

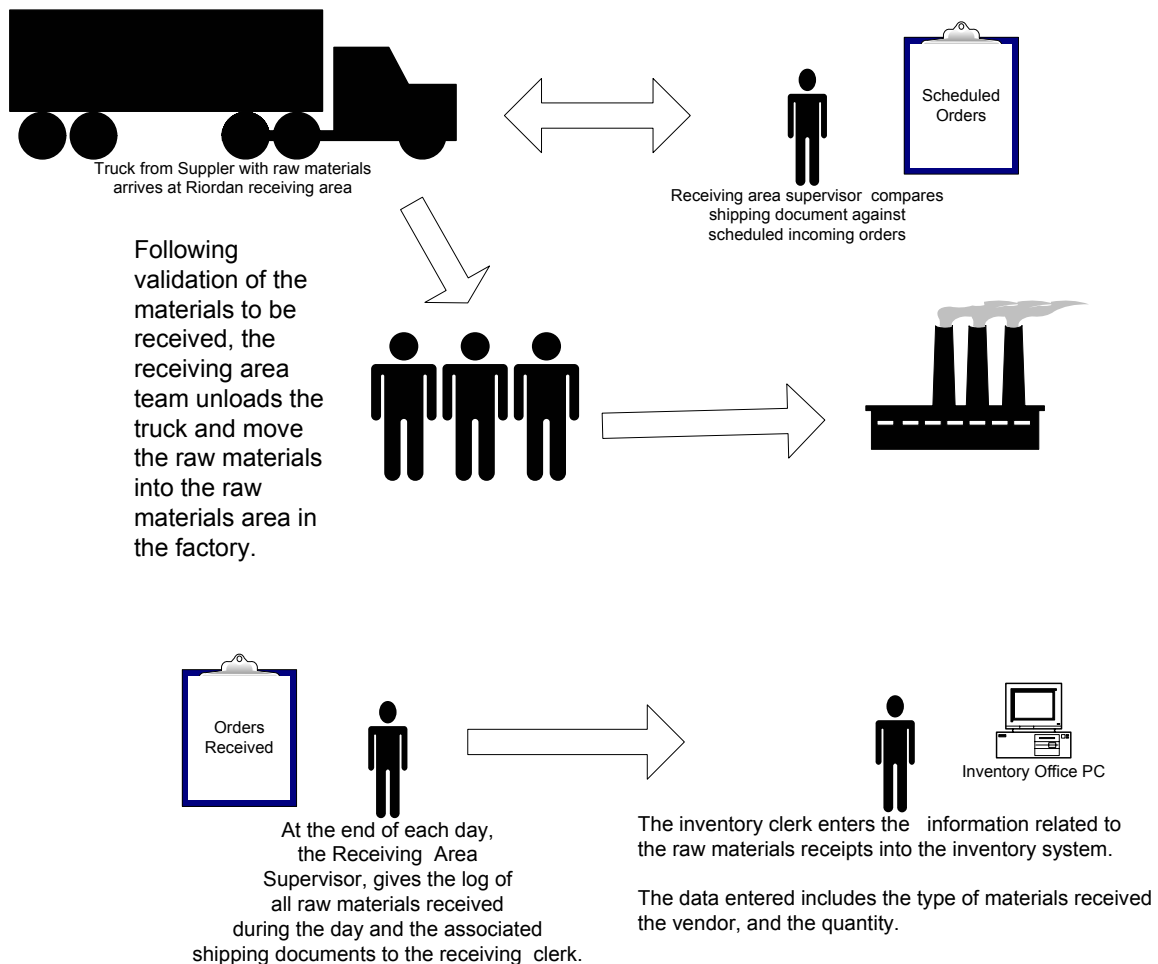
Inventory Management and Control at Riordan Manufacturing

In order to ensure consistency of operations and quality control at all Riordan plants, a common set of procedures has been developed for the management of receiving raw materials, tracking products during manufacturing, and accounting for the finished good inventories.

Raw Materials Receiving

Raw materials are received at the receiving area for each plant. At the time of delivery, the truck driver will pass the shipping documents to the Riordan shipping area supervisor who will compare the shipping documents to a scheduled orders receiving report. This report is provided to the receiving area on a weekly basis and is organized by date.

The following flow diagram describes the receiving of raw materials process at all plants.

