Supplier Qualification and Management

Procedure

CONFIDENTIAL and PROPRIETARY
## Change History

<table>
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<tr>
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<th>Date</th>
<th>Author</th>
<th>Description</th>
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Table of Contents

1 PURPOSE ................................................................................................................................. 4
2 INFORMATIVE REFERENCES ................................................................................................. 4
3 ASSOCIATED DOCUMENTS ................................................................................................. 4
4 FLOW CHART .......................................................................................................................... 4
5 INSTRUCTIONS ....................................................................................................................... 5
   5.1 Supplier Classification ........................................................................................................ 5
   5.2 Supplier Initial Evaluation .................................................................................................. 6
   5.3 Supplier Selection ............................................................................................................... 6
   5.4 Approved Supplier List (ASL) ............................................................................................ 6
   5.4.1 Grandfathered Suppliers ............................................................................................. 7
6 SUPPORT INSTRUCTIONS ..................................................................................................... 7
   6.1 Supplier Performance Evaluation ...................................................................................... 7
   6.1.1 Tier 1, Contract Manufacturer (CM) ............................................................................ 7
   6.1.2 Tier 2, Strategic and Tier 3, Prime Suppliers ................................................................. 8
   6.1.3 Tier 4, Standard Suppliers ............................................................................................ 8
   6.2 Verification of Finished Goods Purchased ......................................................................... 8
   6.3 Change in Supplier Category ........................................................................................... 9
   6.4 Disqualification of a Supplier .......................................................................................... 9
1 PURPOSE

To establish the activities that need to be conducted to evaluate and select suppliers directly associated with producing Hart InterCivic (Hart) products for resale; based on their ability to supply product or service in accordance with Hart requirements and to establish criteria for their selection, qualification and re-evaluation.

2 INFORMATIVE REFERENCES

- ISO9001:2000 7.4 Purchasing
- ISO9001:2000 8.4 Analysis of data

3 ASSOCIATED DOCUMENTS

- Approved Supplier List (ASL)
- Supplier Questionnaire Form
- Confidentiality And Non-Disclosure Agreement
- Consultant Or Contract Agreement
- Master Service Agreement
- ASL Change Request Form

4 FLOW CHART

Processes with red background depict outsourced processes.
5 INSTRUCTIONS

5.1 Supplier Classification

Control management of suppliers shall be dependent on the degree of impact a supplier has on the final product or service. The following classifications shall be used to determine the degree of management.

- Tier 1, Contract Manufacturer (CM)
  A Contract Manufacturer provides full manufacturing and engineering services for Hart end product. Services, includes Program Management, technical and quality support, direct customer shipments and services and can include depot repair capabilities. A periodic Business Review with a Tier 1 supplier documents the overall business performance.

- Tier 2, Strategic Supplier, OEM
  Strategic Suppliers provide proprietary, patented or sole source product or technology where catastrophic or adverse business, events or decisions affecting the supplier processes or manufacturing, would jeopardize Hart product safety, processes and/or product shipment capabilities. Such events or decisions would require Hart to temporarily reallocate resources and capital for an expended period of time to source, qualify and approve a new supplier. Product redesign may be required.

- Tier 3, Prime Supplier, OEM
  Prime Suppliers provide parts or assemblies involving complex technology or processes, the loss of which would have an adverse affect on product production and on time delivery to customers. This would require Hart to reallocate resources and capital to source, qualify and approve a new supplier. A supplier my also be categorized as Prime if the overall spend with the supplier is significant.

- Tier 4, Standard Suppliers
  A Supplier is classified as Standard if not Contract Manufacturer, Strategic or Prime. This will include service or contract suppliers that are not Exempt from qualification.

- Tier 5, Exempt Suppliers
  Suppliers categorized as Exempt provide general business and/or site support or provide contractual services on site that comply with site business practices and do not affect the manufacture or testing of units in production; are not listed on product Bill of Materials, therefore do not require evaluation or approval and are not listed on the Approved Supplier List (ASL).

Suppliers listed in Tiers 1 through 4 provide materials and/or services that affect product quality and performance, therefore require evaluation and approval and shall be listed on the Approved Supplier List (ASL).
5.2 Supplier Initial Evaluation

Every potential supplier, whether approval is required or exempt from approval, shall be requested to provide sufficient evidence of their ability to comply with established requirements particular for a project. All new suppliers classified in Tiers 1 through 4 are required to complete a Supplier Questionnaire form, at minimum.

