

**PROLUNG**  
**ANTI-BRIBERY COMPLIANCE MANUAL**

**June 2011**

## Table of Contents

1.	STATEMENT OF COMPANY ANTI-BRIBERY POLICY.....	- 3 -
2.	ANTI-CORRUPTION PRINCIPLES.....	- 4 -
2.1	Scope of the Anti-Bribery Policy .....	- 4 -
2.2	FCPA .....	- 5 -
2.3	General Principles Prohibiting Improper Payments to Business Contacts.....	- 5 -
2.4	Penalties for Companies and Individuals.....	- 6 -
3.	OFFERING GIFTS AND ENTERTAINMENT TO BUSINESS CONTACTS.....	- 6 -
3.1	Principles for Appropriate Business Gifts and Entertainment.....	- 7 -
3.2	Distinguishing Gifts from Entertainment.....	- 8 -
3.3	Prohibition of Gifts of Cash or Cash-Equivalents .....	- 9 -
3.4	Gifts and Entertainment for Covered Government Officials .....	- 9 -
3.4.1	Covered Government Officials .....	- 9 -
3.4.2	Thresholds for Advance Authorization .....	- 10 -
3.5	Country Guidelines .....	- 11 -
3.6	Transparency Measures .....	- 11 -
3.7	Standard Company Gifts.....	- 11 -
3.8	Recordkeeping & Documentation .....	- 11 -
4.	FACILITATING PAYMENTS.....	- 12 -
5.	GRANTS AND OTHER CHARITABLE DONATIONS.....	- 12 -
6.	INTERMEDIARIES .....	- 12 -
6.1	General Principles for Engaging Intermediaries.....	- 12 -
6.2	Principles for Engaging Intermediaries .....	- 13 -
6.2.1	Definition of “Special Intermediary” .....	- 13 -
6.2.2	Contracts with Special Intermediaries .....	- 14 -
6.2.3	Due Diligence on Special Intermediaries .....	- 14 -
7.	ACCURACY OF BOOKS, RECORDS AND PUBLIC REPORTS .....	- 15 -
8.	PERIODIC AUDITS .....	- 15 -
9.	PERSONAL ACTIVITIES .....	- 16 -
10.	REPORTING PROCEDURES .....	- 16 -
11.	DISCIPLINARY ACTIONS FOR NON-COMPLIANCE .....	- 17 -
12.	REVISIONS AND SUPPLEMENTS.....	- 17 -

13. ADMONITION..... - 17 -

14. COMPLIANCE CERTIFICATIONS ..... - 17 -

ATTACHMENT FORM A: GIFT & ENTERTAINMENT EXPENSE PRE-  
APPROVAL FORM..... - 19 -

ATTACHMENT FORM B: SPECIAL INTERMEDIARY CONTRACT TERMS ..... - 23 -

ATTACHMENT FORM C: ANNUAL CERTIFICATION OF COMPLIANCE WITH  
COMPANY ANTI-BRIBERY POLICY ..... - 26 -

# PROLUNG ANTI-BRIBERY COMPLIANCE MANUAL

## 1. STATEMENT OF COMPANY ANTI-BRIBERY POLICY

ProLung is committed to complying with all applicable laws, rules, and regulations against official corruption and commercial bribery (“Anti-Bribery Laws”) and maintaining the highest ethical standards in all of its activities. Fulfilling this commitment is the responsibility of everyone at ProLung.

This manual summarizes ProLung’s “Anti-Bribery Policy,” including specific policies and procedures for complying with Anti-Bribery Laws. The Anti-Bribery Policy is applicable to all directors, executive officers and employees (collectively referred to hereinafter as “employees”) of ProLung and its subsidiaries and affiliates worldwide (collectively referred to hereinafter as “ProLung” or the “Company”), regardless of position, nationality, or location.

Please read this manual carefully. By adhering to this Policy, you will help to ensure that both you as an individual and the Company comply with applicable Anti-Bribery Laws and the principles of ethical business conduct.

All directors, officers, and employees have a duty to become familiar with the Anti-Corruption Policy and to understand how these requirements apply to their specific job responsibilities. Failure to be aware of or understand these requirements will not excuse any activity that is inconsistent with them.

Violations of the Anti-Bribery Policy, even in the first instance, may result in disciplinary action, up to and including termination of employment. Individuals who violate these policies and procedures may also be subject to civil liability and criminal prosecution.

The Anti-Bribery Policy provides general principles and guidance, but it does not specifically discuss all possible situations involving applicable laws and related ethical standards. Fulfilling our commitment to ethical conduct and compliance with Anti-Bribery Laws may sometimes require difficult or complicated judgments. If you have any questions or concerns about these policies or procedures or about any specific transaction or practice, you are encouraged to contact the Corporate Compliance Officer, your Compliance Officer, or your supervisor.

