An ISO 9001:2008 and ISO/TS 16949: 2009 Registered Company

Supplier Quality Manual

Issued to: _____

Note: This manual is electronically controlled. The most current revision can be obtained on line through the Novation Industries website link
www.NovationIndustries.com
Go to the RESOURCES tab and then select
SUPPLIER QUALITY MANUAL.
Hardcopies may be sent to the suppliers as notification of new a revision, but it remains the supplier's responsibility to utilize the website to maintain current expectations.

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1.0 **PURPOSE**

The purpose of this Supplier Quality Manual is to assist both Novation Industries (NOVATION) and its suppliers in an effort to ensure quality, cost and delivery to meet the requirements set forth by ISO 9001 and IATF 16949 technical standards; NOVATION; and its customers.

It is ultimately the responsibility of NOVATION suppliers to assure that the quality of the materials and components that are shipped to NOVATION meet the requirements set forth in this NOVATION Supplier Quality Manual. NOVATION is dedicated to support and aid all suppliers so that we can achieve our shared goals and success. The international standard promotes the adoption of a process approach when developing, implementing, and improving the effectiveness of the Quality Management System.

NOVATION operates on a philosophy of working very close with our suppliers in a trust based and interdependent relationship. We value our suppliers and intend for relationships to be a win-win situation. We expect only absolute integrity and the best possible performance from our suppliers in return. We consider carefully who becomes a supplier for NOVATION and monitor performance thereafter. We will approach our suppliers quickly with suggestions and areas for improvement to allow immediate corrective action and avoid undesirable situations. We look for commitment in corrective action responses with systematic and viable actions taken to protect NOVATION' interest. Applying the PDCA (Plan, Do, Check, Act) cycle and risk based thinking to all processes is key to achieving and effective Quality Management System.

All communication will be in English (American) whether verbally or written. Methods of communication used are telephone, email, or fax.

2.0 **SCOPE**

This manual applies to suppliers of production components and materials **(herein referred to as product)** that are used in the production and packaging process at NOVATION and are deemed critical to efficacy of the product.

Long term business relationships will be developed with suppliers who demonstrate ability and commitment in meeting NOVATION requirements, ISO 9001 or IATF 16949 Quality System Requirements, provide technical and product innovation support, deliver on-time and are competitively priced.

No portion of this manual is intended to imply that NOVATION will accept anything other than 100% on time deliveries and 100% defect free product.

3.0 CONTROL RESPONSIBIITY

NOVATION (NOVATION) Purchasing Department, hereafter referred to as Purchasing, has the responsibility to maintain, and distribute this manual. This manual and the associated requirements will apply to those suppliers deemed critical based on their impact and risk to NOVATION's product quality and processes.

The manual is online, www.NovationIndustries.com **(Resources), and an email will be sent out to all suppliers when revisions are made. It will be sent return receipt to insure all suppliers have received the updates. The return receipt will signify you are: 1) in receipt of the manual; 2) responsibility for destroying previous issues; 3) you agree to follow requirements; and 4) in the event you don't agree with our requirements we need a letter of disagreement sent to the purchasing manager.**

In the event that a conflict arises between the requirements detailed in this document and any other NOVATION document, the supplier should immediately notify Purchasing, who will assume the responsibility to resolve these issues.

4.0 PROPRIETARY INFORMATION SHARING

NOVATION recognizes our responsibility to provide suppliers with complete definitions of quality requirements. To this end the supplier will be provided with materials specifications, test and control requirements, and all other pertinent information which defines a product's quality requirements.

This manual, all other provided specifications, technical data and engineering drawings are considered confidential. Suppliers are required to treat this information with strict business confidence, and are required to sign and return the attached NON-DISCLOSURE AGREEMENT.

5.0 QUALITY & ENVIRONMENTAL POLICIES, AND CORE VALUES

NOVATION utilizes our Quality Policy, Environmental Policy and Core Value to define our corporate culture and provide guidance to our employee. Each of these are given below.

5.1 Quality Policy

"Excellent customer satisfaction through 100% on time delivery and zero defect product, achieved through solving and preventing issues in all areas of the business."

5.2 Environmental Policy

NOVATION is committed to be a good corporate citizen and to comply with legislative, regulatory, customer and other requirements.

We will...

- *Be an environmentally responsible neighbor in the community.*
- *Comply with existing environmental regulations.*
- *Assist customers in making environmentally sensitive choices.*
- *Minimize scrap / waste and recycle materials where applicable.*
- *Minimize the use of solvents.*

5.3 Core Values

Mission of Service

- We Employ a Mission of Service in meeting the needs of our Customers.
  - We will work to deliver an extraordinary customer service experience.
  - We must be of service to each other in order to meet this objective.

Continuous Improvement

- We will continue to improve our process, products and services.
  - We will accomplish this by systematically improving the underlying processes.
  - In order to achieve this objective, we must rely on the continuous improvement in our associate's personal and professional growth

Intention

- We will demonstrate uncompromised attentiveness to priorities, needs and details along with relentless execution to earn the trust and respect of our clients and coworkers.
  - The first step to creating any result is conscious intention.
  - We will create this result through conscious effort and intention.

Gratitude

- We appreciate our Clients, Business Partners, Associates and Team Members.

- Before we can expect to receive more of anything that is good we must first practice a sense of gratitude for what we already have.

6.0 QUALITY SYSTEMS REQUIREMENTS & EVALUATION

6.1 QMS Standards

All key suppliers must supply evidence of certification to an applicable quality management system (QMS) such as ISO 9001 or IATF 16949, or upon NOVATION discretion, a suitable Quality Management System. NOVATION reserves the right to perform a quality system audit.

NOTE: NOVATION will determine needs for ongoing audits as part of supplier development based on performance and volume on an individual basis.

Where specified by contract, Novation shall purchase product, materials or service from a Customer Approved Source. At the discretion of NOVATION, this shall initiate a Customer Supplied Materials Terms & Conditions document with our Customer.

6.2 Quality System Evaluation

Suppliers shall be ISO/IATF registered unless a Customer approved NOVATION 2nd party audit is completed / accepted, based on impact, or classified as a small supplier without adequate resources to develop and maintain a registered quality system. NOVATION reserves the right to utilize a Supplier Self-Assessment in the place of an onsite audit, or as an interim step toward and on-site verification audit.

