

Chapter 1 – Corporate Policies

Overview

Introduction

This section describes and explains the corporate policies of Kahn Lucas, Inc.

In this Chapter

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Universal Terms and Conditions

Introduction

All purchase orders placed by Kahn Lucas, Inc. or any of its affiliated entities (each, a “Purchaser”), whether written or electronic or otherwise, for any articles, materials merchandise or other goods (“goods”) or services (each, an “Order”) to be delivered by any seller of such goods or services (“Seller”) shall be governed by and subject to the terms and conditions set forth below, and such terms and conditions, along with the express terms of an Order, shall constitute the entire agreement between Purchaser and Seller with respect to such Order.

In this Section

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1. Scope of Contract

Terms and Conditions

If any shipment is made with respect to any goods subject to an Order, or if any services subject to an Order are made, the parties expressly agree and confirm that such Order and the terms and conditions will be deemed accepted and shall govern the transaction with respect to such goods or services.

If any term or condition contained herein conflicts with any term or condition specified by Seller or affixed to any form used by Seller or Purchaser, then Purchaser and Seller each agree that Purchaser's Order is made only upon the express understanding and condition that these terms and conditions shall govern and control the contract between Purchaser and Seller with respect to such Order, irrespective of whether Seller accepts these terms and conditions by a written acknowledgement, by implication or by delivery of the goods pursuant to the order.

2. Price - Invoices

No.	Terms and Conditions
1	<p>The price(s) set forth in an Order (the "Quoted Price(s)") include all taxes, duties paid or payable in the country of origin, boxing, packing, cartage and other charges, and shall in no event be increased except as provided in clause (2) below. If any Quoted Price is incorrect, Seller must immediately notify Purchaser in writing before processing any goods or commencing any services.</p>
2	<p>Purchaser shall be entitled at any time to require deviations or omissions from, or additions to, said services, provided that if such changes shall make the performance of such services more or less expensive than if performed in accordance with Purchaser's original requirements, a fair and reasonable addition or deduction shall be made in the Quoted Price(s) in respect thereof. No claim shall be allowed for extra labor, material, or the like above the Quoted Price(s) unless same has been agreed to in writing by Purchaser. Acceptance of payment of the Quoted Price(s) shall constitute Seller's waiver of all claims for additional services performed.</p>
3	<p>Seller's invoice(s) shall:</p> <ul style="list-style-type: none"> a. Be written in the English language. b. State the purchaser order number and Purchaser style number. c. Separately state all discounts on the face of the invoice. d. If applicable, separately state all charges for boxing, packing, and cartage. e. State each carrier used and each bill of lading number, if known. f. State the name by, which each item is known, quantities and prices. <p>Regardless of value, a commercial invoice signed by Seller shall accompany each shipment of goods. Seller's records relating to shipment, invoices, and payments may be audited by Purchaser and its agents upon reasonable notice and at reasonable times for a period of three years after delivery of goods or performance of services.</p>
4	<p>Seller must provide Purchaser's warehouse with reasonable advance notice as to the shipment of goods pursuant to an Order.</p>

3. Rejection

No.	Terms and Conditions
1	<p>Purchaser may reject any goods delivered to it by Seller and return such goods to Seller, or reject any services performed by Seller in the event that:</p> <ul style="list-style-type: none"> a. Any of such goods or services are of inferior or improper workmanship or quality. b. Any goods or services are defective, not according to sample specifications or standards or are delivered or performed late, or fail to comply strictly with any representation, warranty or covenant contained in any Order or these terms and conditions or c. Seller shall fail to strictly comply with all of the terms and conditions contained in any Order or in the terms and conditions contained herein (each a "Rejection Event"), with all expenses incident to such rejection and/or return, including, without limitation, insurance and transportation (both ways), preparation and storage costs, to be borne solely by Seller.
2	<p>In addition, in the event of any Rejection Event, Purchaser may, in addition to any other rights and remedies available to it:</p> <ul style="list-style-type: none"> a. Cancel any Order placed with the Seller in whole or part, and/or b. Require seller to replace or repair any goods or services and/or c. Require Seller to grant Purchaser a full refund. <p>In the event Purchaser returns goods to Seller, the risk of loss with respect to returned goods shall be upon Seller.</p> <p>In the event Purchaser's rejection of any performance by Seller under an Order, Purchaser will notify Seller in writing thereof.</p>

4. Purchasers Materials

No.	Terms and Conditions
1	If an Order covers goods fabricated by Seller using Purchaser's materials, Purchaser may cancel such Order at any time as to goods not yet shipped by giving written cancellation notice to Seller, including by facsimile transmission or express overnight mail. Upon Seller's initial receipt of such notice, Purchaser shall have no further responsibility or liability to Seller with respect to such Order, except with respect to goods previously shipped and accepted, and
2	Seller shall promptly deliver to Purchaser all of Purchaser's goods and materials, including, without limitation, any Design Item (as defined in section 5 below), in Seller's possession.

5. Representations, Warranties and Covenants

No.	Terms and Conditions
1	Seller represents, warrants and covenants, to Purchaser, in addition to all warranties provided or implied by law, that: all goods supplied and services performed by Seller shall strictly comply with all of the terms listed on an Order, including, without limitation, as to quantity, color, time of delivery, style, SKU or other identifying number, markings, labeling and legending, and the terms and conditions contained herein and any other specifications or requirements listed herein or provided by Purchaser.
2	All goods to be delivered under an Order shall be new, first quality, merchantable and fit for the purposes intended and free from all defects in design, workmanship or materials and all services to be rendered shall be first quality and of the highest industry standards.
3	The manufacture, sale, packaging and shipment of goods, and all labels, markings and other materials affixed to such goods and the packaging thereof, and the performance of the services covered by an Order, and all invoices and other documentation in connection therewith, will at all times conform and comply with all applicable federal, international, state and local statues, laws, treaties, orders, rules and regulations issued or promulgated by any governing or regulatory body and all applicable trade agreements in effect from time to time, including, without limitation, the Fair Labor Standards Act of 1938, as amended, and the regulations and orders of the United States Department of Labor issued there under, the trade practice rules and regulations of the Federal Trade Commission, the Endangered Species Act, the Flammable Fabrics Act, and all applicable laws, regulations and rules of the country of destination in effect from time to time.
4	All goods covered by an Order will be manufactured in accordance with the provisions contained in Section 202 of the Federal Government's Executive Order No.11.246 of September 24, 1965, unless exempted.

