

## **BUSINESS RISK MANAGEMENT POLICY**

### **Policy**

Conceptus Inc. (the “Company”) is a conservative company and is generally risk adverse. The Company recognizes that corporate Risk Management is an integral part of the basic elements of internal control. In fact, Business Risk Management is one of the five key basic elements of internal control as defined by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and incorporated into the Sarbanes-Oxley Act of 2002. Risk Management is defined as the identification, analysis, and control of those internal and external risks that prevent the company from achieving its business goals and financial objectives.

Therefore it is the policy of the Company that global corporate risks should be assessed on an annual basis and that the Audit Committee of the Board of Directors is responsible for overseeing the Risk Management strategic activities of the Company. Report of the meetings of the Audit Committee regarding its Risk Management activities, recommendations, and results will be made to the Board of Directors at its next regularly scheduled meeting following the Audit Committee meeting.

The Company recognizes that the effective management of business risk is critical to the success of the Company. Business risk is strategic in nature and embraces all forms of risk. Toward that end, the Company’s approach to risk management will embody the following principles:

- Risk Management will be embedded in all management systems and business processes and will be an integral part of the Company’s internal control processes.
- The identification of and management of risk is not limited to just the Audit Committee, but includes all managers and staff throughout the Company.
- A key objective of risk management is the development of a comprehensive risk management framework to ensure that risks are being managed in an efficient, effective, and economic manner. The framework will include risk management standards and risk assessment criteria.
- The Audit Committee will review the effectiveness of risk management systems and internal controls regularly, and the results will be communicated to the Board of Directors.

## **Accountability**

*The Chief Executive Officer (CEO)* is ultimately responsible for maintaining a sound system of internal control that manages business risks, and will report progress, activities, and risk mitigation results to the Audit Committee on a regular basis. The CEO and CFO are also responsible for signing an attestation that the company maintains a system of internal control over financial reporting and that the financial statements are free of material misstatements.

Other responsibilities are as follows:

*The Executive Officers* of the Company are responsible for the system of internal controls and setting the appropriate policies. The Executive Officers should seek regular assurance to satisfy themselves that the system is properly designed and functioning effectively.

*Management* is responsible for implementing the policies on risk and internal control, and for monitoring the internal control system and providing assurance to the Executive Officers that they have done so.

*Staff* is responsible for internal control as a part of accountability for achieving objectives.

## **Standards**

Standards of achievement will be established and linked to processes to manage broad business risks including risks related to financial and medical regulations, shareholders, customers, suppliers, competitors, credit, markets, capital structure, financial reporting, operations, product liability, human resources, plant, equipment, governance, external relations, labor, sovereignty, political, intellectual, property, decision support systems, and information technology. Achievement against those standards shall be based upon statutory, regulatory, or mandatory compliance requirements, and shall be reviewed on a regular basis.

## **Management of Risks**

Management should routinely identify and evaluate the risk to achievement of business objectives. This would include the regular assessment of both the significance and the likelihood of occurrence of the risks arising. Having assessed the significance and likelihood of the risks arising, a Risk Prioritization program should be established to assist the Audit Committee in addressing higher priority items.

Higher priority items are those risks judged to be both significant and have a high likelihood of occurrence. These risks are judged to be prime *threats* to the Company and should be addressed at their source. Those risks judged to be significant but with a lower level of likelihood should be detected as early as possible and monitored on a regular basis. Those risks judged to be insignificant, but with a high likelihood of occurrence

should also be monitored closely. Risks judged to be insignificant with a low level of occurrence would likely not demand close attention.

It is expected that management, working closely with the Audit Committee, would seek to resolve important risks by **Mitigating, Avoiding, Transferring, or Accepting** the risk. By **Mitigating** a risk is meant taking steps to counteract the risk of loss. This could include, but not be limited to various types of insurances, hedging, and other techniques. By **Avoiding** a risk is meant conducting business in such a way so as to bypass the risk either partially or completely. By **Transferring** a risk is meant using business strategies, opportunities, negotiations, outside services, 3<sup>rd</sup> party contracts, etc. that either spread the risk among outside entities or move the risk to someone else completely. Otherwise, some business risks must be **Accepted** as a cost of doing business.

### **Attestation**

Since Risk Assessment is one of the five key components of the COSO framework used to evaluate the effectiveness of internal controls, the CEO and CFO must attest on a Quarterly basis that they are responsible for establishing and maintaining an adequate internal control system over financial reporting and that the controls are operating effectively. This includes proper attention and actions toward the mitigation of risks. Consequently, management of risks is recognized as a critical ongoing activity.