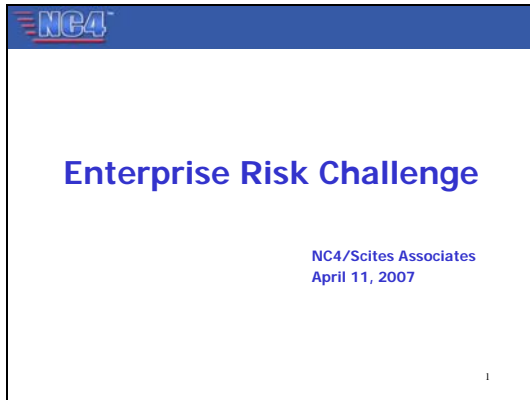


SLIDE 1



Enterprise Risk Challenge
April 11, 2007
NC4/Scites Associates

Good Morning. Thank you for attending this early morning breakfast briefing on **Enterprise Risk Management (ERM)**.

I would like to introduce Carmen Governale, NC4's head of Global Sales and Steve Sager, sales head for the East Coast.

As you all know I am Jan Scites, head of Scites Associates, a technology and business consulting firm based here in New Jersey. Part of our practice is to help our corporate clients solve their current challenges. We identify products and services that can assist them in solving their problems and meeting their goals.

One of the areas that we have focused on in the past six years is the area of security; and in the past two years, specifically, **Enterprise Risk Management**.

For the program today, I will start out by talking about ERM, and in that discussion provide you a framework to take back with you for your particular environments. Carmen will talk about NC4 and how the National Crisis Center fits into the ERM solution set and, with technical luck, we will have live access in the room to the NC4 Center.

We have a very diverse audience today. The common thread is

exchanging ideas on Enterprise Risk Management.

We have Business Continuity Officers, Chief Administrative Officers, CEOs, Attorneys, who advise private and public corporations at the Board and senior management levels, executive consultants, who advise public company senior leaders, technology advisors, who recommend solutions to CIOs, and security technology executives.

For reference for all of you, I have been serving on public company boards for 10 years.

I have served on Compensation, Governance, Audit, and Special Committees to handle divestitures, mergers and acquisitions.

Currently, I am on the Board and Audit Committee of an NYSE electric utility and on the Board of one of their subsidiaries. In addition, I am on the Board of a very large global private company. I serve on their Audit Committee and chair their Compensation and Technology Committees.

Also, I am on the Board of Advisors of a number of private technology companies where my firm assists with business development and operations.

On all these Boards we are actively working on ERM Plans.

SLIDE 2



NCA Enterprise Risk Management

- History
 - Enron
 - Sarbanes-Oxley
 - Katrina
- Risks
 - Physical
 - Fraud
 - Regulatory
 - Internal and external
- Scope
 - Company, suppliers, and customer base

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Enterprise Risk Management or ERM has been around for a long time. It started with the financial services sector and was narrowly defined to credit analysis.

Today, it has taken on a much broader application and is being implemented across all companies regardless of industry sector.

A word on the current history - this is not new news.

Many events have brought ERM into sharp focus.

- The scandals of ENRON.
 - Left a number of companies in ruin
 - Shocked the investment community
 - Led to a massive overhaul of corporate reporting

For public companies, this led to **Sarbanes-Oxley** (SARBOX), which has created a huge set of regulatory requirements and a very expensive reporting structure.

The corporate scandals have continued - the list is pretty endless.

- 9/11 and its devastation to human and corporate assets,
 - Multiple terrorist threats
- We have experienced repeated physical devastations with horrible consequences
 - Katrina
 - Tsunamis, in Indonesia and recently the Solomon Islands.

- Constant barrage of extreme storms
- Avian Flu outbreaks

All of these have pointed out in a very graphic way the lack of preparedness by corporations and people; and have shown clearly the need for Enterprise Risk Management.

Our society, particularly the business community, has finally tuned into the area of **business risk**. I would say that most of these risks have been here for a while:

- Physical
- Fraud
- Regulatory
- Internal and External

What makes risk even more significant today is driven by three factors that were detailed by Deloitte in a recent ERM pronouncement.

