

1           Those who seek to make this country secure need  
2 not be heedless of privacy, and those who seek to ensure  
3 privacy do not necessarily seek to make this country less  
4 secure.

5           Let us remember and let us heed Franklin's  
6 words that those who would give up essential liberty to  
7 purchase a little temporary safety deserve neither  
8 liberty nor safety. Let us strive to deserve both.

9           Thank you.

10           (Applause.)

11       **PANEL 1:** The Process of Protecting Consumer Information:

12           Creating a Business Plan Using a Hypothetical

13           MS. LEVIN: Thank you, Nuala, for your remarks.  
14 They're very inspiring.

15           I just have a couple of other announcements  
16 before we get on with our first panel.

17           First, in your folders are the bios of the  
18 people that you'll be hearing from today, so our  
19 introductions are going to be very brief.

20           There are also hand-outs for the slide  
21 presentations, at least most of them, so you'll be able  
22 to take them home and not have to worry about jotting  
23 down lots of notes during the panels themselves.

24           All of this will be posted on our website,  
25 [ftc.gov/techworkshop](http://ftc.gov/techworkshop), so that you'll be able to view the

1 other slides that were not in your hand-outs today and  
2 actually see the slides from the previous workshop, as  
3 well.

4 You will also find information on the website  
5 about purchasing videotapes of the two sessions, and  
6 later this month, we will have the transcripts of the  
7 sessions posted.

8 So, we don't want all the valuable information  
9 being presented today to evaporate in cyberspace. We  
10 want it to be there for you in the future.

11 For those of you who'd like to add to the  
12 record of the workshop, information about providing  
13 written comments on the topics of either workshop session  
14 is on the website, and the final deadline to submit  
15 comments is June 20th.

16 There will be a brief five-minute question-and-  
17 answer period prior to the end of each panel, and if  
18 you'd like to address a question to the panel, we ask you  
19 to line up behind the microphone, which will be in the  
20 back of the center aisle.

21 So, we're ready to begin.

22 Panel one brings together some of the leading  
23 privacy and security experts in the country to give you a  
24 glimpse, an inside glimpse of how we go about creating a  
25 business plan to manage privacy and the role technology

1 can play in that plan.

2 Let me first introduce my co-moderator, Joe  
3 Alhadeff, chief privacy officer for Oracle Corporation,  
4 and then to my left, Gary Clayton, chairman of Privacy  
5 Council, Incorporated; Stephen M. Paroby, global director  
6 of markets for technology and security risk services of  
7 Ernst & Young; Steven Adler, market manager of IBM Tivoli  
8 Security & Privacy Software; David Chaum, a security  
9 expert and consultant, cryptographer and inventor of  
10 electronic cash; Susan Grant, vice president for public  
11 policy at the National Consumers League; Richard Purcell,  
12 CEO of Corporate Privacy Group; and Larry Ponemon,  
13 chairman of the Ponemon Institute.

14 Before we launch into our hypothetical  
15 discussion, we're going to learn about what businesses  
16 are currently doing to manage privacy, and Larry Ponemon  
17 will open our panel with a presentation of his 2003  
18 benchmark study on corporate privacy and data protection  
19 practices.

20 Thanks, Larry.

21 MR. PONEMON: Good morning.

22 What I'd like to do is to talk very, very  
23 briefly about a study that has just been completed. It's  
24 a benchmarking study of corporate privacy practices.

25 I think Toby is going to hold me to a real

1       tight deadline, because if you know me, you know that I  
2       like to talk and always go over on speeches like this.  
3       So, I will just touch upon the major findings of this  
4       research, and at your leisure, if you want to contact me,  
5       if you want more information, we could have private one-  
6       to-one conversations.

7                   I will not bore you with all of the statistical  
8       details, but it's a very interesting study. Of course,  
9       I'm biased.

10                   Let me just start off with some general  
11       reactions. You know, one picture is worth 1,000 words,  
12       and one general reaction is worth 1,000 pictures, and  
13       these are some of the comments that were provided to me,  
14       and these were not recorded on the survey instrument.

15                   Of course, I'll start off with the most  
16       positive. "This survey was amazingly useful. It helped  
17       me to see all the activities that we aren't doing now  
18       very well." And that's my mother. She wrote that one.  
19       I'm being honest.

20                   "Frankly, Dr. Ponemon, after completing the  
21       instrument, I was embarrassed to submit because of all  
22       the 'no' and 'unsure' responses." That was an honest  
23       response.

24                   Number three. "I make no guarantees about the  
25       quality of the enclosed responses. It was completed by

1 my boss, and he is likely to have been wearing a pretty  
2 big halo when editing my work."

3 Okay.

4 And "Larry, I like the survey very much, but I  
5 don't really think all this research will make a  
6 difference. The only measure that is respected around  
7 here is return on investment. Is there an ROI for  
8 privacy? If so, tell me about it soon, because I'm  
9 drowning."

10 These are real comments.

11 Four basic questions.

12 When you do research, before you start the  
13 project and you're trying to be objective about your  
14 work, you are really asking these basic essential  
15 questions:

16 What are you trying to accomplish? And in  
17 particular, what are leading companies doing today to  
18 ensure adequate compliance?

19 Is there a common set of business practices  
20 employed by leading companies to ensure reasonable  
21 protection and controls over personal information?

22 Are there apparent gaps in privacy and data  
23 protection activities that may create some  
24 vulnerabilities for companies?

25 And then last, and certainly not least from the

1       FTC's perspective, do corporate privacy and data  
2       protection practices vary across industry sectors, and if  
3       so, perhaps there's an influence of regulation, or the  
4       lack thereof.

5               Now, again, I promised some caveats. Before we  
6       get into the findings, the focus is on description. This  
7       is not normative research. We're not testing specific  
8       hypotheses. It is based on a small, non-random,  
9       representative sample of companies.

10              So, to the extent that companies participated,  
11       you can assume that these are probably companies with  
12       more mature privacy programs.

13              There is an enrollment bias. We believe that  
14       larger companies will probably have a better privacy and  
15       data program than smaller or younger companies, and  
16       unmeasured organizational factors -- and they are many  
17       and too numerous to mention right now -- that may explain  
18       differences across companies.

19              The halo issue is always an issue in research  
20       of this kind. So, there is the possibility that this  
21       self-reported data is just overly positive, and doesn't  
22       reflect reality.

23              Now, a little bit about the instrument.

24              Many of you have seen the instrument, and  
25       again, if you're interested in seeing all of this

1       gruesome detail, I will make it available to you. It's  
2       in the public domain, and this was work done in  
3       collaboration with the International Association of  
4       Privacy Professionals, the IAPP. So, the benchmark  
5       survey was developed and refined with a learned group of  
6       experts, 11 corporations and one Federal agency, and  
7       these are CPOs or senior executives representing privacy.

8               The instrument was organized into eight core  
9       areas representing, actually, 108 different topics. So,  
10      there are 108 topics organized into eight areas. You  
11      might actually think about it generally as issues that  
12      chief privacy officers face or the business processes  
13      that they're trying to manage, such as policy,  
14      communication and training, privacy management, even data  
15      security, compliance and monitoring, choice and consent,  
16      global standards, and probably last and certainly not  
17      least, redress and enforcement.

18              Methods were survey driven, but in many cases,  
19      we decided to do diagnostic interviews to learn more.  
20      Sometimes the responses were sorely incomplete and the  
21      only way to get to the meaty data was to talk to people,  
22      but we did promise confidentiality. So, unless someone  
23      revealed the name of the organization, we could not have  
24      that one-to-one dialogue, but in many cases we did.

25              The final survey was distributed at the IAPP

1 annual summit in February. We received 111 total  
2 completed surveys, of which we rejected four because  
3 there were internal inconsistencies. You hate throwing  
4 away research as valuable as this, but we just felt it  
5 was low reliability. We got rid of them.

6 So, we had 107, and of the 107, one of the  
7 questions we asked, are you a small company, that is with  
8 a head count of less than 5,000, or a large company, and  
9 that one variable explained probably 60 percent of the  
10 variation in privacy practices.

11 So, we decided for this research to do two  
12 studies. We're going to do a small company study and a  
13 larger company study, and we are now reporting today on  
14 the larger company results.

15 An illustration of the survey instrument itself  
16 -- we try to limit responses to "yes/no." If you  
17 couldn't respond "yes," or you couldn't respond "no," you  
18 had "unsure." If you couldn't respond "unsure," you  
19 could leave it blank, and there were places for noting  
20 exceptions. So, there were many exceptions.

21 The primary dependent variable of analysis is  
22 something that we refer to as a percent positive  
23 response. It's the percentage of "yes" responses, "yes"  
24 denoting something that is good, "no" denoting something  
25 that may not be that good, and there were reverse-scored



1 items, so "yes" is really a positive response. It's not  
2 always the "yes" response to the survey.

3 Industry classification. Because we're dealing  
4 with 55 larger companies, many of which are Fortune 500  
5 or Global 1000 companies, we did not cover the waterfront  
6 of industry.

7 The largest industry concentration is financial  
8 services.

9 We grouped health and pharmaceuticals together,  
10 and for those people who are in the pharmaceuticals  
11 industry, please do not throw anything at me, because I  
12 understand that that's not true. Pharmaceuticals is  
13 manufacturing, but it also covers some major health care  
14 issues, so they are grouped together.

15 We have consumer products, manufacturing,  
16 retail, telecom, the automobile industry and a  
17 transportation company, technology, and other. Other  
18 includes one Federal agency.

19 Now, the results.

20 Based on that percentage of "yes" response,  
21 companies are doing probably more around the privacy  
22 policy than any of the other categories.

23 That's a good fact.

24 The bad fact is redress and enforcement is not  
25 being attended to very well.

1                   Data security, privacy management,  
2                   communications, and training -- the compliance-oriented  
3                   activities -- are taking the lead.

4                   Issues like preference management, where  
5                   there's 41 percent of compliance, or of percentage "yes"  
6                   response. Attending to global standards, because all of  
7                   these companies, save one Federal agency, deal with the  
8                   international regulatory issue, not just the Federal or  
9                   state regulatory issues, and global standards is not a  
10                  high priority right now.

11                  Now, industries vary, and this is interesting,  
12                  and this might suggest, if you are pro-regulation, that  
13                  regulations make a difference, and you will see that  
14                  financial services do better in terms of the percentage  
15                  "yes" than other industries.

16                  Well, don't get too excited, because health  
17                  care and pharmaceuticals, which some would argue is  
18                  subject to even more regulation, is at a very low level  
19                  of compliance.

20                  Unfortunately, one cannot conclude that  
21                  regulations are playing a big part, and the fact that you  
22                  have a 64-percent compliance rate may not suggest that  
23                  companies are doing very well even in financial services.

24                  Also, the automotive industry, for some unknown  
25                  reason, seems to be stepping up to the plate in terms of

1 basic blocking and tackling.

2 So, of any industry group that seems to be pro-  
3 actively managing this thing, it's probably automotive,  
4 but keep in mind, the big automotive companies also are  
5 financial service companies.

6 Now, I'm going to rush, because I feel the  
7 pressure to get to the panel.

8 Key findings -- I'm not going to go through all  
9 of these, but on the positive and negative side -- and  
10 these are just examples. I say key findings, but these  
11 are example findings. There are many, many more in each  
12 of these categories.

13 Almost all of the companies have a privacy  
14 policy, and the majority of companies get approval at the  
15 CEO and senior management level, and there are formal  
16 controls over revisions to that policy. There does seem  
17 to be an alignment between the policy for privacy and the  
18 ethical conduct policy, which we think is a good thing.

19 There's also a separate policy for employees.

20 On the negative side, the policy doesn't seem  
21 to be aligned with major stakeholders. No one ever talks  
22 to the consumer or the customer or the policy holder or  
23 the person that you're trying to protect. There seems to  
24 be a real gap. We think we know what they want, but  
25 there's no evidence to suggest companies do research in

1 this area. They do a lot of marketing research but no  
2 research on this issue of what consumers want.

3 Policies are still way too complicated. If you  
4 use the eighth-grade reading level, this is at the 29th-  
5 grade reading level in some cases. But it's very, very  
6 complicated, and people just don't understand it.

7 There's also very limited disclosure. Unless  
8 you're require to have a notice, most of the disclosure  
9 might be web-based disclosure.

10 On communications and training -- well, good  
11 news -- there's widespread communication of privacy  
12 policies to employees, nice outreach. That's good.  
13 Policies are shared with business partners. Good deal.  
14 There's widespread communication of policies to customers  
15 and even consumers. Good thing.

16 On the negative side, very, very few  
17 organizations open up their compliance program to key  
18 business partners.

19 There is no privacy awareness activity in most  
20 cases to customers, no mandatory -- underscore this word  
21 -- mandatory -- or very limited mandatory privacy  
22 training for employees.

23 No computer -- very limited computer-based  
24 training activity -- and you would think that's the  
25 greatest way of educating people, a low-cost way of doing

1 it.

2 Do not report training results to senior  
3 executives of the board, which is a surrogate for  
4 accountability. Don't even measure effectiveness --  
5 you're going to spend millions of dollars. You want to  
6 know if there is an ROI, and a lot of companies aren't  
7 really measuring effectiveness at this point.