Suppliers classified as "Small Suppliers" must show evidence of a quality management system, NOVATION audit, or a self-assessment, or by certificate of compliance (to most current ISO or IATF standard).

<u>AUDIT OF SUPPLIERS FACILITY</u>

NOVATION may elect, with advance notification, to conduct process audits or quality system surveys of the supplier facilities, processes, and quality system.

1. Process audits are conducted using the supplier's process flow and control plan as a guide. Audit frequency may vary from year to year or with supplier performance.
2. Audits will be performed using NOVATION Supplier Audit form. Suppliers must be compliant at a minimum to the extent affecting practice, procedure, and product

for commodities supplied to NOVATION.

AUDIT FREQUENCIES

Process Audits - NOVATION personnel will perform audits based on the criticality of the supplier, customer quality issues, NOVATION production or design issues, supplier loss of quality certification, or circumstances that may include shutting down a NOVATION customer assembly line or NOVATION assembly line.

1. Quality System Audits – A full quality system audit will be performed when any of the following conditions are applicable:
   - Supplier fails to acknowledge performance improvement requests by NOVATION QA or Purchasing Dept.
   - Supplier has been placed on probation by their 3rd party registrar.
   - When a Supplier's rating falls below 70 on their Supplier Performance Evaluation.
2. NOVATION may request a copy of the updated version of the Supplier's Quality Manual, quality manual procedures, process FMEA, control plan, drawings, and inspection standards, as the basis for conducting the audit and evaluating quality system requirements. The NOVATION Supplier Quality Engineer may also review the supplier's shipped product quality history, countermeasure (corrective action) requests, approved engineering changes, and prior audit results.

AUDIT PROCESS

The audit team will conduct an on-site audit of the supplier systems and processes. The supplier should appoint audit guides to escort the audit team members and arrange for interviews with other supplier personnel during the audit.

AUDIT RECORDS

NOVATION will require formal written corrective action for the findings from the supplier's management team and production personnel within 30 days after confirming the supplier has received the report and understands the legitimacy of the findings.

REVOCATION OF APPROVED SUPPLIER STATUS

Approved suppliers are expected to maintain high standings annually in supplier performance reviews of quality, cost, and delivery. "Approved Supplier Status" can be jeopardized if verified countermeasures (corrective action) are not taken within the specified time frames and/or:

- Quality problems are persistent

- Supplier is placed on "Probationary" status through annual supplier performance
- Customer complaints are excessive
- Loss of process capability of key characteristics
- IATF 16949 or ISO 9001 registrations are suspended
- Supplier parts fail annual layout or PPAP
- Product recalls are necessary
- Failure to communicate changes in product availability or price in a timely manner

6.3 NOVATION Specific Requirements

All Suppliers submitting quotes are required to provide the quote in accordance with the directions provided in the Request for Quote. NOVATION reserves the right to ignore quotes that are not in compliance.

All Suppliers shall have a system to review NOVATION Purchase Orders, Releases, and Quotes. The system must include:

1. Review of all contracts, purchase orders, prints, and releases to insure complete understanding of all quality and delivery requirements.

2. Notification of NOVATION purchasing within 48 hours of receipt of any purchase order or release if there are any problems with the purchase order or release or if any of the quality or delivery requirements cannot be met.

7.0 INTEGRATED DEVELOPMENT PROCESS (IDP)

When the Supplier is required to develop a new item, or new process, to meet NOVATION's needs, or a Supplier's item is a critical item(s) associated with a new product being developed by NOVATION, Suppliers will be expected to participate in the NOVATION Integrated Development Process (IDP) team process. IDP is NOVATION's stage gate process used for the development of new products and processes, or the management of new tooling and equipment projects. This requirement does not apply to standard or off the shelf products of the Supplier.

7.1 Project Kickoff and Design Review

In order to better communicate needs and concerns, a project kickoff and subsequent design review meetings may be required at a NOVATION site. These meetings may

also be held at the supplier location or via conference call. Purchasing will arrange for such meetings.

These meetings normally include a representative from NOVATION Purchasing, Product Engineering, and Quality Assurance.

Typical meeting topics can include, but are not limited to:

- Feasibility assessment
- Identification of significant product / process characteristic(s)
- Design / tooling / equipment issues
- Preliminary control plan
- Packaging / labeling requirements
- Measurement and Gaging issues
- Enhancements to product

7.2 Process Failure Mode and Effect Analysis (PFMEA)

On critical components and processes, a complete and detailed PFMEA must be created and maintained for all parts when requested by NOVATION. Copies are to be available upon request. The PFMEA is to be revised any time a process changes or when a new failure mode has been discovered**.**

7.3 Inspection Standards

RESPONSIBILITY

It is the responsibility of the supplier to prepare Inspection Standards for review and approval of NOVATION prior to submittal to ensure product shipped meets the products expectations of NOVATION.

INSPECTION STANDARDS EXPLAINED

Inspection Standards define the dimensional features & characteristics to be checked, test equipment to be used, inspection methods, acceptance criteria, and sampling plan for mass production inspection activities. The Inspection Standards may be amended (and approved) based on the continuing results of process qualification and pilot production.

7.4 Control Plan

A control plan is mandatory for all products supplied and shall be submitted to NOVATION Quality Assurance with the PPAP package. A control plan review prior to PPAP may be requested by Purchasing. The control plan format provided by AIAG may be used or an alternate format submitted for approval.

All Significant Characteristics (SC) must be included on the control plan.

8.0 GAGES

Unless otherwise stated, Supplier gage control systems shall meet or exceed the requirements of the AIAG MEASUREMENT SYSTEM ANALYSIS (MSA) MANUAL and the Technical Specification IATF 16949 or ISO 9001.

8.1 Gage Control

Provisions for gages and testing devices (including tooling such as jigs, fixtures, templates, and patterns used as a media for quality control) are the responsibility of the supplier, unless otherwise negotiated.

8.2 Gage Repeatability & Reproducibility (R&R)

Gage R & R shall be performed on all gages or test devices used to measure product conformance.

If total Gage R&R % is less than 10%, gage method is acceptable for measuring parts and producing capability data.

If a gage or test device displays more than 10%, but less than 30% total R&R, the method must be approved by NOVATION prior to PPAP approval.

