

Confinity, Inc.

Building America's First Mobile Bank

Business Plan

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CONFIDENTIAL

Peter Thiel, CEO
(650) 533-xxxx
peter@confinity.com

Executive Summary

Confinity aims to become America's first mobile bank, offering a full range of financial services from small devices such as PDA's, cell phones, and two-way pagers. These banking services will be built on the MobileWallet platform, which will enable secured transactions among consumers, vendors, and financial institutions.

Our business starts with several key observations:

- (1) **Exponential growth of the small device market.** In five years, between 30 and 100 million hand-held computers will be in use, up from about three million today. Wireless hand-held computers, which will become available in mid-1999, will increase hand-top functionality and therefore accelerate this trend even further. Over the same period, the cell phone market will grow to one billion worldwide, up from about 300 million today.
- (2) **Exponential growth of electronic finance ("efinance").** The demand for electronic financial services has grown at an even greater rate (upwards of 200% per year), paced by the explosion of online ecommerce and the inception of internet banking. Confinity will create a unified platform for all efinance away from the desktop, in the real world.
- (3) **Major technological barriers to entry.** Encryption technology is essential for robust efinance. Accordingly, Confinity's MobileWallet contains proprietary security protocols (specially designed for hand-held computers) to prevent theft, fraud, and other forms of financial abuse. Our team of developers has a background in both cryptography and in designing massively scalable servers, giving Confinity a significant lead in bringing its new security platform to market.

Over the next three years, Confinity first will build a horizontal network of wallet customers. The company then will expand vertically, by offering each of these customers more electronic banking, checking, and credit card services, and by integrating these services with a large array of vendors and merchants. In the process, Confinity will become a global financial services company with \$185 million in projected revenues by 2003.

The Confinity MobileWallet

The Confinity MobileWallet is slated for release in July 1999. It will be available on both the Palm Pilot and Windows CE platforms and will offer the following functions:

- (1) Secure on-device encryption of each user's personal and financial data.
- (2) Point-to-point infrared beaming of secure financial data; in particular, users will be able to pay one another with their credit cards.
- (3) Verification and authentication of each transaction via Confinity's central server.

- (4) Point-to-point infrared beaming of the MobileWallet software itself.
- (5) Integration with Quicken and other bookkeeping software.

Viral Horizontal Growth

Confinity's initial users will beam the MobileWallet software to others as the first step in beaming them currency. As a result of this process, the MobileWallet will spread from friend to friend, and user to user, as early adopters educate others about Confinity – *all as a direct function of the real world, person-to-person nature of these early financial transactions.*

Mobile Banking: Vertical Integration of Financial Services

Once Confinity has developed a network of MobileWallet users, the MobileWallet platform can be extended vertically, by

- supporting electronic payment of bills;
- offering additional financial services, such as credit cards and wireless banking, with the possibility of accessing accounts *anytime* and *anywhere*;
- developing a universal wallet, which will support multiple currencies and other payment systems (ATM's, traveller's checks); and
- partnering with online brokerage, eLoan, and emortgage companies.

Ultimately, Confinity's mobile bank has the potential to become a consolidated platform from which users initiate, conduct, and manage all of their financial transactions.

Building A Permanent Competitive Edge

Because Confinity authenticates users to one another and clears every transaction, the company is placed at the hub of the growing MobileWallet payment system. As the Confinity network grows, the cost of transition to other authentication companies will become prohibitively high, creating an effective barrier to new entrants.

At the same time, the MobileWallet will provide a unique distribution system for educating potential customers about Confinity's mobile bank through a process of gradual integration: As a first step, wallet users can start receiving interest on their MobileWallet balances; later, they can shift to full-service mobile bank accounts.

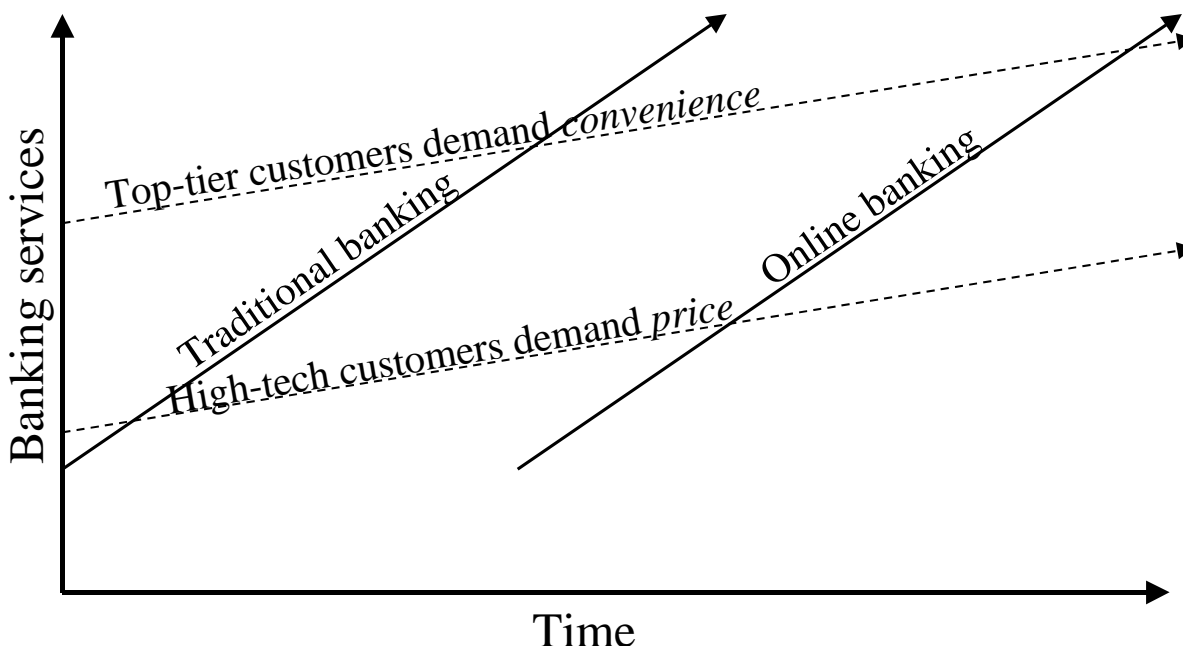
As electronic billing systems become prevalent, online and mobile customers will become increasingly "locked in," as any change in banks would require them to redirect all of their billing information. Those who capture these banking customers early are likely to retain them for the rest of their lives.

