Quality Management Agreement

between

SMP Automotive Systems Alabama Inc.

_____

_____

- referred to in the following as “SMP” -

and

_____

_____

_____

_____

- referred to in the following as “Supplier”

1. Objective

The high expectations and demands made by SMP customers on the quality of SMP products require a corresponding safeguarding of the product quality for the suppliers of SMP. This quality management agreement, referred to hereafter as the “QMA”, shall govern the execution of the joint quality assurance measures. The supplier shall also be required, in the framework of its quality management, to carry out quality planning, quality control, quality assurance and quality improvement. The goal of this agreement is to achieve a highest degree of product quality, the so-called zero-fault-goal. To guarantee this, all goods and services from the supplier must meet the agreed- upon and legally mandated requirements in their full scope. Pre-planning, effective process monitoring and fault avoidance are the highest directives in achieving this goal.

2. Scope

The provisions of this QMA apply to all existing and future supply, procurement and work contracts between SMP and the supplier and are inter alia a component of the SMP Purchase Order and the SMP Terms and Conditions of Purchase.

In connection with the new start-ups or pre-production series of products and in specific cases SMP can demand negotiations concerning amendments or modifications to this QMA for the products (referred to in the following as “objects of contract”) that the supplier manufactures and/or has manufactured. In each case, these should deal adequately with the special requirements of quality on the object of contract.

Additionally SMP reserves the right to revise this QMA at regular intervals, especially if this is demanded by the legal situation or changed requirements in quality assurance, especially on the basis of customers’ demands. In this case the revised QMA will be deemed as accepted by the supplier for existing contracts to the extent that it does not object to this within two weeks of communication of the changed version. In the case of new inquiries and new awards of contract the supplier is obligated to request the QMA that is current at the time the contract is concluded from SMP. On award of the contract to the supplier, the respectively valid QMA becomes a fixed component of the contract to the extent that the supplier does not object to the QMA in whole or in part prior to the award of contract.

Additional measures for quality assurance, even if only installed temporarily, shall not be excluded by this agreement.

3. Selection and Application of the QM-System

The supplier is obligated to introduce and maintain a quality management system (QM-system) conforming to **[DIN EN ISO 9000 ff]**. The supplier can also maintain an equivalent QM-system for quality assurance, which at least meets all of the content requirements of the aforementioned QM-systems. Certification according to ISO/TS 16949, ISO 14001, ISO 50001 must be planned and is recommended by SMP. Corresponding certificates must be forwarded in copy to SMP unsolicited.

4. Quality Requirements

The quality demands arise from the order or the technical drawings, specifications, other technical documents as well as the authoritative laws and norms that form the basis of the respective price sheet for the master contract. Most specifically the contractually specified use, performance requirements, solidity, material suitability, reliability, appropriate and economically reasonable maintenance as well as the safety of the object of contract must be guaranteed by the production process.

The supplier must make sure that production and delivery always proceed according to the currently valid documents especially according to the currently valid specification and drawings. It must maintain a procedure, with due consideration for any changes in the authoritative order and contract documents which assures that the most up-to-date contractually agreed-upon modifications are taken into account.

5. Pre-/Sub-suppliers / Access

In the procurement of materials or other goods and services from third parties, so called pre-suppliers or sub-suppliers, the supplier must make sure that suitable quality assurance measures, legal provisions and special requirements are observed and established in the business operations of the pre-/sub-suppliers, as SMP demands of its own suppliers.

To this end the supplier will draft suitable documents on the necessary quality assurance measures and arrange corresponding measures with the pre-/sub-supplier. The supplier will also subject its pre-/sub-suppliers to conformity with the obligations that it assumes deriving from this contract.

The supplier will inform SMP which pre-/sub-suppliers will be used and on request grant access to the documents with the pre-/sub-suppliers. The supplier must make sure that SMP and customers of SMP are granted, at all times, on request and prior arrangement, access to the business premises and facilities of the pre-/sub-suppliers in order to confirm the existence and function of the quality management system at the pre-/sub-suppliers. A change of pre-/sub-suppliers is only possible with the consent of SMP.