A gage or test device with more than 30% total R&R is deemed unacceptable and cannot be used to reliably measure product.

9.0 STATISTICAL PROCESS CONTROL

On critical components/products NOVATION may request the submission of statistical process control data. The NOVATION Quality Department will determine whether or not the Supplier will be required to collect and maintain SPC data. Unless otherwise stated, suppliers Statistical Process Control Systems must meet the requirements of the AIAG Statistical Process Control Manual (SPC) and the Technical Specification IATF 16949 or ISO 9001.

9.1 Preliminary Process Capability

Process potential studies (Pp/Ppk) are required on all dimensions identified as significant characteristics (SCs), as shown on NOVATION drawings, or as determined by preliminary conferences, or those specifications that the supplier has identified as SCs. The NOVATION Quality Engineer will define the Process capability requirements.

Processes for SCs not meeting this capability require 100% Inspection.

A quarterly capability report may be required to demonstrate on-going performance levels for SCs. These reports shall be made available upon request.

If process capability falls below the minimum requirements, a detailed action plan is to be submitted to NOVATION Quality Engineer. The action plan shall include short term corrective action, in addition to plans to achieve the requirement.

10.0 PRODUCTION PART APPROVAL PROCESS (PPAP)

In some cases, certain commodities and products, identified by NOVATION, may be exempt from the Production Part Approval Process (PPAP). If you are unclear regarding the material approval requirements, please contact your Buyer. Where a Part Approval Process is required, suppliers are expected to follow the AIAG PPAP process.

Part Approval Sample submission must be in accordance with the agreed upon PPAP Level and any additional requirements defined in this section. Any deviations to requirements shall be detailed on the purchase order.

Note: Where specified by NOVATION, IMDS reports are required and must be completed prior to any new Material Approval submission. Material Approval submissions will be rejected if the reports are not completed. See section 18.0 IMDS Reporting below.

10.1 Preproduction/Pilot Run Samples

The Supplier may be required to provide a small amount of approved product to NOVATION for NOVATION Assembly Trials or Feasibility Studies. The terms of the samples will be negotiated between NOVATION and Supplier. The sample size will vary based on the type of product, but should be taken at random from a consecutive run of product. The product is used to refine and aid with the grooming (qualification) of NOVATION processes and equipment.

10.2 Preparation of Part Approval Samples

Requirements for Part Approval samples are:

1. Samples manufactured by the production site seeking approval

2. Each sample containing a minimum of three hundred (300) process cycles.

3. In the case of multiple cavities, at least one part from each cavity sampled.

4. Each submitted sample sequentially serialized to include section/cavity number, if applicable.

5. All necessary inspection performed to determine conformance with drawings, specifications, requirements / notes documented on NOVATION blueprint, or flows down from NOVATION's customer's documents.

6. Certifications used to indicate acceptance contain actual test results including chemical, physical, and metallurgical requirements.

7. Testing performed in the supplier's lab is acceptable providing:
   a. the laboratory is ISO/IEC 17025 accredited or
   b. the laboratory scope of accreditation is included in the suppliers QMS registration.
      * Note-in all cases the test methods performed must fall under the laboratory's scope of accreditation.

-any required testing or inspection that cannot be performed by the supplier procured from a qualified source with test reports dated and signed by the laboratory responsible for the testing.

NOTE: All test reports must be from ISO/IEC 17025 approved laboratories.

If previously agreed upon, special testing or inspection may be performed by NOVATION.

For those characteristics that require true position data, the true position results are to be shown within the same boundaries as the governing dimensions.

10.3 Sample Submission

For each part number supplied to NOVATION the following information must be provided along with the PPAP as applicable.

NOTE: NOVATION REQUIRES 2 MASTER PARTS TO ACCOMPANY PPAP

If discrepancies have been noted during preparation of the sample, contact Purchasing for further instructions.

PPAP submission and samples are to be:

1. Identified with Yellow PPAP Sample Label.
2. Delivered to address specified on NOVATION PPAP Packet
3. Directed to "ATTENTION PURCHASING DEPARTMENT."

Layout samples shall be separate from the remainder of the 30 pieces.

If advised in advance by Purchasing, sample submission verification may take place at the supplier's facility (PPAP level V). Required measurement devices, technical personnel and certifications must be available to properly disposition submission package.

Full PPAP approval is contingent on receipt and acceptance of tool/tag pictures and final tool invoice will not paid until PPAP is approved by NOVATION's Quality Engineer or Designee.

Note: NOVATION does not pay for incoming freight on PPAP packages from the supplier; we only pay the freight for production product that is FOB their location.

10.4 Annual Revalidation

Production components supplied to NOVATION, and were approved via a PPAP, are required to be revalidated one year after the preceding submission date. In some cases, certain commodities, identified by NOVATION, may be exempt from annual

revalidation. Please contact your buyer if you have any questions. Suppliers have the responsibility for ensuring annual revalidations are completed in a timely manner.

The revalidation process will be fundamentally identical to the initial submission with the following exceptions:

- Actual samples are not to be submitted.
- At a minimum, PPAP revalidation will include AIAG warrant, dimensional, material, and capability analysis as required.
- Layout samples must be retained for one year or until next submission.
- Check other and specify "Annual Revalidation".
- Submission Level as a Level 4.

10.5 Pre-Approval Containment Process

Until formal Part Approval is obtained the supplier is required to have a process in place for identification and containment of "Pre-Approval" product. The process shall contain at least the following elements:

1. Identification of the staff person responsible for ensuring the development and implementation of the verification process.
2. Development of a Pre-Launch Control Plan consisting of additional controls, inspection audits, and testing to identify non-conformances during the production process. Depending on the dominant factor of the production process (set-up, machinery, fixture, tooling, operator, material/components, preventative maintenance, climate) additional controls shall include:
    - Off-line, separate and independent check from the normal production process whenever possible
    - Mandatory 100% inspection for all pre-production and pilot parts shipped
    - 100% inspection of first two production shipments
    - Increased frequency/sample size of receiving, process and/or shipping inspections after pre-production and pilot
    - Mandated sub-supplier containment and or sub-supplier support/audits
    - Addition of inspection/control items
    - Increased verification of label accuracy
    - Enhanced process controls such as error proofing
    - Error proofing validation through introduction of known defects

3. Data to be saved at the supplier and can be audited at any time by NOVATION personnel.
4. Immediate implementation of containment and irreversible corrective action when non-conformances are discovered.
5. All product shall remain in "Pre-Approval" status until the requirements of the Pre-Launch Control Plan are met and formal Part Approval is obtained.

