

ASSOCIATION OF CORPORATE COUNSEL

TITLE: Open Source in the Real World: Beyond the Rhetoric

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MODERATOR: Erica Salmon-Byrne, Assistant General Counsel, Compliance Consulting Services, Corpedia Inc.

Operator: Welcome to this ACC Webcast.

Erica Salmon-Byrne: Good afternoon, everyone. And welcome to the ACC's presentation. My name is Erica Salmon-Byrne. I will be serving as your moderator today. A couple of quick housekeeping matters to get out of the way before we get in to the meat of this presentation.

First, to the extent that you have any questions during the presentation this afternoon, please go right ahead at any point and use the chat function that you're going to see in the lower left hand corner of your screen. That will send the message to the participants in the panel, indicating that you have a question and I will bring it to the attention of the appropriate panelist, so that they can go ahead and answer that question.

We will be more than happy to take questions at any point in the panel. And indeed encourage you to raise questions at any point during today's presentation. And we will also of course be happy to take questions at the end of the presentation. Please note though, that the only way to raise questions with the panel is to use that chat function. So please go right ahead and do that.

The other thing that I'd like to remind everyone of is that ACC very much values your feedback on this presentation. So please do take a moment when the presentation is finished to go ahead and fill-out the evaluation form that you're going to see in links box which is the middle box on the left hand side of your screen.

With that, it gives me great pleasure to go ahead and introduce the two panelists that we have on top for you today. You are in for quite a treat. We have Alex Brigham, the President and CEO of the Corpedia Corporation and Robert Leffel, the Associate Director of The Ethisphere Institute. These are both terrific panelists. They have a lot that they are bringing to the table.

Mr. Brigham, as I mentioned, is the president and CEO of Corpedia. Those of you who are familiar with ACC know that Corpedia has had a longstanding relationship with the Association of Corporate Counsel. Corpedia was founded in '98 and is a leader in ethics and compliance e-learning, risk assessment, code of conduct services, benchmarking, and many other areas of ethics and compliance consulting.

The company has over 500 customers in more than 60 countries that utilize Corpedia's products and services to avoid the scrutiny of the Federal Sentencing Guidelines as well as other compliance and ethics dilemmas.

Mr. Brigham has a lot to bring to the table and will be sharing his insights with you today as he often engages himself in many industry events, and has presented on the topics of ethics and compliance e-learning programs, codes of conduct and risk assessment as well as many other compliance and ethics-related issues.

Robert Leffel, who will be presenting after Alex is done, is the associate director of the Ethisphere Institute. He's one of the institute's leading experts on compliance and ethics programs and has consulted hundreds of corporations on the design, implementation or review of effective compliance programs including compliance and ethics risk assessments, organizational health and culture surveys, training curriculum, code of conduct, program reviews and benchmarking.

He also oversees the analytical team behind the Institute's certification and ranking projects including Ethics Inside certification, Ethics Quotient, World's Most Ethical Companies ranking and Anti-Corruption Program ranking.

As I mentioned, you are both in – you're all in for a real treat. As Alex and Robert are both terrific presenters and have a lot to bring to the table in all these topics. So I strongly encourage you to raise questions with them, make sure that this is as dynamic and interaction as you can have over the internet. And with that, I turn things over to Alex.

Alex Brigham: Thank you, Erica. You really set some expectations that I'm going to try and meet. So – but yes, I mean today, as you see down the screen here. Today's topics, we're looking at the recent benchmarking survey and then turning it over to Robert on some of the external factors to keep in mind. So it's always – it's a little bit of looking backwards and self-analysis in terms of what companies are doing when it comes to compliance and ethics now.

But, also hopefully, you always need to try and look around the next corner and see what's coming down the pipe and we have some more than ((inaudible)) reaction that we can start planning for today. And I know Robert has a lot of opinions about what's coming down.

Now, how did we get into benchmarking with ACC and Corpedia? This is the second time around we did it. We did the first one in 2005 and then this one is 2007. It is obviously available directly from the ACC. You can download it. And we want to see what change of that period of time.

But the original genesis of it was a meeting that I had with the general counsel, who obviously will go unnamed for reasons that will become obvious, of a New York Stock Exchange trading companies that, geez, "You what, I got to put a compliance and ethics program in place. I want you to put in a (D- program). Can you help me do that for the (D-) program in place?" And we're kind of floored. This was not a client of ours, did not end up becoming a client of ours.

We're not really in the business of putting together a (D-) programs, but the – to take such candor with outside advisors, you know, ((inaudible)) in the sales process was amazing. But it also made us say, "Well, what is a (D-) program?" We hear lots of people talk about how they want it, a gold-plated program, an A program, a solid program, something that needs Federal Sentencing Guidelines. But what's (D-)?

