

Harbor Freight Tools

Supplier Code of Conduct Manual

December 2011

HARBOR FREIGHT TOOLS

Quality Tools at Ridiculously Low Prices!

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SUPPLIER CODE OF CONDUCT MANUAL

Overview

Harbor Freight Tools is committed to developing and growing its business in a sustainable fashion. In order to achieve this, Harbor Freight Tools is committed to providing products to our customers that satisfy their needs in a manner that is socially responsible. The standards set forth in this Supplier Code of Conduct Manual (the "Standards") have been influenced by many of the principles outlined by the International Organization for Standardization (ISO) and the International Labour Organization (ILO).

ISO 26000 Guidance on Social Responsibility provides harmonized, globally relevant guidance for private and public sector organizations of all types based on international consensus among expert representatives to encourage the best practice in social responsibility worldwide.

The International Labour Organization has maintained and developed a system of **international labor standards** aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity.

The Standards apply to all of our vendors and full compliance is a condition to doing business with Harbor Freight Tools.

In order to validate compliance with the Standards and to ensure that suppliers and their factories have met their obligations, Harbor Freight Tools or its representatives may at any time conduct unannounced verification audits. Suppliers must cooperate fully with such audits and are expected to implement internal controls to ensure that all of their compliance obligations are met.

Social and Environmental Responsibility (SER)

Harbor Freight Tools expects all suppliers to abide by all applicable international, federal, state, and local laws, rules and regulations in the manufacture, assembly, inspection, packaging, storage and handling of merchandise provided to Harbor Freight Tools. This may include but not be limited to securing proper certifications, licenses, agreements, patents and registrations. All suppliers are strongly encouraged to exceed Harbor Freight Tools' guidelines and to promote continuous improvement throughout their operations. All suppliers must at all times be able to demonstrate compliance with these requirements at the request of Harbor Freight Tools or its designated representative(s).

Harbor Freight Tools may at its sole discretion and at any time (without advance notice) conduct Social and Environmental Responsibility (SER) audits at factories producing for and selling products to Harbor Freight Tools. If a supplier does not have an SER program or corporate responsibility program, Harbor Freight Tools will work with such supplier to ensure that it is building its internal capabilities to monitor compliance at its facilities, but it must still comply with the Standards as detailed in this manual. Harbor Freight Tools reserves the right to audit any supplier's operations involved in the manufacture, assembly, inspection, packaging, storage and handling of merchandise for Harbor Freight Tools. Harbor Freight Tools expects that any changes to the supplier's company, factory or manufacturing location will be communicated in writing to Harbor Freight Tools for evaluation. In addition, the manufacture of Harbor Freight Tools products must not be relocated from approved facilities without our prior approval.

Transparency

Suppliers are required to provide transparency into their operations, policies, processes, and relevant records to Harbor Freight Tools or its designated representative.

- Suppliers are required to disclose conditions that may be in conflict with any Harbor Freight Tools standards or any applicable regulations or laws in facilities that manufacture, assemble, inspect, package, store or handle Harbor Freight Tools' goods. Access must be provided to Harbor Freight Tools or its designated representatives to conduct an assessment of the facility manufacturing Harbor Freight Tools' products. This includes access to the facility, confidential employee interviews and any documentation necessary to complete a SER assessment and validate compliance to the Standards.
- Suppliers must disclose the identity, physical location and ownership of all factories that will manufacture or come in contact with Harbor Freight Tools goods, including the use, change or relocation of sub-contractors. Any proposed use of sub-contractors, change from one factory to another, or relocation must be approved by Harbor Freight Tools before production begins and only after the subcontractor has entered into a written commitment with Harbor Freight Tools to comply with this Supplier Code of Conduct Manual.

Minimum Age for Employees/Child Labor

- Suppliers will not use child labor as legislated by the country where Harbor Freight Tools product is manufactured. We expect our suppliers to hire employees who meet at least the local minimum age requirements for employment. Where no laws exist that govern such a requirement, workers under the age of 16 may not be hired. Suppliers must maintain birth certificates or other reliable records to demonstrate compliance with this requirement.
- If Apprentice programs exist, suppliers must observe all legal requirements and comply with all applicable conditions as outlined in local laws and regulations.

