Factory Compliance Manual

Contents

1.0 Overview

Academy Sports + Outdoors (Academy, we, our) is committed to legal compliance and ethical business practices in all of its Sourcing operations. Academy strives to identify reputable companies that are committed to complying with all applicable laws and regulations.

One of the many ways Academy does this is through our Factory Audit Program which includes Social and Security compliance audits. Audits are conducted, data is analyzed, and recommendations made for progressive improvements and remediation for a more secure and socially responsible supply chain. This may include, at Academy's discretion, scheduled or unannounced audits as set forth in Academy's Terms and Conditions. Through this program, Academy is able to validate compliance, protect and mitigate risk.

Vendors should not utilize factories located in countries that have been sanctioned by the Office of Foreign Assets Control (OFAC). Please use the US Department of Treasury website below. To reference the list of sanctioned countries:

https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

2.0 Factory Compliance Mission Statement

Evaluating and managing global trade risk to drive total transparency, while educating and monitoring partner compliance for security and social compliance in our Global Supply Chain.

3.0 Factory Maintenance

Academy maintains factory data through internal systems and needs to be notified of any changes to a factory's profile data as soon as possible to avoid business interruptions.

3.1 Name Change and Relocations

Should a factory change names and/or move locations, it is the expectation that the vendor/factory must notify Academy prior to the change. Failure to notify Academy of a factory move may result in a chargeback being assessed to the vendor.

Additionally, factory closures may happen due to incidents or natural disasters, such as typhoons or factory fire, etc. It is the responsibility of the vendor and factory to notify Academy the closure occurred. In the event processes have moved to another factory(s), Academy must be notified as soon as practicable. A potential factory set up may be necessary.

3.2 Factory Status

There are three types of factory statuses:

Active   Upon factory set up and approval, an active factory is allowed to write purchase orders.

Inactive   A factory in inactive status is not allowed to write any purchase orders.

Pending   A factory in pending status is not allowed to write any purchase orders. This temporary status is in effect until the factory is officially approved or not approved. If a factory is not approved based on various reasons, it will move from the status of pending to inactive.

In order to maintain a factory's active status, a Factory Security Questionnaire (FSQ) must be completed by the factory annually. FSQs are used to ascertain compliance with Customs Trade Partnership Against Terrorism (CTPAT) security requirements. This self-assessment also enables the factories to provide any changes or updated information, such as facility security changes, name, or address changes.

4.0 Factory Onboarding

All factories manufacturing product for Academy must go through our onboarding process. The onboarding process will consist of the factory being identified and vetted against Academy's internal criteria. The factory must pass through Sourcing's initial screening, including a separate factory assessment audit and a completion of the initial factory self-assessment for Academy private and proprietary brands and any national brand product that Academy is the Importer of Record. Next, the Factory's level of compliance will be reviewed by Academy's Factory Compliance Team. The length of the overall factory onboarding process may vary and will depend on vendor participation.

4.1 Pre-screening

During Academy's factory set up process, the pre-screen packet, as bulleted below, will be required. See 5.1 and 5.2 for Academy's social and security compliance elements.

- Factory self-assessment for Academy private and proprietary brands;
- Social Audit Report – conducted within last 12 months, by an accredited third party audit company, including photos;
- Security Audit Report – conducted within last 12 months, by an accredited third party audit company, Including photos;
- Factory Assessment;
- Corrective action plan for the coinciding security audit report;
- Corrective action plan for the coinciding social audit report;
- Corrective action plan for the coinciding factory assessment;
- Factory Fact Sheet (FFS); and
- Business License (BL).

If any components of the pre-screen packet are missing, then the packet will be pushed back to the Sourcing team until it is complete. Once this packet contains the complete set of documents, it is reviewed by Academy's Factory Compliance Team.

While the factory pre-screen documents are under review, the factory is created within Academy's system. A unique factory number is assigned, and it is screened against U.S. government watch lists. The factory will remain in pending status until the pre-screen portion is approved.

If approved, the factory will be activated.   A supplier number will be assigned and any remaining signatures will be acquired. If the factory is not approved, then another source for product will need to be utilized.

5.0 Factory Audit Process

The audit process encompasses a number of events. The data collected from a factory audits is analyzed and used when making decisions for remediation and factory production.

