at <http://www.treas.gov/offices/enforcement/ofac/> and Part 746 of the EAR for additional information on these limited sanctions, which change from time to time.

(6) Will the item be used for a prohibited end-use?

Products cannot be exported from the United States without a license if the exporter knows that the items will be used for nuclear, missile, chemical or biological weapons end-uses in certain designated countries, and for certain naval nuclear end uses.

(7) Is the item being exported to a prohibited end-user?

Prohibited end-users include individuals and entities who are affiliated with embargoed governments, as well as certain terrorists, significant narcotics traffickers, those involved in illegal diamond trading practices and individuals who have violated export control and embargo laws. Current lists of these prohibited end-users are provided and updated by the responsible government agency on a regular basis. Each of these lists must be consulted prior to exporting. See the BIS website for a collection of the lists to check which is available, along with the appropriate hyperlinks for use at <http://www.bis.doc.gov/ComplianceAndEnforcement/ListsToCheck.htm>.

If the answer to any of the above questions is “Yes”, the product, component or technology under consideration may require a license before it can be exported, or it may be prohibited from export.

3.0 EXPORT CONTROLS BASED ON THE NATURE OF THE PRODUCT

Certain items require licenses before they can be exported from the United States because the nature of the product is such that its export would be inconsistent with a U.S. policy goal. This type of export control is generally administered by BIS in the Department of Commerce, the Department of Energy, the Department of State, or the Nuclear Regulatory Commission (“NRC”). The export of some items is controlled because the controlled items could contribute to the proliferation of missiles, the production of nuclear, chemical, or biological weapons in certain listed countries, the promotion of terrorist activities, and for several other national security reasons.

For example, certain pumps or components of pumps and certain other chemical processing equipment can be useful in developing and manufacturing chemical and biological weapons. For this reason, a few Patterson products may be controlled under the Export Control Classification Number (ECCN) 2B350 on the

Commerce Control List (CCL) under the EAR. The text of the ECCN 2B350(i) control follows:

- i. Multiple-seal and seal-less pumps with manufacturer's specified maximum flow-rate greater than 0.6 m³/hour, or vacuum pumps with manufacturer's specified maximum flow-rate greater than 5 m³/hour (under standard temperature (273 K (0 °C)) and pressure (101.3 kPa) conditions), and casings (pump bodies), preformed casing liners, impellers, rotors or jet pump nozzles designed for such pumps, in which all surfaces that come into direct contact with the chemical(s) being processed are made from any of the of the following materials:
 - i.1. Alloys with more than 25% nickel and 20% chromium by weight;
 - i.2. Nickel or alloys with more than 40% nickel by weight;
 - i.3. Fluoropolymers;
 - i.4. Glass (including vitrified or enameled coatings or glass lining);
 - i.5. Tantalum or tantalum alloys;
 - i.6. Titanium or titanium alloys;
 - i.7. Zirconium or zirconium alloys;
 - i.8. Niobium (columbium) or niobium alloys.
 - i.9. Graphite or carbon-graphite;
 - i.10. Ceramics; or
 - i.11. Ferrosilicon.

Products that meet the triggers described above (having multiple seals or being seal-less, over the relevant flow rate, and made of the listed materials), pump bodies, impellers, and liners for these pumps are controlled under the Chemical and Biological Category “2” controls and require a license for export to over 150 countries (most countries in the world), as identified in the BIS export regulations.

See the Commerce Country Chart found at the following website: <http://www.access.gpo.gov/bis/ear/pdf/738spir.pdf>. Export control licensing requirements apply to any country with an "X" in the box under the CB 2 or AT 1 columns in the referenced country chart.

In addition to the controls on certain pumps that are capable of handling chemicals, there are other controls that directly affect Patterson pump products, including ECCN 2B999(j). That category covers "pumps designed for industrial service and for use with an electrical motor of 5 HP or greater." The 2B999 ECCN category is specific to exports to North Korea, which is a very unusual export destination for U.S. companies. However, because many Patterson pumps fit into the 2B999(j) category, this ECCN listing must be used on export documents for these pumps (Automated Export System submissions typically filed by the company's freight forwarders on the company's behalf). An actual export license is only required for shipments of these pumps to North Korea.

It is also worth noting that a number of other common products are classified as 2B999 items, including: monel equipment, including valves, piping, tanks and vessels; 304 and 316 stainless steel valves, piping, tanks and vessels; vacuum valves, piping, flanges, gaskets and related equipment specially designed for use in high-vacuum service; and austenitic stainless steel plate, valves, piping, tanks and vessels, among other products.

Certain precision ball bearings are classified as 1C999 products and are restricted for export to a few destinations only, as indicated in the regulations. Also certain valves are controlled by ECCN's 2A226 (certain bellows seal valves), 2A292 (high pressure pipes and valves), 2A999 (all other bellows seal valves).

Unless they are for highly unusual material handling purposes or for nuclear end uses (under NRC controls or under ECCN 2A290 or 2A291, virtually all other pumps are not controlled for export based on product classifications. In order to ensure compliance with these product controls, the company should answer five questions about any item to be exported, particularly newly-produced items:

- (1) What is the Export Classification Control Number ("ECCN") for the export?
- (2) Do export controls apply to that product for the country of intended export after checking the "reason for control" listed in the ECCN entry and the Commerce Country Chart?

- (3) Is the export specially designed, produced, or adapted for nuclear use?
- (4) Is the export on the U.S. Munitions List or designed for military use?
- (5) Does the export contain encryption technology? (Described later in this manual).

As discussed below, if the answer to any of these questions is “yes,” an export license may be required before the item can be shipped legally out of the United States.

3.1 BUREAU OF INDUSTRY AND SECURITY (“BIS”) CONTROLS

BIS exercises more control over exports than any other agency, particularly due to its authority over the export of “dual-use” items: those that are useful for both civilian and military purposes.

BIS’s principal statutory authority is the Export Administration Act, which is implemented by the Export Administration Regulations (“EAR”), which are available electronically at http://www.gpo.gov/bis/ear/ear_data.html. Almost all items exported from the United States are subject to BIS jurisdiction because they are “subject to the EAR,” but only a small percentage of those items require an export license, such as the specialized pumps that fall in ECCN 2B350(i), as specified above.

To determine whether an existing or new item requires an export license before exporting or whether a license exception is available, Patterson completes several steps. First, the company examines the Commerce Control List (“CCL”) (Part 774, Supplement 1 of the EAR), which describes categories of items that are controlled under the EAR in specific Export Control Classification Number (ECCN) categories. An easy way to begin this examination for a newly developed product is by using the alphabetical index to the CCL located at <http://www.access.gpo.gov/bis/ear/pdf/indexccl.pdf>. Use the index as an initial guide to finding out if a product is covered by an ECCN category.

If Patterson determines that an item is not classified in a controlled category in the CCL, that item falls into a “basket” category of items subject to the CCL, but not controlled for export under a specific

ECCN category. Those products are referred to as an EAR99 items. Generally, EAR99 items do not require an export license. Despite this general rule, EAR99 exports may still require a license due to “end use” (nuclear, chem/bio weapons, or missile uses) or “end user” concerns, as described below.

BIS has a process for determining ECCN classifications for exporters if exporters are having difficulty determining where on the list their products fall. This process, called an export classification review is initiated by signing up for access to an electronic license and classification application system called SNAPR. See <http://www.bis.doc.gov/SNAP/index.htm>. If the company needs licenses or classification assistance in the future, it can sign up for this system and apply for export licenses from BIS or ask BIS to classify specific products.

