

## Expense Offset Policy

**Introduction** Our Expense Offset Policy is intended to recover the redundant cost incurred by Kate Spade & Company due to shipments that do not meet our standards.

All shipment expense offset inquiries should be emailed to Henya Bonetsky [HBonetsky@katespade.com](mailto:HBonetsky@katespade.com) & Huascar Cruz ([HCruz@katespade.com](mailto:HCruz@katespade.com))

**Note:** Quality Assurance non-compliance charges will continue to be processed through **Service Now**. There will be a minimum charge of \$50.00 USD per receipt for any compliance violation. A \$500.00 penalty will be charged for repeated Non-Compliance occurrences.

### U.P.C. Labeling Expense Offset Charges

| No. | Non-Compliance                                      | Expense Offset           |
|-----|---|--------------------------|
| 101 | Merchandise not U.P.C. marked                       | \$25 plus \$.25 per unit |
| 102 | Poor quality color coded U.P.C. labels              | \$25 plus \$.25 per unit |
| 103 | Color coded U.P.C. label affixed improperly/missing | \$25 plus \$.25 per unit |
| 104 | Non readable/scannable U.P.C. code                  | \$25 plus \$.25 per unit |
| 105 | Color coded U.P.C. label not in required format     | \$25 plus \$.25 per unit |
| 106 | Wrong information on UPC sticker                    | \$25 plus \$.25 per unit |

### Technology Expense Offset Charges

| No.                          | Non-Compliance                                 | Expense Offset |
|------------------------------|--|----------------|
| <b><u>E.D.I.</u></b>         |  |                |
| 201                          | Missing/unusable ASN (856) this shipment       | \$250. per ASN |
| 202                          | Late ASN (856)                                 | \$250 per ASN  |
| 203                          | ASN (856) data errors (missing/bad)            | \$250 per ASN  |
| 204                          | Unable to receive E.D.I. Purchase Order (850)  | \$250 per P.O. |
| <b><u>UCC-128 Labels</u></b> |  |                |
| 205                          | Missing UCC-128 label                          | \$5 per carton |
| 206                          | Poor quality UCC-128 label                     | \$5 per carton |
| 207                          | Incorrect placement of UCC-128 label on carton | \$5 per carton |
| 208                          | UCC-128 label format not correct               | \$5 per carton |
| 209                          | UCC-128 label not corresponding to ASN (856)   | \$5 per carton |

## Quality Assurance Expense Offset Charges

**Offset Charges**            The following Quality Assurance non-compliance will result in an offset charge as listed below

| No. | Non-Compliance   | Expense Offset  |
|-----|--|---|
| 306 | Merchandise received in poor condition   | \$25 per receipt plus .25 per unit inspected plus refurbishing.   |
| 307 | Missing/incorrect direct shipment labeling                                       | \$25 per receipt plus \$5 per carton.   |
| 308 | Incorrect pre-packs/assortments  | \$.25 per unit plus \$25 for incorrect carton. <b>(see note)</b>  |
| 309 | Non-conforming to VICS Standards (hangers/foam/Jet Clips/issues)                 | \$25 per receipt plus \$.25 per unit plus cost of hangers   |
| 310 | External Quality: Chargeback from Customer                                       | 100% of chargeback amount   |
| 311 | External Quality: Handling/processing fee for external failure                   | \$50 per incident   |
| 312 | External Quality: Customer returned product within 90 days of cancel             | Full LDP cost times units returned  |
| 313 | No/Wrong size strip on folded garments   | \$25 per receipt plus \$.50 per unit  |
| 314 | Missing / Incorrect / Improper garment labeling for Mexico and Israel shipments. | \$150 per receipt<br>\$1 per label per garment or actual replacement charge from customer, whichever is higher. |
| 315 | Unauthorized Bypass / Requires US Inspection                                     | \$ 500 per receipt  |
| 316 | Kate Spade & Company QAC Re Audit Cost   | \$250 per source order  |

**Note: Second offense    \$ .50 per unit**  
**Third offense            .75 per unit**  
**45 day grace period between 1<sup>st</sup> and 2<sup>nd</sup> offense.**

## Accounts Payable Expense Offset Charges

| No. | Non-Compliance                                  | Expense Offset                               |
|-----|---|--|
| 403 | Printed invoice not included with shipment      | \$5 per invoice                              |
| 404 | Request for research on item over 12 months old | \$25 per aged item/claim number              |
| 405 | Unauthorized shipment                           | 100% Cost of Goods plus all processing costs |