Employees have a duty to come forward and identify any situation in which they believe that the Company or anyone acting on behalf of the Company may have violated this Anti-Bribery Policy or any other legal or ethical guidelines applicable to ProLung, or may be preparing to commit such a violation. Failure to report is itself a violation of these policies. To encourage such reports, the Company will not allow any retaliation for any reports of suspected or possible misconduct made in good faith. Employees can report violations or potential violations of this Policy to an immediate supervisor, the Corporate Compliance Officer, or any attorney in the Legal Department. **Actual or suspected violations also may be reported anonymously through other channels as listed in Section 10.** The anonymity of all employees making good faith reports of violations or potential violations will be maintained by ProLung. All reports will be reviewed and investigated thoroughly.

## 2. ANTI-CORRUPTION PRINCIPLES

### 2.1 Scope of the Anti-Bribery Policy

ProLung is subject to a wide range of laws and regulations to prevent corruption, bribery, and other unethical commercial practices. These laws and regulations distinguish between corrupt conduct involving employees or representatives of different types of entities.

- *Official Corruption Rules* generally prohibit offering or providing any personal benefit to “Covered Government Officials” (defined below) to influence their performance of their duties or induce them to serve interests other than their employers’. These laws impose specific requirements for dealings with governmental entities, state-owned companies, and individual Covered Government Officials. Corrupt conduct involving Covered Government Officials is a serious crime in China and in most countries.
- *Commercial Bribery Rules* generally prohibit offering or providing any personal benefit to individual employees and representatives of commercial companies to influence their performance of their duties or induce them to serve interests other than their employers’. In some jurisdictions, commercial bribery may result in legal actions by the recipient’s employer against the giver and the giver’s employer. In addition, commercial bribery can be a crime in many countries, including China.

ProLung is subject to the Official Corruption Rules and Commercial Bribery Rules of every country or territory in which the Company operates. This includes Chinese anti-corruption and anti-bribery laws, which are increasingly rigorously enforced.

In addition, many countries have enacted *Overseas Corruption Rules*, which generally prohibit their nationals and corporations from engaging in official corruption in other countries and prohibit anyone from acting in furtherance of corruption in other countries while within their territory. An example of this is the U.S. Foreign Corrupt Practices Act (FCPA). Many of these rules were enacted pursuant to the OECD Anti-Bribery Convention and the United Nations Convention against Corruption. As an issuer of U.S. securities, ProLung is subject to the FCPA, one of the strictest Overseas Corruption Rules. Most conduct prohibited by the FCPA anti-bribery rules is also prohibited by local anti-corruption rules and regulations. At the same time, the FCPA allows activities that are expressly permitted by local laws and regulations.

ProLung is subject to the FCPA, because the Company is publicly listed in the United States of America. **The FCPA applies to the conduct of the Company and all of its employees anywhere in the world, even in China.**

The Anti-Bribery Policy helps to ensure that ProLung complies with all applicable Anti-Bribery Laws. ProLung's Anti-Bribery Policy focuses on the FCPA, which applies worldwide. However, these procedures and guidelines are designed to conform to all applicable anti-corruption laws and regulations, including Chinese Anti-Bribery Laws.

## 2.2 FCPA

The United States' FCPA is among the strictest Overseas Bribery Laws. **Because the Company is publicly listed in the United States, the FCPA applies to the worldwide conduct of the Company and each employee and agent of the Company.**

The FCPA criminalizes any offer, payment, promise to pay, or authorization to pay any money, gift, or anything of value to any Covered Government Official in order to obtain or retain business for anyone, or direct business to anyone, or to obtain any improper advantage.

For this reason, you may not, directly or indirectly, offer, promise, make, permit, or authorize any person to give anything of value to any Covered Government Official when it might appear that you are seeking to influence the decision-making process. You must adhere carefully to this Policy before giving or offering anything of value (including gifts or entertainment) to any party connected with a government or state-controlled entities. The FCPA also prohibits indirect corrupt payments to foreign officials through third-party intermediaries. Specifically, it is unlawful to make a payment to a third party while knowing that all or a portion of the payment will go directly or indirectly to a Covered Government Official. Willful ignorance (such as by ignoring or failing to investigate warning signs) is no defense.

Because ProLung is publicly-listed in the US, it is subject to additional requirements under the FCPA. The FCPA requires us to maintain accurate books and records in describing our business activities, including our promotional efforts, due diligence, training, and audit. The FCPA also requires us to implement internal procedures to prevent any improper payments to private individuals or privately owned companies. In other words, the FCPA prohibits all corrupt payments, gifts, offers, and promises by publicly listed companies - not just payments to Covered Government Officials.

## 2.3 General Principles Prohibiting Improper Payments to Business Contacts

It is ProLung's policy to maintain the highest ethical standards and to comply with all applicable Commercial Bribery Rules, Official Corruption Rules, and Overseas Corruption Rules, including the FCPA.

