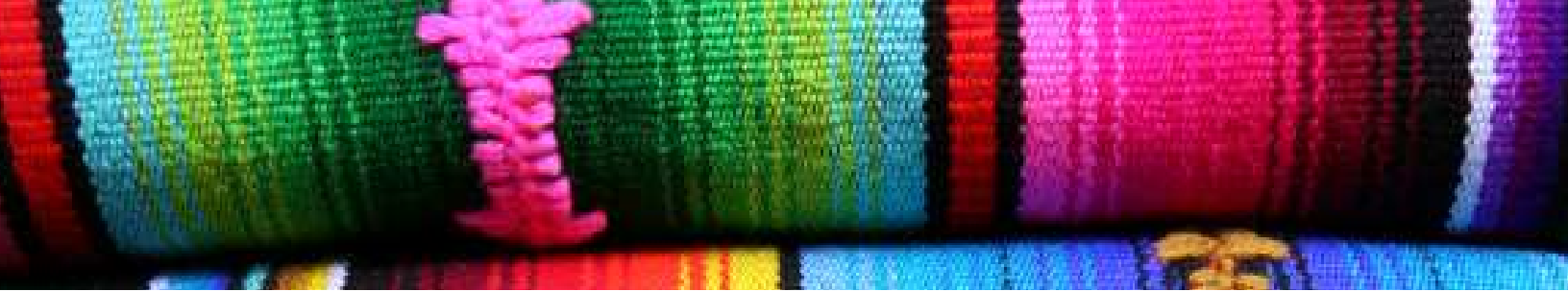


STR RS Annual Report 2009



Delivering Confidence Worldwide

Responsible Sourcing Solutions



About STR Responsible Sourcing

STR Responsible Sourcing (STR RS) is a trusted global provider of monitoring, training and consulting services that help clients reach their responsible sourcing goals and manage sourcing risk. STR RS is a business unit within Specialized Technology Services' Quality Assurance Division, which was founded in 1944.

We deliver innovative solutions to many of the world's most renowned brands, retailers and institutions concerning the social and environmental impact of their activities. Annually, STR RS conducts nearly 20,000 assessments of factories, farms and processing plants in 150 countries.

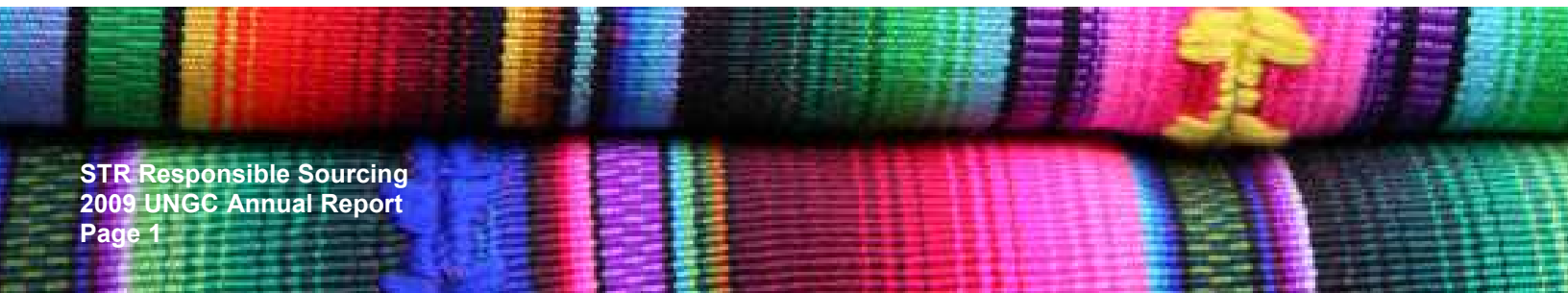
A pioneer in the social compliance field, STR RS is an accredited monitor for numerous social certification programs and we partner with many organizations that share our mission of helping to assure responsible sourcing practices.

Our Mission

We help clients build secure and socially responsible relationships with their supply chain partners.

Our Vision

We operate in an interdependent environment where our products and services, operational ideals and our employees are intrinsically linked.



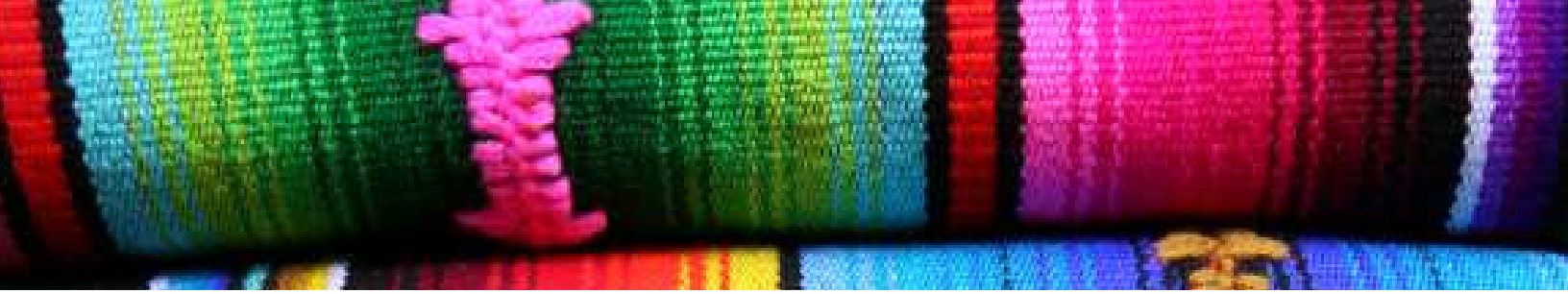
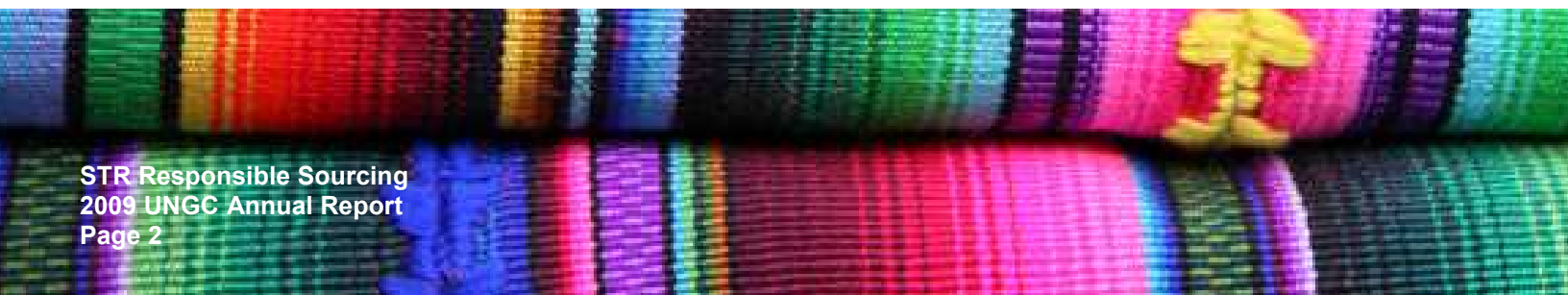