5.1 Social Compliance Audit Elements

The social compliance audit evaluates factory performance in terms of social compliance against all applicable laws and industrial standards. The elements included are:

- *Documentation of Records including permits, licenses, employment records, etc. ;*
- *Child Labor;*
- *Forced Labor;*
- *Harassment and Abuse;*
- *Discrimination;*
- *Freedom of Association;*
- *Wages and Benefits and Working hours; and*
- *Health and Safety.*

5.2 Security Compliance Audit Elements

The security audit evaluates factory compliance level against CTPAT requirements. The areas included are:

- *Physical security;*
- *Personnel security;*
- *Procedural security;*
- *Packing and cargo security;*
- *Unauthorized / unidentified individuals;*
- *Conveyance / container security;*
- *IT security;*
- *Security training and threat awareness;*
- *Business Partners requirements; and*
- *Monitoring and compliance.*

5. 3 Factory Selection (Criteria) and Audit Funding

Academy requires that factory audits be conducted where the products are manufactured and Academy is the Importer of Record.   Internal and external risk criteria helps to determine the priority for factory audits

Effective November 1, 2017, Academy initiated audits are paid for by the vendor. Academy will notify the vendor and schedule the audits with the preferred audit firm. In order to lock in the audit dates, the vendor will need to remit payment during the scheduling process.

5.4 Third party audits

Within 14 calendar days of receiving an audit notification from Academy, vendors and factories have the opportunity to submit recent third party audit reports for consideration of waiving the required audit. The audits submitted must contain:

- Security Audit Report – conducted within last 12 months, by an accredited third party audit company, including photos;
- Social Audit Report – conducted within last 12 months, by an accredited third party audit company, including photos;
- Any corrective action plan, for the coinciding security audit report
- Any corrective action plan, for the coinciding social audit report.

Academy will review the above packet and will notify the factory if the audit(s) can be waived. If the audit is not waived, further coordination will need to be done with an approved third party audit company to schedule the audits. It will be at Academy's discretion whether or not audits can be waived.

Audits are not waived based solely on certificates, but will be considered only if a full report is provided.

5.5 Approved Auditing Firms

Academy accepts audits from reputable third party audit companies, but our approved companies are listed below. Audit companies not listed must be pre-approved by Academy.

- Bureau Veritas;
- Intertek; and
- SGS.

5.6 Audit Planning and Execution

Academy will send factory information to the approved, and agreed upon audit firm. Based on the information, the audit firm will contact the factory and set up the audits. The factory is required to work with the audit firm and provide the required information.

Vendors or factories will be notified that they need to have audits conducted. A full social compliance audit will typically last one or two days depending on the number of auditors. A full security compliance audit will be one day. Prior to the audit, the audit company will provide a list of all documents that the Factory will need to gather for the day of the audit. On the scheduled day of the audit, auditors will be onsite and perform the field audit. It will include an opening meeting with factory management, an onsite tour escorted by factory personnel, review of documents, and private interviews with selected employees. Lastly, there will be a closing meeting held with factory management to discuss any issues that may be identified. At the end of the audit, an onsite corrective action plan will be given to a designated factory contact that may be signed by both the factory and the audit firm.

Opening meeting & facility tour → Document Review → Worker and Management Interviews → Review Findings → Closing Meeting

Academy audit types:

Initial – The first audit conducted by a particular audit company for that Factory. Any subsequent audits will be considered a follow up or annual.

Follow up – An audit that may occur within a year after the date of an initial or annual audit, where follow up is required for any previous non-compliance issues. If follow-up is needed after an initial or annual audit, the vendor must utilize the same audit firm that conducted the initial or annual audit.

Annual – A full audit where all areas will be evaluated. An audit will be considered an annual audit for that factory if the factory has already been audited initially, and therefore, in the audit firm's database.

5.7 Audit Ratings and Definitions

Social Audit Ratings and Audit Schedule

Letter Ratings	Ratings	Audit Frequency	Production Impact
A	Acceptable (Green)	24 months	No impact
B	Minor (Yellow)	18 months	No impact
C	Major (Orange)	12 months	Current and future orders may be at risk
D	Critical (Red)	Risk Based	Current and future orders may be at risk

Security Audit Ratings and Audit Schedule

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NOTE: Although the ratings help categorize audits according to the issues found at the time of audit, it is within Academy's discretion to determine the proper course of action to be taken.