8 Key findings on privacy management: Probably  
9 the most positive of positives is that the management of  
10 privacy is not that department off to the corner and no  
11 one knows what they do. Rather it's a cross-functional  
12 team, and that is the right way to manage privacy, in my  
13 opinion. That's good.

14 Privacy committees have formal responsibilities  
15 and a charter. Very good.

16 Business partners must comply. At least,  
17 people tell us that in the survey. This may be a halo  
18 effect, but they must comply with the privacy policy.

19 Well, the number one negative in this category  
20 is 52 percent believe there is a serious, serious lack of  
21 resources to achieve privacy goals. If there is one  
22 issue that was communicated to me off the record, that  
23 was the off-the-record comment that we can't get our job  
24 done without a budget, and we just don't have any.

25 Privacy is not important to executives for

1 brand or marketplace image. This is the perception of  
2 the CPO. Yet when I talk to marketing executives, they  
3 do believe that privacy is important and it's a way of  
4 engendering trust. There's a workshop on the 18th that's  
5 going to get at the value proposition to privacy, and I  
6 think this is one of the issues that we need to discuss.

7 There doesn't seem to be a direct reporting  
8 relationship to the CEO or senior leadership. Although  
9 CEO's are involved, it's not a direct involvement.

10 Remember I said we will hold our business  
11 partners to our privacy policy? Good fact. How do you  
12 do it if you don't monitor, okay? Forty-five percent of  
13 the companies are not monitoring it. At least they tell  
14 us -- this is with the halo -- that they're not  
15 monitoring those policies. And very few organizations  
16 actually conduct independent privacy audits, which we  
17 think are good. I'm somewhat biased, having been a  
18 privacy auditor.

19 Key findings on data security -- and I'm going  
20 to go through these very quickly, Toby.

21 Positives:

22 On the positive side, companies are actually  
23 trying to take stock and inventories of their personal  
24 data.

25 Here's an interesting fact. There is an

1 evaluation of new software applications. As they are  
2 entered into production, companies are at least looking  
3 at some of the privacy and data protection issues.

4 And perimeter controls -- data security, at  
5 least over consumer-centric data, seems to be pretty  
6 good, and employee data, as well.

7 The issue of honoring consumer preferences --  
8 66 percent don't have a mechanism for doing that, and  
9 actually, Steve, you'll talk about IBM, but tools like  
10 that could actually make a big difference.

11 No integration of information security with  
12 privacy initiatives.

13 You would think that these are hand-in-glove  
14 concepts, but many companies still operate these two in  
15 silos.

16 Lack of control over IT. For example, basic  
17 issues -- who controls website domains?

18 I can't tell you how many companies said, I  
19 know there are websites out there with our company name  
20 on it, and I don't know about them, and I know it's going  
21 to get us into trouble.

22 Widespread use of our favorite thing, the  
23 Social Security number, still exists as a primary form of  
24 identification and maybe even authentication.

25 Low use of privacy-enabling technologies. What

1 was interesting about that is companies are really  
2 interested, but they don't have the resources right now.  
3 So, CEO's need to step up to the plate or we have to do a  
4 better job of explaining the ROI, so people see the  
5 value.

6 And a low usage of P3P.

7 Key findings on compliance:

8 Senior management support privacy compliance  
9 programs. At least they say they do have them.

10 Privacy compliance is viewed as a significant  
11 regulatory concern for the company, and privacy and data  
12 protection strategies are actually in place today, but  
13 there's no crisis plan, in many cases.

14 Companies wouldn't know what to do if they were  
15 hit on the side of the head with a two-by-four.  
16 Unfortunately, that's reality.

17 They don't check things like marketing  
18 campaigns to determine whether those campaigns they're  
19 marketing are privacy-compliant.

20 They don't use internal auditing that's  
21 available to them to monitor privacy.

22 And they don't conduct mock regulatory  
23 assessment or audits to see, if the regulator showed up  
24 on Monday, that by Friday, when they got the opinion, it  
25 wasn't a negative audit opinion.



1           Very briefly, choice -- you notice the list of  
2 positives keeps getting smaller and smaller, and  
3 negatives actually get larger. The issue here is that  
4 opt-in is not used, and I know it depends on the industry  
5 sector, but it's just not used. There's no flexibility  
6 in how consumers and customers communicate choice, and  
7 this is interesting, because consumers want better ways  
8 of telling the company how they want their data used and  
9 how they want to be respected, and companies aren't doing  
10 it or doing it well. Employees are not given a choice  
11 over how their PII is collected and used. That's the  
12 sleeping tiger or giant, the employee issue.

13           On the global side, we all know that evaluation  
14 of global standards is done, but compliance with these  
15 laws isn't monitored.

16           Transport of data flow issues, new Canadian  
17 regulations, and even the issue of safe harbor -- it's  
18 just being ignored or it's not considered as a high  
19 priority in many cases.

20           The redress area has probably the greatest gap.

21           For the most part, organizations just don't  
22 have it together here. They don't have a clue.

23           Many companies actually are doing it well, so I  
24 don't want to just generalize to every organization, but  
25 the vast majority of companies are just not doing a whole

1 lot in this area.

2 Employees, for example, don't have a process to  
3 resolve concerns about their personal data. Consumers  
4 and customers can't access and correct their personal  
5 data. There is no redress program for consumers and  
6 customers. There is no process for enforcing privacy  
7 violations, and that's a depressing fact.

8 They do not have a process for reporting  
9 privacy complaints to management, and that is interesting  
10 because state laws, such as in California, as you know,  
11 now have time-lines.

12 An issue occurs and you have a time-line for  
13 getting something done, but many companies are not aware  
14 of that, and they're not imposing any reporting time-  
15 line.

16 It goes into a great void when a complaint is  
17 registered.

18 So, what did we learn?

19 In summary, many companies are actually  
20 achieving modest success, even with all the negatives,  
21 with their privacy and data protection program. One of  
22 the questions that we asked is do you feel that the world  
23 is getting better for you, and the good news is that most  
24 companies, even with these negative, dismal findings, are  
25 saying yes, they expect to spend more money, and they

1 really viewed the technology area as the area of greatest  
2 hope. So, it's enabling technologies that, at the end of  
3 the day, will make the difference, we think.

4 Companies are vulnerable to privacy breaches  
5 because of gaps.

6 The gaps that we've identified -- just having a  
7 policy doesn't mean you're doing much. You have to do  
8 more than that.

9 And companies are moving in that direction, but  
10 there are still some pretty large mine-fields to be aware  
11 of.

12 Certain industries seem to perform at a higher  
13 level of compliance -- for example, the financial  
14 services industry -- but I don't think we can draw the  
15 conclusion about regulation, as I mentioned before. So,  
16 it is still unclear that regulations for privacy and data  
17 protection serve to improve or hamper the leading  
18 practices or best practices.

19 I'm going to close, but I think the key  
20 variable is there's a lot of data here, and we're very  
21 proud of our report. For anyone in this room or anyone  
22 you know, if you're interested, just give me a call, and  
23 we will send the report to you.

24 Thank you very much, and now I'm going to turn  
25 it over to Toby and Joe.

1 Thank you.

2 MS. LEVIN: Thank you, Larry.

3 (Applause.)

4 MS. LEVIN: As an agency that's very interested  
5 in studies and surveys and empirical information, we  
6 appreciate your having done the study, and we look  
7 forward to analyzing it in more detail and talking with  
8 you about it.

9 There's an executive summary of it in your  
10 folders, as well.

11 Now, I'm happy to turn it over to Joe Alhadeff,  
12 who is the author of this very challenging hypothetical.  
13 The description of the hypothetical is in your packets,  
14 as well, and he'll walk us through it.

15 MR. ALHADEFF: Actually, I had asked Toby to  
16 get a Lavalier so I could do an Arthur Miller-style  
17 discussion with this hypothetical, but I don't think I  
18 want to. I won't challenge the person who is trying to  
19 do the video by having me as a ping-pong ball walking  
20 around the room. So, I'll just moderate from my seat, if  
21 that's okay. That would actually give you another option  
22 for Commissioner Swindle's comment that everybody move to  
23 the center if you actually want to see us.

24 We have essentially a two-part hypothetical.  
25 It's one fact pattern, but it's going to be dealt with in

1 two parts.

2 Part one is going to be the brainstorming  
3 session of the consulting group, whereas part two is the  
4 consulting group doing the presentation to the client.  
5 By way of background, so that you don't have to read  
6 through the entire hypothetical, there's a consulting  
7 group called Consulting and Advising on Net Deployment  
8 and Operation -- a catchy name, CANDO.

9 The firm specializes in technology and policy  
10 consulting on Internet and deployment, and the firm that  
11 they hope to work with is a firm of retirement  
12 communities called Golden Oldies. They're a  
13 confederation of retirement communities that essentially  
14 have six locations -- five in the U.S., one in Canada.

15 The communities have doctors on-call. They  
16 provide small clinic facilities, pharmacies, libraries,  
17 some convenience services, including in-home meals,  
18 shopping, and some financial advisors.

19 So, the CEO has had a meeting informally with  
20 one of the representatives of CANDO, and the CEO is,  
21 oddly enough, a gentleman named Ivan Offerforyou, and he  
22 went to a trade show -- it will sink in over time. He  
23 went to a trade show, and his concept is he wants to have  
24 wired communities, because he's seen that this is the  
25 next big thing. So, they've gotten some computers in the

1 community centers and the residents seem to be liking it.  
2 They've gotten broadband out to the home, but a lot of  
3 the people in the community don't have computers yet, and  
4 he's starting to think big.

5 He wants to try to group the purchase of the  
6 computers. He wants to try to start grouping the  
7 purchasing habits of some of his residents to get them  
8 better price advantages. And then he's also thinking  
9 from an administrative point of view about his six  
10 offices that have essentially been working in non-modern  
11 times in terms of technology.

12 While they each have a computer, the computers  
13 aren't connected, and they've been exchanging data by  
14 sending disks back and forth or even sending print-outs  
15 back and forth between headquarters and the various  
16 community facilities.

17 So, he's trying to figure out how to work this  
18 forward. One of the other things that he's looking at is  
19 all of these community centers purchase products, whether  
20 it's to stock the small grocery that may be in the  
21 community, the cleaning supplies, the medical supplies  
22 that the little clinics may use, and he's figuring that  
23 group purchasing there might be beneficial to him, also.

24 Unfortunately, as part of the description that  
25 he has given you, one of the concepts that he wanted was

1 to have you guys come in to give him advice on what  
2 package he needs to buy to solve this problem.

3 The other thing that he's figured out is that,  
4 while it's a big operation, it's a family-run operation.

5 So, as CANDO, you may be starting to wonder  
6 about the professionalism of some of his staff.

7 Many brother-in-laws and cousins who otherwise  
8 were unemployable seem to have found a job somewhere in  
9 his organization.

10 Technologically, they have some tech people on  
11 staff, but really, they're kind of Mr. Fix-It's. They  
12 show you how to use a piece of software but they don't  
13 really interact with the residents. They only support  
14 the people within the community who are administrative  
15 staff, and they work on that one server.

16 I will make one comment about the process here  
17 before we get into the flow, and the process is, if you  
18 look at what you've got on this panel, in many ways it  
19 could be a dream team of consulting. I mean CANDO could  
20 be CAN'T AFFORD.

21 And so, I don't want people to presume that you  
22 need a team of this variety and experience, necessarily,  
23 to have a solution.

24 We're fortunate in the fact that we've been  
25 able to attract this team, but there are lots of people

1 out there and lots of ways that you can get this advice  
2 at a much more affordable fashion than what you've got  
3 sitting in front of you.

4 This is a great opportunity, and Toby and the  
5 FTC have shown amazing courage in letting the egos that  
6 are sitting on this panel, who could each fill up the  
7 hour-and-a-half time slot by themselves, interact without  
8 a net.

9 So, with that, we'll plunge into the deep end  
10 and see where we go.

11 MS. LEVIN: For the first part, all of the  
12 panelists are part of CANDO, and we've got our logo sign  
13 right in front.

14 During the first part of this hypothetical,  
15 everyone is part of the discussion.

16 MR. ALHADEFF: None of the information that the  
17 panelists now have can be imputed to them when they  
18 become an officer of the company in part two.

19 Essentially, this is the brainstorming meeting.

20 We're now called to order. Just looking at  
21 this, we're trying to figure out what it is that needs to  
22 be done for GO -- Golden Oldies is going to be  
23 abbreviated as GO from now on -- for GO to develop a  
24 business plan. The first question, which I'll ask my  
25 colleague, Richard, is do we have all the information we



1 need? Is there something that we don't have here? Do we  
2 have the facts?

3 MR. PURCELL: Well, I think we have the  
4 framework. I don't think we have the facts.

5 I don't know what the age span of the people  
6 here are.

7 I don't know what their particular interests  
8 are.

9 I don't know how far away from their relatives  
10 or other communities they live.

11 So, there's a whole bunch of connectedness that  
12 I need to know.

13 The other thing is I haven't seen yet what the  
14 platform is they're running on or if there's any  
15 consistency across these six different operations in  
16 terms of the platform. How are they transferring this  
17 information?

