



LUCERNE
INTERNATIONAL

Supplier Standards Manual

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Section I. General Information

1.1 LUCERNE INTERNATIONAL INTRODUCTION

Lucerne International provides innovative engineering, sourcing, logistics, and fulfillment solutions with the discipline of flawless execution. Our mission is to take care of the details so our customers can focus on the bigger picture. Founded in 1993, Lucerne remains a WBE-certified privately owned company. Our Core Values are:

Passionate about our Purpose

Driven to be the Best

Dynamic is our Destination

Respond Swiftly and Positively

In addition to sharing our Core Values, our suppliers are committed to providing excellent customer satisfaction. The performance of our suppliers has a dramatic impact on our ability to exceed our customer's expectations. Our goal is to have a positive impact on the performance and development of our suppliers. The pursuit of this goal will ensure on time delivery of defect free products and services.

1.2 LUCERNE INTERNATIONAL GLOBAL FOOTPRINT

Lucerne International has manufacturing facilities, engineering and sales offices, and joint venture locations globally. Suppliers to Lucerne may be asked to deliver goods and services to one or more of these locations. The Lucerne International Supplier Standards Manual applies to suppliers delivering to any Lucerne International location or any location of a Lucerne International affiliate (entities that are controlled by, under common control with, or control, Lucerne International).

1.3 DOCUMENT PURPOSE

The purpose of this manual is to facilitate the communication of Lucerne International's requirements to its suppliers.

Lucerne International requires that its suppliers:

- Acknowledge that a fundamental objective for quality and delivery performance is 100% achievement to written requirements.
- Manage facilities, processes, quality systems and personnel to consistently and cost effectively produce products supplied to Lucerne International. Key personnel changes such as but not limited to account managers, quality personnel, and plant management to be communicated to Lucerne International.
- Develop and implement advanced product quality planning, practices and procedures in accordance with IATF16949 specifications, utilizing the AIAG Advanced Product Quality Planning (APQP), Failure Mode Effects Analysis (FMEA) and Control Plan reference manuals, unless otherwise specified by Lucerne International and/or its customer.

- Provide objective evidence that supplied products satisfy all part approval requirements including acceptable process capabilities for all part characteristics that have been determined to be of significance.
- Utilize appropriate statistical techniques for on-going process control and improvement (as established in the AIAG Statistical Process Control / MSA manual).
- Be committed to continuous improvement in all areas by emphasizing variation reduction, process efficiency, and waste elimination.
- Operate an environmental management system which will observe the standard regulations applied nationally and in the industry (e.g., ISO14001), minimize the consumption of natural resources and meet the requirements of Lucerne International (and its customers) for the recycling and disposal of the supplied products in a demonstrable manner.
- Meet Lucerne International's requirements for the use, control and supply of returnable packaging.
- Communicate any and all concerns or changes prior to implementation that may affect our business. Refer to Section 2.2. - Change Point Control. Significance of the change and actions will be determined based on Lucerne's and/or our customers' requirements.
- Adhere to the latest statutory and regulatory requirements for country of receipt, country of shipment as well as the country of destination.

1.4 LUCERNE CODE OF CONDUCT

We believe the mutual interest of us and our suppliers is best served by a common dedication to excellence and that such dedication is adequate to express mutual respect and appreciation. Our expression of being an industry leader and maintaining exemplary ethical business practices is a key core principal, and Lucerne's suppliers are expected to follow Lucerne's Supplier Code of Conduct, locatable at www.lucerneintl.com.

1.5 DIVERSITY (REGIONAL SPECIFIC)

Policy Statement Minority/Veteran/Women Business Enterprises

It is the policy of Lucerne to ensure equal access to contracts and business opportunities within the company to all enterprises including M/WBE. We will attempt to establish relationships with those minority, veteran, and women- owned businesses (M/NVDBC/WBE) who are capable of supplying goods and services that meet our needs.

“Minority Business Enterprise” shall mean a business that is at least 51% owned, controlled and operated by a minority person. The business must be certified as a Minority with a recognized minority council or government organization to qualify.

“Women Business Enterprise” shall mean a business that is at least 51% owned, controlled and operated by a woman. The business must be certified as a Woman with a certifying agency being Women Business Enterprise National Council-WBENC or government agency.