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Message from Management

At the start of 2009, like everyone else, I was preparing for the worst recession since the 1930s – all signs were pointing to it being an extremely difficult year for our clients and, by extension, for us. For a variety of reasons, we made it through the worst of the recession with a record year. This kept us gratefully busy but it also meant we did not have the capacity to pursue some of the initiatives that were identified in 2008's UN Global Compact report.

Despite this, I believe we played our most important role yet in fulfilling our commitment to the UNGC principles: our work in 2009 helped to ensure that the most vulnerable workers received fair treatment, especially in such desperate economic times when many business owners were forced to make tougher decisions than ever about their workforce expenditures.

Looking ahead to 2010, STR RS remains committed to the principles of the UN Global Compact and as you will see in this year's report, many initiatives that we hope to announce as complete in our next report are already well under way:

- Live beta tests of the new Labor and Employment Standards Library (LESLi) were completed at the end of 2009 and by the time this report is published it will have celebrated its official launch at our 5th Annual Responsible Sourcing Summit in February.
- The findings of a project we conducted in 2009 jointly with Harvard and MIT are due to be published in 2010.
- We are continuing to play a leadership role in the Global Monitoring Institute as we actively seek funding for the group and establish an advisory board made up of a broader base of industry representatives.

In addition to all of this, we will continue our efforts to install the systems needed so our 2010 UNGC report includes metrics from all of STR's business units.

I invite you to read through this report and I welcome feedback, which you can send to annualreport@STRRS.com.

Sincerely,



Greg Gardner
General Manager, Responsible Sourcing
STR



UNGC Principles

Principle 1: Support and respect the protection of human rights

Principle 2: Ensure non-complicity in human rights abuses

Principle 3: Uphold freedom of association and recognition of the right to collective bargaining

Principle 4: Elimination of forced and compulsory labour

Principle 5: Abolition of child labour

Principle 6: Elimination of discrimination

Principle 7: Support a precautionary approach to environmental challenges

Principle 8: Promote greater environmental responsibility

Principle 9: Encourage the development of environmentally friendly technologies

Principle 10: Work against all forms of corruption

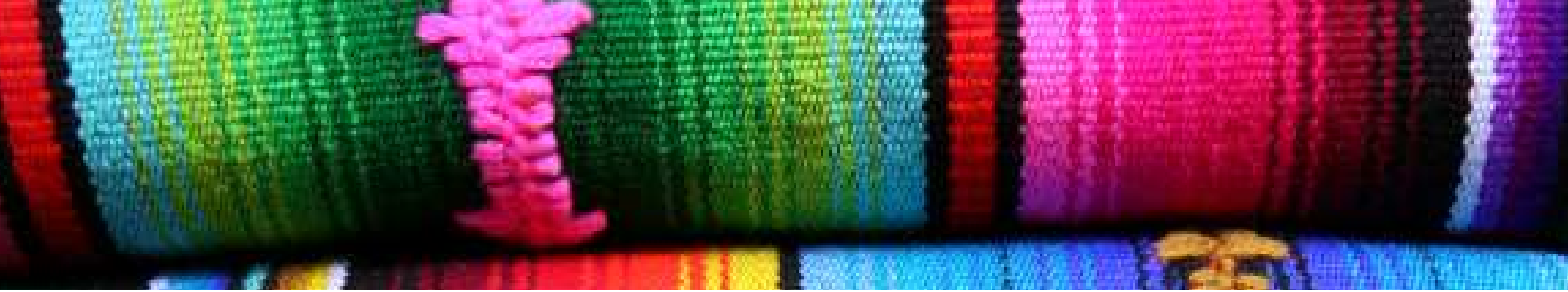
How STR RS Upholds these Principles

By virtue of the work we do at STR RS, our employees and management are committed to the UN Global Compact principles.

STR RS interacts with thousands of workers each year to help identify and address labor and human rights abuses and environmental risks through our monitoring and training services. We work closely with clients and their supply chain partners to establish codes of conduct and to correct risky practices that infringe on the rights of workers. We also partner with non-profit organizations and academic institutions to further study the socio-political issues surrounding the workplace so we can help clients create relevant programs that address the most vital supply chain concerns.

We are constantly working hard to improve our own internal systems so we can lead by example. We have a comprehensive ethics program, requiring our employees as well as our business partners to sign their understanding of and their agreement to the policy. Additionally, we are continuing to study ways to scale some of our local performance metrics and environmental initiatives to our global operations so we can better track our performance vis-à-vis these principles.

Although it sounds cliché to say that “doing the right thing” is “part of our DNA”, we truly believe that to be the case at STR RS. Our legitimacy as a monitoring organization depends heavily on our ability to operate and promote the UNGC principles and we will work hard to remain accountable to that end.



Our Products and Services

We are a leading global provider of independent assessment, education and risk management services for supply chain compliance to worker welfare, environmental health and safety and security standards.

STR RS is an accredited monitor for, or a member to a number of major industry initiatives and certification programs:

- Worldwide Responsible Apparel Production (WRAP)
- ICTI Care Foundation Asia Limited (ICTI)
- Electronic Industry Code of Conduct (EICC)
- Supplier Ethical Data Exchange (SEDEX)
- Business Social Compliance Initiative (BSCI)
- Initiative Clause Social (ICS)
- AccountAbility
- IACET Approved Provider of CEUs