So it is – that's what got us going now in the past. We're saying, "Let's find out exactly what companies are doing." We've had over a thousand companies participate between the two surveys. It was a very, very good day to see. And we're really obviously not surprised when we are looking at how things compared against Federal Sentencing Guidelines. That benchmark which I'm sure many of you are familiar with in terms of being held up against that standard of a

company if you were to get into trouble or how effective the compliance and ethics program has been for that organization.

So that is one of the benchmarks we used. In my portion of presentation, I'm just going hit some highlights that came out of the survey which were interesting. But if you can access the entire survey from ACC, and actually, if we have just an enormous amount of data in terms of how it can be cut in so many different ways – by industry, by company size, public versus private. There's a lot of demographic information about the companies.

And, you know, data changes. So if any of you in the audience here today would like to get greater insight about how your company would compare and slice the data a little bit differently. You should absolutely feel free to contact us. And that was part of the arrangement in working with ACC. Let's make this as valuable service available to ACC members so we can do that.

Now after I hit those highlights, I know Robert will touch on the Goldman Sachs Research, some of the up and new government contractor ethics regulations, the works that the Institute's doing and sort of looking what into the future in that regard.

So about Corpedia, well, Erica gave quite a background there. So I can pretty much skip past this slide. But this is just the background to improve to prerequisite. Gee, we have a lot of clients and we do a lot of (steps slide) and that's not why you came to listen to today.

So let's get into the meat of the data. This was I mean, not – it sounds like a deceptively simple question to ask of some of these of organizations. But of course you have to start somewhere. "And does your organization have a chief compliance officer?" The (D-) company that I eluded to, which have subsequently got into trouble, by the way, did not have a chief compliance officer, did not have that function in place.

But we found that 42% of all companies now do and do have that as a titled officer. It could be a dual title you know general counsel and chief compliance officer or could be a sole title all by itself as the role. That's a material increase since just two years prior. But there's certainly had some variation by industry. And not entirely surprisingly, as it increases, it's the larger and public companies have much more commonly have that role inside their organization.

On the other side, "Does your organization have a chief ethics officer (par pure)?" And one of the things we needed to parse through is, is this person you know sometimes you'll have that dual-titled role of chief compliance and chief ethics officer. And when you say – well do you purely have just the chief ethics officer that has that sole title. There's members drop even more dramatically.

So that is – you know, despite all the discussions and the press and so forth, it's not you know become entirely mainstream. As I've said, when we parse it out and breakout chief compliance versus ethics into independent roles, they dropped to 120%.

The variation on that by industry and by company size is actually a lot less that what you'd find in the chief compliance officer function.

Now, let's look at 2005 versus 2007 which is an interesting statistic here. What you see is the person who has daily operation responsibility for the compliance program. At first, it was the CEO. I mean, that's who the person was reporting in to. Whoever had the daily responsibility and the CEOs were very engaged in the compliance function. And we really survived back then how high that number is.

But you can see, over a two-year period, as more chief compliance officers get put in place and as the emphasis on compliance changes a bit, it dramatically drops out of the CEO's office and

most of that pick up or good portion that pick up goes over into general counsel's office or in to CFO's office.

And we find it interesting to track the pick up between the two because in some ways, there's been – we've noticed a little bit of tug of resources when it comes to compliance. Particularly when it comes to things like risk assessment between the finance department and the legal department, but as you can see here, when it comes to compliance, certainly the legal department has the upper edge.

Next down the path was asking the organizations if they provided formal code of conduct training and –

Erica Salmon-Byrne: Alex, before you – before you move on now, we just have a question that came in from the audience that I think is appropriate for the –

Alex Brigham: Yes.

Erica Salmon-Byrne: – for that portion of the conversation. And the question that came in is, "Have you seen data or do you think that part of the reason for that structured change is because ((inaudible)) thinks that compliance issues that our compliant department is really around securities issues and exchange issues as opposed to other areas?"

Alex Brigham: Well, there are certainly has been, that pole between the two, I mean it's been more... A lot of people were mixing Sarbanes-Oxley and compliance. And so their advice was towards Sarbanes-Oxley and Securities Law as opposed to Federal Sentencing Guidelines. But we are seeing more emphasis and understanding of FSG really being a unique and separate interpretation of compliance versus this pure Securities Law.