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5. Representations, Warranties and Covenants, Continued

No.	Terms and Conditions
5	Use of any design, model sample, label, pattern or similar item (each, a "Design Item") made available by Purchaser to Seller will be confined to goods ordered by Purchaser only, and Seller agrees that it will not copy, reproduce, adapt, or modify any Design Item, acting diligently to ensure that each Design Item is used solely for the benefit and account of Purchaser, and no Design Item, nor any adaptation or modification of any thereof will be used in any way, directly or indirectly, for the benefit or account of Seller, any affiliate or customer of Seller, or any other person (the Seller agreeing and acknowledging that each such Design Item shall be the property of Purchaser.
6	Seller shall strictly adhere to Purchaser's policy with respect to seconds and damaged goods, as such policy is communicated to Seller and as the same may be amended, from time to time.
7	Seller is not now paying, offering, conferring, or agreeing to pay, offer or confer and will not at any time in the future pay, offer or confer or agree to pay, offer or confer any benefit, gift, sum of money or other thing of value, to or upon any employee or agent or other person acting for or on behalf of Purchaser.
8	Seller shall obtain all necessary or appropriate licenses and permits and shall not take any action which would cause either Seller or Purchase to be in violation of any law, including, without limitation, the U.S. Foreign Corrupt Practices Act of 1977, as amended from time to time.
9	Seller shall not engage any subcontractor in connection with an Order unless approved in advance by the Purchaser and unless any such subcontractor provides any written certification required from time to time by Purchaser.
10	No goods to be sold or services to be performed by Seller shall infringe, violate or encroach in any way upon any third party's personal, corporate, contractual or proprietary rights, including, without limitation, patents, trademarks, trade names, copyrights, right of privacy or publicity or trade secrets, except that Seller shall not be responsible for any goods made in strict accordance with designs specifically furnished by Purchaser for such purpose.

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5. Representations, Warranties and Covenants, Continued

No.	Terms and Conditions
11	All of Seller's employees, agents, subcontractors and others under Seller's control performing services at Purchaser's premises or on behalf of Purchaser at other premises shall comply with all rules and regulations of such premises, and all such persons shall keep all materials, and the premises at which services are to be performed, free and clear of all liens for materials and labor incident to the performance of such services hereunder.
12	Notwithstanding the means of shipment of goods indicated on an Order, Seller shall provide at its sole cost and expense, expedited routing, including, without limitations, international air express or air freight services, if necessary, to ensure timely delivery as specified herein (in the event expedited routing is so required, Seller shall reduce the F.O.B. cost of the goods so routed by the difference in cost between expedited and normal routing, and shall specify such reduction on any invoice covering such goods), and.
13	Seller shall, and shall ensure that each of its subcontractors, manufacturers and agents and each person or entity from which any goods or services are received, strictly comply in all respects with all restrictions, compliance standards, certifications and other matters as Purchaser may require from time to time by notice to Seller, including, without limitation, the Kahn Lucas, Inc. Standards of Engagement, as the same may be amended from time to time; and the other restrictions, standards, certifications and materials included in the Supplier Manual delivered to Seller by Purchaser, as the same may be supplemented, modified or amended from time to time; the Kahn Lucas, Inc. Standards of Engagement and the other materials contained in the Supplier Manual being incorporated herein by reference. Seller recognized that it is a subcontractor under Executive Order 11246, as amended, the Rehabilitation Act of 1973 and the Vietnam Era Veterans Readjustment Assistance Act of 1974. In accordance with United States federal law, Purchaser and Seller hereby incorporate by reference the equal employment opportunity clauses at 41 C.F.R. Sec. 60-1.4 (a) and 41 C.F.R. Sect. 60-741.5 (a) and the affirmative action clauses at 41 C.F.R. Sec. 60-250.4 such that the obligation imposed by such clauses are binding upon Seller.

6. Indemnification and Insurance

No.	Terms and Conditions
1	<p>Seller unconditionally covenants and agrees to assume full liability for and indemnify Purchaser and its affiliates, and their respective employees, officers, directors, agents and customers against, and hold each of them harmless from, any and all liabilities, expenses, (including, without limitation, reasonable attorney fees and expenses) fees, claims, penalties, profits, losses or damages (including, without limitation, consequential damages) of any nature whatsoever (collectively "Claims") relating to, resulting from, or arising out of any breach of any representation, warranty or covenant contained herein, of any injury or damage to any person (including, without limitations, employees of Seller) or property caused by or arising in connection with any sale or use by anyone of any goods sold by Seller or any services performed by Seller for any reason whatsoever, except if such injury or damage is solely a direct result of Purchaser's gross negligence or willful misconduct.</p>
2	<p>In the event any Claim based upon any of the matters referred to in subparagraph (1) above is brought against Purchaser, any of its subsidiaries or affiliated companies, any of their directors, officers, employees, or agents, Purchaser shall promptly notify Seller and Seller shall defend such Claim by reputable counsel retained at Seller's expense and shall obtain Purchaser's prior approval of any counsel employed to defend such Claim. In the event Purchaser does not approve counsel to be employed by Seller, or Seller fails to comply with the foregoing, Purchaser shall have the right to retain its own counsel at Seller's expense. Purchaser shall have the right to participate fully in all proceedings, including without limitation, settlement discussions; shall be provided copies of notices, orders and all other papers; and shall be given prior written notice by Seller of all meetings, hearings and other discussions involving such claim. Seller shall consult with Purchaser and keep Purchaser fully advised of the progress of any such Claim, shall make no admissions or otherwise act in a manner which might be prejudicial to Purchaser's rights in connection with any such claim, and shall have no right to Settle or discuss settlement of any such Claim, without the prior written approval of Purchaser.</p>