18 Steve, have you heard anything about that?

19 MR. ADLER: I'm sure it's a LINUX platform.

20 MR. PURCELL: Oh, you think so. Well, it  
21 probably is, because they're the brother-in-law kind of  
22 thing, right? So, they're going on the cheap. They  
23 definitely are patching this thing together.

24 I'm wondering if they are putting together a  
25 consistent data exchange here at all. We know they're

1 shoving diskettes at each other, so obviously they're not  
2 very consistent.

3 MR. ALHADEFF: I think we can't presume that  
4 there is any consistency within the data. As far as your  
5 issue of the ages of the residents, he had said there was  
6 seemingly some variety, but we know that the family  
7 members want to interact.

8 Steve, do you have any thoughts on things that  
9 we would have to look at in terms of some of the issues  
10 that we would first see?

11 Richard's pointed out some of the information  
12 we need, but are there big gaps in the information we  
13 have. He's looking for a turn-key solution, a package,  
14 and I think maybe we need some foundation.

15 MR. PAROBY: Well, I think in any organization,  
16 no matter what size, no matter what they're into, you  
17 first want to start with their vision, their strategy,  
18 their mission, their growth plans.

19 Currently, where are they? What's their  
20 current state?

21 And you mentioned what's the platform? What  
22 are they running on?

23 What are they doing? What's their  
24 connectivity? And you have six centers, but how many  
25 people? What age groups, et cetera?

1                   But I think the strategy, the overall vision,  
2                   the growth plans are something that you would start with  
3                   in any organization before you make a determination on  
4                   what to do to solve a problem.

5                   MR. ALHADEFF: Susan?

6                   MS. GRANT: I think there's a big missing piece  
7                   here that I've noticed, and that is that we don't really  
8                   know what the residents of these communities want.

9                   We haven't had an opportunity to survey them or  
10                  talk to them at all.

11                  I'm not really sure, talking to the people in  
12                  the company that we've interacted with so far, that they  
13                  know what the residents want.

14                  I think that's really important.

15                  MR. ALHADEFF: Larry, is there something that  
16                  we can at least gather from him as to how we'd phrase the  
17                  goals that they seem to want to accomplish?

18                  MR. PONEMON: Yes. I think it goes back to  
19                  value proposition, and even though I think we understand  
20                  what it is, we need to have the client tell us what that  
21                  value is, and then we have to see whether, realistically,  
22                  we can meet that value.

23                  MR. PURCELL: Well, yes, value, but what about  
24                  affordability, too? I mean it's a pretty small shop.

25                  MR. PONEMON: The key is it's a value-cost

1 argument. There could be an unlimited amount of value,  
2 but it's just too costly because it's a small company.  
3 So, that also has to get into our equation somewhere.

4 MR. PURCELL: So, don't we have to figure out  
5 what we can do for them and what we can't, as well?

6 MR. ALHADEFF: I think one of the things in  
7 terms of what we can and what we can't do is -- we  
8 haven't really established what role this community  
9 center wants to play for its residents, which is  
10 something that Susan has highlighted, and a couple of  
11 other people. David, it struck me that they're talking  
12 about a lot of things which will involve purchases, but  
13 there hasn't been much discussion about how you're going  
14 to buy anything or what you're going to do.

15 Do you have any thoughts on some of the issues  
16 that might come up there?

17 MR. CHAUM: In view of keeping the cost low,  
18 they could just take advantage of some of the currently  
19 available anonymous payment systems and ordering systems  
20 so when the residents are obtaining pharmaceuticals and  
21 groceries and all that sort of thing, checking out books,  
22 they could do that anonymously and without having to  
23 invest in systems themselves.

24 MR. ADLER: The only thing I would add is that  
25 we don't know yet what their application infrastructure

1 is, what their network topology is, what they're using  
2 their applications for, what their business processes  
3 are, what their data flows look like.

4 There are a lot of questions that we need to  
5 figure out -- if there are six different resident  
6 communities, what does that infrastructure look like?  
7 How primitive is this? And what types of personal  
8 information are being collected, and what's being done  
9 with that personal information? Are there any controls  
10 internally at all?

11 MR. ALHADEFF: From a gap analysis point of  
12 view, I think we've identified a lot of the technology  
13 gap analysis.

14 Gary, could you highlight some of the policy  
15 gap analysis that may be there or some of the issues that  
16 they haven't been thinking of that are perhaps non-  
17 technological?

18 MR. CLAYTON: Sure. I think starting from the  
19 idea of a data flow, clearly there are a couple of things  
20 that come to mind here.

21 As to the HIPAA requirements for protecting  
22 some of the information that may related to health, it's  
23 not clear what they're getting or how much of it would be  
24 covered by that law or what's being shared among the  
25 entities or even what's needed to be shared among the

1 various entities or the outside deals.

2 They want to offer financial services, and that  
3 raises a question immediately of Gramm-Leach-Bliley and  
4 the protection and security provided for that  
5 information.

6 Also, what are they thinking with respect to  
7 providing either the health or the financial services?  
8 Are they really going to offer it internally, or is this  
9 going to be someone who's just simply going to be using  
10 access to their facilities to offer it?

11 It goes back to the data flows. What are they  
12 getting from individuals? What do they hope to get? How  
13 does it help their business?

14 What I would hope we point out to them is, one,  
15 you may not be able to afford a Mercedes today, but you  
16 certainly can start things, and you can start  
17 implementing. Then, secondly, you've got to understand  
18 and manage this process. They may not have any of the  
19 resources internally to manage it from a privacy or  
20 security perspective, particularly since they're all  
21 brother-in-laws and the like that are involved.

22 MR. ALHADEFF: So, you're suggesting maybe they  
23 get a Chrysler, which is a Mercedes by another name.

24 MR. CLAYTON: Something like that.

25 MR. PURCELL: But Gary, isn't it true, also,

1           that we have to be careful, because whatever we do for  
2           them, whatever we can implement, won't they also use that  
3           for unintended or unanticipated uses?

4                     You set up a whole network for them to  
5           communicate and to get this data exchange going. Won't  
6           new data be introduced into that process, as well?

7                     MR. CLAYTON: Absolutely. And one of the  
8           messages we have to give is none of this is solved by the  
9           silver bullet of technology.

10                    There are going to be people, processes,  
11           procedures in place, which goes back to what do they  
12           need, how do they need it?

13                    And I think one of the things that we need to  
14           stress to them is managing their information systems is  
15           going to be integral to their business process -- it's  
16           their supply chain, their business. This is not just an  
17           external part or a little piece that's added on the end.

18                    It's got to be an integral part of management  
19           to keep exactly what you're talking about either in  
20           control or to make sure that you take advantage of it  
21           where you have opportunities to do so.

22                    MR. PURCELL: So, you're thinking of putting in  
23           a training or a staff development component to what we're  
24           talking to them about?

25                    MR. CLAYTON: We need to ask what training they

1 have, what awareness they have. One of the things that  
2 strikes me, particularly with a group of older Americans  
3 who may be using technology for the first time, are  
4 issues of identity theft and fraud.

5 So, the training is not just for the employees  
6 or the service providers. It's also for the residents of  
7 the communities.

8 I think there are huge issues, particularly if  
9 they really want to fulfill their goal. They've got to  
10 feel comfortable.

11 And I think the final thing would be one bad  
12 act by someone as an employee or a couple of bad  
13 incidents against a couple of the residents would  
14 probably kill any programs they have.

15 So, it's very important for them to understand  
16 the possible consequences. That's their return on  
17 investment. They've got to handle all these issues, in  
18 some ways, if they want this program to work.

19 MR. ALHADEFF: Part of what we've heard -- and  
20 perhaps the suggestion that he's looking for, especially  
21 when he talks about wanting to lower the price of things  
22 for his consumers and wants to benefit the residents in  
23 different ways by the services -- is he seems to want to  
24 create some value in his brand and maybe differentiate  
25 that. Do you think that we can use technology and some



1 policy advice to help him to do that?

2 Larry?

3 MR. PONEMON: Well, it goes back to what is the  
4 goal?

5 Is the goal to get the elderly folks in the  
6 nursing homes to communicate, and this then becomes a  
7 reason for choosing this organization versus another  
8 organization, choosing one retirement facility versus  
9 another. Maybe it can be baked into the trust  
10 proposition that when you do this, when you make this  
11 choice, your data is protected, plus you have access to  
12 the best and latest technology, and this is a good fact.

13 Just one point. I just want to echo what Gary  
14 and Richard said.

15 The issue is not just about technology. It's  
16 about people. And people want to use information in ways  
17 that are just wonderful -- for example, talking to your  
18 physician and/or talking to your grandchildren by e-mail  
19 and sharing confidential information -- but there are  
20 risks associated with that.

21 So, somehow, in order for the trust issue to  
22 work, you have to overcome those risks.

23 MR. PURCELL: Are we better off by out-sourcing  
24 this, by making a recommendation that it just be handled  
25 out of house totally?

1 I don't know where we are in terms of our  
2 decision to recommend to them an internal decision versus  
3 some packaged service provision that they don't handle,  
4 that they just hire out and it's totally out-sourced, but  
5 it's a reasonable thing we should talk about, right?

6 MR. ADLER: It doesn't address what Gary talked  
7 about, this human dimension, or that Larry was also  
8 talking about, in a sense, transforming that  
9 infrastructure. We need to put in place a human  
10 dimension where people who may not have the level of  
11 technology comfort that we enjoy can nevertheless feel  
12 they're being taken care of in the way they're used to be  
13 communicated to. There is a requirement here that out-  
14 sourcing won't address, and that's the transposition of  
15 whatever management and technology infrastructure we put  
16 into this dimension of people's needs and how this  
17 integrates into their lives to add value.

18 That's really a critical component that out-  
19 sourcing won't address.

20 MR. PAROBY: They seem to be looking for the  
21 silver bullet, as you mentioned, when, in fact, they may  
22 not need the silver bullet.

23 They need the bricks and mortar of a foundation  
24 or a framework, as you said, Steve, before they get to  
25 that. Technology could be an enabler. Security and

1 privacy are enablers. They could be a brand  
2 differentiator for them as they go forward, but I think  
3 they need the foundation first.

4 MR. ALHADEFF: Richard raised the out-sourcing  
5 point. Susan's also raised the importance of bringing  
6 together some of the human factors and making sure that  
7 the human factors are addressed, which is what Steve was  
8 talking about and where some of the out-sourcing benefit  
9 would stop. But I think what we're looking at is out-  
10 sourcing the way that you manage and handle the back end.

11 As we've figured out, the tech people that they  
12 have on staff seem to be fairly limited, but what Steve's  
13 talking about is then how do you get to the residents  
14 what they need, which is really the front end, and  
15 that's, in many ways, the differentiator.

16 We haven't grappled with one concept, which is  
17 he's also wiring the communities for administrative  
18 purposes, and he's going to take a look at those  
19 communities and try to figure out how they can do  
20 purchasing and how they can do information communication.

21 Do you see any issues that come up on the  
22 administrative side, when they're wiring and  
23 communicating with each other, versus on the residents  
24 side?

25 MR. ADLER: You mean in terms of management

1 oversight over the communication infrastructure?

2 MR. ALHADEFF: And also how the communications  
3 structure works on the theory that one of the communities  
4 may not be in the United States. I was just wondering if  
5 that raises any flags for anybody.

6 Gary?

7 MR. CLAYTON: Yes. Clearly, we need to make  
8 them aware that Canada has a different privacy regime  
9 than we do in the United States and so different laws,  
10 different issues arise. It may impact the ability to  
11 even get some of their information from Canada to the  
12 United States.

13 I think we need to understand what they want.  
14 Going back to the issue of expense that Richard just  
15 brought up and the idea of whether you manage or not, I  
16 still don't have a real good sense of how much of an  
17 urgency this is for them or how much money they want to  
18 spend, what's their budget, and what's really their  
19 business goals other than these broad, general aspects.

20 And I think before we can answer the issues  
21 about Canada, we've also got to look at the issue of  
22 which states that they're in -- whether you're in  
23 California with some specific requirements there or  
24 you're in other states that have limitations -- you may  
25 have a whole host of issues. Ironically, one of the

1 things that strikes for me for a group like this is  
2 there's probably going to be a lot of grandchildren  
3 coming in and using the technology. This presents issues  
4 that we would never think about for an elderly community,  
5 including some of the child protections that the FTC  
6 administers.

7 MR. PURCELL: Well, you know, their presence in  
8 Canada cuts both ways, too.

9 Let's remember, they do buy a lot of medical  
10 and pharmaceuticals, and getting those from Canada,  
11 through that facility there, and then trans-shipping them  
12 to the States may be really advantageous to their cost,  
13 too. So, let's make sure that we're thinking about how  
14 we can make a pitch here that works for Golden Oldies,  
15 not only for managing their information but also managing  
16 their operational infrastructure, too.