THE BASIC COMPONENTS OF OUR SUPPLIER DIVERSITY PROGRAM

Outreach	Participate in organizations that provide interaction with Minority owned enterprises (Any regional affiliate of the National Minority Supplier Development Council, Small Business Administration)
Certification	Verification of M/NVBDC/WBE status through certifications.
Qualification	Compare potential supplier capabilities with current and future procurement needs
Reporting	Providing our customers with feedback on our spend data

Section II. Quality Expectations

2.1 GENERAL EXPECTATIONS

Lucerne requires that all supplied products and services meet or exceed our quality expectations 100% of the time. We realize that our suppliers play a vital role in helping us in this effort. We do business with domestic and international automotive companies as well as many non-automotive customers. Customer specific requirements will supersede our requirements and will be communicated through the Lucerne program team. Suppliers must be compliant to Lucerne and/or customer specific engineering and quality standards that are cascaded from Lucerne. We expect regular communication from our suppliers to ensure that we are aware of problems and can work towards quick resolution with zero impact on our customers.

QUALITY STANDARDS AND CERTIFICATIONS:

We are committed to be certified to the highest required standards as specified by our customers. The requirement, for the automotive industry, is the IATF16949 Quality Management System. We expect suppliers involved in the production of automotive components to be certified to the ISO9001 standard and conforming to the current revision of IATF16949 requirements. Conformance to the IATF16949 standard is defined by the current IAQB published requirements. Our non-automotive suppliers are highly suggested to obtain third-party quality systems certification by an RAB certified registrar.

NOTE: A written deviation, approval letter or equivalent from our customer may be used if you are not certified to a quality system.

2.2 PRODUCT LAUNCH REQUIREMENTS

We realize that quality begins in the product launch process. Our business units and support staff utilize a launch structure to ensure all activities are completed to meet customer timelines. Ultimately, the Program Manager is accountable for the completion of the launch process. Contact the appropriate Program Manager or Buyer for details on this process.

ADVANCE PRODUCT QUALITY PLANNING (APQP)

Requirements for APQP are based on the current revision AIAG Advanced Product Quality Planning and Control Plan (APQP) manual. However, customer specific requirements are incorporated. It is the supplier's responsibility to ensure that they have a full understanding of all requirements.

PRODUCTION PART APPROVAL PROCESS (PPAP)

Generally, we utilize the current revision AIAG Production Part Approval Process (PPAP) manual format for part submission packages. Customer specific requirements (CSR's) will ultimately dictate the content and format of part submissions. We are responsible for cascading the CSR's and documenting the submission requirements, setting a timeline with due dates, and communicating them to the supplier. All questions and open items must be resolved prior to the submission due date with documented results included in the submission package as necessary.

ENGINEERING CHANGES

Suppliers are required to comply with (and maintain on file) the current issued Lucerne controlled drawing. When engineering changes occur, a drawing will be sent to the supplier. Any suppliers wanting to initiate engineering changes should contact the Lucerne Commodity Manager/Buyer.

CHANGE POINT CONTROL

The table below explains each change type and lists some example changes (change type not limited to examples).

Note – a change in a part due to one of the listed types requires controls whether the change originates internally or externally to the supplier.

1.	Design Change	The part drawing changes, altering the physical structure of the part. A design change is done when a new part drawing or red pen is issued.
		* New part design
		* Design change that affects the part
		* Design change that does not affect the physical structure of the part, such as part name or part number.
2.	New supplier	A supplier or sub tier supplier, who has never produced the part or component, manufacturing the part for Lucerne/Lucerne's customer
		* Addition of a new supplier or sub supplier
		* Changing the supplier or sub-supplier
		* New delivery location
		* Change from in house production to outside supplier (or vice versa)
		* Change in factory location
3.	Material Change	The material(s) used to manufacture the part is changed.
		* Change of material supplier
		* Material supplier changed from outside to self-supplied (or vice versa)
		* Change in material composition (including anti rust or lubrication oil)
4.	Manufacturing method change	A process method, setting, or condition used in manufacturing the part is changed or modified. This includes any change that affects the way parts are produced as reflected in the PPAP. This applies when the normal control range changes, not for routine adjustments.
		* Casting or forging method change
		* Sintering condition change
		* Heat treatment condition change
		* Rubber or plastic molding condition change
		* Welding condition change
		* Plating or coating condition change

