



Customer Furnished Material (CFM) Standard Operating Policy

I. Receiving:

- Parts are received in and counted at Incoming Inspection. This count is compared to the quantity the customer has stated. Both the customer and RJR counts are noted in RJR receiving records, and any discrepancies are noted. If there is more than a 2% discrepancy, Customer service is notified and the parts are placed on hold until the discrepancy has been resolved. For all new CFM parts, RJR requires a 48-hour notice prior to the parts shipment to RJR. The notice must include the part identification number, description, and purchase order number in order for parts to be accepted at the RJR receiving dock.

II. QA Incoming Inspection:

- No incoming inspection is performed on CFM parts. Only a cursory dimensional/visual inspection is performed to identify the part. When the customer furnishes parts, RJR does not assume any responsibility for the quality of the bare part.
- If a QA incoming inspection service is desired, please contact your RJR Customer Service Representative to discuss the additional cost and arrange for inspection services.

III. Pricing for CFM Parts:

- CFM price quotations are based on "as is" processing of the customers part.
- The customer is charged a price based on the number of parts processed (received) and not based on the actual number of parts shipped to the customer. This means that the customer will be charged for all yield losses incurred in processing the parts.

IV. Processing of CFM Parts:

- The customer parts are processed “as is” based on the quantity received.
- Expected Yield losses: Yield loss typically occur in the process due to: Poor quality of the part supplied; Scrap caused during production set-up; Parts used for destructive QA testing of epoxy thickness and flow, retains, and production errors. Experience has shown that the customer can expect typical Yield Losses based on the following production lot sizes:

| Quantity of Shipment/Production Run | % Of Possible Fallout |
|-------------------------------------|-----------------------|
| Less than 500 | Up to 10% |
| 500 - 1,000 each | Up to 7.5% |
| 1,001 - 2,500 each | Up to 5% |
| 2,501 - 10,000 each | Up to 3% |
| 10,001 - 100,000 each | Up to 2% |
| Over 100,000 | Up to 1.5% |

V. Shipment of CFM Parts

- RJR will ship all parts received and processed through RJR’s manufacturing system, except for parts used for testing, set-up and retained samples, as defined above. Parts that are defective will be segregated and marked as SCRAP. These parts will also be shipped back to the customer with the order.