

BATES

SUPPLIER

MANUAL

Bates, LLC
118 Rose Street
Lobelville, TN 37097

The Supplier Requirements Manual
Is a
Controlled Document

Revision 2: Date 8/8/06

Any copies made of this document, in its entirety or in part, must be marked "Uncontrolled".

The person who is being appointed as the authorized recipient of this manual must complete the information below. Please make a copy of this entire page and return it to:

Susan Morris
Purchasing
Bates, LLC
118 Rose Street
Lobelville, TN 37097
Fax: 931-593-2906

Company Name: _____

Recipient's Name: _____

Recipient's Title: _____

Email Address: _____

Current Date: _____

By signing above, you are acknowledging receipt of this document.

SUPPLIER REQUIREMENTS MANUAL

Revision 2: Date 8/8/06

This controlled manual has been developed to acquaint Bates' suppliers of requirements and expectations that must be met in order to be put on Bates' Approved Supplier List and to maintain that status. If a supplier cannot meet or comply with any of these criteria, it will be up to Bates Management to waive the requirement or to resource the business with an optional supplier.

Updates will be sent as necessary to the recipient of this manual and it will be the responsibility of the supplier to keep their manual updated and to fulfill the requirements therein.

Supplier Requirements:

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SECTION 1

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CONTACTS

Following are the contacts for various areas of purchasing at Bates, LLC. All discussions and/or meetings that are held with various Bates personnel should be arranged with the full knowledge of your buyer/agent, or in their absence, the Purchasing Manager. Please make your buyer/agent aware in advance of meetings.

ALL CAN BE REACHED AT 931-593-2251

Name and Title	Extension	E-mail Address
Susan Morris, Purchasing Buyer for Production Components Purchasing Buyer for Raw Material	Ext. #229	susan@batesllc.com
Jeff Graves, Purchasing Buyer for Production Components	Ext. #364	jgraves@batesllc.com
Joann McCaig, Purchasing Buyer for Non-Production Items Director of Special Supplier Relations	Ext. #202	jmccaig@batesllc.com
Barbara Jackson, Purchasing Buyer for Rubber Material	Ext. #235	bjackson@batesllc.com
Mike Rhodes, Purchasing Buyer for Production Tooling	Ext. #264	mrhodes@batesllc.com
Todd McCaig, Quality Specialist	Ext. #257	tmccaig@batesllc.com
Ricky Shanes, Quality Manager/Processing	Ext. #243	rshanes@batesllc.com

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REQUEST FOR QUOTES AND PQR RESPOSIVENESS

Request for Quotes (RFQ) should be responded to within three days of receipt with all requested information included. If the three-day limit cannot be met, it is the responsibility of the supplier to obtain a late completion date from your Bates purchasing contact. Obtaining feedback on your quote is the supplier's responsibility.

Information that should be included with a quote:

1. Cost and Timing – This should also include cost of any tooling if applicable.
2. Current Print – If RFQ is for a production part, a valid print should be sent with quote.
3. MSDS sheets - If RFQ is for raw materials or hazardous chemicals, a MSDS sheet must be sent with the quote for it to be accepted.

Purchasing Quality Requirements (PQR) is sent as an example with RFQ's for raw materials, production components, and hazardous chemicals. It is the supplier's responsibility to review the requirements and acknowledge any discrepancies they may have with the PQR on the quote. Any items on the PQR that the supplier refuses to accept may cause the supplier's quote to be rejected. PQR's do not have to be signed and returned with the quote, but discrepancies should be listed on the quote.

If the supplier is awarded the business they are quoting, then a formal PQR will be sent for the supplier to sign and return to Bates. If the supplier fails to sign and return the PQR within ten days it will result in an automatic acceptance of the requirements listed thereon. This will also result in the supplier losing points on their supplier rating in the Service Area.

PQR's are not applicable for tooling and non-production purchases. See attached examples of PQR's. The PQR on page 4a is for raw materials, chemicals, and other miscellaneous production items. The PQR on page 4b is for production component parts.

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PURCHASE ORDERS AND RELEASES FOR BLANKET ORDERS

All purchases made at Bates, LLC are made by Purchase Orders (PO) or material releases issued under the terms of a blanket PO. No other communication is considered valid for the purpose of entering into a contract with a supplier of goods and services. Please see attached terms and conditions for all Bates, LLC purchase orders.

SHIPPING

Suppliers must ship on a Bates approved carrier. If the supplier fails to do so, the freight charges will be charged back to the supplier. Shipping instructions are located on the purchase order. If a supplier has any questions regarding shipping instructions please contact your purchasing representative.