17 MR. CLAYTON: Yes. I really think that there  
18 are two things here that are important to them that are  
19 our big sales features. One is providing efficiencies  
20 within their management so that they can run at a more  
21 cost-effective basis. Another is providing much better  
22 services and serving the needs of the people who are  
23 living in this community.

24 These are retirement communities where people  
25 actually opt to live and they pay relatively big bucks to

1 live there.

2 Nonetheless, I think that considering the fact  
3 that GO may not be able to do everything that they want  
4 to do at once, once they figure out exactly what it is  
5 that they want to do, maybe what we can do is present a  
6 plan that is incremental, so it can be phased in over  
7 time.

8 One other comment.

9 One of the things I think we need to stress is  
10 so many people view privacy and security as just a cost,  
11 an add-on that's something that's a burden on them.

12 There may be well ways that not only can they  
13 improve their brand, but they can actually make money by  
14 doing some of the things well, even on the privacy  
15 protections and some of the security protections, that's  
16 more than just, we have it and other people don't. If we  
17 understand their business and what they're trying to do  
18 and keep looking for those answers, it may be one of  
19 these arguments where they literally pay for some of  
20 these things through their own improvements that they  
21 make.

22 MR. CHAUM: Part of the scenario, I believe, is  
23 that the residents themselves will get managed computing  
24 power from GO, and that opens up the whole opportunity to  
25 provide all kinds of consumer protections on those

1 machines, from anonymous surfing to child protection and  
2 so forth.

3 So, I think their computing systems could be a  
4 profit center.

5 MR. ADLER: There's a modernization,  
6 electrification, automation process that's going on here  
7 for a family-owned business that heretofore hasn't had  
8 tremendous communication integration. We have to provide  
9 not only that new communication infrastructure but then  
10 both the technology and the process and the transparency  
11 above the integrated management structure so that these  
12 new collection features don't introduce risks and  
13 uncertainties, or make customers or residents uneasy with  
14 this migration to a new platform. It's a new way of  
15 communicating with their organization.

16 MS. LEVIN: For a lot of people, privacy has  
17 been thought of as a privacy policy, and what I hear from  
18 all of you is that privacy really is a business  
19 management process, and in fact, you get a whole lot more  
20 out of it than just a privacy policy. Is that right?

21 MR. ADLER: It's an operational challenge.

22 MR. ALHADEFF: I think one of the things we  
23 have to be careful of here is something we heard about in  
24 the report we got on GO's first request.

25 Ivan figures that if he takes the paper out of

1 the process he's done. Taking the paper out of the  
2 process, even if you're just looking at optimization, is  
3 about 10 percent of the battle.

4 We have to figure out how we can optimize some  
5 of his processes for this new environment that he's  
6 working on. We've all spoken about the need for a value  
7 proposition. I figure that we're going to hear from him  
8 -- what's my return on investment here?

9 MR. PURCELL: Yes, I agree. A lot of what  
10 we're talking about is the data security, data privacy,  
11 the control of information.

12 I'm not so sure that's what Ivan is that  
13 interested in.

14 He wants operational efficiencies. He wants to  
15 stop bleeding all of this postage and writing disks and  
16 so on. They're in a very insecure operation right now.  
17 I'm not so sure he's very tolerant of that. So, we've  
18 got to pitch a little bit about what the exposure he's  
19 currently under is all about, how he can resolve that and  
20 still get operational efficiencies.

21 MR. PAROBY: We don't just talk dollars for  
22 operational efficiency and a return on investment.

23 I agree that that's probably what they're going  
24 to look for, and I think we need to talk about both the  
25 tangible and the intangible benefits or deliverables that



1           could come about from a safe, secure, efficient  
2           environment.

3                       MR. CLAYTON:   And I think one other point to  
4           make is he may already have a lot of these obligations  
5           and burdens and risks in place already, as you talk about  
6           them.   Just because he's in paper, it doesn't mean that  
7           HIPAA's not going to have implications for how you at  
8           least manage some of the information, particularly if you  
9           end up mailing it, by disk, or transferring it out.

10                      So, I think he needs to understand that just by  
11           putting technology in place, it's not going to cause all  
12           these solutions to have to come to bear.

13                      MR. PURCELL:   He obviously doesn't understand  
14           this just today.   We're in character development now, but  
15           the way they're operating today, they're not getting a  
16           lot more requirements if they make any kind of transition  
17           than they're under already, transition or no.

18                      MR. ADLER:    So, what I think I'm hearing you  
19           say is that we have to make this part of the solution --

20                      MR. PURCELL:   Yes, I think so.

21                      MR. ADLER:    -- not an obstacle to data sharing  
22           or communication, not an additional cost burden outside  
23           the system, but that data handling practices, privacy  
24           management, training, infrastructure have to be part of  
25           the way the solution is presented.

1 MR. PURCELL: I agree, yeah. I think these are  
2 challenges that GO already has in the off-line world that  
3 they're not addressing just because it's not the way  
4 they've done business before.

5 As they transition into the digital world, it's  
6 not a new obligation. It's just that the obligation  
7 becomes a little more apparent.

8 MS. GRANT: We need to help them assess what  
9 they're doing now, see whether they need to change any of  
10 that, before they transfer all of this to the automated  
11 world.

12 MR. PAROBY: And that's an issue -- you just  
13 hit upon it. Take any organization worldwide. They try  
14 to find the silver bullet -- they try to find the quick  
15 fix. They try to get a software package or a consultant  
16 to do something to take them to the next generation.

17 However, 99.9 percent of them don't know their  
18 current state, don't know the risks they have, don't know  
19 the environment that they're operating in, don't know the  
20 rules, don't know the regulations, and in many cases,  
21 they're afraid to take that step to find out where they  
22 are and find out what they're doing right or wrong.

23 MS. LEVIN: Larry, you've been waiting.

24 MR. PONEMON: This is like my dinnertime  
25 conversation with my family. I have to really fight to

1 get that word in.

2 Two things.

3 Number one, we're supposed to be a group of  
4 consultants, and it's interesting. We do consulting  
5 because we think we know all of the answers. Susan  
6 mentioned something that was critical to this whole  
7 process -- alignment, understand the value, talk to  
8 people. I'm thinking of my mother, who is now 82 years  
9 old. She's going to kill me for saying that, but she is  
10 82, and she lives in a retirement community in Arizona.  
11 She calls herself the little old lady from Tucson, and  
12 she has a website -- I'm serious -- called  
13 littleoldladyfromtucson.org. This lady is like an  
14 Internet nut.

15 For her, the number one issue is convenience,  
16 convenience. She loves it. The number two issue is cost  
17 savings. She loves it.

18 Number 19 on her list is privacy and data  
19 protection, because she'll say, look, I'm 82, I'm going  
20 to die, my data is useless, I don't care, exploit it.

21 But to some folks, data protection is the  
22 sleeping giant, right? It's what, Gary, you were talking  
23 about, that you may not even see the risk. So, what you  
24 have to do, as part of this team, after we align and  
25 understand what the real issues are, then we need to

1 educate businesses, because they may be completely  
2 insensitive to the data protection risk.

3 MR. ALHADEFF: I'm going to get a little  
4 structural.

5 MR. CLAYTON: May I just make one point?

6 One of the things I think we also need to at  
7 least approach with GO in this meeting is you don't have  
8 to do it all at once.

9 There are things you can do now. I don't know  
10 what we would start with, but it seems to me that part of  
11 the initial effort is what the heck do you want first and  
12 how do we help you get there. Going to Larry's comment  
13 about what do people need, they may have six communities  
14 of Larry's moms that are all technically savvy, using the  
15 Internet, and that would dictate one path. They may have  
16 someone like my father who has never seen a computer. We  
17 just need to understand the situation, and they need to  
18 be able to give us some roll-in, if you will.

19 MR. ALHADEFF: Larry's mom can do the training  
20 sessions.

21 We've got a short amount of time before we're  
22 going to have to start meeting with GO, so I want to get  
23 to the issue of how we're going to structure our  
24 concepts. We've been a little bit all over the map, and  
25 we've heard that there have to be concepts of how to

1 bring out the benefits. We have to somehow educate them  
2 about the risks and then somehow provide them the concept  
3 of a path forward.

4 Do we think there's a better approach in terms  
5 of how we present this? Do you start with the stick and  
6 move to the carrot? Do you start with the carrot and  
7 move to the stick? Do you not talk about one in the  
8 first meeting and the other at another meeting? What do  
9 you think?

10 MR. CLAYTON: In one sense, you've got a  
11 willing audience here that a man clearly is excited about  
12 a possibility, and I hate to put a damper on that by  
13 starting off with -- you're doing bad things, you're  
14 going to have risk, et cetera.

15 My sense would be we ought to play to the  
16 positives -- the cost savings, the benefits, the  
17 increased community, return on investment, and as part of  
18 that, a cost analysis, just what's it going to cost, what  
19 are the risks?

20 I would hate to start with the cost and the  
21 risk before we get to understanding what the benefits  
22 are.

23 MR. CHAUM: Unfortunately, I'm not going to be  
24 able to be representing the firm there, but I think one  
25 of the big selling points might be a real nice service

1           that we could offer to the actual residents to protect  
2           them in this managed manner, and I hope someone from our  
3           team will --

4                       MR. PURCELL:  Yes.  Can we split that out?  I  
5           mean there are some categories of operational  
6           efficiencies here.  One is their administration.  What  
7           about their billing system?  What about their provision  
8           of services for their medications, for their convenience  
9           items, for their community time schedules, all of that  
10          kind of thing?  Then there are their operational  
11          communications within the network of the community.

12                      So, you've got the internal community network.  
13          Then you've got the inter-network between these different  
14          six communities, including the Canadian facility, for  
15          operational efficiencies.

16                      That includes supply chain management and all  
17          that kind of thing.

18                      Then you've got the residents interacting with  
19          each other in that inter-community and the residents  
20          interacting outside of that community.

21                      So, I guess there's four different interactions  
22          going on there, you know, the administration internal,  
23          the administration inter-network, the community internal,  
24          and the community inter-network.

25                      MR. ALHADEFF:  That's one thing we haven't

1 discussed. Ivan's never brought up the requirements that  
2 we've identified as things that he might need to do  
3 because of external legislation and things of that  
4 nature.

5 So, I think we're going to have to figure out  
6 how to address that, but Richard's raised a very  
7 important point, which is point three.

8 He's never talked about whether the communities  
9 could talk to each other and whether, within a community  
10 and across communities, there's any benefit he can bring.

11 Do you think that's something we should be  
12 emphasizing to him?

13 MS. GRANT: If they don't bring that up, I  
14 think we should.

15 MR. ALHADEFF: You know, those are the kind of  
16 things you were talking about earlier, David, about  
17 having anonymous communications.

18 I would assume when you're talking about  
19 personal communications inside the community, though,  
20 you're getting to less anonymous, or are you.

21 MR. CHAUM: I think the residents could  
22 correspond with each other under first names or something  
23 like that, in a way that was partly anonymized to the  
24 outside world. I think we can have suggestion boxes, for  
25 example, as a way for residents to communicate

1           anonymously with the organization itself that might be  
2           very helpful.

3                       MR. PURCELL:   How else are Gary's dad and  
4           Larry's mom going to get together?  A lot of these  
5           communities want community.  We've got to be careful,  
6           because to a certain degree we've heard in some of these  
7           conferences we've been to that privacy is a middle-aged  
8           problem.  A lot of our parents' generation and our  
9           younger generation care less about these kinds of issues  
10          than perhaps we do.  So, we have to be very careful to  
11          make sure we understand what this community really does  
12          want, whether it's anonymous communication or not.

13                      MS. GRANT:   And you know, it may not be one  
14          community either.  It may be that there are differences  
15          in the different parts of the country in the U.S. where  
16          these are located, as well as in Canada -- differences  
17          between the residents in terms of how they view privacy,  
18          and I think that's important to get at, as well.

19                      MR. ALHADEFF:  I think we've got some issues  
20          that were being fomented on this end of the table.

21                      MR. CLAYTON:  One of the other things that I  
22          think we need to just talk about -- and we talk about  
23          these people as though they're fungible residents -- is  
24          accessibility and issues related to that.

25                      You may have people, in this community,



1 particularly, with poor vision, poor hearing, an  
2 inability to really access some of what's available  
3 through the Internet. We've got to be able to at least  
4 understand what those issues are. Secondly, as you said,  
5 Richard, he hasn't given us any information so far about  
6 whether the communities are communicating among  
7 themselves, what the telecommunications systems are, what  
8 sorts of lines they have. I know that they have cable  
9 modems they're trying to put out, but those raise issues  
10 by themselves.

11 So, I think we need to get a little better  
12 sense of really how do they hope to communicate if  
13 they're trying to form one community?

14 MR. PURCELL: Yes. Accessibility is a good  
15 point, Gary, because when we pitch this company, they've  
16 already got to be living with regulatory overheads,  
17 right?

18 By telling them that there are additional  
19 regulatory overheads they may not be aware of, it's not  
20 new to them. They have accessibility and ADA regulation  
21 that they must be under and be used to.

22 MR. ALHADEFF: They have someone already who  
23 does compliance, but his compliance has not, so far, been  
24 HIPAA or Gramm-Leach-Bliley.