		* Machining and cutting condition change
		* Process standards or setting method change
5.	Process order change	The manufacturing process order is changed or deviates from the PPAP
		* Change to the order of the process, or adding or deleting process steps.
		* Change a temporary process to a permanent one (or vice versa)
6.	Machine Change	When the machine initially used to produce the parts during the approval process has been changed or replaced by another machine. Machines examples: stamping press, injection or blow molding, assembly line, etc.)
		* Initial use of the new machine
		* Major or minor modification or repair of a machine
		* Equipment relocation within the same plant or outside the plant or building.
		* Changes to the machine control logic (e.g. software upgrade or replacement that affects machine function)
7.	Jig/Tool Change	The primary or secondary tooling or jigs are changed, potentially affecting the quality, function, appearance, or reliability of the part. Jig and tool examples: welding or assembly fixtures used in manufacturing process, cooling fixtures, sonic or heat welding, etc.)
		* Change in machinery master for parts
		* New or modified jigs and tools
8.	Die/Mold Change	A die or mold that is used in the manufacturing process is new or changed
		* New or renewed die or mold
		* Revision or major repair of the die or mold
9.	Inspection Method Change	The inspection methods of the part are changed, potentially resulting in either an improvement or changes in the parts quality performance.
		* New or modified inspection equipment
		* Measuring method change or measuring instrument type change.
10.	Transportation/ Packaging Change	The method of transporting the part to Lucerne/Lucerne's customer or the packaging of the part deviates from the initial/back up approved method. The change could adversely affect the quality of the part.
		* Change in delivery method, packaging materials or containers.

EARLY PRODUCTION PRODUCT CONTAINMENT

This requires that supplied product, during early production, will be 100% sorted and contained, per requirements set forth by Lucerne Quality Engineer or equivalent. Communication of the safe launch is required and approval to be removed from this activity will be completed by the Lucerne Quality Engineer. Results to be given to the Lucerne Quality Engineer or equivalent on a weekly basis.

ADDITIONAL REQUIREMENTS

Suppliers are required to track product by our lot number system (or develop and record a correlation to Lucerne's lot control system) for the ability to segregate nonconforming material and minimize any impact that may incur. Lot traceability is the ability to separate material/product by batch, lot or run. Section 2.4 may also require the fields to be bar coded on the label for lot traceability.

Pass through characteristics and annual product validation may be required to be included on quality documentation (control plan). These pass through characteristics are communicated and defined by the Lucerne Program Team. Statutory and Regulatory requirements must be followed where applicable on products for country of receipt, country of shipment as well as the country of destination, as required.

2.3 NONCONFORMANCE AND CORRECTIVE ACTION

SUPPLIER NONCONFORMANCE PROCESS:

Nonconformance to our requirements (tooling, quality, documentation and delivery) can impact our ability to meet customer expectations. The nonconformance, as well as the action taken by the supplier, is reflected on the Supplier Scorecard.

A problem is issued when supplied product does not conform to the specifications. When a problem is issued, the supplier will be notified.

THE FOLLOWING ARE SOME EXAMPLES OF WHY A PROBLEM RECORD MAY BE ISSUED:

- Nonconforming product found at our customer as a result of a Supplier's product
- Nonconforming product found anywhere in our process - does not conform to the agreed upon specifications or standards (acceptance criteria is based on zero defects)
- The stated product quantity is not in the shipping container

CONTAINMENT OF NONCONFORMING MATERIAL

There are increasing levels of containment activity based on the severity of the issue, reoccurrence, and confidence in the corrective action presented. We expect that all suspect material is contained, and an interim corrective action is submitted to the Lucerne Quality Engineer within 24 hours. We will evaluate the nonconformance and determine the appropriate level of containment required. The two levels of containment activity and related guidelines are listed as follows:

LEVEL I CONTAINMENT is defined as the implementation of additional controls by the supplier to ensure all suspect products and/or documentation is verified to meet Lucerne's requirements. This action must include all product and/or documentation that may be in our facilities, in transit, in process, in a supplier storage location, or in any hold area. The goal of this containment is to purge the entire system of all nonconforming material.