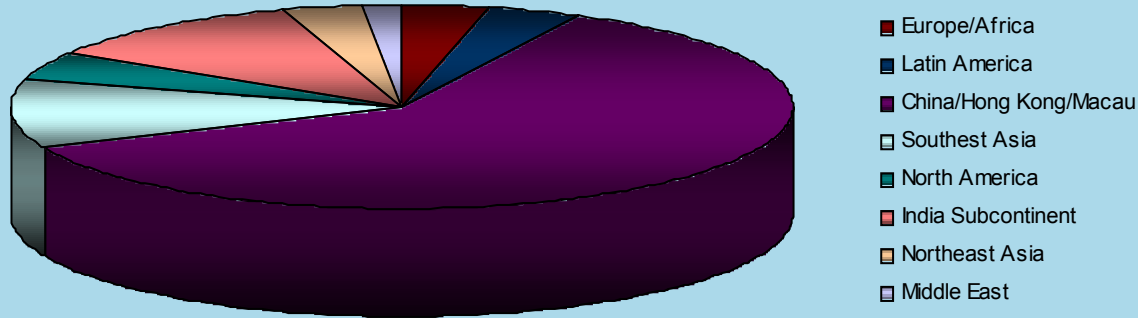


Assessment Data

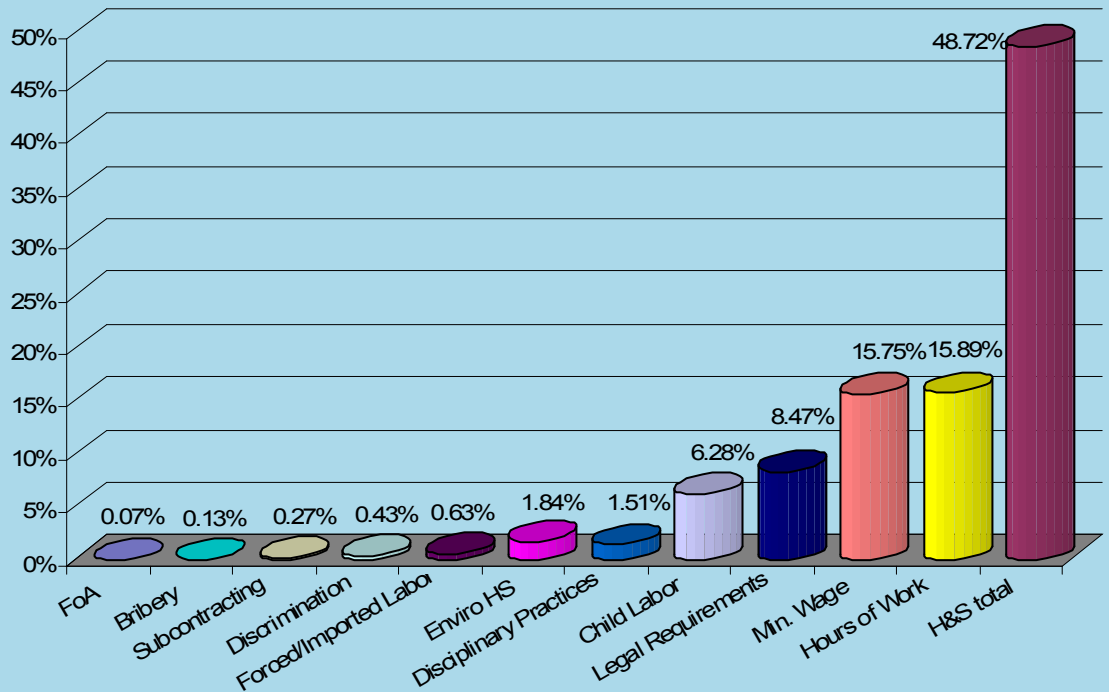
STR RS collected information from nearly 20,000 assessments in 2009. The STR RS central database tracks findings for categories such as minimum wage, work hours, child labor, and health & safety, as well as audit volume by geographic region (see charts on right).

Changes in the display of 2009 Percent of Findings violations data (see bottom graph) include separating our Environmental H&S violations from the rest of the H&S violations (which includes Canteen, Workfloor, Toilets, Emergency and Fire Preparedness, and Dormitories). Since STR is expanding its environmental offerings, we are tracking environmental violations separately from H&S to provide a good basis for future comparisons.

2009 Assessments by Region



2009 Percent of Findings/Violations by Category





LESLi

In December 2009, STR RS completed a soft launch of our newest product offering, which makes labor and employment standards data for over 140 countries available to the public. Select clients were able to access the Labor & Employment Standards Library (LESLi), which contains translated and categorized full-text laws for 17 fundamental aspects of responsible sourcing.

LESLi also offers subscribers unique analysis tools for making country-to-country comparisons of legal requirements, as well as the capability to conduct searches by specific law criteria. Global minimum wage rates are also accessible, and where available, LESLi even includes wage rates by region, profession, skill level, and age.

By the time this report is published, we will have proudly and officially launched the product at our 5th Annual Responsible Sourcing Summit, scheduled to be held in February 2010.

Webinars & Seminars

In 2009, STR RS continued its commitment of empowering clients to make responsible business decisions through education and training initiatives. Webinars (online seminars) played an important role in this strategy, allowing us to disseminate critical information to our clients in a way that did not require anyone to travel long distances using carbon-emitting forms of transport.

Our most popular webinar ever was held in 2009 and dealt with the US Department of Labor's "DOL List". This list identified a group of 122 goods from 58 countries that the US government suspects are produced using child or forced labor. When the list was published in September, many sourcing managers were concerned about how the list would affect their business operations. To answer this, and other questions, STR RS conducted its own research and sponsored a free webinar that was delivered barely two weeks after the list was released.

Another popular webinar in 2009 was on the US Immigrations and Customs Enforcement Agency (ICE) and its mandate to increase scrutiny on businesses hiring undocumented workers. The session explored how ICE's mission could impact supply chain security.

We also carried out a number of client-specific seminars, aimed at helping our clients train their supply chain partners in best practices. We held these trainings in Turkey, Thailand and Vietnam, all in the local language, so suppliers could fully understand their responsibilities in the partnership.

As we continue to look for ways to improve our clients' understanding of the ever-changing responsible sourcing landscape, we will continue to consider using webinars to disseminate timely and relevant information.

Building Capacity

In 2009, STR RS was selected by Starbucks to assist them in piloting their Supplier Verification Program (SVP). The program aims to assess the capacity of Starbucks' manufactured goods suppliers to manage the ethical sourcing process in line with Starbucks' requirements. In this way, SVP sets accountabilities for the social, labor, ethical and environmental performance at the level of the supply chain that has the most control and influence for creating required changes.

STR RS developed the tools and methodology and carried out assessments of a group of Starbucks' suppliers, all of whom were at various stages of sophistication in terms of their responsible sourcing practices. Our main task was to identify gaps amongst the different supplier practices, as well as the gaps between these practices and Starbucks' requirements. In the end, we recommended opportunities for improvement and Starbucks is now working with the suppliers to implement program improvements.



