



USA Rare Earth, Inc.

Counterfeit Parts and Materials Prevention Policy

1. Purpose

USA Rare Earth, Inc. (“USARE”) is committed to preventing the introduction, use, or delivery of counterfeit or suspect counterfeit materials and products. This Policy establishes a **risk-based counterfeit prevention framework** integrated with USARE’s **Quality Management System (QMS)** to ensure material authenticity, traceability, timely detection of suspect material, and effective containment and disposition.

This Policy expressly integrates with **QA-2-005 – Control of Nonconforming Product**, which governs the operational handling of suspect, nonconforming, or counterfeit materials.

2. Scope

This Policy applies to:

- All USARE facilities, programs, and operations;
- All personnel involved in **procurement, receiving, manufacturing, inspection, testing, quality, material handling, storage, and shipment**;
- All **raw materials, processed materials, in-process materials, and finished rare earth magnet products** produced by USARE.

USARE produces magnets from mined and processed materials and does **not** incorporate externally manufactured finished parts or assemblies into its products.

3. Regulatory, Standards, and QMS Alignment

This Policy is intended to align with, as applicable:

- **DoD Instruction 4140.67** – Counterfeit Prevention
- **DFARS 246.870-2 and 252.246-7008** – Counterfeit Part Avoidance (applied proportionately to materials)
- **SAE AS5553** – Counterfeit Parts Avoidance
- **SAE AS6174** – Counterfeit Material Risk Mitigation
- Customer counterfeit-avoidance requirements
- **USARE QMS procedures**, including:
 - **QA-2-005 – Control of Nonconforming Product**
 - **QA-4-013 – Nonconformance Report**
 - **QA-4-012 – Nonconformance Log**
 - MRB disposition records and deviation approvals



Where requirements differ, the most stringent applicable requirement shall apply.

4. Definitions

- **Suspect Material:** Material for which there is an indication, through inspection, testing, documentation review, or other information, that it may be misrepresented, nonconforming, or counterfeit.
- **Counterfeit Material:** Material whose origin, composition, processing history, performance characteristics, or markings are knowingly misrepresented or falsified.
- **Nonconforming Product:** Product or material that does not meet specified requirements, including suspect or counterfeit material, and is controlled under **QA-2-005**.

5. Policy Statement

Suspect or counterfeit materials shall be treated as **nonconforming product** and controlled in accordance with **QA-2-005 – Control of Nonconforming Product**. Such materials shall be:

- Immediately identified and contained;
- Segregated in designated quarantine areas;
- Documented using approved QMS forms and logs;
- Reviewed and dispositioned by authorized personnel only; and
- Prevented from unintended use or delivery.

Confirmed counterfeit material shall **never** be returned to the supply chain.

6. Policy Governance and Responsibilities

- **Senior Management**
 - Endorses this Policy and ensures adequate resources for implementation.
 - Reviews program effectiveness during management reviews.
- **Quality Manager**
 - Owns implementation of this Policy.
 - Ensures alignment with QA-2-005.
 - Interfaces with customers on deviation requests and reporting.
- **Quality Department**
 - Initiates and maintains nonconformance records (QA-4-013).
 - Maintains the Nonconformance Log (QA-4-012).
 - Verifies conformity, supports investigations, and coordinates MRB actions.
- **MRB (Material Review Board)**
 - Reviews nonconforming, suspect, or counterfeit materials.
 - Authorizes dispositions (scrap, rework, recycle, customer deviation, or return).



- **Operators, Inspectors, Supervisors**
 - Identify suspect or nonconforming material and initiate containment per QA-2-005.
- **Material Handlers**
 - Transfer identified materials to designated quarantine locations.

7. Risk-Based Counterfeit Prevention Approach

USARE applies a risk-based approach considering:

- Material criticality and intended end use;
- Supplier location and supply chain complexity;
- History of supplier performance or nonconformances;
- Customer and regulatory requirements.

Risk level determines supplier controls, inspection depth, testing, documentation, and audit frequency.

8. Supplier Management and Controls

- Materials shall be sourced only from **original producers, refiners, processors, or USARE-approved suppliers**.
- Suppliers are evaluated and approved based on:
 - Capability to provide authentic material;
 - Traceability controls;
 - Quality system maturity;
 - Historical performance.
- Non-approved sourcing requires documented justification and written authorization, as required by customer contracts.
- Applicable counterfeit-prevention and nonconformance controls shall be **flowed down to sub-tier suppliers**.

9. Procurement Controls

- Purchase documents require certification that materials are **new, authentic, and traceable**.
- Substitution, commingling, or broker sourcing without approval is prohibited.
- Materials shall not be released to production until required verification and documentation are complete.

10. Inspection, Testing, and Verification

USARE performs inspection and testing commensurate with risk, including:

- Documentation and certification review;
- Chemical, physical, or dimensional verification;



- Lot and batch verification.

Material failing inspection or presenting authenticity concerns is immediately processed as **nonconforming product under QA-2-005**.

11. Control of Suspect, Nonconforming, or Counterfeit Material

(Integration with QA-2-005)

When suspect, nonconforming, or counterfeit material is identified:

- **Identification occurs** at receiving, inspection, or production.
- **Containment is initiated** by the Operator, Inspector, or Supervisor.
- **QA-4-013 (Nonconformance Report)** is completed.
- **Material Handler moves material** to the designated quarantine area.
- **Quality initiates QA-4-012 (NC Log)** and evaluates material.
- If conforming, material is released and records updated.
- If nonconforming or suspect, material remains quarantined pending **MRB review**.
- **MRB dispositions** are documented in QA-4-013 and QA-4-012.
- Customer deviation requests, if required, are handled by the **Quality Manager**.
- Disposed material is controlled, labeled, and routed per MRB decision.

This process ensures counterfeit or suspect material cannot re-enter production or the supply chain.

12. Documentation and Traceability

USARE maintains traceability from raw material through finished magnets, including:

- Supplier identity and origin;
- Batch, heat, or lot identification;
- Inspection and test results;
- Internal processing history;
- Nonconformance and disposition records.

Records are retained per contractual, regulatory, and QMS requirements.

13. Product Marking and Anti-Counterfeiting Measures

To deter counterfeiting and enable traceability, USARE implements:

- Permanent or packaging-level lot/date coding;
- Serialized or tamper-resistant labels where applicable;
- Internal traceability codes linked to production and quality records;
- Secure packaging and controlled labeling processes.



Marking methods are selected to maintain magnet performance and customer requirements.

14. Reporting and Communication

- Suspect or confirmed counterfeit material is escalated to Quality Management and senior management.
- Customers and Government authorities are notified as required by contract or regulation.
- Lessons learned are communicated internally to reduce recurrence.

15. Training and Awareness

Affected personnel receive periodic training covering:

- Counterfeit and suspect material awareness;
- Identification and containment responsibilities;
- Use of QA-2-005, QA-4-013, and QA-4-012;
- Reporting and escalation expectations.

16. Compliance, Audits, and Continuous Improvement

- Internal audits verify compliance with this Policy and QA-2-005.
- Customer and Government audits are supported.
- Noncompliance results in corrective action and documented follow-up.
- Metrics such as internal PPM and Cost of Poor Quality (COPQ) support continual improvement.

17. Disposition of Confirmed Counterfeit Material

Confirmed counterfeit material shall:

- Be permanently removed from the supply chain;
- Be conspicuously marked or physically rendered unusable;
- Not be returned to suppliers unless directed by customer or authority;
- Be documented and disposed per MRB and QMS requirements.