If Patterson determines that the item is listed in a controlled ECCN category, it must then determine the reason the item is controlled and whether that control applies to the country to which the item will be exported. (Each ECCN category lists the reasons for control, e.g., antiterrorism, nuclear nonproliferation, chemical and biological weapons proliferation, etc.). Patterson must then look at the Country Chart in the EAR (again at <http://www.access.gpo.gov/bis/ear/pdf/738spir.pdf>) to determine if the destination country is affected by the applicable reason for control.

More specifically, as described above, a high nickel content alloy pump (e.g. made from Inconel on its wetted surfaces) is controlled for “CB2” chemical & biological proliferation reasons, as described above. These types of controls, however, do not apply to Canada (no “X” in the CB2 column of the CCL Country Chart entry for Canada for this type of control), so a shipment of this pump would not require a license for export to Canada. This item would require an export license, however, if it was being shipped to Brazil (which has an “X” in the CB2 column of the CCL Country Chart).

Various models of Patterson’s pumps, including certain fire pumps, could be controlled under 2B350(i). Additionally, valves will be controlled under 2B350(g) if they have an inside diameter of greater than 1 cm (3/8 in.) and all wetted paths are made of a nickel chromium alloy of more than 25% nickel and 20% chromium. Some of Patterson’s valves may fit this description.

Pumps classified under 2B350(i) and valves classified under 2B350(g) are controlled for both anti-terrorism and chemical and biological weapons purposes. These items require licenses or license exceptions when exported to any country on the AT 1² or CB 2³ lists in the country control chart. These lists can change and should be consulted regularly when exporting 2B350 pumps or valves.

Even if an item is listed on the CCL and is subject to export controls, a license exception may apply, meaning that the item may be exported under a pre-approved exception to the license requirements. The EAR provide for a variety of license exceptions, such as shipments of limited value, temporary exports, and personal baggage. License exceptions must be evaluated with care before use to ensure that every single condition of the exception is fully satisfied. If there are doubts about whether your product qualifies for all aspects of a license exception, you should contact counsel before exporting.

Thus, items that: (1) are listed in the CCL, (2) are subject to control for the destination in question, and (3) do not qualify for a license exception, must be licensed for export by BIS prior to export. When considering whether to issue a license, BIS analyzes the

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- 2 Currently, only Cuba, Iran, North Korea, Sudan and Syria are controlled under the AT 1 list.
 - 3 Currently, the following countries are listed under CB 2: Afghanistan, Albania, Algeria, Andorra, Angola, Antigua and Barbuda, Argentina, Armenia, Aruba, Azerbaijan, The Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bhutan, Bolivia, Bosnia & Herzegovina, Botswana, Brazil, Brunei, Burkina Faso, Burma, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo (Democratic Republic of the), Congo (Republic of the), Costa Rica, Cote d'Ivoire, Cuba, Djibouti, Dominica, Dominican Republic, East Timor, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, The Gambia, Georgia, Germany, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Kosovo, Kuwait, Kyrgyzstan, Laos, Lebanon, Lesotho, Liberia, Libya, Liechtenstein, Macau, Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Mexico, Micronesia, Moldova, Monaco, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nauru, Nepal, Netherlands Antilles, Nicaragua, Niger, Nigeria, North Korea, Oman, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Russia, Rwanda, St. Kitts & Nevis, St. Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, Sao Tome & Principe, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, Singapore, Solomon Islands, Somalia, South Africa, Sri Lanka, Sudan, Suriname, Swaziland, Syria, Taiwan, Tajikistan, Tanzania, Thailand, Togo, Tonga, Trinidad & Tobago, Tunisia, Turkmenistan, Tuvalu, Uganda, United Arab Emirates, Uruguay, Uzbekistan, Vanuatu, Vatican City, Venezuela, Vietnam, Western Sahara, Yemen, Zambia, Zimbabwe.

license application along with the supporting documentation submitted by the applicant. After BIS reviews the item to be exported and the proposed end-use, it typically sends the application to other government agencies for their evaluation. BIS also takes into consideration the reliability of all the parties to the transaction and any available intelligence information.

In addition to items that are physically located in the United States, some items located in foreign countries also are “subject to the EAR” due to their U.S.-origin content. Specifically, BIS controls items located abroad in three situations:

- (1) U.S.-origin items that are re-exported from the original destination to a third country may require a license for re-export to the new destination, regardless of whether a license was required for the original export;
- (2) The export from abroad of a foreign-origin item may require a license if the item contains more than a small amount of controlled U.S.-origin content;
- (3) The export from abroad to certain destinations may require a license if the foreign product is produced with controlled U.S.-origin technology.

It is important that the company and certain other parties (as described in the recordkeeping policy section) are aware of the controls that apply to re-exports, particularly when the original export did not require a license. For example, almost all items can be exported from the United States to Canada without a license, but re-exports of the same items from Canada to a third country may be controlled by BIS. Thus, a 2B350 pump exported to Canada would require a U.S. re-export license if the Canadian customer wanted to re-export it to Brazil. Foreign origin articles imported into the United States and then exported may also be controlled by BIS.

3.2 STATE DEPARTMENT OFFICE OF DEFENSE TRADE CONTROLS

The Directorate of Defense Trade Controls (“DDTC”) at the U.S. State Department administers regulations issued under the Arms Export Control Act of 1978,⁴ which authorizes the President to

4 22 U.S.C. § 2778.

control the export and import of defense articles and defense services. DDTC's regulations are known as the International Traffic in Arms Regulations ("ITAR").⁵ Items may be designated defense articles or services if they are included on the munitions list, located at 22 C.F.R., Part 121 or if they are specially designed, adapted, or modified for military use and do not have predominant civil applications.⁶ DDTC controls the export, temporary import, reexport, retransfer, and foreign manufacturing of these listed items or any other defense articles or services.⁷ These controls include fluid handling equipment designed for use on U.S. naval vessels, for example.

At this time, Patterson does not manufacture any products that are on the Munitions List. Additionally, Patterson does not modify any of its products for military purposes. In the future, if Patterson is unsure whether its products or services are subject to the ITAR, it can request a Commodity Jurisdiction from DDTC.⁸ If Patterson ever modifies a pump for a military end use, the ECO is required to contact legal counsel before an export of the item takes place.

3.3 NUCLEAR REGULATORY COMMISSION CONTROLS

Under the Atomic Energy Act, the Nuclear Regulatory Commission ("NRC") controls the export of nuclear facilities, equipment, and material. While some pumps and pump components are controlled by the NRC, Patterson currently does not manufacture products that fall under NRC jurisdiction.

3.4 DEPARTMENT OF ENERGY CONTROLS

Pursuant to the Atomic Energy Act, the Department of Energy ("DOE") has the authority to determine whether U.S. persons may engage directly or indirectly in nuclear activities outside of the United States and whether certain nuclear technology may be

5 22 C.F.R. §§ 120-130.

6 22 C.F.R. § 120.3.

7 22 C.F.R. §§ 120.1(a), 120.6, 120.9, 120.10, 120.17, 120.18, 120.19, 120.21, and 123.2.

8 22 C.F.R. § 120.4.

exported. Currently, Patterson does not control technology that falls under the DOE jurisdiction.