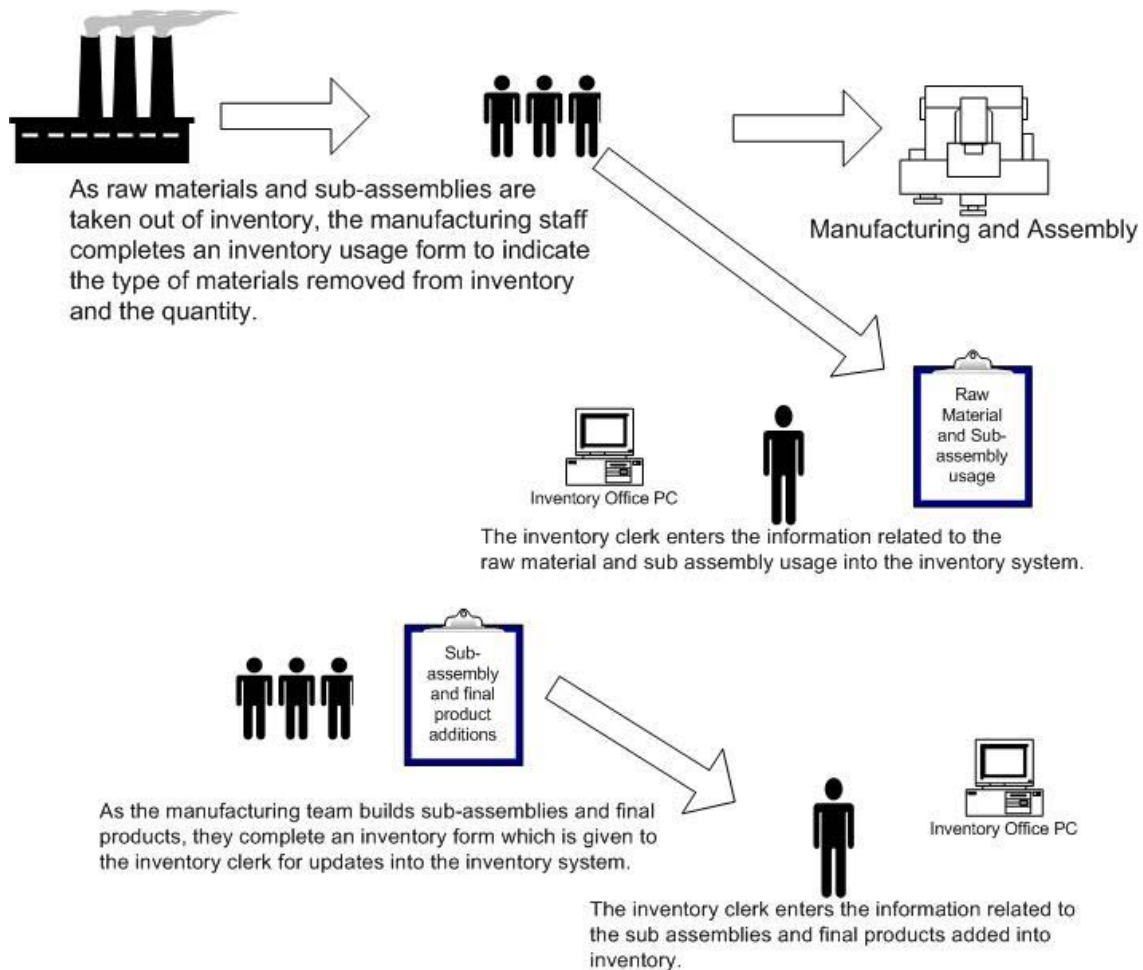


Manufacturing with Inventory

The raw materials inventory is drawn upon during manufacturing operations. The amount of raw materials used during each manufacturing run is indicated on a raw materials usage form that is given to the inventory clerk. The inventory clerk enters the raw materials usage into the inventory system as the forms are received.

At the end of each day, the manufacturing team submits a form to the inventory clerk indicating the number of sub-assemblies and final products completed that day.

The following flow diagram describes the usage of raw materials and sub-assemblies processing at all plants.



Final Product Shipping

As the sales department completes orders, the sales orders are entered into the customer shipping and billing system. The order shipping team draws finished products out of inventory based on the shipping documents generated out of the customer shipping and billing system.

After orders are fulfilled and loaded for shipment, the truck number, date and time of shipment are updated into the customer shipping and billing system for tracking purposes. At the end of each day, a copy of all orders shipped is given to the inventory clerk so the inventory system can be updated.

At the end of December each year, a physical inventory is conducted in order to reconcile the quantities of raw materials, sub-assemblies and finished products on hand with the inventory system.

The following flow diagram describes the shipping process at all plants.