*Company employees may not:*

- make or authorize
- an offer, promise, gift, or payment
- of anything of value, including intangible benefits and favors,
- to any individual
- either directly or indirectly through any intermediary

- for the improper purposes of
  - inducing the recipient to **misuse** his or her position, or
  - inducing the recipient to act inconsistently with the legitimate obligations of his or her position, or
  - influencing **improperly** the recipient's performance of his or her responsibilities,
- in connection with the business and activities of Company.

Even if local laws and regulations appear to be unenforced or routinely violated, it is the policy of ProLung to comply with all applicable Anti-Bribery Laws.

Any action that creates even the appearance of an improper offer, promise, gift or payment to a business contact must be avoided.

Anti-bribery rules may be violated simply by making an improper offer, even if nothing of value is ever delivered and even if the recipient never provides any benefit in return.

Company employees are prohibited from using personal funds or resources for improper gifts or payments in connection with the business and activities of the Company. Such conduct may result in disciplinary measures including termination, and may also violate applicable laws.

## **2.4 Penalties for Companies and Individuals**

Violations of the anti-corruption rules in China and many other countries can lead to severe criminal and civil penalties both for companies *and for individual employees*. Individual penalties may include lengthy prison sentences, heavy fines, or even the death penalty in extremely serious cases in certain countries, including China.

Even if the company and the individuals involved are not ultimately punished by the government authorities, the distraction of company personnel, legal defense costs, and harm to the company's reputation can be devastating.

## **3. OFFERING GIFTS AND ENTERTAINMENT TO BUSINESS CONTACTS**

In many circumstances, providing gifts and entertainment to business contacts may be appropriate, constructive, conducive to the legitimate relationship with ProLung, and courteous in the relevant cultural context.

However, where the provision of gifts or entertainment has the potential to influence *unduly* the judgment of the recipient or to create any improper sense of indebtedness on behalf of the recipient to the giver, then gifts or entertainment may be perceived by the recipient or by others as improper or illegal.

Accordingly, all ProLung Employees must exercise good judgment, comply with all applicable laws and regulations, and follow these guidelines and procedures when providing gifts or entertainment to business contacts.

### **3.1 Principles for Appropriate Business Gifts and Entertainment**

No gift or entertainment should ever be promised, offered, authorized, given or provided by any ProLung employee, agent or representative, either directly or indirectly (through an intermediary), to any individual in connection with the business, affairs, or activities of ProLung **unless** it satisfies **all** of the following conditions.:

- It is not excessive in value.
- It is consistent with applicable laws and regulations.
- It is consistent with customary business practices and cultural norms.
- It is consistent with the policies of the recipient's organization.
- It is provided and properly documented in accordance with ProLung's policies and procedures.
- It is accompanied by an actual discussion of legitimate business issues (with respect to entertainment).
- It is not, in fact, intended to influence inappropriately the recipient's judgment or decisions in performing his or her duties.
- It cannot be reasonably interpreted by the recipient or any third parties as an effort to influence inappropriately the recipient's judgment or decisions in performing his or her duties.

Determining whether a gift or entertainment event is "inappropriate" under the circumstances requires good judgment.

A gift or entertainment may not be considered appropriate if an ordinary person would consider the gift or entertainment to be unusually lavish or expensive under the circumstances, or would consider the gift or entertainment to inappropriately influence the business decisions of the recipient or create a sense of obligation or indebtedness to the giver.

While the perceptions of the "ordinary person" in the culture and country of the recipient are important, it is also necessary to consider the perceptions of the "ordinary person" in the United States and other countries where the Company does business. This is particularly important, because authorities responsible for enforcing the FCPA and other Overseas Bribery Laws may apply their own judgments when evaluating the legitimacy of specific benefits.



Even modest gifts and entertainment may raise problems if provided too frequently to a single recipient. Accordingly, you must ensure that any promotional event or business hospitality has a clear business purpose and occurs only with a frequency commensurate to the business purpose.

### **3.2 Distinguishing Gifts from Entertainment**

Different standards and procedures may apply to entertainment and to gifts.

“Entertainment” includes attendance or participation by guests in meals, sporting events, cultural events, recreational activities, and other forms of hospitality while accompanied by ProLung employees. Because ProLung Employees attend entertainment events together with business contacts, appropriate business entertainment can provide meaningful opportunities to exchange views and build relationships.

Conferences, seminars, and other promotional events sponsored by the Company may combine the provision of transportation, lodging, and meals to individual participants. For purposes of this policy, such travel-related benefits should be considered “entertainment.”

Generally, entertainment is more likely to be reasonable if the event focuses on activities or discussions directly relevant to the business relationship. Types of entertainment that are likely to compromise ProLung’s reputation as a non-discriminatory company are always inappropriate. For instance, adult entertainment venues are never appropriate. In addition, you should exercise care in offering to pay for meals and/or entertainment for friends or relatives of ProLung’s business partners, as such expenses may have no reasonable relation to ProLung’s business.

