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# Discount Internet Securities Broker

BUSINESS PLAN

E-BEST-TRADE.COM

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*580 Washington Boulevard  
Chicago, Illinois 60661*

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*This company raised \$1 million (at \$.20 per share) and an additional \$400,000 in loans using this plan written in May 1999. A revised version will likely raise between \$2 million and \$3 million by the first quarter of 2001. Technology Consultants, Inc., a business planning and strategy firm for early-stage technology companies, supplied the plan.*

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# DISCOUNT INTERNET SECURITIES BROKER BUSINESS PLAN

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## EXECUTIVE SUMMARY

The financial services industry has two unique market windows converging in the next six months that e-best-trade.com Incorporated (“e-best-trade.com”) is positioned to assume a leadership role:

1. Discount Internet Securities Brokers are grabbing customers and trading volume from traditional full-service brokers at an increasing pace.
2. Extended trading hours on NASDAQ and the NYSE by early fall 1999 will require brokerages to double their staff to meet client requirements to trade and access portfolio and company information—or build their own online trading system.

## The e-best- trade.com Solution

For \$500 a month and \$1.00 per trade, e-best-trade.com Incorporated can offer broker-dealers a “Schwab(c)-like” turnkey discounted online trading service. There are currently no directly competing services to the e-best-trade.com offering and the alternative—to build in-house—is technologically complex with costs ranging from \$250,000 to over \$1,000,000.

This service can be quickly implemented and is fully customizable so that the client thinks the trading is occurring at the broker-dealer site and server. All client portfolios and client information appears on the site. The e-best-trade.com system is one of the most secure on the market, using technology from GlobalEye Security Systems as a foundation for solid transaction and server security.

In the U.S., there are more than 5,500 securities firms with more than 62,000 branch offices. With over 130 stock exchanges globally, it’s expected that the number of broker-dealers comprising the target market exceeds 50,000 firms.

The company requires U.S. \$4 million over the next year to do a market trial and launch the service nationally. A fully functioning pilot of the system is installed at AMXStock.com, a broker-dealer and e-best-trade.com customer. Within four weeks of funding, the system will be ready to market trial with AMXStock’s 100 brokers. Within a month, parallel trials will occur in Chicago and New York. Following this, e-best-trade.com will direct market to 2,000 of the largest mid-sized broker-dealers not already online, and commence international expansion and publicity to establish it as a leader in providing this service.

The company’s founder is Dr. Theodore Singer, who has a Ph.D. in engineering, mathematics and computer science from M.I.T. and more than 30 years of experience. Dr. Singer has assembled a strong management team with broad experience in the securities and high-tech industries.

## COMPANY DESCRIPTION

e-best-trade.com Incorporated was chartered in the state of Oregon for the purpose of developing, marketing and acting as a service bureau for Internet-based securities trading systems. The company has exclusive rights to a suite of secure server and transaction software developed specifically for the brokerage industry. This suite of software combines with proprietary trading and clearing systems to produce a turnkey, secure, Web-based discount brokerage trading system targeted to small- and medium-sized broker-dealers who do not have the resources to develop their own online systems.

## Location and Facilities

e-best-trade.com will contract out all R&D to GlobalEye Security Systems (GES). GES operates out of premises in Montreal, Quebec. The facility has state-of-the-art computer testing

and assembly space and an Internet Service Provider (ISP) location with 10MB fiber optics “pipe.” The facility is alarmed and visited nightly at least 6 times on a random basis by a local security company.

e-best-trade.com has an established management office in Portland and will initially operate “identity” sales offices in Chicago and New York. Within 24 months, the company expects to have full offices in those cities, as well as representatives in Chicago alliances with firms in Toronto, Hong Kong, and Sydney.

*Goal: to be the de-facto standard for Web-based brokerage systems solutions within 24 months of market launch, through savvy marketing, alliance, and business operations strategies.*

To achieve the above goal, the company’s objectives are set out in phases.

**In Phase I**, the objective was to design an online brokerage trading system that would incorporate all the functionality of current Web-based systems and also be extremely secure and portable to many clients, either through selling the software or on an out-sourced service bureau basis. This objective was achieved in March 1998.

**In Phase II**, the objective was to find a broker-dealer client who would be willing to work through and refine the system and also act as a demo site for e-best-trade.com capabilities. In addition, patent processes for the software would be started. The demo/client site was achieved by signing AMXStock.com as a customer in June 1998; the patent process is underway and still pending.