I. The Revolution in Banking

A. Background: Online Banking Today

Online banking is a disruptive technology that threatens to displace traditional banks and significantly rearrange the banking universe. In this regard, it is analogous to the revolution that has already started in the case of online stock brokerages, with the difference that the higher transition costs have made the online banking revolution slower. [These transition costs are higher because customers can start online trading on a small scale, whereas banking typically involves a more binary decision to shift one's checking or savings accounts.]

Whereas traditional banking competes primarily on convenience, online banking offers significant price advantages – in the form of higher interest rates for depositors and lower service fees. As more and more people go online, it is likely that these price advantages will drive increasing numbers of consumers towards this new financial service medium.



Consider the comparison between NetBank, the largest of America's online banks, and Wells Fargo, one of the largest traditional banks in the Western United States:

NetBank has about 28,000 customers, \$330M in deposits, and a market capitalization of \$1.5B. It has 30 employees and offers nation-wide online banking services from its office in Atlanta. By contrast, Wells Fargo has \$128B in deposits and a market capitalization of \$72B. If this ratio of \$1.1 cap/\$2 deposits is carried over to NetBank, then its \$1.5B cap reflects an expectation that deposits and customers will increase by a factor of about 8 (to

\$2.7B and 224,000, respectively). This seems entirely realistic, considering that NetBank's customer numbers are increasing at a rate of 20-30% per quarter and that online banking is still in its very early stages.

Unlike traditional banks, online banks do not need to maintain an expensive network of branch offices. Moreover, their customers tend to maintain higher balances and to have more electronically integrated billing and banking services. The marginal cost for the average bank branch transaction is \$1.07, for the average ATM transaction is \$0.27, and for the average internet transaction is only \$0.01.

As a result, the cost margins for online banking are significantly smaller – Wells Fargo's total expenses are approximately 7.7% of assets, whereas NetBank's total expenses are only 4.3% of assets. Because of these narrower margins, online banks are able to offer customers higher rates, more favorable terms, and numerous special offers. For instance, Security First Network Bank is currently offering its customers a 6% introductory rate on checking accounts – something that would be unheard of in the traditional banking world.

The other major advantage of online banking is that customers are able to review their accounts, pay bills, and make deposits or withdrawals around the clock. Perhaps the biggest disadvantage is that these virtual banks have no installed ATM networks; therefore, customers often end up paying \$1.50 on ATM withdrawals.

B. The Next Step: Mobile Banking

The next logical step after online banking is mobile banking, where customers would be able to engage in the full range of banking services anytime *and anywhere* – in the car, while waiting in line at a grocery store, on business travel, or anywhere else that is not near a desktop. These services could be provided via a wireless PDA, cell phone, or two-way pager.

The value proposition in mobile banking centers on the fact that many customers need to access their bank account information *immediately*, because there are a large number of urgent uses for money – such as immediate payment of bills (because a bill is due now, or because there is a risk that one will forget until the bill is past due) and verification of balances (eg, to make sure that a given check will not push one's account into negative territory). These customers do not want to wait to get back to their desktops and they certainly do not want to wait until they can contact their bank's branch offices.

Because traditional banks are moving very slowly into this new space, it may be possible for a new entrant to define itself as America's first "mobile bank." Such a new bank would target high-tech customers and would create the interface for mobile and online banking.

II. From MobileWallet to Mobile Banking

The Confinity MobileWallet will become a comprehensive platform for efinance. Some of its features will benefit consumers *independent* of how many other people have the MobileWallet, while other features are *dependent* on a large network of MobileWallet users.

