

Normal Work Practices (NWP)

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Scope

These work practices have been compiled to provide you with an understanding of Sarco Stopper's (SS) work methodology. They identify primary activities and group them within distinct phases, to ensure that activities and deliverables are identified and understood in advance, that projects are well managed, and that your expectations are met in full. They also set forth definitions and conditions of business that, in the absence of other agreement, govern the conduct of project work.

Management Mechanisms

The phased design management mechanism set down in items 1 5 has been devised to ensure proper control of development programmes.

1. Product Planning Phase -Work undertaken in this phase covers market research. It will include such of the following as are specifically contracted for:

- a. Secondary Research - quantitative, desk based research using published sources of information, covering activities such as market characterisation; market quantification; geographical spread, competitor identification and analysis etc.
- b. Primary Research - qualitative research carried out by telephone interviews, one to one meetings, unstructured, semi structured or structured interviewing or focus group trials. Research seeks to develop and validate a draft specification, examine product usage, attitude to product cost, estimate market penetration/adoption etc. Primary research may require the preparation of concept models and/or demo units to support discussion.

2. Feasibility -Feasibility work is intended to:

- a. Develop an outline product specification where none exists, or examine aspects of any product specification not developed in phase 1a/b
- b. Investigate technical feasibility
- c. Investigate build cost feasibility
- d. Software – requirements analysis resulting in requirements document.

3. Concept Phase -Work undertaken in this phase covers first order Conceptual Design and is intended to eliminate as many of the technical unknowns as possible, culminating in a definitive specification for the product. It will include such of the following as are specifically contracted for in relation to each project:

- a. General arrangement / configuration of the product in terms of locating the primary elements internally and externally and their relationship to the user (Human factors). Development of the Human Computer Interface (HCI)
- b. The external appearance of the product in terms of styling, colour, surface finish.
- c. A product identity as implemented through establishment of a product name or other title and covering all applied graphics, badges and logos.
- d. First order Electronics Design presented as detailed block diagrams and functional description.
- e. First order Optical Design (paper design & calculations)
- f. First order software data process models and specification.
- g. First order Engineering Design including any primary calculations and functional description.
- h. The prototyping of any subsystems where significant research element exists that might otherwise prejudice the execution of the Development Phase.
- i. Regulatory tasks may include safety risk analysis and/or identification of relevant directives and safety standards.
- j. Engineering (technical) specification.
- k. Acceptance criteria for the engineering model.

Master appearance model(s).
First order Graphic & Brand Communications

Your acceptance of items **j, k & l** (where included) is required before proceeding to the Development Phase of any project. Where elements of specification are left fluid or undefined at the conclusion of the Concept Phase (for whatever reason) then clients are advised that costs over and above those estimated for the Development Phase may be incurred when late identification causes additional work or rework.

4. Development Phase - Work undertaken in this phase covers the detailed engineering development of the product, leading to the submission of a first order engineering model (or prototype). The phase will include such of the following as are specifically contracted for in relation to each project:

- a. Provisional drawing set of all parts detailed and toleranced. Material list. **NOTE:** Assembly drawings are excluded and implemented during the Pre-Production Phase.
- b. A set of electronics supplied to first revision of PCB artwork.
- c. Software design document and supporting documentation. Prototyping aspects of functionality if required.
- d. Detailed specification & design of Optical components.
- e. A mechanism built to the level detailed in the provisional drawing set.
- f. A full engineering model of the product capable of running the acceptance criteria.
- g. Regulatory tasks may include safety risk analysis, EMC, and safety testing at suitably qualified test houses.
- h. Graphic & Brand Communications: Finalisation to artwork

An engineering model is by its nature a hand built prototype and although it must confirm the design strategy and engineering principles outlined in the Concept Phase, it cannot be fully representative of the final production item.

Where the Client does not commission SS to undertake the Pre-Production Phase then SS's responsibility for the design shall be limited to upgrading the drawing / data set only in respect of dimensional errors, fit and finish. The phase is deemed to be concluded when the unit is shown to operate to the standards set down in the acceptance criteria (*item 3k.*), SS can accept no responsibility if Pre-Production activities are initiated prior to the signed acceptance of the Development Phase.

5. Pre-Production Phase

Work undertaken in this phase covers the upgrade of the prototype design to full production specification. It is anticipated that Clients will wish modifications to the product as a result of their testing and market research programmes. Such modifications should be submitted in writing prior to initiation of the Pre-Production Phase. Modifications submitted may incur additional charges where they constitute specification changes or alter the previously agreed configuration. This phase will include the following such as are specifically contracted for in relation to each project:

- a. Modification of drawing/3D Data set, PCB artworks to bring the documentation to Pre-Production issue.
- b. Implementation of software code and functional testing to agreed standards.
- b. Obtaining tooling and piece part prices from potential vendors. Placing of orders and management of tooling through to sampling of parts.
- c. Build, test and supply of a Pre-Production batch of product.
- d. Assembly drawings and instructions.
- e. Environment, life and reliability testing.
- f. Approvals submission CE marking BS, UL, FDA and others by agreement.