First- **Speed**- everything in the business world requires speed of response. Whether it is product innovation or response to a disaster- all relate to a corporation's ability to make money.

Second - **Uncertainty**- with so many things changing so rapidly- from laws to customer needs- a corporation must be able to respond or face extinction.

And Third as Deloitte describes it- **Connectedness** - with a global connected economy – events, changes, trends that occur in one part of the world may have an

instantaneous impact on other people or companies.

As leaders, we all remember how we used to view risk. It was very isolated. We thought of it as a **Disaster Recovery** plan for the computer room, which really meant that, the Chief Information Officer had a book on a shelf which she would point to- "See we have a DR plan; we are covered."

A few bad things happened – for example the snowstorm of 1995 that knocked out power, data centers, and all call centers on the East Coast. Nobody could do business.

Around that time, business continuity took hold - largely still very hypothetical and a narrow view of risk.

Since 1995 all that I mentioned previously has happened. At the highest level of corporations there is a real requirement to define and to understand risk. The scope goes well beyond the corporate walls- it includes suppliers and customers – **the extended corporation.**

Think of how we produce our products and services today. It is piecemeal across a geographic supply chain that is diverse in every way - different time zones, cultures, technologies, threat of war, worry about new diseases. As a result, many companies require outsource vendors to provide risk assessments.

SLIDE 3



The slide features a blue header with the NCA logo on the left and the word "Stakeholders" on the right. Below the header is a white box containing a bulleted list of stakeholder groups. A small number "3" is located in the bottom right corner of the slide.

- Board of Directors
- Senior Management
- Shareholders
- Auditors
- Employees
- Suppliers
- Customers

The net of this is that the stakeholder group is much larger.

Board of Directors
Senior Management
Shareholders
Auditors
Employees
Suppliers
Customers

Some of these stakeholders now have duties around Enterprise Risk Management.

With the fluidity of information, “**an impacting event**” is known by many, quickly. It is expected that a company will respond. If they don’t, it not only can cause loss, but also an immediate hit to share price. Especially, if the risk is seen by stakeholders as one that should have been planned for or managed better when it happened.

The question is should/could the company have **anticipated the risk?**

I often listen in for public company clients on their quarterly investment calls. Analysts are asking hard questions. They have access to event information and they expect executives to be prepared to describe a company’s response to a particular risk or event. In addition, they expect a financial impact assessment.

SLIDE 4*

The slide features a blue header with the NCA logo on the left and the word "Definition" in white text on the right. Below the header, there are three paragraphs of text, each starting with a blue underlined heading: "Enterprise Risk Management (ERM) process, applied across the entity, designed to identify potential events that affect the entity, and manage risk to provide reasonable assurance regarding the achievement of the entity objectives.", "Enterprise Risk Management (ERM) is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. Enterprise risk management expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks. In recent years, external factors have fueled a heightened interest by organizations in ERM. Industry and government regulatory bodies, as well as investors, have begun to scrutinize companies' risk-management policies and procedures. In an increasing number of industries, boards of directors are required to review and report on the adequacy of risk-management processes in the organizations they administer. Since they thrive on the business of risk, financial institutions are good examples of companies that can benefit from effective ERM. Their success depends on striking a balance between enhancing profits and managing risk. Business risk management, holistic risk management, and strategic risk management are synonyms.", and "Enterprise Risk Management (ERM) are the methods and processes used to manage these risks, possible events or circumstances that can have influence on the enterprise in question. By identifying and proactively treating such potential effectors, one protects the very existence, the resources (human and capital), the products and services, or the customers of the enterprise, as well as external effects on society, markets or the environment. ERM is similar to operational risk management(ORM) but also includes credit risk and market risk." A small number "4" is located at the bottom right of the slide content.

* See definitions at end of presentation.

Today there are many definitions of ERM. We have listed three for your reference.

Enterprise Risk is much more than a financial review of risk, much more than disaster recovery and business continuity plans.

Unlike SARBOX, which is required to be completed in a very specific regulatory way, ERM can be tailored to the needs of the particular company. It can be implemented in conjunction with the company's business plan and can reflect the priorities of the business.