“Gifts” include all other tangible or intangible benefits, including personal items, travel and lodging, tickets to sporting or cultural events unaccompanied by ProLung Employees, use of vehicles, or other valuable favors. Appropriate gifts may serve as symbols of corporate goodwill and respect for business partners. However, because recipients may retain gifts for personal use and enjoyment, *additional sensitivity is required to avoid an appearance of impropriety.*

Where business contacts are provided with tickets to attend events unaccompanied by ProLung Employees, the expense should be treated as a gift.

Generally, a gift is more likely to be “reasonable” under the circumstances if the gift is prominently marked with ProLung name and logo (such as a ProLung mug) or if the gift is decorative and symbolic of the relationship between ProLung and the recipient’s organization (such as a plaque or Lucite trophy). In contrast, gifts intended for private recreational use or personal consumption with no ProLung marking (such as alcohol or golf clubs) are more likely to be seen as unreasonable.

### 3.3 Prohibition of Gifts of Cash or Cash-Equivalents

Gifts of cash or cash-equivalents (such as a gift certificate or pre-loaded debit card) are generally prohibited. No cash stipends or *per diems* should be provided.

In very rare circumstances, it may be appropriate to provide cash gifts in connection with weddings, funerals, or similar cultural traditions. However, such gifts may only be made with the prior written approval of the Compliance Officer.

### 3.4 Gifts and Entertainment for Covered Government Officials

#### 3.4.1 Definition of “Covered Government Official”

Official Corruption Rules and Overseas Corruption Rules impose special standards on interactions with personnel and representatives of a wide range of government or quasi-governmental entities. These individuals as described for purposes of this Anti-Bribery Policy as “Covered Government Officials.”

Accordingly, the Company has adopted special procedures for interactions with Covered Government Officials, as described below.

The term “Covered Government Official” includes:

- any employee or representative of a government or state-owned or state-controlled entity (even if the person and entity are performing what we consider commercial functions);
- any employee or representative of a public international organization (such as the United Nations, World Bank, or World Health Organization);
- any candidate for a political office; and
- any political party official.

The scope of Covered Government Officials is often much broader than common concepts of civil servants and government officials under local law. It is important to remember that an individual may be a Covered Government Official even if he or she does not have a government title or is not directly employed by a government agency. Examples may include professors in state-controlled educational or research institutions, administrators of quasi-governmental standard-setting and professional organizations, and personnel of state-controlled medical facilities.

**It is important to remember that doctors, nurses, and administrators of state-controlled hospitals based in the People's Republic of China are Covered Government Officials.**

In addition, the special procedures for interactions with Covered Government Officials may also apply to interactions with the family members, personal friends, and business associates of a “Covered Government Official” in circumstances where a benefit provided to the family member, friend, or business associate might influence the conduct of the Covered Government Official.

Determining whether a particular person qualifies as a Covered Government Official can be complex and may require legal advice. If you are uncertain whether any individual with whom you have business contacts meets this definition, please consult the Corporate Compliance Officer.

### **3.4.2 Thresholds for Advance Authorization**

To enable the Compliance Officer to monitor compliance with the Anti-Bribery Policy more effectively, expenditures for gifts and entertainment to Covered Government Officials exceeding the following thresholds must be approved in advance by the Compliance Officer.

- For Government Officials from the United States:
  - ProLung employees may not provide any *gift or entertainment* to a U.S. Government Official with a per-person value exceeding U.S.\$25 without advance approval from the Compliance Officer. Please note that business hospitality for U.S. government officials is subject to a variety of federal, state, and local regulations.
- For Government Officials from China:
  - ProLung employees may not provide gifts to the recipient with an aggregate value exceeding RMB200 or exceeding RMB600 over a 12-month period *without advance written approval from the Compliance Officer.*
  - ProLung employees may not provide entertainment to the recipient with an aggregate value exceeding RMB 500 in a single event *without advance written approval from the Compliance Officer.*
- For Government Officials from other countries:
  - Because laws vary between countries, ProLung employees should consult with the Compliance Officer before providing any gifts or entertainment with a value exceeding US\$ 25 per person to any Government Official.

Employees may request advance written approval for gifts and entertainment by submitting a Gift & Entertainment Authorization Request Form (Attachment A) to the Compliance Officer.

Remember to follow the *Principles for Appropriate Business Gifts and Entertainment* in section 3.3 at all times, *regardless of the value of the gift or entertainment*. Even if the value of the gift or entertainment does not require advance authorization under these thresholds, it may still violate applicable antibribery laws and company policy if the *Principles for Appropriate Business Gifts and Entertainment* are violated. *A US\$ 1 bribe to a Covered Government Official is still a bribe.*

### **3.5 Country Guidelines**

The Compliance Officer may issue additional or modified country-specific authorization thresholds for the provision of gifts and entertainment to recipients from different countries, taking account of variations in the cost of living between jurisdictions as well as the specific requirements of applicable laws. Each employee is responsible for confirming the appropriate authorization thresholds before extending invitations or providing gifts to business contacts.