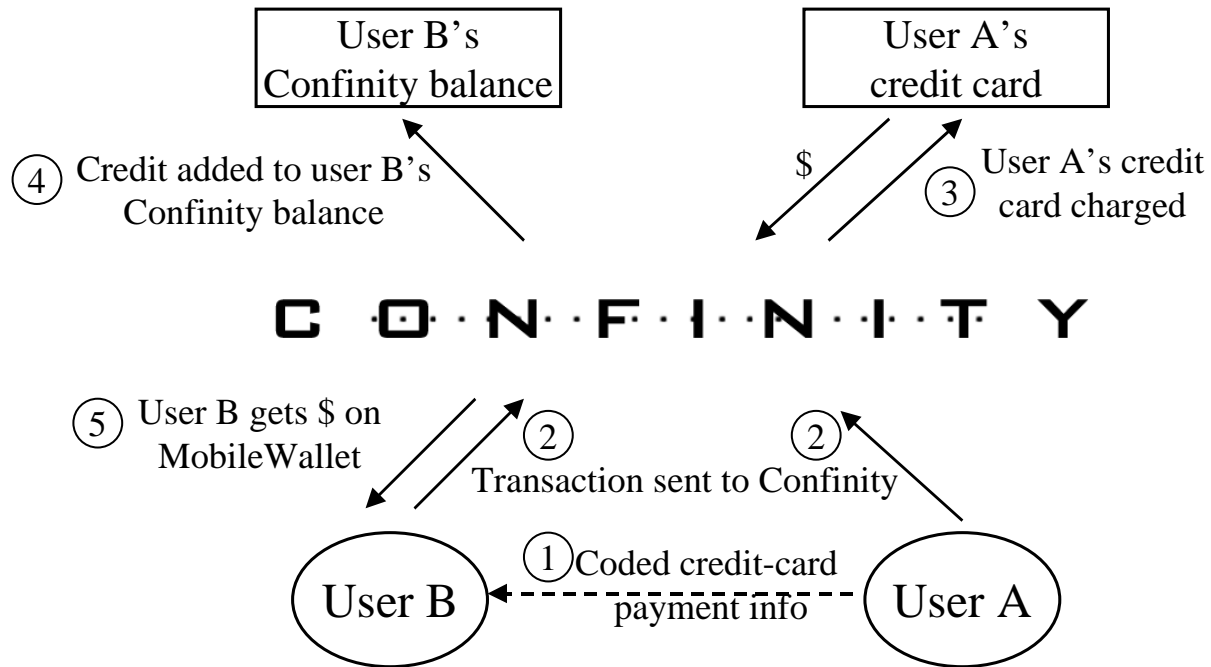
A. MobileWallet Specifications:

Independent features, which make sense for users to implement unilaterally	Network features, which will be most valuable in the context of many users
<ul style="list-style-type: none"> *** on-device encryption of personal and financial data *** beaming currency to other consumers *** beaming the wallet to people who do not have it *** comprehensive bookkeeping of all transactions *** advertisement and distribution of new credit cards, banking services *** efinance platform, mobile banking 	<ul style="list-style-type: none"> *** integration with Verifone beaming system in grocery stores *** integration with IR beaming at ATM machines, acceptance of ecash by banks *** paying bills in restaurants *** travel services (airline tickets, hotels, car rentals) *** real-world ecommerce platform (requires wireless connectivity) *** currency exchange, especially for international travel

For the most part, the network features require a large physical infrastructure -- either new hardware that accepts infrared beams, or the widespread merchant adoption of hand-held computers as a complement to standard ways of accepting payments. Most merchants and vendors are unlikely to use the MobileWallet until a critical mass of consumers are using the MobileWallet.

The independent features, on the other hand, do not depend on a large number of pre-existing MobileWallet users; at most, these features require other consumers to own and use hand-held computers.

Confinity will act as the central clearing agent authenticating all transactions:

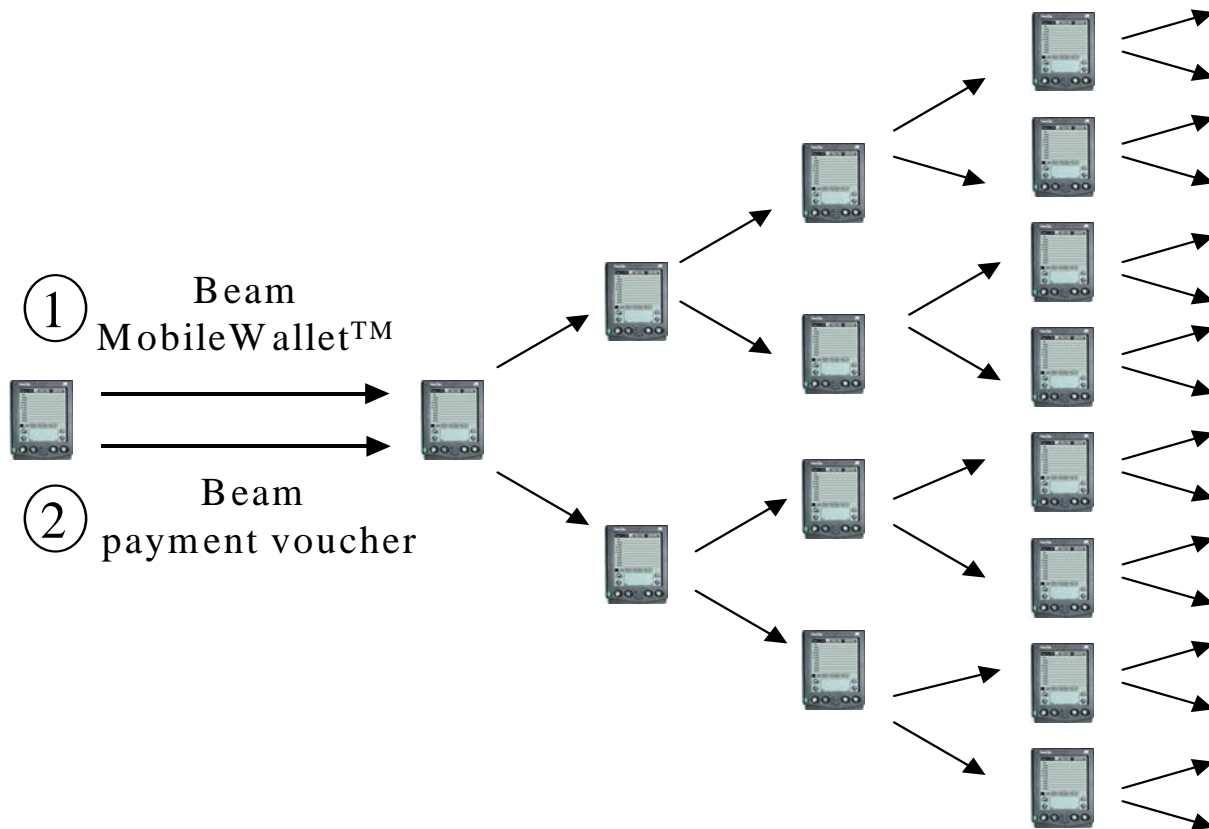


B. The Viral Platform

One of the key features of the MobileWallet is that it facilitates point-to-point electronic transactions in the real world, between real people, and away from the desktop. It will become possible to pay friends, acquaintances, and co-workers with a credit card, by using the Confinity Mobile Wallet (and its connections with a central server) as the currency clearing system. Such payments require no other users to have the MobileWallet, because it is possible for early adopters to beam the MobileWallet software platform to other consumers.