6. FMEA / Quality and Test Planning

For each object of contract, the parties will make every effort to coordinate all product-relevant points with each other before the start of process and establish contacts with the responsible departments. The coordination with quality assurance and securing of special features have to be coordinated with SMP and are to be documented. In the later process, this must be documented by means of certification of proficiency.

Features such as PFU, MFU and safety-critical features must be given especial attention and must be firmly anchored in the FMEA.

The supplier is obligated to conduct a fault, chance, and influence analysis, referred to as a FMEA, for every new object of contract, in each case prior to the start of serial production, and is obligated to maintain the same throughout the entire production period. A process-FMEA always has to be drafted even if construction is not in the supplier's field of responsibility. If the supplier is partially or completely responsible for construction, a construction-FMEA has to be completed in time. The FMEA has to include the interfaces with built-on parts, transport, assembly and the surroundings.

Specialized FMEAs must also be drafted for individual cases depending on the service to be performed.

Additionally, the supplier must complete quality management and testing plans. The documents must be submitted to SMP for review. With the award of contract, the supplier affirms that it is aware of all demands and obligations and that it can implement the manufacture of the object of negotiations without restrictions.

The supplier has to submit a project specific time schedule accompanying the quotation. This time schedule has to include the most important milestones of the project as well as the deadlines prescribed by SMP.

7. Machine and Process Capability

Investigation and assessment of the machine and process capability will be done based on **[VDA 4]** in the current version. For all features relevant to function, the supplier must carry out and document detailed analyses of the production equipment in use. If the supplier does not reach a machine capability value of Cmk ≥ 1.67, it must either demonstrate a suitable optimization of its plant or suitable tests of the manufactured objects of contract, which exclude a defective supply.

During on-going serial production the supplier must demonstrate a process capability value of Cpk ≥ 1.33 for all functionally relevant features by means of suitable procedures (e.g. statistical process regulation) for the entire production time and document this. If this value is not reached, it must secure its shipments with suitable testing methods (e.g. 100% inspection) and optimize the production process using all of its abilities in order to achieve the required process capability.

The supplier is responsible for the specification and proper definition of the functionally relevant features and also for the suitable optimization of the manufacturing facilities or suitable testing methods.

8. Zero-Fault-Strategy

In the framework of quality management, the supplier is committed to the zero-fault-objective and must institute the required business processes and controls to this end. Possible sources of faults must be recognized early, the quality management system must be monitored and its smooth, comprehensive function must be assured.

For new starts and/or failure to achieve the zero-fault-goal, the supplier will present SMP an action program that guarantees achievement of this goal within a specified period of time. The supplier must implement this action program of measures and immediately inform SMP in the event of predictable, unfavorable deviations from this action plan.

If necessary, SMP will jointly determine with the supplier in what timeframe and through what intermediate goals the zero-fault-goal must be achieved. The negotiation of a target range does not affect the warranty claims or claims for compensation for damages from SMP due to defects in shipments and/or objects of contract. Moreover, the supplier is liable on the basis of the contractual provisions even for any defects if the frequency of faults lies in the limits of the agreed-upon target range.

The supplier must guarantee 100%-obligation to deliver conforming to the data in the drawing and all agreed-upon specifications and norms. This is an essential part of the contract and is valid without any exception.

9. Inspection of Incoming Goods on Delivery to SMP

SMP will inspect the objects of contract promptly on receipt to determine if they conform to the ordered quantity and type and to determine if there are any transport damages on the packaging of the delivered objects of contract. SMP will promptly report any defects in the objects of contract themselves to the supplier in writing as soon as they are identified in the course of a regular course of business. To that extent the supplier waives any objection of delayed complaint of defect.

In the case of agreed-upon direct delivery of the objects of contract to a third party or the final customers of SMP, SMP will not perform any inspection of incoming goods. SMP will promptly report to the supplier any defects in the objects of contract, as soon as they are detected in the course of a regular business process at the premises of the third party and/or final customer and are communicated to SMP. The supplier waives any objection of delayed complaint of defect.

