

VENDOR SUPPLY CHAIN MANUAL: COMPLIANCE

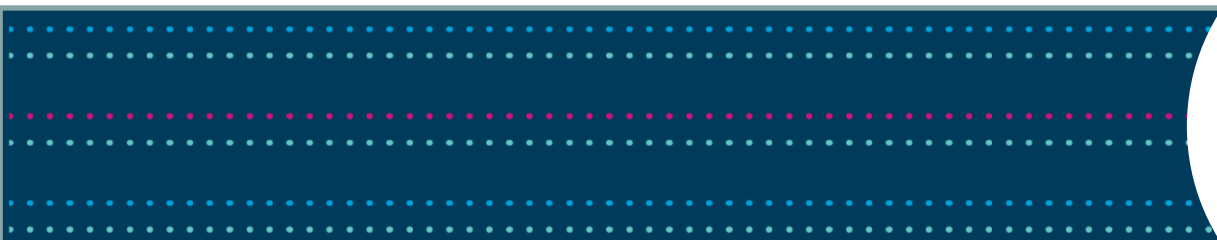


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PURPOSE

The key to consistently delivering a positive experience to our consumer is maintaining an efficient Supply Chain process in close conjunction with you, our Vendor. Like any relationship, dialogue and feedback are invaluable to our partnership. Whether it's to help improve processes or to resolve problems, feedback allows all of us to understand our strengths and weaknesses and maintain our competitiveness.

Our primary goal is to work with you to get it right the first time. Delays and Stoppages only serve to lessen the profitability of our products and our partnerships. Thus, it is imperative to have the goods ship into our Fulfillment Centers without having to "stop" the Supply Chain to fix labels or quality issues. It costs both HSN and our Vendors time and money to do so.

HSN understands that in order for you to know how you're performing and know whether or not you're meeting the requirements outlined in this manual, it's crucial that we keep you informed. We will provide you feedback on requirements related to products, processes, shipping, documentation and other business matters on a regular basis. If there is non-compliance on any of our requirements, you will be issued a "chargeback." You will also be responsible for any costs associated with the re-work of your goods. The following pages outline the fees associated with non-compliance of HSN standards.

The following pages detail the charges that apply to all shipments not meeting HSN's supply chain standards and requirements. Depending on the infraction, chargebacks are assessed at the shipment, Purchase Order (PO), pallet, master carton or line item/unit levels.

Note: At HSN's discretion, re-work may be performed by an external third party. Per-unit fees of each infraction listed or the actual invoice price (whichever is greater) will apply for re-work done by external sources. In addition, the basic fee as outlined in the fee schedules that follow will also be applied.

How This Section is Set Up

This section is designed to provide an understanding of how HSN measures Vendor performance, detail the most common types of non-compliance and outline the fees associated with each type and occurrence of non-compliance.

There is one Section:

- **Product Fee Schedule:** The types of non-compliances and the fees associated with each occurrence.

PRODUCT FEE SCHEDULE

Chargebacks

The following charges apply to all shipments not meeting HSN's requirements. Depending on the Infraction(s), Chargebacks are assessed at the Shipment, PO, Pallet, Master Carton or Line Item/Unit Levels.

Basic Fees

Standard Basic Fee:	\$1000
Low COG (Cost Of Goods) PO (Less than \$5000):	\$500
Low COG PO (Less than \$2500):	\$250
Low COG PO (Less than \$1000):	\$100

QA Submission Timeline Compliance

Quality Assurance (QA) Late Submission** Fees	
QA Samples and/or Spec Sheets submitted later than Due Date.*	\$200
QA Samples and/or Spec Sheets submitted later than Due Date * AND \leq 7 days <u>before</u> Ship Date.	\$500

- "Due Date" is based upon the lead-time requirements listed in the Quality Assurance Section of the Supply Chain Manual
- **Submission requirements as defined by QxH Submission Matrix"

Product Quality Failures (within HSN Fulfillment Centers)

Quality Assurance (QA) Stoppage Fees	
Applies to Vendors if their goods are "stopped" in the warehouse for quality issues (fees are applied per item number):	
1 st Shipment (New Vendor)	\$0
Penalty Fee	\$1,000
Per-Unit Rework Fee	\$1.75/Unit

PRODUCT FEE SCHEDULE

On-Site Inspection / Pre-Shipment Finished Goods Audit (PSFGA)

ASIA - CHINA/INDIA/VIETNAM/INDONESIA + Mexico/Central/S. America		
Purchase Order Value		PSFGA Reimbursement Fee
Minimum	Maximum	
\$0	\$19,999	\$165
\$20,000	\$29,999	\$275
\$30,000	\$99,999	\$415
\$100,000	\$249,999	\$770
\$250,000	\$499,999	\$935
\$500,000	> \$500,000	\$1,100
EMEA - EUROPE, MIDDLE EAST and AFRICA		
Purchase Order Value		PSFGA Reimbursement Fee
Minimum	Maximum	
\$0	\$19,999	\$250
\$20,000	\$29,999	\$350
\$30,000	\$99,999	\$500
\$100,000	\$249,999	\$800
\$250,000	\$499,999	\$1,000
\$500,000	> \$500,000	\$1,500
USA/CANADA		
Purchase Order Value		PSFGA Reimbursement Fee
Minimum	Maximum	
\$0	\$99,999	\$1,000
\$100,000+		\$1,500

NOTE: HSN reserves the right to conduct a product inspection at the factory on any PO.

Failed inspection fee - \$1000. Re-inspections are charged the regular rate.

Aborted inspection/late cancellation - \$1000 – Must notify Inspection Service Provider at least 48 hours before the scheduled inspection date.

