



Supplier Handbook

Statement of Purpose

This handbook outlines KARLEE's expectations for its suppliers.

Suppliers must ensure that their employees and contractors understand the requirements of this handbook. KARLEE Company, Inc. reserves the right to update the Supplier Handbook as business needs or conditions warrant.

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Revision Control:

Revision Level	Originator	Detail of Change	Date
A	dkwalker	new	05/10/2011
B	dkwalker	updated/added DFARS	10/31/2014
C	dkwalker	Counterfeit Avoidance	01/19/2015
D	dkwalker	section 3.6	02/05/2015

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Section One- Introduction

1.1 Company Information

KARLEE is a contract manufacturer of precision sheet metal and machined components for the communications, defense, aerospace, commercial goods and medical equipment industries. Since incorporating in 1977, our commitment to exceeding customer expectations and building quality into the product while maintaining speed and agility remains our competitive advantage.

KARLEE is an ISO 9001, TL9000 and AS9100 certified organization that serves many difference business segments: aerospace products, precision machining and sheet metal manufacturing, and cabinet integration. KARLEE believes in following a set of values that include honest and ethical behavior, technical innovation, continuous improvement, and customer service. These core values drive decisions that not only serve the bottom line, but also serve the needs of our employees, customers, partners, and the community.

1.2 Objective

The objective of this handbook is to provide KARLEE suppliers with an understanding of the requirements they must meet to supply KARLEE with products and/or services. Additional information may be obtained by contacting the Purchasing or Supplier Quality representative at the KARLEE facility for which you supply products or services.

1.3 Scope

This handbook applies to suppliers who provide production materials, supplies, services, tooling, and consultants used in support of KARLEE product design, development, manufacturing, test, distribution and service. This handbook is intended to be a supplement to, and does not replace or alter other terms and conditions covered by purchase orders, contracts, specified warranty agreements, drawings, specifications or other separate written agreements.

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1.4 Sourcing Strategy

KARLEE intends to establish a supplier flow down requirement and to maintain it for a long-term relationship with suppliers who are committed to continuous improvement in cost, quality, delivery, and service. This commitment is an expectation of the suppliers. Those suppliers who embrace this philosophy will have the opportunity to enter into long-term relationships with KARLEE. KARLEE believes evidence of this commitment to continuous improvement includes, but is not limited to, ISO 9001, TL9000 and AS9100 certification (for the Information & Communication Technologies and Aerospace suppliers), proactive supply-chain management, 100% quality conformance to requirements, 100% delivery performance, productivity improvements and competitive pricing. In turn, KARLEE will deal with suppliers honestly and with integrity, strive to listen to suppliers' concerns, and provide suppliers with the appropriate information to perform at world-class levels.

1.5 Facility Locations and Telephone Numbers

Please visit <http://www.KARLEEmanufacturing.com> for location and telephone numbers.

Section Two- Quality Requirements

2.1 Values

KARLEE is a customer-driven organization; the total satisfaction of our customers is our primary goal. KARLEE aims to satisfy customers with quality products and services that are delivered on time and conform to a world class level of quality. This goal is achieved by our commitment to quality through continuous improvement of products, processes, services and people.

KARLEE wants to assist in its suppliers' continuous improvement efforts through a process of positive interaction. KARLEE's approach is to prevent problems before they become obstacles to success. If problems arise, KARLEE strives to resolve them by working with suppliers to find the appropriate solutions.

2.2 Documentation Adherence

Quality is a prime consideration for supplier selection and sourcing at KARLEE. The dedication to quality and strict adherence to the following documentation will clearly define your value as a KARLEE supplier:

- This KARLEE Supplier Handbook
- KARLEE Specifications/Drawings and Purchase Order
- KARLEE Packaging & Shipping Requirements

2.3 Monitoring Supplier Performance

Compliance to KARLEE requirements will be monitored monthly through the KARLEE Supplier Scorecard as it is considered an important tool for communication with our suppliers. Performance reports will be provided to suppliers on a monthly basis, or as required.

Supplier Rating Classifications (as determined by KARLEE Scorecard):

- **95 to 100%** - You are a **CERTIFIED SUPPLIER** (if you have maintained this rating for three (3) consecutive periods). **Performance Summary** – Excellent
- **90 to 94%** - You are a **QUALIFIED SUPPLIER** and we will work with you to try and become certified. **Performance Summary** – Acceptable.
- **80 to 89%** - You are **TEMPORARILY QUALIFIED** and must attain a 90% by the next rating period. **Performance Summary** – Marginal.