Any excess transportation incurred by Bates due to a supplier's under shipments, will be charged back to a supplier. A letter of authorization will be sent to any supplier in the event that a Bates personnel requests a shipment to be expedited at Bates expense. Any excess transportation charges incurred without this letter of approval will be charged back to the supplier.

RELEASES FOR PRODUCTION COMPONENTS

NOTE: This section is applicable only to suppliers who receive a weekly release for orders. These suppliers are suppliers of components.

Material releases for Blanket PO's are normally faxed on Tuesday of every week and show nine weeks out. If a holiday occurs on a Monday or a Tuesday the releases will be faxed no later than Wednesday of that week. Releases show Monday dates for shipping requirements. This Monday date is representative of a week. The supplier is to ship the amount of parts listed under that Monday date during that week on their normal ship day. Some suppliers will have a designated ship day supplied by your purchasing contact.

Bates ships most production components FOB the supplier's factory or warehouse. Bates will pay for shipping charges for only one shipment per week. If the supplier cannot ship the week's volume shown on their release on their normal ship day, it is the supplier's responsibility to pay freight on any second shipment made during that week. If the extra shipment is due to an increase, please contact your purchasing contact for shipping instructions.

Suppliers of production components should note that all tools should be kept for a minimum of ten years to support any service requirements.

All material release shipments must have an Advanced Ship Notice (ASN). ASN's must be faxed or e-mailed with the following information to the appropriate person:

1. Part Number
2. Quantity
3. Ship Date
4. Ship Via with Tracking Information

If a Blanket PO is canceled, Bates will be liable to purchase up to, but not exceeding four weeks of stock that the supplier may have. Any other stock the supplier may have will not be considered for obsolescence.

SECTION 4

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ENVIRONMENTAL AND RESTRICTED SUBSTANCE REPORTING (IMDS OR MSDS)

Purchased Production Components must have an IMDS (International Material Data System) sheet prepared. This information will be requested when a PPAP is ordered for a new part. This sheet must be filled out before the part is shipped and returned to the purchasing department. Failure to fill out the required form will cause a loss in the supplier's service rating. An example of the form is attached to this section for your review. Components that are already in production will also need IMDS sheets to be filled out. If a supplier has not already been requested by a Bates employee to do so, please do so at this time and forward to Bates. You can also report the information through IMDS at <http://www.mdssystem.com>. Bates IMDS ID# is 5689.

Raw Materials, Hazardous Chemicals, and miscellaneous production and non-production items must have MSDS sheets sent with every RFQ. MSDS sheets must be sent annually for items already in production or if a revision is made to the MSDS sheet. MSDS sheets should be sent in January of every year. If Bates has to contact the supplier for an MSDS, it will affect the supplier's service rating. Please send the MSDS sheets to your appropriate purchasing contact.

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PPAP REQUIREMENTS for PRODUCTION COMPONENTS

Initial PPAP

On the initial order of a purchased component, purchasing will request PPAP paperwork. If the supplier is new to Bates, LLC then a Bates led PSO may be preformed at the supplier's facility. This order is normally for 325 pieces, but may change if needs differ. This initial PPAP must be a Level 3 PPAP per Part Approval Manual 3rd Edition with a minimum of the following supporting documentation:

1. Parts Submission Warrant Sheet
2. Production Part Approval Dimensional Results Sheet
3. Production Part Approval Material Test Results Sheet
4. PFMEA (Process Failure Mode and Effects Analysis)
5. Control Plan
6. Flow Chart
7. Gage R & R
8. Material Certification
9. Marked-up Print
10. Capability data for any special characteristics

PPAP paperwork should be shipped directly to your purchasing contact and not included in the box with the PPAP parts. Paperwork and parts should be shipped on the same day. Parts should be clearly labeled showing they are for PPAP purposes and shipped as directed on your Purchase Order.

When PPAP is approved the PSW sheet will be returned with the Blanket Purchase Order. Any tooling charges associated with a part will not be approved for payment until PPAP is approved.

A part should not be changed at any time without Bates approval. If a change is approved by Bates, an initial PPAP requirement will be applicable. Please use the applicable PPAP Manual for guidance with any changes.

Annual Re-certifications

Bates requires annual re-certifications to contain Level 3 PPAP Paperwork and to be sent to your current purchasing contact. See above list for exact paperwork. This re-certification should not have to be requested by Bates, if it is the supplier's service rating will be affected. This re-certification should not include parts, only paperwork. Bates will not accept any charges for recertification of suppliers' product.

