

# TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

## INTRODUCTION AND SCOPE

This document sets forth the rights of Lear Corporation or its subsidiaries or affiliates (Lear) with regard to the auditing of

1) tooling paid for by Lear and used either

(a) by Lear to produce parts in house or

(b) by Lear's suppliers to produce parts for Lear; AND

2) capital equipment ***PAID FOR BY LEAR FOR ITS OWN USE AT A LEAR FACILITY.***

**BE ADVISED THAT LEAR DOES NOT PURCHASE OR PAY FOR ITS SUPPLIERS' FACILITIES OR CAPITAL EQUIPMENT, AND NOTHING IN THIS DOCUMENT SHALL BE CONSTRUED TO MEAN OTHERWISE.**

Purchases of tooling and capital equipment by Lear are made subject to the Lear Corporation Purchase Order Terms and Conditions which can be found at <http://lear.covisint.com>.

## DEFINITIONS

For purposes of these Guidelines, "tooling" means those tools that (1) are specifically designed for the production of, and are unique to, a Lear part and (2) in most circumstances physically touch the part during the production process. The intended life of this tooling (without substantial modification or alteration) is limited to the production of the part for which it was designed, including production of the OEM customer's service requirements once the relevant vehicle model balances out of production. Examples of "tooling" include, but are not limited to, jigs, gauges, molds and dies.

Capital equipment refers to machinery or equipment that is not unique to a Lear part and which typically is used in conjunction with, and often holds, tooling. Examples of "capital equipment" include, but are not limited to, a center column indexing or dial machine, a stamping press, a molding machine, special purpose machines, automated material handling equipment, and programmable equipment. **AS USED IN THESE GUIDELINES, CAPITAL EQUIPMENT ONLY REFERS TO CAPITAL EQUIPMENT PURCHASED BY LEAR FOR ITS OWN USE AT A LEAR FACILITY. LEAR DOES NOT PURCHASE CAPITAL EQUIPMENT FOR ITS SUPPLIERS.**

## LEAR'S METHODOLOGY FOR PURCHASING TOOLING OR CAPITAL EQUIPMENT

The purchase of tooling (to be used by Lear in-house or by a supplier) will be authorized by Lear by issuance of a purchase order (a "Tooling Purchase Order") and will be paid for (subject to Lear's rights under the "Audit Process" Section below) after (1) it has been constructed by the supplier or a subcontractor; (2) it has produced acceptable samples; and (3) the PPAP process for the applicable OEM-customer has been completed. If a Tooling Purchase Order is titled "Production Tooling Purchase Order" on its face, then

## TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

Lear will (1) only be obligated to purchase the tooling (as defined above) listed on the purchase order and (2) will not be obligated to purchase any facilities or capital (including equipment) listed on such purchase order.

If Lear is purchasing capital equipment for its own use in-house, Lear will issue a separate purchase order for each piece of capital equipment that specifically identifies that piece of capital equipment (an "Equipment Purchase Order"). If an Equipment Purchase Order is titled "Capital Equipment Purchase Order" on its face, then Lear will (1) only be obligated to purchase the capital equipment listed on the purchase order and (2) will not be obligated to purchase any tooling listed on such purchase order.

### TOOLING SPECIFIC INFORMATION

The following pertains to tooling. Both suppliers and their sub-suppliers are expected to adhere to the requirements below.

- Lear will not issue a purchase order for generic tooling, meaning general purpose items and equipment utilized by a supplier, even if these items are dedicated (but not unique) to the Lear part.
- Unique computer software required directly for the production or gauging of the part is considered part of tooling and shall become the property of Lear. Computer hardware is considered supplier-owned equipment.
- At Lear's written direction, tooling may be relocated to another supplier for use on its equipment and facilities. If tooling is designed specifically for the supplier's own equipment and facilities, it should be modifiable to suit another supplier with similar equipment and facilities.
- Parts with a tooling base that is subject to a high rate of wear that in total will not provide twelve months requirements of the part should be considered as consumable tooling.
- Funding for prototype tooling that will not be used to produce production parts may be provided through the reimbursement of product design or development. Prototype tooling that will be used later to produce production parts will be treated as normal production tooling and be funded when approved in advance using a Tooling Purchase Order for production tooling. It is mandatory that only production capable prototype tooling which will be used later to produce production parts is funded in this manner. In the event that only a portion of the prototype tooling will be used to produce production parts, the amount representing this portion should be clearly identified on the prototype order, e.g. binder development, for later transfer to the Tooling Purchase Order for production tooling.