Now coming back to the FSG portion of it and what we're tracking again is we are looking at whether a formal code of conduct training to employees. And the numbers before back in 2005 were pretty high. So this was barely, barely a bump up in terms of more organizations providing formal code and conduct training to employees. There's a very slight increase and again, note a traumatic variation by size, public versus private, but certainly some variation by industry.

But what is – what is interesting despite the fact that more organizations that there are and a lot more organizations who are all sent embarking upon a formal code of conduct training. The depth to the extent that the code of conduct training is pushed in to the organization changes very significantly even over this short period of time.

So if we look at right down here, before in 2005, we're really talking about 20% of the companies were training less than half of their workforce in the code versus 2007 and drops down to just 12% in that regard. Or if you look at the high-end, it's even more significant where you were pulling out and we look at whose trainings over 75% of their workforce. And it jumps from 71% in 2005 to 81%.

And that's a very material, statistical change, showing that companies really are trying to go deep and leverage that.

Now, it's interesting and I don't have slide on it because it would a real eye chart, but when we go and look at the other topics that companies are training on beyond code of conduct that there wasn't as similar dramatic changes. And of course, you know, for a company like ours, with those training, we'd love to see more and more companies do more and more training topics.

But it didn't have the same – the same pick up. I think people are finding that it's naïve to think you're going to train in five, six, seven different topics and separate courses across the organization and have that same of old depth to even – within certain departments of a company. So much as taking the code program and having it address most of the topics that they're hoping to hit upon.

You know, of course, there's you know, variations based on state law like the employment law of California around and requires sexual harassment trainings and so forth which makes an aberration. But, when it's purely voluntary, self-driven by the organizations, were not seeing the same changes in the other topics.

In fact some topics of training have even declined a little bit in terms of required and mandatory availability across the organization. So that was interesting. So it does say that the companies are using their codes much more robustly all around.

Now, another question that we asked was because the Federal Sentencing Guidelines do talk about training at all levels of an organization including the governing authority and that means the board of directors and there was a significant increase in companies that are training boards of directors. Here, I'm pulling out just publicly traded companies. Not surprisingly, they have a high – heightened emphasis on compliance.

But a shortcoming in the 2005 survey was we failed to ask how much are you training these directors? Because that's the questions that always comes back. And I think that's something that I've seen a lot of in-house compliance officers struggle with saying, "Well, OK, two-thirds of all companies, ((inaudible)) of their publicly traded are training the board in compliance and ethics issues and in the program, but how much is it?"

Some people have thought, well, should it be ISS-accredited training, for example, which is that we'd have to train the board of directors for eight to twelve hours for something that the ISS accredited.

And so all the fretting, we decided in 2007, fortunately to come out and say, "Well, all right, if you train the board, how much time did you spend doing their training?" And I think a lot of people will be happy with the answer because here on the next slide, which is 75% of the companies that were training the board were doing in less than two hours.

And everyone knows that if you're trying to do a five-hour training program on compliance for the board, you might have to bring some (NoDoz) along with you, you know, pragmatically.

And so that is the emphasis that we saw, so it is a much lower level than some people might have feared. And as you can see, one out of four companies that was doing the training was doing it for less than an hour. And that's not entirely surprising.

Another trend that we'd heard about and it's one of the things that you have to measure to see it's really accurate, is we've heard companies say, "You know what, we're not just going to have anonymous hotline, but we're also going to have an ethics guidance line, which is different, more of an ombudsman." And that's anecdotal that we heard in the marketplace, so we went out and tried to measure that.

And how do companies really keep a parallel line where employee can receive guidance on an issue. Perhaps it's staffed by a former senior executive of the organization. And well, they're slightly edged up. There's no material trend. We see that more and more companies are doing that.

And we've talked to companies about that, they say, "You know what, essentially we're not even getting a lot of calls to our hotline. We think our hotlines are quite underused and essentially

people are reporting all sorts of immaterial things there." But there'd be confusions that create a separate line on ethics guidance.

And they find it potentially redundant and actually even potentially creating incremental liability in terms of how that process would be handled if someone is seeking guidance on ethical dilemma, but wasn't really being used as an official report. So it was instructive in its own right.

Next on the list, we asked about risk assessments. And again, a very material change over a period of time of companies who are doing periodic risk assessments – analyzed risk and organization and hypothesize about where potential problems could occur. And so it's significant increase from 2005 where, you know, 58% were saying that they're doing periodic risk assessments up to 70% who were doing these periodic risk assessments.

Now, there is – it's a tricky term now because risk assessment, anyone who's been down this path, they know that risk assessments means something very different to one person as it would mean to somebody else. You know, for some people, it's a six-month comprehensive global effort whereas for other people, it's more of a three or four-day activity.