Social:

A. Acceptable –A near perfect compliance status on the date of audit, or minimal issues that would not impact the overall compliance status.
B. Minor –A few issues or conditions which do not indicate a failing system as a whole, but rather a gap in the compliance system.
C. Major – Multiple issues or conditions that would indicate a compliance system failure as a whole.
D. Critical – Multiple, significant issues or conditions that would indicate severe levels of compliance system failure.

Security:

A. Acceptable – A near perfect compliance status on the date of audit, or minimal issues that would not impact the overall compliance status.
B. Minor – A few issues or conditions which do not indicate a failing system as a whole, but rather a gap in the compliance system.
C. Major – Multiple issues or conditions that would indicate a compliance system failure as a whole.
D. Critical – Multiple, significant issues or conditions that would indicate severe levels of compliance system failure.

5.8 Audit Postponements or cancellations

Confirmed audits cannot be postponed except in cases where there is a government planned power outage. In this case, Academy's Factory Compliance Team should be contacted at least seven business days prior to the accepted audit date. In the event an audit cancellation is needed for any other reason, Academy's Factory Compliance Team must be contacted as soon as possible to avoid chargebacks or other actions Academy deems appropriate. If cancellation is less than 48 hours and the auditors have been dispatched, chargebacks may apply. NOTE: Refer to https://vendor.academy.com for current chargeback list and rates.

5.9 Audit Review

Within seven days of the completion of the audits, the auditing firm will upload the report to Academy's online audit platform, MetricStream. An internal score is assigned by the MetricStream system. The Factory Compliance Team will consider the score, review the audit results, determine if any further action is necessary, and add a proposed next audit date within the system.

5.10 Corrective Action Plan (CAP)

After the audit takes place, Academy expects the Factory to take the audit results and use them as a driver for continuous improvements and maintenance of the CAP implementations. Factories must submit their corrective action plan and include how improvements will be made, and by what date they will be made.

While the reports are loaded into MetricStream, the CAPs form will be sent simultaneously to the factories. Factories can access their CAPs online through MetricStream with the user credentials that they received prior to the audit. The MetricStream manual which was attached to the audit notification email, can be referenced by the factories. The factories have twenty-one days to complete their portion of the CAPs form and submit CAPs online to Academy. Their factory's CAP comments are considered as part of the overall audit assessment. Should the CAPs not be returned by the factory, a representative from Academy may contact the factory to obtain. Chargebacks and/or other actions which Academy deems appropriate may be issued to the vendor. Once the audit report and CAPs are reviewed by Academy, the audit process is considered complete for that factory.

5.11 High Risk, Suspension, and Termination

Issues within the audit report can be indicators of high or critical risk that require further monitoring and follow up. This may be in the form of additional third party auditing, on-site visits from Academy personnel, or involvement from Academy's Sourcing. Academy expects that the vendor or factory take immediate action to remediate any and all outstanding issues. Academy expects full transparency in the overall remediation process which will help to facilitate open communication for successful, sustainable improvements.

If a factory continues to have issues identified in the audit as major or critical or, where two or three audits have been conducted with little to no improvements made and/or other follow up has been done, then next steps may include:

- Chargebacks;
- Cancellation of purchase orders; and
- Factory deactivation/termination.

5.12 Non-Compliant Activities

Academy must be notified of factories that are alleged to be violating Academy's Global Sourcing Guidelines, Purchase Order (PO) Terms and Conditions, Ethics Policy, Code of Conduct or any other Academy policy by engaging in a non-compliant activity, as listed below:

- Child labor;
- Forced labor;
- Human trafficking;
- Physical or sexual abuse, coercion, or harassment;
- Bribery or corruption;
- Illegal operations, including failure to comply with labor and environmental law;
- Dangerous conditions (fire hazards, structural issues, etc.);
- Denied access (partial or full);
- Home workers; and
- Child visitor.

Additional means by which Academy may be alerted include:

- Academy discovery via selection, on-boarding, audits, or monitoring;
- Third party auditor alerts;
- Other Sourcing company alerts;
- Whistle blower alerts; and
- Concern line/Ethics box alerts.

5.13 Training and Workshops

All vendors should monitor the compliance performance at the factories manufacturing products for Academy and consistently communicate Academy's expectations to their factories. Academy may periodically provide factory compliance guidance trainings in the Hong Kong and China areas.