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- **Less than 80% – TEMPORARILY SUSPENDED**, must submit Corrective Action within ten (10) days. Performance Summary – Unacceptable

2.4 Change Notification

Supplier will make no change to material, process (including manufacturing process), manufacturing location, sub-suppliers or tooling without prior written authorization from KARLEE.. Tooling and equipment changes do not include routine maintenance performed with the intention of keeping the tooling or fixturing operating with requirements. KARLEE must be notified by email when tooling is being modified.

A Deviation Notice is required for each instance in which the supplier intends to ship non-conforming goods. This also applies in cases where a permanent change is requested but not yet approved.

To receive a Deviation Notice, the supplier:

- Must contact their KARLEE Supplier Quality representative and get a written *Deviation* or *Waiver* prior to shipment. This will state the maximum quantity or period for which the deviation shall apply or if the change is requested to be permanent.
- Must include a copy of the signed deviation with each shipment of nonconforming product.
- Will be fully exposed to all warranty claims and rework or reject cost, for shipments of product which do not confirm to released specification or Deviation.
- Must include full information including specifications or drawings showing the requested deviation.
- Must fully describe the benefit to KARLEE to be achieved by accepting the proposed change.
- KARLEE will provide a written response for each requested Deviation within 48 hours, either Approving or Rejecting the Deviation.
- Changes will be provided with any required disposition of stock instructions. Changes, both temporary and permanent, do not apply to work in process under previously issued Purchase Orders unless a change is issued.

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2.5 Quality Data & Records

When required by KARLEE's Purchase Order or on the referenced drawings and specifications, the supplier must submit reports such as Certificate of Compliance, Certificate of Analysis, Test & Inspection Records, and/or SPC data. Failure to do so may result in material rejection or delayed payment.

2.6 Supplier's Quality System

If the supplier has stated that they operate to an internationally recognized quality standard (i.e., ISO 9001, TL9000 and AS 9100), then KARLEE will expect the supplier to adhere to this standard unless otherwise agreed to in writing.

KARLEE requires that our suppliers:

- Shall establish, document, and maintain a quality system as a means of ensuring that product conforms to specified requirements.
- Conform to KARLEE flow down requirements as listed on KARLEE PO Requirements and F-1111 PO Requirements-Service Processor.
- Work toward implementation of ISO 9001, TL 9000 and/or AS9100 as their fundamental quality system requirement.

2.7 Verification of Supplier's Products & Processes

Right of access by the organization, their customer and regulatory authorities to the applicable areas of all facilities, at any level of the supply chain, involved in the order and to all applicable records. This verification does not waive the requirements listed in section 2.9. Such access may include KARLEE's inspection and audit at the supplier's premises; this may or may not include review of the relevant documentation.

2.8 Inspection and Acceptance of Material/Articles

All material furnished must conform to contractual requirements/specifications and are subject to inspection and approval of KARLEE after delivery. If fault is found with the material, KARLEE reserves the right to withhold payment. KARLEE also reserves the right to reject, rework (per section 2.10), and/or return at the risk and expense of the supplier, all or any portion(s) of shipment(s) that fail to comply with KARLEE requirements or specifications.

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2.9 Initial Sample/First Article Reviews

When required by Purchase Order, the supplier shall submit a First Article sample(s) along with a First Article Inspection Report. AS9102 format is preferred. The purpose of the initial samples is to confirm that production level parts meet all drawing and specification requirements and that the supplier's processes are capable of producing the product. For questions on proper completion of the forms, contact your Purchasing or Supplier Quality Engineering representative. First Article Samples must be produced entirely using materials and processes that would be used for subsequent production shipments. The supplier is authorized only to produce and ship product that is identical in material and process to that which is used for the First Article Sample.

2.10 Rejected Material Charge Back Policy

If KARLEE rejects material because of nonconformance to specification, the following charge-back schedules may apply:

<u>Solutions</u>	<u>Effect</u>	<u>Applicable Charge-back</u>
Reject	Return to Supplier	Material plus freight charges
Reject	Scrap	Material + applicable scrap cost
Rework	Charge to Supplier	KARLEE incurred cost.

If we have reject material, we will communicate the problem to you at the time to discuss action needed. When possible, the supplier's personnel should come to the receiving location to sort, rework or replace the components and resolve the problem. If time does not permit, KARLEE will take the required action and charge back the supplier for costs incurred.

KARLEE may seek to recover from a supplier any damage resulting from a delivery of nonconforming product.