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SUPPLIER REVIEW VISITS

Key suppliers are required at least once a year to visit their Bates purchasing contact to review any open issues and review current supplier rating. This visit should be set-up with your contact at least two weeks in advance. If a supplier is unable to fulfill this requirement it will affect their supplier rating. Other options may be considered if no issues are open, (i.e. conference call, video conference, etc.) Please contact your purchasing person regarding dates or options.

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SPECIAL SUPPLIER RELATIONS PROGRAM

It is the mission of Bates, LLC to increase business opportunities with Minority Business Enterprises (MBE's). Bates intends to promote this business actively through its Special Supplier Relations Program. The development of mutual working relationships with these firms is a company-wide commitment. This endeavor includes all aspects of purchasing for Bates, LLC.

This program is intended to construct a mindfulness of social obligations of Bates to provide opportunities for MBE's.

It is the goal of Bates to have 6% of sales volume in minority dollars and to establish a professional business relationship with minority vendors. Bates requires their suppliers to also strive to do business with MBE's. Suppliers should attain 6 % of sales to Bates in minority purchases. The progress of this program will be discussed at the annual meeting with your Bates purchasing contact.

Bates, LLC is a Certified Minority Company with the Tennessee Minority Supplier Development Council (TMSDC).

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PACKAGING AND LABELING

PACKAGING

Unless Bates Purchasing specifies packaging, the supplier is responsible for packaging that will ensure safe transit of parts. If product is shipped in boxes that will require personal handling, the box cannot exceed 50 lbs with product. When shipping boxes on a skid the boxes must be stacked in such a way that labels can be viewed from all sides. Skids are also required to be in good working order as to be able to transport product without injury to person or damage to product. If packaging used causes excessive handling by Bates an applicable fee will be charged to the supplier and an reduction in supplier's service rating.

LABELS for PRODUCTION COMPONENTS

Bates, LLC is looking to further improve incoming receiving processes and also assist in improving inventory accuracy and record keeping, by using a uniform receiving label. Please note that all labels must meet the following format no later than Jan.1, 2004, or a re-labeling fee of \$100.00 will be charged. Please see example label below for format. All Bar Codes on labels should be in the 3 of 9 format. Two labels should be placed on each box in upper adjacent corners. Suppliers may request that a label they are already using be acceptable if it is similar to the one specified by Bates. The label must be approved through your purchasing contact at Bates, before using such label. Labels must either have a serial number or a lot number for traceability. This traceability is important for Bates to obtain our quality goal.

LABELS for MISC. PRODUCTION ITEMS AND RAW MATERIAL

Labels for miscellaneous production items and raw materials should display the following items:

- Product Identification
- Manufacturers Date
- Expiration Date if applicable
- To Whose Attention the product is shipped if applicable
- Lot Number if Applicable
- Shippers Identification

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ADMINISTRATIVE FEES FOR NONCONFORMANCES

The following are applicable fees that will be charged regarding nonconformances with Bates supplier requirements:

1. Administrative Fee for Nonconformance - \$350.00
2. Non-uniform labels - \$100.00 per shipment
3. Sorting charges for sorting done in-house at Bates - \$40.00 per man hour
4. Cost incurred from Bates, LLC customers due to a supplier quality issue will be charged back to the supplier.

These fees, when applicable, will be forwarded to the supplier on a debit memo. The debit will be deducted from the supplier's check.

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REGISTRATION REQUIREMENTS

All Bates suppliers that are important to the quality of Bates products and services are to have quality systems compliant to TS16949 certified or as a minimum must be ISO9001:2000. The only exceptions being small (Mom & Pop) operations or where written authorization is recorded from the customer. If a supplier is not certified at this time, they must put in writing as to what steps are being taking to become certified and what their final audit date is.

If your company has already achieved this registration, Bates would like to congratulate you on this accomplishment. If suppliers are currently working towards their registrations, please forward a copy of your registration plan complete with date and milestones to the attention of Susan Morris.

If a current approved Bates supplier that is either TS, or ISO certified should fail an audit or is put on probation due to an audit failure, Bates must be notified in writing immediately. Bates will stay in contact with the supplier until the matter is resolved.

It is the supplier's responsibility to send your purchasing contact an updated registration certificate so that Bates will have a current copy on file.

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COST REDUCTION PROGRAM

Bates requires all suppliers review ways to lower the cost of their product or service. The progress of this cost savings should be reported to your Bates purchasing contact during the yearly visit. Suppliers will be rated as to whether they are researching ways to present cost savings and if any were actually given to Bates during the year.