This viral platform is at the core of Confinity's distribution strategy. It is worth stressing that this viral distribution is not incidental (eg, something consumers may choose to do or not to do), but that *beaming the MobileWallet platform is the first step in making a currency transfer to each new Confinity user.*

Once the new Confinity user receives the encrypted currency, he will authenticate himself to Confinity's central server, so as to prevent fraud. At that point, the funds will be transferred into this new user's MobileWallet – and, in turn, both the platform and the funds will be available for beaming to other people.



This viral growth process is determined by two variables – the initial number of MobileWallet customers, and the percentage rate at which the MobileWallet spreads. The system grows exponentially, and the marketing strategy must focus on maximizing some combination of these two variables:

(1) Initial customers. In particular, Confinity plans to obtain initial users through an aggressive on-line program of offering free MobileWallets on sites targeted at hand-held computer users. Because the high-tech end of the consumer market will drive MobileWallet adoption, Confinity will place a particular emphasis on signing up customers working in the software and hardware industries.

The other major way to obtain initial users involves bundling the MobileWallet software with hand-held devices. Although this would require collaboration with hardware manufacturers, this process ultimately could drive widespread adoption.

(2) Viral growth rate. This growth rate is likely to vary widely from context to context, but will be greatest in contexts where (1) there are great concentrations of hand-held computers and (2) there are many technophiles. Large Silicon Valley technology companies (eg, Oracle, Sun, Netscape, Apple) represent a good target market, because a few early adopters in each of these companies would soon multiply the numbers of MobileWallet users exponentially.

C. Vertical MobileWallet Extensions

Once the Confinity payment system reaches a certain critical mass, it will be possible to include vendors and merchants in the MobileWallet universe. Although some minimal network may be a prerequisite for retailers, they will derive significant benefits from transacting on the MobileWallet: reduction in the risk of fraud, a platform on which to offer affinity points and other kinds of coupons, and direct marketing to a globally distributed network of users.

Perhaps the most natural ecommerce application for Confinity involves turning the MobileWallet into a distribution vehicle for financial services – on-line banking, private label credit cards, and even car- and home-loan programs.

The travel industry also would derive significant benefits from the MobileWallet's data processing capabilities. A whole range of processes – from electronic ticketing to car rentals to hotel check outs – could be expedited by processing them via the Confinity payment system. Business travelers, in particular, would benefit from the consolidation of all their expenses onto a single, unified platform.

Somewhat further down the line, a universal MobileWallet would support all currencies and would allow the creation of new financial instruments as users could exchange different kinds of currencies (or currency-like products, such as frequent flier miles) with one another and with other vendors and merchants. For instance:

*** A hotel or restaurant might be willing to accept a certain number of airline miles as a partial payment for its bill. The process would be rather convoluted today, because it is difficult to convert airline miles into hotel rooms or restaurants, but it would become much easier to process all of this data on the MobileWallet system.

*** The citizen of a politically unstable country (Russia, for example) might want to convert his currency into US dollars and move them to a US bank account where there exists no risk of banking failure. This process would be rather convoluted today, to the point where it only makes sense for large sums of money – but the MobileWallet could provide a platform for the secure transfer of even small funds around the world.

This process might occur when this citizen gives rubles to another MobileWallet holder, who could then give our exemplary Russian citizen electronic dollars deposited in the Confinity system. The citizen could then transfer these funds out of the country, and the process would be cost-effective on a scale of several hundred dollars (rather than several hundred thousand dollars).

With the universal MobileWallet, every member of the Confinity payment system could become the equivalent of a currency trader.

D. Setting Up A Bank

1. Legal/Regulatory Issues

New federal bank charters are granted through the Office of Thrift Supervision (OTS) or the Office of the Comptroller of the Currency (OCC). Although the OTS process is less onerous, the rush into online banking has created a serious backlog. Based on some preliminary discussions, it would take about 12-18 months to receive a new bank charter.

2. Technology Issues

Given a banking charter, there is a need for online banking software and back office operations. Both of these are provided by eProfile (a joint venture between Edify, a banking software developer, and Sanchez, a back office service provider), which can put together all of the operations needed to run a bank in 90 to 120 days. The software supports full-service online banking (including bill payment, balance transfer procedures, and integration with mutual funds) and costs between \$700K and \$1M. The back office service operations cost \$4 to \$5 per customer per month.

Confinity still would need to hire 2-3 people to coordinate all of the regulatory, tax, and accounting issues related to running a bank. Nevertheless, most of the “work” would be done by the eProfile service/software operation.

Confinity also would hire 2-3 more developers to build the banking user interface on various mobile devices. In this way, Confinity could create a full-service mobile bank by the fall of 2000.

E. Branding and Distribution Strategies

Confinity would enjoy a critical advantage by leveraging its wallet customers into banking customers. For starters, Confinity could start offering a service whereby wallet customers would earn interest on the money in their wallets. This would (a) decrease the turnover rate (as there would be no advantage to shifting the funds to an interest-earning bank account); and (b) reinforce the wallet branding by making it the only wallet to generate interest on the cash it contains.