3.5 ENCRYPTION CONTROLS

Export licenses, or a one-time product review, are required for certain items containing encryption technology. Such products could include electronic equipment, control panels, and other wireless equipment that includes encryption, whether in software or hardware format. At a minimum, BIS requires that most exports of encryption products undergo a one-time review prior to export, with certain limited exceptions. Currently, Patterson does not manufacture products that incorporate controlled encryption.

4.0 EMBARGOES AND PROHIBITED EXPORT DESTINATIONS

4.1 OFFICE OF FOREIGN ASSETS CONTROLS

The Office of Foreign Assets Control (“OFAC”) of the Department of the Treasury (with backing from BIS and the EAR) enforces economic sanctions on product shipments, certain re-exports, and financial transaction sanctions on certain foreign countries. Near total embargoes currently apply to: **Cuba, Iran, North Korea, Sudan** and **Syria**. See the OFAC website at <http://www.treas.gov/offices/enforcement/ofac/> for additional information. Do not export to these locations or conduct financial transactions with companies or individuals in or from these countries.

On April 29, 2004, the U.S. government lifted the embargo against Libya generally allowing for the export and re-export of uncontrolled U.S. products, technology and software. Note that BIS licensing is still required for certain controlled products. OFAC has also deactivated certain other country-based sanctions programs and replaced them with list-based sanctions programs that identifies individuals and entities engaged in activities contrary to U.S. national security interests. These programs include: anti-terrorism sanctions, counter narcotics trafficking sanctions, non-proliferation sanctions, and diamond trafficking sanctions. The former sanctions which are now inactive include programs targeting, for example, Sierra Leone, the Taliban, and the National Union for the Independence of Angola (“UNITA”), and the former Yugoslavia.

Other, more limited, OFAC embargoes on certain trade and/or investments also exist covering: the Balkans, Belarus, Burma (Myanmar), Côte d'Ivoire, Congo, Iraq, Liberia, Palestine and Zimbabwe. The reach of each restriction varies by country, but virtually all of these programs are now based on "denied party" lists, other than the Burma controls, which apply to virtually all imports from Burma. Most exports to Burma, however, are authorized, although they may require an export license.

Unlike BIS controls, OFAC always has jurisdiction over U.S. persons (no matter where they are located) and branch offices of U.S. companies overseas. The Cuban regulations, in particular, also apply to foreign subsidiaries of U.S. companies, which are not permitted to export to Cuba. In addition to other controls, U.S. persons may not facilitate or otherwise aid in any transactions involving any country subject to economic sanctions or an embargo. They may passively receive reporting on sales by non-U.S. entities, but they may not take action on the basis of that information, unless it involves ending such transactions. Other activities must be reviewed by the ECO in consultation with counsel before moving forward.

OFAC also sanctions trade and financial transactions with individuals and companies affiliated with embargoed governments ("Specially Designated Nationals" or "SDNs"), against certain terrorists, and against significant narcotics traffickers. Exports must be screened against OFAC's published list of these persons and companies (the SDN list). The requirement for screening exports against all published U.S. government prohibited party lists is described in more detail below.

OFAC regulations are extremely broad and consider any actions that have the "effect of evading" the sanctions to be violations of the regulations. Because of the varying and complex nature of these sanctions, and the severe penalties involved (up to 20 years and jail and multiple millions in penalties), no employee of the company or any of its subsidiaries may engage in any transactions involving the countries listed above, with their nationals, or with any SDN unless they have consulted legal counsel and obtained an OFAC license in advance of the transaction. Most approvals requested for such activity would be denied by U.S. government agencies.

4.2 BUREAU OF INDUSTRY AND SECURITY

BIS also enforces economic sanctions and embargos on certain countries.⁹ As a complement to the OFAC regulations, BIS often requires a license for any item subject to the EAR proposed for export to sanctioned or embargoed destinations. Such license applications are typically denied unless they involve humanitarian donations, agricultural goods or medical products (these products may require OFAC licenses, not BIS licenses). In some rare cases, both an OFAC and a BIS license are required prior to export. OFAC and BIS also jointly administer the sanctions program against Syria.

4.3 ADDITIONAL DEFENSE EXPORT CONTROLS

In addition to the countries subject to OFAC embargoes, the DDTC maintains a general policy of denial for licenses for the export of defense articles and services to Afghanistan,¹⁰ Belarus, Burma, China, Cote d'Ivoire, Cuba, Democratic Republic of the Congo,¹¹ Eritrea, Haiti,¹² Iran, Iraq,¹³ Lebanon, Liberia, Libya,¹⁴ North Korea, Sierra Leone, Somalia,¹⁵ Sri Lanka,¹⁶ Sudan, Syria, Venezuela, and Vietnam.¹⁷

9 E.g. Cuba, Iraq, North Korea, Iran, Rwanda, and Syria

10 The embargo does not apply to the Government of Afghanistan

11 The embargo does not apply for non-lethal equipment and training to the United Nations Organization Mission in the Democratic Republic of the Congo, the United Government of the Democratic Republic of the Congo and the integrated Congolese national army and police forces. An arms embargo exists with respect to any person.

12 The embargo does not apply in limited situations

13 The embargo does not apply if determined to be in the national interest of the United States.

14 The embargo excepts, on a limited case-by-case basis, non-lethal defense articles and defense services and non-lethal safety-of-use defense articles as spare parts for lethal end-items

15 The embargo excepts, on a limited case-by-case basis, articles or services used solely to support the African Union Mission to Somalia or articles or services used solely to support development of security sector institutions in Somalia that further the objectives of peace, stability and reconciliation in Somalia (advance notification is required).

16 The embargo excepts, on a case-by-case basis, the export of technical data or equipment made available for the limited purposes of maritime and air surveillance and communications.

17 The embargo excepts, on a limited case-by-case basis, non-lethal defense articles and defense services and non-lethal safety-of-use defense articles used as spare parts for lethal end-items

5.0 PROHIBITED END-USES

In addition to its controls on the export of certain products and technology, BIS prohibits the export or re-export of items that the exporter knows (or strongly suspects) will be used for certain prohibited end-uses. This end-use prohibition applies even if the items are not specially designed for that end-use. Thus, it is a violation to export a pencil or an eraser to certain countries if the exporter knows that the item will be used to help design a biological weapon.

As discussed below, this prohibition applies primarily to nuclear, missile, and chemical or biological warfare end-uses in certain countries. When the exporter knows or has reason to know an item will be used for a prohibited end use, an export license is required for many destinations. Most applications for export licenses for these end uses will be denied. If an employee is involved in any such export, he or she should consult the ECO, who will contact company counsel.

It is important to recognize that these end use controls require a different type of export compliance process than controls on products. With these controls, sales personnel, order entry personnel, engineers and others must be aware of the potential for a product to be diverted to a prohibited end use.

When examining an export's end-use, Patterson cannot consciously disregard or avoid facts that would lead to knowledge of a particular end-use. In other words, Patterson may not "self-blind" or "stick its head in the sand" regarding potential diversions of its products. The EAR defines "knowledge" to include "an awareness of a high probability" that something will occur. Patterson, therefore, could be liable for violating the EAR if it knows or has reason to know that an item is destined for a prohibited end-use.

