LETTER FROM KURT RAVENFELD
Director Global Supply Chain Operations
Lockheed Martin Corporation

Dear Valued Supplier,

Welcome to the second quarter Lockheed Martin GSCO Supplier Newsletter. We hope that you found our first newsletter to be both informative and useful. Our goal is to center our publications on topics that will strengthen supply chain practices for us, and our suppliers.

In this installment of our quarterly newsletter, we are reviewing our Supplier Ethics Requirements/Resources, Supplier Cybersecurity Resources, Science of Sustainability and Counterfeit Parts. Key program flowdowns, helpful links, and other resources are embedded throughout the articles and are meant to help guide you to necessary information and answers.

All of these topics are extremely important to Lockheed Martin's Supply Chain and ensuring our customers' mission success. You will notice, for example, Supplier Cybersecurity becoming an increasing important and scrutinized topic across industry, as domestic and international threats increase. Lockheed Martin takes our shared cybersecurity very seriously. As a valued partner, you will continue to hear more from us on the steps and measures to assure a secure cybersecurity program and we ask for your cooperation to take the measures necessary to close any system vulnerabilities.

In closing, I hope you find the included information as valuable as we do and seek to take action where appropriate. As always, your continued support and collaboration is extremely important to Lockheed Martin, so please reach out to your supply chain representative if you have any questions.

Thank you again for being our valued partner!

Kurt R Ravenfeld
Director Global Supply Chain Operations
Corporate Engineering, Technology & Operations
Lockheed Martin Corporation
ETHICS & COMPLIANCE RESOURCES FOR SUPPLIERS

You already know that the Ethics Statement in all Lockheed Martin purchase orders “encourages all suppliers to implement an effective ethics program, including adopting a written code of conduct.” But did you know that we updated the Ethics Statement earlier this year? Now, suppliers “are expected to conduct themselves in a manner consistent with the principles expressed in **either the Lockheed Martin Supplier Code of Conduct or the Defense Industry Initiative Model Supplier Code of Conduct.**”

Prior to this change, suppliers were only flowed the Lockheed Martin Supplier Code. We modified our purchase order language to support efforts by the Defense Industry Initiative on Business Ethics and Conduct (DII) to promote use of an industry-wide supplier code of conduct. This would reduce the burden on small aerospace and defense firms of ensuring compliance with each customer’s different expectations. In addition, companies without a code of conduct can adopt DII’s Model Supplier Code, with or without modifications, as their own. For more information on this initiative, email ethics.suppliers@lmco.com.

DII offers a [Small Business Toolkit](#) and a series of [Best Practices Webinars](#) to help companies design, implement, maintain and augment their business ethics and conduct compliance programs. The next webinar, scheduled for July 19, is “Writing and Implementing a Code of Conduct and Policies and Procedures.” These DII resources complement Lockheed Martin’s own [Ethics Supplier Mentoring Program](#), which includes a suite of self-serve resources, a live webinar series featuring small business case studies, and the option for one-on-one mentoring. All DII and Lockheed Martin ethics resources are completely voluntary and free of charge for all users.
CYBERSECURITY RESOURCES FOR SUPPLIERS

Awareness of cyber risks and implementation of effective cybersecurity controls and defenses is vital. To assist suppliers, Lockheed Martin, A&D Primes and Exostar will identify and post links to helpful publicly available resources for NIST 800-171 security controls in the near future. The effort will kick off with links to resources on critical security controls that are frequently requested.

Please evaluate your compliance with the controls identified in NIST 800-171 and be prepared to comply with these provisions when solicitations and contracts are issued by Lockheed Martin.

Additional guidance on cybersecurity, including an overview of the cyber DFARS clauses can be found at: http://www.lockheedmartin.com/us/suppliers/cybersecurity.html
SUSTAINABILITY

Sustainability is a vital component of our business strategy that drives responsible, profitable growth to increase shareholder value and deliver mission and economic success to customers, employees, suppliers and communities we work and live in. Our 2016 Sustainability Report, “Science of Citizenship,” details how we are making progress against our newest cycle of Sustainability Management Plan goals and our five newly-evolved core areas: business integrity, employee wellbeing, product impact, information security and resource efficiency.

The Business Integrity and Product Impact sections of the report detail our efforts to:

- Support our suppliers to strengthen management and disclosure on ethical, labor, human rights and environmental issues;
- Prevent abusive labor practices and violations of civil liberties in business operations and supply chain in a manner consistent with internationally recognized standards;
- Prevent counterfeit parts from entering the company’s supply chain and potentially affecting product quality, safety and performance.

In our report we explain how these efforts not only help us become better partners to our suppliers, they also make us a more sustainable company.