Once a Confinity customer has chosen the interest-bearing option on his wallet, he would de facto have opened a small bank account. From here, the marketing issue would be to convince customers of the added value of a Confinity mobile account and bring them to consolidate all of their checking and savings accounts with Confinity. In effect, Confinity will have created a grass-roots (“viral”) method of acquiring new bank customers.

Given the target demographic of early adopters in their 20's and early 30's, Confinity will try to position itself as a cutting-edge, cool, high-tech bank. Unlike traditional banking customers, there would be much less reason for Confinity's customers to switch banks when they move to a new geographic location; as a result, Confinity may succeed in retaining some of its customers for 40 or more years.

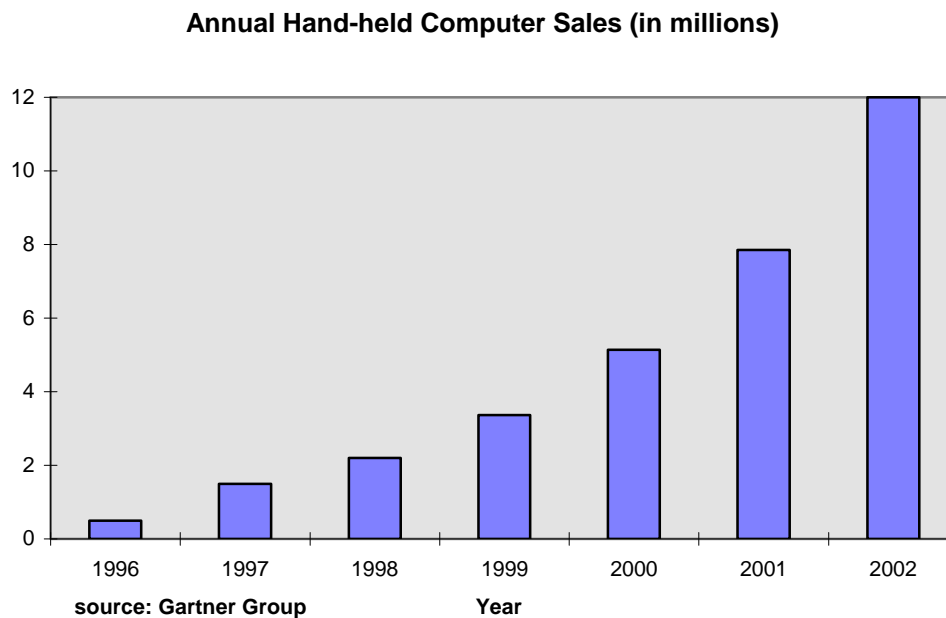
Because of the very high valuations for online bank customers (even assuming an eight-fold dilution, NetBank is valued at \$6,700 per customer), a number of creative customer acquisition strategies may become possible. It would make sense to spend several hundred dollars to acquire customers worth several thousand dollars.

One possibility: Offer free Palm VII wireless PDA's to customers who open a checking account with a minimum balance at Confinity. The free device would have a direct nexus to the service being provided and would further help lock the customers into Confinity. Such a strategy would be analogous to the freepc.com business model, with the difference that (a) the device would cost Confinity less and (b) the efinance customer may be worth more than an ecommerce customer, as described in Section V below.

III. The Market

A. The PDA Market

Today's hand-held computer market shares certain characteristics with the Internet of 1995 and the home computer market of 1980. Growth rates are rapid and exponential. The ultimate potential remains hard to fathom, but it is likely to move well beyond the current user base. New applications and lower costs are shifting demand from a core group of technologists towards the general public. And perhaps most important for a new venture like Confinity, as yet no major companies dominate the software market in this rapidly emerging space.



At present, the market is dominated by 3Com's Palm Pilot. Nevertheless, Microsoft is pushing its CE devices quite aggressively and is likely to achieve an increasing market share over the next four years. Confinity's MobileWallet will support both platforms.

B. The Cell Phone Market

The cell phone market represents a much larger potential platform. About 300 million cell phones are in use worldwide today and according to Nokia's internal projections, this number will rise to one billion in the course of the next five years.

The current generation of cell phones is not capable of supporting the Confinity encryption technology, but we believe that this will change within the next two years. This would represent a large and global market for Confinity to enter.

Such an extension of the MobileWallet system is likely to involve a significant on-line component, in which the software resides in a user's on-line account and not on the cell phone. The cell phone would simply call into this on-line account, in order to process and conduct financial transactions, with other cell phones or with nearby small devices using infrared beaming.

C. The Competition

Most security and platform companies underestimate the complexities of delivering strong encryption to hand-held devices, for the simple reason that very few developers have a background in both cryptography and the assembly-language programming ideally suited for highly compact software on small computers. Confinity's CTO has spent a good part of the last two and a half years developing preliminary solutions to some of these security problems, and it is for this reason that we estimate Confinity to have a lead time of at least six months.

With respect to the banking universe, there exists an increasing array of competing online banks. Even so, we believe that Confinity enjoys a significant competitive edge for two reasons:

(1) The real competition is still with traditional banks, for the simple reason that the vast majority of banking customers still have traditional checking and savings accounts. The critical task is for Confinity to acquire some of these customers as they shift towards virtual banking. With respect to all of these potential customers, the mobile platform will provide a significant edge over other online banks.

(2) The greatest challenge facing online banks involves the acquisition of new customers. Because of the MobileWallet financial platform, Confinity will have a much easier task transitioning customers towards this new medium. In effect, Confinity is creating a new distribution channel for online banking services.