- If the reject is discovered in production or beyond (i.e., at KARLEE's customer or in the field), KARLEE expects supplier to: repair/replace defective material within 24 hours of written notice and indemnify and hold KARLEE harmless for actual damages resulting from their discrepant material, provided that KARLEE provides an invoice and itemized substantiation of such damages.

The supplier may also be held responsible for resulting charges imposed by a KARLEE's customer, such as warranty claims or costs associated with a recall campaign.

2.11 Supplier Corrective And Preventive Action Requests (KSCAR)

The supplier must address all Supplier Corrective and Preventive Actions (KSCARs) within the specified due date as defined by the originator of the CAPA request. All KSCARs responses must address root causes and actions implemented to prevent recurrence of the problem. KARLEE is willing to assist suppliers with root cause analysis upon request.

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Section Three- Procurement Requirements

3.1 Quotations

All quotations must include all production costs; including a costed bill of material, labor by operation, packaging, shipping, yield, testing and duty. Any additional one time costs, such as tooling, set up, or programming to supply the item or service, and quotes must be submitted on the KARLEE Request for Quote.

3.2 Terms and Conditions

The Purchase of a product or service can only be initiated by issuance of a KARLEE purchase order or supply contract.

The purchase order constitutes an offer of purchase, which may only be accepted subject to KARLEE's standard Terms and Conditions of sale which is available on line. Order acknowledgement is required within 3 days; however, any expression of acceptance from the supplier, including shipment of product, will constitute acceptance of these Terms and Conditions. Any different or additional terms contained in any response issued by the supplier shall be of no effect whatsoever, unless specifically agreed to in writing by KARLEE. KARLEE specifically objects to any attempt by supplier to limit warranties or KARLEE's remedies.

3.3 Prices

KARLEE requires all supplier invoice prices and quantities to match KARLEE purchase contract prices exactly, to ensure timely processing.

To achieve this, any price change must be documented by the issuance of a modified purchase contract. The KARLEE purchase order defines what we understand as the agreed price. Invoices that do not match may result in payment delays. Payment terms will apply when KARLEE receives a conforming invoice.

In the absence of a Purchasing Contract, any price change must be sent to KARLEE purchasing agent in writing 30 days before the effective date of the new price. In all circumstances, any price change shall not affect existing purchase order unless agreed by both KARLEE and supplier.

3.4 Continuity of Supply

Every supplier is faced with the possibility of production being interrupted by unforeseen circumstances, such as fire, power loss or machine breakdown. Because any interruption in supply may result in substantial damages, particularly if it results in KARLEE not being able to meet customer demands, we require each of our components suppliers to develop a plan for continuity of supply. This plan must be immediately available on request.

3.5 Product Discontinuance & Obsolescence

KARLEE requires supplier to notify KARLEE in writing at a minimum of 12 months prior to the last production date of any end of life or obsolescence of materials, service, or products. This time is required to ensure that KARLEE has adequate time to initiate redesign efforts and/or determine sufficient inventories are available for future customer demand.

3.6 Service Part Requirements

By accepting a production contract from KARLEE, the supplier agrees to maintain the records, documents, tooling, facilities, gauges, fixtures and equipment required to manufacture the contracted component(s) for at least seven (7) years following the end of production unless otherwise stated. Service order pricing parameters should be agreed upon during the production launch process.

3.7 Intellectual Property

Suppliers may only source parts and/or components from factory authorized distributors per *OP08040.KARLEE Counterfeit Part Prevention Policy*.

The supplier shall not make any unauthorized use of any third party intellectual property or incorporate or otherwise use any unauthorized third party intellectual property in the products or services provided to KARLEE.. In the event of an alleged or actual infringement of a third party's intellectual property, the supplier shall save KARLEE, its agents and customers, and users of its products harmless from all loss, damage and liability. In this event, the supplier is liable for any court costs and damages which may accrue to KARLEE and its customers.

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Supplier may not use KARLEE's products or intellectual property in any advertising, news release, trade show display, or other display purpose without express written permission from KARLEE in advance. Any scrap materials generated from KARLEE-owned designs must be returned to KARLEE for proper disposition.