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6. Indemnification and Insurance, Continued

No.	Terms and Conditions
3	<p>Seller hereby represents and warrants that it has, and covenants that it shall maintain in full force and effect for so long as any Claim may be asserted, comprehensive general liability, including products and/or completed operations coverage and umbrella liability insurance policies, with reputable licensed insurers, having policy limits of a minimum of Five Million U.S. Dollars (U.S. \$5,000,000) and otherwise generally in form and scope equivalent to that maintained by other similarly situated sellers of goods and services equivalent to those provided by Seller hereunder. In addition, if any of Seller's employees, agents, subcontractors or others under Seller's control perform services under or in connection with an order at Purchaser's premises or at other premises on behalf of Purchaser. Seller shall cause the following insurance policy coverage (with minimum limits as specified), to be maintained in full force and effect: a. Worker's compensation (statutory minimal); and b. Automobile liability (Five Million U.S. Dollars) \$5,000,000, per person, accident or occurrence); All such insurance policies shall provide that they may not be cancelled or modified without at least thirty (30) days prior written notice thereof of Purchaser. Seller shall name Purchaser, its affiliates, subsidiaries and vendors as additional insured under each such policy, and upon Purchaser's request, shall promptly furnish Purchaser with appropriate evidence, including, without limitation, insurance certificates, satisfactory in form and substance to Purchaser, in respect of such insurance.</p>

7. Additional Provisions Regarding International Goods

No.	Terms and Conditions
1	<p>If an Order covers any goods fabricated or shipped from outside the United States, the following additional provisions shall also apply to such order:</p> <p>The order is expressly conditioned upon and subject to the timely procurement by Seller of such quota and other allocations, and otherwise timely compliance with all requirements, as may be necessary to import all of the goods into the United States or other country of destination.</p> <p>In any instance where an export visa, export license or exempt certification issued by the government of the country of origin is required for importation of the goods under bilateral trade agreements or United States regulations. Seller shall supply same.</p> <p>In the event that, subsequent to shipment, the importation of said goods is prohibited by virtue of Seller's failure to procure any such quota, allocations, visas or export licenses, Seller shall, upon demand, reimburse Purchaser and hold it harmless for all fees, expenses, charges and exactions of whatever nature in connection with the subsequent entry of the goods into the United States or other country of destination if such is permitted or, if entry is not effected, all expenses incurred in the original shipment of the goods, as well as the return of the goods to the manufacturer and/or exporter.</p> <p>In the event that any applicable government sanctions, decrees or other orders prohibit Seller from delivering goods to Purchaser, Seller shall, upon demand, be required to return to Purchaser or its agent, any piece goods or trim (or the value thereof) supplied to Seller or any of its agents or subcontractors in connection with the manufacturing of any goods for Purchaser and reimburse Purchaser and its agents for any cost and expenses, including, without limitation, any commissions, incurred or paid in connection with any Order placed by Purchaser.</p> <p>Seller shall not engage in the transshipping of any goods.</p>

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7. Additional Provisions Regarding International Goods, Continued

No.	Terms and Conditions
2	<p>The Order is expressly conditioned upon and subject to the submission by Seller of properly executed country of origin textile declarations as required by United States Customs regulations and the laws, regulations and policies of the country of destination in effect from time to time.</p> <p>In all instances where such declarations are required by United States regulations, same will be supplied by Seller and forwarded to Purchaser, together with original commercial invoice and textile visa or export license (where applicable).</p> <p>In addition, Seller shall supply Purchaser with any additional information or documents as Purchaser may reasonably request. No goods will be accepted unless an acceptable, appropriate, signed inspection certificate from a purchasing agent precedes or accompanies delivery of the goods to Purchaser.</p> <p>Purchaser's examination, processing, altering or otherwise dealing in goods received from Seller, shall not be deemed an acceptance which would in any manner limit or modify any rights of Purchaser hereunder.</p>

8. Bankruptcy

Terms and Conditions

Purchaser shall have the right to cancel an Order in whole or in any part without any obligation whatsoever in the event Seller fails to pay its debts and when due, files a voluntary petition in bankruptcy or similar action is filed against Seller and such petition or action remains unstayed for a period of thirty (30) days..



9. Confidentiality

Terms and Conditions

Except as otherwise required by law, Seller shall not disclose the existence or terms of an Order or any oral or written information relating to Purchaser, its business or products and shall not otherwise identify itself as a seller of goods to or performer of services for Purchaser.

10. Governing Law, Jurisdiction and Service

Terms and Conditions

Each Order shall be governed by and interpreted under the laws of the State of Pennsylvania applicable to contracts made in and to be wholly performed within such state without regard to the conflict of laws and by no other law, regulation or treaty, including, without limitation, the 1980 United Nations Convention on Contracts for the International Sale of Goods.

