

ETHICAL CRITERIA FOR MILITARY CONTRACTS

RESOLVED: that the Board of Directors review and if necessary amend and amplify our Company's code of conduct and statement of ethical criteria for military production-related contract bids, awards and contract execution and report the results of this process to shareholders within six months of the annual meeting.

SUPPORTING STATEMENT

XXX, like other global corporations, faces increasingly complex ethical challenges as the international, social, cultural, economic and political context within which it operates changes. We believe decisions to produce and sell weapons may have grave consequences for the lives and freedom of peoples worldwide when the company has not considered its responsibility for its decisions. Thus, we suggest our company's responsibilities include analyzing the effects of its business decisions as they impact employees, communities, nations and a sustainable environmental future.

Because XXX ranked the 12th largest Department of Defense contractor in FY2005 with \$2.5 billion in contracts,* we believe our company must evaluate the decisions made when bidding on such work. That bidding/contract process should follow a defined format and include clear, concise criteria and policies. Such practices are consistent with those of the U.S. Armed Forces, which, for example, regularly utilize military lawyers and other experts to evaluate the prospective use of particular strategies and weapons according to the ethical standards reflected in the Geneva Conventions and other norms of international law.

We recommend that the criteria/standards include:

- ethical business practices such that human rights and fair labor standards are upheld;
- consideration of the effects of contract execution on a sustainable environment. These might include long-term environmental impact studies, management of waste or toxic releases and transfers;
- strategies for stability of employment, including alternate production plans and funding sources;
- directives which respect the culture of communities in which factories are located;
- guidelines derived after critical study of political and civil stability of countries, regional warfare such as in the Middle East and before sale of weapons, weapons parts and dual-use technology;
- studies of potential impacts of military production and use of those products on peoples' economies, environments and societies, along with procedures for remediation, should they be required;
- disclosure of the nature of arrangements with any local security forces; and
- processes that ensure that the principles of the common good and the integrity of creation are respected when making decisions about bidding on contracts.

We believe that careful, values-based review of the contracts on which management bids, whether for research and development, production or foreign sales, is crucial for continued public acceptance of the company as an ethical entity entitled to derive profit from armament manufacturing.

*(100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards - Fiscal Year 2005, *Government Executive*, 8-15-06)