3.8 Risk Management

Third-party due diligence is a critical component of any effective compliance program. This Prescriptive Guide to Third Party Risk Management will help practitioners standardize the due diligence process and implement a risk-based and resource-effective process to meet the expectations of major legal regulations

3.9 Conflict Minerals

KARLEE is committed to responsible global citizenship. Suppliers will ensure that all components in their supply chain are conflict-free as defined in the Dodd-Frank Act, i.e., they do not contain metals (gold, tin, tantalum, or tungsten) derived from conflict minerals such that they directly or indirectly finance or benefit armed groups through mining or mineral trading in the Democratic Republic of the Congo (DRC) or an adjoining country (Angola, Burundi, Central African Republic, The Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, Zambia).

KARLEE and its suppliers will establish policies and due diligence frameworks consistent with the Organization of Economic Cooperation and Development (OECD) *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas* (copy available through OECD.org web site).

Where applicable, KARLEE requires its suppliers to complete the Electronic Industry Citizenship Coalition's current 'EICC GeSI Conflict Minerals Reporting Template.' This template can be found at www.conflictreesmelter.org.

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3.10 Counterfeit Avoidance

KARLEE Company, Inc. is committed to taking appropriate actions to combat the adverse impacts caused by counterfeit goods. The industry-wide issue concerning counterfeit parts is sophisticated and difficult to detect.

KARLEE maintains a proactive approach aimed at detecting and deterring counterfeit activity as follows:

KARLEE non-conforming parts are destroyed to prevent repackaging or reselling to end customers.

KARLEE maintains internal policies and procedures to prevent the purchase of counterfeit parts by maintaining a preferred suppliers list and buying direct or through authorized distributors.

KARLEE is committed to combat this global problem by aggressively pursuing suspected counterfeiting and working with local authorities to prevent the spread of counterfeit goods.

3.11 Compelled child labor

KARLEE will not purchase materials from a supplier that uses forced or indentured child labor, defined as work from any person under the age of 18 under the menace of any penalty for its nonperformance and for which the worker does not offer himself voluntarily.

3.12 RoHS compliance

Unless specified on KARLEE's and/or customer's drawing, suppliers will certify that their products are manufactured in compliance with the European Union's *Directive 2011/65/EU on the Restriction of the Use of certain Hazardous Substances in Electrical and Electronic Equipment (RoHS Recast)*. Where appropriate, supplier will perform testing for the presence of Lead, Cadmium, Mercury, Hexavalent chromium, Polybrominated biphenyls (PBB), and Polybrominated diphenyl ethers (PBDE). For Cadmium there must be less than 0.01% of the substance by weight at raw homogeneous materials level. For Lead, PBB, PBDE, Mercury and Hexavalent chromium, there must be no more than 0.1% of the material, when calculated by weight at raw homogeneous materials.

3.13 REACH compliance

"REACH" is European Union Regulation (EC) No 1907/2006 concerning the "Regulation on Registration, Evaluation, Authorization and Restriction

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of Chemicals. Under REACH, KARLEE's customers within the European Union may require that KARLEE identify any Substances of Very High Concern (SVHC) from the Candidate List as defined under REACH.

The current Candidate List chemicals can be found on the European Chemicals Agency website at http://echa.europa.eu/chem_data/authorisation_process/candidate_list_table_en.asp.

In the event of a REACH request from its customers, KARLEE will need to have its suppliers identify any SVHCs in its products. Upon request, suppliers will provide information regarding any SVHCs present in their products, including the SVHC's name, amount contained, by weight, total part weight and safe usage information, based on the Candidate List in place at the time of receipt of request. This response will be due within 45 days. If the product's chemical composition changes after a response is provided, the supplier is required to provide the revised information. KARLEE reserves the right to request REACH information up to thirty-six months after last shipment of a product to KARLEE..

3.14 DFARS compliance

DFARS stands for "Defense Federal Acquisition Regulations Supplement."

DFARS is a well known example of an agency supplement of FAR, Federal Acquisition Regulations. DFARS is used by the Department of Defense. DFARS 252.225-7014 Preference for Domestic Specialty Metals was issued under the Office of the Secretary of Defense for Acquisition and Logistics. The basic requirements of DFARS include that in order for a US company to use Specialty Metals, the metals must be melted in the United States or a qualifying country. DAR (Defense Acquisition Regulations) Council is responsible for the maintenance of DFARS.

A qualifying country, according to DFARS, means any country listed in subsection 225.872-1 of the Defense Federal Acquisition Regulation Supplement. The qualifying countries listed under DFARS are Australia, Belgium, Canada, Denmark, Egypt, Germany, France, Greece, Israel, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and Northern Ireland.