11. Miscellaneous Terms and Conditions

No.	Terms and Conditions
1	All of Seller's representations, warranties and covenants shall be binding upon Seller, its successors and assigns, and shall inure to the benefit of Purchaser, its successors, assigns and customers, and to the benefit of the users or customers of Purchaser's goods.
2	All representations, warranties and covenants of Seller hereunder, including, without limitation, Seller's indemnification obligations, shall survive the delivery of any goods to, and any payment by, Purchaser.
3	<p>Any waiver by Purchaser of any term or default or other breach of an Order must be in writing and signed by Purchaser and shall not constitute a waiver of any other term or any other subsequent default or breach.</p> <p>All rights and remedies hereunder shall be cumulative, and neither the exercise of any right or remedy, nor the failure or delay in exercising and right or remedy, shall preclude or limit any other or further exercise of any right or remedy.</p> <p>Neither any failure to exercise nor any delay in exercising any right or power shall constitute a waiver by Purchaser of any rights or terms hereunder.</p>
4	<p>No Order, nor the performance of any of Seller's rights, duties or obligations under any Order, may be assigned, delegated, subcontracted or transferred by Seller, in whole or in part, without the prior express written consent of Purchaser, and any attempt to so assign it, without such prior express written consent shall be absolutely void and of no effect.</p> <p>Purchaser may, at any time, assign any Order, or any of Purchaser's rights or obligations there under, to any person or entity without the consent of Seller.</p>

Continued on next page...

11. Miscellaneous Terms and Conditions, Continued

No.	Terms and Conditions
5	If any term or condition contained herein or with respect to an Order is or at any time becomes unenforceable or invalid, no other term or condition contained herein or in such Order shall be affected hereby, and the remaining terms and conditions of such Order shall continue with the same effect as if such unenforceable or invalid provision were not part of these terms and conditions or such Order.
6	No amendment or modification of an Order or any of the terms and conditions contained herein, shall be valid unless in writing and signed by Purchaser.

12. Finished Good Subcontracting Policy

Purpose: To describe the KL and Subsidiaries policy and procedures on subcontracting.

Policy Statement: KL and its subsidiaries will allow approved suppliers to engage in subcontracting activities as proven necessary. The intent of this policy is to institute consistent and uniform monitoring of any and all subcontractors to ensure all KL product is manufactured in compliance with the Company's policies, Terms and Conditions, and Code of Conduct.

Definitions: "Subcontracting" as defined by this document describes those situations when a supplier contracts with an additional manufacturer to produce a component, a process, or an order in it's entirety to help with, but not limited to, capacity during peak demand, reducing overtime, accommodate chase product, or specialized need.

A facility where whole processing, or country of origin conferring work is placed on a continual basis is **not** considered a subcontractor. This type of facility would require its own supplier / factory code.

Definitions and guidelines for representing vendor information in KL systems are standardized throughout all global operations as follows:

Supplier - the entity that handles the merchandising. Suppliers can themselves be a factory, but only if production is taking place within the facility performing the administration and merchandising function.

A supplier would get a specified supplier / factory code in all systems.

Purchase Orders are issued to the appropriate supplier / factory code.

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12. Finished Good Subcontracting Policy, Continued

Definitions:

Definitions and guidelines for representing vendor information in KL systems are standardized throughout all global operations as follows (continued):

Factory - the facility that physically manufactures the order. It may or may not be wholly owned by the Supplier. To apply "rules of origin" (in context and out), it is the facility where the manufacturing is attributed. It is a facility that we continually feed work directly to.

The Purchased Order is written to this Supplier / Factory.

This Supplier / Factory would get a specified code and must undergo all current audit/approval processes to obtain this code

Subcontractor - for the purpose of this policy, it can be 1) a facility that is doing partial processes (to include linking, embroidery etc) or 2) a facility that an order, or multiple orders in the same season, either in part or in full is/are sub-contracted to on a "one time" basis. By definition, "one time" basis means this sub-contractor will not be used again.

A supplier must seek and obtain written approval from the representative office/agent for any and all sub-contracting.

A sub-contractor **will not** get a specified code, but must still undergo HR and CTPAT audits (as applicable) and approvals prior to use.

Purchase orders are not issued to sub-contractors.

Suppliers take full responsibility for their sub-contractor's performance. Administration must be maintained for the duration of the sub-contracting process period to ensure conformance with the KL Terms and Conditions as outlined in the KL Supplier Manual

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12. Finished Good Subcontracting Policy, Continued

Process: Approval is required in all cases of subcontracting.

Prior to start of production, a Subcontractor Authorization Form must be submitted by the supplier to the Merchandising Director in the local KL Office of Jurisdiction or Representative Agent, that must include the scope of work intended for subcontract, the criteria for the selection of the proposed subcontractor and a justification for the use of the subcontractor

When the request has been received and the plan has been approved, and only after the facility has been approved for Security Compliance and Human Rights Compliance, production can be placed in the subcontractor location. KL product cannot be placed in any subcontracting facility until ALL approvals are received

Responsibilities: It is the responsibility and obligation of the supplier to advise KL of any and all sub-contracting activities and to adhere to the guidelines of the KL Finished Good Subcontracting Policy

Any facility found to be producing goods that has not been approved for use by the KL Office of Jurisdiction or authorized agent, will be considered an unauthorized subcontractor. The company's position on unauthorized subcontracting is zero tolerance

Sanctions for Policy Violations: The unauthorized use of subcontractors could result in the following sanctions:

1. Refusal of goods, and/or
2. A charge of \$10,000 US for each occurrence, and/or
3. Charges for any and all legal fees incurred by KL as a result of unauthorized subcontracting activities, and/or
4. Suspension of the KL/Supplier partnership, and/or
5. Termination of the KL/Supplier partnership.

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12. Finished Good Subcontracting Policy, Continued

**Sanctions for
Policy Violations:**

The unauthorized use of subcontractors could result in the following sanctions (continued):

All alleged reports of policy infractions will be investigated by KL. If violations are deemed to have occurred, KL may impose these sanctions in any combination and sequence that it deems appropriate to the situation.

In the event of policy violation, KL will notify the supplier partner in writing of its findings, any applicable sanctions to include fines.

All fines imposed under this policy shall be considered a debt to KL by the violator and shall be considered collectable as such and will be subject to current collectable policy and procedures.