Voluntary Labor

Harbor Freight Tools will not accept or tolerate the use of any forced or involuntary labor, either directly or indirectly, by our suppliers, contractors or subcontractors.

- Employment must be voluntary. Forced, slave, bonded or indentured labor will not be used to manufacture, assemble, inspect, package, store or handle merchandise for Harbor Freight Tools. This prohibition includes the use of forced migrant labor or involuntary convict labor. Workers cannot be required to surrender their identity papers or other original personal documents or pay deposits as a condition of employment. Workers must be free to leave the workplace at the end of their shift and to resign without repercussion. All overtime should be voluntary and should not be in excess of legal limits.
- Workers, including immigrant workers, hired directly or indirect through contract work agencies or other sources shall be employed by suppliers in strict accordance with relevant international agreements between the receiving and sending countries.

Compensation

Suppliers must compensate all workers with wages, overtime premiums, maximum hours, production rates, and other elements of compensation and benefits that meet or exceed legal standards, local industry standards, or collective agreements, whichever are higher. Suppliers are encouraged to provide wages and benefits that are sufficient to meet workers' basic needs and provide some discretionary income for workers and their families.

- Suppliers and factory management must compensate all workers in accordance with local regulations and where applicable with contractual agreements.
- Workers must be provided with written and understandable details regarding their employment and compensation. Deductions from wages must not be made without the express permission of workers and must not be made as a disciplinary measure.
- Suppliers must have a system in place to verify and accurately record payroll, deductions and the hours worked by employees as mandated by local laws.
- All workers, including trainees, must be paid at least the cash equivalent of the minimum legal wage. Workers must be paid directly on a regular basis per a published schedule. At a minimum, legally mandated benefits must be provided to all employees without onerous, unjust, or disproportionate deductions from their compensation.
- Employees must have access to their accurate and complete personal earnings records, kept according to Generally Accepted Accounting Principles or International Financial Reporting Standards.

Work Hours

Suppliers must provide workers with humane working conditions and hours

- Workers must not work more hours in one week than allowable under applicable laws.
- Factories must grant employees permission to leave the factory under reasonable circumstances, such as personal or family emergencies, without disciplinary penalty. Factories must never physically prevent or delay workers from leaving the facility or its grounds.
- Workers must be properly compensated for overtime work as required by law and overtime should be voluntary and within the local limits.

- Employees must be allowed at least one uninterrupted, 24-hour rest period after every 6 consecutive days worked.

Non Discrimination

Employment should be based solely on the person's ability and willingness to perform the job requirements and not based on personal characteristics. This standard should apply to all aspect of employment but not limited to hiring, salary, benefits, training, promotion, advancement, discipline, termination, or retirement.

- Suppliers must implement hiring practices that accurately verify workers' age and legal right to work in the locality and country prior to employment.
- Suppliers shall not discriminate on the basis of race, color, national origin, gender identity, sexual orientation, religion, disability, age, parental status, pregnancy, or other similar factors in hiring practices or any other term or condition of work, including assignment of work, occupational training, advancement, promotion, wages and other compensation, granting of social benefits, discipline or termination.
- Harbor Freight Tools suppliers are expected to have a commitment to basic principles of human rights. Suppliers must treat all workers with respect and dignity. Suppliers must not use or permit corporal punishment or any other form of physical or psychological coercion including verbal abuse and sexual harassment. Suppliers shall implement reasonable procedures for disciplining and/or terminating workers for any violation of these standards, including maintaining appropriate documentation.
- Suppliers shall not use monetary fines as a punitive disciplinary practice.

Health and Safety

Harbor Freight Tools requires that its suppliers provide a safe and healthy working environment in accordance with applicable local laws and shall have a comprehensive set of employment/personnel policies and procedures that are fully communicated to their workforce.

- Employers who offer residential facilities must ensure that these facilities provide their inhabitants with a safe and healthy living arrangement, in accordance with all applicable laws and regulations.
- Employers are required to provide appropriate personal protective equipment for hazardous work conditions to all employees exposed to such conditions. Such equipment shall be provided at no cost to employees. Employers shall also implement reasonable procedures to ensure the proper use of such equipment by such employees.