10. Requalification Tests

In order to demonstrate a stable level of quality the supplier is obligated – on its own initiative – to carry out requalification tests at regular intervals (one year after the approval of the initial sample by SMP, then annually). As governed in the ISO/TS16949 of the currently valid edition, all products must be tested regularly according to the production controlling plans, taking into account the applicable customer specifications for material, dimensional precision, norm conformity and function. The supplier must secure the results of the requalification test and forward them to SMP within three (3) days after request.

In special cases, supplier and SMP can coordinate and set the scope of these tests for a specific case.

11. Transport

In the framework of its quality management program, the supplier must make sure that quality of the deliveries and the objects of contract are not affected by transport to SMP or to third party. Consequently it will only use transport equipment and packaging for deliveries which meet these requirements and which are approved by SMP.

12. Delivery Certification

Completion of the objects of contract in conformity with the specifications must be certified with an acceptance inspection certificate according to **[DIN EN 10204 3.1]** and this must be included with the delivery papers for each shipment from a production lot. The supplier will make sure that it is possible to determine which object(s) of contract are or could be affected by a defect immediately upon recognition of any defect by means of suitable identification marking, e.g.

manufacturer name, date of manufacture, location of manufacture of the object of contract or, if this is not possible, in some other suitable way.

13. Directed Parts / Directed Suppliers

If parts and/or suppliers for the scope of supply are directed by SMP the supplier is not released from liability for faultlessness of the object of contract. The supplier is entirely responsible for quality and has to take appropriate measures to grant the requested quality standards.

14. Quality Records

The supplier is obligated to keep records, on the basis of which it is possible to document the entire sequence of quality assurance measures actually completed from the receipt of the order to delivery of the object of contract, especially measurements and testing results, in order to allow a complete documentation of evidence in cases of damages.

The obligation to keep these quality records extends over the runtime of the manufactured product and for three more years after the end of production. Articles that are subject to documentation or archiving obligations are subject to a retention period of 20 years after the end of serial production (= **E**nd **O**f **P**roduction). The documents must be made accessible to SMP for evidentiary purposes at any time.

Quality records are all **product-related** quality records such as development and testing reports, initial sample reports, records of deviations in quality as well as test records, defect reports, inspection charts, lab reports, quality records **related to the testing equipment** such as master data list for the product and the acceptance protocol for testing equipment, protocols for the suitability of the measurement instruments and measurement imprecision, **QM-system-related** quality records such as system audit reports, system audit result summaries, **customer-related** quality records such as evidence for contract review, customer complaints, customer ppm-evaluations, customer audit reports, **supplier-related** quality records such as delivery evaluations, supplier evaluations, and **personnel-related** quality records such as personnel training and personnel qualifications. Also included are all required Q-records as well as all environmentally relevant data.

15. Parts with Special Documentation Requirements

Legal and regulatory provisions, as well as the constantly growing customer requirements related to product liability, demand particular diligence with particular features. Special documentation requirements therefore absolutely must be observed and must be taken into account already at the point the offer is submitted.

All documents related to safety-critical features must be marked as such and must be kept for at least 20 years.

These safety-critical features must be consistently and completely documented and must provide at all times information about production procedures, testing equipment, tests completed, batch tracking, project planning and delivery papers.

In case of withdrawing of a supplier, all papers and records concerning safety-relevant parts/products must be surrendered to SMP as long as the retention period has not yet expired.

16. Initial Sampling

In the framework of ordering an initial sample, the supplier will be informed of the respective request concerning the scope/presentation level of sampling.

If the presentation level is not explicitly defined, presentation level 3 of the Production Part Approval Process (PPAP) is to be applied.

In case of parts produced from a multiple mould sampling is to be worked out for 5 parts per mould cavity. They have to be indicated separately in the test report.

For each sample presented, 7 parts/products per cavity, if applicable, coming from the batch belonging to the sample and labelled as initial samples, must be made available to the corresponding contact person at SMP, unless otherwise agreed.

SMP reserves the right to charge the supplier costs of testing in the framework of initial sample testing if there are clear repeated defects.

