

## **Obsolescence Policy and Procedure**

The following Obsolescence Policy and Procedure (the “Policy”) governs the submission and processing of obsolescence claims submitted to Harman Becker Automotive Systems Manufacturing Kft. (“Harman”) by its direct material suppliers (“Supplier”).

### **A. DEFINITIONS.**

1. **“Cumulative Quantity”** means the highest quantity of finished parts requested by Harman for a part number based on the Lead Time standard. Only material quantities within the Lead Time will be considered in the allowable quantities calculation.
2. **“Lead Time”** means the standard amount of time as determined by Harman’s global standard commodity lead time.
3. **“Material Manager”** means the Harman employee who will act as conduit to facilitate prompt payment and closure of a claim for both Harman and Supplier.

### **B. POLICY.**

1. Allowable obsolescence reimbursement will be based on highest quantity in the lead time window.
2. Allowable obsolescence reimbursement will be based on the lead time agreed to in a signed contract with Harman. Subsequent amendments to lead time will not be valid unless agreed by Harman in writing.
3. Claims for obsolescence must be submitted to Harman within ninety (90) days of official obsolescence notification from Harman.
4. **This policy document is subject to change at Harman’s discretion. Any material changes to the document will be communicated directly to all Suppliers by Harman.**

### **C. HOW TO SUBMIT A CLAIM.**

1. Supplier must notify Harman Material Manager for the respective plant of the material in question when the obsolescence occurs.
2. Supplier must submit a claim to Harman within ninety (90) days of the claimed loss. Claims submitted after this date will be rejected.

3. Harman will allow claims only for finished goods, raw materials, and work in process (WIP). It is the responsibility of Supplier to adjust its operations in accordance with Harman's requirements in order to minimize the potential for obsolescence. Supplier is responsible to review the latest requirements schedules provided by Harman, as well as any notifications communicated by Harman (pending design changes, shut downs, etc.). Supplier is responsible to validate whether or not subject material is suitable for use in other Harman products or for another customer before submitting for obsolescence reimbursement.
4. Supplier must provide all documents required by Harman in evaluating a claim before a claim can be paid. Failure to provide requested information and/or documentation may result in claim denial. The submission form is included in this Policy.
5. Claims for reimbursement of obsolete material from a tiered supplier (Supplier's supplier) must be submitted by Supplier. Requests for reimbursement from sub-suppliers will be rejected.
6. Harman will review the claim within 60 days after receiving all necessary documentation.
7. Claims that cannot be processed due to one or more of the following reasons will be rejected and returned to Supplier (with a copy to the responsible planner):
  - a. Invalid contract, part number, vendor number, etc.
  - b. Claims that fail to meet submission guidelines
  - c. Claims that have been processed and rejected
8. Claims that have been rejected as non-compliant or incomplete (e.g. missing data, invalid data, etc.) may be resubmitted within 30 days of rejection. If Supplier does not resubmit the claim within 30 days the claim will be denied and all future submission for the same obsolescence will be rejected. Supplier may resubmit a claim only once.
9. Material being claimed for obsolescence must be physically available to a Harman auditor if requested by Harman.
10. A certificate of destruction must be produced for materials that Harman does not require to be physically audited.
11. Supplier must notify the Materials Manager of any dispute within 30 days in order to facilitate escalation within Harman. Dispute of a previously closed claim not received within 30 days will be rejected on this basis.

**D. CALCULATION OF ALLOWABLE OBSOLESCENCE PAYMENT.** Harman will use the following guidelines to determine the appropriate obsolescence payment. **Harman's liability for obsolescence claims will be limited to the values derived from this calculation method.**