So I would encourage you to go back, if you want to parse through what companies are looking at and how they're going about doing a risk assessment. There is a lot of data in the ACC-Corpedia Survey Pack about the types of things that they're doing in the risk assessment. And you'll see that the variation is quite broad about that.

But at the core of it, it is still hypothesizing about risks. What could go wrong? And to that end, you know, something that's also been of great interest to us is what is inside counsel's opinion, you know. How are they operating in terms of the protections of attorney-client privilege? Are they going to be available to them? And when you're hypothesizing about risk, what's going to happen when that documentation end? Could it be a double-edged sword come back and used against you?

And that is something that we always preach about, to always be thinking about particularly when it comes to the risk assessment. Because – I'll switch to a story on the other side which is not the (D-) company story, but a company in consumer products that people use. And they went out and said, "Well, we're going to do a risk assessment." And they had not really thought about how they're going to protect the documentation along the way.

And they did global surveys based upon – based of these sending out questionnaires to I think about 150 employees around the world and leadership positions saying, "Hey, what could go wrong?" "What almost went wrong in the business?" "What keeps you up at night?" – Those types of things and got then probably 149 e-mails back. Many of which had all the ((inaudible)) response to the saying, "Thank God, somebody's asked."

You know, Chicken Little couldn't write something quite as good as some of these. And that just panicked the inside counsel in terms of what do you with all these emails now, but, all these things that could wrong. And then subsequently, about six months later, something went wrong. So it could very well have been on that same list of emails that came in.

So that is a cautionary tale, where that person was using a model on risk assessment that worked in one industry – the retail industry which was not going to translate well to consumer products and went down that path. So we always find this interesting that what you'll find here is there is not been a huge change in terms of people's position on attorney-client privilege. If they feel like it to actually been damaged more, the protections if you compared it over that – over that two-year period versus the prior analysis that we did with ACC.

So finally, I'm just going to wrap up with this slide. These are key takeaways of what summarizes what we've done over the last, you know, over the prior 14 slides about what we have been

seeing in some of the survey for example. You know the CEO taking less day-to-day responsibility and oversight for the compliance program. I think Robert is going to touch upon that as well, but whether you know, CEO is having increased insight and interest in ethics as opposed to compliance because that is you know, in some way a merging discipline.

A separate chief ethics officer is not necessary. We take that position I mean, when I look at this key takeaway, I say, "What's going to be a minimum program and this goes certainly beyond D- but you know, somewhere in the middle of the road, what could be expected of the company. If you were to have that, it could be consolidated into a chief compliance officer function but we do think someone needs to be titled as a chief compliance officer inside an organization. It's a mistake not to do that.

A mandatory code training is an easy win; going deep into the workforce is a new "norm." I mean, the statistics just bear it out that companies are taking that element extremely seriously although they might not be taking other topics at the same level, a (graviness) in terms of distributing inside the organization.

Board of director should be trained in compliance as becoming the accepted norm but finally someone's come forward and said, "How much did I need to get trained?" And one to two hours, you know, in our opinion, yeah, of course you get buried by a company and you meet circumstances but that looks like it's going to be enough to meet the criteria.

Risk assessment needs to be done and having a separate Ethics Guidance or Ombudsman role, we're not convinced really that is necessary. So they are just a few of the things that you know, pop out of the survey. Again, I encourage people to go ahead and get directly in contact with me or anyone at Corpedia if you would like a deeper dive and would like to participate in the survey and see how your company will compare against others in your industry. I would be happy to help you out (in my effort).

So with that, Mr. Leffel...

Erica Salmon-Byrne: Before you turn it over Alex, let me just raise one question that we had coming from the audience ...

Alex Brigham: Yes, sure.

Erica Salmon-Byrne: ... I think it's timely here. We had a question coming about specifically addressing the question of risk assessment and the privilege loss. Did you see anything in the data or do you have any sort of (anecdotal) experience to talk about in terms of the realistic stuff that companies can take to minimize the potential risk or loss of the privilege or ...

Alexander Brigham: Sure, I mean what we focus on is just – well, first up is a good discipline. It's just to assume it's not going to fall underprivileged, right? So but you necessarily – it makes a lot of sense to try and put underprivileged, but if you have that basic discipline saying, "Let's not assume that it's going to be there," you just change the way you go about dealing things from a methodological standpoint.

That methodology is important because what you want to be able to do is depend on the methodology as well as the outcome, right? So the outcome, being a more limited report, and how did you get to that outcome of what you analyze as risks, steps, or risk areas, and what you were going to do to try and mitigate and prevent those risks. Where you get tripped up is in of the raw data that came in that be can totally be misconstrued so they are (loading) to that – those e-mails like a center on the globe.