### **3.6 Transparency Measures**

The Compliance Officer may determine that the provision of a gift or invitation to participate in an event should be preceded by a written or oral communication to the recipient's organization or other measures to ensure transparency.

### **3.7 Standard Company Gifts**

Company may purchase standard corporate gifts bearing the Company name and/or logo. Examples may include Company logo cups, hats, shirts, USB drives, calendars and notebooks. The Compliance Officer may issue guidelines for the appropriate recipients for standard corporate gifts and the standard circumstances in which such gifts may be presented. Provided that these specific guidelines are followed, standard corporate gifts may be presented *to Covered Government Officials* and other business contacts without additional advance approval from the Compliance Officer.

### **3.8 Recordkeeping & Documentation**

All expenditures of Company funds for gifts and entertainment must be clearly, completely, accurately, and promptly documented.

Such records should include, at minimum, the dates, description, and value of the gift or entertainment and the names and titles of the recipients. You should always submit original receipts for gifts or entertainment. In circumstances where gifts are distributed to large groups, such records should include the names and titles of the group leaders, the number of recipients, and a brief description of the event. The Accounting Department may request that such information be provided together with the relevant check authorization request or reimbursement request.

The accounting department shall not process requests for payment authorizations or reimbursements unless the requisite approvals have been obtained. If the accounting department receives such requests before the expenses are incurred, the accounting department shall direct the requesting employee to complete the necessary procedures. If the accounting department receives such requests after the expenses are incurred, the accounting department shall notify the Compliance Officer immediately and shall not process such request until instructed to do so by the Compliance Officer.

The Compliance Officer and the accounting department shall monitor expenditures for gifts and entertainment for indicators of risks of violations of the Anti-Bribery Policy.

The Compliance Officer shall maintain and promptly update a database for monitoring the aggregate value of gifts, entertainment, and other benefits provided to individuals and to organizations.

#### **4. Facilitating Payments**

Covered Government Officials sometimes request payments, gifts, or other things of value to “facilitate” routine, non-discretionary government actions (for example, obtaining utility services, obtaining electrical service, or processing certain papers). The FCPA provides an extremely narrow exception for “facilitating payments” to secure such routine, non-discretionary actions. However, the local Anti-Bribery Laws of most countries (including China as a practical matter) do NOT provide exceptions for “facilitating payments.” You must never propose or offer a “facilitating payment.” If a Covered Government Officials requests or suggests a facilitating payment, notify the Compliance Officer immediately.

#### **5. Grants and Other Charitable Donations**

The Company may make donations for a charitable purpose, such as supporting genuine independent medical research for the advancement of medical science or education, indigent care, patient education, public education, or the sponsorship of events where proceeds are intended for charitable purposes. Donations will be made only to charitable missions for the support of that mission. It is not appropriate for the Company to make such donations for unlawfully inducing individual business contracts to purchase, license, recommend, use or arrange for the purchase, license or use of our products or services. **All charitable donations funded by the Company must be appropriately documented and approved in advance in writing by the Compliance Officer.**

#### **6. Intermediaries**

##### **6.1 General Principles for Engaging Intermediaries**

It is a violation of Company policy to engage an agent or other intermediary to perform unlawful, unethical, or improper activities for or on behalf of the Company.

The Company may be held responsible for misconduct of agents, representatives, and other intermediaries acting on its behalf. Under the Anti-Bribery Laws of many countries and the FCPA, the Company may be held criminally liable if an agent,

representative, or other intermediary engages in misconduct if any Company personnel either (1) had actual knowledge of the misconduct or (2) was aware of circumstances suggesting the likelihood of misconduct but nevertheless ignored or failed to investigate these warning signs. Moreover, the responsible employees may also be subject to civil and criminal penalties for misconduct by agents.

All engagement agreements with Intermediaries must be in writing.

Compensation to Intermediaries must be commercially reasonable and commensurate with the tasks that the intermediary actually undertakes. Payments to all such parties must be made in accordance with the terms of their contracts. Contracts generally should provide fixed compensation for specific, identified tasks, and should avoid large percentage-based commissions and success fees.

You must not honor requests to vary the terms of contracts by:

- Increasing or decreasing agreed amounts on any invoice if such a request is contrary to Company's standards, procedures or applicable laws; or
- Submitting multiple invoices if you suspect such invoices may be used in a manner contrary to Company's standards, procedures or applicable laws or otherwise used improperly.

If you have reason to believe or suspect that any Intermediary engaged by the Company may be involved in unethical or illegal conduct (whether or not it involves the business of the Company), notify the Compliance Officer immediately.

## **6.2 Principles for Engaging Intermediaries**

These risks of misconduct are heightened with respect to certain intermediaries ("Special Intermediaries") engaged to represent the Company to governmental organizations and state-owned enterprises in connection with Company's business. Accordingly, special procedures apply to the selection, engagement, and supervision of Special Intermediaries,

### **6.2.1 Definition of "Special Intermediary"**

"Special Intermediaries" are third parties engaged to perform services for the Company involving potential interactions with Covered Government Officials. Special Intermediaries include all third parties engaged by Company:

- to assist in obtaining or retaining business where potential customers include any government entity or any other entity in which the government has substantial direct or indirect ownership or control; or
- to assist in obtaining permits, licenses or other documentation or certification needed to conduct business; or
- to represent the Company in dealings with any Covered Government Officials or government entities (including state-controlled commercial entities).