#### **Current Status, June 1, 1999**

**In Phase III**, the objective is to raise capital (\$500K) to add third-party quote systems, refine the AMXStock.com site to make it a world-class Internet destination. The management team that has already agreed to join the company will be brought on board on a full- and part-time basis as funds permit. The product will undergo a full market trial in Chicago, New York, and, pending regulatory issues, Toronto. In this phase, the emphasis will be on building the operations and administrative infrastructure and technical support systems so that clients, once signed, can be swiftly implemented and brought online. This phase is already underway and with funding will be completed by August 15, 1999.

**In Phase IV**, the objective is to raise additional capital (\$1.5 million) to launch the product in the U.S. and Canada through an intensive telemarketing, hosted events, and advertising campaign to capitalize on the “extended hours” trading in September. In this Phase, the company wants to ensure that sales growth does not outstrip the ability of development, operations, and technical teams to properly support existing and new clients. The company expects that there will be a number of “evolutions” of the available product, and will build automated upgrade systems for existing clients. An aggressive, but steady growth pattern will continue until March 2000.

**In Phase V**, additional capital will be required for additional staff, facilities, and international expansion (\$2 million). This will occur with the assistance of a public relations and advertising campaign, and hiring experienced high level staff to manage this process. The company will increase sales and support staff and develop full offices in Chicago, New York, Toronto, and Sydney. The company expects to grow by alliance or merger with well established firms in London, Hong Kong, and other international investment hubs that have support staff and financial systems experience and customers. The company expects to expand into other financial verticals such as insurance and

#### **Company Objectives and Mission**

## Responsibility & Mission

financial planning advisors with products specific to industry needs. This phase is expected to last until June 2001.

**Phase VI**, the future. The company will continue to expand internationally, developing specific products to handle the more than 130 stock exchanges globally and the increasing need of investors to have access to truly global investment opportunities.

e-best-trade.com has a responsibility to return a profit to the company's stockholders, then establish a process whereby future investors may reap substantial profits. To fulfill this responsibility, the company's management team must produce a quality, leading-edge software and service offering that is cost effective and competitive. Company profits should follow closely.

Due to the nature of this business, the end user is generally not the paying customer. So, this technology and service must be managed in a dignified and responsible manner so that the company's customers are able to retain and grow their client base.

The Mission of e-best-trade.com will be to perform these functions with uncompromising integrity, excellence, and service with utmost respect towards the firms and individuals we serve.

## The Company's Developmental Stage

The company has progressed from the idea stage to the product development and pilot stage, Phases I and II, with founders seed money. The company is in Phase III of its plan and seeks funding to complete the last phases of making the service market-ready, conducting a market trial and establishing the management team and infrastructure. As soon as Phase III is completed, the company plans to enter Phase IV, market launch, and will be seeking additional funds according to the Financial Plan section later in this document.

## COMPANY PRODUCTS & SERVICES

e-best-trade.com gives small to medium-sized broker-dealers an online stock trading system with functionality similar to E-Trade© or Schwab© for \$500 a month and \$1.00 per trade.

Transaction security is the most important and highly sought-after element in the growth of online financial applications. Available security software utilizing public key and SSL (secure sockets layer) encryption protocols can be cumbersome, may inhibit speed of transactions, and if penetrated have inherent adverse side effects. e-best-trade.com's software combines patent-pending transaction and server security with proprietary security trading and clearing functions. It allows full service broker-dealers or financial advisers the ability to offer feature-rich and very secure online discounted trading and remain profitable.

e-best-trade.com customers will be able to offer clients access to their portfolios over the Internet, allow interaction with their brokers to buy and sell, and will also allow them to take advantage of discount trading.

## System Features

The online trading system has been designed with customization tools that make installation straightforward and fast. Features of the system include:

- Fully customizable to broker-dealer's image and client servicing requirements
- Speedy installation—can be operational in less than a week
- Quotes, charts, news, and client portfolio
- Online trading with real-time quotes
- Online registration and client information

**Board of Directors**

There are currently three members of the Board of Directors who have agreed to act until changed by the company stockholders at the first annual stockholders meeting. It's expected that three additional directors will be appointed as soon as the company begins formal operation.

<b>Name</b>	<b>Experience and Qualifications</b>
Dr. Theodore Singer	President, GlobalEye Security Systems Inc.
Henry Muster	President, AMXStock.com
Jennifer Heartly	Managing Partner, Beechnoll Consulting Inc.