Defined- ERM is a process applied across the **extended corporation**, designed to identify potential events that affect the corporation, and manage risk to provide reasonable assurance regarding the achievement of corporate objectives.

There are certain take-aways from these definitions.

ERM:

- Crosses the enterprise
- Involves all employees
- Requires Board and Senior Management involvement
- Covers all events that may impact the company plans and goals
- Creates an assessment of risk
- Creates a risk plan to prevent and respond to all risks even those **risks that are not date certain**
- Covers all stakeholders and all forms of asset and revenue categories of the corporation.

SLIDE 5

 **Another View of ERM**

Maslow's Hierarchy	Corporate Risk Hierarchy
<ul style="list-style-type: none">• Self Actualization Needs (full potential)• Ego Needs (self respect, personal worth, autonomy)• Social Needs (love, friendship, comradeship)• Security Needs (protection from danger)• Physiological Needs (warmth, shelter, food)	<ul style="list-style-type: none">• Identify Risk and Prevent Loss (ERM Plan)• Protect Revenue (customers, suppliers)• Mitigate Loss (customers, suppliers)• Protect Physical Assets (buildings, data)• Protect Employees

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With this in mind I wanted to talk about ERM from another view. I think the evolution of ERM in the corporation follows closely Maslow's Hierarchy.

At the bottom we start with the basic needs - **physical**. In the case of ERM we started with the protection of our most important asset - **employees**.

We move up the hierarchy to security needs - **protect from danger**. For ERM we are protecting the physical assets - **data centers, buildings, inventory, and again employees**.

I liken Maslow's **social needs** to ERM's **mitigating losses**. Once an event occurs, impacting the "extended corporation", you move to control the loss.

Early notification of an event is critical and allows a company to intervene faster with defined process. For example, look at how Property and Casualty Carriers work. They move claims adjusters to disaster areas immediately to assist and mitigate. Many utilities, once notified of an impending storm, will change their call center voice response messages in advance, channeling calls to special units.

For Maslow's **ego needs** – I called this **protect revenue**. It goes to the public representation of the company and it impacts all stakeholders – the earnings and revenue stream.

A corporation that responds well to events and has a **finely tuned “reactive process”**- is at this stage. They react and adapt.

Finally, **Self-Actualization** is the concept of full potential. In ERM this is where all stakeholders are involved. There is an **ERM Plan** that is implemented and risk is defined and measured in terms of:

- Response,
- Mitigation,
- What level of risk is acceptable as against the assets of the company.

The Board is involved actively in **oversight**. Senior management actively prevents risk, mitigates when a loss occurs, and has a corporate view of risk as healthy - a normal part of doing business.

Really successful companies are at this full potential level.

SLIDE 6

The slide features a blue header with the NCA logo on the left and the text 'Components*' on the right. Below the header is a white box containing a bulleted list of seven components. At the bottom left of the white box is a small footnote, and at the bottom right is a small number '6'.

Components*

- Internal Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring

*Source – Enterprise Risk Management - Integrated Framework, Executive Summary September 2004 - Committee of Sponsoring Organizations of the Treadway Commission

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To better deal with risk and financial reporting questions and to provide a framework for the industry, COSO was formed. It is a private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO stands for – The Committee of Sponsoring Organizations of the Treadway Commission. James Treadway, former General Counsel at Paine Webber and former SEC Commissioner, was the original Chairman of the Commission, hence the name. It includes a number of Accounting Organizations like AICPA

and the Institute of Auditors – which are very respected in the financial community.

In 2004 COSO drafted a detailed report and structure for ERM. On Slide 6 are summarized the key components of ERM.

Internal Environment

- Tone of an organization
- Risk management philosophy
- How it is viewed by the company's teams.

Objective Setting Enterprise Risk Management Plans assure that companies have a process to set objectives. Against the objectives, management identifies events that may affect their achievement.

Event Identification Identify internal and external events that affect achieving objectives and categorize them either as risks or opportunities.

Risk Assessment

- Analyze the risks- likelihood and impact
- Determine how to handle.

Risk Response For each risk, management selects a response:

- Avoid
- Accept
- Reduce
- Share

Then creates actions that align with the corporation's risk tolerance or appetite.

Control Activities Create policies/process that ensure appropriate responses to the risks.