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Definitions & Conditions

6. Provisional Drawings/3D Data

These refer to all drawings / 3D Data issued by SS during the Development Phase. They are not intended to be final production drawings / data. SS will not be liable for any costs incurred by Clients should they order parts to these drawings / 3D Data and subsequently find them to be in error. SS undertakes to employ every reasonable care in the production of such drawings / 3D Data, but shall not be liable to the Client for any loss, damage or liability incurred by the Client arising from the Client's, or any third party's, use of such parts.

7. Engineering Model

This is defined as that which is constructed in accordance with the provisional drawing/data set and is capable of successfully complying with the Acceptance Criteria.

8. Component Design

Every effort is made to ensure the optimum design of prototype components, however, if in the light of evaluation of the engineering model component enhancements are to be made, then these enhancements shall fall within the scope of the Pre-Production Phase.

9. Obsolescence

SS shall not be held liable where in good faith a component is designed into a product and subsequently the manufacturer makes this component obsolete.

10. Client Sourced Parts

Where the Client has sourced parts, it is the Client's responsibility to ensure that SS is provided with the relevant manufacturer's documentation in a timely manner. Where SS is obliged to measure parts, no liability can be accepted should problems arise due to such measurements.

11. Pre-Production Drawings / 3D Data

These are defined as those drawings / 3D Data which represent the Pre-Production unit. Any modifications required thereafter are the responsibility of the Client unless specifically contracted for. One set of master drawings and up to two sets of copy prints (on request) shall be provided within the contract. Thereafter further copies will be provided at extra cost. All drawings and documentation will be supplied on SS headed media and marked with SS's internal numbering systems. Any transfer to Client's own paper and numbering systems will be after assignment of intellectual property rights. Transfer of master documentation / data will only be effected after receipt of final fees.

Operations Policy

SS will conduct its business in accordance with the Normal Work Practices, but in addition expects to work with its clients to form trusting relationships of mutual advantage. It will do this by only promising what we reasonably expect to deliver, fulfilling our obligations and commitments, acting in good faith and in the perceived best interest of its clients.

Fees

12. Fee Estimates

Fee estimates (these are not fixed prices) are for design time and project management only and are based upon the assumption that the client adheres to the method of project management outlined in clauses 1-5. They take no account of alterations or specification changes.

13. Validity

Fee estimates shall be valid for 30 days. Timescales are indicative only and should be confirmed at the time of placing an order. SS undertakes to make every reasonable effort to ensure delivery of all items as indicated, however, timescales shall not be deemed to be part of any contract.

14. Ordering

When initiating a project Clients shall provide SS with a duly authorised purchase order, supported by the appropriate deposit. SS will not proceed without an authorised purchase order or verbal go ahead supported by a valid purchase order number. Where work is ongoing and extensions are requested, or SS agrees to proceed on the basis of verbal instructions, SS's Normal Work Practices will be held to be binding in all respects without alteration, for the purpose of the conduct of the work, provided these work practices have been notified to the Client, at the time, or at anytime within the preceding six months.

15. Deposits

A deposit of 25% (plus VAT) of the estimated total fee content of any contract shall be payable in advance. These deposits are non-refundable in the event of cancellation. They shall be reconciled at the end of the project when the final invoice is settled.

16. Billing

Fees shall be invoiced on a monthly basis against completed phases **OR** if the phase extends beyond one month then on the basis of a pro-rata allocation of the work done in the month against the estimated total work within the phase **OR** where work is held up by the client approval process, or lack of timely supply of information or material by the client, then work shall be charged out on the basis of actual hours incurred limited to the outstanding balance per phase. Where an area of risk is identified, billing shall be strictly for actual hours per month. Material, tooling and travel expenses will be invoiced monthly as incurred.

17. Payment

Payment shall fall due 14 days from the date of invoice. Where SS notifies the Client in writing that payment has not been received, the Client shall have 7 additional days to redress the matter. Thereafter if funds are not received, the Client shall be deemed to be in material breach of contract, and SS may, at its discretion, discontinue work. Previously agreed schedules and estimates shall no longer remain valid. The Client shall be liable for and shall pay SS interest on outstanding balances at a rate of 5% over the Bank of Scotland's base lending rate.

18. Approval

The Client shall sign off a notice of acceptance of each phase prior to initiating further work. Where such sign off is not given, acceptance of any submitted work shall be deemed as implicit if it is not rejected in writing within seven working days of submission, or if other work normally contingent on acceptance is otherwise instructed.