Building Capacity with Vendors (cont'd)

Starbucks spoke about the program at our Responsible Sourcing Summit in February 2010. Engaging suppliers is a key component of making responsible sourcing an effective and sustainable endeavour. We are thrilled to be working with a company that is taking a structured and thorough approach to implementing this strategy.

Hong Kong CSR Lab

On September 25, 2009, our CSR Lab, based out of our Hong Kong office, welcomed special guest speakers as part of a joint learning session and fundraiser. The event took place in Langham Place Hotel in Kowloon and featured Mr. Alan Williams, an award-winning Hollywood score composer who used his first-hand knowledge of creativity and the creative process to inspire attendees to manage change creatively.

Also speaking was Ms. Rosa Huang from Taiwan Root Medical Peace Corps, who provided attendees with an update on relief efforts her team was carrying out in response to Typhoon Morakot in Taiwan. She brought video footage to share, showing the extent of flooding in Taiwan and the most immediate needs of the victims.

Clients, alumni and others joined the event and gave generously to Taiwan Root.

Collaborative Research

In 2009, STR RS continued its work with the Harvard-MIT Private Governance Working Group and the final stages of the project should be completed in early 2010. The project aims to find ways to best use the assessment data that STR RS has been collecting since 2003. With the right tools, this data could aid in the research of important sourcing and monitoring issues like risks related to product type, effectiveness of various reporting tools, and even the impact of auditor experience in identifying risk.

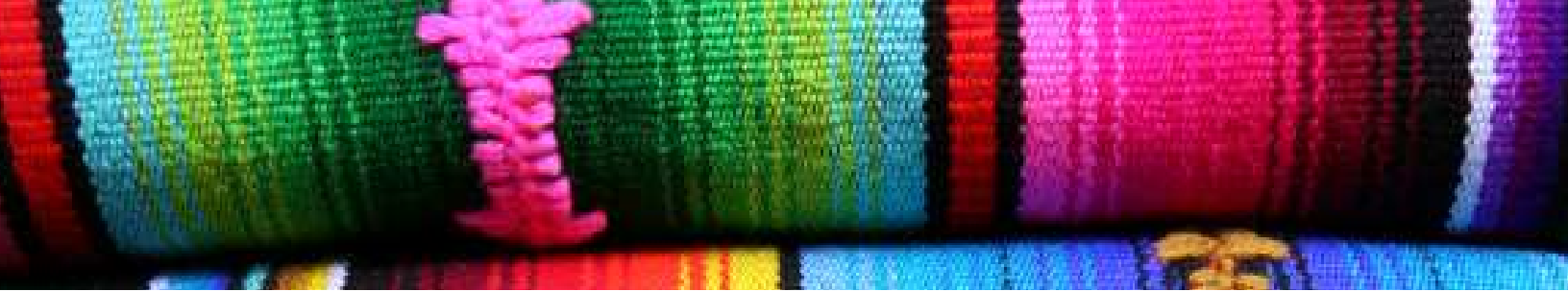
STR RS has also continued its relationship with Cornell University. We were invited to speak about our work at Cornell's School of Industrial Labor Relations, and we worked with multiple professors with feedback and support on various labor and supply chain management courses. At the close of 2009, STR RS also began a relationship with another of Cornell's schools; this time with the School of City and Regional Planning, with whom we will be looking at ways to map our assessment data. The aim is to create an interactive tool that will help identify, at a glance, important information like sourcing hotspots and risk hotspots.

Communicating CSR

In 2009, STR RS gave its weekly newsletter a facelift. It is now distributed as the "Responsible Source" in HTML format to around 2000 clients and industry stakeholders as well as to all STR RS employees. The "Responsible Source" features summaries of current news articles on topics including human rights and business, labor issues, environmental sustainability and CSR initiatives, and displays the article link to the original web-based source.

Throughout 2009, we continued to publish regular blogs on our site "Perspectives in Responsible Sourcing" (URL: <http://cscs.typepad.com/>). The issues covered this past year included brand protection, the new U.S. administration and changes at the Department of Labor, and the implementation of the Equator Principles.

Two webinars addressing current CSR issues held for clients were also available to STR RS employees. The topics covered the publication of the U.S. Department of Labor's list on imported goods likely manufactured with child or forced labor and a presentation on the possible effects of the U.S. Immigration and Customs Enforcement Agency's increased number in workplace audits. These webinars were recorded to allow viewing for those who missed the live event.



Our Operational Ideals

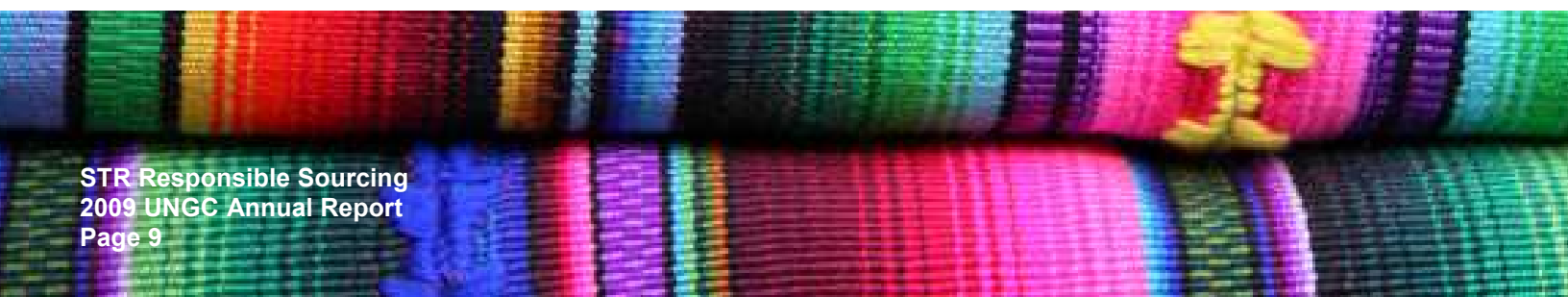
We strive for objectivity, thoroughness, accountability, and quality in all that we do.

Our clients often share their feedback with us, confirming our commitment to these ideals:

“We appreciate all the honest auditors that resist the [bribery] temptation and report the attempts.”
(Fortune 100 Retailer)

“Through this close working relations with STR, we were positively forced to address items that previously were not addressed which continue to make our program stronger.”
(Fortune 100 Retailer)

“I think the main message, which I am sure you constantly reinforce, is ethical behaviour. This is far and above the most important thing we expect and get from STR.”
(Fortune 500 Retailer)



Tracking Quality

Our assessments are tracked from the time the work order is entered into our global database to the time the final report reaches the client. We regularly measure defects, turnaround time, and auditor performance, running analyses on a weekly basis. This helps us to identify and to address potential systemic issues quickly.