SLIDE 7

Challenge

- **Board Responsibilities**
 - Complete an Enterprise Risk Assessment annually
 - Audit firms require Enterprise Risk Assessment and review
 - Monitor how the company is meeting and managing risk
 - Protect stakeholders
 - Shareholders
 - Corporation
 - Employees

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Information and Communication

- Relevant Information identified, captured, and communicated in a form and timeframe that enables people to carry out their duties.
- Effective communication across the extended organization.

Monitoring

- Constant reassessment of ERM and how it is working.
- Changing it as needed to adjust as risk activities occur.

The COSO report makes an important point. **ERM is not serial- it is multidirectional and iterative.**

As you can imagine for an executive the key question is: “**Where to start?**”.

The Challenge is at the highest levels of the corporation. Boards are expected by auditors and stakeholders to provide **oversight**. They are to monitor how the company is meeting and managing risk. Risk is monitored, measured, and tracked by Senior Management.

The Board wants to ensure that stakeholders are protected:

- Shareholders - share value and return
- Corporation –assets and revenue
- Employees - livelihood and safety

SLIDE 8

Meeting the Challenge

- Establish and Implement ERM Plan
- Set up annual review
- Assess Situational Readiness
 - Ask management how they will respond to various risks
 - Access to information
 - Situational response
 - NC4 is a logical part of management response

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Think what a radical shift this view of risk is in emphasis and organizational importance.

Risk used to be relegated to a low level spot in the organization. It often was paired with services like cafeteria and building maintenance. It got little or no attention; it was an add-on to someone's job.

Contrast that with the way corporation's deal with risk now. We have security professionals with backgrounds from the FBI, CIA, police departments, technology security and risk professionals, who are there to protect and defend.

In order to meet the Risk Challenge, Senior Management needs to establish and implement an **ERM Plan** and set up an **Annual Review**.

In the past few months, I have sat with many C-level executives to discuss ERM and how they should proceed. Their Boards are insisting it be done- frankly all the C-levels I have talked to want to have ERM. Often it is a matter of where do they begin with the ERM Plan.

I ask a number of probing questions:

- Are you ready at the first two stages of the Hierarchy? (Slide 5)
 - Can you protect your employees?
 - Can you protect your assets?

Have you got access to information that alerts you to:

- Events, which are part of your risk matrix?
- Can you make a situational response?

This is where NC4 comes into play.

****SLIDE 9**

NC4 ERM Grid					
Type of Risk?	Operational	Physical	Financial		
Components Of ERM* ?					
Internal Environment					
Objective Setting					
Event Identification					
Risk Assessment					
Risk Response	X	X			
Control Activities					
Information and Communication	X	X			
Monitoring					

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** See Grid at end of presentation

Slide 9 is a draft ERM Grid. It shows the COSO Components and three types of risk, Operational, Physical, and Financial.

From a tool and services perspective this chart is a simple way to help the Board and leadership quickly evaluate a service or tool as against the COSO components.

NC4 provides a situational readiness service - The National Crisis and Continuity Center, which, as the chart indicates, is part of meeting Risk Response and Information and Communications components under the Operational and Physical categories.

SLIDE 10

- | NC4 Can Help | |
|---------------------------------|--|
| • Situational Awareness | |
| – Event Identification | |
| – Risk Assessment | |
| • Situational Response | |
| – Information and Communication | |
| – Monitoring | |
- 10

NC4 provides situational awareness by **event identification** and by providing a vast store of information around the event. This is at a **geo-coded level**, which is accessed by or pushed to whomever needs to know and act; or to a key point person so they can decide as against their **risk matrix** what response to give.

Although I could make the case that NC4 fits in many categories - I think

they are most suited in the Information/Communication and Risk Response categories in Operational and Physical levels.

Situational response means getting the information and communicating it and then monitoring the event on an on-going basis.

What I want to do now is turn the program over to Carmen to talk about situational readiness and how it works.

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Type of Risk?	Operational	Physical	Financial		
Components Of ERM* ?					
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Event Identification					
Risk Assessment					
Risk Response	X	X			
Control Activities					
Information and Communication	X	X			
Monitoring					