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3.15 Invoices

The following information must be included on each invoice:

Invoice number
Invoice date
Terms
KARLEE purchase order number and line number
KARLEE part number (including revision)
Item or Part Number description
Quantity and unit cost
Packing list number
Ship date
Shipping method and BOL number or Tracking number
Delivery location

The unit of measure and cost must match the Purchase Order.

Invoices that are mailed should be sent to:
PO Box 461207, Garland, Texas 75042-1207

If invoices do not meet the requirements listed above, KARLEE may return them to the supplier for correction. Discrepancies may result in delayed payment.

3.16 Control of KARLEE Property

Supplier should establish, implement, and maintain a system for identification, control, verification, storage, and maintenance of KARLEE property. Such property may include both that of KARLEE and that of KARLEE customers. Property may include materials, tools, dies, fixture, and intellectual property, such as software or drawings. If such property is lost, damaged, or otherwise unusable, the supplier shall immediately notify KARLEE. When physically possible, tooling shall be marked as "Property of KARLEE" and labeled or stamped with KARLEE tool number. Any removal of KARLEE owned tooling must be authorized by a KARLEE purchasing agent in advance.

Section Four- Delivery Requirements

4.1 Packaging & Shipping Requirements

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All component and raw material suppliers must meet KARLEE's packing and shipping requirements. KARLEE must agree to deviations from this in writing.

KARLEE' suppliers are expected to package their products in such a way as to prevent damage in transit. All products sent on pallets must have appropriate banding or shrink-wrapping to prevent damage and foreign object debris.

All KARLEE suppliers are expected to follow KARLEE's routing guide. The routing guide ensures that KARLEE receives the best price and delivery options available and facilitates the inbound transportation process.

4.2 Delivery Schedules

It is the supplier's responsibility to ensure goods are received at the required location on the date/time required by KARLEE. KARLEE expects 100% on time delivery performance. Suppliers may be required to provide corrective action whenever this requirement is not being met. If late deliveries cause damages, supplier may be charged back accordingly, (i.e. if late delivery causes downtime in a KARLEE process/plant, the supplier may be charged back an amount based on the formula described in section 2.10).

Note that these charges may be invoked only when a supplier's product is received late per the contractual requirements.

It is the supplier's responsibility to inform KARLEE's Materials department immediately of any potential difficulties in meeting delivery requirements. Alternative plans may be discussed which would avoid downtime and the corresponding costs.

KARLEE's expectation is that all delivery requirements will be adhered to (including during holiday or other supplier shutdown periods), unless prior written arrangements are made.

4.3 Delivery Times

KARLEE facility hours are Monday through Friday 7:00 a.m. to 3:30 p.m.

If unable to deliver during these times, you must contact KARLEE to make alternative arrangements.

4.4 Packing Slips

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Packing slips must be included with every delivery. Accurate and complete packing lists ensure timely receipt of materials. The packing list also ensures that timely payments are made to our suppliers.

4.5 Labels on Packaging

Labels must include the following:

KARLEE part number

Supplier part number

Quantity per box-partial boxes must state "Partial"

Complete description of the product

Total cartons contained in the shipment-Example, 1of 8, 2of 8, 8 of 8.

Barcodes labels are preferred

4.6 Hazardous Material

Follow all relevant Health, Safety and Environmental regulations. Ensure all proper markings are on containers. MSDS sheets must be made available to KARLEE Purchasing or Facility representative upon delivery of goods.

KARLEE reserves the right to refuse any delivery that does not conform to these delivery conditions.

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Section Five- Visitors and Delivery Personnel

5.1 Visitors

To comply with the International Traffic and Arms Regulations (ITAR) and CFR 49 regulations (DOT Hazardous Materials Transportation regulations) all Visitors and delivery personnel must have visitor badges if they enter any of the KARLEE's buildings beyond the receiving areas or lobbies.

All visitors must sign the Visitor Log Book in the front lobby, recording the time in and time out.

5.2 Non-Disclosure

Visitors to the manufacturing areas will be asked to sign KARLEE's Non-Disclosure and Indemnification Agreement. Addition to this, proof of liability insurance may be required.

Photographs are not allowed without approval from a KARLEE employee.

5.3 Contractors and Service Technicians

Any contractor or supplier's agent who will be working unescorted on KARLEE property must read KARLEE's Environmental Safety Awareness Guidelines, and return the signed acknowledgement form signifying that they have read, understood, and will comply with the guidelines.

Safety is our primary concern. Any contractor or supplier's agent who will be in manufacturing or warehouse areas must wear appropriate shoes. Examples of inappropriate shoes include high heels, open toes, and flip-flops. Non-slip soles are recommended.

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