Freedom of Association and Collective Bargaining

- Suppliers must recognize and respect the right of workers to freedom of association and to bargain collectively as required by law. In addition, suppliers must foster and maintain conditions in which workers can freely communicate grievances and expect prompt and reasonable action.

Environmental

Suppliers must ensure every manufacturing facility complies with national and local environmental laws, including all laws related to waste disposal, air emissions, discharges, toxic substances and hazardous waste disposal. Suppliers must validate that all input materials and components were obtained from permissible harvests consistent with international treaties and protocols in addition to local laws and regulations.

- All legally required environmental permits (e.g. discharge monitoring) and registrations are to be obtained, maintained and kept current and their operational and reporting requirements are to be followed.
- Air emissions of volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products generated from operations are to be characterized, monitored, controlled and treated as required by applicable law prior to discharge.
- Suppliers are to adhere to all applicable laws and regulations regarding product content restrictions, prohibition or restriction of specific substances including labeling laws (for both source and end market countries) and regulations for recycling and disposal.

Notification

Suppliers will take appropriate steps to ensure that the provisions of these Standards are communicated to employees, including the prominent posting of a copy of this Supplier Code of Conduct Manual, in the local language and in a place readily accessible to employees at all times

Deception

Suppliers will not willfully conspire to deceive during the course of business with Harbor Freight Tools.

- Suppliers must guarantee that all merchandise sold to Harbor Freight Tools does not infringe on any patent, trademark, or copyright and will provide, upon request, all necessary licenses.
- Suppliers must ensure that all merchandise is accurately marked or labeled with its country of origin and other labeling information in compliance with the laws of the country in which the merchandise was manufactured and the countries in which the merchandise will be sold.
- Suppliers must ensure that all timecards, payroll and overtime documentation and other records at the facility accurately reflect manufacturing conditions at the facility.
- Suppliers providing fraudulent documentation, or statements with a willful intent to deceive will be in direct violation of the Standards.
- Suppliers agree to maintain true and accurate copies of all records at the facility in their original form and will not alter any documents for any reason.

Corporate Compliance and Ethical Standards – Code of Conduct

Harbor Freight Tools has a strong commitment to ethics and integrity and we conduct our business in a responsible manner. Harbor Freight Tools expects that suppliers will abide by all applicable laws, rules and regulations in the manufacture, assembly, inspection, packaging, storage and handling of merchandise for Harbor Freight Tools. Ethics and integrity form the foundation of our supplier relationships and all suppliers are required to meet or exceed Harbor Freight Tools' Corporate Compliance and Ethical Standards. The guidelines below detail these standards and are part of all new and/or renewed commercial agreements with Harbor Freight Tools.

Conflicts of Interest

Suppliers and Harbor Freight Tools employees must not enter into transactions or other relationships that create a conflict of interest or the appearance of a conflict of interest.

- A conflict of interest occurs when an individual's private interest interferes (or appears to interfere) in any way with the interests of Harbor Freight Tools. As conflicting loyalties impair an employee's ability to make objective decisions, conflicts of interest must be avoided.
- A conflict of interest can result from certain direct or even indirect (e.g., through family members, friends, other business contacts, etc.) relationships between an employee and a supplier or competitor.
- A conflict exists when the parties to the relationship give or receive (or appear to give or receive) unfair advantages or preferential treatment. Conflicts of interest also arise when an employee or a member of his or her family receives improper personal benefits as a result of his or her position with the Company. Having such a conflict arouses suspicion about an associate's integrity and can cause damage to the reputation of Harbor Freight Tools.
- Harbor Freight Tools expects all suppliers to be aware of this policy and to avoid contributing to a conflict of interest or the appearance of a conflict of interest. Any involvement by a supplier in any conflict may be grounds for a termination of business.

Gifts and Entertainment

The Company has a zero tolerance policy for receiving gifts and entertainment when such conduct is intended to or could reasonably give the appearance of an intent to influence the recipient, violate the Company's Policies or violate the law. This policy does not change during traditional gift-giving seasons or during Company sponsored events. Gifts and entertainment apply to anything received as a result of an actual or potential business relationship and for which the recipient does not pay face value. Examples of gifts and entertainment include: meals, travel and travel accommodations for business or vacation purposes, tickets to sporting or cultural events, discounts not available to the general public, gift certificates, vendor product samples for personal use, wine or alcohol and any other merchandise or services.