10.6 Production Requirements

Once mass production is authorized to begin, the Supplier must maintain a proactive attitude, and:

- Actively practice quality improvement planning at the supplier site as the result
- of NOVATION recommendations and discussions from process or quality system audits.
- Update the Control Plans, Process FMEA, and Inspection Standards in a timely manner as changes occur.
- Respond promptly to Engineering Changes and Process Change Requests.
- Provide the required material certifications and other quality documentation.
- Maintain traceability to the delivered lot of parts supplied to NOVATION.
- Provide advance notification of potential quality problems, and promptly respond to countermeasure (corrective action) requests.
- Monitor and demonstrate improvements in quality and capability

10.7 Process Changes

Process changes must be preapproved prior to any change. A change is defined as any modification, alteration, or enhancement from agreed upon products, processes, equipment, methods, or services which may directly or indirectly affect performance, fit, form, or integrity of the product. Supplier must contact NOVATION Purchasing to gain approval prior to making any changes. These requests need to be in writing and gain written approval from NOVATION Purchasing.

NOVATION Purchasing may request an action plan (time line, additional tooling, inventory banks, special lot identification, etc.) to assure that supply is protected.

All approved process changes will require a new Level III PPAP Submission unless modified or waived by NOVATION Purchasing.

11.0 PRODUCT QUALITY CRITERIA

11.1 Pre- Purchase Order Quality Acceptance

Upon request the potential supplier shall provide examples of capability studies and PPAP submissions of similar parts prior to receiving a purchase order.

11.2 Acceptance Criteria

Acceptance criteria for all defined quality requirements is zero defects. Any nonconformance found will result in the rejection of the lot of material. If it becomes known that non-conforming material may have been inadvertently shipped, Purchasing must be notified **immediately.**

The supplier is responsible for all additional expense incurred due to shipment of non-conforming product.

11.3 Inspection / Testing of Lots

Prior to shipment, the supplier is responsible for performance of all required inspection and testing of lots (lot defined in 12.1 below), to substantiate product conformance to drawing, specification and contract requirements.

Inspection & test records for all significant tests shall be provided upon request.

Certificate of Conformance (COC) or Certificate of Analysis (COA) must be provided upon request. All Purchase Orders will denote whether a COC or a COA is required. All Resin Suppliers MUST provide a Certificate of Analysis for each lot shipped to NOVATION, test certificates must detail specification requirements as well as actual results for each lot. NOVATION will notify Supplier if Certification is not received and if this request is not met in a timely manner, this will result in a SCAR, and the suppliers invoice will be placed on hold until the Certificate of Analysis is received.

The Certificate of Conformance or Certificate of Analysis of Raw Materials must be faxed/emailed 24 hours prior to receipt of materials. If the COC or COA is not provided in advance, or provided with the shipment, the material will be placed on hold and may be rejected. Failure to comply with the certification requirements, the supplier will be responsible for any incurred delays and/or incurred shipping costs prior to the certificate receipt.

Steel/alloy component Suppliers – Certificates are required with each shipment. Chemical composition certification may be required for each heat of material contained within the shipment. If applicable, this would also include heat treat certifications.

Plating Suppliers – Plating certifications are required with each shipment for each lot of material processed. If lots are split, certifications are required for each division of the lot.

Chemical Suppliers – Material certifications are required with each shipment and for each batch of material.

12.0 PRODUCT IDENTIFICATION - PACKAGING -LABELING - SHIPPING

12.1 Lot Control

Suppliers are required to maintain identification of individual lots. Any special agreements must be documented in the control plan and approved by NOVATION Quality Assurance Department.

A lot is defined as a quantity of products expected to be homogeneous in all significant attributes as produced by the same production process. Manufactured lots cannot be mixed or combined during processing. In addition, lot integrity must be maintained and traceable to control documents. Lot size shall normally represent parts produced during a specific operating period of up to eight (8) hours or a working shift. Various commodities and/or production shipment commodities and/or production rates shall be a determining factor in establishing lot size, which shall be agreed upon prior to first production shipment.

The lot number **must** appear on the outside of each carton, container, bag, gaylord, etc. shipped.

12.2 Labeling Identification

Product is to be identified with an identification label (hand written information **is not** acceptable). Unless otherwise agreed, use of Barcode shipping and package identification labels must conform with the Label Specification defined in section 12.3.

Each shipping/parts identification label shall include the bar-coded purchase order number applicable to that box/lot.

In order to support the automatic reading of the Barcode symbols, labels should be located on two adjacent sides of the container.

All shipments made to NOVATION's locations must be labeled according to NOVATION specification. Failure to meet specifications may result in a Corrective Action and/or a debit of $250.00.

12.3 Label Specifications

Size

The recommended label size for shipments to NOVATION is 4.0 in. (102 mm) high by 6.0 in. (152 mm) wide.

Barcode Symbology

All labels must be barcoded unless previously approved by NOVATION Purchasing. Barcodes shall be compliant with either the Code 128 or Code 39 Format.

The four (4) characters ($, /, +, %) shall not be used on the Shipping/Parts Identification label.

The bar heights shall be a minimum of 0.5 in. (13 mm). For each Barcode symbol, the average width of the narrow elements shall be within the range of .013 to .017 inches. The ratio of the nominal width of the wide elements to the nominal width of the narrow elements shall be 3:1, with an allowable range of 2.8:1 to 3.2:1. There shall be a gap of at least .25 in. (7 mm) between any Barcode and any vertical lines.

Check digits shall not be in the Barcodes.

Data Area Characteristics

Each Identification label must include the following to avoid the possibility of mixed parts at NOVATION:

1. Supplier name
2. Novation part # and revision level
3. Nomenclature / Part Description
4. Lot #
5. P.O.#
6. Weight
7. Heat treat/lot number
8. Quantity

In addition, skid labels must be present. One part number per skid unless authorized by NOVATION Purchasing. Supplied parts must be traceable to the supplier's manufacturing date, internal lot numbers, and raw material components and lot numbers.