**Dr. Theodore Singer**, Founder and Chief Technology Officer

Dr. Singer holds a Ph.D. in engineering and applied mathematics and computer sciences from M.I.T. (1974), where he worked at the internationally famous Morningstar Research Institute conducting many projects. From 1976 to 1983, he was a college professor of Computer and Engineering Sciences. His industry experience includes MIS, software design, and consulting for major companies in the U.S. and Canada. He did extensive research in large project management and consulted on famous IT projects such as Project Atlantis-M.

Dr. Singer founded GlobalEye Security Systems Inc., a computer firm specializing in network integration and innovative software solutions. He was responsible for the company's rise from a small home operation to a successful company with sales in excess of \$10 million.

**Henry Muster**, Director

Mr. Muster holds a M.S. in mathematics (San Diego University, 1965) and an Executive M.B.A. (University of Notre Dame, 1987). He has over 30 years' professional experience in finance, management, and engineering. As President and CEO of AMXStock.com he directs and manages a broker-dealer with a wide range of products, services, and contacts.

**Jennifer Heartly**, President and CEO

Ms. Heartly holds an M.B.A. and is a Certified Management Consultant. Since 1994, she has consulted on technology management issues in the U.S. and Canada and has managed over \$200 million in technology acquisitions and contracts.

Ms. Heartly is on the board of Capital Ventures Inc., and has most recently specialized in taking technology startups from concept to financing stages. She has extensive experience opening international high-tech markets through direct, agency, and reseller channels.

Ms. Heartly has been involved with technology since 1981, as a systems analyst supporting the brokerage offerings for Data Keys in New York City. Subsequently, with Morris Ltd. she managed telecommunications for the New York Stock Exchange and Zoe Securities. With Mission Data Systems, she worked closely with Michael Roberts to develop an early ISDN brokerage system in conjunction with TRG Telephone Systems. As acting Director of the Eastern seaboard Branch of the Timber S Group, she was responsible for all the financial modeling and analysis for its comprehensive New York Stock Exchange project.

**MANAGEMENT****Key Personnel**

**Nicholas Moster**, Vice President, Sales and Marketing

Mr. Moster has more than 15 years' high-tech sales and international equity trading experience in more than seven countries around the world. In 1984, with a degree from the European Securities Institute, he became a Director and Partner in four private companies headquartered in Paris, France.

In 1989, he moved to Singapore as a Company Director and Institutional Business Manager for the Keystone Group. He provided consulting to nearly all of the respective members of the Singapore Stock Exchange and then further afield to include Malaysia, Hong Kong, the Philippines, and surrounding South East Asian countries working with brokerage firms and government-managed equity funds.

In 1993 he moved to New York City working as a Senior Account Manager for the Timbe S Group. Interfacing with each of the listed companies on the New York Stock Exchange, he later incorporated his expertise to assist Canadian Companies with the foreign listings in the U.S. on the NASDAQ and the NYSE. Mr. Moster now resides in Toronto working in the technology sector specializing in Strategic Account Management at a senior level for Internet "startup" companies. He plans to join the company within a month of initial funding.

**Jeremy Birch**, President, Development and Operations

Mr. Birch has been involved in the business and deployment sides of technology since 1981. He holds an M.B.A. focusing on Finance and Entrepreneurial studies and an undergraduate majoring in economics and computer science. He spent three years developing business plans, financial plans, and business analysis reports for high-tech companies in their early stages of development and three years' head office accounting and IT management in a multinational corporation.

Since 1988 he has provided outsourced IT management services to a number of small clients and a large corporate client (\$1 million annual IT budget). He is the primary designer and developer of over 50 custom financial, accounting, and investment analysis software applications. His investment activities include short-term trading of technology and resource stocks, a general partner in one commercial software company, and a limited partner in a software development fund.

Mr. Birch's current projects include an all-inclusive corporate intranet site development, Y2K readiness preparation, and computerizing a custom stock trading system and a graphical data based economic/market data trends website. He plans to join the company within two months of initial funding, working part-time in the interim until he completes his current work.

**Gene Benson**, Vice President, Administration

Following 20 years with Delta Airlines, during which time he was responsible for developing North America's first self-service airline ticketing kiosks, Mr. Benson continued to combine his expertise and knowledge providing new services to the travel and tourism sectors. As joint founder and Vice President, Sales and Marketing of an online "e-Commerce" company, Mr. Benson provided new capabilities to major vacation resorts in North America, including online sales ranging from accommodation reservations to lift-ticket sales.

From 1993 to 1995 he was Vice President, Business Development for a Toronto tourism information system which was part of a larger Ontario provincial tourism initiative. From

1989 to 1993 he concentrated on interactive multimedia technologies and developed an electronic “duty free” shopping center located within hotels. It served an international clientele on behalf of international airlines.