Foreign Corrupt Practices Act

The U.S. Foreign Corrupt Practices Act (the "FCPA") is a criminal statute which prohibits the corrupt payment of money or giving of things of value, i.e., "bribes," to foreign officials in order to obtain or retain business. Harbor Freight Tools' strong commitment to ethical conduct and to open and fair business conducted worldwide encompasses compliance with applicable U.S. and international laws, including the FCPA. Harbor Freight Tools employees and agents should understand that any actions taken by them on behalf of the Company in violation of the FCPA create criminal exposure for themselves, the Company and, in certain circumstances, its foreign subsidiaries. Harbor Freight Tools expects each of its employees to comply willingly and completely with the FCPA and this Policy.

Suppliers may not offer or give anything of value to a foreign official, a foreign political party official, a foreign political party or a candidate for foreign political office that might be considered a bribe. Suppliers must make accurate and complete entries in their records and follow generally accepted accounting procedures as required by local law. Suppliers may not make any false or misleading entries on their books and records.

Notification

Suppliers will take appropriate steps to ensure that the provisions of this Corporate Compliance and Ethical Standards – Code of Conduct are communicated to employees, including the prominent posting of a copy of this Corporate Compliance and Ethical Standards – Code of Conduct in the local language and in a place readily accessible to employees at all times.

Supplier Hotline

Harbor Freight Tools encourages suppliers to contact us if an employee ever asks you to do anything that infringes upon these standards. Harbor Freight Tools provides a hotline to be used by suppliers to report violations of company policy pertaining to receiving or soliciting gifts, bribes or kickbacks, disclosure of confidential information or a conflict of interest.

If you are aware of a situation where you think there may be a violation of company policy pertaining to receiving or soliciting gifts, bribes or kickbacks, disclosure of confidential information, a conflict of interest, or any other violation of these Corporate Compliance and Ethical Standards, immediately notify us at codeofconduct@harborfreight.com or at (800) 693-8377 (U.S.), (818) 836-5000 (International).

Supplier Diversity and Equal Employment Opportunity

Harbor Freight Tools is committed to promoting economic growth through diversity by offering competitively priced, high quality products and services to our customers. One of the ways Harbor Freight Tools will achieve growth is through a comprehensive Supplier Diversity business strategy including minority-owned and small businesses.

Equal Employment Opportunity – Affirmative Action Statement

Harbor Freight Tools supports and complies with both the spirit and the intent of Executive Order 11246, 29 CFR Part 471 Appendix A to Subpart A, the Civil Rights Act of 1964, the Americans with Disabilities Act, the Vietnam Era Veterans Readjustment Act, the Rehabilitation Act of 1973, the Age Discrimination in Employment Act, and other pertinent federal and state laws and regulations which are designed to promote equal employment opportunity. The Supplier is advised that, in accordance with these laws and regulations as well as under certain contractual conditions, it and its contractors and subcontractors are obliged to take affirmative action to provide equal employment opportunity without regard to race, color, religion, national origin, age, sex, physical or mental disability, or status as a qualified disabled veteran, recently separated veteran, other protected veteran or Armed Forces service medal veteran.

Product Safety and Intellectual Property

Product Safety

The safety of products being sold by Harbor Freight Tools is of crucial concern to us. Harbor Freight Tools requires that manufacturers comply with all applicable legal and regulatory safety requirements and conduct safety tests in-house and by independent, certified third-party testing laboratories when required or use equivalent procedures when not specifically required to use certified laboratories.