16.1. Production Control Plan

A production control plan has to be created according to ISO/TS16949 appendix A which must include the complete process from receipt of goods up to shipment of the object of contract towards SMP as well as all customized standards and requirements such as product audit and requalification. Know-how gained from product or process FMEA as well as experience with improvement potential from similar projects/processes are to be included in the production control plan in the sense of “lessons learned”.

All documents referred to within the production control plan must be submitted to SMP upon request. Dimensional and functional tests that are effected for process release, during serial production and for final inspection are to be indicated in the production control plan. A measuring/testing equipment capability examination according to **[VDA Volume 5]** has to be carried out for all test equipment and measurement devices mentioned in the production control plan. It has to be submitted to SMP together with the initial sample report and the production control plan. Subsequent changes of the production control plan are to be clearly marked as such and require examination and release by SMP.

ISO/TS16949 explicitly describes the correct preparation of a production control plan.

16.2. IMDS – International Material Data Sheet

National and international laws concerning environmental protection and reuse/recycling established a standardised system (IMDS) which nearly every OEM is using. SMP also uses this system and demands from all suppliers to work out and submit IMDS data for all objects of contract prior to the official initial sample report. The MDS identification number is to be indicated on the sample report cover sheet of each object of contract.

Basis and applicable standards for IMDS are **[GADSL, REACH and the European Parliament and Council Directive 2000/53/EG as of 18 September 2000 on end-of-life-vehicles]**.

17. Auditing / Verification

The supplier will give the party assigned by SMP, on request and at any time after prior arrangement, the opportunity to audit, assess and verify the conformity with and effectiveness of the supplier's QM system. Upon request, the supplier will grant SMP access to its operations and plants during the regular business hours and will cooperate in this audit.

In the framework of its deliveries, the supplier must also enable auditing of its pre-/sub-suppliers by SMP. SMP is entitled to participate in audits carried out by the supplier and its pre-/sub-suppliers, to have such audits monitored by third parties authorised by SMP or carry out such audits itself at the supplier's premises after prior arrangement.

Auditing of the supplier's QM-system will be done on the basis of the **[VDA-Publications Series, VDA Volume 6 et. seqq.]** in the currently valid edition.

Within quality planning, the supplier must draft audit schedules, which must be worked out based on the requirements, such as specifications or drawings in the most up-to-date change status.

18. Capacity

Prior to the acceptance of any order, the supplier has to ensure that its shipments are guaranteed to be free of defects and that supply is assured.

To guarantee process-reliable supply to SMP and avoid possible bottlenecks in delivery, emergency strategy plans must be drafted.

19. Information

SMP and the supplier will maintain close contact to clarify questions of quality assurance, to prevent defects and to analyse any problems that do occur.

The parties will name in writing the employees responsible for quality management in their company (according to position 5.5.2 ISO9001 in the currently valid edition). They will be the contact persons for all questions concerning quality management.

Prior to any change in the system or procedure for quality assurance or to changes in materials, manufacturing processes, manufacturing location, purchased parts, data sheets and other documents, the supplier must inform SMP of such change in a timely and complete manner. Changes may only be implemented if explicitly approved by SMP.

20. Product Safety Representative PSR

As per legal requirements and customized standards, the supplier is obligated to inform SMP in written about name and contact data of its PSR. One PSR per production site must be designated for every stage in the supply chain.

Responsibilities of the PSR:

- direct reporting to the CEO, the plant manager and/or the head of quality assurance

- authorization to suspend components for the running series, including authority over resources with regard to bench tests and validation

21. Reclamation Management

The supplier is required to adhere to the zero-defects-aim, i.e. to deliver 100 % defect free products.

The supplier's quality management needs to ensure that a defective product, which does not meet the requirements, is being identified and controlled, in order to avoid its unintended use or delivery. Should defective products be detected, the supplier shall inform SMP immediately.

Every delivery of products, which deviate in type, quantity or state from the SMP orders, drawings, specification or any other agreed requirement made in writing, entail reclamations. In case of reclamation, we, due to our duty of care, request the Supplier to inform its insurance about the circumstances.