IV. The Company

A. The Founding Team

In bringing together Confinity's founders, we have been driven by two overriding considerations. The first is to identify people who are highly talented and individually diverse, so that each of them is capable of taking on several different business and technology tasks. The second is to form a group that will work well as a team.

Each of Confinity's founders has worked with at least one other founder in some past start-up context. As a result, we are aware of both the strengths and weaknesses of each member of the core team. We know who is best at what and how to allocate the various tasks. This common history enables Confinity to execute with efficiency and celerity.

Chief Executive Officer **Peter Thiel** has a background in law and finance, and is charged with setting the strategic and business direction for Confinity. Previously, Mr. Thiel headed Thiel Capital Management, LLC, an investment fund with a focus on high-tech startups. He has also worked as a derivatives trader for Credit Suisse Financial Products and as a securities lawyer for Sullivan & Cromwell. Mr. Thiel received his BA from Stanford University and his JD from Stanford Law School.

Chief Technology Officer **Max Levchin** has a background in cryptography and hand-held programming, and is charged with leading Confinity's developers in their around-the-clock effort to create the new efinance platform. Before launching Confinity, Mr. Levchin founded NetMeridian, where he developed some early palm-top security applications. Previously, he co-founded SponsorNet, the web's first advertising network. Mr. Levchin received his BS from the University of Illinois Urbana-Champaign.

Vice President of Business Development **Luke Nosek** has a background in technology and business, and is charged with promoting Confinity's products to consumers and enterprises. Mr. Nosek worked on business development for Netscape Communications and has consulted to an array of different Silicon Valley start-ups in the course of the last year. While still in college, he co-founded SponsorNet with Mr. Levchin. Mr. Nosek received his BS from the University of Illinois Urbana-Champaign.

Vice President of Operations **Ken Howery** is charged with the finances and operations of FieldLink, and also will recruit new employees as Confinity grows in the months ahead. Previously, Mr. Howery worked with Mr. Thiel at Thiel Capital Management, LLC. Mr. Howery received his BA from Stanford University.

Senior Software Engineer **Russel Simmons** works with Mr. Levchin in developing Confinity's efinance software. Previously, Mr. Simmons worked as a consultant for NetMeridian Software and also has collaborated with Mr. Levchin on numerous software projects over the last four years. Mr. Simmons received his BS from the University of Illinois Urbana-Champaign.

Senior Software Engineer **Yu Pan** works with Mr. Levchin in developing Confinity's efinance software. Previously, Mr. Pan collaborated with Mr. Levchin and Mr. Simmons on numerous software projects over the last four years. Mr. Pan received his BS from the University of Illinois Urbana-Champaign.

Concurrent with its first venture capital round, Confinity plans to hire three more developers (including one with a focus on web design) and four more people with a business focus (in online marketing, sales, and business development). At the same time, Confinity will start to recruit a core team of two or three people with the background in the banking industry needed to manage the tax, accounting, and regulatory issues involved in starting a new bank.

B. The Board of Directors

Confinity has four directors: CEO Peter Thiel, CTO Max Levchin, and outside directors Scott Banister and Reid Hoffman.

Director **Scott Banister** founded several of the leading web-promotion services – SubmitIt, ClickTrade, ListBot, and PositionAgent, all of which were sold to LinkExchange and subsequently bought by Microsoft. Mr. Banister brings to Confinity broad experience in technology, product design, marketing, and branding.

Director **Reid Hoffman** is the chief strategist and founder of SocialNet, an internet community service. Mr. Hoffman brings to Confinity a strong background in business strategy, development and operations.

C. The Technology Advisors

World-renowned cryptographer **Martin Hellman** advises Confinity on the technological and business positioning of its security products. An electrical engineering professor at Stanford University, Dr. Hellman is perhaps best known for his leading role in the development of public-key cryptography.

Hand-held encryption pioneer **Dan Boneh** is helping Confinity develop secure protocols for its MobileWallet software. A computer science professor at Stanford

University, Dr. Boneh leads a team of researchers in cutting-edge cryptography research, with a focus on hand-held wallet technology.

D. Media Strategy

Public policy media figure **Peter Robinson** is working with Confinity to develop and execute its media strategy. A research fellow at the Hoover Institution at Stanford University, Mr. Robinson writes about business and politics, edits *The Hoover Digest*, and hosts the PBS program *Uncommon Knowledge*.

E. Industry Advisors

Payment expert **Scott Loftesness** is helping Confinity develop its payment systems strategy. Mr. Loftesness is the former CEO of Digicash and currently an EIR at US Venture Partners.

Former Hewlett-Packard Vice President **Glenn Osaka** oversaw the integration of VeriFone into HP. Mr. Osaka is assisting Confinity in developing vendor integration for the MobileWallet.