**A list of examples that may be useful to a supplier in determining the acceptability of tooling costs are available at Lear's supplier portal:**

**[http://www.lear.com/user\\_area/extranet\\_files/lear-124-Supplier\\_Tooling\\_Cost\\_Examples.pdf](http://www.lear.com/user_area/extranet_files/lear-124-Supplier_Tooling_Cost_Examples.pdf)**

### PURCHASE TERMS FOR TOOLING OR CAPITAL EQUIPMENT

## TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

- Lear will pay only the supplier's actual and eligible costs (as described below) of making the tool or capital equipment, plus those allowable one-time only costs as described below, if applicable. A general percentage mark-up applied to a sub-supplier invoice will not be allowed.
- Lear does not pay a profit margin to a supplier for production or prototype tooling or capital equipment manufactured by sub-supplier. Incremental costs associated with procurement, follow up, etc. are considered to be part of the supplier's overhead costs.
- In situations where a supplier of components used in automotive applications also designs, develops, or manufactures production tooling, prototype tooling or capital equipment in-house, and the engineering center/tool shop/room is budgeted as a separate profit center, a reasonable profit margin on the cost of design, development, and manufacture of the tools or capital equipment may be requested in writing to Lear. All mutually agreed upon overhead costs and profit associated with the design, development and manufacture of tooling or capital equipment should be included in fully accounted labor rates and Lear shall receive a detailed break out of such rates.
- In situations where a supplier of tooling or capital equipment does not produce components used in automotive applications, but does design, develop, or manufacture production tooling, prototype tooling or capital equipment, a reasonable profit margin on the cost of design, development, and manufacture of the tools or capital equipment may be requested in writing to Lear. All mutually agreed upon overhead costs and profit associated with the design, development and manufacture of tooling or capital equipment should be included in fully accounted labor rates and Lear shall receive a detailed break out of such rates.

In line with the foregoing, the following clauses are part of the terms and conditions that govern all Tooling Purchase Orders and Equipment Purchase Orders:

- "The amount owing to Seller pursuant to this purchase order shall be no greater than the sum of (i) Seller's actual costs for purchased materials and services (including purchased tooling or capital equipment and portions thereof), and (ii) Seller's actual cost for direct labor and overhead when authorized by the Lear Tooling Definitions, Cost and Audit Guidelines. Seller shall establish a reasonable accounting system that enables Purchaser to readily identify and verify these costs."
- "Purchaser's authorized representatives will have the right at any reasonable time to examine all pertinent documents and materials in the possession or under the control of Seller relating to any of Seller's obligations under a purchase order or any payments requested by Seller pursuant to a purchase order. Seller shall maintain all pertinent books and records relating to a purchase order for a period

## TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

of three years after completion of services or delivery of the tooling or capital equipment pursuant to that purchase order.”

In summary, for Tooling Purchase Orders or Equipment Purchase Orders, Lear’s contractual obligation is to reimburse supplier’s actual and eligible costs incurred as set forth above up to the amount authorized by the purchase order. Lear does not reimburse suppliers for tooling or capital equipment that is not specified on a Tooling Purchase Order or Equipment Purchase Order or for suppliers’ eligible costs in excess of the amount authorized per such purchase orders for tooling or capital equipment. If the actual, eligible costs incurred by the supplier are less than the price on the Tooling Purchase Order or Equipment Purchase Order, the supplier must notify Lear so that the purchase order price can be adjusted to reflect the actual, eligible costs.

The supplier must monitor the content of all subcontracted tooling or capital equipment, e.g., outsourced components, to ensure conformity to these guidelines.

### **COST DOCUMENTATION**

A reasonable accounting system must be maintained by the supplier to segregate, accumulate, and document expenditures for Lear and /or OEM-owned tooling or capital equipment. The supplier’s accounting system must ensure that all eligible costs are documented adequately and include the following:

- **In-House Costs**

NOTE: Where all or major portions of the tooling or capital equipment are fabricated “in-house” by the supplier, and, for those suppliers who also supply components used in automotive applications, the tool shop is identified and budgeted as a separate profit center, the supplier may request in writing to Lear that a reasonable profit margin on the cost of the tooling or capital equipment which was constructed be added to the labor rate.