Shipping without Approved PSFGA; Penalties associated for shipping without conducting a requested PSFGA audit: 3% of PO value to a maximum of \$10,000.

Fees for missed/failed PSFGA are **in addition to** the standard Shared Fee associated with the Inspection occurrence (e.g. if you cancel an Inspection at 3pm on the day before the Inspection is scheduled for, you will be subject to the appropriate shared Inspection Fee PLUS the \$1,000 Late Cancellation Fee).

These fees can be avoided by cancelling and/or rescheduling no less than 2 business days prior to the scheduled Inspection, having the product 100% produced and at least the minimum percentage (5% for Jewelry, 80% for Non-Jewelry) packed at the time of Inspection.

NOTE: If you confirm and accept a scheduled Inspection that requires airfare for the inspector to reach the location, but later cancel, HSN reserves the right to charge you a fee to offset these costs. This would occur when the inspection cancellation forces the inspector to cancel a flight or other transportation. Extra fees are not charged for inspection travel by car.

PRODUCT FEE SCHEDULE (CONTINUED)

Fulfillment of Orders: Import and Domestic

Product and Carton Labeling					
Code	Occurrence	Code	Basic Fee	Per Unit Fee	Per Carton Fee
All	1 st Shipment (New Vendor)	All Product and Carton Labeling Infractions	\$0	\$0.75	\$0.75
LAB1	All Others	Incorrect SKU label on master carton	\$1000	N/A	\$1.75
LAB2	All Others	Incorrect label placement	\$1000	\$1.75	\$1.75
LAB3	All Others	Incorrect barcode specification (UPC / CODE128)	\$1000	\$1.75	\$1.75
LAB4	All Others	Barcode grading or quality issue impacting scanning	\$1000	\$1.75	\$1.75
LAB5	All Others	Missing or incorrect hazardous goods label on master carton or product	\$1000	\$1.75	\$1.75
LAB6	All Others	Encoding error	\$1000	\$1.75	\$1.75
LAB7	All Others	Incorrect SKU label on Product	\$1000	\$1.75	N/A

Master Carton Quantity or Packaging					
Code	Occurrence	Code	Basic Fee	Per Unit Fee	Per Carton Fee
All	1 st Shipment (New Vendor)	All Master Carton Quantity or Packaging Infractions	\$0	\$0.75	\$0.75
PC2	All Others	Addition or removal of product contents	\$1000	\$1.75	N/A
PC3	All Others	Sortation of product or master cartons	\$1000	\$1.75	\$1.75
PC4	All Others	Master carton or product packaging not securely sealed	\$1000	\$1.75	\$1.75
PC5	All Others	Carton not marked as partial	\$1000	N/A	\$1.75
PC7	All Others	Incorrect Quantity on carton	\$1000	N/A	\$1.75
PC9	All Others	Incorrect or No void fill in master carton	\$1000	N/A	\$1.75

PRODUCT FEE SCHEDULE (CONTINUED)

Fulfillment of Orders: Import and Domestic

Palletizing and/or Loading			
Code	Occurrence	Description	Fee
PLT2 PLT3	1 st Shipment (New Vendor)	Palletization and/or Loading Incorrect	\$0
PLT2	All Others	Palletization and/or Loading Incorrect	\$1000
PLT3	All Others	Incorrect Pallet Wrapping	\$1000
PLT1	Any Occurrence	Improper Pallet Height	\$1000

Fulfillment of Orders: Drop Ship

Late Drop Shipment			
Code	Occurrence	Description	Fee
DS-01	All	Late Drop Shipment	5% Cost of Goods
DS-03	All	Late Return Transmissions	5% Cost of Goods
DS-04 *	All	Shipping Data/Carrier Chargeback	Cover the Costs Incurred

Transportation and Delivery

Non-Compliant Shipment			
Code	Occurrence	Description	Fee
ALL	1 st Shipment (New Vendor)	All Non-Compliant Shipment infractions	\$0
DEL1	All Others	Failure to book warehouse delivery as per PO instructions	\$1000
DEL2	All Others	Booking of shipment after 7 business days prior to required ship date on purchase order	\$1000
DEL3	All Others	Delivery after PO due date as per contract/PO.	\$1000
DEL4	All Others	Failure to deliver in agreed timeslot	\$1000
DEL5	All Others	Failure to comply with freight instruction	\$1000
DEL7	All Others	Short Shipment +/- 5%	\$1000
DEL8	All Others	Over Shipment +/- 5%	\$1000
DEL9	All Others	Delivery Unsafe for unloading	\$1000
DEL10	All Others	Missing/incorrect ASN, BOL, PAKNG, DEL, NOTE,	\$1000
DEL11	All Others	Failure to deliver in line with load plan, PO/SKU order	\$1000
DEL12	All Others	Non-QRG product preventing unloading	\$1000

PRODUCT FEE SCHEDULE (CONTINUED)

Late Shipment			
Code	Occurrence	Code	Fee
DLV-020 DLV-060	1 st Shipment (New Vendor)	Late Shipment	\$0
DLV-020 DLV-060	All others	Late Shipment	5% Cost of Goods \$2500 Maximum per shipment
DLV-020 DLV-060	All	Late Shipment Causing Backorders	10% Cost of Goods \$5000 Maximum Per Shipment
DLV-020 DLV-060	Any Occurrence	Late Showroom Shipment	\$100

*** Please Note:** This fee will be applied as a manual deduction; as such, the code will not be reflected on your check, nor will you receive an automated email notification alerting you about the occurrence. Any backup documentation that is required regarding the fee must be requested from HSN's Accounts Payable Department at accountspayable@hsn.net.