A new position was added in 2009 to further integrate quality processes into our operations. The Global Quality Assurance Manager is responsible for ensuring that all reports are processed and delivered to the client and/or account manager in a timely manner. This position will work closely with the client service team, trainers and operations supervisors to study ways to improve the turnaround time on reports.

Currently, our reports go through a rigorous quality assurance and quality control process to check for routine errors and clarifications prior to delivering the report to clients. While this system has been effective for us, we hope that with adjustments to our training programs and operational procedures, we will be able to reduce turnaround time for reports significantly, allowing our clients to respond to supply chain concerns more quickly.

Anti-Bribery

STR RS' ethics and anti-bribery efforts are governed by STR's centralized compliance function. All STR staff are required to adhere to a strict Code of Business Ethics. STR has developed an Ethics management program in order to communicate organizational values to employees and stakeholders, and to integrate these values into business activity. These systems have been developed to proactively assess employees' and any entity representing STR's compliance with the standards and STR Core Values, and also to aggressively investigate allegations of bribery or unethical conduct. STR maintains a zero tolerance policy with respect to bribery, and has terminated all employees who have been found to violate this policy. At no time is an auditor to offer or accept directly or indirectly, any payment, loan, service, advantage, entertainment,

meal, travel or gifts from any individual or any business either conducting business with STR or seeking such business with the Company. At no time is an employee or any other person or entity representing STR to engage in acts of bribery, fraud, extortion, coercion or solicitation.

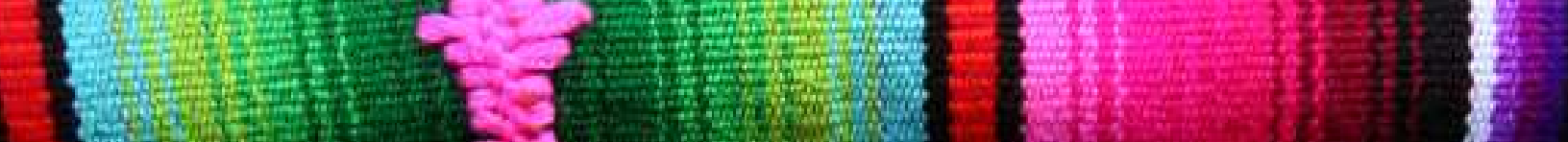
Auditors and any other person or entity representing STR are aware of the Ethics Policy and proactively apply this upon commencement of every assessment or inspection that the company conducts. During the opening meeting with facility management, the STR representative explains the STR Ethics policy, and each party signs a statement of integrity which clearly states that the facility management is not to offer any gift or gratuity to the STR representative, and that the STR representative is not to solicit or accept any gift or gratuity if offered. STR RS staff are instructed to document and immediately report any bribery attempts during the course of their work. Any such reports are then passed along to the client, usually within 24 hours. Any reports of STR RS staff violating the STR Ethics policy are taken seriously and thoroughly investigated.

In 2009, STR's corporate compliance department rolled out web-based training to all employees on the Foreign Corrupt Practices Act ("FCPA"). This training provides the participant with a summary of the provisions of the act, outlines what is considered a FCPA violation, describes the penalties associated with violations and provides guidance on how to report such a violation at STR.

Internal Training

STR RS continues to invest heavily in the development of our staff to provide high-quality services to our clients. In 2009, staff participated in a number of trainings (see chart on next page) to improve their skills in various areas of their jobs.

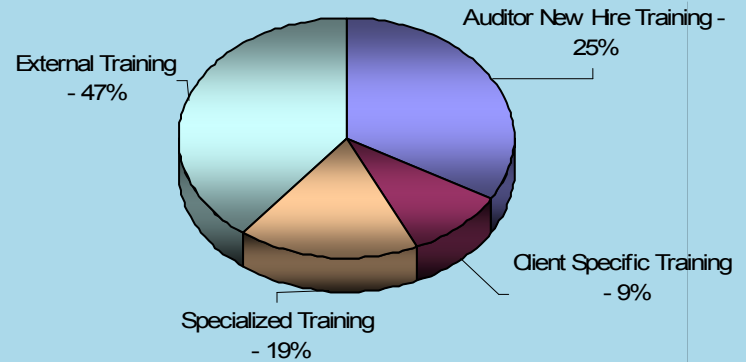
Training for all auditors is based on an 11-module training program which includes classroom and field training, as well as corresponding module examination performance to auditor qualification levels. Our auditor training program was developed under benchmark standards for the International Association



2009 Internal Training By Type

Internal Training (cont'd)

for Continuing Education and Training (IACET), as well as on ISO 19011 guidelines. Our auditor training program is the most extensive in our industry and includes ongoing field evaluations, refresher training on complex or region-specific compliance issues, professional development opportunities, mentoring, and continuous feedback.



Global Monitoring Institute

In 2009, STR RS continued to work hard to drive the establishment of the Global Monitoring Institute (GMI), which aims to professionally qualify, and eventually accredit, social compliance auditors. After establishing the basic legal and organizational structure of the organization, the remainder of 2009 was focused on defining the goals of the Board of Directors, Advisory Board, and its Working Groups. Stakeholders from non-governmental organizations (NGOs), socially responsible investors (SRIs), brands and retailers, as well as vendors and academics, have been invited and have accepted participation in the Advisory Board and the Working Groups.

GMI leadership has continued to reach out to and dialogue with all monitoring organizations with the hope of expanding the number of participating firms to include all significant organizations involved in the provision of social compliance monitoring services. While there have been no significant additions to the list of participating firms in 2009, we believe additional firms will participate in 2010.

GMI has also actively engaged with industry stakeholders to discuss the scope of the working groups. Fair Factories Clearinghouse (FFC), the Electronics Industry Code of Conduct (EICC), and the Global Social Compliance Program (GSCP) have all been approached in an effort to align with GMI to reduce duplication of effort.

