

July 14, 2018

RE: USTR Section 301 Action – Tariffs on Certain Goods Made in China

Dear Valued Classic Components Corp Partner,

As of July 6<sup>th</sup>, 2018, USTR Action 301 went into effect. As a result, certain components that Classic buys and sells will have an additional 25% tariff imposed upon them at the time they are imported into the United States. The list is quite broad and can be referenced here:

<https://ustr.gov/sites/default/files/enforcement/301Investigations/List%201.pdf>

The items on this list must be *made in China* to be eligible for a tariff. It does not matter what country is shipping the item into the USA. Only the COO (country of origin) is what matters. Therefore, an item on this list that was made in Malaysia but sourced from a Chinese distributor would not be eligible for an additional tariff. On the other hand, an item made in China but shipped from a Malaysian distributor would be eligible for a tariff.

Classic is diligently working with our industry partners in order to mitigate the negative impacts on your supply chain. Due to the complexity of this issue, it is difficult to have a single, overarching policy regarding the matter.

Here are some of the steps we have taken as well as our strategies for the short to medium term:

- In anticipation of the tariffs, Classic transferred all our internationally stocked WIP, bonded or on-hand inventories that are made in China and on the Section 301 List to our Torrance, CA. USA HQ. Therefore, any inventory already held by Classic prior to July 6<sup>th</sup>, 2018 will not be tariffed.
- Our sales and procurement personnel have been instructed to specify the COO on all quotes and inquiries as a part of the regular process whenever possible. We will do our best to mitigate costs to our customers by closely controlling and monitoring this information on the front-end.
- We must remind our customers and suppliers that Classic Components Hong Kong is an AS9120B, ISO9001, and ESD2020 staffed with fully trained and certified product inspectors. All of the same leading-edge quality processes used in our USA HQ are duplicated in Hong Kong.
- Classic Components UK is a logistics hub that can also be used for pass-through shipments.
- For now, Classic will attempt to manage this government policy on a case-to-case basis. If the material we are quoting to our customer is unavoidably subject to a tariff, we will identify it as such and include this in the quoted price.
- Classic will make every attempt to mitigate the impact of these tariffs on our customers through strategic sourcing and logistics. Our flexibility may indeed give our customers a strategic advantage here.
- Many components are made in multiple factories in multiple nations. In the event that the COO may not be known at the time the quote is presented, and the material is on the Section 301 list, we must assume the COO is China and quote the price as such. However, if the material is received and the COO is not China, we can discount the sale price at that time.
- We understand that this trade policy is new to all of us. It is our goal to provide the best possible flexibility of service and price. Our policies may shift over time depending on many unpredictable variables.
- Classic welcomes feedback and ideas from all of our partners. We understand there may be many unique cases that require unique solutions. This is what we do. Classic provides creative solutions for complex problems.

Mike Thomas  
Vice President - General Manager  
Classic Components Corp.