12.4 Packing List Requirements

A purchase order for each part number is issued by NOVATION whether discretely or blanket purchase order with releases issued. The supplier must record the purchase order number on the Packing List with each shipment, along with other information.

1. Purchase order number
2. Manufacturer/ Supplier – Part Description & Part Number (if applicable)
3. Novation - Part number, Revision and Part Description
4. Quantity
5. Unit of Measure
6. Lot Number or Heat Number
7. Number of Cartons

Suppliers are required to meet 100% on time delivery. If a supplier misses a shipping requirement, NOVATION purchasing/quality department may issue a SCAR to the supplier. A remediation plan is due within 24 hours; Permanent Corrective Action is due within 30 days.

The supplier SCAR response is then reviewed and approved by the appropriate NOVATION department. All premium freight costs (both internal & external) associated with late shipments are monitored and recorded.

12.5 Packaging

Note: Current suppliers using returnables will continue using them. If you can supply parts in returnable containers, please contact your buyer to discuss this option.

NOVATION reserves the right to specify packaging and labeling based on product requirements. Where possible, totes and corrugated boxes shall not exceed 35 pounds per unit and labeling will be in accordance to Novation standards. Packaging and labeling plans must be approved and submitted to Novation prior to initial shipment. When product is on containment, follow specified guidelines set forth by Novation Quality department.

REQUIREMENTS

Product packaging will be designed to maximize operating efficiency in small lot quantities. During the early stages of production trials, packaging trials also begin. The supplier will submit the packaging, labeling and shipping data to NOVATION Purchasing for approval. Purchasing will coordinate with NOVATION Quality.

Unique packaging requirements dictated by a part (e.g. excessive part oiliness, rust prevention, weight or fragility) should be specified in the quote and all other appropriate documents. Where supplier deems appropriate, returnables should be quoted.

All cartons of a specific part number are to be shipped on the same pallet(s), unless doing so causes quality, damage or safety concerns; or, if small quantities allow room for additional cartons of another part number. Pallets of mixed parts must be identified as such.

Suitable reinforced tape or spot gluing are the only acceptable methods for carton closure. Staples are acceptable for bottom construction only, with prior approval.

NOVATION may evaluate the proposed packaging design with primary consideration given to:

1. Product Protection
2. Container Durability
3. Container Cost
4. Contamination

If acceptable, the NOVATION Quality Manager or may schedule packaging (shipping) trials with the supplier. One shipping container lot of parts will be provided to NOVATION in the prototype container. The NOVATION Quality Engineer will analyze the parts for damage.

PACKAGING GUIDELINES

Prior to using alternate packaging, when necessary, the supplier should contact NOVATION to receive authorization prior to shipping parts. Alternate packaging is prohibited unless specifically authorized by NOVATION in writing.

FIFO

The NOVATION Production System bases material flow on the First-In First-Out (FIFO) just-in-time philosophy. Material is received and transported to workstations using this method. All material received must be identified with a label reflecting the latest revision level, and date to accommodate this procedure.

13.0 **PURCHASING**

It is our belief that one of the important keys for a successful supplier-customer relationship is effective communication. This manual is to provide our suppliers and potential suppliers information of NOVATION standards and expectations for a successful supplier-customer relationship.

Supplier communications must go through Purchasing; (engineering requests, quality issues, delivery issues, etc.) the supplier's purchasing contact must be copied on all documentation. Undocumented issues that incur costs will be the supplier's responsibility. Communication may help reduce these costs.

13.1 RFQ

All Suppliers submitting quotes are required to provide the quote in accordance with the directions provided in the Request for Quote. NOVATION reserves the right to ignore quotes that are not in compliance.

Preference will be given to suppliers that are willing to implement, or provide, one or more of the following:

- Pricing based on a material price index
- Vendor managed inventory or Kanban Programs
- Innovation, Technical Support and Education Seminars

Any questions, technical or otherwise, from the supplier regarding the request for quotation should be addressed to NOVATION Purchasing. Purchasing is always the contact point for suppliers with NOVATION. Purchasing will facilitate timely responses from within the NOVATION organization.

13.2 Supplier Selection

NOVATION uses a multi-discipline approach in selecting supplier(s). The disciplines involved in making decisions are, Purchasing, Engineering, Quality, Manufacturing, and Logistics.

Existing Supplier(s) Selection: Based on performance in the following key area(s):

- Quality
- Costing
- Delivery/Service
- Technology
- PPAP Performance (accuracy and punctuality of new revalidated submissions)

New Supplier(s) Selection: One or more methods will be used to assess the supplier(s) capability. The assessment and final selection will be determined by the approval team: Purchasing, Quality, and Engineering, utilizing the following:

- Quality System Assessments per ISO 9001, clause 8.4.1
- Performance in the five key areas indicated above with the existing suppliers and / or per ISO 9001 clause 8.4.2.

13.3 Quality

Supplier Quality Performance will be based on:

- Proving zero defect product
- Proactively reducing production variation
- Timeliness and completeness of SCAR responses and effectiveness the implementation

13.4 Costing

Supplier Cost Performance will be based on:

- Competitiveness; Material, Labor, Packaging, Tooling and Timing (Delivery).
- Pay terms and conditions.
- Cost Reduction Programs.

- Joint Continuous Improvement participation (Value Analysis/Value Engineering).

13.5 Delivery

Supplier Delivery Performance will be based on:

- Compliance to release(s) based on quotation (minimum release quantities and/or standard pack.
- Packaging and labeling per order, to support manufacturing operations.
- Number of expedited shipments (Premium Freight).

NOVATION requires 100% on-time delivery. The on-time window is defined as - 3 days and + 0 days of scheduled receipt date.

All cost incurred due to late delivery (e.g., plant and/or line or machine down time, and /or excess freight) is the responsibility of the supplier. Delivery performance is tracked and corrective action may be issued for less than 100% delivery performance. When expediting a shipment, use of premium transportation must be approved by someone at NOVATION prior to the shipment. The supplier is responsible for all premium freight charges and subsequent charges associated with product that is delayed, due to supplier logistical, quality or scheduling problems. Supplier will be required to notify Novation Industries of these events if for any reason you must expedite an order to us for performance tracking.