**Mark Waddle**, Acting Director of Technology

Mr. Waddle holds a B.S. in Physics (University of Chicago, 1995) and is currently head of MIS systems for GlobalEye Security Systems Inc. He is experienced in UNIX, Novell, and NT and is a C programming specialist. Mr. Waddle plans to work with the company until Mr. Birch comes on board in order to transition development work smoothly. He will remain as a full-time employee of GlobalEye Security Systems, e-best-trade.com’s outsourced development and data center in Montreal, Quebec.

The company’s marketing and sales strategy is to promote and support its quickly installable online trading system as a solution to NASDAQ and NYSE extended trading hours and the loss of clients by broker-dealers to discount Web-based trading firms.

The company’s initial target market is the small- to medium-sized broker-dealers and brokers that do not have online systems in the U.S. and Canada. There are 5,500 broker-dealers in the U.S. with over 60,000 branch offices.

Within a month of initial funding, e-best-trade.com will be ready to market to broker-dealers and brokers in both the U.S. and Canada. Due to regulatory constraints, the Canadian product will have to be modified. However, there is an immediate opportunity for mutual fund sales through both small brokerages and financial advisors.

NYSE and NASDAQ have announced extended trading hours to be implemented by early fall, extending trading to twelve hours a day from the current six. For full service brokerage firms without an online trading option, this means huge costs in staffing and support personnel to maintain trading for clients while the markets are open. Similar announcements are expected at other major exchanges around the world.

The company feels that there is a window of opportunity to take advantage of this timing, and has set its market launch to occur prior to extended trading. With funding in place, it is critical that the company pursue its marketing objectives as soon as possible.

These accounts will be managed by the President and Sales Vice President, as they generally require executive level contacts.

**GlobalEye Security Systems**

e-best-trade.com has a partnership with GlobalEye Security Systems and exclusive rights to its products for the financial industry. GlobalEye Security Systems was conceived to meet the need of secure commerce on the Internet. GlobalEye has low cost top layer products designed to remove the threat of intruders being able to break in and compromise an Internet server and its data as it travels over the Internet. When used in combination these products provide the most secure and effective electronic commerce applications available. GlobalEye Systems will provide data center, development, and technical support until the company is sufficiently funded to build its own infrastructure and systems.

**MARKETING &  
SALES STRATEGY**

**Target Markets**

**Strategic Market  
Opportunity**

**Partnerships and  
Alliances**



**AMXStock.com**

The company has formed a strategic alliance with AMXStock.com of Chicago which has been a pilot site for the development of the online trading system. AMXStock.com has over 100 brokers who will comprise the first market trial of the company's Internet trading solution. Based on this trial, expected to start a month after funding occurs, the company will revise and refine its product and continue trials in Chicago and Toronto until market launch late August.

**WI International**

The company has also formed an alliance with Dr. Mark Woo of Woo International (WI). WI will be assisting in e-best-trade.com's international market expansion and future investment. With its affiliates in many different countries, WI has a global network for marketing, joint venture, partnership, and investment for high-tech products. In foreign countries, WI has a particularly strong market base in Germany, Japan, Korea, Taiwan, and China.

**Future considerations**

The company intends to pursue alliances with international firms actively developing business in the brokerage services sector in Austral-Asia, Europe, and South America. The company Sales Vice President has extensive international experience with firms in Asia and Australia, and it's expected that much of his effort in the early part of Year Two will be to develop these alliances and manage the relationship with WI.

**Marketing Vehicles****Direct Contact**

Prior to market launch, a complete list of prospects will be gathered and an intensive telemarketing campaign will commence, so that sales activities can begin as soon as there is a completed online system. e-best-trade.com has an up-to-date, accurate listing of 4,000 of these broker-dealers, and will be narrowing and enhancing the list with contact names, phone numbers, and e-mail addresses over the next three months to the top 2,000 prospects.

Use of demo websites and e-mail as marketing tools will greatly shorten the sales cycle. Hosted group information sessions will allow a larger number of brokers to be handled than through individual meetings.

The company's strategy is to first sell the largest broker-dealers not on the Internet, then through the broker-dealer set up a series of group information sessions for its brokers, with appropriate follow-up and marketing materials. The company plans to hire a telemarketing person by July to research and begin this process to contact each of the first 2,000 prospective broker-dealers. The company expects that as many as 25 percent of the prospective clients for the service will not require an in-person visit, and that a strong telemarketing program will yield excellent results.