Patterson employees involved in export transactions must "Know the Customer" and look out for the existence of "red flags" in export transactions. To determine if "red flags" exist, BIS provides guidance documents online that will help Patterson know what questions to ask, and what red flags to look out for. These documents include "Know your Customer" guidance available at <http://www.bis.doc.gov/Enforcement/knowcust.htm> and "Red Flag Indicators" available at <http://www.bis.doc.gov/Enforcement/redflags.htm>. Employees in the export sale process should review these documents.

Additionally, no U.S. person may engage in activities anywhere in the world that the U.S. person knows or has reason to know will assist in the proliferation of nuclear, missile, or chemical or biological weapons in certain countries.

If you have questions about the application of these prohibitions, contact the ECO.

5.1 NUCLEAR END-USES

No item subject to the EAR may be exported or re-exported to any destination without a license if, at the time of the export or re-export, the exporter knows or has reason to know that the item will be used directly or indirectly in: (1) nuclear explosive activities, (2) un-safeguarded nuclear activities, or (3) nuclear fuel cycle activities. The type of product used in these activities are generally not sold by Patterson. Nevertheless, this end-use prohibition currently does not apply to exports to certain countries.¹⁸ Any item that is destined for one of these nuclear end-uses requires a license from BIS before it can be exported. As discussed above, items that are specially designed for nuclear explosive or nuclear fuel cycles purposes may be subject to licensing requirements by the DDTC, the NRC, or the DOE. The licensing requirement in the EAR is based not on the nuclear nature of the item, but on the end-use of the item, regardless of its physical characteristics.

5.2 MISSILE END-USES

No item subject to the EAR may be exported or re-exported to any destination without a license if at the time of export, the exporter knows or has reason to know that the item is destined for use in the design, development, production, or use of missiles in any of the following countries: Bahrain, China, Egypt, India, Iran, Iraq, Israel, Jordan, North Korea, Kuwait, Lebanon, Libya, Macau, Oman, Pakistan, Qatar, Saudi Arabia, Syria, the United Arab Emirates, or Yemen. In addition, the BIS missile end-use prohibition applies to a number of missile development projects that can be reviewed in the EAR. Thus, if an employee becomes aware that any item is destined for use in a missile development project in any way, they

¹⁸ The prohibition does not apply to countries listed in Supplement 3 to Part 744 of the EAR: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy (includes San Marino and Holy See), Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, and the United Kingdom.

should consult with the company ECO, no matter the nature of the item to be exported.

5.3 CHEMICAL AND BIOLOGICAL WEAPONS END-USES

Of particular importance to Patterson is the EAR prohibition on exports and re-exports to any destination if at the time of the export or re-export the exporter knows or has reason to know the item will be used in the design, development, production, stockpiling, or use of chemical or biological weapons. This restriction applies worldwide. Patterson must not export pumps or valves if there is any indication that the pumps or valves may be used to develop or produce such weapons, or for any other use with such weapons. In particular, be on the lookout for such potential end uses when exporting ECCN 2B350(i) controlled pumps or 2B350(g) controlled valves.

5.4 MARITIME NUCLEAR PROPULSION END-USES

No item subject to the EAR may be exported or re-exported to any destination without a license if, at the time of the export or re-export, the exporter knows or has reason to know that the item is destined for use in connection with a foreign maritime nuclear propulsion project.

5.5 EXPORTS TO FOREIGN VESSELS

No item subject to the EAR may be exported or re-exported to, or for the use of, a foreign vessel or aircraft located in any port unless the EAR would permit that item to be exported to: (1) the country in which the vessel or aircraft is located, (2) the country in which the vessel or aircraft is registered, and (3) the country (including a national thereof) that is currently controlling, leasing, or chartering the vessel or aircraft.

6.0 PROHIBITED PARTIES

6.1 EXPORT SCREENING LISTS FOR INDIVIDUALS AND COMPANIES (SDN, ENTITY, DENIED PARTIES, UNVERIFIED AND DEBARRED PARTIES LISTS)

Various agencies prohibit exports to certain individuals and entities found to be affiliated with controlled entities, including embargoed

governments, certain terrorists and narcotics traffickers, and certain individuals engaged in prohibited activities.

BIS regularly updates three lists entitled the “Denied Persons List,”¹⁹ “Entity List”²⁰ and “Unverified List”.²¹ Every party involved in a proposed export transaction (not just the end user) should be screened against all three of these lists. The “Denied Persons List” and “Entity List” include persons and entities with which U.S. companies and their affiliates should not do business. The “Unverified List” should act as a red flag for companies that are attempting to transact with listed companies. Any transaction involving an “Unverified” list company should be screened with BIS before an export is made.

OFAC additionally lists individuals and entities referred to as “specially designated nationals” (“SDN”).²² U.S. persons are prohibited from engaging in any transaction with an SDN without a license. This includes exports and any financial transaction of any type, whether internationally or in the United States. OFAC regularly updates this list.

The names of all parties involved in the transaction should also be screened against the State Department’s “Debarred List”²³ and the parties included in the “Nonproliferation Sanctions.”²⁴

As mentioned earlier, a consolidation of links to all of these lists is available on the BIS website at <http://www.bis.doc.gov/ComplianceAndEnforcement/ListsToCheck.htm>.

19 <http://www.bis.doc.gov/dpl/default.shtm>

20 <http://www.bis.doc.gov/entities/default.htm>

21 http://www.bis.doc.gov/enforcement/unverifiedlist/unverified_parties.html

22 <http://www.treas.gov/offices/enforcement/ofac/>.

23 <http://www.pmdotc.state.gov/compliance/debar.html>

24 <http://www.state.gov/t/isn/c15231.htm>

7.0 FOREIGN CORRUPT PRACTICES ACT

7.1 GENERAL

The FCPA generally prohibits Patterson and its employees, agents and intermediaries (such as, but not limited to, distributors) from directly or indirectly offering, paying, or promising to pay anything of value to any foreign official, political party, party official, candidate for political office, or international organization official for the purpose of influencing an official act or decision to obtain or retain business for Patterson.²⁵ The FCPA is intended to prevent improper influence on foreign government decision-making processes. These anti-bribery prohibitions, which are enforced by the U.S. Department of Justice and the U.S. Securities and Exchange Commission (“SEC”), also apply where Patterson has knowledge of a payment made by an agent, distributor or other intermediary on the its behalf.

The FCPA also establishes reporting and accounting requirements, enforced by the SEC, mandating that public companies keep accurate books and records. These requirements, among other things, are designed to make it illegal to conceal overseas bribes by falsely describing those payments in a company’s records as a lawful transaction.

All employees must be extremely careful about giving gifts or making payments to foreign officials. The definitions of “something of value” and “foreign official” are both broad. As such, before any employee of Patterson gives anything of value to a foreign national, the employee should contact the ECO.

7.2 EXCEPTIONS

Certain rare exceptions to the FCPA may apply where conduct permitting payments is authorized by the written local law of a foreign country. Additionally, in some foreign countries, from time to time it is legal to make modest payments to low-level government employees to facilitate routine, non-discretionary government action. An example of such a payment might be a modest payment to a mail carrier to ensure prompt delivery of mail. In addition, certain “reasonable and bona-fide expenditures,” like

²⁵ Codified at 15 U.S.C. §§ 78dd-1 to 78ff.

travel and lodging expenses for a government official that are directly related to the promotion, demonstration, or explanation of Company products or services may also be permitted. The law governing these FCPA exceptions is complex and ever evolving, and extreme caution is necessary in this area to avoid violations of the FCPA and local laws. Therefore, reliance upon any exception to the FCPA is permitted only with the prior approval of the ECO and the General Counsel's office.

