



Policy

Organizational Units Affected	Subject COUNTERFEIT PARTS DETECTION AND AVOIDANCE		
Policy Number			
Date March 6, 2019	Replaces January 27, 2019	Amends	Supplements

POLICY AND PURPOSE:

Counterfeit parts pose an unacceptable risk to the integrity and reliability of Prestolite Electric Incorporated (“Prestolite”) products. Accordingly, Prestolite employees, subcontractors, and suppliers must strictly adhere to this Policy to ensure that products supplied by Prestolite contain only authentic parts and components. Because a counterfeit part represents evidence of criminal activity, and not merely a quality issue, this Policy also establishes special reporting and disposition procedures for parts identified as counterfeit or suspect counterfeit parts.

The U.S. Department of Defense (“DOD”) has adopted rules intended to mitigate the risk of counterfeit parts — primarily counterfeit electronic parts — in the defense supply chain, and this Policy is intended to promote the detection and avoidance of counterfeit parts consistent with existing DOD requirements, so as to abolish counterfeit parts proliferation.

APPLICABLE DEFINITIONS:

Counterfeit Part means an unlawful or unauthorized reproduction, substitution, or alteration that has been knowingly mismarked, misidentified, or otherwise misrepresented to be an authentic, unmodified part from the original manufacturer, or a source with the express written authority of the original manufacturer or current design activity, including an authorized aftermarket manufacturer. Unlawful or unauthorized substitution for the purposes of this definition includes used parts represented as new, or the false identification of grade, serial number, lot number, date code, or performance characteristics.

Suspect Counterfeit Part means a part for which credible evidence (including, but not limited to, visual inspection or testing) provides reasonable doubt that the electronic part is authentic.

Obsolete Part means a part that is no longer in production by the original manufacturer or an aftermarket manufacturer that has been provided express written authorization from the current design activity or original manufacturer.

Original Component Manufacturer (“OCM”) means an entity that designs and/or engineers a part and is pursuing or has obtained the intellectual property rights to that part. Note that a part and/or its packaging are typically identified with the OCM’s trademark.

Original Equipment Manufacturer (“OEM”) means a company that manufactures products it has designed from purchased components and sells those products under the company’s brand name.

Authorized Dealer/Distributor means a supplier with express written authority of a contractual arrangement with the original manufacturer or current design activity, including an authorized aftermarket manufacturer, to buy, stock, re-package, sell, and distribute its product lines.

Approved Supplier means, for purposes of this Policy, the original manufacturer of a part, an authorized dealer/distributor of a part, or a supplier that obtain the part exclusively from the OCM or its authorized dealer/distributors.

REQUIREMENT TO PURCHASE DIRECTLY FROM APPROVED SUPPLIERS:

Prestolite and its subcontractors or suppliers are required to purchase parts only from approved suppliers, in accordance with Prestolite Work Instruction “Component Authenticity.” If a part is not available from an approved supplier, written notification must be made to, and prior written consent obtained from, Prestolite’s Head of Purchasing, before purchases can be made from a non-approved supplier. Whenever possible, suppliers must provide documentation establishing traceability of the parts at issue through the supply chain back to the original component manufacturer or one of its authorized dealer/distributors. If such documentation is not available, the lack of traceability must be factored into the counterfeit risk assessment for that part. Prestolite will assess the risk posed by the non-approved supplier and adopt risk-based counterfeit detection and avoidance procedures specific to that supplier/part, as appropriate.

Purchase orders issued by Prestolite and its suppliers must include appropriate provisions requiring that the seller have a counterfeit part control plan designed to detect and avoid the use of counterfeit parts, and further requiring the seller to provide appropriate certificates of conformance attesting to the authenticity of all parts provided. If a seller is objects to these provisions in a purchase order, a Prestolite purchaser must consult with Chief Compliance Officer prior to agreeing to remove such provisions from a purchase order, and the removal of either provision (or refusal or failure of a supplier to provide the requested certificate of conformance) must be factored into the counterfeit risk assessment for that particular supplier/part, and may require additional precautions or heightened inspection/testing of the received parts for authenticity.

COMPLIANCE RED FLAGS

Because of the difficulties of identifying counterfeit parts, all personnel are expected to be alert for suspect counterfeit parts and to contact the Chief Compliance Officer for further guidance if any uncertainty exists, and to halt all potential transactions where any suspicions arise.

Some examples of “red flags” that would merit further inquiry include, but are not limited to, the following:

- Change in appearance from prior shipments;
- Items coming from a source other than the OCM/OEM or authorized sources;
- Price significantly different from history (i.e., unexplained significant price reduction);
- Chain of ownership to part unverifiable;
- No certificate of conformance;
- Scarce item suddenly available;
- Unknown supplier; and
- Item marking issues:
 - Does not match similar items;
 - Alterations / resurfacing;
 - Wrong size / location / method;
 - Lot number / date code issue.