Examples of the types of third parties subject to this policy are:

- Joint-venture partners;
- Distributors or resellers (regardless of whether they are described as independent distributors or sales agents);
- Sales and marketing consultants;
- Seminar organizers;
- Tax agents;
- Import-export clearing agents (or other agents responsible for handling customs procedures).

Determining whether a particular intermediary qualifies as a Special Intermediary can be difficult and may require legal advice. If you are uncertain whether any intermediary with whom you have business contacts meets this definition, please consult the Compliance Officer.

### **6.2.2 Contracts with Special Intermediaries**

Every written agreement with a Special Intermediary must contain anti-bribery terms approved by the Compliance Officer. Attachment B provides sample compliance terms for your reference. Signed originals of these agreements should be maintained at the appropriate office with one copy forwarded to the Compliance Officer.

### **6.2.3 Due Diligence on Special Intermediaries**

Before engaging a Special Intermediary, you must first conduct a reasonable due diligence investigation into the background, reputation, and business capabilities of the Special Intermediary.

Conducting due diligence on Special Intermediaries before they are hired is essential to:

- evaluating the risks that a Special Intermediary might engage in misconduct;
- determining whether to proceed with retaining a Special Intermediary; and
- determining the appropriate contract terms and measures for supervising the Special Intermediary.

The appropriate scope and depth of “reasonable” diligence depends on the circumstances. In principle, the scope of due diligence should be commensurate with the risks that an improper payment or gift may be made in the course of the Special Intermediary’s proposed service to Company. Contact the Compliance Officer for guidance on conducting due diligence and maintaining a “due diligence” file.

## **7. Accuracy of Books, Records and Public Reports**

Employees, officers and directors must honestly and accurately report all business transactions. You are responsible for the accuracy of your records and reports. Accurate information is essential to the Company's ability to meet legal and regulatory obligations.

All Company books, records and accounts shall be maintained in accordance with all applicable regulations and standards and accurately reflect the true nature of the transactions they record. The financial statements of the Company shall conform to generally accepted accounting rules and the Company's accounting policies. No undisclosed or unrecorded account or fund shall be established for any purpose. No false or misleading entries shall be made in the Company's books or records for any reason, and no disbursement of corporate funds or other corporate property shall be made without adequate supporting documentation. You must also document the purpose and maintain all necessary approvals for the transaction.

The Company will only reimburse employees for expenditures that are fully and properly supported by third-party invoices or receipts. With the exception of normal and customary petty cash requirements, cash transactions in connection with the Company's business are to be avoided.

If you create a false or misleading record, or fail to disclose information, you will be subject to immediate disciplinary action.

## **8. Periodic Audits**

The Company will engage in self-monitoring including but not limited to:

- Periodically conducting internal audits to ensure that its books and financial records are accurate and complete;
- Monitoring the terms, conditions and amounts of commissions paid to foreign agents and foreign sales representatives;
- Ensuring that commissions are both reasonable in light of the nature and extent of the services provided and when compared to other commissions paid for similar services in that country;
- Requiring agents to account precisely for any reimbursable expenses and the services they provide (including, where appropriate, the provision of receipts or invoices);
- Investigating transfers or payments of large amounts of cash to agents;
- Performing regular payroll audits;



- Ensuring that agents, distributors, and sales representatives are operating under written contracts, and confirming that no payments are being made to government officials; and
- Monitoring agent, distributor, and sales representative contracts to ensure that the original contracts have not changed in a manner that could lead to a violation.

In addition, the Company will conduct periodic independent audits to ensure that its books and records are in compliance with the FCPA and other applicable rules and regulations. Employees should be prepared to fully cooperate with independent auditors and ensure that their records are easily accessible.

## **9. Personal Activities**

Company employees must exercise good judgment in all interactions with employees or representatives of the Company's business partners, suppliers, customers, or regulators. Even if a Company employee considers the interaction to involve a personal relationship or private matters not directly related to the activities of the Company, it is possible that the other party or third parties may perceive the interaction as connected to the activities of the Company. Company employees should avoid situations which might be reasonably interpreted as giving rise to a conflict of interest for any individual in connection with the affairs of the Company. If you have any questions about the propriety of any interactions with business contacts, consult your Compliance Officer.

## **10. Reporting Procedures**

If you become aware of any past, current, or planned future conduct by anyone working for or on behalf of the Company which you believe in good faith to be in violation of the Anti-Bribery Policy, you must report such conduct promptly, fully and objectively through an appropriate channel.

Company has established several alternative channels to permit you to select the reporting channel with which you are most comfortable.