Supplier Level I Containment guidelines include the following:

- Containment area must have a well-defined material flow for incoming and outgoing product
- No rework must be done in the containment area
- Product acceptance, standards, measurements, and testing process to be agreed upon by Lucerne Quality Engineer or designate
- Results of containment activities must be documented in a report and submitted to the Lucerne Quality Engineer or equivalent who initiated the sort
- Containment personnel must be properly trained and have work instructions, quality standards, boundary samples, etc.

LEVEL II CONTAINMENT is defined as the implementation of additional controls by an impartial third party approved by Lucerne, at the expense of the supplier to ensure all suspect inventories are purged and/or verified. Lucerne reserves the option to appoint an impartial third party. Level II containment is enacted when Level I containment fails to protect us from receiving nonconforming material. Level II containment will result from any non-conforming product found at Lucerne or its customer(s) during the specified containment period at early

product launch (i.e. GM GP-12 or equivalent). All Level I requirements apply to Level II with the additional requirements as listed below.

Supplier Level II Containment guidelines include the following:

- We will initiate Level II activities by sending a formal request to the supplier's Plant and/or Quality Managers.
- All documents pertaining to the containment action must be certified by the third party involved (example: container labels, packing lists, sort reports)
- We may require that the supplier involve third party engineering services, at the supplier's cost, if adequate progress is not being made on containing and correcting the incident.
- The supplier is required to submit all sort records and/or engineering findings to us to verify that appropriate containment and corrective action activity are taking place.

In the event we experience down time, scrap, or labor expenses to sort due to supplied non-conforming material, we will calculate all additional costs incurred, due to the issue, and debit the supplier responsible.

REMOVAL FROM CONTAINMENT will be determined once supplier has completed the corrective actions and verified by Lucerne that they are implemented along with concrete data showing significant improvement.

Potential sources of additional costs may include:

- Line shut down will be calculated based on the specific cost for respective line
- Hourly charges for sorting or rework both at our plants and our customer
- The total cost of a non-conforming assembly resulting from a supplier issue
- Travel costs incurred by Lucerne to contain the issue at our customer

PROBLEM SOLVING

The preferred corrective action form is the Corrective Action (8-D) and to be completed and submitted to the Lucerne Quality Engineer; the program teams may also request a specific corrective action format (i.e. 5-P, Global 8-D, Drill Deep, 7 Step, etc.) to meet customer specific requirements.

The supplier is responsible to:

- Respond to us with a documented containment action (how to contain the issue) and interim corrective action (actions that protect us until the corrective action is in place) within 24-hours of the notification.
- Completed corrective action within 14 days of the notification, or communicate timeline expected to the appropriate personnel.
- The Supplier Rating will be negatively affected if the corrective action response is untimely or unsatisfactory. Untimely and unsatisfactory responses can ultimately have a negative impact on potential future business with Lucerne
- Use problem solving tools such as 5 whys, A-3, and turtle diagrams to help determine the root causes for the occurrence, escape and the system failure(s)/weakness to keep reoccurrence from happening.

- Complete the corrective actions, preventative actions along with the verification for the occurrence, the escape, and the system failure(s)/weakness relating to the root causes that were identified.

2.4 LABELING & DOCUMENTATION

CONTAINER LABELS – ALL SUPPLIERS

An integral part of our Material Control System is the ability to receive material and control inventory through the use of bar-coding technology.

Lucerne may grant concessions allowing the supplier to use a different label format other than what is specified in this document if needed or required by our customers. If a subcontract supplier ships directly to our end customer, the end customer's labeling requirements apply.

Suppliers are required to track product by our lot number system (or develop and record a correlation to Lucerne's lot control system) for the ability to segregate nonconforming material and minimize any impact that may incur. Lot traceability is the ability to separate material/product by batch, lot or run.

These labeling requirements correspond to Lucerne's unique requirements and are thus more restrictive than the AIAG standard.