19. Untimely

Is defined as being any delay beyond 10 working days from submission of material for approval, or written or verbal request to expedite information or material by SS to the client.

20. Extra Fees

Extra charges may be incurred if specification changes or alterations are made which cause the re-work of drawings / data already produced, or increase the complexity or scope of the task in any way beyond the original contract.

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21. Notification of Increases

Where the Client alters the specification and / or instructs SS to make changes likely to incur extra cost, it is the responsibility of the Client to ensure that revised estimates are requested at that time. Where this is not done, Client approval of consequential increase shall be deemed to be implicit and will be charged for on the basis of the hourly rate applicable at the time. Such increases shall be limited to 15% or less of the fee content of the relevant design phase and SS shall have the right to vary its final invoice within that phase without prior notification. Where cost increases of more than 15% are likely, then SS shall notify the Client and seek prior approval in writing, pending which SS shall be under no contractual obligation to undertake work which shall increase cost in the manner aforesaid.

22. Re-Work

Where SS has agreed in writing to re-work an element of a project free of charge, the Client may retain a maximum of $\frac{1}{3}$ only of related amounts outstanding on the particular phase until this re-work is complete. The remaining $\frac{2}{3}$ must be paid as it falls due.

23. Delay

If after being initiated, a project is notified to SS as being delayed such that SS is required to temporarily discontinue work, then SS shall have the right to invoice in full for all work and direct costs to that point, plus an additional stand down fee calculated as 10% of the fee content of the active phase.

24. Risk

Where a project is identified to the client in writing as containing an element of 'risk', then the Client shall bear that risk, and SS will be entitled to payment in full irrespective of whether or not it is possible to bring the project to a successful conclusion within the initially agreed time frame or budget. This condition will apply to projects that depend on technology working at its upper limit, or using untried techniques, or where materials are sophisticated and near the limits of their operational specification. It may also apply where system integration is complex or pioneering new techniques.

25. Cancellation

Work may be cancelled giving 30 working days notice where contracts have a value in excess of £20,000, or 7 working days where contracts are £20,000 or less. In such circumstances SS shall be entitled to invoice for all work undertaken or allowed for until the expiration of the notice period, limited to the completion of the outstanding phase.

Expenses

26. Model Components

SS undertakes to obtain competitive quotations for prototyping services and manage procurement on the client's behalf.

27. Materials Expenses

All materials, components and other procured parts used for the purpose of executing any project shall be separately invoiced at cost plus 15%. SS will provide copies of relevant supplier invoices on request. Clients may set a limit to such expenditure but where none exists then SS shall not procure beyond £5000 without prior approval.

28. Travel Expenses

Unless otherwise agreed with Clients, expenses are excluded from estimates. Charges will be based on 45 pence per mile for car journeys, second class rail fares, or for air travel the seasonal economy fare on all journeys with flight times of 4 hours or less and the seasonal business class fare for flight times in excess of 4 hours.

29. Tooling Expenses

All tooling for moulded, machined or fabricated parts, PCB artworks and masks, shall be invoiced separately at cost plus 15%. SS will provide copies of relevant supplier invoices on request. Clients may set a limit to such expenditure but where none exists then SS shall not procure beyond £5000 without prior approval.

Confidentiality & Exclusivity

30. Confidentiality

SS shall endeavour to ensure that its employees treat all information concerning the Client's business, technical know-how, intentions, production methods, costs and commercial organisation as confidential. It will not divulge any such information to a third party without the consent of the Client, or make use of any such information for any purpose other than work for the Client. SS will disclose information to its employees only if they are bound by an equivalent confidentiality undertaking to SS. When a product is launched and in the public domain, SS shall have the right to identify its proper association with that product (with the permission of the client which shall not be unreasonably withheld) unless another agreement is made.

31. Exclusivity

SS will not knowingly work simultaneously on projects that are directly competitive with those of the Client without his knowledge. This shall not be taken to mean however, that the client has exclusive rights to SS's services in such areas, unless so specified in the contract, and covered by a separate fee.

Title & Liability

32. Intellectual Property Rights (IPR)

Any copyright or right of registered design or patentable invention arising from design assignments undertaken by SS shall be the property of SS.

33. Patent Infringement

Unless specially requested and agreed in writing, SS accepts no liability for infringement of any letters or patents, copyright, registered design or trademark.

34. Product Liability

The Client accepts liability for examining any design to ensure that any items produced in accordance with the documentation provided by SS will not cause injury or damage to third parties when used. The Client further accepts that he will indemnify SS in respect of any third party claims against SS that alleges loss, damage or injury as a result of use of the item incorporating the design.

Interpretation & Acceptance

35. Interpretation

The law of Scotland shall apply to all matters arising from contractual dispute.

36. Acceptance

It is presumed that Clients find these definitions and conditions to be acceptable at the time of placing the order irrespective of their own standard conditions.