Suppliers in Tiers 1, 2 and 3 may also require a desk audit or a site audit may also be performed as defined by the Hart supplier qualifier or team, which can be comprised of Supply Chain Manager, Design Engineer, Sustaining Engineer, Quality, Purchasing or Finance as applicable to the business need. The evaluation results will help determine if the supplier is a good fit for the business.

Suppliers in Tiers 1, 2 and 3 may also be required to respond to a Request for Information (RFI). The RFI is a set of questions generated as needed by the qualifier or qualifying cross-functional team to obtain additional information to help determine a potential new suppliers’ ability to support Hart business product requirements. The written responses to the RFI from multiple suppliers can be used as a subjective rating mechanism to help determine whether continued selection efforts are warranted.

5.3 Supplier Selection

- Final approval of suppliers in Tiers 1, 2 and 3 shall be conducted with the participation of Supply Chain Manager, Design Engineering, Manufacturing/Sustaining Engineer, Quality, affected Manager, Purchasing and Finance, as applicable.
- Approval of Standard Suppliers in Tier 4 shall be conducted primarily by Supply Chain Manager, Manufacturing/Sustaining Engineering, Purchasing, affected Manager, as applicable.
- Use of all other suppliers do not require evaluation, approval or listing on the ASL.

Upon successful completion of a supplier evaluation and selection, an assigned representative from the approval groups listed above shall submit a completed ASL Change Request Form to the Document Coordinator to request the addition of the new supplier to the ASL. Records of the evaluation and selection results are maintained according to the Records Retention Matrix.

5.4 Approved Supplier List (ASL)

The Approved Suppliers List shall be maintained by the Document Coordinator and recorded in the Hart Document Control system.

Suppliers listed on the ASL must sign the following documents with Hart.

- Master Services Agreement (as applicable)
- Confidentiality and Non-Disclosure Agreement
On an as needed basis, this requirement primarily applies to suppliers providing custom parts or assemblies, which are controlled on Hart confidential specification documents or drawing or any supplier that is provided company confidential information.

- Consultant or Independent Contractor Agreement, as applicable.

The above documents are maintained in compliance with the Records Retention Matrix.

5.4.1 Grandfathered Suppliers

All suppliers doing business with Hart as of August 1, 2006, are considered grandfathered as qualified suppliers on the ASL.

6 SUPPORT INSTRUCTIONS

6.1 Supplier Performance Evaluation

Suppliers listed on the ASL may require continual evaluation based on their classification to ensure conformance of supplier to Hart expectations. Records of supplier’ continual evaluations are maintained as per the Records Retention Matrix.

6.1.1 Tier 1, Contract Manufacturer (CM)

Contract Manufacturers are re-evaluated during periodic Business Reviews using the Supplier Objectives Metric. A Contract Manufacturer that does not meet the business goals shall be issued a Corrective Action Request (CAR) utilizing Hart Document Control system. The written response from the CM shall be reviewed for acceptance by the CAR owner with additional information requested and provided as needed. The final approved CAR shall be maintained with the associated periodic Business Reviews according to the Records Retention Matrix.

6.1.1.1 Supplier Objectives Metric

The Supplier Objectives Metric lists measurable elements to evaluate the ongoing performance of a Tier 1, Contract Manufacturer against the expectations of the business. The elements identified will be tracked on a monthly basis and averaged over a rolling 6 months.

Measurers:

- On Time Delivery to Hart Warehouse
  - The percent of shipment delivered to Hart warehouse by Hart request date using a tolerance of -3/+0 days per line item.
  - Identify primary root cause(s) for late shipment(s), agree root cause, course of corrective action and track implementation.

- Customer Returns - RMA
  - Maintain a service turnaround time of 2 weeks maximum.
Identify the ongoing top 5 reasons for customer product returns, agree root cause, viable corrective action and track implementation to prevent or reduce recurrence.