7.3 PATTERSON POLICY

Employees are required to consult the ECO and General Counsel before engaging a distributor, agent, supplier, or joint venture partner (the foregoing collectively referred to as an "intermediary") to represent Patterson in a foreign country. Written contracts, containing appropriate FCPA provisions to protect Patterson, must be used when engaging the foreign intermediary. Further, prior to reaching an agreement with an intermediary to do business in a non-U.S. location, employees are required to conduct due diligence to determine if there is a risk of an FCPA violation in selecting that intermediary. If an FCPA "red flag" (i.e., a situation indicating the risk of possible FCPA non-compliance) is spotted in conducting such due diligence, or at any other time, employees must contact the ECO, who will consult with the General Counsel regarding appropriate next steps.

7.4 FCPA "RED FLAGS"

The following is a non-exhaustive list of examples of FCPA Red-Flag situations. As noted above, any employee who spots such a situation (or any other situation involving actual or potential FCPA non-compliance) must contact the ECO:

- (1) The Company's customer or intermediary states that a certain amount of money is necessary to "get or keep the business," or "make arrangements."
- (2) An intermediary suggests that an off-the-books account be used to make payment to the intermediary or some other party.

- (3) The intermediary makes unusual requests, such as to backdate invoices, or asks for payment by indirect or unusual means, such as through a bank account outside the country where the services are being offered, or to third persons, or requests that checks be made out to “bearer” or “cash.”
- (4) The payment is being made in a country with a history of corruption or involves an industry that has a history of anti-bribery violations (for example, energy and construction).
- (5) The intermediary wants to work without a contract (or with a vague contract) and is hesitant to make anti-corruption compliance certifications.
- (6) The intermediary asks for commissions that are substantially higher than the "going rate" in that country among comparable service providers (especially where the amount or nature of work does not justify the large payments).
- (7) The intermediary requests an unusually large credit line for a new customer, unusually large bonuses or similar payments, or substantial and unorthodox up-front payments.
- (8) An intermediary has family or business ties with government officials.
- (9) A potential government customer or authorizing agency recommends an intermediary.
- (10) An intermediary's business lacks sufficient capability to perform the service offered, the company is new to the business, the company cannot provide references or the company cannot document its claimed experience.

7.5 FCPA PENALTIES

Failure to comply with the FCPA may lead to multi-million dollar fines, criminal penalties, and the potential loss of future business opportunities and tax benefits. For example, companies may be

criminally fined up to \$2 million per violation of the anti-bribery provisions (or twice the gain or loss from the violation) and/or lose their ability to do business with the U.S. Government or to export from the U.S. Culpable individuals may be subject to a criminal fine of up to \$250,000 per violation and civil fines up to \$10,000 (which cannot be paid by the corporation), as well as imprisonment for up to five years. Willful violations of the books and records provisions can result in a criminal fine of up to \$25 million for a company, and a criminal fine up to \$5 million, as well as imprisonment for up to 20 years for culpable individuals. In addition, the SEC has forced companies to disgorge profits on contracts secured with improper payments.

9.0 THE BRIBERY ACT 2011 (UNITED KINGDOM)

9.1 General

The BA prohibits Patterson and its employees, agents, and intermediaries (such as, but not limited to, representatives and distributors) from directly or indirectly offering, promising or giving a bribe; requesting, agreeing to receive, or accepting a bribe, either in the UK or abroad, in both the public and private sectors; bribery of a public official in order to obtain or retain business; and corporate liability in relation to “commercial organizations” which fail to prevent a bribe being paid by those who perform services for or on behalf of the organization.

9.2 Exceptions

Unlike the FCPA no exceptions are allowed under the BA. Hospitality/gifts to foreign public officials and facilitation payments are prohibited under the BA.

9.3 Patterson Policy

Employees are required to consult the ECO before engaging a distributor, agent, supplier, or joint venture partner (the foregoing collectively referred to as an “intermediary”) to represent Patterson in a foreign country. Written contracts, containing appropriate BA provisions to protect Patterson, must be used when engaging the foreign intermediary. Further, prior to reaching an agreement with an intermediary to do business in a non-U.S. location, employees are required to conduct due diligence to determine if there is a risk

of a BA violation in selecting that intermediary. If a BA “red flag” (i.e., a situation indicating the risk of possible BA non-compliance) is spotted in conducting such due diligence, or at any other time, employees must contact the ECO, who will consult with the General Counsel regarding appropriate next steps.

9.4 BA “RED FLAGS”

The following is a non-exhaustive list of examples of BA Red-Flag situations. As noted above, any employee who spots such a situation (or any other situation involving actual or potential BA non-compliance) must contact the ECO:

- (1) Knowledge that the customer or intermediary engages in or has been accused of engaging in improper business practices;
- (2) Knowledge that the customer or intermediary has a reputation for paying or accepting bribes, or has a reputation for having a “special relationship” with foreign government officials;
- (3) The customer or intermediary states that a certain amount of money is necessary to “obtain/retain the business,” “make arrangements” or “facilitate” a service;
- (4) An intermediary suggests that an “off-the-books” account be used to make payment to the intermediary or other party;
- (5) An intermediary insists on receiving a commission or fee payment before committing to sign a contract with the company, or carrying out a government function or process for the Company;
- (6) An intermediary has family or business ties with government officials;
- (7) An intermediary wants to work without a contract and is hesitant to make anti-corruption compliance certifications;
- (8) Payments are being made to a country with a history of corruption or involves an industry that has a history of anti-bribery violations;
- (9) An intermediary makes unusual requests, such as to backdate invoices, make payment to a country or geographic location different from where the intermediary resides or

conducts business, or requests payment be made in an unusual means;

- (10) An intermediary requests commissions that are substantially higher than the “going rate” in that country among comparable service providers (especially where there is no justification for the large payments);
- (11) A potential government customer or authorizing agency recommends an intermediary;
- (12) The customer or intermediary demands lavish entertainment or gifts before commencing or continuing contractual negotiations or provision of services;
- (13) The customer or intermediary requests payments be made to “overlook” potential legal violations;
- (14) The customer or intermediary requests that the Company provide employment or some other advantage to a friend or relative.

9.5 BA PENALTIES

Failure to comply with the BA may lead to unlimited fines for the Company and imprisonment for senior officers, employees, or associated parties for up to ten years.

10.0 U.S. DEPARTMENT OF COMMERCE AND INTERNAL REVENUE SERVICE ANTIBOYCOTT CONTROLS

10.1 ARAB LEAGUE BOYCOTT OF ISRAEL: GENERALLY

The BIS Office of Antiboycott Compliance and the Internal Revenue Service administer antiboycott laws and regulations that prohibit U.S. companies and U.S. persons from cooperating with the secondary effects of the boycott of Israel by the League of Arab States. These secondary effects generally revolve around efforts by Arab League countries to collect information about companies that do business with Israel. The countries that have most recently enforced the boycott of Israel are **Bahrain, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and Yemen**, but requests for information relating to business operations in Israel may be received from other countries.