If raw datas – the tripped up and what we see was the companies that they have very strict protocols when they do it right about how are we going to collect this data, in what form is it going

to be, and then how are we going to destroy it, right? So we have a process going forward, and then what's the ultimate data that we're going to keep. And we've seen it – like, for example, on a paper-based version, we have seen people where they have a note controlled in the meeting because you do want to – you do need to go process of hypothesizing what could go wrong. Otherwise, you have your head on the sand, you know, if you think you're just going to get the risk areas baseline, you know, reading in the industry journal or so forth.

And you do need to go out and talk to people that is going to generate data. Now, but we have seen, for example, one company in work with them, we see them take their notes, and we take notes, and it's a very controlled environment for the notes while entered into a computer don't even get on to the corporate network because they realize that everything is under corporate network. You get image, get copy, get saved, you can't really track it. Actually, we hooked it up directly to our ((inaudible)) and said you know, "Here's your copy, here's our copy, now we know what we have, and you know, a source document as a control element."

We, on a separate side, you know, that's something, Erica – what we've done at Corpedia is just done things electronically but done things electronically (leveraging) the Internet for example, where you can collect information but you have it, you know, stored separately. Not stored on the corporate network but stored remotely using encryption, doing over the Internet, and you can actually talk to a lot of people, and get lot of valuable information while still managing through upfront a methodology which as we know, or how we're going to or what documents we're going to maintain, and what we're going to destroy. You need to find that at the outset as opposed to defining it later when it was a little bit more suspicious, then you ((inaudible)) on the outcome stuff.

Long answer probably to short questions. All right, Robert, I'm going to in touch with you later and ...

Robert Leffel: Thank you, Alex and good morning or afternoon to everyone. I would like to start by giving you some background on the Ethisphere Institute. Many of you might have heard about it for a variety of initiatives that the institute has been doing.

Some of them go quite a bit of publicity, both among the compliance and ethics professional community as well as national and international media. The research-based Ethisphere Institute and associated membership group, the Ethisphere Council were founded by the Practicing Law Institute, I'm sure you know very well and Corpedia, and supported by more than 300 institutions and companies. Many of them ((inaudible)) hundred companies including such organizations like Lexis-Nexis, National Association of Corporate Directors, the Global Reporting Initiative, Deutsche Telekom, Time Warner, PepsiCo, ((inaudible)) among many.

The Institute is dedicated to the research, creation, and sharing of best practices in ethics, compliance, and corporate governance among its membership companies and in the (regionals). It also focuses on the development and advancement of individuals on its membership council through increased efficiency, innovation, tools, mentoring, advice, and unique career opportunities.

We also published the Ethisphere magazine quarterly. It's thought-provoking and informative, and the magazine offers insight to readers in gaining market share and creating sustainable competitive advantage through ethical business practices and corporate citizenship. It has a subscriber-based so far with 70,000 people. A lot of them are board members, CEOs, general counsel, chief ethics and compliance officers, semi-executives and academics. Ethisphere magazine is the largest brain publication in compliance, ethics and corporate social responsibility and has been recently recognized as a leading magazine (in the journal) by the Forbes. The Institute conducts series of corporate ethics and compliance-related rating and ranking projects that I will talk about later on some of them as well as issues – the well-regarded ethics inside a certification.

If you want to get more information about the Ethisphere Institute, you can find it on ethisphere.com Web site.

The Institute, we firmly believe that the ethical leadership ((inaudible)) had a profound impact on corporate profits. We identify 36 co-contributors relating to ethical business practices. They were into nine key profit point categories that span from strategy to procurement, from knowledge management, intellectual property to corporate leadership. Some of them may seem to a little bit farfetched from kind of the core notion of ethics, but do we may – we identify ethical component whether large or small in each one of them. And our research indicates that to be a truly ethical organization you need to fully (conserve) all of these areas or actions where ethic leadership can make a difference between success and failure.

To prove this point, Ethisphere has been tracking the soft performance of selected group of companies recognized by both of as well as ((inaudible)) with experts as ethical responsible group corporate citizens. This group is also known as the Ethics Index and most companies in the Ethics Index has been designated by the Ethisphere Institute as the world's most ethical company.

We have also found that the Ethics Index has substantially outperformed the market over the course of several years as this chart shows. You can see the blue line is S&P 500 and the green line is Ethics Index company that you see, you know, a tremendous difference here.