- Consigned Inventory
  - Maintain consigned inventory accuracy of 99.5% of value
- Yields
  - Maintain 1st Pass Yield of 90% for In Circuit Test (ICT)
  - Maintain Out of Box Audits (OBA) at 98%
  - 98% of all completed assemblies tested must pass 100% functionally

### 6.1.2 Tier 2, Strategic and Tier 3, Prime Suppliers

Existing Suppliers classified as Strategic or Prime may require a supplier site audit or desk audit at the frequency provided in the table below. The audit or supplier performance review may include or be solely based on Nonconforming Material data provided by the applicable Contract Manufacturer as a source of information on quality performance. Where a supplier has a quality issue, either in general or for a specific part or assembly, a Hart CAR may be issued to initiate improvement. Based on the review of the supplier response, the results from this evaluation may determine whether a supplier shall maintain their Supplier Approved status on the ASL.

The audit or supplier performance review interval can be extended by a period of up to one year if a documented rationale showing good performance by the supplier in the area of Quality and On Time Delivery, at minimum, is submitted and maintained according to the Records Retention Matrix.

**Audit/Review Frequency:**

<table>
<thead>
<tr>
<th>Supplier Classification</th>
<th>Minimum Audit / Review Frequency</th>
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<tr>
<td>Tier 1, Contract Manufacturer</td>
<td>Periodic Business Review not to exceed 1 year.</td>
</tr>
<tr>
<td>Tier 2, Strategic Supplier</td>
<td>Period not to exceed 1 year*</td>
</tr>
<tr>
<td>Tier 3, Prime Supplier</td>
<td>Period not to exceed 2 years*</td>
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*See exception in 6.1.2, second paragraph

### 6.1.3 Tier 4, Standard Suppliers

Standard Suppliers do not require scheduled performance evaluation. Quality issue(s) identified by the applicable Contract Manufacturer based on documented Nonconforming Material data can be used to initiate performance improvement as needed.

### 6.2 Verification of Finished Goods Purchased

All finished goods produced by an approved supplier, using Hart ASL, methods, design documentation, test documents and Quality Manual shall be considered acceptable for
movement to Hart owned inventory or shipped directly to an external customer. Supplier performance shall be monitored per section 6.1 of this procedure. When supplier performance, product quality requirements or customer product and delivery satisfaction is less than acceptable, then additional resource(s) time will be allocated to work with the supplier in identifying the route cause, implementing agreed improvement and verifying, that improvement measures taken are viable. Depending on the level of unacceptable performance by the supplier, the improvement efforts may be monitored or managed by the Supply Chain Manager, Project Manager, Manufacturing/Sustaining Engineer and communicated via the purchase order or managed formally through a CAR issued from the Hart Document Control system.

6.3 Change in Supplier Category

A change to supplier category may be deemed appropriate based on modifications to business needs or product and/or services offered by a supplier

Following is a list of examples that may apply that would reduce the supplier Category level.

- Tier 1 Contract Mfg to Tier 3, Prime Supplier: Business volume is greatly reduced or experiences periods of no activity, therefore does not require the same level of business support or attention. Business is still however custom.
- Tier 2, Strategic Supplier to Tier 4, Standard: The need for a proprietary part or assembly is no longer needed for production, but the supplier may still be needed for periodic service support or future product consideration.
- Tier 3, Prime Supplier to Tier 4, Standard: A change in supplier business direction that does not warrant a Status above Standard.

If the product or service offered by a supplier would justify a change to a higher Category, the same processes shall be followed to document the evaluation and approval as per sections 5.2 and 5.3. A new Supplier Questionnaire Form would be needed if there is signification change to supplier information (e.g. change in ownership or business structure).

6.4 Disqualification of a Supplier

A Supplier may be moved from Qualified to Disqualified status on the ASL for poor performance in areas of quality, audit results or any other reason, as listed below and agreed to by all affected parties. Examples of justification are:

- Unacceptable conformance history
- Unacceptable performance: late delivery history, unsatisfactory cost structure or history or shipping practices
- Unsatisfactory product quality, violation to workmanship standards requiring special customer notifications
Disqualification of any supplier is managed with similar approval authority as for Supplier Selection in section 5.3 of this procedure and is formally documented.

After justification for the change in supplier Status is documented, a signed ASL Change Request form is submitted to the Document Coordinator requesting the status change from Qualified to Disqualified. The Document Coordinator will add a comment to the Document Control system supplier record, such as “DO NOT USE” or “Disqualified”.

Records of Disqualification, including the ASL Change Request form, shall be maintained in compliance with the Records Retention Matrix.