**Information
Contact:**

Questions regarding this policy should be directed to David Baron.

Effective Date:

This policy is effective immediately.

13. Subcontractor Authorization Form

Subcontractor Authorization Form

Supplier Name _____
 KL Supplier Code _____
 Sub-Contractor Name _____
 Address _____

Sub-Contracting Activity Whole Process Knitting
 Cutting Looping/Linking
 Sewing Other: _____

Will Finished Goods Ship from this Facility? Yes No

Note:
 By submitting this form the supplier and sub-contractor both agree to comply with the KL Policies and Procedures outlined in the KL Supplier Manual.
 Failure to comply with the KL Policy on Subcontracting will result in penalties as outlined in the KL Supplier Manual

Short Term Business Plan

Submitted By: _____ Date: _____
 Title: _____ Phone Number: _____

For KL Office Use Only

HR Required? Yes No Approval Date: _____
 CTPAT Required? Yes No Approval Date: _____

**** Copies of the HR and CTPAT approvals must be attached with this form ****

Request Received By: _____ Date: _____
 Request Approved By: _____ Date: _____

Signature: _____

Production Calendars

Purpose

Calendars for Product Development and Production are necessary to ensure decisions occur on a timely basis. Our mutual goal is to be as responsive as possible to both internal and external customer needs. The seasonal calendars provide a common reference and guide to enhance our ability to be successful.

Description

The calendars list critical tasks, and a time line to initiate and complete tasks. Some tasks occur concurrently. It is imperative that all Kahn Lucas associates and Suppliers respect and adhere to the calendar.

The Current Production Calendar may be accessed [here](#).

Compliance and Chargeback Requirements

Introduction This section explains the steps to comply with the compliance and chargeback requirements.

In this Section The topics described in this section are located as indicated below:

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Supplier Compliance Requirements

Introduction

Today's businesses depend on mission critical information transmission with trading partners. Kahn Lucas, Inc. has made a total commitment to the maximum utilization of industry-wide technologies that utilize Universal Product Code (U.P.C.) and Electronic Data Interchange (E.D.I.).

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The topics described in this section are located as indicated below:

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General Information

Introduction

Companies who do not embrace the current trends in technology will not have the competitive advantage in tomorrow's marketplace.

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Supplier Requirements

Purpose Together, with our suppliers and retail partners, utilizing electronic commerce, we can all realize significant increases in sales and stock turns while reducing costs in our organizations.

Schedule Cost efficiencies will be achieved from the initiating of the source order through to the finalization of the payment cycle.

Procedure This procedure includes what all Kahn Lucas suppliers must do to provide distribution center ready merchandise and to exchange E.D.I. documents:

Step	Action
1	Mark their merchandise with quality U.P.C. hangtags .
2	Adhere to our guidelines for quality .
3	Pack their merchandise according to our packing instructions .
4	Send us a timely and accurate E.D.I. Advance Ship Notice (856) .
5	Provide appropriate UCC-128 Shipping Container Labels .
6	Follow our Kahn Lucas corporate logistics routing instructions.
7	Send E.D.I. Invoices (810) .

Contacts If you do not have a technology program in place or if you have any questions please contact the individuals in the respective areas below by phone or by email.

Area	Contact Name/Email	Phone Number
Accounts Payable	Cheryl Wallace cwallace@kahnluccas.com	717-537-4140 x2212 717-537-4180 (Fax)
Transportation/Logistics	Dave Keepports dkeepports@kahnluccas.com	717-537-4140 x2207 717-537-4180 (Fax)
Supplier Compliance	John Zander jzander@kahnluccas.com	717-537-4140 x2239 717-537-4180 (Fax)

Industry Standards

Introduction This section describes the retail industry standards used by Kahn Lucas, Inc.

In this Section The topics described in this section are located as indicated below:

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Implementing Standards for Electronic Commerce

Required Documents:

The following is a list of required documents that you will need in order to implement the standards for electronic commerce:

No.	Purpose	Document
1	Your U.P.C. tickets should be created and affixed following the <u>gs1us</u> (formerly UCC) specifications	U.P.C. Marking Guidelines for General Merchandise and Apparel.
2	Your E.D.I. documents should be created and transmitter in a timely manner	VICS E.D.I. Guidelines
3	Your E.D.I. shipping label document should be created following the <u>gs1us</u> (Formerly UCC) specifications.	TBA

Additional Industry Standard Information

Additional Information:

Since Kahn Lucas follows the retail industry standards, additional information can be obtained from the following organizations:

No.	Organization	Contact Information
1	National Retail Federation (NRF)	325 7th Street NW Suite 1100 Washington DC 20004 USA Phone: (202) 783-7971 Fax: (202) 737- 2849 www.nrf.com
2	Voluntary Inter-industry Commerce Standards (VICS)	Princeton Pike Corporate Center 1009 Lenox Drive Suite 202 Lawrenceville, NJ 08648 USA Phone: (609) 620-4590 Fax: (609) 620-1201 www.vics.org
3	Gslus (Formerly UCC)	7887 Washington Village Drive Suite 300 Dayton, OH 45459 USA Phone: (937) 435-3870 Fax: (937) 435-7317 www.uc-council.com
4	Kahn Lucas's Electronic Commerce Department	For a copy of Kahn Lucas's E.D.I. mapping instructions send e-mail.
5	Gslus E.D.I. User Group Conference	Held once a year, usually in May/June.

Supply Chain Technology

Purpose

Space planning, labor scheduling, and accelerated incoming product movement are proven direct benefits of electronic shipment notification. Accurate carton content information will enable:

1. Faster clearing at the receiving docks
 2. Quicker availability of the product
 3. Direct labor savings
 4. Increased shipping accuracy
-

Description

Kahn Lucas has invested significantly in the technology to support a full logistic E.D.I. architecture. We are requiring our strategic partners to provide the necessary E.D.I. transmissions to facilitate and optimize our investment.