Suppliers should submit potential cost savings to their purchasing contact for approval. Cost savings will greatly increase a supplier's ability to receive future business.

Bates' goal is to attain a 7% cost reduction from all suppliers annually. Failure to comply with this requirement will result in point reductions from your supplier rating which can impact a supplier's ability to attain additional business from Bates and maintain current business. Any deviation from this goal must be approved in writing by Bates Purchasing contacts.

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OVERALL SUPPLIER RATING

Suppliers will be evaluated on a quarterly basis in the following three areas: Delivery, Quality, and Service. If any quarter should a supplier's rating fall into an unacceptable category, the supplier will be required to complete corrective actions on bringing their rating up to an acceptable level. An unacceptable category is the poor category. If a supplier is unable or unwilling to complete these criteria, the supplier will be put on a new business hold and could potentially lose any existing business.

Delivery Performance

Delivery will be reviewed weekly for over and under shipments. Bates, LLC requires a 100% on-time delivery goal for all suppliers. Delivery performance can also impact the supplier's service rating. Any increases to a supplier's order/release must be met in an acceptable time frame. Suppliers should stay in contact with their purchasing person until the increase is met. Please see the following list for point reductions.

Delivery is evaluated on a 100-point scale.

<u>Point Reduction</u>	<u>Issue</u>
2	Behind schedule one week
2	Overshipment
4	Behind schedule for more than two weeks
10	Supplier undershipment that causes Bates to expedite to a customer

The following is the Overall Delivery Rating:

<u>Score</u>	
100	Excellent
99-90	Acceptable
89-80	Needs Improvement
Under 80	Poor

Quality Rating

Quality is evaluated using a PPM (Parts Per Million) Score. If a quality issue is found at Bates the supplier must establish a clean point and provide Bates with an initial containment corrective action within 24 hours. Within 5 working days thereafter, the supplier must submit an accurate Root Cause Analysis and at least a Corrective Action Plan with target dates for implementation or the complete implemented Corrective Action. Failure to comply with this timing will result in point reductions from the supplier's Service Rating (*reference the table under the Service Rating criteria.*) Until Bates receives an accepted corrective action the supplier is required to ship 100% certified material. In the event that suspect parts are returned to the supplier under an RMA number, it is the supplier's responsibility to inform your purchasing contact of the total of defects found. Otherwise the total quantity returned will be considered defective.

Quality for Miscellaneous Production Items will be evaluated using a method that is valid to each particular commodity. Suppliers will still be given a score that is applicable to the following chart.

The following is the Overall PPM / Quality Rating:

<u>Score</u>	
0-25	Excellent
26-100	Acceptable
101-300	Needs Improvement
Over 300	Poor

The formula for calculating PPM rating is as follows

$$\text{Total Products Received (Pieces or lbs)} / 1,000,000 = X$$

$$\text{Non-conforming products (Pieces or lbs)} / X = \text{PPM}$$

Service Rating

The service rating will be evaluated on a 100-point scale. The following is a list of deductions that can affect service along with the deductions shown under quality.

<u>Point Reduction</u>	<u>Issue</u>
5	Late PPAP submission
2	Late Annual Re-certification
2	RFQ Late (3 day deadline)
2	Late or un-signed PQR
2	Unresponsiveness to customer service request
2	Failure to fill out IMDS sheet
2	Failure to send annual MSDS sheets
2	Supplier review visit not fulfilled
2	Cost reduction goal not meet
2	Using incorrect shipping label
2	Shipping on unapproved Bates carrier
2	Had to ship more than once a week to meet release requirement
2	Behind schedule in shipping
2	Overshipment
2	Weekly ASN not received
3	Late containment response to Nonconformance (>24 hours to 72hours)
10	Containment response exceeding 72 hours
2	Deducted for each day a clean point has not been established for a Quality Rejection 24 hours after supplier notification.
3	Daily deduction if the supplier has not established a clean point within 5 days of supplier notification.
2	Deduction if Initial Action / Containment Plan is not received within 24 hours
5	Deduction if Initial Action / Containment Plan is not received within 5 days
5	Deduction if Root Cause Analysis and Corrective Action Plan is not received within 5 days. An additional 2 points will be deducted for every day thereafter the report is late.

The following is the Overall Service Rating:

<u>Score</u>	
100-90	Excellent
89-80	Acceptable
79-70	Needs Improvement
Under 70	Poor