25 His compliance has been because they have some

1        pharmaceuticals and things of that nature. It's more on  
2        the insurance side of life where they've been filing,  
3        because they actually haven't been operating the  
4        pharmaceutical entity within the group.

5                    But it strikes me that we raise an important  
6        point about the residents' expectations. In some ways,  
7        are we projecting some protections onto them that they  
8        might not want?

9                    Susan started out saying we need to survey  
10       them. David has pointed out that we need to offer them  
11       the choice of how they want to communicate. I think we  
12       have to be very careful not to indicate to them that we  
13       know of a solution that's good for them which they may  
14       not decide is good for them.

15                   So, do we have a technological and policy  
16       architecture that's going to be flexible enough to offer  
17       them a broad range of solutions, or does that just become  
18       cost prohibitive?

19                   MR. ADLER: So, you're saying that we want to  
20       offer them a foundation or a tool kit that they can use  
21       themselves to determine how they would like their  
22       information used.

23                   MR. PURCELL: Well, I'd be careful with that.

24                   MR. ADLER: Instead of imposing a regime or  
25       even trying to pre-survey people and base a regime on

1 survey answers, where consent and preference is always  
2 changing, you're saying build that into a proposal which  
3 says here's a preference and consent management platform  
4 you can use to determine how the company, on an ongoing  
5 basis, treats your communication.

6 MS. LEVIN: A menu.

7 MR. ADLER: Right.

8 MR. ALHADEFF: I think that works as long as  
9 we're sure that it covers all the needs. Larry's mom is  
10 fine. She can navigate the menu. She'll re-code it for  
11 you, in fact.

12 But Gary's dad -- if the menu doesn't look like  
13 what he sees at a restaurant, he's not going to be  
14 interested in it.

15 MS. LEVIN: Also, I think Susan mentioned that  
16 a lot of consumers may not have an awareness of the data  
17 flows, and Larry mentioned that, too, lack of awareness  
18 of the data flows and what that may mean. So, how do you  
19 build that educational effort into helping them make  
20 choices?

21 MR. PURCELL: Well, let's be careful on the  
22 pitch, too, because although Larry's mom might not care  
23 about her data and any breach of her data might not  
24 affect her personally because of her own values, it  
25 certainly might affect this company and its brand.

1                   So if we're going to pitch this as being  
2 something important to their brand and differentiating  
3 their brand and therefore more of a value proposition,  
4 more attractive to the marketplace, we've got to be  
5 careful not to position it such that we say that these  
6 people can do whatever they want, because if they do and  
7 something goes bad --

8                   MR. PURCELL: It's less the individual's  
9 problem, perhaps, than it is the company's problem.

10                  MR. CLAYTON: And particularly if they all have  
11 Internet where they're all e-mailing each other about  
12 Larry's mom just having her check stolen.

13                  MR. ADLER: Well, presumably there's a business  
14 goal here, right?

15                  They want to put this infrastructure in place  
16 to make their facility more desirable for customers to  
17 live in, and make it easier for customers to buy  
18 pharmaceutical products and medical services.

19                  You know, as Larry said there's a convenience  
20 factor here for the technology.

21                  That goes hand in hand with the fact that it's  
22 not an isolated environment. The people living there are  
23 going to be exposed through the technology to the outside  
24 world, and they're going to have both positive and  
25 negative experiences online, and that will shape the way

1 they view their service provider.

2 So, that provision of flexibility from the  
3 service provider sets a different example that can be  
4 used as -- going to Gary's point about the benefits --  
5 the market differentiation, the way an organization  
6 markets itself, realizing that by providing broad-band,  
7 cable modem, Internet access, Golden Oldies is acting  
8 like an ISP, as a service provider to its patients, to  
9 its customers. So, what should we present?

10 We can talk about all the challenges the  
11 organization has to surmount, the new challenges that  
12 this technology requires them to think about, and in  
13 doing so, the new opportunities in meeting those  
14 challenges, that the technology may provide from a market  
15 differentiation perspective or from the perspectives of  
16 customer loyalty, retention, increased service provision.  
17 There are a multitude of facets that we can turn around  
18 here.

19 MR. ALHADEFF: I just want to highlight one  
20 question that was raised here, which I think is a very  
21 important question, and it was also raised when we talked  
22 about the fact that there might be HIPAA obligations and  
23 Gramm-Leach-Bliley obligations. You said they might be  
24 operating as an ISP. If you operate as an ISP, that is a  
25 whole set of new regulations that you are subject to.

1           If you operate in any way as a covered entity  
2           under HIPAA, that's a whole new set of regulations you're  
3           subject to. If you can be considered a financial  
4           institution, although they probably won't be considered a  
5           bank, they might be subject to the FTC's coverage under  
6           Gramm-Leach-Bliley. That's a whole other set of  
7           regulatory obligations.

8           Do we want to suggest to him limitations on his  
9           business model to keep him out of those regulatory  
10          obligations?

11          Gary?

12          MR. CLAYTON: We know they're a confederation,  
13          but we don't really understand if they're one company, if  
14          they're multiple companies, where they're incorporated.  
15          There are going to be issues about the ability to even  
16          share some of this data absent residents' permissions and  
17          other things, unless we understand that.

18          Since this is an initial meeting, we need to  
19          make it clear that, one, data protection is an ongoing  
20          issue that he's going to have to deal with. It's not  
21          something he bites off all at once and that ends it.

22          Two, it's going to very much depend on his  
23          business goal and what's the demand within his community.

24          And three, there are some options he has. He  
25          can use us. He can use others. He can do bits and

1 pieces of things.

2 We can work with him on partnering to come out  
3 with those ideas, but I think we have to suggest that  
4 there are some things that he's got to think of.

5 For example, we haven't even really covered his  
6 insurance issues, his risk issues by taking on some of  
7 these new things, and how does he get coverage. But we  
8 won't know those until we understand a lot more, which I  
9 would suggest we can help him with in the process of  
10 learning about --

11 MS. GRANT: Exactly.

12 MR. CLAYTON: -- what the customers want.

13 MS. GRANT: Yes. I think we need to sell him  
14 an assessment as the first phase of this, helping him  
15 assess how he's operating now, what the people who work  
16 there need and want, what the people who live there need  
17 and want. From there, we can go to step two, presenting  
18 him with the obligations that are attached to those, the  
19 opportunities, the benefits, and so on, all under the  
20 general sales pitch that the direction that he's heading  
21 in is potentially a great direction for the people who  
22 work there and who live there in terms of providing them  
23 all with better services and benefits.

24 MS. LEVIN: We might also want to make him  
25 aware of all the governmental resources and non-

1 governmental resources available to him to help educate  
2 staff. There are some free resources that they might  
3 want to avail themselves of.

4 MR. PURCELL: We'll charge you commission on  
5 those.

6 One thing that I want to make clear -- how do  
7 we pitch this? We will be going into this meeting soon.

8 It seems to me that -- just to throw out a  
9 straw man here -- one of the things we can do is we can  
10 essentially paint a big picture. First, say we're very  
11 glad to see that your mind's open to this, here's how  
12 good it can get. Then start peeling that into the  
13 increments and categories we've been talking about and  
14 say, here's what to do for a foundation, here's how you  
15 build up this model that we're painting here, and this  
16 may be a a four-or-five-year deal and it may take quite a  
17 while to get where you want to go.

18 MR. ALHADEFF: Yes. I have a concern. I've  
19 met the CEO once, and he reminds you a little of the '60s  
20 -- he still has his ponytail and he wants to do the right  
21 thing. He thinks he's doing a good job, and he's really  
22 suspicious. He's already told us he's been suspicious of  
23 consultants trying to sell him multi-year contracts.

24 MR. CLAYTON: We clearly need to tell him that  
25 maybe at the end of this process he decides not to do



1       some of this or any of this. We're all acting like this  
2       is a given, that it might be better for them, and that  
3       they all want it. He may find that it's not a solution  
4       he can afford and not one that he wants and it doesn't  
5       really give him what he needs.

6                So, in addressing that, we have to be open to  
7       all possibilities, both pro and negative.

8                MS. LEVIN: Susan's point, though, of thinking  
9       about it in terms of pieces is something I'd like you to  
10      think about.

11               MR. PONEMON: Just one point. For those people  
12      in the room who have been on either this side, the  
13      consulting side, or on the client's side, you know that  
14      assessment is an evil word.

15               No one wants to spend real economic resources  
16      on assessment.

17               If we're trying to sell something, going in  
18      with the assessment is going to be difficult unless  
19      there's some pain, unless that organization has  
20      experienced a problem, such as a violation of GLB or  
21      HIPAA or some embarrassment factor.

22               So, assessment is the right place to start, but  
23      we might have to think about doing it differently. We  
24      might have to bake it into the overall value proposition  
25      and project.

1                   MR. ALHADEFF: Let me do a little wrap up  
2 before we run into part two. I think we've identified a  
3 number of the risk factors. We've indicated that because  
4 he's a bit enthusiastic to begin with, we don't want to  
5 start him off with the negatives. We want to pitch early  
6 to the positives.

7                   But we're going to have to raise the negatives  
8 before we pitch the assessment, because he's going to  
9 have to figure out that there's pain if he doesn't go  
10 through this. Then, after the assessment, based on the  
11 interaction, I think we're going to have to develop a  
12 little bit of this during the first meeting as it goes  
13 along. One of the things we're going to need is to get  
14 more information than what we have and how that works.  
15 We have done a little bit of a brainstorming prior to  
16 this meeting.

17                   And by the magic of photocopying, in your  
18 packets, there is concept piece of some slides which will  
19 include some of the challenges of privacy impact  
20 assessment, some of the solutions that may also be  
21 available, as well as some of the deployment  
22 considerations and factors.

23                   Now we will magically morph -- Richard is going  
24 into 1960 as we speak. We will be morphing into the  
25 various role-playing positions, and I believe on the

1           hypothetical outline, you've got the roles which we're  
2           going to be assuming for part two.

3                         Here's our CEO, Richard, who is --

4                         MR. PURCELL:  Hey, Joe.  How are you doing,  
5           man?

6                         MR. ALHADEFF:  Good man.  Dude.

7                         We've got Larry, who is our chief operating  
8           officer.

9                         We've got David, who is our chief financial  
10          officer.

11                        Susan is actually director of communities.

12                        I'm their outside legal counsel.

13                        And we've got our consulting team -- amazing  
14          how we're split up this way -- which is Gary and Steve on  
15          the consulting side and then Steve again -- should we use  
16          Steve and Steven just to differentiate?  -- Steve, who is  
17          our technology consultant guru on this deal.  With that,  
18          I'm going to turn it over to the consultants, who may  
19          want to figure out the pitch, and you can use the  
20          materials as if they have the hand-outs.

21                        MR. PAROBY:  Well, to start out -- thank you  
22          for our first meeting.

23                        You raised a lot of issues.  It seems you want  
24          to go in the right direction, using technology, using  
25          enablers.  Our first thought in synthesizing some of the

1 information from our first gathering is that we certainly  
2 don't have all the answers to the questions that we need  
3 in order to go forward with what I'll call a full fledged  
4 proposal or a solution. Some of the challenges that  
5 you're going to be facing as you move into technology and  
6 move into the next era with Golden Oldies are some  
7 privacy challenges, some security challenges.

8 And although a lot of organizations think they  
9 know where they are with respect to their information  
10 practices and technology needs -- one of our value  
11 propositions is to consider your vision, your goals, your  
12 objectives, and your desires -- where do you want to be  
13 in six months? Where do you want to be in a year? Where  
14 do you want to be in five years?

15 And then map that back from your vision and  
16 your strategy to where we are today and take a look at  
17 the current state and then help you design a framework as  
18 you go forward, using any kind of enabler -- it may be  
19 technology. We need to first build the platform from  
20 where you are today to where you want to get to in that  
21 time-frame.

22 Now, that takes various forms. You need to  
23 involve certain people. You need to look at current  
24 regulations. You need to look at things affecting you  
25 like HIPAA laws. You need to look at the Canadian

1 regulations, because you do have operations there, and  
2 that first initiative can be done in many ways.

3 You can do an audit. You can do a current  
4 state assessment.

5 One way is to bring in key people from Golden  
6 Oldies -- yourself, legal counsel, privacy officer,  
7 technology experts -- and actually work through that  
8 process to determine what their thinking is as far as  
9 where they want to be, where you want to be with your  
10 vision and your goals, and map that against where you  
11 are, and in a very cost-effective, short time-frame  
12 determine that current state. We can use that as the  
13 baseline to be sure that, as you go forward with respect  
14 to technology, innovation, trying to get cost-  
15 effectiveness factored into it -- to look at how you can  
16 get a return on that investment, both tangible and  
17 intangible. Tangible return means we're going to do this  
18 actually more cost-effectively, we're going to do it more  
19 efficiently, we're going to save money on purchases,  
20 we're going to grow efficiently. But intangible return  
21 is how that's going to affect the brand from a security,  
22 privacy, technology standpoint.

23 How are you going to be a key differentiator as  
24 you grow?

25 MR. PURCELL: Well, growing is everything for

1 us. You asked, where do we want to be, and where we want  
2 to be is profitable and continuingly profitable.