General Labeling Requirements

- Lucerne asks its suppliers to use standard 4 x 6 AIAG container labels. All labels must meet the standard as provided in AIAG B-10 Trading Partner Label definition dated 5/95. Additionally, all labels must meet the requirements listed in this document.
- A **unique lot number on each container** of product received into Lucerne will be used for lot traceability and inventory tracking.
 - Each lot serial number may be used no more than once. Serial numbers must be alphanumeric (no spaces).
- In most cases, Lucerne requires container labels for each container unit. Different label formats may be discussed and agreed upon in advance with Lucerne logistics. Master and mixed labels may be used if needed. These labels must also meet our defined requirements.
- Suppliers are expected to acquire a three-character serial number prefix from Lucerne. Inclusion of this prefix shall be required in the serial number wherever the serial number is used. The maximum number of characters in a serial number is 13, including any start/stop characters and data identifiers.
 - Suppliers who do not know their serial number prefix should contact their Lucerne Buyer or Lucerne Supplier Quality Engineer.

Part Shipping Labeling

All labels affixed to a container must be barcode scan-able and contain the following information:

1. Lucerne Part Number (barcoded)
2. Lucerne Purchase Order Number (barcoded)
3. Lucerne PO line & Release number or Scheduling Agreement number (barcoded)

4. Quantity (barcoded)
5. Lucerne Supplier ID Number
6. Label Serial Number
7. Part Description
8. MFG Date (manufacturing date)
9. Part Revision Level
10. Lot Number
11. International Build Statement (i.e. Made in Mexico)
12. Manufacturing Address (Actual address of suppliers' final assembly plant - name should mirror Lucerne scorecard plant location description to the fullest extent possible)

All containers must have the final Lucerne destination information affixed either as a master label on the skid or within their standard label format affixed to each container. Data required includes Lucerne site name, Lucerne site number (when known), address, city, state and postal code.

Mixed Load Labeling

When release quantities require cartons of mixed material on one pallet, a special "Mixed Load" label must be used in addition to being labeled per Lucerne Labeling Specifications. All containers must be loaded to cubic capacity in order to maintain load density, package integrity, and obtain optimum transport utilization. The following criteria must be observed when shipping mixed loads to a Lucerne plant:

1. Cartons must be uniform in size to maintain load stability.
2. Avoid shipping less than a full layer whenever possible.

Lucerne should be contacted to establish load quantities into their releases. For unit load packaging that is shrink wrapped, the master label and mix load labels must be applied to the outside. When individual containers are palletized and made into a unit load for mechanical handling, the master label shall be attached to two adjacent sides of the unit load.

International Shipment Labeling

Shipments to or from countries (e.g., Mexico, U.S., Canada, European Union, China) may require special labeling, other than the Odette standard. Lucerne should be contacted to assist in obtaining the proper labels required if needed.

Sample Shipment Labeling

When shipping sample parts for Johnson Controls review or new revision level, a "Sample Part" label is utilized containing the name of the site requestor and/or the person expecting to receive the container.

PACKING SLIPS

Incoming packing slips must contain the following:

- Ship date
- Packing slips must be legible
- Lucerne purchase order number – one purchase order per invoice
- Remit to Address, including telephone and fax number
- Lucerne part number
- Description of product
- Quantity, unit of measure and number of containers
- Supplier packing slip number, which must also be referenced on the invoice
- Ship via and FOB

Any packing slip, which does not comply with the above requirements, will affect the Service section of the supplier's quarterly report. Consequently, this may also delay payment due to incorrect or incomplete information in our system.

NOTE: Any sample material that is delivered to Lucerne must be clearly identified as such.

MATERIAL AND DIMENSIONAL CERTIFICATIONS

Certifications are required on components and raw material shipped to our facilities. Contact the appropriate Program Manager or Buyer to discuss requirements for certifications.

If certifications are required for each shipment as listed on the P.O.:

- The certifications must be received in advance of shipping the finished good or material.
- Materials or finished goods received without certification will not be placed into inventory until certification is received. The supplier is at risk of being charged a late delivery and may be liable for a line shut down and downtime/administration fees until certifications are received and material placed into inventory.
- Steel - HSLA (High Strength Low Alloy) grade of steel or higher must accompany mechanical test results as well as chemical test results and coating description (if applicable) on the certification.
- Steel – Below HSLA grade will require chemical data and coating description (if applicable) on the certification.

INTERNATIONAL MATERIALS DATABASE SYSTEM (IMDS)

The purpose of this directive is to identify all conflicting materials and to determine recyclability of the vehicle at the end of its useful life. The IMDS is a database system where the material composition of parts, and how much of the part can be recycled, are entered and tracked. AIAG has developed an industry standard method of collecting this data. It can be accessed, free of charge, at www.mdssystem.com. Suppliers are expected to submit this data to the Lucerne Quality Engineer along with notifying us directly of any conflicting materials from the IMDS database.

