

Investment Policy Statement

Dancing Diamond Company 401k Plan
Retirement Plan - Participant Directed

Approved on May 05, 2005

This Investment Policy Statement should be reviewed by an attorney knowledgeable in this specific area of the law. Any change to this policy should be communicated in writing and on a timely basis to all interested parties. If any term or condition of this Investment Policy Statement conflicts with any trust and/or plan document, the document shall control, as long as such term or condition is consistent with the law.

Executive Summary

Type of Client:	Retirement Plan - Participant Directed
Plan Name:	Dancing Diamond Company 401k Plan
Client Sub-type:	Corporate Defined Contribution
Fiduciary Standard of Care:	ERISA
Tax Id:	12-51468721
Current Assets:	\$7,000,000.00

“Safe Harbor” Compliance Options:

Intend to be 404c compliant

Intend to be compliant with the “qualified default investment alternative”

Intend to be compliant with “fiduciary adviser” provisions

Investment Options:

Broad Asset Class	Peer Group
Fixed Income - Broad Fixed Income	Long-Term Bond
	Multisector Bond
Fixed Income - Global Fixed Income	World Bond
Fixed Income - Intermediate Fixed Income	Intermediate-Term Bond
Fixed Income - Short-term Fixed Income	Short-Term Bond
International Equity - Diversified	Foreign Large Blend
Large Cap Equity	Large Blend
Mid Cap Equity	Mid-Cap Blend
Other	Conservative Allocation
	Moderate Allocation
	Specialty-Real Estate
	World Allocation
Small Cap	Small Blend

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Investment Committee (Committee) in effectively supervising, monitoring and evaluating the management of the Retirement Plan (Plan). The Committee has the authority to oversee the investment of the Plan's assets. The Committee will discharge its responsibilities under the Plan solely in the interests of Plan participants and their beneficiaries. The Plan's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Committee's attitudes, expectations, objectives and guidelines for the investment of all of the Plan's assets.
2. Encouraging effective communications between the Committee and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.
4. Establishing the number and characteristics of offered investment options.
5. Providing rate-of-return and risk characteristics for each asset class represented by various investment options.

Statement of Objectives

The Plan is a defined contribution plan started in 1975, and currently covers 89 employees. Plan size is currently \$7,000,000 and annual contributions should total \$269,512. The purpose of the plan is to encourage employees to build long-term careers by providing eligible employees with a convenient way to save on a regular and long-term basis for retirement.

This IPS has been arrived at upon consideration by the Committee by a wide range of policies, and describes the prudent investment process the Committee deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer participants the opportunity to diversify their investments in a manner appropriate to their retirement objectives and risk/return requirements.

Objectives of the plan are:

1. Pay all benefit and expense obligations when due.
2. Control and account for all costs of administering the Plan and managing the investments.
3. Refrain from giving what could be construed as investment advice except as may be provided by the Fiduciary Adviser operating under an eligible investment advice arrangement.
4. For each socially responsible fund offered, a second unscreened fund will be made available.
5. Comply with the following "Safe Harbor" rules and associated provisions:

General "safe harbor":

- i. Use prudent experts (registered investment adviser (including mutual funds), bank, or insurance company) to make the investment decisions.
- ii. Demonstrate that the prudent expert was selected by following a due diligence process.
- iii. Give the prudent expert discretion over the assets.
- iv. Have the prudent expert acknowledge their co-fiduciary status (mutual funds are exempt from this requirement – the prospectus is deemed to serve as the fund's fiduciary acknowledgment).
- v. Monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.

Additional 404(c) "Safe Harbor" requirements:

- i. Notify plan participants that the plan sponsor intends to constitute a 404© plan.
- ii. Provide participants at least three investment options that have a different risk/return profile (See "qualified default investment alternative" below);
- iii. Provide participants with sufficient information so the participant can make an informed decision about his or her selection of investment option(s); and
- iv. Permit participants to change their investment strategy/allocation with a frequency that is appropriate in light of market volatility.

“Qualified default investment alternative” defined as:

- i. Age-based life-cycle or targeted retirement date funds or accounts;
- ii. Risk-based, balanced funds; or
- iii. An investment management service.

Employer stock is permissible if: (1) the stock is held or acquired by a pool investment vehicle; and (2) the stock is acquired as a matching contribution from the employer and the stock is held at the direction of the participant.

Department of Labor “fiduciary adviser” “safe harbor”:

- i. Prudently selecting a qualified fiduciary adviser.
- ii. Have the fiduciary adviser acknowledge in writing: (i) fiduciary status to the plan and to the participants; (ii) all forms of compensation; and (iii) all conflicts of interest.
- iii. Determine that the fees and expenses for the fiduciary adviser are fair and reasonable for the level of services being rendered.
- iv. Monitor the activities of the fiduciary adviser, ensuring that both the arrangement between the plan sponsor and the fiduciary adviser, and the “eligible investment advice arrangement” (computer-based investment models and/or level fee) are audited on an annual basis.