3 One of the goals we have over five years is to  
4 grow this organization.

5 We have five communities here in the United  
6 States, and we just acquired one in Canada about a year  
7 ago. We want to grow both sides of the border, and we  
8 think there are some other opportunities, too, south of  
9 the border, as well.

10 So, we've already had a certain amount of  
11 regulation that we've dealt with, but when you talk about  
12 the chief privacy officer and the technology and  
13 everything, you're looking at it right here.

14 I mean this is it. We're not huge right now,  
15 but we're going to grow.

16 What we want to do is grow effectively and kind  
17 of slowly.

18 Larry is our operations guy, and my task to him  
19 is make sure everything is just as efficient as can be,  
20 and he's told me -- and what I told Joe when we met at  
21 that tech show -- we're not very efficient. We're  
22 shoving paper and disks and stuff like that to each  
23 other.

24 Security -- it doesn't sound very secure right  
25 now, so I'm not so sure what you're going to sell me

1           there.

2                     Our technology guy is our CFO, our money guy.  
3           David is the guy that does this for me -- he makes sure  
4           that the numbers add up but also that we're not running  
5           liabilities and risks beyond what we need. Joe helps him  
6           figure out that risk.

7                     When you talk about what the community needs --  
8           we serve a group of residents here. They're our  
9           customers, and everything we do is focused on their  
10          benefit.

11                    Susan is the one who needs to take care of what  
12          they need.

13                    Let's start with Susan. You respond first,  
14          because what Steven was talking about mostly is what our  
15          customers are going to want and how their lives are going  
16          to get better.

17                    MS. GRANT: Well, the community directors for  
18          the various communities have gotten together and talked  
19          about all of the exciting things that we could do for the  
20          residents with new technology and also how we can just  
21          share information amongst the community directors better  
22          about activities and share ideas for things to do.

23                    The potential here is so great, but what we  
24          really need to do is probably have some meetings with the  
25          residents, which we haven't done yet, to talk about these

1 things and find out more about what our ideas and what  
2 their ideas are and what any of their concerns may be.

3 I know just in talking amongst ourselves, one  
4 of the things that one of the directors brought up to me  
5 is that no matter what we do with technology in terms of  
6 serving our residents better, we also have to remember  
7 that we need to offer them just as good service off-line.  
8 We can't force everybody to go online to communicate with  
9 us or to get the things that they need. We still have to  
10 keep on improving the services that we offer in other  
11 ways, too. The other thing is that we all feel like we  
12 need a lot more training not only for our residents about  
13 how to use all this stuff but also for ourselves.

14 MR. PURCELL: I think that's true. We didn't  
15 make this company happen. We don't establish this  
16 because people are being put away.

17 These people have their own lives. They're  
18 independent.

19 We do everything we can in this community to  
20 make sure they have their independence.

21 So it's really important to us that our  
22 residents get empowered with using these tools.

23 A lot of them already know this stuff better  
24 than some of us do, but a lot of them don't, and they  
25 share a lot with each other.



1                   But what we found is we had a few problems.  
2                   Somebody who was considered a resident expert was giving  
3                   bad advice to others. What we need is a program that  
4                   lets everybody get the same information and clears out a  
5                   lot of the myth that has been circulating.

6                   MR. PONEMON: As the chief operating officer,  
7                   I'd like to talk about the bottom line because the CEO  
8                   only looks at things from a positive side, like most  
9                   CEO's.

10                  So, from the bottom line side of the universe,  
11                  let me just tell you, just within the four walls here --  
12                  we are not being videotaped, are we?

13                  Because I want you to know we are in violation  
14                  of the law right now. The good news is, because we're  
15                  not networked or connected, no one really worries that  
16                  much about it. But on the other hand, we just want you  
17                  to know that we believe that we're in violation of all of  
18                  these regulations and laws right now, not deliberately,  
19                  but we know somewhere out there these laws exist. You're  
20                  just going to have to help us walk through it, because we  
21                  don't want to do this only to find out that we're the  
22                  subject of a great investigation by the FTC.

23                  MS. GRANT: Yes. You mentioned HIPAA. I don't  
24                  know what that is.

25                  Do you know what that is?

1                   MR. CLAYTON: Well, you raise a couple of good  
2 points, and it's not surprising to find that you're  
3 violating some provisions of the law. A lot of companies  
4 are, either knowingly or unintentionally.

5                   We're not legal counsel. We're not here to  
6 give you advice on that. Certainly we can help you in  
7 some of those areas.

8                   But one of the things I think you need to look  
9 at and, stressing some of the positives that your CEO has  
10 brought up is, you clearly are involved in your  
11 communities, you clearly want to serve them and you want  
12 to do good things. One of the things that strikes me, as  
13 you suggested, is to understand, one, how you can have  
14 immediate impact by improving your own internal  
15 operations. That may answer some of your COO's problems.

16                   How do you do billing? How do you share  
17 information? What are the ways you connect among your  
18 various communities?

19                   And we typically talk about data flows and  
20 network design, but how are you passing information,  
21 either information about people or information about  
22 things or information about events, back and forth, and  
23 really, how do you talk?

24                   Because what it boils down to is, it's people  
25 to people, and all we're doing is using technology as an

1 enabler to get you there.

2 The second thing is you may find that things  
3 that you thought were going to be a benefit from  
4 technology may not be.

5 You may have to make a business decision. Is  
6 it cost effective? Is it going to help you reach your  
7 goal? And you may find that you've got to do some  
8 training not only of yourselves but of your community to  
9 clearly understand what the opportunities are and how to  
10 use it and how to impact it.

11 And one way to do that might be for us to work  
12 with you on understanding how to improve your own  
13 internal operations first and, as part of that, do the  
14 outreach to the community where we understand what they  
15 want, what their issues are. One of the urban myths  
16 you're going to have to address is the concern that they  
17 have about technology being a positive but also a  
18 negative. You've got the reality that, in a small  
19 community, you're much like a community bank.

20 While you're very close to your customers, if  
21 one thing goes wrong, it's just like your neighbor  
22 breaching a confidence.

23 You hurt your reputation, you hurt your  
24 community, and people will get upset with you,  
25 particularly if you made representations.

1                   But going to Larry's concerns about privacy  
2                   violations or HIPAA violations, there are a number of  
3                   laws at the state level, at the Federal level, and  
4                   outside of the United States that regulate how you can  
5                   gather, use, share, and transmit information.

6                   It's particularly regulated in areas where the  
7                   information is very sensitive, such as health care, and  
8                   if you're involved in billing or collection, or if you're  
9                   going to be providing other services where you've got  
10                  physicians providing information or helping  
11                  pharmaceutical needs and the like, you very well may be  
12                  regulated about how you can use and how you collect  
13                  information, what do you have to do.

14                  Going to your profitability issue, you clearly  
15                  want to do things to cover your own risk on this. That  
16                  may be something we can help you with in the process, but  
17                  it means that we've got to marry the business goals that  
18                  you've got, which are real, which are concrete, which are  
19                  clear in your mind, with a lot of things that you don't  
20                  perhaps understand that we can work with you on about how  
21                  you get the information you need to make the decisions.

22                  MR. PURCELL: Okay. So help me out with this,  
23                  because we have a lot of elderly people here. They have  
24                  a lot of health issues, and we have this whole list of  
25                  physicians who come here. They provide services here in

1       our clinics, but we don't keep the data. That's the  
2       doctors' stuff.

3               But we have access to some of the data, because  
4       if somebody has a medical problem, we have to have a  
5       certain level of access to understand who their doctor  
6       is, what their last treatment was, that kind of thing.  
7       We have some medical facilities here for medications,  
8       too, where we dispense medications.

9               But that's the doctors' problem, not mine,  
10       right? I mean I don't understand how that's my problem.

11               MR. ALHADEFF: We haven't done this without any  
12       legal thought. We have secured the information  
13       appropriately, because there are lap-top locks on all of  
14       the lap-tops, and I think, Ivan, you've got everybody's  
15       password on your computer, just so that we know where it  
16       is.

17               MR. PURCELL: Yes.

18               MS. GRANT: And the file cabinets are locked.

19               MR. PONEMON: But actually, there is one other  
20       thing. We do sell information to large pharmaceutical  
21       companies. Did you know that?

22               That's how they're actually getting some  
23       clinical enrollment and all sorts of things.

24               MS. GRANT: We are? I didn't know that.

25               MR. PURCELL: You've got to start attending the

1 meetings, Larry.

2 MR. PONEMON: Is that a problem?

3 MR. ADLER: Ivan, we've talked about building a  
4 health care portal for the six residents' organizations  
5 so that we can --

6 MR. PURCELL: A portal? What's that?

7 MR. ADLER: That's that collection of  
8 information on one screen.

9 MR. PURCELL: Oh, just a main thing? Okay.

10 MR. ADLER: Right. Where different hospitals  
11 and insurance companies and pharmacies and residents and  
12 physicians and patients can all communicate about the  
13 same common groups of information to streamline  
14 communication among the organizations.

15 And even though we may not ultimately hold that  
16 information ourselves, we're nevertheless going to be the  
17 conduit, providing discrete access through our portal,  
18 through that window, to all those different application  
19 service providers, and our customers are still going to  
20 look to us as the custodians of their data, because we're  
21 providing the access to the hospital, to the doctor  
22 group, to the insurance company, to the different  
23 communities.

24 MR. PURCELL: Can you find some reliable people  
25 who won't let me down, then? Because this is a brand

1 image for me. If they mess up, then my chance of getting  
2 my seventh or eighth community is pretty bad.

3 MR. ADLER: Right. For us, our business is  
4 people. We build a community for people to come and live  
5 and enjoy their retirement, but from an IT infrastructure  
6 perspective, it's about data. As soon as we transform  
7 all the information we collect about people into the  
8 systems where they can gain this new convenient access to  
9 information, we now have this enormous responsibility  
10 outside of the regulatory regime, because our customers  
11 are looking to us --

12 MR. PURCELL: Okay. So, now you're --

13 MR. ADLER: -- to protect their information.

14 MR. PURCELL: You're telling me it can be more  
15 efficient, but it sounds like there's a big cost to that  
16 efficiency.

17 Is this really worthwhile? Why don't I just  
18 keep doing what I'm doing?

19 MR. PAROBY: One of the things we're going to  
20 suggest to you to consider as a go-forward strategy --  
21 and I'll dumb it down. It will be really simple.

22 First we need to --

23 (Laughter.)

24 MR. PAROBY: Consulting 101.

25 You have to think in two camps.

1                   First of all, you're serving a community.  
2                   You're serving people.

3                   What are their demands? What do they want?  
4                   What don't they want from their standpoint?

5                   These are people who may or may not want to be  
6                   empowered. They may or may not want privacy and  
7                   security. So, let's figure that out.

8                   That could be surveys. That could be  
9                   interviews. That could be focus groups. Pretty simple  
10                  stuff.

11                  The next simple thing is to take your goals and  
12                  your vision, as we set up earlier. Where do you want to  
13                  be in a period of time? What do you want to look like?  
14                  What do you want your brand to be? Do you want the  
15                  seventh facility, the eighth facility, the tenth? Do you  
16                  want to go overseas?

17                  Take that, with what your residents want, and  
18                  map an interface with who you are impacted by --  
19                  pharmaceuticals, health care -- what regulations, what  
20                  impacts them, their families, their grandchildren,  
21                  whomever -- and look at a phased and structured approach,  
22                  starting with the people, looking to technology to enable  
23                  it, and a very simple plan.

24                  As I said, what do you want to do versus what  
25                  they want.



1           If you want to do something that the residents  
2 don't want you to do, it's not going to be cost-  
3 effective, and it will hurt your brand.

4           So, first, what's your goal? What is the  
5 residents' vision for life as they live within your  
6 community? And take that and map it.

7           MR. PONEMON: Let me just jump in here. I talk  
8 to our customers.

9           These are elderly folks, and if they can get a  
10 coupon, an e-coupon by providing a whole bunch of their  
11 data, they love it.

12           They don't complain at all. They get a 20-cent  
13 or 50-cent coupon. They're willing to provide all of the  
14 personal information the pharma companies and the health  
15 product companies want.

16           So, I don't see any problem in just selling  
17 that information, because it's beneficial to them. Are  
18 you saying that, by doing this, we're going to take away  
19 what is potentially of value to our end customer?

20           MR. CLAYTON: Well, you may well have to take  
21 some of it away, to tell you the truth.

22           One of the issues you have is do you need to do  
23 something differently?

24           You recognize that there are laws that may  
25 regulate what you're doing, and the answer is why would

1           you want to do it?

2                       Some of the laws, like HIPAA, actually have  
3 criminal sanctions.

4                       If you're intentionally violating provisions of  
5 the law, there are criminal sanctions that can be  
6 involved. Those can be serious, and they're enforced by  
7 the government. It may well be that you need to comply  
8 regardless of whether you move forward or not.

9                       Secondly, you may or may not even have risk  
10 coverage for some of the things that you're talking about  
11 doing.