10.2 COVERED CONDUCT; COMPANY POLICY

Patterson's policy is to comply in all respects with U.S. antiboycott laws and regulations concerning boycotts that are not affirmatively approved by the United States. This means that Patterson must avoid supporting the Arab League boycott of Israel. These laws and regulations require the reporting to U.S. government agencies of virtually all requests to enter into agreements, to take other actions, or to furnish information supportive of that boycott if those requests are received by a U.S. firm, U.S. person, or entities acting under the control of a U.S. firm, in the U.S. or abroad – even if no action responsive to the request was taken. Thus, the mere receipt of a request for information (e.g., a questionnaire mentioning trade with Israel or supplies purchased from Israel) can trigger a mandatory reporting requirement. Failing to timely report the receipt of such a request is a violation of the law. Actions taken by the Company (or a foreign entity or agent that the Company effectively controls) that constitute compliance with an unauthorized international boycott can have serious potential legal consequences.

Conduct that may be penalized includes:

- Agreements to refuse or actual refusal to do business with or in Israel or with blacklisted companies;
- Agreements to discriminate or actual discrimination against other persons based on race, religion, sex, national origin or nationality;
- Agreements to furnish or actual furnishing of information about business relationships with or in Israel or with blacklisted companies;
- Agreements to furnish or actual furnishing of information about the race, religion, sex, or national origin of another person;
- Implementing letters of credit containing prohibited boycott terms or conditions; and
- Providing boycott information in connection with a patent or trademark submission abroad.

Company employees should be alert to business communications in international transactions that mention the word Israel. Such mentions often trigger antiboycott compliance concerns. Mentions of Pakistan or India in transactions with those countries can also trigger antiboycott concerns.

No response to any boycott request or requirement (e.g., no questionnaire response mentioning Israel or agreement not to do business with Israel) will be made by or on behalf of Patterson, including the furnishing of information or entry into agreements, if such action would be contrary to U.S. law. Given the complexity of the U.S. regulations relating to the Arab League boycott of Israel, Patterson's policy is that references to Israel in international transaction documents must be reviewed by the ECO for antiboycott law compliance. Following review by the General Counsel's office, reportable boycott requests will be submitted to the relevant agency before the applicable legal deadlines.

10.3 RECORDS

Specific information concerning executed sale agreements between all subsidiaries and the boycotting countries may be needed for tax purposes. A sale agreement occurs when one notifies the importer in the boycotting country that you will ship the requested merchandise in accordance with the purchase order or other order-initiating form, e.g., telex. All sales resulting from such orders must be included in book income for that year. Patterson will, therefore, maintain all files pertaining to such transactions until advised that retention is no longer necessary. These files should include, for each of Patterson's taxable years, the following:

- (1) A copy of all boycotting country purchase orders and attachments associated with sales to boycotting countries;
- (2) A copy of all bills of lading, shipping certificates (if any) and any other type of shipping document associated with sales to boycotting countries;
- (3) A copy of all insurance certificates (if any) as well as all statements of insurance for all sales in or to boycotting countries;

- (4) A copy of sales invoices for all transactions with boycotting countries;
- (5) A copy of any shipping certificates or insurance certificates furnished by the shipper or insurer to you for purposes of presentation to the relevant Chamber of Commerce, embassy or consulate or the customs authorities at the port of the boycotting country.

The antiboycott rules are found in 15 C.F.R. §§ 760-766 and section 999 of the Internal Revenue Code. You should seek assistance from the ECO when you spot an issue that appears to raise an antiboycott law Red Flag.

10.4 PENALTIES

Criminal penalties, including jail time for individuals, are possible for violations of these regulations. Companies also may face civil penalties up to \$250,000 per violation (or twice the value of the shipment, whichever is greater).

11.0 NATIONAL INDUSTRIAL SECURITY PROGRAM

11.1 GENERAL

Pursuant to Executive Order 12829, the National Industrial Security Program (NISP) controls how the U.S. Government Executive Branch and its agencies disclose classified information to government contractors and other necessary parties, and how those parties are to manage and protect that information.²⁶ The National Security Council directs the NISP's policy, and the Secretary of Defense, the Chairman of the Nuclear Regulatory Commission, and the Director of the Central Intelligence Agency, along with other affected agency heads, issue and maintain the NISP Operating Manual ("NISPOM"). The NISPOM explains the rights and duties of all involved parties.

²⁶ See also DoD 5220.22-M, "National Industrial Security Program Operating Manual", 2/28/2006 ("NISPOM") 2-100-111, 2-200-212.

11.2 CLASSIFIED INFORMATION

Access to classified information brings responsibilities. The NISPOM imposes a general duty on contractors to protect all classified information.²⁷ It also imposes more specific duties, such as training requirements, allowance of both announced and unannounced security reviews, event-based reporting requirements, and classification and marking specifications.²⁸ Cleared companies also have specific safeguarding, control, accountability, storage, transmission, disclosure, reproduction, disposition, retention, construction, security, subcontracting, certification, and accreditation obligations.²⁹ Companies must also take special care in hosting meetings and visits at their facilities, as well as sending employees abroad.³⁰ These tasks should be directed and supervised by the company's Facility Security Officer, a position to which a U.S. citizen must be appointed.³¹ This role requires security training separate from that required for all cleared employees.³²

Contractors may also be required or eligible to receive services from the Defense Technical Information Center, depending on the agency they work with and the nature of the work.³³

12.0 RECORDKEEPING POLICY

Under the EAR, Patterson may be required to make certain export records available to BIS upon request. Moreover, Patterson is required to maintain key export records for a period of five years from the date of the export, re-export, or any other termination of the transaction. The types of records to be maintained

27 NISPOM, 1-200.

28 NISPOM, 2-106, 1-300-304, 3-100-108, 4-100-107, 4-200-218.

29 NISPOM, 5-100-104, 5-200-203, 5-300-314, 5-400-413, 5-500-511, 5-601-603, 5-700-708, 5-800-802, 5-900-906, 7-104, 8-100-105, 8-200-202, 8-300-311, 8-400-403, 8-600-615, 8-700-703, 9-100-108, 9-200-207, 9-300-306, 9-400-408, 10-100-102, 10-200-202, 10-300-312, 10-400-408, 10-600-604, 10-700-720, 11-300-304.

30 6-100-105, 6-200-203, 10-500-510, 10-600-604.

31 NISPOM, 1-201.

32 NISPOM, 3-102.

33 NISPOM, 11-200-206.

will depend on the nature of the firm's activities and how items are controlled for export under the EAR.

Administrative records to be maintained include all BIS (or other government agency) classification requests, license approvals and other forms filed with BIS. In addition, each unit should also maintain:

- A link to the current copy of the Export Administration Regulations; http://www.access.gpo.gov/bis/ear/ear_data.html
- This manual;
- Records of export control and embargo training courses attended.

Patterson should also maintain the following transaction records for five years:

- Commercial Invoices with the proper destination control statement (See EAR sections 758.6 and 762.2);
- Shippers Export Declarations (SEDs) or Automated Export System submissions (AES) with (a) a description of commodities; (b) Export Control Classification Number(s); (c) export license number(s) and/or type(s); (d) Schedule B Number (See EAR sections 758.2, 762.2, 758.1 (f) & (g), 758.3(h), 758.3, 758.3(g)); and
- Air Waybills and/or Bills of Lading with the proper destination control statement (See EAR sections 762.2 and 758.6).