NOVATION reserves the right to refuse or return, without prior authorization, product which exceeds the total release quantity for the current week. Exceptions to this rule are standard package quantities, and/or quoted minimum release quantities or written approval from Purchasing. All other over shipments may generate a $150.00 debit per part number along with a Corrective Action.

Where requested by NOVATION Purchasing, and agreed to by Supplier, NOVATION expects its suppliers to support its weekly release schedules and have an action plan in place to handle any increases that may occur. NOVATION requires each supplier to maintain a two-week firm fabrication build requirements per NOVATION releases on their shelves in case of increase to release schedules. If the supplier has a long lead-time, a plan must be developed with NOVATION Purchasing to insure supply continuity.

The correct NMFC (National Motor Freight Classification) item number must be listed on the bill of lading for less than truckload shipments. Items rated a

higher class due to incorrect NMFC item numbers will result in a debit to your company for excess freight costs.

The supplier is responsible for proper freight description, classification and freight class to be listed on their BOL.

Unless otherwise specified, the freight terms for all shipments to any NOVATION, location are to be FOB origin, Freight Collect. Prepaid & add freight charges will not be permitted or paid on a supplier's invoice without written advance authorization. COD freight charges are not accepted.

NOVATION Purchasing must be immediately notified if you have any discrepancy to NOVATION Purchase Order requirements.

13.6 Material Traceability System

The supplier must ensure the parts will meet both the procedural and material requirements on an ongoing basis:

- Traceable Production Lots, including back to a specific production line / equipment
- Date Produced
- Packaging must protect parts from damage during transportation and storage; plus clearly identified. (Reference 12.2)
- Part number

13.7 Inventory Levels

NOVATION may require a supplier to carry a certain amount of inventory of raw materials or finished goods based on our customer's expectations and NOVATION efficiencies.

These agreements will be under separate cover based on individual requirements. Unless otherwise specified in writing, NOVATION will only be responsible for the released quantities on the purchase order.

13.8 Supplier Rating Criteria

NOVATION reviews supplier performance a minimum of once a year, but for key suppliers it may be as frequently as quarterly. Overall performance is based on Quality, On Time Delivery and the number of SCAR's as described below.

Suppliers will be rated according to a points system. The Supplier's score will be communicated by NOVATION Purchasing a minimum of once a year, and as frequently as once a quarter depending on the criticality of the Supplier. The grading scale is calculated on a monthly basis as follows:

Quality	0 returned shipments in the quarter = 35 points
	1 returned shipments in the quarter = 20 points
	2 returned shipments in the quarter = 0 points
On Time	100% on time shipments for the quarter = 35 points
Delivery	90% on time shipments for the quarter = 25 points
	80% on time shipments for the quarter = 15 points
	70% on time shipments for the quarter = 10 points
	Less than 70% on time shipments for the quarter = 0 points
# of SCARs	0 SCARs or Quality Issues in the quarter = 30 points
	1 SCARs or Quality Issues in the quarter = 15 points
	2 or more SCARs or Quality Issues in the quarter = 0 points
Overall	90 points or better = Approved Preferred Supplier
Score	80 – 89 points = Approved Supplier
	70 – 79 point = Probationary Supplier
	Less than 70 points = Unacceptable Supplier unless there is an approved corrective action plan in place within 30 days

PLEASE NOTE:

- When product is placed on HOLD for your facility to sort due to a SCAR, the entire quantity placed on HOLD and will be treated as if it was a return and count as your Quality score.
- If three of the same defect is found in a 24-hour period, a SCAR will be issued. If less than three are found, the parts will be considered line accumulations, and supplier will be notified at the end of the month via SCAR issuance. NOVATION holds the right, with Quality Assurance discretion, to issue a SCAR if severity and risk factors deem it necessary to address line accumulations prior to the end of the month with no minimum quantity restraints.
- All parts in Transit at the time of receiving a SCAR will be the supplier's responsibility to contain.

Suppliers with an "Unacceptable Rating" may remain on NOVATION' "Approved Supplier List". However, due to the performance issues, unacceptable suppliers are requested to provide a countermeasure (corrective action) plan to attain a satisfactory rating and subject to desourcing action until countermeasures are implemented and verified. In addition, unacceptable suppliers are subject to increased receiving inspection through a higher AQL (Acceptable Quality Level). The NOVATION Quality and/or Purchasing department will request supplier management to arrange a formal meeting with NOVATION management outlining an improvement plan via a formal letter. If improvement plan is provided within 60 days or is deemed unacceptable by NOVATION, or no actual improvement is supplier performance is observed, NOVATION will remove the supplier from our Approved Supplier list.

13.9 Changes

Suppliers are expected to notify NOVATION Purchasing or designee if any of the below presents itself, but are not limited to:

1. A new part/supplier
2. New sub-contractor for an existing part
3. An engineering change or process change
4. New tooling for an existing part
5. Change in location of supplier or sub-contractor facilities, processes, equipment, or tooling
6. Availability of a part, or inability to meet the order due date

7. Price change for a part
8. Packaging/Labeling change of a part

14.0 DISPOSITION OF DISCREPANT PRODUCT

The supplier's quality system must include written procedures for the acceptance and handling of returned parts, as well as, procedures to investigate and resolve the cause of the rejection. Timely resolution of countermeasures is essential for proactive partnership.

14.1 Disposition of NOVATION Supplied Materials

Any materials supplied by NOVATION for a given Purchase Order that are found to be discrepant either upon receipt, or as a result of the supplier's manufacturing process must be returned to NOVATION along with the shipment of the corresponding purchase order and must be clearly identified as SCRAP and also noted on the Packing List as being SCRAP along with the quantity being returned.

14.2 Discrepant Parts Discovered by Supplier

NOVATION must be notified immediately of any discrepant parts discovered by the supplier, and shipped to NOVATION to discuss containment action and shipment requirements.

14.3 Discrepant Parts Discovered at NOVATION

Implied in the partnership is the willingness of the supplier to assume complete responsibility for the quality of their product. If discrepant parts are discovered at NOVATION during receiving inspection, in-process production, and/or customer returns, NOVATION Quality Assurance will contact the supplier to discuss containment action, and may subsequently issue a Supplier Corrective Action Report (SCAR). Suppliers must investigate the root cause, take the appropriate containment action, develop a countermeasure (corrective action) plan, and respond in writing within twenty-four hours of faxed or E-mailed SCAR form. The initial response is due within 24 hours of issue and the final completed countermeasure is required within thirty (30) days of issue to supplier.