The Ethisphere is ((inaudible)) in reaching the similar conclusion at being ethical pace. Goldman Sachs Sustainability Index outperforms relevant market metrics, 72% of the time and has outperformed the overall market by 25% since August 2005, not quite as much as the Ethics Index with previous significant number. And you can see some of the companies in the Ethics Index, and in fact, you know some of the companies in the Goldman Sachs Sustainability Index – a lot of them are regarded by us as the world's most ethical companies and some of them appear on the Ethisphere Ethics Index as well.

The company that made GS Sustainability Index analyze across several important criteria that include things like company's ability to engage with a next generation of employees who increasingly demand the alignment of personal corporate values, strong social leadership and proactive and fair disclosure practices, diversity including gender diversity in employees, executives, executive leadership and the board, fair compensation, internal system such as policies, management systems, and leadership to ensure ethical business conduct.

Well, if it doesn't mean to you, now consider this – well-regarded companies simply want more and these really puts price on a reputation and (the value of the band). According to BusinessWeek, a company's reputation for being able to deliver growth, attract top talent, avoid ethical mishaps can account for as much as 30 to 70% gap between the book value of most companies and their market capitalizations.

Reputation is a big reason why Johnson & Johnson for example trade at a much higher price-earning ratio than Pfizer, Procter & Gamble and Unilever. The importance of ethics and business dealings – in business dealings also prompted, promoted by the government. They seem to be intended of making a serious impact in one of the areas where they can really, really can. The new amendments of the federal acquisition regulations now requires – not merely recommends that government contractors have compliance and ethics program in place, in order to do business with the U.S. government and some key-required components of these program should include code of conduct and business ethics, internal control systems to prevent and detect misconduct, employee training and communication programs.

And the number of affected companies is thought to be pretty close to about 2,000 – that is quite a number. There is another, F.A.R. or Federal Acquisition Regulations amendment and this one

is currently have been proposed, not yet on approved stage that expands this requirements even further to incorporate other key hallmarks of the effective compliance program as outlined by the Federal Sentencing Guidelines.

In response to these development, Ethisphere is conducting now first or the only, so far independent review of some 1,500 U.S. government contractors, ethics, and compliance program. This initiative is supported by a dozen of top law firms, some government agencies such as for example National Institute of Health, and DOJ, and the members of the legislation such as Senator Tom Carper of Delaware.

A leading government contractor publication, the Washington Technology, loaded the project as non-partisan and a non-confrontational. That's a very important thing for us and where not out there to kind of (nail) companies that don't have good programs or they are not doing well in terms of the ethics and compliance initiatives. We are trying to raise the bar. We are trying to promote best practices, and we are trying to convince in having a good, strong ethical culture, ethical program, ethical business practices really pays and it's not a cost, it's an investment. So far has been well accepted for the government contractor community as well maybe because of that, and we would like to give credit to some of their organizations who first to participate and support this initiative and these companies include Lockheed Martin, EDS, Pepsi, Avaya, Fluor Corporation, Computer Sciences Corporation, Tyson Food and so on.

Prior to launching this project, the Ethisphere Institute formed a methodology advisory panel consisting of some leading government contracting lawyers and people from the government procurement ethics field. And this cooperative work resulted in a very objective and robust methodology that looks into over 50 criteria of government contractor, internal control systems, training and communication, leadership and down from the top as well as code of ethics and business conduct of course.

We provide a full disclosure of the methodology as well as the list of members of the methodology advisory panel so you can see who is behind the framework, and the methodology, and the rating process. It's all available in the Ethisphere Web site at the ethisphere.com.

And now the interesting piece of research just came out that shows the correlation between business ethics perception and the product of service pricing that has been released by the Richard Ivey School of Business in Ontario. Researchers demonstrates that for products perceived to be ethically produced a ready command price premium but what is more interesting and what's perhaps even more important is a notion that individuals react more strongly to negative information and the researcher found that there is a stronger punishment for unethically-produced goods or perceived unethically-produced goods and smaller reward pattern for ethically-produced goods.

So that means that, you know, people really do expect products and services to be produced in an ethical way and ethical manner. And the expectation to pay less for unethically-produced goods is far greater than consumer's willingness to pay more for ethically-produced goods. So the risk of market problems resulting from compliance and ethics fairly is it's far greater than the Ethisphere reward for being the best in the class.

Consistent with the Ethisphere Institute more of smart good business profit, companies do use ethics to win the market and they are doing very well in a very successful way. What you are seeing here is the homepage snapshot of the corporate Web site for the Milliken & Company and has been recognized as one of the hundreds best companies to work for by the Fortune Magazine, and also one of the world's most ethical companies by the Ethisphere Institute.