**Advertisement and Promotion Objectives**

The company is using a moderate advertising and public relations strategy from August to October 1999 until a core of solid broker-dealers and dealers have been signed and the sales process is well underway. Two approaches will be used. Full-page advertisements in national financial papers (WSJ) will announce the availability of the service to brokers and broker-dealers. Full-page advertisements in national newspapers (*USA Today*) will announce the availability to clients of those brokers. An aggressive but low-key approach will yield excellent market penetration in conjunction with an excellent website that showcases the features of the system.



Other direct mail, fax, and regional advertising and PR efforts will emphasize the following:

- Security of the service using the GlobalEye Security Systems software versus security measures used by most of the other online brokerage and finance offerings
- Raise the awareness of the general low level of security that is currently available in e-commerce and financial transactions
- Promote e-best-trade.com as the “first to market” with this innovative solution to the small to medium-sized brokerage problems caused by extended trading and migration of clients to discount houses
- Encourage investment interest
- Implement a “pull” strategy to encourage brokerage clients to ask their brokers and broker-dealers why they don’t have an “affordable” online solution

### **Marketing Materials and Online Presence**

The bulk of the marketing budget will be spent on increasing the functionality and design appeal of e-best-trade.com’s online demo site and alliance sites of software suppliers such as GlobalEye Security Systems Inc. A standard e-mail message will be developed that links to reports showing the increased migration of customers away from traditional broker-dealers, security issues reports, and e-best-trade.com online’s demo site.

Initially, the demo site will be AMXStock.com, since this will serve to act as a reference of a real customer. The company intends to develop its own demo site within three months of initial funding, once it has a customer list and track record sufficiently impressive to promote.

### **Conferences and Trade Shows**

Within six months, the company intends to seek out speaking engagements at financial trade shows and conferences, emphasizing the same points as in the advertising section. It intends to position itself as a market leader and innovator in the area of secure brokerage systems and intends to raise industry awareness of the possible threats to personal and business privacy and transactions. Through this approach, the company expects to be able to assist its customers in their ability to retain clients and start to reverse the migration to the larger online brokerage offerings currently on the market.

### **Sales Force and Structure**

All company personnel will be considered members of the sales team. The administrative assistant and support personnel who implement the systems will all have an active role in customer relations and customer satisfaction. The company intends to conduct training for all personnel who may have customer contact to ensure that top-level communication occurs at all times.

The in-field sales force will be made up five regionally located sales professionals. The regions are the East Coast, West Coast, Central Plains, Canada (including the Pacific Northwest), and International (based in San Diego). Each salesperson will live in the geographical area in which they are responsible to reduce travel expense and build a local presence. Additional sales people will be added as the company develops demand.

The company has budgeted for web-based contact and customer management software to handle the widely dispersed organization.

### **Pricing and Profitability**

Pricing for e-best-trade.com services are set to be affordable to individual brokers, yet return excellent profitability once a core group of customers has been signed up. Current competitive

pricing is for the broker-dealer to build their own system, estimated to cost at least \$250,000 and as much as \$1,000,000.

e-best-trade.com's profit will be based on a monthly fee of \$500 per broker. This will allow the broker to quickly have an online offering and a look customized based on color, logo, and fonts. Additional customization will be billed at an hourly rate of \$80 an hour and average customization charges are expected to be \$2,000, although the range will be from \$500 to \$50,000.

Per transaction price will be \$1.00 per trade, payable by the broker-dealer. The broker-dealer will add this cost to its billing of the per-trade cost to each broker.

Variable costs average 26 percent as a percentage of sales over the first four years. The company believes that this percentage will be reduced once there is a core group of customers to achieve economies of scale.

For large broker-dealers with a large complement of in-house sales staff, the company expects to offer volume pricing on the monthly service charge. It also anticipates restructuring the pricing to accommodate business practices in different countries.

## MARKET ANALYSIS

### Size and Growth Trends

There are more than 500 brokerage companies on the Internet. By the end of 1999, an estimated 10 million brokerage accounts will be able to trade online. Despite the tremendous growth in this market, only 6 percent of investors are currently trading online, but 58 percent are either currently using the Internet, or plan to go online within one year.

There are currently 5,500 full service broker-dealers serving the U.S.'s eight stock exchanges. These firms have over 62,000 branch offices (source NASD). Virtually all of the broker-dealers will require Internet trading services in the immediate future to retain their client base.

### Maturity of Industry

The era of the full-service brokerage charging high premiums for trading is in its "sunset" phase. A number of recent studies support the need for full-service broker-dealers to have an online presence. The vast community of small to medium-sized brokerage firms are likely to suffer if they are not able to sustain an attractive cost structure, high levels of service, quality offerings, and advice for full-service investors in the future.