IV. Financial Projections

Confinity, Inc.					
Income Statement (\$)					
	1999	2000	2001	2002	2003
Revenue					
Float Income	\$4,940	\$240,704	\$2,181,922	\$8,500,716	\$26,678,887
Financial Services	\$0	\$0	\$9,486,617	\$36,959,633	\$115,995,161
Transaction Fees	\$0	\$0	\$2,766,298	\$8,621,943	\$27,059,351
Credit Card Issuance	\$92,018	\$2,875,387	\$3,045,705	\$8,791,365	\$15,807,106
Total Revenue	\$96,958	\$3,116,091	\$17,480,542	\$62,873,657	\$185,540,504
MobileWallet Clearing Fees¹	\$25,978	\$964,184	\$8,575,242	\$25,112,647	\$77,956,879
Gross Margin	\$70,980	\$2,151,908	\$8,905,300	\$37,761,010	\$107,583,625
% of Revenue	73%	69%	51%	60%	58%
Operating Expenses					
Research/Development	\$567,058	\$1,513,487	\$2,262,331	\$4,526,108	\$8,279,345
% of Revenue	585%	49%	13%	7%	4%
Marketing/Sales	\$1,231,745	\$4,778,461	\$10,413,725	\$26,307,136	\$76,514,011
% of Revenue	1270%	153%	60%	42%	41%
General/Administration	\$997,587	\$1,072,808	\$2,111,801	\$3,420,946	\$6,113,066
% of Revenue	1029%	34%	12%	5%	3%
Total Operating Expenses	\$2,796,390	\$7,364,756	\$14,787,857	\$34,254,190	\$90,906,422
% of Revenue	2884%	236%	85%	54%	49%
Income Before Int & Taxes	(\$2,725,410)	(\$5,212,848)	(\$5,882,558)	\$3,506,819	\$16,677,203
% of Revenue	-2811%	-167%	-34%	6%	9%
Interest Expense	\$0	\$0	\$0	\$0	\$0
Interest Revenue	\$0	\$0	\$0	\$0	\$0
Income Before Taxes	(\$2,725,410)	(\$5,212,848)	(\$5,882,558)	\$3,506,819	\$16,677,203
Tax Exp	\$0	\$0	\$0	\$0	\$2,545,283
Net Income	(\$2,725,410)	(\$5,212,848)	(\$5,882,558)	\$3,506,819	\$14,131,921
% of Revenue	-2811%	-167%	-34%	6%	8%

¹ Includes other variable costs

Confinity, Inc.**Balance Sheet (\$)**

	1999	2000	2001	2002	2003
ASSETS					
Current Assets					
Cash	(\$2,466,954)	(\$7,823,016)	(\$15,547,559)	(\$17,303,403)	(\$6,052,546)
Net Accounts Rec	\$42,661	\$575,123	\$1,442,145	\$5,187,077	\$15,307,092
Inventory (30 days)	\$10,588	\$675,921	\$1,995,820	\$6,263,739	\$7,221,749
Total Current Assets	(\$2,413,705)	(\$6,571,972)	(\$12,109,594)	(\$5,852,587)	\$16,476,295
Gross Fixed Assets	\$412,760	\$484,160	\$538,120	\$700,390	\$1,062,760
Less Accum Depreciation	\$6,517	\$33,188	\$74,892	\$149,270	\$299,262
Net Fixed Assets	\$406,243	\$450,972	\$463,228	\$551,120	\$763,498
TOTAL ASSETS	(\$2,007,461)	(\$6,121,000)	(\$11,646,366)	(\$5,301,467)	\$17,239,793
LIABILITIES					
Short Term Liabilities					
Accounts Payable (30 days)	\$145,240	\$1,184,692	\$1,484,539	\$4,153,505	\$11,476,537
Salaries Payable (15 days)	\$65,208	\$125,067	\$182,411	\$351,525	\$801,511
Taxes Payable (90 days)	\$0	\$0	\$0	\$0	\$636,321
Line of Credit (0% of net A/R)	\$0	\$0	\$0	\$0	\$0
Current Portion of Cap Equip Lease	\$0	\$0	\$0	\$0	\$0
Current Portion of Long Term Debt	\$0	\$0	\$0	\$0	\$0
Total Short Term Liabilities	\$210,449	\$1,309,758	\$1,666,950	\$4,505,030	\$12,914,369
Long Term Liabilities					
Capital Equipment Lease (3 years)	\$0	\$0	\$0	\$0	\$0
Long Term Debt (5 years)	\$0	\$0	\$0	\$0	\$0
Total Long Term Liabilities	\$0	\$0	\$0	\$0	\$0
TOTAL LIABILITIES	\$210,449	\$1,309,758	\$1,666,950	\$4,505,030	\$12,914,369
Equity					
Preferred Stock	\$0	\$0	\$0	\$0	\$0
Common Stock	\$507,500	\$507,500	\$507,500	\$507,500	\$507,500
Retained Earnings	(\$2,725,410)	(\$7,938,258)	(\$13,820,816)	(\$10,313,996)	\$3,817,924
Total Equity	(\$2,217,910)	(\$7,430,758)	(\$13,313,316)	(\$9,806,496)	\$4,325,424
LIABILITIES & EQUITY	(\$2,007,461)	(\$6,121,000)	(\$11,646,366)	(\$5,301,467)	\$17,239,793

Confinity, Inc.

Statement of Sources & Uses (\$)

	1999	2000	2001	2002	2003
BEGINNING CASH	\$0	(\$2,466,954)	(\$7,823,016)	(\$15,547,559)	(\$17,303,403)
Sources of Cash					
Net Income	(\$2,725,410)	(\$5,212,848)	(\$5,882,558)	\$3,506,819	\$14,131,921
Add Depr/Amort	\$6,517	\$26,671	\$41,704	\$74,378	\$149,992
Issuance of Preferred Stock	\$0	\$0	\$0	\$0	\$0
Issuance of Common Stock	\$507,500	\$0	\$0	\$0	\$0
Plus Changes In:					
Accounts Payable (30 days)	\$145,240	\$1,039,451	\$299,847	\$2,668,966	\$7,323,032
Salaries Payable (15 days)	\$65,208	\$59,858	\$57,344	\$169,114	\$449,987
Taxes Payable (90 days)	\$0	\$0	\$0	\$0	\$636,321
Additions to Line of Credit	\$0	\$0	\$0	\$0	\$0
Additions to Cap Equip Lease	\$0	\$0	\$0	\$0	\$0
Additions to Long Term Debt	\$0	\$0	\$0	\$0	\$0
Total Sources of Cash	(\$2,000,945)	(\$4,086,867)	(\$5,483,662)	\$6,419,277	\$22,691,252
Uses of Cash					
Less Changes In:					
Net Accounts Rec	\$42,661	\$532,462	\$867,022	\$3,744,932	\$10,120,015
Inventory (30 days)	\$10,588	\$665,333	\$1,319,899	\$4,267,918	\$958,011
Gross Fixed Assets	\$412,760	\$71,400	\$53,960	\$162,270	\$362,370
Reductions Line of Credit	\$0	\$0	\$0	\$0	\$0
Reductions To Cap Equip Lease	\$0	\$0	\$0	\$0	\$0
Reductions To Long Term Debt	\$0	\$0	\$0	\$0	\$0
Total Uses	\$466,010	\$1,269,195	\$2,240,881	\$8,175,120	\$11,440,395
CHANGES IN CASH	(\$2,466,954)	(\$5,356,062)	(\$7,724,543)	(\$1,755,843)	\$11,250,857
ENDING CASH	(\$2,466,954)	(\$7,823,016)	(\$15,547,559)	(\$17,303,403)	(\$6,052,546)

