



Tooling Guidelines for Suppliers of Direct Materials

Effective February 1, 2008

1. Tooling Definition; General Guidelines

- 1.1 "Tooling" is a die, jig, fixture, mold, pattern, template, gage, etc. which is purchased by Buyer or specially constructed for Buyer's use or the use of its outside suppliers on Buyer's behalf in the manufacture of parts for specific models, assemblies, or products and which has a normal physical life of one year or more. The determination of what constitutes "Tooling" is based on the item's physical aspects and use, the specific characteristics of the production and service parts or assemblies to be produced, and upon its intended life which is generally limited (without substantial modification or alteration) to the production and service life of specific models, assemblies or products.
- 1.2 The Supplier is expected to invest in and own its facilities, machinery, and other capital equipment. However, unless specifically agreed otherwise, the Buyer will own the Tooling that is used with the Supplier's equipment to make parts for the Buyer. Since the Buyer owns the Tooling, it is essential that the Tooling be clearly identified and marked, in a durable and legible manner, as the property of the Buyer. The Supplier may not take any action concerning the tooling that is inconsistent with the Buyer's ownership of the tooling.
- 1.3. The intended life of Tooling (without substantial modification or alteration) is the life of the part for which it was designed, including post-production service parts.
- 1.4. Unique computer software required to operate the Tooling is considered part of Tooling and is also the property of the Buyer. Computer hardware is considered to be equipment owned by the Supplier.
- 1.5. If Tooling is designed specifically for the Supplier's own equipment and facilities, it should be modifiable for use by another Supplier with similar equipment and facilities.
- 1.6. Tooling that will not be used to produce direct materials production parts should be purchased using a Prototype Tooling Purchase Order. Prototype tooling that will be used later to produce direct materials production parts will be treated as normal production tooling and must be purchased using a Tooling Purchase Order.

2. Tooling vs. Facilities and Capital Equipment

- 2.1.** Tooling is specifically designed for the production of, and is unique to, the Buyer's part and is located at the Supplier's facilities to produce goods for the Buyer. Tooling owned by the Buyer is used at the Supplier's facilities in conjunction with capital equipment owned and operated by the Supplier to produce parts EXCLUSIVELY FOR BUYER. Examples of facilities include buildings, offices, and loading bays. Examples of capital equipment include stamping presses, molding machines, special purpose machines, and automated material handling equipment. The Supplier will own, purchase, or lease facilities and capital equipment items up-front and is expected to capitalize these fixed cost investments.
- 2.2.** Tooling does not include general purpose items and equipment such as welders, even if those items are dedicated for use in manufacturing parts for the Buyer.
- 2.3** Examples of acceptable and unacceptable tooling costs are attached.

3. Tooling Procurement Process

- 3.1.** The Supplier may not fabricate or procure Tooling unless a Tooling Purchase Order has been issued by the Buyer authorizing the fabrication or procurement of the Tooling.
- 3.2.** All Tooling identified on a Tooling Purchase Order should be new unless otherwise specified and approved by the Buyer.
- 3.3.** Suppliers must complete Buyer's Request for Quotations with sufficient detail to enable the Buyer to issue a Tooling Purchase Order.
- 3.4.** All rights, title, and interest in and to any part of Tooling to be paid for by the Buyer will pass to the Buyer as soon as the Tooling is acquired by the Supplier or fabricated by the Supplier in accordance with a Tooling Purchase Order.

- 3.5.** The Tooling Purchase Order price will be paid consistent with Metaldyne's standard payment terms of Net 60 days after (i) the Tooling has been fabricated or acquired by the Supplier, and (ii) the Supplier has produced acceptable samples pursuant to the Parts Submission Warrant (PSW) specifications. The Buyer has the right to verify the actual cost of the Tooling by receiving digital pictures of the tooling, auditing invoices, purchase orders, proofs of payment, and any other information the Buyer deems relevant and reasonably necessary.
- 3.6** In the event a court of competent jurisdiction determines Buyer has not retained or obtained ownership of any Tooling, Supplier agrees to be deemed to have granted Buyer a security interest giving Buyer all the rights of a secured creditor as to such items under the Uniform Commercial Code as in effect in that jurisdiction.