You may report violations to:

- your manager or supervisor;
- your Compliance Officer;
- the Corporate Compliance Officer,
- the Compliance Hotline; or
- email address: [sce@prolunginc.com](mailto:sce@prolunginc.com)

Failure to comply with this reporting obligation is itself a violation of the Anti-Bribery Policy.

Suspected violations may be reported anonymously. In addition, it is Company policy to protect any employee from any form of adverse consequences or retaliation for reporting in good faith any suspected violation of this Anti-Bribery Policy.

## **11. Disciplinary Actions for Non-Compliance**

Employees who fail to adhere to Company's policies regarding anti-corruption matters will be subject to disciplinary measures. The severity of the disciplinary measures will vary depending on the degree of non-compliance. Discipline can range from receiving a warning and/or being required to attend additional training on anti-corruption compliance to termination of employment.

Bear in mind that any internal disciplinary measures are in addition to any criminal or civil penalties imposed by law enforcement agencies. Violations of applicable anti-bribery rules can result in substantial criminal and civil penalties for individual employees. In China and many countries, the criminal penalties may include lengthy prison sentences.

## **12. Revisions and Supplements**

Company's Anti-Bribery Policy may be revised and supplemented from time to time to keep pace with recommended practices for compliance and the expectations of enforcement authorities. The Compliance Officer is responsible for coordinating the updating of the Anti-Bribery Policy as needed. Pay attention to revisions to this manual or to applicable Country-Specific or Region-Specific guidelines.

## **13. Admonition**

Compliance with the Anti-Bribery Policy is the responsibility of everyone at Company. You should use your best judgment to anticipate, detect, avoid, and correct violations of the Anti-Bribery Policy. Questions regarding anti-bribery laws are not always straightforward, and the consequences of poor decisions for the company and for you as an individual can be disastrous. Do not assume the risks of making difficult and sensitive judgments on compliance with the Anti-Bribery Policy on your own. ProLung has committed to provide the resources and support you need to succeed in the marketplace while adhering to our commitments to ethical and legal business practices.

## **14. Compliance Certifications**

**Once you have read and understood this Policy, please complete and execute the acknowledgment form attached to this document as Attachment Form C.** The Compliance Officer shall be responsible for scheduling the collection of annual certifications.

**APPENDIX**  
**ANTI-BRIBERY POLICY FORMS**

**ATTACHMENT FORM A: GIFT & ENTERTAINMENT EXPENSE PRE-APPROVAL FORM**

*Complete this Form to obtain advance approval for any gift or entertainment expense that equals or exceeds the applicable Threshold for Advance Authorization.*

Information regarding Recipient(s):

NAME OF RECIPIENT	TITLE / COMPANY

\*Additional information may be attached on separate pages

Reason for Gift, Travel, Entertainment or Event:

Description of Gift, Travel, Entertainment or Event:

Total Cost of Item in Local Currency:

Company Employees or Consultants Accompanying Recipient(s):

COMPANY EMPLOYEE / CONSULTANT NAME	TITLE

Did Recipient(s) request expenditure or is it something to be offered?

Please provide a detailed description of the business purpose of the expenditure.

Is there a pending transaction, contract or license approval or other matter affecting Company business over which the recipient has discretion, decision-making authority, or influence?
<input type="checkbox"/> Yes <input type="checkbox"/> No
Please explain your answer:

What is the nature of the gift, travel, entertainment or educational expense intended to be paid?

Are the gifts or expenditures for the benefit of family members of a recipient(s)?

Yes  No

Please provide details:

What is the itemized value of the gift, travel, entertainment or educational expenditures?

Explain whether expenses will be paid to third-party vendors (such as hotels or airlines) or reimbursed to the recipient's agency based on receipts. *Note: No cash payments shall be made to the recipient(s), including in the form of per diem or spending allowances.*

If travel-related expenses will be paid, why is it not possible to address the Company's business purpose at the recipient's location?

Explain the rationale for the duration of the proposed trip.

Is it contemplated that the Company will pay expenses related to travel to any non-business location?

If not direct and not reimbursed to agency, will third-party vendor (i.e., an airline, hotel, restaurant, etc.) receive the payment?

Yes  No

Please explain your answer:

REQUESTED BY:  
(SUBMIT TO SUPERVISOR FOR APPROVAL)

X

Requesting Employee's  
Signature

Requesting Employee's Name  
(Please print)

Date

APPROVED BY SUPERVISOR  
(IF APPROVED, FORWARD TO COMPLIANCE OFFICER)

X

Supervisor's Signature

Supervisor's Name (Please print)

Date

APPROVED BY COMPLIANCE OFFICER

X

Compliance Officer's Signature

COMPLIANCE OFFICER's  
Name (Please print)

Date

## ATTACHMENT FORM B: SPECIAL INTERMEDIARY CONTRACT TERMS

All contracts with the Special Intermediaries should contain specific representations and warranties regarding anti-corruption compliance. This form provides sample terms to be adapted as appropriate.