Confinity

Assumptions

	1999			Q1	2000			2001	2002	2003
	Q2	Q3	Q4		Q2	Q3	Q4			
Market Size										
Hand-held computer sales	791,104	879,549	977,882	1,087,210	1,208,760	1,343,899	1,494,147	7,829,539	11,940,299	18,209,339
Hand-held computer users	4,502,656	5,382,204	6,360,087	7,447,297	8,656,056	9,999,955	11,494,102	19,323,641	31,263,940	49,473,279
MobileWallet customers	0	3,600	12,818	35,174	96,517	225,055	494,445	1,897,323	7,391,927	23,199,032
% of market	0.0%	0.1%	0.2%	0.5%	1.1%	2.3%	4.3%	9.8%	23.6%	46.9%
Products										
Float										
Dollar amount per user ¹	N/A	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25
Interest rate (on annual basis) ²	N/A	5.0%	4.9%	4.8%	4.7%	4.6%	4.6%	4.6%	4.6%	4.6%
Turnover rates ³	N/A	2 mths	2 mths	2 mths	2 mths	2 mths	2 mths	2 mths	2.5 mths	2.5 mths
Clearing fee rates ⁴	N/A	5.0%	4.0%	3.5%	3.0%	3.0%	3.0%	2.85%	2.85%	2.7%
Financial Services										
Annual revenue per user	N/A	\$0	\$0	\$0	\$0	\$0	\$0	\$5	\$5	\$5
Transaction Fees										
Exit revenues ⁵	N/A	0%	0%	0%	0%	0%	0%	1%	1%	1%
Credit Card Issuance										
% of new users referred by existing users	N/A	0%	33%	50%	66%	75%	82%	88%	92%	95%
Fees paid to user for new user reference	N/A	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
% of new users accepting credit card	N/A	0%	25%	40%	40%	40%	40%	40%	40%	40%
Revenue per credit card issuance	N/A	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Revenue per new user ⁶	N/A	\$0	\$13	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Employees										
Research/Development	6	9	9	13	17	17	17	21	38	63
Marketing/Sales	5	9	12	16	22	22	22	26	42	103
General/Administration	2	3	3	5	5	5	5	5	8	8

1 Dollar amount per user on Confinity financial system

2 Based on an average 1-month loss of interest because of credit card batching

3 Length of time the average dollar stays within the Confinity payment system

4 Merchant credit-card fees incurred on batched payments entering Confinity system

5 Transaction fee charged on money leaving Confinity system

6 Based on credit card issuance revenue

A Comparative Note on the Value of Each Confinity Consumer

As the following table indicates, the valuations of internet companies vary tremendously, depending on the kinds of revenues each user or customer can generate:

Company	Number of users or customers	Market capitalization	Value per user or customer
Hotmail (at the time of acquisition)	10,000,000	\$400,000,000	\$40
Excite	18,200,000	\$6,100,000,000	\$335
Yahoo!	29,500,000	\$32,000,000,000	\$1,080
Amazon.com	7,200,000	\$26,000,000,000	\$3,600
E*Trade	676,000	\$9,000,000,000	\$13,300
Net.B@nk	28,000	\$1,500,000,000	\$53,500

Confinity aims to combine the viral horizontal growth model of a company like Hotmail with the vertical financial integration of a company like NetBank. In this respect, the MobileWallet drives the growth of the customer base, while the mobile banking services drive the valuation per customer. By executing on this strategy, Confinity has the potential to achieve a high market capitalization:



Over the longer term, the exit strategy for Confinity is (1) to conduct an IPO and build an independent bank or (2) to become acquired by a larger bank (either traditional or online) that more effectively could leverage Confinity's mobile customer base.

VI. The Investment Opportunity

Confinity plans to raise \$4 million in its first venture capital round. We anticipate closing this round by June 1999.

To date, Confinity has raised \$500,000 in a seed round. This initial capital enabled Confinity to get off the ground and bring together its founding team. Confinity also has used the seed funding to develop a beta version of the MobileWallet software, the core of its efinance platform.

The venture capital financing will enable Confinity to proceed on two parallel tracks. First, it will enable Confinity to launch and build the market share of its MobileWallet. As detailed in the Financial Projections section, most of this capital will be spent on product promotion and customer acquisition. And second, Confinity will set the stage for launching a mobile bank: It will acquire a banking charter, build the mobile banking interface, and set up the software and support operations needed to bring together a full-service bank.

We anticipate a second (and larger) venture capital round, in early 2000, in order to capitalize and build the customer base for Confinity's mobile bank.