Environmental Performance

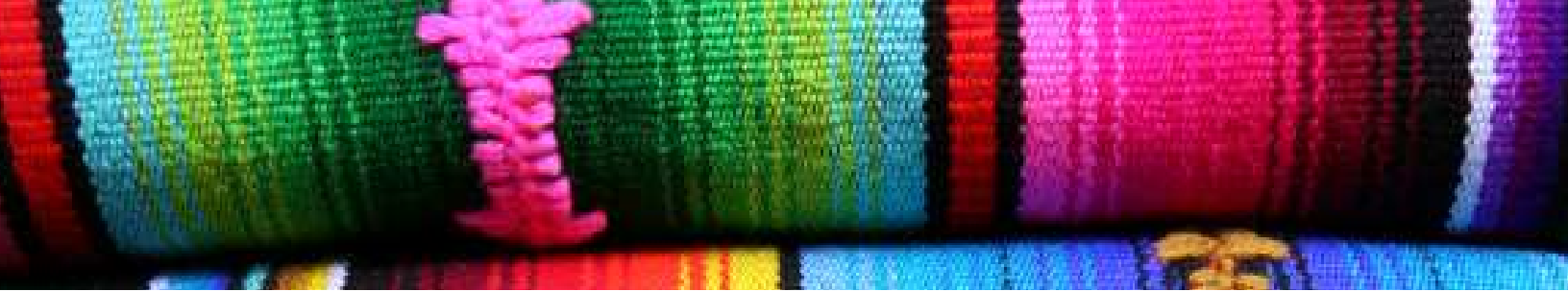
As a service company, STR RS already has a relatively small carbon footprint. However, we continue to use computer technologies to reduce not only the travel required to effectively deliver information to our clients and to our employees, but also to reduce the use of paper in our day-to-day transactions.

Currently, STR RS has offices in various locations around the world (USA, Mexico, UK, China, Hong Kong, India, Vietnam, and Indonesia), that have implemented a variety of environmental initiatives, which include:

- Using non-disposable dishware and cutlery.
- Double-sided printing as the default printer setting.
- Paper recycling (and the recycling of other materials where available) has become standard practice.
- Lights and electronics are switched off at the end of the working day.

We are continuing to look for ways to scale these activities to be applicable to all of our operations.





Our Employees

Our employees are the industry's more passionate, skilled, and dedicated professionals. They exhibit humility, adaptability, and quick problem-solving abilities in their personal and professional achievements.

As a service company, our employees are truly the backbone of the organization. Without their hard work and dedication to our mission, we would not be able to carry out our operational ideals to the degree that we do. This is why we continue to provide unique learning opportunities to our employees and reinforce the culture of respect and inclusiveness at all levels of the organization.

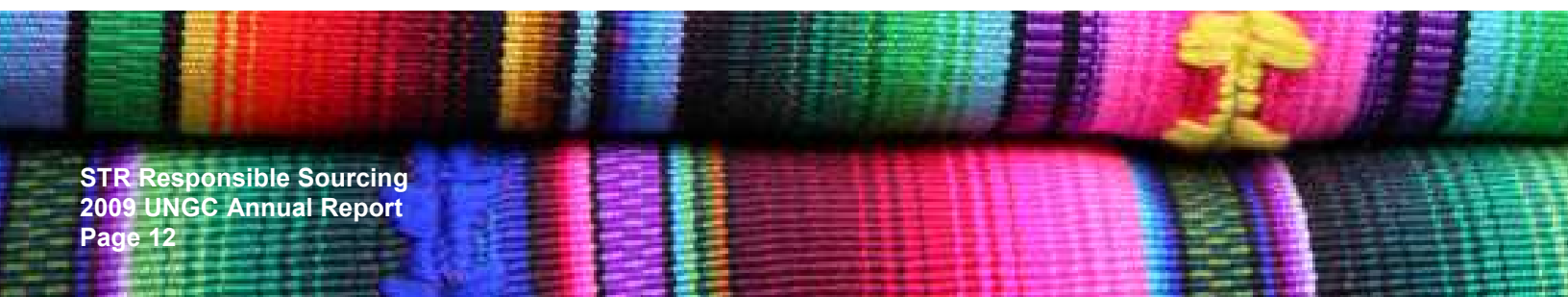


Chart 1: Gender Distribution at STR-RS

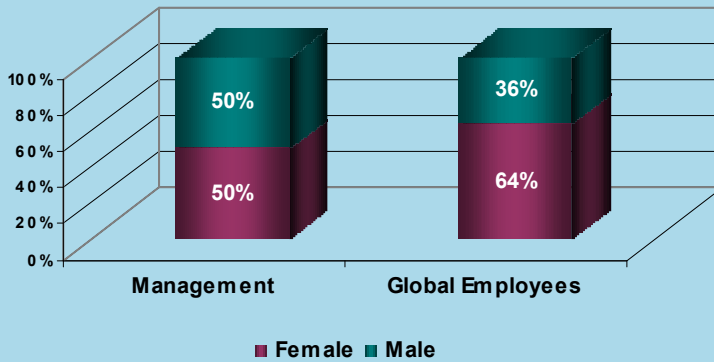
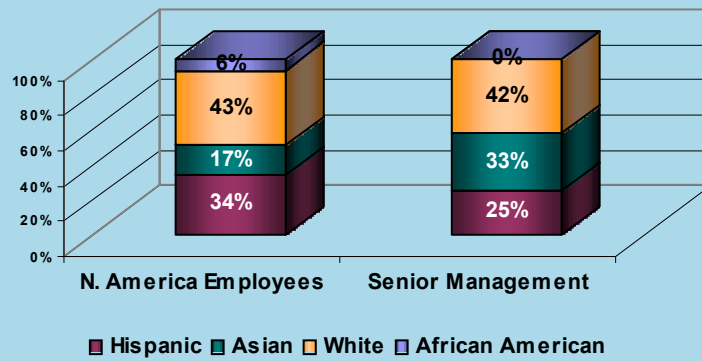


Chart 2: Diversity at STR-RS

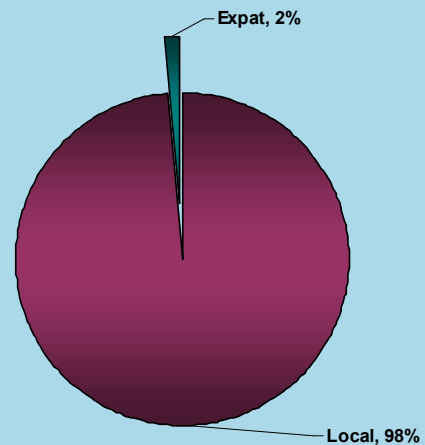


Our Team

Here is a quick snapshot of STR RS employees:

- A total of 310 employees globally.
- Our staff represents 24 nationalities.
- 64% of our staff is female, and half of our upper management team is comprised of women (see Chart 1).
- In the USA our team is quite diverse; Hispanics and Asians together make up over half of our staff (see Chart 2).
- We pride ourselves on hiring native talent; on average, in each of our locations 98% of the staff is local (see Chart 3).