4. Purchase Terms

- 4.1.** If the Supplier fabricated the Tooling, the Buyer will pay only the actual cost of fabricating the Tooling, plus allowable one-time only costs, if appropriate, as detailed below. No mark-up on a sub-supplier's Tooling invoice is permitted.
- 4.2.** The Buyer's payment obligation shall be no more than the lesser of: i) the specified maximum, if any set forth in the Tooling Purchase Order or ii) seller's actual and reasonable costs for purchased materials, services (including tooling and portions thereof) direct labor and overhead. Seller shall establish a reasonable accounting system in conformance with Generally Accepted Accounting Principles that enables ready identification of Seller's cost data. Buyer may audit Seller's records, at any time prior to three years after final payment, to verify Buyer's payment obligation to Seller. If the actual cost incurred is less than the Production Tool Order amount, the Supplier is expected to notify the Buyer so that the Tooling Purchase Order can be amended to reflect actual costs.
- 4.3** The Supplier is responsible for the quality of and payment for all subcontracted Tooling and outsourced components and to ensure conformity of subcontracted Tooling with the Tooling Purchase Order.
- 4.4.** The Supplier must maintain a reasonable accounting system to segregate, accumulate, and document expenditures for Tooling. The Supplier's accounting system must ensure that all eligible costs are documented adequately and include the following:

4.4.1. In-House Costs

Where all or major portions of the Tooling are fabricated "in-house" by the Supplier and the tool shop is identified and budgeted as a separate profit center, the Supplier may request, in advance, a reasonable profit margin on the cost of the Tooling which it will fabricate. If the Tooling is obtained through or by a subsidiary of which the Supplier-owned subsidiary or affiliate (51% or greater common ownership), those costs will be regarded as "in-house" costs and subject to verification.

4.4.2. Material

Material costs must be supported by requisitions that indicate the quantities used and unit cost for each Tool. Material will be reimbursed normally at actual costs based on material invoices. If the Tool is not completed, scrap value should be documented.

4.4.3. Labor Hours

All direct hours worked to design and fabricate the Tooling must be supported by a time reporting system that identifies hours worked by Tooling line item (specified on the Tooling Purchase Order), where appropriate, and the employee(s) who performed the work.

4.4.4. Labor Rate

Where a Supplier designs, develops, or manufactures Tooling or prototype Tooling in-house and the engineering center/tool shop/room is budgeted as a separate profit center, a reasonable profit margin on the cost of design, development, and manufacture of the Tooling may be requested in advance. All overhead costs and profit associated with the design, development, and manufacture of the Tooling should be included in the fully accounted Tooling labor rates.

Labor costs should be calculated by applying the fully accounted labor rate to the direct hours worked to design and fabricate the Tooling. The fully accounted rate should include direct labor, indirect labor, fringe benefits, payroll taxes, overhead, and a reasonable profit (if the tool room is operated as a separate profit center).

4.4.5. Subcontracted Work

All work subcontracted to Tooling sub-suppliers must be supported by purchase order(s), invoices, and proofs of payment. The Supplier should not make any profit on Tooling or prototype Tooling manufactured by a sub-supplier. Incremental costs associated with procurement, follow up, etc., are considered to be part of the Supplier's overhead costs.

5. Supplier Invoices

- 5.1. The Supplier's invoice for Tooling costs incurred should reflect the Tooling Purchase Order amount or the actual costs incurred, whichever is less. If the Supplier's costs exceed the Tooling Purchase Order amount, the Supplier must consult with the Buyer **BEFORE** invoicing to ensure that the Tooling Purchase Order and all appropriate amendments have been issued. Subject to Buyer's audit rights, at no time should the Supplier's invoice exceed the amount of the Tooling Purchase Order, unless the Supplier first receives Buyer's express written and signed authorization to permit Supplier to invoice in excess of the Tooling Purchase Order amount.

6. Audit Procedures

- 6.1. Tooling is purchased on a cost-reimbursement basis, and the Supplier's records are subject to audit by the Buyer and/or its designated representatives. If the audits of Tooling costs determine that overcharges have occurred, the Buyer will then initiate a debit against its payables to the Supplier. The Buyer may exercise its setoff and other rights under law or equity, and/or Section 21 of Buyer's General Terms and Conditions to obtain reimbursement.
- 6.2. If the Tooling costs are audited by the Buyer, the Supplier must make available documents supporting the actual and reasonable costs associated with the Production/Prototype Tooling Purchase Orders selected for audit. Tooling items must be described in detail on the Supplier's quotation and on the Tooling Purchase Order. The Supplier must submit evidence of what was actually paid to sub-suppliers.

7. Administrative Issues

- 7.1. The Tooling must be marked or tagged as the property of the Buyer. Upon Buyer's request, the Seller will execute a separate bailment agreement.

- 7.2.** The Buyer will establish and maintain a system for proper control and disposal of Tooling. In order to minimize the Buyer's costs and to ensure continuous availability of service parts to end-users, the Buyer must be consulted before either reworking the Tooling to a new design level or scrapping the Tooling.
- 7.3.** Questions regarding these Guidelines should be directed to the person listed on the Purchase Order as representing the Buyer.
- 7.4.** These "Tooling Guidelines for Suppliers of Direct Materials" shall apply to all tooling purchase orders and be construed, to the extent possible, as consistent with the Metaldyne General Terms and Conditions and as cumulative; provided, however, that in the event of a conflict, the terms and conditions set forth in these "Tooling Guidelines for Suppliers of Direct Materials" shall control.