12                      If there's exposure, you may not be adequately  
13 protected. One sure way not to get your seventh home or  
14 community is to get sued for what you're doing that may  
15 be in violation of the law and cause you a problem that's  
16 not covered.

17                      MR. PURCELL: Joe, I need a briefing on this  
18 HIPAA thing, later on, okay?

19                      MR. CHAUM: And I'm very, very concerned about  
20 the liabilities, of course, and so, I think one thing we  
21 should be doing is getting rid of all data that we  
22 absolutely have no real essential need for.

23                      Maybe we could make a few bucks selling some in  
24 the future.

25                      We had some vague thoughts we might be able to

1 really analyze the data and help with our marketing or  
2 something, but this has never panned out.

3 So, I think we should behave like my local  
4 library.

5 They've decided now they want to destroy all  
6 information so that the FBI won't get hold of it. We  
7 should have a very effective program to make sure that we  
8 absolutely get rid of everything we don't need.

9 On the other hand, I think we should look at  
10 trying to make money off of offering some features as a  
11 choice to our residents and their visitors and maybe even  
12 to their families to communicate with them, giving them  
13 some value.

14 MR. PURCELL: That's cool, David, but make  
15 sure, because Larry and I really need some information to  
16 make sure we know how to structure our deals. We've got  
17 some opportunities to buy a couple of other communities  
18 coming up, and we have to know how to do that.

19 I don't want you to get rid of so much  
20 information that we get stuck and I can't even go  
21 forward.

22 MR. CHAUM: We'll just keep it in the  
23 aggregate.

24 MR. ADLER: I just want to say, as a technology  
25 advisor, that when we build this portal, it's a two-way

1 street.

2 On one side, we're going to collect a lot more  
3 information than we've ever had before, because  
4 electronically, we're going to give people the ability to  
5 submit more information than they've ever been able to in  
6 the past.

7 And that means that we are going to have more  
8 people from more places accessing more information  
9 faster, easier, cheaper.

10 That's going to be good for the brand, because  
11 that's going to increase, through word of mouth and on  
12 the Internet, the opportunities for our business to grow  
13 and expand.

14 This portal will become an advertising platform  
15 for the company.

16 On the other side, we've now got this new  
17 security and privacy requirement, because we've got to  
18 make sure, for all those people who are submitting  
19 information, that they're only submitting the right  
20 information and that only the right people are gaining  
21 access to the right applications and to the right data  
22 for the right reasons.

23 We have got to keep track of all of that,  
24 because we do not ever want it to turn out that the  
25 portal we created to allow people to have access to more

1 information allows the wrong people to access the wrong  
2 information at the wrong time, because that will blow up  
3 in our face.

4 So, we have an opportunity, but we also have a  
5 challenge.

6 MS. GRANT: It strikes me that we really need  
7 to look at what we do.

8 I wasn't aware that we were marketing that  
9 medical information. I'm not sure the residents really  
10 understand that.

11 I'm thinking about another program that we run.  
12 It's the find-a-book program, where the residents tell  
13 each of the community directors what books they're  
14 interested in having in the communal library, and then  
15 when we go to flea markets or tag sales or used book  
16 stores, we pick up those books inexpensively and put them  
17 in the library. We've got file cards in each of the  
18 offices with the names of specific people that have  
19 recommended specific books.

20 But it seems to me that if we were to put all  
21 this information online, maybe we would want to step back  
22 and think about do we really need the names associated  
23 with specific books or could we just post to everybody  
24 the fact that we have added new books to the libraries  
25 without having it linked to actual people?

1                   I'm starting to get nervous when I think about  
2 all the information that we have about the residents and  
3 what they like to do and so on, and I'm not sure that  
4 everybody wants to share that.

5                   MR. CLAYTON: Just a comment.

6                   What we're doing is struggling with one of your  
7 major assets, information about your people, and how do  
8 you use it. You wouldn't simply start throwing away  
9 other assets without doing an assessment of the cost, the  
10 risk, the need, and the opportunity associated with it.  
11 Until you fully understand the impact that getting rid of  
12 information or collecting information or not having it  
13 will have on your business, there's no way you're going  
14 to effectively reach your goals.

15                   That may be an integral part of your business.  
16 You've got issues about employees and how you're using  
17 and sharing information, how you're collecting it, and  
18 those have to be married.

19                   I'll tell you one thing. You'll never reach  
20 the goals that you're seeing of seven, eight, nine or  
21 growing across the country with communities unless you  
22 fully understand the data flow issue, because it is a  
23 valuable asset.

24                   You may be aware that, 10 years ago, most of  
25 the wealth of companies was from fixed assets -- brick,

1 mortar, and things.

2 Today it's technology or information. It's  
3 intangibles.

4 You may find that the thing that makes you the  
5 best company is what information you have on your  
6 community and the ability to use it, and you may well be  
7 able to effectively transfer that information to  
8 companies by simply going through the correct process of  
9 doing it.

10 So, don't take literally some of the general  
11 comments today that you can't do these things.

12 You've got to look at your data flows. You've  
13 got to map it as part of your business. And it's just as  
14 essential for you to understand it as a CEO as knowing  
15 your money flows. If you want tight control over your  
16 money, you'd better follow where your data flows about  
17 your individuals, your employees, and others.

18 MR. PURCELL: So, who does this right?

19 I mean I'm just a small player here. Who's  
20 good at this?

21 MR. ALHADEFF: I've got a pretty uneasy  
22 feeling. I went on the web and looked at their website,  
23 and they've got a slick presentation which I don't think  
24 we should be paying for. They have this whole thing  
25 about different technologies and it's got this bull's eye

1           thing on it. I look at that and I think about Cousin  
2           Zeke who runs the facility in Arkansas. He doesn't even  
3           understand some of those words.

4                     MR. PURCELL: Talk about marrying data.

5                     MR. ALHADEFF: How do you guys see us doing all  
6           this stuff? I mean spam blockers, SML, whatever that is.

7                     MR. PURCELL: I know. What is this stuff?  
8           This looks pretty complicated.

9                     I mean we're just -- we're a small group.

10                    It's Darryl and his brother, Darryl, right?

11                    (Laughter.)

12                    MR. PONEMON: Here's the deal, okay? The deal  
13           is that we're talking to three other companies, and they  
14           will do all of that up-front work for free as long as we  
15           buy their technology solution.

16                    You talk about all the benefit and value. If  
17           you can demonstrate the value -- so, we give you a dollar  
18           and you give us two dollars back, that's valuable. We'll  
19           split that two dollars with you.

20                    So, would you ever want to work on a  
21           contingency fee basis so that you prove the benefits and  
22           we pay you? Because one of your other competitors is  
23           actually thinking about doing that.

24                    MR. ADLER: Well, not only that, but I would  
25           say if you take a look at the issues that were identified



1 in the privacy impact assessment charts, where it  
2 identifies from a privacy and security perspective, all  
3 the areas that we have discussed that impact your  
4 business, it is pretty exhaustive. If you were to try to  
5 do this without technology, just with manual policies and  
6 procedures, you would be talking about a consulting  
7 engagement that certainly would not be pro bono. It  
8 would be fairly lengthy. And from an overall operational  
9 management perspective, it would be extremely expensive.

10 So, the cost of the technology investment will  
11 be more than offset by the process automation, by taking  
12 all of these areas of human interaction, manual  
13 procedures, policy enforcement, and building that into IT  
14 systems so that human beings don't have to remember it.

15 And just like we're going to use IT systems to  
16 automate our business so that we can expand and increase  
17 efficiencies and communication, we want to use the same  
18 technology to enable and control the effective and  
19 responsible use of information, because we realize from a  
20 business perspective that we can't continue to operate in  
21 a purely paper-based environment today.

22 There are these huge efficiencies we can obtain  
23 by automating, and that holds true for privacy  
24 management, as well as business management.

25 MR. PURCELL: Well, I'll agree with that,

1 because David and I have been talking a lot about what  
2 we're going to do in terms of expanding. We're even  
3 talking about can we go public any day? He's told me  
4 there's no way we could ever go public given the  
5 infrastructure that we've got built today. So, it's  
6 between David and Larry here to figure out what's first?

7 What I've asked them to do and what I want to  
8 know from you is what's first. I can see all this, but  
9 it looks like analysis paralysis. We could be six to 12  
10 months just sitting here doing assessments, and that  
11 doesn't change anything.

12 MR. ALHADEFF: Unfortunately, we're at a point  
13 where you are saved by the bell on analysis paralysis.  
14 We're at a point when we do want to give an opportunity  
15 for some interaction with the audience.

16 I want to point out that we've taken a  
17 hypothetical that marries more issues than any one  
18 company is likely to be facing at any one time.

19 We've given them, unfortunately, a well-armed  
20 and ornery officer staff to give the consultants a bit of  
21 a hard time in terms of what they're trying to pitch.  
22 But the concept here is the solution has to be holistic.  
23 It's not out of anybody's reach, but it's something that  
24 has to be done first by understanding what your data  
25 flows are, then by doing a phased analysis of how you get

1 from point A to point B with the needs of the company and  
2 the needs of the users both in mind as you go forward.

3 So, the end note for our part, before you start  
4 to ask your questions, is that technology helps, but  
5 you've got to sweat a little, too. The problem is  
6 significant, but the solution is doable.

7 And with that, why don't we turn it over to you  
8 for some questions? There's a mike in the back of the  
9 room.

10 QUESTION: One thing hit me in the middle of  
11 this role-playing.

12 Larry mentioned people who are quite happy to  
13 give away private information about themselves in return  
14 for a 50-cent coupon.

15 So, I was asking myself what is that  
16 information really worth, and I realized I have no idea.  
17 What is the real value of that private information?

18 MR. PONEMON: There's not a lot of hard data.  
19 The data that exists about how companies monetize  
20 information -- the research is spurious, and there's a  
21 lot of variation. But there are some studies that  
22 suggest that this information is valuable, and it depends  
23 on its application.

24 For example, medical data is deemed to be more  
25 valuable than, say, financial data, because it's just

1 harder to come by, and companies like to use it in the  
2 product testing, clinical research. CRO organizations,  
3 pharmaceutical companies, might actually pay a handsome  
4 sum to have more reliable information.

5 See, it gets back to the basic value issue that  
6 Steve was talking about.

7 We worry about opt-out's -- we have breakage or  
8 we went from an 80 percent to a 60 percent, but that's a  
9 good fact, because you now know that 40 percent of your  
10 population don't want to get a message from you for  
11 marketing purposes.

12 So, the better the information about the  
13 customers that are interested, the more effective you are  
14 as a company in meeting your revenue and marketing and  
15 sales goals.

16 In answer to your question, there's a lot of  
17 talk about how valuable this information is. I just  
18 don't see a lot of hard data supporting that value  
19 proposition. But I know it exists. It does exist.

20 MR. ADLER: Of course there are numbers about  
21 identity information in the black market.

22 It depends on who is buying the information.

23 There was that article in December of last year  
24 in which some Long Island companies had somebody steal  
25 30,000 identities, and it was sold for \$2 1/2 million.

1           MR. CLAYTON: And you can look at some of the  
2 case law, even the FTC and some the cases they've seen.  
3 You can look at the value of what people were willing to  
4 sell, some of their data on their customers, particularly  
5 financial institutions, some of the early cases there.  
6 People got a lot of money for selling it.

7           But I will tell you the value of the data is  
8 going to depend upon what is the supply, what's the  
9 demand. It's basic economics in one sense, but it also  
10 is going to depend on what you can do with it legally.

11           We were hired after the fact, but a large  
12 retail organization decided to buy a large company out of  
13 the country, and they paid a large amount for it.

14           The company was the largest holder of  
15 information about citizens in that country.

16           Lo and behold, that country had data protection  
17 laws, and they couldn't export the information and  
18 basically couldn't use it without specific opt-in  
19 permission. As a result, what was potentially very  
20 valuable information was basically worthless, and they  
21 overpaid for it.

22           So, to me, it's just typical business analysis  
23 issues. I don't think there are hard-and-fast rules and  
24 studies about it.

25           For each business, if you walk through the

1 elements of it, you can come up with a pretty good  
2 understanding of the value of the information to your  
3 organization even if you can't quantify it specifically.

4 MR. ALHADEFF: I think you also have to realize  
5 that there are two value propositions. There's the value  
6 to the organization and the value that the subject, the  
7 consumer, would put on the information, and that will  
8 vary by country and by culture.

9 It's probably possible to establish a value  
10 proposition in the U.S.

11 You're probably further away from establishing  
12 that in certain parts of Europe and certain other parts  
13 of the world, just because the concept of trading  
14 information is either less accepted or less common. So,  
15 there are issues that are going to come in there.

16 Don't just think of the value to the company.  
17 Understand that there's a value to a customer. And if  
18 you want the sharing, then you have to give the  
19 appropriate incentive, whether it's that you prove legal  
20 compliance in some fashion or whether you give a  
21 financial remuneration of some kind for providing the  
22 information.

23 MS. GRANT: And it's not just whether or not  
24 there is financial remuneration for the consumer.

25 In order for the consumer to figure out whether

1 it's worth trading this data for 50 cents off something,  
2 the consumer really needs to know what it's going to be  
3 used for and by whom.

