

HARMAN

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Date: October 31, 2017

To: All Harman Suppliers Supporting Connected Car or Branded Audio Production Facilities

Subject: New Obsolescence Policy and Procedure

Harman International Industries has created a new policy and procedures document concerning the submission and processing of obsolescence claims by our suppliers. Major points include:

- Allowable obsolescence reimbursement will be based on highest quantity in the lead time window
- Allowable obsolescence reimbursement will be based on the lead time agreed to in signed contract with Harman. Subsequent amendments to lead time will not be valid unless documented evidence of Harman's agreement to changes can be provided.
- Claims must be submitted within 90 days of official obsolescence notification from Harman.
- **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**

HOW TO SUBMIT A CLAIM

1. Notify Harman materials manager for the respective plant of the material in question when the obsolescence occurs.
2. Supplier must submit a claim within 90 days of their claimed loss. Claims submitted after this date will be rejected.
3. Harman will allow claims for the following: finished goods, raw materials, and work in process (WIP). It is the responsibility of the supplier to adjust their operations in accordance with Harman's requirements, to minimize the potential for obsolescence. The 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 materials or for another customer before submitting for obsolescence reimbursement.
4. Before a claim can be paid, the supplier is responsible to provide all necessary documents that may be required by Harman in evaluating a claim. Failure to provide requested information and/or documentation may result in claim denial. Submission form is included in this policy document.
5. Claims for reimbursement of obsolete material from a tiered supplier (supplier's supplier) must be submitted by the supplier with which Harman does business with directly. Requests for reimbursement from sub-suppliers will be rejected.
6. After receiving all necessary documentation, Harman will review the claim within 60 days.

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7. Claims that cannot be processed due to one or more of the following reasons will be returned to the 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 but no portion of the claim allowed
8. Claims that have been rejected (missing data, invalid data, etc.) may be resubmitted within 30 days of rejection. If no resubmission has occurred within 30 days, no future submission for the same obsolescence will be considered and will be immediately rejected on this basis. A resubmission for the same claim can occur only once.
9. Material being claimed for obsolescence must be physically available to a Harman auditor if required.
10. A certificate of destruction must be produced for materials that Harman does not require to be physically audited.
11. In the event of a dispute, this must be brought to the attention of the responsible materials manager within 30 days to facilitate escalation within Harman. Dispute of a previously closed claim not received within 30 days will be rejected on this basis.

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:**

- 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.**
- Within this maximum of 12 weeks, Harman will be responsible for no more than two weeks fabricated material (semi or finished goods) stocks.
- After determining appropriate lead time, Harman will compare the supplier's submission to our appropriate schedule documents for each part in the claim. If discrepancies are found, supplier will be required to correct their submission.
- Harman will calculate the allowable quantity for each part submitted, this will be the highest single value indicated within the established time frame, per material.
- Harman's payment for obsolescence shall not exceed the cumulative quantity within the lead time, minus the quantity shipped to Harman (either delivered or currently in-transit), multiplied by the unit price in effect at the time of submission.
- For materials claimed as work-in-process, reasonable unit cost will be reimbursed based on the stage of production the material is in.

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- Claims for the following costs relating to the obsolete material claim will not be considered in the calculation for reimbursement:
 - Containers
 - Disposal
 - Packaging
 - Expedited Freight
 - Supplier Scrap
 - Tooling
 - Warehousing
 - Re-work

CLAIM AUDIT PROCESS

All claims will initiate an audit to accomplish the following:

- Determine maximum allowed quantity to be reimbursed (based on calculation criteria specified within this document)
- Communicate with supplier to arrange dates for physical audits (if necessary) and requirements for such audit
- Complete audit process within 60 days, depending on cooperation of supplier in providing necessary documentation, facilitation of Harman plant visit, etc.)
- Payment to supplier will be processed after audit completion, in accordance with standard payment terms.

EXCEPTIONS

Exceptions to this policy shall be handled on a case-by-case basis. Requests for an exception to the policy, which are otherwise covered by the policy, shall be rejected (ex – requesting an exception to submission window due to supplier’s inaction). It is the expectation of Harman that our suppliers will work within these guidelines to facilitate a mutually agreeable reimbursement process for all parties. Requests for an exception should be directed to the responsible Harman buyer.

DEFINITIONS

Lead Time – standard amount of time as determined by Harman’s global standard commodity lead time.

Cumulative Quantity - 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.

Material Manager – The Material Manager will act as conduit to facilitate prompt payment and closure of a claim for both Harman and supplier.

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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: _____ 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: _____

Qty Raw Material: _____ **Unit Price:** _____ **Value of Material:** _____

Qty Work-In-Process: _____ **Unit Price:** _____ **Value of Material:** _____

Qty Finished Goods: _____ **Unit Price:** _____ **Value of Material:** _____

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

Shipments Against Cumulative Release Qty 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 Signature: _____ **Requestor Signature:** _____ **Date:** _____

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