Shipments received without E.D.I. Advance Shipment Notification (ASN856's) and corresponding carton labeling, will impede our collective ability to service our customers in the most expedient and cost effective manner.

Requirements

100% compliance by both partners to transmit critical business information will be a prerequisite for future growth. Electronic commerce is the correct vehicle for adding value to processes and for enhancing interfaces among the players in the market.

Ship Notice Requirements

Purpose Kahn Lucas has recently implemented advanced technology in it's distribution center to reduce the cycle time through the logistics pipeline.

Description The E.D.I. Advance Ship Notice (856), UCC-128 and carton marking requirements.

Shipment information must be consistent with shipment contents at all times.

Requirements Comply with the following requirements for handling ship notices:

No.	Requirement
1	All shipments to Kahn Lucas designated distribution centers require a Y2K compliant E.D.I. Advanced Ship Notice in advance of shipment arrival.
2	Your ship notice transmission must be in our mailbox at least one day before your shipment arriving at our designated distribution facility.
3	If your shipment arrives before your E.D.I. Advance Ship Notice, the distribution center will not be able to receive it. This will cause processing and payment delays if not corrected.
4	Your ship notice must be in our system before your shipment arrives at our designated distribution facility. An expense offset will be assessed if this requirement is not met.
5	For carton shipments, a separate ship notice must be provided for each bill of lading. For GOH shipments, one ship notice is required per one bill of lading per style.
6	Your ship notice must be 100% accurate to the contents of the carton, be 100% compliant with Kahn Lucas E.D.I. mapping, and 100% match the shipment.

Shipping/UCC-128 Label Requirements

Purpose The purpose of these requirements is to ensure all labels are uniform and easily located.

Description All shipping labels, (UCC-128 or manual), must include the following information:

No.	Description
1	'Ship from' (Company name and address).
2	'Ship to' legal entity/division name, c/o distribution center name and address.
3	Cut Ticket/Purchase Order (Source Order) number.
4	Human readable UCC-128 20-digit code. This is included on UCC-128 labels only.

Requirements Comply with the following UCC-128 label requirements when handling a UCC-128 label shipment:

No.	Requirement
1	The UCC-128 data must be included in your ship notice transmission.
2	An ongoing UCC-128 bar code quality control program that ensures ANSI A or B print quality. "Smudge-proof" ink and high quality paper products are necessary for bar coding success.
3	Every UCC-128 number you generate must be unique. Never repeat any carton numbers. Kahn Lucas recommends that all numbers must be unique and not repeated for a minimum of 36 months.
4	The UCC-128 label placement is a customer specific designation. Wherever possible, placement on top of the carton will be the desirable location.
5	An expense offset will be assessed if the UCC-128 label and related shipment data in the E.D.I. 856 Advanced Ship Notice (ASN) are not provided.

Accounts Payable Requirements

Purpose Kahn Lucas is dedicated to paying all merchandise invoices on time.

Description It is our intent to utilize technology to eliminate redundant data entry as well as paper documents by effectively utilizing E.D.I. invoices as well as E.D.I. remittance advice documents.

Purchase Order Verification Requirements: Comply with the following requirements when verifying purchase orders (price/cut ticket):

No.	Requirement
1	A valid source order/purchase order is required from our divisional sourcing department.
2	The purchase terms and conditions that appear in our Supplier Certification document apply to all purchases.
3	Verify the accuracy of all order including the ex-factory dates, the in warehouse dates, pay price, program type and payment terms. Do not ship merchandise until all order discrepancies are corrected.

E.D.I. Invoice Requirements: Comply with the following requirements when using E.D.I. Invoices (810):

No.	Requirement
1	Before sending an 810 to Kahn Lucas, Inc., you must contact our Electronic Commerce Department. The 810 documents must be tested and approved before implementation according to the specifications outlined in our E.D.I. requirements.
2	The B.O.L. # must be included in your 810 document.
3	Should your 810 fail our data validation you will be contacted to re-transmit. Corrected invoices, either via E.D.I. or in paper, must be submitted to ensure payment.

Continued on next page...

Accounts Payable Requirements, Continued

Printed Paper Invoice Requirements:

Comply with the following requirements when using printed paper invoices:

No.	Requirement
1	The original paper invoice must be sent to our Accounts Payable Department.
2	Until your company is an approved E.D.I. 810 supplier, continue to send paper invoices. You may be instructed to send a copy of the paper invoice with your shipment. You will be advised in writing if this becomes a requirement for you.

Payment Due Date Requirements:

Payment is due based on receipt of goods into one of our designated warehouses. Suppliers paid on Letter of Credit are paid according to the specifications of the Letter of Credit document.

Check Deduction Questions:

Questions regarding deductions from any of our Kahn Lucas entities must be addressed to one of the areas below:

Purpose	Document
Accounts Payable	Shortages
	Price discrepancies
	A/P expense offsets
Transportation & Logistics	Freight deductions
	Shipping
	Routing
	Container violations
Supplier Compliance Administrator	All other expense offset information

Expense Offset Policy

Introduction

Our Expense Offset Policy is intended to recover the redundant cost incurred by Kahn Lucas, Inc. due to shipments that do not meet our standards.