Duties and Responsibilities

Investment Committee

As fiduciaries under the Plan, the primary responsibilities of the Committee are:

1. Prepare and maintain this investment policy statement.
2. Provide sufficient asset classes with different and distinct risk/return profiles so each participant can prudently diversify his/her account.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Plan.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Custodian

Custodians are responsible for the safekeeping of the Plan’s assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the Plan.
3. Settle all transactions (buy-sell orders).
4. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Plan since the previous report.
5. Maintain portfolio by legal registration.

Investment Advisor

The Investment Advisor serves as an objective, third-party professional retained to assist the Committee in managing the overall investment process. The Advisor is responsible for guiding the Committee through a disciplined and rigorous investment process to enable the Committee to meet the fiduciary responsibilities outlined above.

Fiduciary Adviser

The Fiduciary Adviser serves as an objective, third-party professional retained to provide specific investment advice to participants.

Separate Account Managers

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Trust Agreement.
2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the Plan.
3. Seek approval from the Committee prior to purchasing and/or implementing the following securities and transactions:
 - a. Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
 - b. Securities lending; pledging or hypothecating securities.
 - c. Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
 - d. Investments for the purpose of exercising control of management.
4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Plan as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate to the Committee all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Plan is interested.
6. Effect all transactions for the Plan subject "to best price and execution." If a manager utilizes brokerage from the Plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Plan.
7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities for like Plans with like aims in accordance and compliance with all applicable laws, rules, and regulations.
8. Take in to consideration the Plan's Mission-based/ Socially Responsible Investment (SRI) preferences. It has become a generally accepted practice to permit the inclusion of an SRI strategy as a secondary screen to a normal (unrestricted) investment process. If there are equally attractive investment options, then social factors may be considered.

Asset Class Guidelines

The Committee believes long-term investment performance, in large part, is primarily a function of asset class mix. The Committee has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting provided the participant's time horizon is sufficiently long (five years or greater).

The following asset classes were selected and ranked in ascending order of "risk" (least to most) according to the most recent quarter's median 3-year Standard Deviation values.

Short-Term Bond

Intermediate-Term Bond
Conservative Allocation
Multisector Bond
Long-Term Bond
Moderate Allocation
World Bond
World Allocation
Large Blend
Foreign Large Blend
Mid-Cap Blend
Small Blend
Specialty-Real Estate

The performance expectations (both risk and return) of each broad asset class are contained in Appendix A.

Implementation

The Committee will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. Regulatory oversight: Each investment option should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or, (iiii) a registered investment adviser.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods. [Suggested threshold: Performance should be above the peer group median for 1-, 3-, and 5-year periods.]
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance. [Suggested threshold: Risk-adjusted performance should be above the peer group median.]
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated. [Suggested threshold: Inception date should be 3-years or more.]
6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account. [Suggested threshold: The investment option should have at least \$75 million under management (can include assets in related share classes).]
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class. [Suggested threshold: At least 80% of the underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.]
8. Expense ratios/fees: The investment option's fees should be fair and reasonable. [Suggested threshold: Fees should not be in the bottom quartile (most expensive) of the peer group.]
9. Stability of the organization: There should be no perceived organizational problems. [Suggested threshold: The same Plan management team should be in place for at least two years.]

Monitoring

Performance Objectives

The Committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate investment performance from a long-term perspective.

The Committee is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at the Committee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than quarterly, the Committee will meet to review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The investment option's adherence to the due diligence criteria;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment option's organization.

Benchmarks

The Committee has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment option. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Peer Group	Index
Conservative Allocation	Dow Jones U.S. Moderately Conservative
Foreign Large Blend	MSCI World ex US NDTR_D
Intermediate-Term Bond	Lehman Brothers 5-10 Yr Govt/Credit Bond
Large Blend	Russell 1000
Long-Term Bond	Lehman Brothers Long Govt/Credit Bond
Mid-Cap Blend	Standard & Poors Midcap 400 PR
Moderate Allocation	Dow Jones U.S. Moderate Portfolio
Multisector Bond	Lehman Brothers U.S. Universal Bond
Short-Term Bond	Lehman Brothers 1-5 Yr Govt/Credit Bond
Small Blend	Russell 2000

Specialty-Real Estate	DJ Wilshire REIT
World Allocation	MSCI World NDTR_D
World Bond	Citigroup Non-USD WGBI USD

Watch List Criteria

An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. An investment option's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the investment option.
4. There is a significant decrease or increase in the investment option's assets.
5. There is an indication the investment option is deviating from the stated style and/or strategy.
6. There is an increase in the investment option's fees and expenses.
7. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets.

The decision to retain or terminate an investment option cannot be made by a formula. It is the Committee's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option.

Measuring Costs

The Committee will review at least annually all costs associated with the management of the Plan, including:

1. Expense ratios of each mutual fund against the appropriate peer group.
2. Administrative Fees; costs to administer the Plan, including record keeping, custody, trust services and participant education.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the Portfolio.

Investment Policy Review

The Committee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Prepared by:	Signature	Date
Linda Burns Burns Specialty Consulting	_____	_____
Approved by:		
Frank Rollins Treasurer	_____	_____
Tessie Thompson CFO	_____	_____