The supplier will use the Corrective Action Form to respond to NOVATION after being issued a SCAR by the specified dates. A formal request must be made to the NOVATION Quality Engineer to request an extension for the dates. At a minimum, the response needs to be faxed or E-mailed by the due dates detailing what has been

done, and what is planned by the specific target dates on the SCAR. Suppliers are rated on accuracy, timeliness and effectiveness of these responses.

In the event of repeat or multiple quality problems (SCAR's) a supplier may be placed on Probation (P) until quality has been improved to an acceptable level. Listed below are the criteria for being placed on and released from containment activity. It is the responsibility and discretion of the Quality Engineer to place suppliers on containment. See SUPPLIER RATING CRITERIA section above.

NOVATION will notify the supplier for disposition directions of discrepant parts discovered in receiving inspection, in process, and/or through customer returns. If returned, the discrepant parts will be returned at the supplier's expense. Replacement parts will be provided to NOVATION at the supplier's expense. If scrapped, sorted, or reworked at NOVATION, the supplier may be requested to sort and rework the discrepant parts and will be responsible for any internal associated costs.

15.0 **CORRECTIVE ACTION**

When NOVATION notifies the supplier of non-conforming material, immediate action must be taken. Certified stock must be shipped to cover current requirements or the supplier must certify product currently at NOVATION, but these inspections are normally expected to be performed outside of the NOVATION facilities.

Prompt and positive action must be taken to isolate and correct any condition which could result in the manufacture or shipment of product that is non-conforming. Additional inspection for the non-conforming characteristics must be implemented pending corrective action and must remain in effect until adequate capability is re-established.

An initial written report will be required at NOVATION within 24 hours. The initial report must be completed using the NOVATION SCAR (Supplier Corrective Action Request) form or a suitable equivalent form. When submitting the initial report using the NOVATION SCAR form, all sections must be completed except the SUPPLIER ROOT CAUSE ANALYSIS and the CORRECTIVE AND PREVENTIVE ACTION sections. When submitting the initial report using an 8D form, the from must be completed up through the CONTAINMENT section.

In ten business days from first reporting of non-conformance, a complete SCAR or 8D Format response is required. If a complete 8D cannot be submitted within the ten-day time frame, then a detailed action plan is required with assigned responsibility and due dates for each action item. Additional responses to future due dates may also be required.

As requested, the supplier will be expected to attend meetings on corrective action at an NOVATION designated site when necessary.

Training in the 8D problem solving process is available from NOVATION. Contact your NOVATION buyer for more information.

15.1 Cost Recovery

Supplier Cost Recovery will be initiated by NOVATION when it has been determined that the supplier is responsible for quality and / or delivery shortcomings. NOVATION Purchasing will notify the supplier if there is a cost recovery situation. The process will include, but is not limited to: contaminated stock, product in transit, nonconforming received goods, line downtime due to delivery or quality related issues, and warranty returns.

16.0 CONTAINMENT ACTIVITY FOR SUPPLIERS

If a supplier fails to reach the acceptable level on the supplier scorecard the supplier will be required to give a presentation to NOVATION Quality and Purchasing management on the improvement plans for their facility. This presentation will include data to support the root cause and action plans with target dates to complete the activity.

If a supplier fails to meet the acceptable level on the scorecard for two consecutive months, due to quality concerns the supplier will be placed on Level 1 Containment.

If the supplier fails to meet the acceptable level for three consecutive months, due to quality concerns the supplier will be placed on Level 2 Containment.

Level 1:

- Supplier will 100% inspect/certify material for nonconforming condition prior to shipment to NOVATION. Certified material should be marked with a green "X" (or other agreed upon indicator) on each box or container to offer conspicuous identification. The supplier must continue to ship certified stock until root cause has been determined and permanent corrective actions have been implemented/verified effective.
- Target 0 defects to reach NOVATION
- Supplier will perform activity for 1 to 3 months at their facility; if defects continue to be found at NOVATION during this activity, Supplier will proceed to Level 2 containment activity
- Develop Corrective Action Plan and/or Improvement Plan and supply DRAFT to
- NOVATION within 2 weeks of being placed on Level 1 Containment
- Sort data from the supplier's containment activity must be supplied to the

- NOVATION Quality and Purchasing department on a weekly basis, or as requested.

Level 2:

- Supplier will 100% inspect at NOVATION. The decision whether to allow the NOVATION supplier to perform the containment or to require a 3rd party will be at the discretion of the NOVATION Quality Engineer or Quality Manager.
- Supplier will perform activity for 2 to 3 months at NOVATION with 0 defects
- Develop Corrective Action Plan and/or Improvement Plan and supply DRAFT to
- NOVATION within 2 weeks of being placed on Level 2 Containment

17.0 MSDS (Material Safety Data Sheet)

Regulatory compliance; all purchased products or materials in part manufacture shall satisfy all current regulatory requirements applicable to the country of manufacture and sale such as environmental, electrical, electromagnetic and safety. Supplier is responsible for providing to buyer the necessary documentation on government and safety compliance that will affect the acquisition, transportation, and handling of materials purchased.

18.0 MATERIAL COMPLIANCE AND REPORTING

NOVATION is a supplier to a variety of industries and therefore its products and components must comply with all material safety and regulatory reporting requirements, or customer specific requirements. As such, NOVATION suppliers must also meet these requirements.

18.1 IMDS Reporting (International Material Data System)

NOVATION is a supplier to the automotive industry. The automotive OEM's are addressing the European Union's End of Vehicle Life Directive by asking the Tier 1 suppliers to compile and report material composition data. This directive is intended to prevent waste from end of life vehicles and promote the collection and reuse, and recycling of components in order to protect the environment.

The approach the OEM's have taken is to require Tier 1 to cascade this requirement down to their suppliers. As a supplier to NOVATION you will be required to satisfy this requirement. All IMDS reports must be completed prior to any new PPAP submission. PPAP submissions will be rejected if the reports are not completed. To comply, you will need to reference a complete bill of material. These items must be broken down to their individual components/ingredients items, until you have

materials that either match the substances listed at the IMDS website, or have identified the basic material as a purchased item. If you purchase an item or semi-components from another supplier, it is your responsibility to have that supplier do the same and enter the information into IMDS for you to use with your information.