"The implication is that unless full-service firms begin to realign their services to include high-quality online offerings, investors who believe they are not getting personalized service from their brokers will quickly become candidates for these hybrid, direct competitors" (ABN AMRO study).

Globally there are over 130 stock exchanges (see Appendix B). At this stage, the company has not been able to obtain figures on the exact number of broker-dealers worldwide, but by conservative estimates it is over 50,000 firms, all of whom will require an online presence as the global Internet services market expands.

### Competition

e-best-trade.com has researched exhaustively and has not found a direct competitor to this service. There is one firm based in Atlanta, Georgia, that offers a similar service who could potentially migrate to the e-best-trade.com offering.

FireBird Securities of Atlanta is offering entrepreneurs the chance to operate their own Internet brokerage operation via a franchise system. FireBird provides entrepreneurs with the Internet

dealing software customized with their company logo, color scheme, and specific requirements. FireBird also provides franchisees with a network of executing brokers throughout the world, to which orders to buy/sell stocks are automatically routed via its franchise system.

FireBird's system also allows traditional broker-dealers to have a "private-label" online system. The company is in the process of determining pricing and more information on FireBird to understand how large a threat they may be in the future.

There are a number of firms that offer solutions for broker-dealers to build their own systems, and numerous consulting and web development firms who offer similar services, but no one has a service offering with an outsourced solution. It is possible that a number of firms may enter the market once e-best-trade.com establishes that there is a viable, lucrative opportunity. Below are the various groups that may in future provide competitive offerings.

### **Broker-dealers**

A few clearing firms have set up systems to market to their correspondents and a number of broker-dealers already have online solutions. It would be relatively straightforward to offer their current service to broker-dealers and brokers in a similar manner to e-best-trade.com.

Some of the better broker-dealer sites include Hickory & Kendall, a national firm with an impressive online site, and Fidelity. These sites are well designed, are quick loading, and have a wealth of investment information and portfolio management tools.

The company believes that most broker-dealers will not compromise their broker relationships by offering online trading to other broker-dealers or brokers. Issues of confidentiality, client lists and competition issues will more than likely prevent this group from becoming a strong competitor. The company will position itself as providing a much more secure trading environment, and publicizing the current e-commerce security threats will be critical to keeping a market leadership role.

### **Brokerage Development Firms**

There are many firms that offer development tools and packages to allow traditional brokers to offer online services. Among these, the ones the company found that were most viable were:

- **Queenlink** is a division of Quarks, Litter & Post (QLP) Securities Corporation, a leading investment banking and securities firm with total capital of over \$8 billion and total assets of over \$80.3 billion. QLP is a publicly traded company on the New York Stock Exchange. It has a product sold as a reliable solution for offering access to account information, trading capability, news, quotes, and other content on the World Wide Web. A customized version of this product enables financial organizations to offer online services to their clients, and offers Internet-based tools that investment professionals need to effectively service clients.
- **Michaels Ltd.** based in Nevada with a sales office in New York, has a product called LMP/NetWebbing. It provides financial firms with a vehicle in which to utilize the Internet as a low-cost, highly effective communication methodology, providing headquarters system access to all professionals via the Internet/Intranet. Michaels has a joint venture with a major computer corporation to provide build online brokerage solutions for broker-dealers.
- **K&K Investments, Inc.**, a Florida corporation, provides a comprehensive solution to transact online securities trading including site hosting, website design, and

## **Future Competition**

development, client/server interfaces, and database interaction. K&K was incorporated in 1994 and placed its first online trading site on the Internet in 1996.

The company believes that these firms and firms similar to them have the in-house expertise and sales forces to effectively compete with e-best-trade.com in the future. It is questionable whether these companies would want to jeopardize their current client relationships by offering a directly competing service. Queenlink in particular may be a possible partner or acquirer of e-best-trade.com in the future and the company will pursue this once marketing is well established and underway.

## FINANCIAL PLAN

### Introduction, General Discussion

As the accompanying spreadsheets show, e-best-trade.com projects profitability within 36 months of its first raise. The financials show revenues of U.S. \$13 million after 24 months of operations. These revenues should increase to U.S. \$37 million by the end of the fourth year, resulting in a pre-tax profit of over U.S. \$7 million.

e-best-trade.com's financial benchmarks conservatively assume a twenty-four-month startup phase to complete all products, initiate corporate infrastructure and offices, and commence initial market entry, with indications of related costs.