## Distribution Centre Expense Offset Charges

| No.                                | Non-Compliance  | Expense Offset  |
|------------------------------------|---|---|
| <b>Shipping / Receiving Errors</b> |   |   |
| 500                                | Incorrect USA DC Bypass Direct Shipment                       | \$0.25 per unit plus additional charges. See Direct Ship Policy in <a href="#">Logistics section</a> , minimum charge per shipment is \$150 |
| 501                                | Merchandise were shipped to wrong location / DC               | \$5 per carton plus \$0.15 per unit plus freight, minimum charge per shipment is \$150.   |
| 502                                | Merchandise received 2 weeks before in-warehouse date or late | Charges assessed per incident per department  |
| <b>Packaging Errors</b>            |   |   |
| 513                                | Missing or incorrect carton marking                           | \$50 per receipt plus \$5 per carton  |
| 516                                | Quantity on carton mark does not match with packing list      | \$150 + 1 per unit (for piece count)  |
| 530                                | Improper packing of cartons                                   | \$150 per receipt plus \$3 per carton   |
| 531                                | Non-standard/damaged cartons                                  | \$50 per receipt plus \$5 per carton plus damages   |
| 532                                | Incorrect styles (packing detail does not match shipment)     | \$150 per receipt plus \$.10 per unit for cartons + \$.05 for GOH to recount for shortages / overages.                                      |
| 533                                | Damages due to faulty container equipment                     | \$500 per receipt plus damages  |
| 534                                | Incorrect purchase order                                      | \$150 per receipt plus damages  |
| 535                                | Multiple SKUs in a single carton                              | \$25 per carton plus \$.20 per unit   |
| 536                                | Shortage / Overages (exceed ship tolerance)                   | LDP cost times units short plus \$.10 per unit for cartons + \$.05 for GOH to recount for shortages / overages.                             |
| 537                                | Unordered/defective merchandise returned                      | 100% LDP cost of returned merchandise plus freight (R/T)  |
| 538                                | Units in carton not in standard quantities                    | \$150 per receipt   |
| 539                                | Concealed overage   | \$.05 per unit  |
| 540                                | Missing/incorrect Visa  | \$500 per shipment  |
| 541                                | Rainbow loaded (mixed SKU's)                                  | \$2.00 per carton or \$.05 per unit plus \$300 per receipt  |
| 542                                | Incorrect Carton Rightsizing                                  | Excessive Freight plus \$500 penalty per shpt.  |

## Logistics / Shipping Expense Offset Charges

| No. | <u>Non-Compliance</u>   | Expense Offset                       |
|-----|---|--------------------------------------|
| 510 | Cargo shipped by wrong ship mode.   | \$150 per shipment plus full freight |
| 511 | source order was aired under wrong freight terms  | \$150 + freight difference           |
| 512 | Missing or improper shipping documentation, see document requirement from logistics guideline   | \$150 per shipment                   |
| 514 | Incorrect document distribution   | \$150 per incident                   |
| 515 | Vendor didn't consolidate same day air shipments under 1 HAWB   | \$100 per incident plus freight      |
| 517 | Incorrect or incomplete SAMPLE invoice to USA<br>E.g. sample invoice missing fiber content, goods description or manufacturer name & address.   | \$100 per shipment                   |
| 518 | Vendor shipped out the goods without KS&C switching invoice or vendor sent factory invoice to JKS   | \$150 per shipment                   |
| 519 | International direct ship order:<br>Vendor missed to send original document to customer as per instruction in logistics guideline   | \$150 + storage cost                 |
| 520 | Actual ship quantity not match with the quantity declared on factory invoice  | \$150 per shipment                   |
| 550 | Late Shipment booking (vessel – 14 days prior to ETD, air – 7 days prior to ETD)<br>Penalty will be charged per DC per sailing per book date if it's required to place booking as 1 SO/PO.<br>e.g. If vendor place multiple SOs late with same DC same sailing on the same date, USD150 will be charged. If vendor place multiple SOs late with same DC same sailing on 2 different dates, 2xUSD150 (total USD300) will be charged.<br>For PRS (FOB HK) shipment, single penalty will be collected in case they place bookings late for a single sailing at 1 time. Multiple penalties will be collected if they place booking late in separate days. | \$150 per shipping order             |
| 551 | Revise/late SI (vessel)<br>vendor revise SI after SI cutoff   | \$150 per shipping order             |
| 552 | Late Document Submission<br>Vendor submit document later than Damco/FF document submission timeline.  | \$150 per document                   |
| 554 | Dead freight<br>Factory load container below minimum utilization rate   | \$155 per cbm                        |

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| No. | <u>Non-Compliance</u>  | Expense Offset  |
|-----|--|---|
| 555 | <p>Late booking revision or cancellation<br/>All vessel shipment booking cancellation or revision should be done 1 working day prior to CFS cutoff. Penalty will apply if vendor failed to cancel booking or revise cargo ready 24 hours prior to CFS cutoff. No show without pre-alert is classified as late cancellation.</p> <p>Note: Shipment ex-Shanghai has different timeline and charges on this event. Late Booking Cancellation – deadline: after SLD (customs declaration doc) is prepared, charges RMB200 per shipping</p> | \$150 per shipping order  |
| 556 | <p>CFS Late come<br/>Charges for vendor to apply late come for cargo delivery after CFS cutoff</p>   | Tariff as specify by FF/Damco or \$155 per truck (the higher apply) |
| 557 | <p>CFS Late Come no show or shortfall<br/>Vendor do not deliver cargo after late come was applied<br/>Vendor delivered cargo volume has +/- 5% volume discrepancy than the booked volume or</p>  | \$155 per cbm   |
| 558 | <p>Volume Discrepancy (booking vs. actual received)<br/>Total delivered volume for single DC has more than +/- 5cbm deviation from booked volume.</p>  | min USD 150 for 5 cbm, additional USD50 per cbm thereafter          |
| 559 | <p>CY Late come<br/>Vendor apply late come for cargo delivery after CY cutoff</p>  | \$155 per container   |