As you can see here they are very proud of these designations that they put it in their homepage. Fluor is a large government contracting organization is another good example of company that

takes a full advantage of ethics-related work and designations such as ethics insight certification issued by the Ethisphere Institute and the world's most ethical company's award.

The world's most ethical company now is on the second year in a year now. We created that list in 2007. We have nearly hundred companies that received – among about 5,000 that received world's most ethical designation award. In 2007 now, we are about to launch the 2008 project that will be announced – the results will be announced in June 3, 2008 in New York City at the Forbes-Ethisphere most ethical company's conference. So it's supported by the Forbes magazine and will be fully promoted by the Forbes magazine and its affiliate publications.

Well now, just one more point if interested and if you think that the company can make the list and you will be surprised as well if the company you think can make the list. You know, we have been looking for thousands of companies so far, and, you know, some of them are pretty close call. You can go on the Ethisphere Web site there is a nomination page and all you have to do is just to leave you know, the name of the company or contact details so that we may come back to you and a very short description why do you think your company should be considered as one of the world's most ethical ((inaudible)). And we'll get back to you with an additional question, perhaps a questionnaire, you know, a fairly short questionnaire that you need to fill in and we do all the rest of the research.

A lot of companies obviously public companies is easy for us to find the information, the public domain for private companies before we need to ask you a few additional questions about your initiatives, and programs, and culture, and so on. Well, I'm now at the last slide of my presentation. The key takeaways are – that discussion is not really migrating from the compliance to ethics. It's simply not enough to be just a compliant company, and you really need to move beyond a mere compliance to the ethics domain, and you can think about it like a not with the center piece and the (shower), the (shower) is briefly be, you know the ethics spot, you know, if you have the core that's fine but you need to move beyond the core.

Also there is increase in research correlating business ethics and competitive outperformance and it also brings us such benefits as abilities to attract employees pricing and customer capture and retention, and you know, obviously most important for those of you who are lawyers in these audience is that – is get out of jail free pass for good corporate citizens and companies with good reputation.

Also there is obviously increase government pressure on ethics controls and especially in the field where they can kind of really demand rather than recommend and you know government contractor community is now feeling the impact of the government decisions to make ethics programs compulsory part of the, you know, price for doing business with the U.S. government.

Objective ranking and ranking initiatives are coming on to the center stage, the one from Ethisphere that I have mentioned, the one from Forbes as well obviously Fortune, Innovest, and so on. And this trend is likely to continue for the foreseeable future so we all want it.

Erica Salmon-Byrne: Great. Thank you, Robert. We had a number of questions coming from the audience during the course of your portion in the presentation. I just wanted to run some of them (if you have to) and give you an opportunity to answer.

So first is regarding the Ethics Insight Index, are the companies that are part of the Index – is the list of those companies available?

Robert Leffel: We did not disclose the list yet and obviously, it changes on an annual basis as we add more companies or as we remove companies from it. It's just like with Dow Jones' ((inaudible)) index or Goldman Sachs' ((inaudible)) index. The number of companies in the list, as well as the name of the companies in the list varies from time to time.

Erica Salmon-Byrne: But if the audience wanted to get a sense of the kind of companies that the ((inaudible)) do consider for that ranking, they could go ahead and look at the list of the world's most ethical...

Robert Leffel: Yes. If you look at the list of the world's most ethical companies, obviously, the public companies among those, we do have some private companies on the world's most ethical companies list and they are not in the ethics index for obvious reasons. But if you look at the list of the public companies from the world's most ethical category, that's probably very good idea of what – who is on the ethics index.

Erica Salmon-Byrne: Terrific. And then, in terms of the aggregate weighting of the factor for government contractors, did you consider the performance of risk assessment in that evaluation process?

Robert Leffel: Yes, of course. We look at – let me go back to the methodologies line for a second. As you can see here, the internal control systems is weight 35 percent and whether or not the company conducts risk assessment and the periodic evaluation, periodic audits, periodic evaluation of it's systems and programs would be included here. And also, we go a little bit further than that, we ask how they do it, what kind of methodology, whether it's quantitative, qualitative or a mix of that and basically a few questions about how they go about it. Right? So obviously, there is a risk assessment of the – there is a risk assessment and the two are not necessarily ((inaudible))...

Erica Salmon-Byrne: OK. And then, just to go back to the – we have another question from the audience on the rewards slide. Is the interpretation of the research that consumers are unwilling to pay more for unethically – or for ethically produced goods or was that a misunderstanding of the results of that research?