2.5 TOOLING AND GAGE DESIGN/BUILD STANDARDS AND CALIBRATION

The Supplier Is Responsible To:

- In the special circumstances where Lucerne builds and pays for a gage to be built on the outside, the expectation is that the supplier maintains, performs gage R&R, and calibrate unless otherwise noted on the Purchase Order.
- Notify Lucerne prior to any major repair, replacing of non-maintained parts, or modification to tooling/gages that would affect the dimensions of product including a poor gage R&R.
- Tooling/gages must be identified with customer and/or Lucerne asset tag, to be coordinated with our Lucerne Program Team.
- Gages used on Lucerne parts must be calibrated per the calibration due date as stated on the gages/checking aids. This includes but not limited to check fixtures, calipers, mic's, etc.
- Preventative maintenance established and in place for all tooling/gages.
- Inventory of spare parts for wearable items.

2.6 LUCERNE CONTINUOUS IMPROVEMENT

The objective is to generate continuous improvement ideas that enhance product quality, reduce cost, and improve product value. It is a condition of continuing business that each supplier participates in. The cost down percentage is based as a percentage of supplier sales dollars from the previous year.

We have two fundamental and mutually exclusive areas where continuous improvements can occur:

- P.O. price reduction or sustainability
- Value Analysis Submissions/Continuous Improvement Activities

A Value Analysis idea is considered a change to the product resulting in the elimination of waste and cost savings. The change must either improve quality or be quality neutral.

Suppliers are encouraged to submit ideas to the respective Lucerne Commodity Manager/Buyer. Performance in continuous improvement is a critical element of the supplier rating system and considered in all sourcing decisions. See section 4 for details on the supplier rating system.

In general, commodity generated cost reductions would not be given credit unless the supplier can demonstrate sustainability. The Lucerne Commodity Manager/Buyer ultimately has the responsibility to determine credit for ideas submitted within the continuous improvement program.

2.7 AUTOMOTIVE PRODUCT-RELATED SOFTWARE OR PRODUCTS WITH EMBEDDED SOFTWARE

Suppliers providing product-related software or products with embedded software must maintain and implement a process for software quality assurance for their products. The documented information of a development capability self-assessment to be retained in your records.

Section III. Delivery Expectations

3.1 GENERAL EXPECTATIONS

Missing a shipment to a customer is never an option. Our customers demand 100% on-time delivery of product and 100% accuracy of the information that accompanies the product. Meeting these expectations requires both a continual focus on the integration of data and systems throughout the supply chain and a continuous improvement approach to materials management. Integration of data and systems empowers the supply chain by providing the visibility necessary to operate a flexible but lean manufacturing process. Lucerne strives to improve supply chain performance through:

- Understanding and complying with industry standards such as the Materials Management Operations Guidelines (MMOG), published by AIAG.
- Utilizing continuous improvement teams focused on the development and implementation of best practices throughout Lucerne
- Frequent interaction with our customers to cascade requirements and allow mutual feedback on ways to drive waste out of the replenishment process.

3.2 SHIPPING AND FORECASTING SCHEDULES AND AUTHORIZATIONS

A. Lucerne Forecast, Release, and Authorization Types

Lucerne provides its suppliers the following data types:

FORECASTS: Estimated demand developed from Lucerne's analysis of actual customer orders and average sales of customer products, provided to suppliers whenever planning data is available, and for estimating purposes only. Forecasts are not a firm commitment by Lucerne

MATERIAL RELEASES: Lucerne's communication to its suppliers confirming quantities and delivery schedules to fulfill a previously-issued Purchase Order. The due date listed on Material Releases indicates when parts are due. Pursuant to Lucerne's Purchasing Terms and Conditions, all shipments must arrive at the time they are due. Lucerne reserves its rights detailed in Lucerne's Purchasing Terms and Conditions in the case of late deliveries, which will also result in reductions to the supplier's score under Lucerne's Supplier Rating System.