An adequate audit trail must be maintained even for records only kept electronically. Such an audit trail consists of the documents typically produced in conducting an export sale, including the specific documents mentioned above that must be maintained according to BIS rules. Note: many freight forwarder do not supply copies of AES filings made on their customers behalf to their customers. Patterson should insist that freight forwarders that it hires provide physical or full electronic copies of AES filings for Patterson's review. Without conducting this review, the company cannot tell what information forwarders are supplying to the government on this official export paperwork on the company's behalf. Errors are the responsibility of Patterson, not the forwarder. So it is key to determine that forwarders are completing the ECCN number of Patterson shipments properly and making other entries correctly. The AES is the main document reviewed by the government for export compliance. They need to be reviewed for compliance and sampled on a regular basis.

Patterson may run into difficulty collecting AES filings from forwarders that have been appointed by foreign customers in “routed” export transactions. The company should still request AES submissions made by these forwarders, as often those forwarders are still using Patterson as the U.S. principal party in interest for the shipment, which will make BIS believe that Patterson knows all about the shipment and is responsible at least in part for compliance. Review this website for more information on AES: <http://www.census.gov/foreign-trade/aes/index.html>. In addition, should Patterson wish to save money on freight forwarder fees for AES filings, the company may wish to consider filing AES by itself using the AES direct system: <http://www.aesdirect.gov/>.

Patterson includes a destination control statement on key export documents (commercial invoice and bill of lading) and on all domestic commercial invoices indicating that the item may be controlled for re-export. The required language can be found at 15 C.F.R. § 758.6 of the EAR, which states: “These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law is prohibited.” There are some exceptions to the requirement to include this language on export documents (e.g. for EAR99 shipments), but the best practice, which Patterson follows, is to put this language on documents for each shipment.

From time to time, Patterson also issues notices to domestic and international suppliers and to forwarders indicating that certain of the company’s products are controlled for export, that licenses may be required for those items, and that if another party is the exporter of record (U.S. Principal Party in Interest) for a shipment of a Patterson product, that party is responsible for all export compliance related to that shipment.

13.0 INTERNAL CONTROLS

The following export screening tasks are incorporated into the company’s export processing. Compliance with this process should be ensured for each export:

- Product Classification/Licensing Determination Screen
- Denied Persons Screen/Entities List Screening
- Diversion-Risk Screen based on Red Flags and Know Your Customer Guidance
- Nuclear Screen (if appropriate for our products)

- Missile Screen (if appropriate for our products)
- Chemical and Biological Weapons Screen
- Destination Control Statement on Export Documentation
- Regular Deemed Export/Re-export Analysis
- Anti-Boycott Screen

Patterson has taken action to ensure compliance with the following recommendations and export control laws:

- (1) Specific positions and/or individuals should be designated as responsible for compliance with export regulations. The ECO has authority commensurate with their responsibilities, including the ability to put export holds on shipments deemed to be potential compliance risks.
- (2) Documents should be subject to record retention guidelines that satisfy EAR recordkeeping requirements.
- (3) The parties responsible for compliance with export regulations should keep abreast of changing requirements through training and regular review of the BIS, ODTC and OFAC websites. The new BIS training website is particularly useful for basic, generally training on compliance issues:

<http://www.bis.doc.gov/seminarsandtraining/seminar-training.htm>
- (4) From time to time, Patterson periodically reviews its program to assure compliance.
- (5) Personnel should be alert to risks relevant to their business unit and encouraged to report questionable, unauthorized or illegal activities to the ECO and to management. In appropriate cases, such flagged export issues should be reviewed immediately with company counsel before any export takes place. In appropriate cases, company counsel may advise the U.S. Bureau of Industry and Security (or other relevant governmental agency).
- (6) Prior to entering new markets, selling new products, or selling to new customers, operating personnel should review applicable trade

licensing requirement and trade restrictions with the ECO and check denied party and sanctioned country screening lists.

- (7) Personnel should investigate the possibility of unlawful diversion of goods if one or more of the following “red flags” exists: reluctance to discuss product end-use; products inconsistent with buyer’s line of business; product incompatible with destination environment; buyer indifference to product characteristics; routine free installation/services declined; abnormal shipping route; packaging inconsistent with destination; buyer evasiveness about intended use, or export or re-export of product.

14.0 COMPLIANCE

To repeat, Patterson is committed to compliance with export control and embargo regulations. Should employees have any questions concerning exporting or embargo issues, they should first contact the ECO, who will then contact company counsel and management as necessary.

15.0 GENERAL TECHNOLOGY CONTROL PLAN

On the following page, please find a general technology control plan for Patterson. This technology control plan is intended to serve as the general baseline for all facility activity involving non-U.S. persons. The guidelines below are designed to provide for the minimum policies and procedures that should be in place at all times.

16.0 GENERAL TECHNOLOGY CONTROL

This Technology Control Plan (“TCP”) governs all Patterson’s activity involving transfers of technology controlled by U.S. export control laws to foreign nationals.³⁴ In general, applicable U.S. technology controls come from the Department of Commerce’s Bureau of Industry and Security (“BIS”) and are based off of its product classification system which is located on the Commerce Control List (“CCL”).³⁵ The CCL categorizes products and related technology by

34 In this context, a foreign national is defined as anyone who is not a "Protected Individual," pursuant to 8 U.S.C. 1324b (a)(3), a U.S. Citizen or National, a U.S. Lawful Permanent Resident, a Person Granted Asylum or Refugee Status in U.S., or a Temporary Resident Granted Amnesty in U.S.

35 See 15 C.F.R. 774, Supplement 1.

assigning Export Control Classification Numbers (“ECCN”) to every product subject to BIS jurisdiction. Technology transfers may occur through virtually any medium (telephone calls, faxes, emails, certain plant tours, presentations, and through other means) and involve the release of technical data (which typically takes the form of engineering drawings) along with related instructions related to the “development,” “production,” or “use” of certain products that are controlled for export, or through the provision of technical assistance involving the development, production, or use of controlled products.³⁶

Exports of technology to develop, to produce or to use products classified under ECCN EAR99 may generally occur without the use of an export license, deemed export license, or the use of a license exception.³⁷

Export licenses may be required, however, to export technology to third countries for the development or production of parts or complete products, including as part of any global or low- cost sourcing project. Similarly, deemed export licenses may be required if foreign national employees, visitors, trainees, interns or others must have access to controlled technology during their employment or visit.

This policy describes potentially applicable technology controls, as well as how controlled technology will be maintained so that there are no inadvertent releases of controlled technology to those individuals who would require an export or deemed export license to receive this technology.

Exports of all technology from the United States to third countries through whatever means (e.g. electronic, paper, oral) must be evaluated using the analysis in this TCP to assure that no exports of controlled technology are made without first having obtained the appropriate license when necessary.

The guidelines below are designed to provide policies and procedures that must be adhered to in all situations.

16.1 COMPANY OVERVIEW

Patterson Company is a unit of the Gorman-Rupp Company, which is headquartered in Mansfield, OH. Patterson Company, located at 2129 Ayersville Road, P.O. Box 790 Toccoa, Georgia 30577, manufactures pumps and pump parts that are used in a variety of

36 “Development,” “production,” and “use” technology as used in this TCP is defined in 15 C.F.R. 772 of the Export Administration Regulations (“EAR”).

37 Products and technology falling under ECCN EAR99 generally fit the no license required “NLR” exception for export, unless a prohibited end use or prohibited end user is involved.

markets, including municipal, industrial, irrigation, fire protection, agriculture and OEM, offering a broad range of pump sizes, types and models.