In this Section

The topics described in this section are located as indicated below:

Topic	Page
U.P.C. Labeling Expense Offset Charges	1-38
Technology Expense Offset Charges	1-39
Quality Assurance Expense Offset Charges	1-40
Accounts Payable Expense Offset Charges	1-41
Distribution Expense Offset Charges	1-42

U.P.C. Labeling Expense Offset Charges

Offset Charges

The following U.P.C. labeling non-compliances will result in an offset charge as listed below:

No.	Non-Compliance	Expense Offset
101	Merchandise not U.P.C. marked	\$25 plus \$.25 per unit
102	Non-readable/scannable U.P.C. code	\$25 plus \$.25 per unit
103	Wrong information on U.P.C. sticker	\$25 plus \$.25 per unit

Technology Expense Offset Charges

Offset Charges

The following U.P.C. labeling non-compliances will result in an offset charge as listed below:

No.	Non-Compliance	Expense Offset
E.D.I.		
201	Missing/unusable ASN (856) this shipment	\$250. per ASN
202	Late ASN (856)	\$250. per ASN
203	ASN (856) data errors (missing/bad)	\$250. per ASN
204	Unable to retrieve E.D.I. Purchase Order (850)	\$250. per P.O.
UCC-128 Labels		
205	Missing UCC-128 label	\$5. per carton
206	Poor quality UCC-128 label	\$5. per carton
207	Incorrect placement of UC0128 label on carton	\$5. per carton
208	UCC-128 label format not correct	\$5. per carton
209	UCC-128 label not corresponding to ASN (856)	\$5. per carton

Quality Assurance Expense Offset Charges

Offset Charges

The following Quality Assurance non-compliances will result in an offset charge as listed below:

No.	Non-Compliance	Expense Offset
301	Merchandise received in poor condition	\$25 per receipt plus .25 per unit inspected plus refurbishing
302	Missing/incorrect direct shipment label	\$25 per receipt plus \$5 per carton
303	Incorrect pre-packs/assortments	\$.25 per unit plus \$25 for incorrect carton
304	Non-conforming to finished goods P.O. specification or VICS Standards (hangers/foam/Jet Clips/issues), when applicable.	\$25 per receipt plus \$.25 per unit plus cost of hangers
305	External Quality: Chargeback from Customer	100% of chargeback amount
306	External Quality: Hanging/processing fee for external failure	\$50 per incident
307	External Quality: Customer returned product within 90 days of cancel	Full LDP cost times units returned
308	Missing / Incorrect / Improper garment labeling for Mexico.	\$150 per receipt \$1 per label per garment or actual replacement charge from customer, whichever is higher

Accounts Payable Expense Offset Charges

Offset Charges

The following Accounts Payable non-compliances will result in an offset charge as listed below:

No.	Non-Compliance	Expense Offset
401	Does not provide E.D.I. Invoice (810)	\$5. per invoice
402	Missing/Incorrect data not included with shipment	\$5. per invoice
403	Printed invoice not included with shipment	\$5. per invoice
404	Request for research on item over 12 months old	\$25. per aged item/claim number
405	Unauthorized shipment	100% Cost of Goods plus all processing costs

Distribution Expense Offset Charges

Offset Charges

The following distribution errors will result in offset charges as listed below:

Shipping Receiving Errors

No.	Non-Compliance	Expense Offset
501	Merchandise shipped to wrong location	\$5 per carton plus \$0.15 per unit plus freight
502	Merchandise received 2 weeks before warehouse date or late	Charges assessed per incident per department
503	BOL missing/inaccurate/insufficient detail	\$150 per shipment
504	Incorrect Direct Shipment	\$.25 per unit plus additional charges. See Direct Ship Policy in Chapter # 9

Logistics Errors

No.	Non-Compliance	Expense Offset
505	Missing/late/unusable shipping advice	\$150 per shipment
506	Routing instructions not followed	\$150 per shipment plus full freight
507	Unapproved air shipment	\$150 per shipment plus full freight
508	Improper packing of cartons	\$150 per receipt plus \$3 per carton
509	Missing/improper documentation (packing list), includes 3 rd party	\$150 per shipment
510	Missing/incorrect carton markings	\$50 per receipt plus \$5 per carton
511	Incorrect container utilization	\$150 per incident plus freight and damages
512	Incorrect document distribution	\$150 per incident
513	P.O. not intact with trailer	\$2.00 per carton or \$.05 per unit plus \$300 per receipt

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Distribution Expense Offset Charges, Continued

Offset Charges

The following distribution errors will result in offset charges as listed below (continued):

Packaging Errors

No.	Non-Compliance	Expense Offset
515	Non-standard/damaged cartons	\$50 per receipt plus \$5 per carton plus damages
516	Incorrect styles (packing detail does not match shipment)	\$150 per receipt plus \$.10 per unit for cartons + \$.05 for GOH to recount for shortages / overages
517	Damages due to faulty container equipment	\$500 per receipt plus damages
518	Incorrect purchase order	\$150 per receipt plus damages
519	Multiple SKUs in a single carton	\$25 per carton plus \$.20 per unit
520	Shortage/Overages (See Receiving Department Requirements in Chapter 9)	LDP cost times units short plus \$.10 per unit for cartons + \$.05 for GOH to recount for shortages / overages
521	Unordered/defective merchandise returned	100% LDP cost of returned merchandise plus freight (R/T)
522	Units in carton not in standard quantities	\$150 per receipt
523	Concealed overage	\$.05 per unit
524	Missing/incorrect Visa	\$500 per shipment
525	Rainbow loaded (mixed SKUs)	\$2.00 per carton or \$.05 per unit plus \$300 per receipt
526	Incorrect Carton Rightsizing	Excess Freight plus \$500 penalty per shpt

Non-Conforming Product and Chargeback Requirements

Introduction This section explains the steps to comply with the non-conforming product and chargeback requirements.

In this Section The topics described in this section are located as indicated below:

Topic	Page
The Kahn Lucas Chargeback Procedure	1-45
Policy on Non-Conforming Product	1-46

The Kahn Lucas Chargeback Procedure

Purpose

Kahn Lucas, Inc. is dedicated to shipping its customers the best possible product at all times. We wish to emphasize that we do not seek to make money through chargebacks. We prefer to have problem free product delivered to us. However, rework of unacceptable product requires that we properly assign the cost. We will always send an Alert advising the factory of a potential problem prior to issuing a Chargeback.