RAW AUTHORIZATION: The maximum number of weeks of a supplier's inventory of raw materials or components for which Lucerne may reimburse a supplier, pursuant to Lucerne's Purchasing Terms and Conditions, in the event Lucerne cancels a Material Release or terminates its Purchase Order.

FAB AUTHORIZATION: The maximum number of weeks of fabricated goods in a supplier's inventory for which Lucerne may reimburse a supplier, pursuant to Lucerne's Purchasing Terms and Conditions, in the event Lucerne cancels a Material Release or terminates its Purchase Order.

B. Lucerne Release Schedules

The frequency of publication and duration of Material Release Schedules will be established by the Lucerne Material Planner and will depend on:

- The frequency of publication and duration of Material Release Schedules received from Lucerne customer
- Location of the supplier manufacturing facility relative to the Lucerne facility.

3.3 PACKAGING EXPECTATIONS

- The supplier is responsible to submit a sample package for approval by our Packaging Engineer. Contact the Lucerne Packaging Engineer for a list of requirements for a specific product. NOTE: A container that is for handheld purposes must not exceed 35 lbs. for safety concerns.
- The supplier along with our Packaging Engineer will develop packaging for each part shipped into our facilities or directly to our customer.
- The supplier is responsible to have adequate alternative packaging as a contingency for unavailable primary packaging.

Any concerns with packaging development or supply should be addressed with our Packaging Engineer as soon as possible.

3.4 LOGISTICS EXPECTATIONS

- Suppliers will follow the Lucerne's routing instructions for all shipments. Routing instructions may be obtained from the Lucerne Logistics Manager.
- The supplier must obtain an expedite authorization number from the appropriate Lucerne Material Planner to deviate from the routing instruction.
- All premium freight shipments must have an authorization number from Lucerne Any unauthorized premium freight or routing deviations will result in a debit back to the supplier.
- In the event that we require a supplier to drop ship product (ship directly to a location other than Lucerne), proof of delivery must be provided to our receiving department within 24 hours of delivery.
- All current statutory and regulatory requirements are followed for country of receipt and country of shipment as well as the country of destination, if provided.

Section VI – Supplier Rating System

4.1 GENERAL INFORMATION AND OBJECTIVES

Lucerne will evaluate its suppliers quarterly according to a 100-point Supplier Rating System described in this Section. The subsections below, will be managed by Lucerne's Purchasing Department, and will be based on feedback from Lucerne's Program Managers, Quality Engineers, Buyers, Material Planners, and other associates as needed. The objectives of Lucerne's Supplier Rating System are to provide our suppliers with formal feedback on their overall performance to our expectations, identify and prioritize supplier development needs as well as serve as a key element of our strategic sourcing process.

4.2 QUALITY SECTION OVERVIEW

- The prior three months PPM performance will be posted for each rating. The maximum amount of points that can be earned is 25 for this section. A supplier's PPM performance will be calculated as follows:
- $PPM = \# \text{ of nonconforming pieces or weight shipped} / \# \text{ of total pieces or pounds shipped} \times 1,000,000$

4.3 DELIVERY SECTION OVERVIEW

- The prior three months PPM performance will be posted for each rating. The maximum amount of points that can be earned is 25 for this section. A supplier's PPM performance will be calculated as follows:
- $PPM = \# \text{ of late pieces or weight shipped} / \# \text{ of total pieces or pounds shipped} \times 1,000,000$

4.4 COST SECTION OVERVIEW

- Cost reduction and cost competitiveness calculations will be based on calendar year-to-date achievement.
- Approved engineering savings on pre-production programs will be credited in the calendar year in which they were approved.
- The maximum amount of points for this section is 25

4.5 SERVICE SECTION OVERVIEW

- Input from the team over the past three months will be solicited to develop the scoring for this section.
- The maximum amount of points for this section is 25.

4.6 PERFORMANCE LEVEL DEFINITION

The total points scored through the Supplier Rating System will determine the Performance Level of the Supplier.

There are four Performance Levels, with the following resulting consequences:

- Level One: Suppliers performing at this level will be given every opportunity to quote Lucerne business opportunities that fall within their capabilities. 85 – 100
- Level Two: Suppliers performing at this level are stable with current business however signs of improvement are required. 70 – 80
- Level Three: Suppliers performing at this level for two consecutive ratings will be subject to a Lucerne management review of all current business. < 65