Online broker revenues are expected to steadily increase, providing e-best-trade.com with U.S. \$442K in net profit by the end of the second year. As the Implementation discussion below explains, the financials, which are based on very conservative assumptions, contemplate four lifts, with a public offering thereafter.

e-best-trade.com is also in discussions with interested financiers in proposed deals which would take the company public in its initial phase and provide substantially all of the financing necessary to achieve full operations through the positive cash flow projections. e-best-trade.com, as of the development of this business plan, is not committed to a particular financing vehicle.

## Implementation of the Financial Plan

### Overview

In the next four years, e-best-trade.com has milestone objectives as follows:

April 1999	Infrastructure in place
June 1999	First financing in place (\$500K)
July 1999	e-best-trade.com in market trial in Chicago
August 1999	Second financing in place (\$1.5 million) e-best-trade.com market launch
October 1999	Over 100 brokers online
December 1999	Over 200 brokers online; third financing in place (\$2 million)
May 2001	Over 1,800 brokers online; gross revenues over \$13 million
May 2003	Gross revenues of \$37 million; pre-tax profits of \$7.1 million

### Investment Required

e-best-trade.com requires a total investment of U.S. \$4 million. Capital will be raised in three different "lifts." U.S. \$500K will be used to finalize the infrastructure and market test and fully develop the marketing plan. U.S. \$1.5 million will be utilized to develop the company infrastructure and continue the marketing effort until a core group of customers are on board.

U.S. \$2 million will be used to begin advertising and marketing, establish the company as a market leader, and also expand the sales and technical teams. The company also expects to move the product line into new vertical markets. e-best-trade.com expects to be in a position to pursue an IPO within 12 to 24 months, assuming it doesn't raise its full financing through an early merger with a public company—an option it's exploring.

There are significant start-up costs that must be incurred to make e-best-trade.com into a long-term viable company. It is critical to get to the marketplace now and to create brand identification so that as the market matures, e-best-trade.com will be synonymous with secure affordable online brokerage solutions on the Internet.

Using very conservative revenue numbers and very aggressive costs, by the end of the second year the value of the company should be in the order of U.S. \$52 million, based on a conservative market valuation of four times revenue. The target for the end of the four-year period is nearly three times that value. With a projected pre-tax profit of U.S. \$7.1 million by the end of year four, at an average 10 times EBIT, the standard valuation currently used for pricing technology Initial Public Offerings, e-best-trade.com will be valued at U.S. \$71 million. It is important to note that Internet companies, particularly those with positive cash flow and products that have applicability in non-Internet markets, are valued by the markets far more generously than by a conservative multiple of cash flow or earnings.

e-best-trade.com, of course, does not believe its business will fail, but it has nonetheless contemplated a worst-case scenario. As we already have working software and are on the way to establishing the first market trial, it is our contention that the company will become marginally viable at the worst. If this case is evident early in the first year, then the company will fall back into an operational mode to capitalize on the strengths and build a smaller company and concentrate on the most profitable of the four product lines.

## Corporate Value

## Worst-Case Scenario

## Revenues and Cost of Sales to Year-End 1999

	Jun	Jul	Aug	Sep	Oct	Nov
<b>Revenues</b>						
New Accounts (signed previous month)		2	30	50	50	50
Total Accounts		2	32	82	132	182
Monthly (\$500)		\$1,000	\$15,000	\$25,000	\$25,000	\$25,000
Trans/broker/month (\$200)		\$400	\$6,400	\$16,400	\$26,400	\$36,400
Average Customization (\$1,000)		\$2,000	\$30,000	\$50,000	\$50,000	\$50,000
<b>Totals</b>		<b>\$3,400</b>	<b>\$51,400</b>	<b>\$91,400</b>	<b>\$101,400</b>	<b>\$111,400</b>
<b>Cost of Revenues</b>						
Sales Commission (\$200)		\$400	\$6,000	\$10,000	\$10,000	\$10,000
Quote System Costs	\$4,000	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Incremental Quote costs/Broker (\$50)		\$100	\$1,600	\$4,100	\$6,600	\$9,100
Number of Analysts required	1	1	1	3	4	6
Analyst Cost (\$5,000)	\$5,000	\$5,000	\$5,000	\$15,000	\$20,000	\$30,000
<b>Totals</b>	<b>\$9,000</b>	<b>\$7,900</b>	<b>\$13,500</b>	<b>\$27,500</b>	<b>\$32,500</b>	<b>\$42,500</b>
<b>Revenues less Cost of Sales</b>	<b>(\$9,000)</b>	<b>(\$4,500)</b>	<b>\$37,900</b>	<b>\$63,900</b>	<b>\$68,900</b>	<b>\$68,900</b>