Chart 3: Local vs. Expat Employees at STR-RS



Meet Edgar Flores



Edgar Flores, a social compliance auditor based in Mexico City, shares his experience working with STR RS.

How did you become involved in social compliance auditing?

What is your background?

I am a food chemist; I graduated from La Salle University in Mexico City. I have been working in the social compliance field for approximately 4 years, at first with Wal-Mart's Ethical Standards team and now with STR RS. Previously, I worked in the food and pharmaceutical industries.

What do you most enjoy about your job?

I most enjoy traveling and having the opportunity to learn about and assess all kinds of industries. Each day has a new challenge that needs to be solved in that moment with the most accurate answer, and the opportunity to improve the labor conditions in my country.

What, in your opinion, are some of the challenges you face in your work?

Lack of commitment and interest from the facilities; the social compliance assessments are practically unknown for the majority of the industries. And most of all, changing the perception that we are "policemen" and turning it into the image of a professional who helps to build a sustainable and safe supply chain.

What makes auditing in Mexico unique?

Logistics. The STR team has to manage choking traffic in the big cities, long distances between one facility to another (we end up flying a lot), and access to remote locations that are not marked, even on local maps.

Employee Survey

At the end of 2009, STR RS conducted an online employee survey to gather anonymous data regarding the work environment at the company. A total of 61 employees chose to participate, with representation from all departments, all regions, and all experience levels.

The survey yielded some interesting results, mainly indicating that STR was doing well at the “nuts and bolts” but needed to improve its approach to the “soft stuff”. For example, employees responded overwhelmingly positively when it came to being confident of their job expectations, feeling like they contribute to the company’s mission and values, and their participation in the company’s Ethics Program. When it came to issues like receiving adequate feedback or receiving information on the company’s environmental initiatives, many employees responded neutrally, and some even negatively.

Additionally, we noted what seems to be a drop in employee morale amongst specific demographic groups compared with survey results from previous years. That was tempered with the good news that employees are less anxious about the changes happening at the company than in the past, and that they also feel better informed of company policies and goals now than in the past.

Management has set up a committee, to be led by a senior leader at STR RS, to look into the survey results in more detail and to create action plans to tackle the issues that have been identified.

Professional Development

STR RS is a strong advocate of professional development. In 2009, the company continued to provide staff with growth and learning opportunities, both internally and externally.

Employees took advantage of a variety of external professional development opportunities, including:

- Five auditors took part in the International Finance Corporation’s PS2 Labor Academy.

- 61 auditors participated in a five-day SA8000 training course.
- Four auditors attended an International Labor Organization training course called “Implementing Core Labor Principles in Global Supply Chains: A training course for social auditors.”
- 15 managers from STR RS’s various regional operations attended a 3-day Farr Associates Leadership Training course.
- Staff attended various CSR events, such as the yearly Business for Social Responsibility and Instituto Ethos conferences.

Internally, STR RS held six professional development summits around the globe, which were attended by auditors as well as management staff. Likewise, the company facilitated various department summits for the R&D, operations, client services, and sales teams.

Auditor Awards

In May 2009, STR RS presented its annual global auditor awards to the most deserving employees. A total of 18 awards in six categories were presented to auditors from around the world. The categories include Outstanding Auditor (global, as well as by region), Rookie Auditor of the Year, Best Reports, Most Assessments by Region, Best Audit Story and various others.

Nominations for each category were provided by regional teams of trainers and operations supervisors, and submitted to the central awards committee. Auditors are honored for a number of qualities, including dedication to the company’s mission and values, their job knowledge, professionalism, and their ethical conduct.

Winners in each category received a certificate of achievement and a gift card. Auditors are crucial to the work that STR RS does and the company takes pride in recognizing the exceptional work they do.

Meet Dr. Joyce Tsoi



Dr. Joyce Tsoi is the company's Environmental Program Manager.

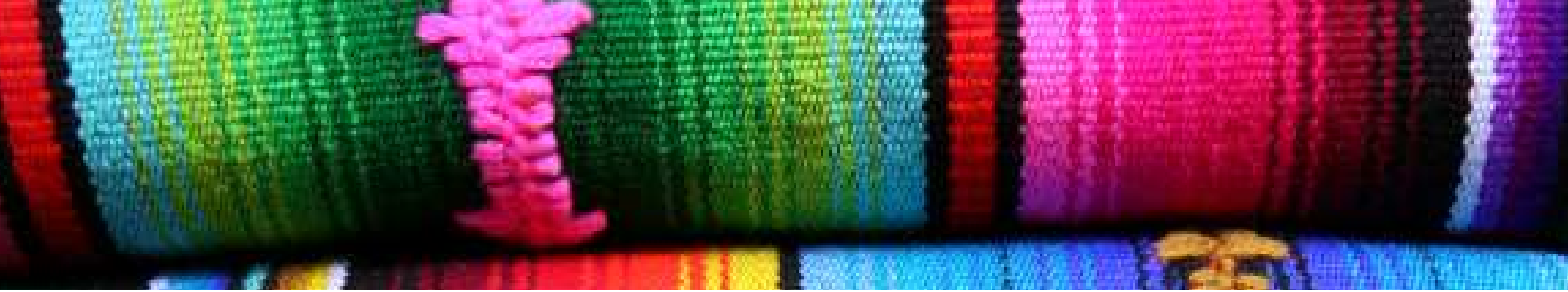
What do you see as the main challenges that companies face in achieving environmental responsibility through their supply chains?

It is commonly acknowledged that supply chains continue to become more global and complex, which is the main bottleneck for achieving environmental sustainability. Companies in different regions view environmental responsibility differently.

From the Asian perspective, suppliers are more concerned with cost-effective solutions that can benefit the environment and save money for the company at the same time. In comparison, the European perspective means adopting green principles and implementing green supply chain initiatives that extend beyond regulatory compliance and corporate social responsibility. North America, concentrates on sustainability practices around low carbon distribution network design and supplier selection based on carbon capabilities.

How does STR RS add value to companies addressing environmental issues in their supply chains?

At the industry level, we have seen many industrial facilities struggling to meet national and local environmental compliance requirements. As a result, at STR RS, we would like to offer more than just assessment solutions. Our environmental service has extended from conducting EMS, EHS and wastewater management assessments to carbon footprint assessments and management guidance. In addition, we also provide environmental program management services to suit every clients' needs. These services will assist brands, vendors and their suppliers to achieve a compliance standard, move beyond the regulatory compliance regime, and contribute towards a low-carbon economy.