A reclamation may be based on the following grounds:

- *Surface or paint work defects*
- *Function NOK*
- *Dimensional deviations*
- *Deviations in quantity*
- *Deviations in timeline*
- *Mislabelling*
- *Deviations in packaging*
- *Shipping damages*
- *etc.*

SMP reserves the right to define further grounds for reclamation.

In case of defective Products, Supplier is obliged to remedy the defect immediately by way of replacement, extra delivery, sorting and rework.

Supplier is obliged to define immediate action to eliminate the defect within 24 hours following reclamation and to inform SMP by means of an 8D report.

In order to avoid line stoppage and maintain production / assembly, SMP reserves the right to rework or sort defective Products at the Supplier's cost. This may also be done by a third party.

Supplier has to inform SMP immediately in writing about any actions, which cannot be realized within the specified deadline.

On receipt of a reclamation, the following three (3) deliveries need to be checked completely for the occurred defect pattern and be labelled accordingly.

The label shall contain the inspection report and reclamation number, name of the inspector and a date.

Waivers / concessions may be given exclusively by SMP in writing. Supplier is obliged to label the respective products accordingly, designating the name of the SMP person of contact.

21.1. Reclamation/warranty in case of 0-kilometers-malfunctions

0-km means malfunctions due to defects, which are detected

1 at SMP arrival

2 on processing at SMP (exception: improper handling through SMP)

3 at the line resp. upon the functional test after assembly at the customer's premises (customer reclamation)

Before assembly at SMP, Supplier shall be given the opportunity to remedy the defect, i.e. rework or replacement of the Products.

If, due to corporate or process flow reasons, it is unreasonable for SMP to have the defects remedied by Supplier within the requested time, or should it be impossible for Supplier to remedy the defects, SMP shall be allowed to have the defects remedied themselves or by a third party.

In order to avoid line stoppage and maintain production / assembly, SMP reserves the right to rework or sort defective Products at the Supplier's cost. This may also be done by a third party.

Alternatively, SMP may resign from the purchase of the defective Products and return the defective Products at Supplier's risk.

Upon customer's reclamations, SMP shall have the same rights and obligations as stated above. SMP will endeavour to give Supplier the opportunity to rework the defective Products. In case Supplier cannot immediately attend to its duty or if Customer does not accept a rework, Supplier shall bear any costs, which SMP is being charged for by its customer for the repair or replacement of the defective Products, such as assembly costs, travel expenses, administrative costs, etc.

The following costs shall be borne by Supplier:

For reclamations at SMP arrival:

- Serial price of defective Product
- Freight costs for return resp. scrapping at SMP
- Packaging rate
- Administrative costs
- Costs for testing, sorting and reworking

For reclamations after processing at SMP:

- Serial price of defective Product
- Freight costs for return resp. scrapping at SMP
- Assembly costs as well as material costs for SMP or other supplier's components, which have become unusable due to the processing of the defective Products.
- Administrative costs
- Costs for testing, sorting and reworking

Customer Reclamation:

- Serial price of defective Product
- Freight costs for return resp. scrapping at SMP

- Assembly costs as well as material costs for SMP or other supplier's components, which have become unusable due to the processing of the defective Products.
- Any costs SMP is being charged for by the customer resulting from the delivery of the defective Product
- Administrative costs

21.2. Repetitive Reclamation

Repetitive Reclamations means the repetitive event of error patterns, which had already been eliminated by Supplier in the past. Through a Repetitive Reclamation, the complete delivered batch is deemed unusable and will be rated as 100 % malfunction (Level 4).

In this case, Supplier is obliged to take immediate actions to eliminate the defect permanently and to inform SMP by means of an action plan. Until implementation of the described actions, Supplier shall warrant 100 % inspection of the Products.

A root cause analysis is to be conducted by way of established quality tools (5 Whys, Ishikawa, etc.) and presented in the 8D report. Efficiency of actions may be controlled by SMP at Suppliers site.