- Suppliers shall clearly identify compliance with all applicable regulatory and safety requirements and certifications for all products prior to production. Examples of such certifications are: UL, ETL, CSA, ROHS, ANSI, EPA, CARB, ASME, etc. Suppliers shall furnish the Harbor Freight Tools Quality Assurance Department (“HFT QA”) with all related certifications and compliance documents prior to test samples being sent to HFT QA. No product shall be produced prior to receiving the proper certifications unless HFT QA issues special written permission to take such action in each instance. It is the supplier’s responsibility to obtain the proper certification documentation in a reasonable timeframe so as not to disrupt time to market and/or planned purchase order dates.
- All products supplied to Harbor Freight Tools must have applicable compliance and/or safety labels which must meet the applicable industry guidelines including the proper adhesive.
- With respect to new or improved products or new suppliers, Harbor Freight Tools may first test a limited number of production sample tests in order to evaluate and qualify a factory’s products safety, performance and packaging. The products may be evaluated at any HFT QA lab, Harbor Freight Tools designated third party lab and/or within the factory, as determined by Harbor Freight Tools. The initial samples will be retained as a historical reference for all future production. The supplier shall comply with all HFT QA test protocols and methods. Harbor Freight Tools also reserves the right to conduct ongoing product testing at any HFT QA lab, Harbor Freight Tools designated third party lab and/or within the factory, as determined by Harbor Freight Tools.
- It is the sole responsibility of the supplier to seek out approval from HFT QA for any changes to the agreed upon specifications in each instance. Failure to comply with the Harbor Freight Tools specification process may result in monetary penalties and/or cancellation of purchase orders.

If a product sold by Harbor Freight Tools becomes subject to a recall, supplier agrees to work with HFT QA, its lawyers and/or any other designated party engaged directly or indirectly by Harbor Freight Tools to assist in the management of the recall. Supplier agrees to work closely with Harbor Freight Tools and any appropriate regulatory agencies to remove the product from the market as quickly as possible. In some instances, when legitimate concerns about materials or processes are raised in the absence of a regulatory standard, suppliers will assist Harbor Freight Tools in the isolation or removal of products from shipment or retail pending more definitive study. In all circumstances, Suppliers must stand behind the quality and safety of their products and take such actions that are in the best interests of Harbor Freight Tools’ customers.

Intellectual Property

Harbor Freight Tools respects the valid intellectual property rights of others. Suppliers must certify to Harbor Freight Tools that they own all rights to the products they supply to Harbor Freight Tools and that their products do not violate or infringe upon the intellectual property rights of others. This certification may include, but is not limited to, providing Harbor Freight Tools with an opinion of United States intellectual property counsel, and/or appropriate licenses, agreements, patents and/or registrations.

Any innovations or product improvements created in whole or part by Harbor Freight Tools shall be deemed to be the intellectual property of Harbor Freight Tools and shall remain the exclusive property of Harbor Freight Tools at all times.

Compliance Declaration

I, _____, _____ (title) _____, of (name of supplier) ("Supplier") declare that as a supplier of product to Harbor Freight Tools USA, Inc. and its parents or subsidiaries ("Harbor Freight") Supplier is in compliance with the standards set forth in Harbor Freight's Supplier Code of Conduct Manual, as amended from time to time, (the "Standards"); specifically:

- By signing this declaration, Supplier agrees to comply with all of the obligations contained in the Standards; furthermore, Supplier accepts that any failure on Supplier's part to comply with any of the terms and conditions of the Standards may result in the termination of Supplier's business relationship with Harbor Freight, including the cancellation of any pending purchase orders and the refusal of any shipped merchandise;
- Supplier certifies that it is in compliance with all applicable laws and regulations including those pertaining to labor and the environment;
- Supplier will monitor its compliance with the Standards and will timely disclose to Harbor Freight any failure of compliance;
- Supplier has disclosed all of its factories (whether owned or designated) and sub-contractors producing or manufacturing merchandise for Harbor Freight;
- Supplier agrees to maintain records of assessments or audits conducted at its factories (whether owned or designated) and of any corrective actions undertaken in response to such assessments or audits; Supplier shall make such records available for review and inspection by Harbor Freight or its duly appointed agent(s) upon request;
- Supplier agrees to maintain production and business records in accordance with standard accounting practices such as Generally Accepted Accounting Principals or International Financial Reporting Standards; Supplier shall make such records available for review and inspection by Harbor Freight or its duly appointed agent(s) upon request; and
- Supplier agrees to provide Harbor Freight or its duly appointed agent(s), as directed by Harbor Freight, with updates regarding any remediation efforts required as a result of deficiencies identified during any audit performed by Harbor Freight or its duly appointed agent(s).

By: _____

Dated: _____, 20__

(Print Name and Title of Signatory)

(Seal or Chop)