You will need to access the IMDS website at www.mdsystem.com. Please visit the "Public Pages" and "Systems" areas for information regarding IMDS. The person responsible for the entering of this data will need to register your company with IMDS. The use of this system is free and will allow for manual uploading of data. There is an upload program available for a fee if desired. The recipient address to send us the information is **"NOVATION INDUSTRIES ID #145808"**. Please enter all the information with reference to NOVATION Part #'s. All supplied processed materials; parts or semi components to NOVATION are to be posted whether or not they contain restricted/reportable substances. IMDS assures us that their security devices prevent the viewing of proprietary ingredients if they are marked "confidential." For issues regarding this facet of reporting please contact the individuals below or IMDS directly for clarification.

Compliance to IMDS is required, unless a specific NOVATION customer does not require
IMDS reporting.

If you have any questions regarding this requirement, please contact the NOVATION Quality Assurance Manager or Quality Engineer.

18.2 Conflict Mineral Reporting

NOVATION expects their suppliers to avoid the use of conflict minerals. In those cases in which conflict minerals cannot be avoided, the supplier is required to comply with all regulatory reporting requirements.

18.3 RoHS Compliance of Restricted Substances

NOVATION expects their suppliers to be RoHS compliant. NOVATION must be notified if material or products being supplied are not RoHS compliant.

18.4 REACH Compliance

NOVATION suppliers are expected to comply with REACH and minimize the use of, and impact of, hazardous materials. Hazardous materials must be properly registered.

19.0 **MANUAL SIGN OFF**

NOVATION
Supplier Requirements

Please sign and return the following to:

NOVATION
5151 Bolger Court
McHenry, IL 60050
Phone (815)578-8888
Fax (815)578-8818

_____agrees to comply with
Supplier Name

NOVATION Supplier Quality Manual.

_____ _____
Quality Representative Date Plant Manager Signature Date

_____ _____
Official Title Official Title

END OF DOCUMENT

20.0 **NON-DISCLOSURE AGREEMENT**

This agreement effective as of _____, by and between Novation Industries located in McHenry, Illinois ("NOVATION") and _____ ("Supplier") located at _____.

Whereas, the NOVATION is interested in obtaining a quotation from Supplier to supply the following: _____ ("Product"); and Supplier is interested in providing NOVATION with a quotation for supplying Product to NOVATION.

Whereas, in order for Supplier to provide such a quotation to NOVATION, it may be necessary for NOVATION to disclose to Supplier certain proprietary information relating to Product which is confidential, and if Supplier is selected to be a Supplier of Product to NOVATION, additional proprietary information may from time-to-time be disclosed to assist Supplier in the further development, design or actual production of Product and;

Whereas, disclosure of NOVATION proprietary information within the industry or to the general public would jeopardize property rights of NOVATION and confidentiality agreements with their customer;

In consideration of the agreement by NOVATION to consider Supplier as a potential supplier of Product, Supplier agrees as follows:

(1) "Proprietary Information" is understood to mean technical information and data made available to Supplier in written, machine recognizable, graphic or sample form including, without limitation, drawings, photographs, sketches, models, mockups, and design or performance specifications, provided such information is clearly and conspicuously labeled "Confidential Information" or other equivalent legend. Proprietary Information is also understood to include information and data disclosed orally or visually, provided it is identified at the time of disclosure as proprietary is provided to Supplier.

(2) Proprietary Information furnished or disclosed to Supplier shall be

(a) used solely for the purpose of providing a quotation and/or designing and producing Product for NOVATION, and

(b) held in confidence for a period of three (3) years after the last purchase of product from Supplier.

(c) Such information shall not, without prior written consent of NOVATION, be used for any other purpose unrelated to the quotation and/or supply of Products to NOVATION. Moreover, within Supplier's company, dissemination of NOVATION Proprietary Information will be restricted to those employees involved in quoting on or supplying Product to NOVATION and who have been informed to the terms and conditions of this Agreement.

(3) Notwithstanding the above stated obligations of restricted use and confidentiality with respect to Proprietary Information, Supplier will not be liable for disclosure or use of such part of the information which Supplier can establish by tangible evidence:

(a) was in its possession or known to it prior to receipt from NOVATION

(b) is or becomes known to the public through disclosure in a printed publication or in an issued patent; (without breach of any Supplier's obligations hereunder);

(c) was acquired by Supplier from a third party which generated such information independently of Proprietary Information;

(d) was necessarily disclosed by its use or embodiment in a NOVATION product that has been placed in commerce by NOVATION;

(e) was independently developed by Supplier providing that the person or persons developing same have not had access to the Proprietary Information or have rightfully obtained the information from a source other than the NOVATION.

(4) All Proprietary Information shall remain the property of NOVATION. Upon demand, all such information and any copies shall be immediately returned including any written notes which may have been made regarding the information.

(5) No rights or obligations other than those expressly recited herein are to be implied. No license is hereby granted or implied, by estoppel or otherwise, under any patents (existing or future) or for any use of Proprietary Information except such use expressly contemplated by this Agreement.

(6) Nothing contained herein shall obligate NOVATION to purchase Product from Supplier or Supplier to supply Product to NOVATION, Moreover, unless otherwise specifically agreed in writing, any knowledge or information which Supplier discloses to NOVATION which in any way relates to the supply of Products to NOVATION shall not be deemed to be proprietary or confidential information and shall be acquired by NOVATION free from any restrictions; however, no license under any applicable patent(s) of Supplier shall be thereby granted or implied.

(7) This instrument constitutes the entire and only agreement between the parties respecting its subject matter. No change, modification, alteration or addition to any provision herein shall be binding on either party unless in writing and signed by an authorized representative of both parties.

(8) This Agreement shall be deemed to be a contract made under the laws of the State of Illinois and for all purposes it, plus any related supplemental documents and notices, shall be construed in accordance with, and governed by, the substantive laws of such state.

(9) In the event that any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

IN WITNESS WHEREOF, each party has caused this Agreement to be signed by its duly authorized representative having signatory authority to legally bind each of their respective businesses.

NOVATION	**Supplier**
By: _____	**By: _____**
Name: _____	**Name: _____**
Title: _____	**Title: _____**
Date: _____	**Date: _____**