## Pre-Tax Income to Year-End 1999

	Jun	Jul	Aug	Sep	Oct	Nov
<b>Total Revenue</b>		<b>\$3,400</b>	<b>\$51,400</b>	<b>\$91,400</b>	<b>\$101,400</b>	<b>\$111,400</b>
Less: Cost of Sales	\$9,000	\$7,900	\$13,500	\$27,500	\$32,500	\$42,500
<b>Gross Profit</b>	<b>(\$9,000)</b>	<b>(\$4,500)</b>	<b>\$37,900</b>	<b>\$63,900</b>	<b>\$68,900</b>	<b>\$68,900</b>
<b>Expenses</b>						
Advertising & Marketing	\$10,000	\$50,000	\$500,000	\$500,000	\$250,000	\$50,000
Data Line	\$200	\$200	\$200	\$500	\$500	\$500
Insurance	\$100	\$2,000	\$2,000	\$3,000	\$3,000	\$3,000
Amortization	\$167	\$313	\$2,521	\$2,708	\$2,771	\$3,604
Legal & Accounting	\$1,000	\$5,000	\$5,000	\$5,000	\$2,500	\$2,500
Conferences, Memberships	\$1,000	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
Office Expenses		\$500	\$500	\$3,000	\$3,000	\$5,000
15% Payroll taxes & benefits		\$6,405	\$8,015	\$10,614	\$11,258	\$11,914
20% Bonuses						
SkyHook Data/Technical Services	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Telecommunications	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Training & Professional Development	\$2,500	\$2,500	\$2,500	\$2,500	\$500	\$500
Travel & Moving	\$5,000	\$5,000	\$10,000	\$15,000	\$20,000	\$30,000
Wages	\$36,450	\$42,700	\$53,433	\$70,758	\$75,054	\$79,429
<b>Total Expenses</b>	<b>\$77,417</b>	<b>\$137,118</b>	<b>\$606,669</b>	<b>\$635,580</b>	<b>\$391,083</b>	<b>\$208,948</b>
<b>Pretax Income (Loss)</b>	<b>(\$86,417)</b>	<b>(\$141,618)</b>	<b>(\$568,769)</b>	<b>(\$571,680)</b>	<b>(\$322,183)</b>	<b>(\$140,048)</b>

**Dec**

50  
232  
\$25,000  
\$46,400  
\$50,000  
**\$121,400**

\$10,000  
\$2,500  
\$11,600

7  
\$35,000  
**\$47,500**

**\$73,900**

**Dec**

**\$121,400**  
\$47,500

**\$73,900**

\$50,000  
\$500  
\$3,000  
\$3,667  
\$2,500  
\$1,500  
\$5,000  
\$14,031  
\$18,708  
\$20,000  
\$1,000  
\$500  
\$20,000  
\$93,538

**\$233,942**

**(\$160,042)**



<b>Pre-Tax Income to Year-End 1999</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
<b>Gross Profits</b>	<b>\$817,000</b>	<b>\$10,585,300</b>	<b>\$18,085,300</b>	<b>\$28,485,300</b>
Disbursements	\$3,786,455	\$10,142,955	\$14,574,161	\$21,337,546
Hardware/Software				
Purchases	\$323,000	\$455,400	\$667,020	\$947,126
Add: Amortization	\$40,454	\$76,200	\$152,400	\$304,800
<b>Subtotal</b>	<b>\$4,149,909</b>	<b>\$10,674,555</b>	<b>\$15,393,581</b>	<b>\$22,589,472</b>
Tax Payable				\$1,429,551
<b>Net Cash After Tax</b>	<b>(\$3,332,909)</b>	<b>\$442,345</b>	<b>\$3,511,139</b>	<b>\$5,718,203</b>
<b>Financing Cash Flow</b>				
Sale of Stock	\$4,000,000			
Beginning Cash Balance		\$667,091	\$1,109,436	\$4,620,575
<b>Ending Cash Balance</b>	<b>\$667,091</b>	<b>\$1,109,436</b>	<b>\$4,620,575</b>	<b>\$10,338,778</b>

**Assumptions Used in Brokerage Revenues:**

- Potential to attract at least 10 percent of the broker-dealers by Year Two, yielding a minimum of 500 broker-dealers in the U.S.
- Pilot, market trial, and the first 50 commercial users within one year.
- 200 direct trades per month per broker.
- Monthly fees of \$500 per month per broker.
- \$1.00 per transaction will be billed to each broker-dealer and added to trading charges from the broker-dealer to the brokers.