[Proposed Special Intermediary Company's Name] ("INTERMEDIARY") has entered into an agreement dated as of [date] (the "Agreement") with [name of Company] (and together with Company and each of its subsidiaries, "Company" or "the Company") for the services specified in the Agreement.

INTERMEDIARY warrants and represents to Company that:

- a. INTERMEDIARY has reviewed and understands Company's Anti-Bribery Policy ("the Policy") and understands that it is Company's policy to comply fully with the requirements of the United States Foreign Corrupt Practices Act ("FCPA") and the applicable laws in [your country]. INTERMEDIARY has a full understanding of the Policy and shall strictly comply with the Policy and any applicable laws, regulations and administrative requirements prohibiting bribery and corruption.
- b. INTERMEDIARY shall refrain from taking any action which would cause Company to be in violation of any law in [your country].
- c. The information provided by INTERMEDIARY to Company in the documents used for the selection and approval process is complete and true.
- d. No owner, partner, officer, director or employee of INTERMEDIARY has been, is, or will become during the term of this agreement (i) an official or employee of a governmental entity or political party or (ii) a political office holder. If any such owner, partner, officer, director or employee of INTERMEDIARY shall become a candidate for political office, INTERMEDIARY shall provide Company with written notice of such intent identifying the office sought, the date of the election and whether that person would remain employed by Special Intermediary if elected.
- e. INTERMEDIARY shall not directly or indirectly pay, offer, promise or give or authorize to pay, offer or give money or anything of value to any employee or official of a government or department thereof (unless specifically required by local law), to any political party or candidate for political office, to any employees or officials of public international organizations, or to any employees of enterprises or companies owned or controlled by a government, or to any other person while being aware of or holding a belief that such money or item of value will be passed on to one of the above, to influence any act or decision by such person or by any



governmental body for the purpose of obtaining, retaining or directing business to Company or to otherwise obtain an improper advantage for Company. INTERMEDIARY will not undertake any action that may cause Company to be in violation of its Policy, the FCPA, or of any similar legislation.

- f. Any commission or other fee paid by Company to INTERMEDIARY hereunder shall be for services actually rendered, and no part of any such fee paid to INTERMEDIARY hereunder or any other funds of INTERMEDIARY shall, directly or indirectly, be paid to, or accrue for the benefit of, any official, agent, or employee of, or in any manner connected with, any government (federal or regional) or any political subdivision, ministry, agency, or authority thereof, or a political party or an officer, agent or employee of a political party, or a candidate for political office, or a director, officer, employee or shareholder of any customer or prospective customer of Company, or when such payment or accrual would be illegal under the laws of the United States or in the jurisdiction where the services are provided.

Company shall make all payments by cheque or wire transfer payable to INTERMEDIARY or to an account in the name of INTERMEDIARY at a recognized financial institution located in [your country].

INTERMEDIARY represents and certifies that it has not and its principals have not been convicted of or pled guilty to a criminal offense, including one involving fraud, corruption or moral turpitude, that it is not now, to the best of its knowledge, the subject of any government investigation for such offenses, and that it is not now listed by any government agency as debarred, suspended, proposed for suspension or debarment, or otherwise ineligible for government programs.

INTERMEDIARY agrees to give prompt written notice to Company if, at any time during the term of the Agreement, INTERMEDIARY has failed to comply with or has breached any of its warranties. In the event INTERMEDIARY has breached any of its warranties, it shall forfeit any claim to future payments under this contract. In the event that INTERMEDIARY breaches any anti-corruption warranty of this agreement, it shall additionally refund any payments made under the contract which shall be rendered null and void.

For Special Intermediaries involving particularly sensitive roles or significant revenues, it may be appropriate to require annual certifications.
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[INTERMEDIARY shall annually complete and provide to Company a Certification of Compliance with Company's Anti-Bribery Policy, in the following form:

"I hereby certify that I have reviewed ProLung's Anti-Bribery Policy and am familiar with its provisions. I hereby certify that, to the best of my knowledge and belief after reasonable

investigation, I am not aware of any payments or offers to provide benefit during the year \_\_\_\_\_ made by myself or persons responsible to me that would violate the provisions of the Foreign Corrupt Practices Act, any Applicable Anti-Bribery Laws, or the ProLung Anti-Bribery Policy.”

**Attachment Form C: ANNUAL CERTIFICATION OF COMPLIANCE WITH COMPANY ANTI-BRIBERY POLICY**

I hereby certify that I have reviewed the Company's Anti-Bribery Policy and am familiar with its provisions.

I hereby certify that, to the best of my knowledge and belief after reasonable investigation, I am not aware of any payments or offers to provide benefits during the year \_\_\_\_\_ made by myself or persons responsible to me that would violate the provisions of any applicable Anti-Bribery Law, the Foreign Corrupt Practices Act, or the Company Anti-Bribery Policy.

X		
Signature	Location / Region and Country	Date
Title and Department (Please print)		