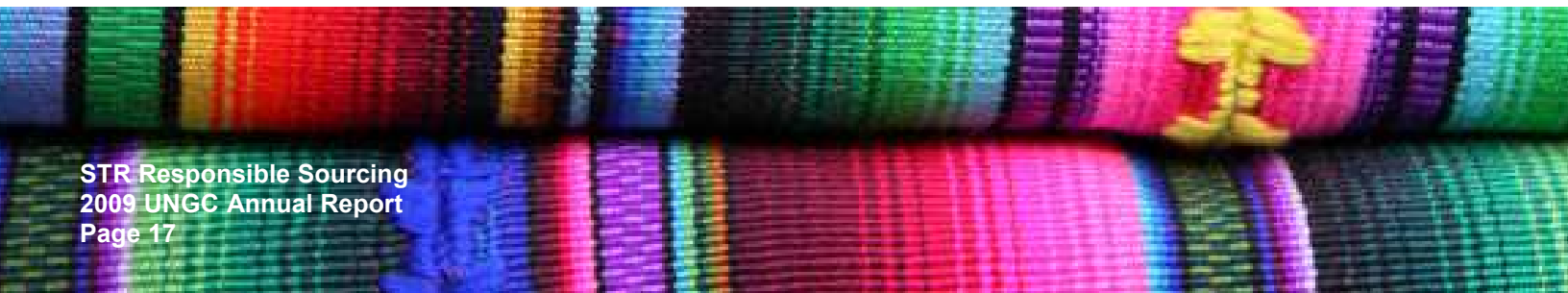


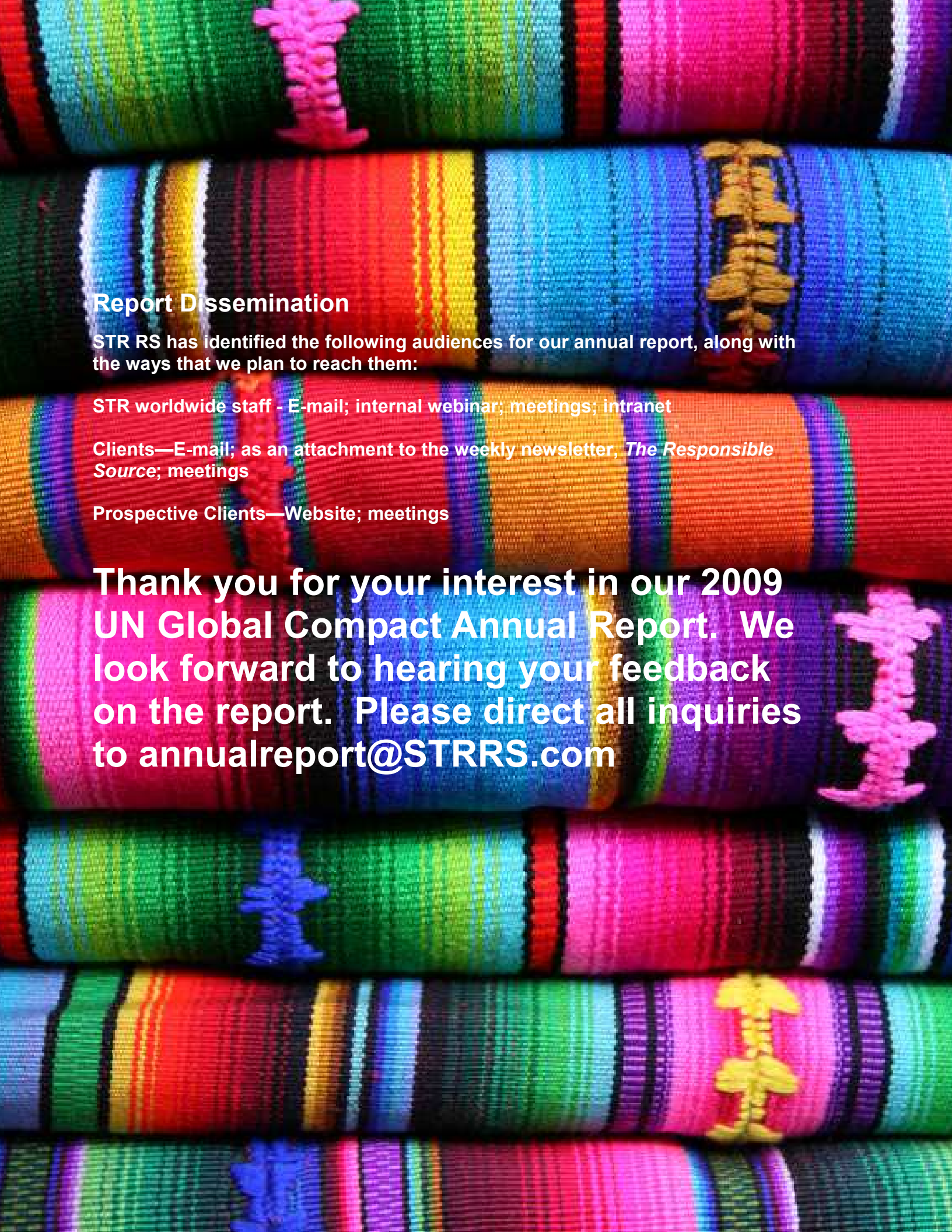
Goals for 2010

In 2010, STR RS will be working with STR Holdings, Inc. to establish a corporate-wide sustainability strategy that will encompass STR RS activities. Baseline data will be gathered in preparation for reporting in 2011.

As such, STR RS is not making division-specific goals for 2010 as much of our efforts will be focused on creating the systems and metrics needed to scale our efforts to our parent organization. We expect corporate-wide, global goals to be established once the baseline analysis is complete and we will share this information and updates on our progress as appropriate in our 2010 report.

STR RS is excited to be driving this process and look forward to making a greater impact with our sustainability efforts.





Report Dissemination

STR RS has identified the following audiences for our annual report, along with the ways that we plan to reach them:

STR worldwide staff - E-mail; internal webinar; meetings; intranet

Clients—E-mail; as an attachment to the weekly newsletter, *The Responsible Source*; meetings

Prospective Clients—Website; meetings

Thank you for your interest in our 2009 UN Global Compact Annual Report. We look forward to hearing your feedback on the report. Please direct all inquiries to annualreport@STRRS.com