4 MR. ADLER: And who it's going to be protected  
5 by, because again, I go back to the identity theft case,  
6 where there's a black market for an identity, and  
7 somebody may be willing to pay 60, 100 dollars for what  
8 may be used for fraudulent credit cards. But then that's  
9 only the first transaction.

10 It's when the fraudulent credit cards are  
11 created and your ultimate credit rating, perhaps, is the  
12 ultimate determination of the value of the data.

13 MS. LEVIN: On June 18th the FTC is holding a  
14 workshop on the costs and benefits of data flows. This  
15 information will be coming up then, too.

16 So, let's move on to the next question, and  
17 we'll have some more information on the ones you've been  
18 asking at the June 18th workshop.

19 QUESTION: This is just a bullet point that was  
20 on your outline, and that is California Senate Bill 1386.

21 Could anybody talk about what you would have  
22 advised them to do on how to get ready to comply with  
23 that?

24 MS. LEVIN: We probably don't have time to  
25 answer that. I'm sorry. But if you care to talk with

1 one of the panelists afterwards, perhaps they can give  
2 you some guidance.

3 QUESTION: And the other question is -- nobody  
4 really raised the issue of Golden Oldies using behind-  
5 the-scenes technology like web bugs and what you would  
6 suggest that they might or might not do with that.

7 MS. LEVIN: You mean technology they can put on  
8 the computers for their citizens to use?

9 MR. PURCELL: Yes. We didn't address that.

10 QUESTION: And gather information.

11 MS. LEVIN: Oh, I see.

12 MR. PURCELL: We didn't address that largely  
13 because we're not doing that at this moment. Golden  
14 Oldies hasn't yet deployed that -- but it's certainly one  
15 of the issues that they'd have to address as to what data  
16 they're collecting that's personally identifiable and  
17 that collection is known to consumer but also,  
18 importantly, what data they're collecting in an unknown  
19 and undisclosed way. That's very, very important to do.

20 MS. LEVIN: We're going to run a couple minutes  
21 into the break and shorten the break up a little bit,  
22 because I do want to get to some more of your questions.

23 MR. CHAUM: Let's not forget the other  
24 costs of the data, the risk that it might be abused.

25 So, you have to weigh that in the cost. Then



1           there's the financial risk. There's damage to the brand  
2           and so forth.

3                         There's also the cost that you incur by not  
4           being able to say definitively that you don't make  
5           certain uses of the data, and that might help you.

6                         MS. LEVIN: Next question.

7                         MS. PERRIN: I know there's a line-up behind  
8           me, so I won't do the full scenario, but I think you're a  
9           bit modest.

10                        You said you made it complex. You left out one  
11           element that I think makes it even more complex. Let's  
12           imagine I'm Mary Paininthebutt and my mother, Jane  
13           Snowbird, is in your home in Florida and I'm up in  
14           Montreal, right? And I have power of attorney, so I'm  
15           managing her finances, and I'm managing her health stuff,  
16           because she's 85 and she needs me to read her diabetic  
17           read-outs and all this. You haven't got a secure  
18           facility, and we tried using diskettes, but they kept  
19           getting opened at the border by Homeland Security.

20                        So, finally, I had to go to other methods to  
21           get that data.

22                        We tried faxing, too, but that isn't secure.  
23           It's even less likely to be.

24                        So, I went to your home in Victoria while I was  
25           there for a conference and I got one of the computer

1 geeks that's working in the dining room -- nobody in the  
2 office knew how to run the system -- and lo and behold,  
3 he can get everything and yanked it up to BC. I'm so fed  
4 up by now, because my mother is scared and she wants to  
5 move home, and I'm saying don't worry, we'll complain,  
6 we'll get this all cleared up.

7 So, I've just filed a complaint into the BC  
8 privacy commissioner, because once I yank it up in BC, it  
9 falls under that jurisdiction.

10 MS. LEVIN: Stephanie, come to panel two after  
11 the break, because we will be looking at some of the  
12 answers, how technology can help.

13 MR. CLAYTON: And we're going to turn you in  
14 for unauthorized access to our computers.

15 MS. PERRIN: Oh, it's all legal. It's all  
16 legal.

17 But the element here is that the families are  
18 the ones managing a lot of this data, not the guys in the  
19 home, and they're the ones that are going to complain.

20 MR. PURCELL: I took a note, but we didn't get  
21 to it, about where is the authentication and  
22 authorization procedures for data access internally to  
23 the company, but we didn't get to that.

24 MS. PERRIN: Well, I'll bet you anything it's  
25 whoever knows how to do it, and that's the computer tech

1 kid in the dining room.

2 MR. PURCELL: But that's how it would be today,  
3 yes.

4 MR. ALHADEFF: And one thing that we didn't  
5 want to delve into, which is actually something that  
6 would address some of your issues, is what's the legal  
7 and contractual infrastructure between the residence  
8 communities, the residents, and the administrative staff,  
9 because some of that will be spelled out, and then what  
10 are the internal policies that give permissions.

11 Part of the problem is this is a group that  
12 didn't have those internal policies.

13 So, it's not even just that the technology  
14 didn't reflect it. There wasn't a policy to begin with,  
15 which is even worse.

16 QUESTION: Mine is more of a concern, and you  
17 can address it in whatever free form you wish. It seems  
18 to me a lot of the issues here are very, very premature,  
19 that there's really a shaky foundation, and there's some  
20 fundamental corporate governance issues that need to be  
21 resolved before you can even get to these stages, like  
22 does the corporation have a code of ethics, and how does  
23 that govern how they conduct themselves? How do they  
24 monitor their code of ethics? How would you advise them  
25 to address those fundamental cultural and legal issues,

1 their corporate governance?

2 MR. PONEMON: Can I just chime in, because  
3 actually -- I didn't pay this man to ask that question.

4 MS. LEVIN: I thought you did, though, Larry.

5 MR. PONEMON: Not yet.

6 MS. LEVIN: Sounds like it.

7 MR. PONEMON: But it is all about ethics.

8 Unfortunately, we jump into the compliance and  
9 regulatory issues, but it's about responsible information  
10 management.

11 We talk about all of these bad companies, but  
12 companies are filled with good people, and they're trying  
13 to do the right thing.

14 They just need clarity of purpose. They need  
15 to understand that it's about responsible information  
16 management and not just about something narrowly defined  
17 as the privacy thing or the data protection thing or the  
18 Canadian -- the PIBIDA thing once we get into that mind-  
19 set, it's gone.

20 It's confusing to most people, and we move on  
21 to the next issue.

22 So, I agree completely, it starts with this  
23 ethical respect for a framework that makes sense and that  
24 could be applied globally, and then you could start to  
25 work at the next level of detail about how do you comply

1 with that framework.

2 MR. CLAYTON: And part of what you're raising  
3 and the data flow analysis -- you'd go through those  
4 issues.

5 Those are things that we clearly would have to  
6 understand, because the analysis of what's collected,  
7 where it's collected, is it legally collected, what are  
8 the risks associated with it, have got to be understood  
9 at every juncture of the process. What I would hope a  
10 company would get at the end of this initial assessment  
11 or analysis paralysis would be a very useful diagram  
12 flow, risk report, et cetera, that walks business through  
13 almost all of those issues and offers either solutions or  
14 at least choices or where you can get other information  
15 to make those decisions.

16 MR. PAROBY: I said I'd dumb it down and make  
17 it simple, but one of the things we're seeing in very  
18 large organizations and very small organizations -- Larry  
19 hates the word "assessment"; I'll say "current state" --  
20 is to issue them a scorecard on their current state, a  
21 very simple scorecard, and we've coded it red, yellow,  
22 green, to make it simpler yet.

23 Red is bad, green is okay, yellow is maybe I  
24 don't know or in the middle.

25 Once you establish the ethics, the culture, the

1 framework -- and this all goes across technology, the  
2 people issues, the corporate governance, the privacy.  
3 You sit down and you look at that at even a board level  
4 and you say, gee, I've got a scorecard, and I'm red over  
5 here with respect to these ethical issues or -- let's  
6 address those first before you implement a solution with  
7 technology.

8 MR. ALHADEFF: One of the things that you have  
9 to think about, especially with smaller companies, is  
10 when they start an analysis like this, what you may end  
11 up having is a forcing function, because there may be a  
12 code of ethics that is actually -- Ivan is the code of  
13 ethics.

14 It is actually the CEO who has the ethos of the  
15 company. We actually have a fairly large company  
16 considering what a lot of companies actually are, and the  
17 code of ethics and a lot of these policies may be things  
18 that, if you ask someone, you could get an answer, but if  
19 you were to look for it written down in an  
20 institutionalized fashion, you'd never find it.

21 MR. PURCELL: Well, it would be insulting, too,  
22 for a small company, to go to somebody and say you need a  
23 code of ethics. I'd say, get out of here. I mean you're  
24 assuming I don't have ethics.

25 So, it's in the very, very large companies that

1 have really distributed accountability where I agree that  
2 the documentation is more important, but you've got to be  
3 careful when you're dealing with the very small, closely-  
4 held companies, as well.

5 MS. LEVIN: Okay.

6 Next question?

7 QUESTION: Actually, to pick up on the small  
8 company issue, at Trasue, we see a lot of companies who  
9 have no understanding of things like CABA and other kinds  
10 of regulations that are specific to their own state. The  
11 lack of understanding, especially among small companies,  
12 of applicable law is a big problem, and I think the FTC  
13 and everybody has to find a solution to that.

14 MS. LEVIN: More Education 101.

15 Last question.

16 MR. REEDER: Sure. And it's pretty basic. And  
17 that is what is the definition of privacy for you as the  
18 CEO of this company?

19 MR. PURCELL: Thanks a lot, Frank.

20 (Laughter.)

21 MR. REEDER: From the sense of what privacy is  
22 and what your sense of the expectations of your customers  
23 and the world at large about what privacy is, doesn't  
24 that draw the line for you as to what protections you  
25 provide and how you go about putting your arms around

1       what you should be doing. Because, on the one hand, FTC  
2       is dealing with, and Congress is dealing with, the spam  
3       issue, and the do-not-call list is about to come out  
4       enabling people to do that, lots of work is being done in  
5       identity theft.

6                 For some, that might be enough as far as kind  
7       of the privacy intrusion part of it, but isn't there more  
8       to it than just that?

9                 MR. PURCELL: Well, I think that blends the  
10       prior question on the ethical framework, too, Frank,  
11       because I think Ivan Offerforyou is essentially being  
12       advised to do a survey and to gauge the attitudes toward  
13       privacy and data protection in their client base. That  
14       would not necessarily be a voting process to determine an  
15       outcome but would rather be an advisory into that ethical  
16       framework to say, okay, fine, this is what people expect.  
17       Now what am I going to provide within that expectation  
18       that's required through regulation and that goes above  
19       and beyond that needed for brand, that endures to the  
20       brand somehow.

21                So, I think it's very complicated to say how  
22       you define privacy.

23                Certainly, Larry's mom is going to define  
24       privacy in a very different way than either her peer or  
25       my high school student who I'm still trying to convince



1 that stealing music on the Internet is not a good thing.

2 So it's very difficult to say here's a  
3 definition.

4 I think that it's self-defined, to a certain  
5 degree, even in legal terms today.

6 MR. PAROBY: There's an exposure draft that  
7 just came out yesterday. It's by the AICPA, and it's  
8 entitled "Proposed AICPA CIC Privacy Framework," and they  
9 define privacy. They say privacy is defined as the  
10 rights and obligations of individuals and organizations  
11 with respect to the collection, use, retention, and  
12 disclosure of personal information, and they take each of  
13 those major components and they re-define that.

14 So there is finally a framework, 90 pages in  
15 length, that is starting to at least define it and give  
16 some guidance as to what it is and what you do with it  
17 and what you can't do with it.

18 MS. LEVIN: We'll probably hear a little bit  
19 more about that later today.

20 I want to thank this panel for one of the most  
21 creative presentations I've ever participated in, just  
22 fantastic.

23 (Applause.)

24 MS. LEVIN: And we're going to have a short  
25 break. I'll give you seven minutes, till 10 of. There's

1 still some food out there, a bathroom break, and then  
2 rush on back. Thanks.

3 (A brief recess was taken.)

4 **PANEL 2:** Business Tools for Protecting Consumer  
5 Information

6 MR. SILVER: This is the second panel. We're  
7 going to learn about some technologies currently  
8 available to businesses to help them protect their  
9 systems and information.

10 Where appropriate, if the panelists feel like  
11 it, I'd ask them to perhaps reference the previous  
12 hypothetical, if it's natural. References to Larry's mom  
13 or Gary's dad will earn extra credit, as well.

14 The biographies of the panelists are in your  
15 folders, but I will give brief introductions.

16 Joseph Alhadef returns from his acting debut  
17 in the previous panel. He's with Oracle.

18 Christopher Klaus is from Internet Security  
19 Systems.

20 Gary Clayton is not here yet, but he's from  
21 Privacy Council.

22 Christine Varney is counsel to Liberty  
23 Alliance.

24 Toby Levin will be assisting me in this panel.  
25 She's at the FTC.