REPORTING OF COUNTERFEIT PARTS OR SUSPECT COUNTERFEIT PARTS:

Counterfeiting is a crime involving fraud. Accordingly, when Prestolite or one of its suppliers becomes aware of a counterfeit part or a suspect counterfeit part, appropriate notifications to government officials should be made. If the part has been purchased for delivery to DOD, Prestolite must notify the applicable DOD contracting officer and follow any mandated reporting protocols or procedures established by DOD or Federal Acquisition Regulation rules. Prestolite should coordinate with the DOD contracting officer to ensure the discovery of the counterfeit part or suspect counterfeit part is reported to the appropriate law enforcement agency, and Prestolite should follow the direction received from the DOD contracting officer or law enforcement agency regarding retention and disposition of the counterfeit or suspect counterfeit part.

For commercial contracts, Prestolite should notify an appropriate federal law enforcement agency of the discovery of the suspect counterfeit or counterfeit part and should comply law enforcement's instructions regarding retention and disposition of the part. Coordinate such notification through Prestolite's Chief Compliance Officer, Tony Wong.

QUARANTINING AND DISPOSITION OF COUNTERFEIT AND SUSPECT COUNTERFEIT PARTS:

In the event that product assurance actions, in-process inspections/tests, or product failure experiences indicate that parts are suspect or confirmed counterfeit, Prestolite and its suppliers must quarantine the part at issue. Quarantining includes one or more of the following steps:

- a. Physically identify the parts as suspect/fraudulent/counterfeit product (e.g., tag, label, mark).
- b. Physically segregate the parts from acceptable non-suspect parts and place in quarantine. Quarantine should consist of physical barriers and controlled access.
- c. Do not return the parts to the supplier for refund, replacement, etc., except under controlled conditions which would preclude resale of the suspect counterfeit parts into the supply chain, and to allow the supplier to conduct internal investigation.
- d. Confirm the authenticity of the parts. This may include further part-level testing, communications with the component's/part's supposed OCM, third-party analysis, etc.
- e. Upon confirmation that a part is counterfeit, identify and place on "Hold" all potential additional counterfeit parts in storage and installed in product pending disposition by appropriate authorities.
- f. Report counterfeit parts in accordance with this Policy and follow retention/disposition instructions provided by the appropriate contractual or law enforcement authority.

MONITORING AND SCREENING CREDIBLE SOURCES OF COUNTERFEITING INFORMATION:

Purchasing agents and/or designates are responsible for periodically monitoring reports of counterfeit or suspect counterfeit parts on the Government-Industry Data Exchange Program ("GIDEP") or other credible sources of counterfeiting information, for reports regarding current or potential Prestolite suppliers or parts, to assist in Prestolite's efforts to avoid the use of counterfeit or suspect counterfeit parts. If, through such monitoring, a Prestolite employee becomes aware of a report of suspected counterfeiting affecting a current Prestolite supplier or part, such report should immediately be brought to the attention of Prestolite's Head of Quality for consideration of potential action by Prestolite regarding such supplier or part.

ELIMINATING OBSOLETE PARTS FROM DESIGN:

Obsolete parts pose a heightened risk of counterfeiting. Therefore, it is Prestolite policy to review the bills of material for its products to identify and seek to remove obsolete parts from the design when practicable, replacing them with comparable non-obsolete parts, provided Prestolite has design authority for the product at issue. If the obsolete part is in a product over which Prestolite does not have design authority (i.e., Prestolite is building to a technical data package or design owned by the U.S. government or another company), Prestolite should open a dialogue with the design activity for the product to assess the possibility of replacing obsolete parts in the design with parts that are currently in production.

TRAINING ON COUNTERFEIT PARTS PREVENTION:

It is Prestolite policy that its employees, and the employees of its suppliers, receive periodic training on policies and procedures designed to detect and avoid the use of counterfeit parts in Prestolite products. Such training should include training on appropriate procedures for detection, internal reporting and quarantining of counterfeit or suspect counterfeit parts.

AWARENESS OF COUNTERFEITING INFORMATION AND TRENDS:

Appropriate Prestolite employees with purchasing or quality responsibilities will be kept informed, as appropriate, regarding current counterfeiting information and trends, including detection and avoidance techniques described in industry standards relevant to Prestolite's products. If such information suggests a need to change or improve existing Prestolite counterfeit detection and avoidance processes, such personnel shall notify Prestolite's Compliance Officer or Manager, who will commission a review and revision of Prestolite's existing processes or procedures as part of Prestolite's efforts to continuously upgrade its internal processes for counterfeit parts detection and avoidance.

ADDITIONAL GUIDANCE AND RESPONSIBILITIES:

If you suspect any potential or actual violations of law or corporate policies, it is your obligation to report this to your supervisor or manager, or directly to the Compliance Department or through the toll-free confidential hotline (1-800-398-1496). The hotline is administered by a third-party and is available 24 hours a day/7 days a week. Calls are anonymous unless you choose to leave your name and contact information.

If you have any questions concerning these guidelines or their applicability to a particular situation, contact Prestolite's Compliance Officer or manager.