For export control purposes, many of the products manufactured fall under ECCN EAR99 and 2B999. Only a limited number of products fall under ECCN 2B350. Specific ECCN determinations depend on the language of the regulations and specific characteristics of the products in question. Technology for these products is controlled under separate sections of the EAR. Particularly, ECCN 2E001 controls technology for the “development” of our controlled products; ECCN 2E002 controls technology for the “production” of our controlled products; and ECCN 2E301 control technology for the “use” of our controlled products. Technology to develop, produce or use 2B350(g) pumps is controlled for export to over 150 countries, including India, China, most of Latin America and many other destinations. If you have any concerns or doubts about the applicable product or technology control, you are required to consult with the “Export Compliance Officer” (ECO) to determine whether the product or the associated technology to be exported is controlled for export. As part of this process, you are required to refer to the most current facility product matrix to confirm current applicable export controls, including relevant associated technology controls.

In some cases, U.S. export laws and regulations require protection against the release of controlled technical data to foreign nationals, who are either visiting Patterson or are located abroad, as well as foreign nationals in the United States who are employed by Patterson. This TCP identifies general restrictions which facilitate compliance with U.S. export laws and regulations related to controlled technology exports. The TCP is designed to ensure that all affected individuals are aware of and comply with the physical and electronic controls necessary to ensure that controlled technical data is released only by appropriate U.S. Government Agency authorization where required.

16.2 FOREIGN NATIONAL VISITORS

Patterson from time to time hosts foreign nationals who are not employees at the facility. This may include potential, actual, or former customers, suppliers, distributors, agents, or freight forwarders, among others. The risk of potential exposure to

controlled technology may vary since the activities of such individuals may range from simply attending a short meeting in an office, participating in a facility tour, or spending several days working with local employees on various issues. Given this range of potential exposure for these foreign national visitors, it is Patterson's policy that:

- Relevant prohibited party lists will be checked by the appropriate ECO before the arrival of any anticipated foreign national visitor to ensure that the individual is not a restricted party under U.S. law;
- A log that includes the name and country of citizenship will be kept of all visitors when they arrive at the Patterson facility;
- Employees who may host foreign national visitors will be briefed from time to time regarding responsibility for ensuring that there is no inadvertent release of controlled technology to a foreign national visitor;
- Where necessary, appropriate Patterson employees who are not hosting, but are meeting with foreign national visitors, should be briefed in order to instruct them not to discuss controlled technical information or otherwise expose foreign national visitors to controlled technology during their visits;
- Server access will generally be denied to foreign national visitors except as approved by the ECO on a case-by-case basis. When necessary, such access will be monitored; and
- Any facility tour will take place only in spaces designated by the ECO as containing low or no risk of exposure to controlled technology if the visiting foreign national would require an export or deemed export license for release of technology in the area to be visited.

16.3 FOREIGN NATIONAL EMPLOYEES

Patterson may employ foreign nationals who, depending on their

job functions, may be exposed to controlled technology. In those instances, the ECO must determine:

- The type, degree and necessity of potential exposure to controlled technology; and
- Whether the foreign national's country of origin would require an export license for such exposure.

Employees who are U.S. citizens and green card holders qualify as “U.S. persons” who are not subject to technology export restrictions. Where exposure to controlled technology for other foreign nationals cannot be avoided because of job requirements and U.S. government authorization is required, the ECO must arrange for such authorization through the application for a deemed export license. In cases where the potential for controlled exposure is unclear or otherwise problematic, the ECO may determine that an employee-specific or position-specific technology control plan is necessary to avoid inadvertent exposure. Any such technology control plan will be subject to the approval of the ECO.

16.4 INFORMATION SHARING WITH FOREIGN SUPPLIERS AND CUSTOMERS

When engaging in low-cost sourcing or providing products or repair services to customers, Patterson employees may share technical information with suppliers or customers. Information sharing can occur in the form of emails, telephone calls, faxes, presentations, engineering drawings, as well as through other means. Such exchanges could potentially include information required for the development, production or use of controlled products. In order to avoid any inadvertent transfer of controlled technical information, employees who work with non-U.S.-based customers and suppliers on a regular basis must be trained to seek consultation from the ECO where controlled products are involved. Where necessary, the ECO is required to obtain an export license for the release of such controlled technology or facilitate modification of the technical information to remove its controlled elements.

If there is any doubt about the contents of this ECCM and related policies, please contact the ECO immediately for further guidance.

EXHIBIT A



Certificate of Final Destination and Use

I (we) do hereby certify that the goods purchased from Patterson Pump Company under Order No. _____ will not be exported to or installed in the following countries: Cuba, Iran, North Korea, Sudan, or Syria without prior approval of the United States Government. The purchased equipment will have a final destination of and be installed in _____ (city), _____ (country) and will only be used for the purpose for which it was designed. We do further certify that no goods produced by, nor services provided by Patterson Pump Company or its subsidiaries will be brokered through any of the countries listed above either directly or through third party countries.

Name of Company

Signature of Authorized Official

Date

Name and Title of Authorized Official

Patterson Pump Company reserves the right to cancel any order without penalty and seek recovery of any costs associated with the cancellation, if it is discovered that any United States Government export control laws, regulations or embargo sanctions are being violated. If additional information is required regarding embargoed countries refer to <http://www.treas.gov/ofac> or contact Patterson Pump Company directly at 706/886-2101.

Patterson Pump Company Export Policy Statement

As a global company which operates in the United States, Patterson Pump Company is governed by U. S. export control rules and regulations regarding the exportation and/or re-exportation of products, spare parts, accessories, training materials and technical data. It is the policy of Patterson Pump Company that under no circumstances will sales be made contrary to U. S. Export control laws and regulations or the policies and procedures of Patterson Pump Company's Export Management and Compliance Program.

Every employee, distributor or representative of Patterson Pump Company must remember that exporting our products is a privilege, not a right, granted by the U. S. Government. This is critical for Patterson Pump Company because an increasing number of our sales take place in the international market place. Although most of our products do not require Export Licenses prior to shipment to most countries, some products are now more tightly controlled because of concerns regarding the proliferation of chemical and biological weapons, missile technology and nuclear weapons, and trade with some countries and end users is regulated even if the product itself is not.

Accordingly, as an exporter, Patterson Pump Company is responsible for screening its customers and transactions. Careful review of both the end-use and the end-users involved with our international transactions is required to ensure export control compliance. These responsibilities require the active participation of every employee, distributor and representative responsible for, involved in or knowledgeable of the international sale.

Patterson Pump Company asks that each of you take this issue very seriously and support the company in this effort. If you have any questions concerning the legitimacy of a transaction or potential violation, please contact:

Melissa J. Lynch, Contract Compliance/Export Compliance Officer
Telephone: 706/297-2838 - Fax: 706/886-0023 - E-mail: mlynch@pattersonpumps.com

who is responsible for disseminating this Statement throughout the organization via Patterson Pump Company's Export Management and Compliance Program Manual updates, incorporation into training and presentations, and posting on Patterson Pump Company's Intranet and Website.



C. Kerby Pope Jr.
President/General Manager

Note: This Statement of Corporate Commitment to Export Compliance will be reviewed on an annual basis or earlier if necessitated by personnel changes, changes in management, or regulatory changes. All employees, distributors, and representatives of Patterson Pump Company will be required to reaffirm compliance on a regular basis.