22. Field Defects

Field Defects are defects in overall components or Products delivered by SMP to its customers, which have left the production site of the SMP customer and which are contributable to defects in the Products delivered by the Supplier.

22.1. Return of Products by means of random samples

SMP shall make available to Supplier the overall components or Products claimed to be defective to the extent agreed with the customer (Random Samples) from the so-called reference market according to clause 22.2.

Unless agreed otherwise, reference market shall be the US. As a general rule Random Sample quantity shall be 10-30 % of defective parts incurred within the Reference Market.

22.2. Diagnosis

SMP shall make available to Supplier the defective parts received from its customer. Supplier inspects defective parts resp. decides, in consultation with SMP, about further diagnosis. In case Supplier does not deliver its findings within 4 weeks, Supplier shall be deemed responsible for the defect of the affected parts.

If no defect is detected by Supplier or if the defect in the Suppliers view is not attributable to Supplier, SMP may review the findings itself or together with Supplier.

If Supplier accepts the defect or if the defect is evidenced to Supplier, Supplier shall compensate the loss occurred according to clauses 22.3 and 22.4.

22.3. Warranty cost accounting according to acceptance rate

An acceptance rate for all SMP Products belonging to the same product group shall be determined quarterly by the parties. The rate shall be projected to all failures of Products within the same product group worldwide.

This means that Products, which have not been analyzed, but yet caused loss within the respective accounting period, may be taken into account by means of the acceptance rate.

22.4. Costing

The costs for material defects result from the following expenditures necessary to cure the losses:

- Valid serial price of overall component, which contains defective Product
- Plus handling fee as well as freight costs for return resp. scrapping at SMP
- Plus replacement costs minus serial price of overall component, which contains defective Product
- Plus transport costs invoiced by the customer including customs duty, handling, packaging, freight costs and insurance. SMP will allow Supplier the inspection of the original customer invoices
- Plus country specific labor costs, including assembly and disassembly of spare part. SMP will allow Supplier the inspection of the original customer invoices

23. Serial defects

Serial defects means either defects having the same cause of failure or construction defects. Supplier is liable for construction defects in cases of proprietary development of Supplier.

As soon as SMP is being informed by its Customer about a potential serial defect caused by a defective Product, SMP shall inform Supplier comprehensively.

Supplier immediately undertakes to deliver defect-free Products for series and field. Additionally Supplier shall indemnify and hold SMP harmless of all costs arising in consequence of customers' preemptive after sales measures, such as recall, replacement of components, provision and application of repair kits, etc.

For this cost release, the following standard values shall apply:

- Valid serial price of overall component, which contains defective Product;
- Plus replacement costs minus serial price of overall component, which contains defective Product
- Plus transport costs invoiced by the customer or a service provider deployed by either the customer of SMP including customs duty, handling, packaging, freight costs and insurance. SMP will allow Supplier the inspection of the original customer invoices
- Plus country specific labor costs, including assembly and disassembly of spare part. SMP will allow Supplier the inspection of the original customer invoices

SMP will negotiate with supplier and customer about the necessary aftersales service measures (recall, replacement of components, providing and application of repair kits, etc.) with the objective to minimize costs and image damage of all concerned parties.

24. Validity Period

This QMA remains valid indefinitely and can be cancelled in writing with a notice period of 6 months to the end of a calendar year.

It will however remain in effect for all existing supply contracts/projects through the EOP and end of the replacement parts supply phase for the specific object of contract.

25. Concluding Provisions

Changes and amendments to this agreement are to be effected in writing. This applies also to suspension of the written form requirement.

Should a provision of this agreement be void or become invalid, the contract as a whole will remain valid. The parties are obligated in such a case to cooperate in the drafting of provisions that will most closely approximate the commercial intent of the invalid provision.

This QMA is hereby incorporated into all existing and future SMP Purchase Orders. The terms of this QMA are intended to be in addition to and not in substitution for any terms and conditions in such SMP Purchase Orders, including without limitation, any terms and conditions in the SMP Terms and Conditions of Purchase.

Company Name:		
Date:		
Signature:		
	SMP	Supplier