Robert Leffel: I think it might be a little bit of a misunderstanding because, well, the research is fairly new and we still have to kind of see how robust it is. But our perception is that the reward is smaller than the punishment and that means that the consumers are willing to pay more for the ethical goods and services, but they are willing to pay less for it than they are willing to penalize the company for being unethical. So that means that there is an expectation that the goods services available in the marketplace should be produced with a certain degree of ethics, so to speak, and the company doesn't meet the expectation, the punishment is much more severe than the reward for the ethically produced goods or more ethically produced goods than others.

On the other hand, there is a lot of other research shows that, especially with millennials, the people of the newer generation are willing to pay a substantial premium for the products and services that kind of feed their personal culture and their personal perception of ethics and moral.

Erica Salmon-Byrne: Terrific. Thank you very much.

At this point, do we have any other questions from the audience? Please, if you do have a question that has not been answered, go ahead and use the chat function to raise it with either one of our two panelists.

Alex Brigham: ((inaudible)) someone had asked if whether it was information on how to conduct a risk assessment and there is an ACC info pack on how to conduct a risk assessment that ((inaudible)) helped produce. So, that is available from ACC and obviously, members on the phone today.

One commentary I want to make which I was impressed in talking to Robert before the call got started was the support that Robert has gotten on the government contracting ethics. I mean that was a – from corporations themselves and what Robert was alluding to and Robert, feel free to expand upon this, because I was impressed by it, but you were talking about how companies don't get credit for – often times, for being good guys or good gals, ((inaudible)) determinate, for investing in a compliance and ethics program, bringing it beyond the D minus program and often

times, you only find the issue of compliance or ethics in the news as it relates to a company for negative behavior, the lack of having that program in place or a failure, a kink in the armor, something went wrong, despite efforts by the company. So, is that part of what you're seeing? Is that why companies are saying, 'Wait a second, we've put this program in place and finally, someone is going to recognize that it is a good program. If we've done our things correctly, we're going to get credit for it in public perception, even if we're not quote/unquote a "world's most ethical company", we still get some positive feedback on it.' Is that right?

Robert Leffel: Yes, that's right. We get that perception and in fact, I was very surprised by how well the project, the government contract ethics program ranking, was received by the government contracted community from individual companies to the contract associations and of course, some of them are a little bit ((inaudible)) in terms of – especially the ones that don't have robust programs, they think, OK, what kind of grade they're going to get? But they understand that they're going to be benchmarked, so they're in there so it's – even if they got a low grade now, from there on, they can only improve.

But the companies that do have robust programs and many companies, especially larger companies, do have very good programs. They are very supportive because they want to showcase it and one of the goals of the ((inaudible)) Institute and ((inaudible)) Magazine is to showcase and promote best practices, right? And government project and community, we understand them perfectly well. They are – they're generally very worried about the media and industries like that because they used to being bashed and even the larger organizations, obviously, ((inaudible)) with thousands of government contracts few of them go badly and they're going to get a beating from the media and everyone else. And they really get recognition that they do have a very good program that another few thousand contracts go through really well and performed and executed very well. But when they get a problem, it's usually hits the news.

Erica Salmon-Byrne: Terrific. Any other questions from the audience or either Alex or Robert, anything else that you wanted to raise?

Alex Brigham: No, I think – I mean I think we were able to hit on some of the key points and I just want to reiterate to people if they do want more data, I mean we're swimming in data from this survey. So, feel free to contact us and we'll see if we can help you out with it because the more information that's out there for people to compare and help drive their programs and figure out where they stand, I think the better it is for everybody. So, just wanted to reiterate that and I'll turn it over to Robert and you, Erica.

Robert Leffel: OK. I think I need to make Erica the leader.

Erica Salmon-Byrne: Terrific. Thank you.

Robert Leffel: It's over to you.

Erica Salmon-Byrne: Great. Thank you, Robert, and thank you, everyone, for participating in today's Webcast. As Alex mentioned, if you have any questions about the ACC data, please do not hesitate to contact Corpedia. You can either reach Corpedia through the Website or you can contact ACC and they can put you touch with Alex. I believe his contact information was also on the front page of the presentation. In addition, if you have any further questions about the Ethics for Institutes work, I strongly encourage you to visit (Ethisphere.com) which is the Website, especially if there's anyone on here who has not yet receiving the magazine. It's a terrifically fun publication that deals with some very serious issues in a really interesting way and I strongly encourage you to check it out.

With that, if there are no further questions, I'd like to thank you all for your time and again, anything that we were not able to answer today, I know that ACC will have that as part of the Website from this event and we will do our best to get to those questions as soon as possible.

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