



Sager Electronics
19 Leona Drive
Middleborough, MA 02346
Distributing Confidence®

September 25, 2018

Re: Section 301 Import Tariffs

Dear Valued Customer,

On July 6, as mandated by the U.S. Trade Representative under Section 301, a 25% tariff was imposed on a subset of electronic components manufactured in China and imported into the United States. Sager Electronics made the decision to delay billing customers for these new tariffs until the details were complete and the impact could be better understood – since July 6, Sager has absorbed all Section 301-related tariffs incurred. On Monday of this week a new mandate was issued imposing a 10% tariff on an additional set of electronic components manufactured in China and imported into the United States which I will address in more detail below.

Suppliers have been working to establish a fair and equitable method to assess the tariffs without disclosing proprietary pricing formulas. Most suppliers have opted to mitigate the effect of the tariff by charging Sager with a separate line item on the invoice based on our current purchase price, not the supplier's import cost. Those charges have ranged from no current charge up to 25% on our purchase price. Other suppliers have elected to assess the tariff by increasing the Sager purchase price.

SAGER WILL START BILLING SECTION 301 TARIFFS ON OCTOBER 1, 2018

Starting with shipments made on October 1st, Sager will begin billing Section 301 tariff charges to our customers at variable rates reflecting those of our suppliers. A table of those charges is available upon request and on our website (<https://www.sager.com/about-us/corporate-social-responsibility/>) under the heading "Sager Supplier Tariff Rate Table". This table will be posted starting the end of business Wednesday September 26th. It will contain a revision level and published date and be updated weekly as additional suppliers communicate their plans. Our approach is one geared towards billing at a percentage that properly represents the decisions of our suppliers and equitably passing these charges along while respecting the fact that our profit margin is included in your price. The exceptions to the rates shown in the available table will be where Sager Electronics is the importer of record and is being charged tariffs directly by U.S. Customs and Border Control.

On Monday of this week a new mandate was issued imposing a 10% tariff on an additional set of electronic components manufactured in China and imported into the United States. This announcement was made on September 17, 2018 where the tariff rate was set at 10% for affected items, rising to 25% on January 1, 2019. We have yet to receive any formal notification from our suppliers on these newly affected items and therefore will not be passing along charges until we receive those updates. Again the exceptions will be where Sager Electronics is the importer of record and is being charged tariffs directly by U.S. Customs and Border Control.



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SECTION 301 TARIFFS FOR CUSTOMERS IN MEXICO AND CANADA

Sager will continue to not charge tariffs on products delivered outside of the United States. Duty payment is ultimately only required for products intended for domestic consumption therefore any duty paid by Sager for product delivered to Mexico or Canada will be processed for duty drawback allowed under Section 301. This is a Sager Electronics process and will be invisible to our Mexico and Canada customers. For parts that suppliers have chosen to increase the piece part price we will have no choice but to pass these increases along in the purchase price.

BILLING PROCESS

We have created a separate line item for the tariff charge as opposed to raising prices at the part number level. The exception will be for parts which suppliers have chosen to increase the piece part price, in which case we will have no choice but to pass these increases along in the purchase price. We believe separating the tariff will reduce the supply chain impact and have the least disruptive effect from accounting and business process perspectives.

Beginning October 1, 2018, our invoices will now include a separate line charge for each item subject to Section 301 tariffs. The billing rate will vary by supplier and where Sager Electronics is the "Importer of Record". Our invoice design will allow you to directly match the tariff amount to the related line item. You will not receive any tariff related charges outside of our standard invoicing process.

Our primary objective is to minimize supply chain disruption and to support your requirements at the highest levels. We hope that our decision to delay billing of the Section 301 tariffs gave you more time to prepare for the impacts, and that our billing calculation reflects an equitable approach to this extraordinary situation.

You can find updates on the Sager Electronics website under China Tariffs: Section 301 Import Tariffs or paste this link in your browser:

<https://www.sager.com/about-us/corporate-social-responsibility/>

Sincerely,

Frank Flynn

President Sager Electronics