



November 12th, 2018

Dear Valued Customer,

On July 6th, per the US Trade Representative Section 301, a 25% tariff was imposed on specific products manufactured in China entering into the United States. The list included 818 product lines identified by HTS codes. Our suppliers and industry organizations have petitioned for exclusions of various products that are affected. To this point, they have not been successful in their petitions and are waiting for final determination on the second list of 284 products also being considered for additional tariffs. This second list is still under review with public comment being solicited.

As of this communication, we are just beginning to receive formal notification from our suppliers as to how they intend to pass through the new tariffs. We do expect all suppliers to pass through 100% of the additional tariff. Unfortunately, this process is extremely complex and still evolving, with many suppliers still not declaring how they will handle these additional punitive duties and it will take time for both of us to develop and implement the optimum solutions.

Where we are not able to mitigate these duties/tariffs, we will unfortunately have to pass them on to you, as our suppliers are to us. We are committed to working closely with our partners to evaluate and develop the best solutions for all of us. As the situation continues to be evolving, we will monitor the costs from our partners to minimize the overall impact to you. We will adapt our pricing accordingly in the coming weeks as our inventory and cost of material starts to be impacted. If we are able to isolate the tariff charge from our suppliers and list it separately to you, we will choose this course of action. We believe keeping the tariff charge on its own line reduces the supply chain impact and is the least disruptive option from a systematic, accounting and process perspective. This may require each of us doing things differently.

Our top priority is our partnerships and relationships we have with our customers by providing the best customer service and supply-chain management at all times. We will be contacting you to let you know which products are impacted as soon as the information becomes available to us over the next few weeks.

These tariff issues and the implementation processes, will be addressed by many of your suppliers in the coming weeks. We appreciate your understanding and patience as we work through the details of the tariff increase and impact. The entire industry is working to understand the details.



The following are the key points related to the Section 301 Import Tariffs, as we know today:

1. The tariffs were imposed on July 6 on the importation of various electronic components made in China. Products manufactured in Taiwan and Hong Kong are not subject to the tariffs.
2. We expect all suppliers to pass through the tariff to their distributors and direct customers.
3. Sparton's approach for billing customers will be to incorporate the tariff in our overall pricing.
4. Since many suppliers produce components in multiple countries, it is not known until time of receipt/shipment if the Country of Origin on the components will be China or another country for which the tariff does not apply. For this reason, we will not always know the Country of Origin at time of our order placement and our suppliers will not allow us to specify a Country of Origin.
5. We are working diligently with our suppliers to compile a list of the affected products.

We appreciate your business and your understanding as the industry moves through this unprecedented period of time which is still ever-changing on a daily basis.

Regards,

Louis Houde – General Manager
Sparton Rugged Electronics

ATTACHMENT

Background:

This document covers tariffs that are part of the Office of the U.S. Trade Representative (USTR) Section 301 investigation into Chinese intellectual property and technology transfer issues.

- **'List 1':** The United States Trade Office (USTO) has released its list of products on which **25 percent tariffs** would be imposed effective **July 6**.
 - To review List 1 [click here](#). [Docket Number USTR-2018-0005].
 - The tariff applies to items on List 1 (IP&E) imported into the United States (U.S.) and are Country of Origin China (COO-China)
- **'List 2':** The United States Trade Office has proposed a second list of products on which 25 percent tariffs are proposed, which public comment is sought before U.S. tariffs are imposed. ○
 - To review List 2, [click here](#). [Docket Number USTR-2018-0018]
 - Public comment on List 2 was due **July 23**.
 - At this time there are no additional tariffs in effect on these goods (unless announced by USTO).
- **'List 3':** The United States Trade Office (USTO) has released its list of products on which an additional tariffs will be effective starting September 24, 2018. It will initially be in the amount of 10 percent. Starting January 1, 2019, the level of the additional tariffs will increase to 25 percent.
 - To review List 3, [click here](#)