- **Material**

Suppliers must support material costs by material requisitions that indicate quantities used and unit cost by purchase order. Material will be reimbursed normally at actual costs based on material invoices. An accepted method of determining actual unit cost is to develop an average purchase price based on the past three purchases. Material cost should be reduced for any material costs recovered from tooling or capital equipment authorized for disposal and for material used for prototype parts (that was reimbursed separately).

- **Labor Hours**

Suppliers must support all direct hours worked to design and build tooling or capital equipment by a time reporting system that identifies hours worked by line item (specified on the relevant Tooling Purchase Order or Equipment Purchase Order) and the employee(s), where appropriate, who performed the work.

## TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

- **Labor Rate**

Supplier must calculate labor costs by applying a fully accounted labor rate to the direct hours worked to design and build the tooling or capital equipment. The fully accounted rate should include direct labor, indirect labor, fringe benefits, payroll taxes, overhead, and a reasonable profit, if agreed to by Lear as set forth above. The fully accounted labor rate should be included in the supplier's quotation for applicable tooling or capital equipment.

- **Subcontracted Work**

All work subcontracted to tooling or capital equipment sub-suppliers must be supported by a purchase order, invoice, and proof of payment to the company which built the tool or capital equipment to verify actual cost. A part supplier which subcontracts tooling or capital equipment fabrication may request in writing that Lear reimburse it for incremental direct labor and associated costs (fringe benefits and payroll taxes) where it is mutually beneficial for the supplier to incorporate minor changes in the tooling in its facility. If tooling or capital equipment is obtained through or by a supplier-owned subsidiary or affiliate (51% or greater supplier ownership), these subsidiary or affiliate costs will be regarded the supplier's own costs and subject to verification.

### **ACCOUNTING FOR ELIGIBLE COSTS**

For Tooling Purchase Orders and Equipment Purchase Orders, the supplier must categorize its applicable costs as noted above and also aggregate its total actual and eligible costs for the particular purchase order. An abbreviated representation of a "Cost Summary" form with directions for completing the form is available at Lear's supplier portal at [http://www.lear.com/user\\_area/extranet\\_files/lear-125-Supplier\\_Tooling\\_Cost\\_Template.pdf](http://www.lear.com/user_area/extranet_files/lear-125-Supplier_Tooling_Cost_Template.pdf) to assist the supplier in aggregating these costs by purchase order. This form may be useful to suppliers who do not utilize a system or document to summarize costs as indicated above. If audited by Lear, a supplier will be requested to provide a completed Cost Summary.

### **AUDIT PROCESS**

Lear will notify a supplier of its intent to conduct an audit of tooling or capital equipment as permitted by these Guidelines ("Audit Notice"). While Lear is in the process of determining whether or not to conduct an audit, Lear may withhold 20% of the amount otherwise due to supplier under the purchase orders being audited. In the event Lear decides to conduct an audit, Lear will continue to withhold this amount until the audit process is completed.

Upon receipt of an Audit Notice, supplier shall use best efforts to provide Lear as soon as practicable with a written response with all the information set forth in the "Cost Documentation" Section above along with such other information necessary for Lear to verify supplier's compliance with these Guidelines.

When tooling or capital equipment purchase orders are audited by Lear, supplier will deliver copies of the supporting documents to verify the actual costs associated with the purchase order selected for audit.

## TOOLING DEFINITIONS, COST AND AUDIT GUIDELINES

### **SUPPLIER BILLINGS**

The supplier's invoice for tooling or capital equipment costs incurred should reflect the purchase order price or the actual costs incurred, whichever is less. Before submitting an invoice for tooling or capital equipment to Lear, the supplier must ensure that the latest purchase order from Lear incorporates all necessary amendments to price (e.g. design changes, etc.) that have been mutually agreed to by the parties. Lear will not be responsible for paying any invoiced amounts in excess of the price set forth on the face of the relevant purchase order at the time the supplier invoices Lear.

### **AUDIT RECOVERIES**

Lear audits of supplier or capital equipment costs that result in cost recoveries due to a lack of compliance with these Guidelines will jeopardize a supplier's commercial relationship with Lear.

### **CUSTOMER REQUIREMENTS**

The applicable terms, conditions and requirements of Lear's customer with respect to allowable tooling and capital equipment recovery (the "Customer Requirements") shall flow through Lear to supplier and shall be applicable to and binding upon supplier to the extent that they do not conflict with these Guidelines.