1. Harman will apply a standard lead time of up to 12 weeks (or less per current agreement with Harman). **Any variations above this standard must be documented at the time of contract approval, or subsequent written agreement with Harman.**
2. Within this maximum of 12 weeks, Harman will be responsible for no more than two weeks of fabricated material (semi or finished goods) stocks.
3. After determining appropriate lead time, Harman will compare Supplier's submission to Harman's appropriate schedule documents for each part in the claim. Supplier will be required to correct any discrepancies in their submission.
4. Harman will calculate the allowable quantity for each part submitted, which will be the highest single value indicated within the established time frame, per material.
5. Harman's payment for obsolescence shall not exceed the cumulative quantity within the lead time, less the quantity shipped to Harman (either delivered or currently in-transit), multiplied by the unit price in effect at the time of submission.
6. For materials claimed as work-in-process, reasonable unit cost will be reimbursed based on the stage of production the material is in.
7. Claims for the following costs relating to the obsolete material claim will not be considered in the calculation for reimbursement:
  - a. Containers
  - b. Disposal
  - c. Packaging
  - d. Expedited Freight
  - e. Supplier Scrap
  - f. Tooling
  - g. Warehousing
  - h. Re-work

**E. CLAIM AUDIT PROCESS.** All claims will require an audit to accomplish the following:

1. Determine maximum allowed quantity to be reimbursed (based on calculation criteria specified within this document).

2. Communicate with supplier to arrange dates for physical audits (if necessary) and requirements for such audit;
  3. Complete audit process within 60 days, depending on cooperation of Supplier in providing necessary documentation, facilitation of Harman plant visit, etc.
  4. Payment to Supplier to be processed after audit completion, in accordance with standard payment terms.
- F. **EXCEPTIONS**. Exceptions to this Policy shall be handled on a case-by-case basis. Requests for an exception to the Policy, which claim is otherwise covered by the Policy, shall be rejected (e.g. requesting an exception to submission window due to supplier's inaction). It is the expectation of Harman that Suppliers will work within this Policy to facilitate a mutually agreeable reimbursement process for all parties. Requests for an exception should be directed to the responsible Harman buyer.

**OBSOLESCENCE CLAIM FORM**

Supplier Name: \_\_\_\_\_

Date of Claim: \_\_\_\_\_

Supplier Contact Name: \_\_\_\_\_

Supplier Contact Phone: \_\_\_\_\_

Supplier Contact Email: \_\_\_\_\_

Supplier Contact Fax: \_\_\_\_\_

Harman Plant Involved: \_\_\_\_\_

Harman Material Manager: \_\_\_\_\_

Harman Material Number: \_\_\_\_\_

Material Description: \_\_\_\_\_

Scheduling Agreement Number: \_\_\_\_\_

Scheduling Agreement Item Number: \_\_\_\_\_

Release Number from Latest Delivery Schedule Provided By Harman: \_\_\_\_\_

Material Location: \_\_\_\_\_

Material Available for Audit: YES: \_\_\_\_\_ NO: \_\_\_\_\_

**Quantity Raw Material:** \_\_\_\_\_

**Unit Price:** \_\_\_\_\_

**Value of Material:** \_\_\_\_\_

**Quantity Work-In-Process:** \_\_\_\_\_

**Unit Price:** \_\_\_\_\_

**Value of Material:** \_\_\_\_\_

**Quantity Finished Goods:** \_\_\_\_\_

**Unit Price:** \_\_\_\_\_

**Value of Material:** \_\_\_\_\_

Cumulative Release Quantity in Lead Time Window (provide waterfall analysis):

\_\_\_\_\_

Shipments Against Cumulative Release Quantity in Lead Time Window:

\_\_\_\_\_

**Total Quantity Eligible for Consideration (Cum. minus shipments to Harman):**

\_\_\_\_\_

**Total Value of Material Being Claimed (Harman Plant Local Currency):**

\_\_\_\_\_

**Additional Information (may be used for Harman to determine best disposition for material deemed obsolete):**

Scrap Value of Raw Material Claimed: \_\_\_\_\_

Scrap Value of Work-in-Process Claimed: \_\_\_\_\_

Scrap Value of Finished Goods Claimed: \_\_\_\_\_

Are there other uses or potential sales opportunities for this material? YES: \_\_\_\_\_ NO: \_\_\_\_\_

**Requestor Name:** \_\_\_\_\_

**Requestor Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**NOTE: PLEASE PROVIDE ALL SUPPORTING DOCUMENTATION AT THE TIME OF SUBMISSION, INCLUDING CONTRACT, WATERFALL ANALYSIS OF HARMAN RELEASES TO SUPPLIER, AND ANY OTHER PERTINENT DOCUMENTS.**