Schedule

Our inspections of incoming products are made to identify any merchandise, which does not meet the standards we require. We feel that services to inspect or correct a product, which is the responsibility of the supplier, should be reimbursed at full cost.

Procedure

When a garment is unacceptable, we must either permanently remove it from the shippable stock or correct the problem and return the garment to stock. Comply with the following steps to process a chargeback:

Step	Action
1	Identify unacceptable garments by inspecting incoming product. Some encountered situations require 100% inspections. This is preceded by repairing, cleaning, or repressing garments found to be of unacceptable quality. Note: If we are not equipped to handle the process required, we will arrange for the work to be done by other domestic contractors.
2	Quality Assurance records the shipment, contractor identification data, and detail of how many pieces were involved in each process: Inspection - Cleaning - Repair - Other operations.
3	Issuing a chargeback originates in the Quality Assurance Department. All charges are calculated automatically within our system.
4	KL finance dept. will review all outstanding charges and issue invoices to the responsible party.
5	Quality Assurance records number of irregulars shipped to us as first quality that requires downgrading and records the charges.

Policy on Non-Conforming Product

Introduction This section explains the steps to comply with the non-conforming product policy.

In this Section The topics described in this section are located as indicated below:

Topic	Page
Overruns	1-47
Late Goods	1-48
Irregular Goods	1-49
Modification of Labels on Non-Conforming Product	1-50
Record Retention	1-51

Overruns

Policy

Our policy is to accept product according to the terms of the Letter of Credit.

Schedule

To the extent that a vendor has produced goods over and above the Letter of Credit allowance, the production department must be advised of the exact quantity by style/color/size ratio in which case they may elect to negotiate price to accept the excess merchandise. However, under no circumstances are we obligated to accept such overages.

Procedure

Should the division decline to accept overages, the vendor is obligated to:

Step	Action
1	Deface all main labels and remove all KL identification from the product, except logo buttons, embroidered treatments, etc., which are not readily removable. Refer to the "Defacing of Labels on Non-Conforming Product" section.
2	Hold seasonal goods for 150 days beyond original ex-factory date. Release dates for ongoing or replenishment product must be provided in writing by the Production Department.
3	Garments must remain and be sold within the country of origin. Garments cannot be transshipped to another country for disposal or resold to a third party via an internet transaction.
4	Once provisions of Step 1-3 have been met, contractor may dispose of goods without further notice.

Late Goods

Purpose The purpose of this procedure is to specify the necessary actions for received goods that are received outside the original purchase order terms.

Schedule This procedure is performed when goods are received by Kahn Lucas on a date later than agreed to on the original purchase order.

Procedure Comply with the following procedure for handling late goods:

Lateness Caused By:	Action
Kahn Lucas	Provided such lateness is fully documented in ongoing and regular communications, Kahn Lucas, Inc. is obligated to accept such goods under original Purchase Order terms.
Contractor	Refer to the "Overruns" section procedure.

Irregular Goods

Purpose The purpose of this procedure is to determine the appropriate actions to be taken when the inspection process discovers irregular merchandise.

Schedule This procedure should be followed any time irregular merchandise is discovered through the inspection process.

Procedure Comply with the following steps to determine the appropriate action for handling irregular goods:


Step	Action
1	Kahn Lucas reserved the right to review and amend all contractor designated merchandise categories.
2	Use the following table to determine the appropriate action:

IF	THEN
The garments are deemed “thirds”. (having fit, fabric, or construction faults so egregious as to undermine the reputation of Kahn Lucas Inc. in the eyes of the consumer)	These garments will not be accepted by Kahn Lucas, Inc., but they may be offered for sale by the contractor, providing there is absolutely no Kahn Lucas, Inc. identification.
The garments are deemed “thirds” and are embroidered or have Kahn Lucas, Inc. logos or identification that is permanently affixed.	These garments must be destroyed. The contractor is obligated to provide proof of destruction to Kahn Lucas, Inc., and under no circumstances can they be offered for sale.
The merchandise is deemed to be irregular.	This merchandise may be offered for sale to Kahn Lucas, Inc. who is under no obligation to accept sale. If Kahn Lucas, Inc. declines to purchase, the contractor may offer for sale to outside parties per the “Overrun” section procedure.

Modification of Labels on Non-Conforming Product

Types of Defacing:

There are two different methods for modifying the Main Labels:

Photo	Description
	<p>Apply a heat sealed replacement label over the original main label.</p>
	<p>These labels must have the name completely marked out using a black permanent marker.</p>

Record Retention

Responsibility

It is the responsibility of Manufacturing Operations to maintain accurate records and correspondence of all non-conforming product transactions.

Records must be retained for 18 months before discarding.

Special Instructions by Customer

Purpose

The Special Instruction Charts provide vendors with information pertaining to general and floor ready merchandise requirements for a specific program/purchase order. Codes from these charts are referenced on the purchase order, and these codes reference back to the Special Instructions Chart in the Supplier Manual. This eliminates redundant data entry on each purchase order, and provides guidance for a vendor for accurately order packaging trims, hangers and miscellaneous other notions for each program.

Customer
Special Instructions for Babies 'R Us
Special Instructions for BJ's
Special Instructions for Belk
Special Instructions for Dillard's
Special Instructions for Federated Department Stores
Special Instructions for Fred Meyer
Special Instructions for JC Penny
Special Instructions for Kohl's
Special Instructions for Mervyns
Special Instructions for Nordstrom
Special Instructions for Sears
Special Instructions for Showroom Labels
Special Instructions for Target
Special Instructions for Wal-Mart



Production Orders Additional Terms and Conditions

[Additional Terms and Conditions](#)