As a global defense and aerospace company, our products and technological solutions enable our customers to protect and facilitate resilient and thriving societies. To meet the demands of our government and commercial customers, we rely on our suppliers to help us deliver innovative, scalable solutions to the world’s most complex problems. Addressing global challenges, today and in the future, is our shared opportunity to provide value to society.
COUNTERFEIT PARTS

Our military, government and commercial customers count on Lockheed Martin’s products to work each and every time. Whether it is a satellite, airplane, weapon system or security system, our customers trust that our products will achieve their mission. The inclusion of sub-standard and unreliable parts in a Lockheed Martin product presents a serious threat to our goal of producing mission critical hardware our customers rely on. One cause of sub-standard and unreliable parts is counterfeit components. Industry reports have increased over the past several years of counterfeit electronic parts infiltrating the aerospace and defense supply chain.

Lockheed Martin requires its suppliers to take steps to eliminate the risk of introducing both counterfeit electronic parts as well as non-electronic parts and materials. We define Counterfeit Work as items that are or contain unlawful or unauthorized reproductions, substitutions or alterations that have been knowingly mismarked, misidentified or otherwise misrepresented to be an authentic, unmodified part from the original manufacturer or a source with the express written authority of the original manufacturer or the current design activity, including an authorized aftermarket manufacturer. Unlawful or unauthorized substitution includes used items represented as new or the false identification of grade, serial number, lot number and date code or performance characteristics.

Industry reports the most common type of counterfeit electronic parts are used, but then modified under uncontrolled conditions and made to appear new. The longevity of aerospace and defense products often exceed the life cycle of commercially available parts. The aerospace and defense industry is particularly vulnerable to this type of counterfeiting scenario. Needed parts may be out of production and no longer available directly from the manufacturers.

With an increasingly complex supply chain, extra diligence must be given to identification, tracking, inspection and management of parts throughout the supply chain to ensure the authenticity of critical parts and materials is not compromised. Lockheed Martin depends on you, our supply base, to be partners with us in our efforts to combat counterfeit part infiltration into our products. Suppliers must have robust counterfeit part control plans that meet and or exceed industry and any applicable government standards. Always reference your Lockheed Martin purchase order for your specific requirements.

The regulatory landscape in regard to counterfeit part prevention continues to evolve. Based on the National Defense Authorization Act of 2012, Section 818, the United States Department of Defense (DOD) released a regulation dictating requirements for counterfeit electronic part detection and avoidance systems. Currently, the DOD
Federal Acquisition Regulation Supplement (DFARS) requires that contracts with prime contractors and their subcontracts contain provisions requiring counterfeit prevention processes for DOD suppliers of electronic parts address the following elements:

- Training for the detection and prevention of counterfeit parts.
- Risk based processes for inspection and test to aide in the detection of counterfeit items.
- Processes to abolish the counterfeit parts proliferation.
- Processes that ensure traceability of procured items back to their manufacturer.
- Procurement processes that utilize original component manufacturers or their authorized distributors.
- Reporting to the Government Industry Data Exchange Program suspected counterfeit part incidents and processes to keep suspect or confirmed counterfeit parts quarantined.
- Methodologies to identify suspect counterfeit parts and to work toward confirmation of the counterfeit condition.
- The design, operation and maintenance of systems to detect and avoid counterfeit electronic parts.
- The flow-down of counterfeit detection and avoidance requirements to sub-tier suppliers.
- Processes for keeping continually informed of current counterfeiting information and trends.
- Processes for monitoring GIDEP or other credible sources of counterfeiting information to avoid the purchase or use of counterfeit electronic parts.
- Processes to control and address obsolescence issues.

On Aug. 2, 2016, the DOD issued a final rule under DFARS Case 2014-D005 making further changes to the DFARS to address the detection and prevention of counterfeit parts. The focus of the new rule is on establishing rules for sourcing electronic parts to mitigate the risk of introducing counterfeit parts in the defense supply chain. The rule modifies the existing clause at DFARS 246-7007 Contractor Counterfeit Electronic Part Detection and Avoidance System and adds a new clause at 252.246-7008 Sources of Electronic Parts, both are mandatory flow-down provisions. As have past rules on this subject, the rule will impact Lockheed Martin in how it selects suppliers and actions it must take to mitigate counterfeit parts risk and became effective upon its publication.

For the full text of these requirements and changes, we urge our suppliers to review the DFARs 252.246-7007 clause in its entirety on the Defense Procurement and Acquisition Policy website.

Greater than 95 percent of reported counterfeit issues are the result of procuring parts from distributors or brokers who are not authorized by the Original Component Manufacturer. The simplest and most effective way of combating counterfeit items is to
know you are using a manufacturer-authorized supply chain. If you “buy the parts right,” your risk of receiving counterfeit product is minimized. We require Lockheed Martin suppliers to ensure strict procurement policies are in place and ensure traceability for all items that you incorporate into our products back to the manufacturer. Always refer to your Lockheed Martin purchase order terms and conditions, also called “CorpDocs” and the quality clauses for your specific requirements.

Thank you for helping us prevent counterfeit items from infiltrating our supply chain and thank you for the role that you play in helping us jointly be successful in meeting our most important missions.

Counterfeits Prevention & FAQs