



**Setting the Standard as the Creators of Electronic Confirmation Services
For Auditors, Capital Confirmation, Inc. is a rising star with
Double Digit Growth over the last 5 or 6 Years**

**Financial and accounting Services
Audit Confirmations**

**Capital Confirmation, Inc.
214 Centerview Drive, Suite 265
Brentwood, TN 37027
615-844-6222
www.Confirmation.com**



**Christopher F. Schellhorn
Chairman & CEO**

BIO:

With over 30 years experience managing technology businesses, Chris brings a solid background to lead this business in the rapidly changing regulatory environment created by Sarbanes Oxley. Chris has lead the organization from start-up to its position as the world's leading provider of electronic confirmations.

Prior to working with Capital Confirmation, Chris was the Managing Di-

rector of Integrion Financial Network, the online banking platform owned by eighteen of the world's largest banks, IBM, and VISA International. Prior to Integrion, Chris was the President and CEO of VISA Interactive, VISA International's wholly-owned online banking and bill payment subsidiary. Chris has extensive experience in commercial banking, online banking and bill payment, and managing technology businesses. Chris is a retired Naval Officer and was an assistant professor at the University of Rochester's College of Arts and Sciences.

Chris completed his MBA at The Simon School of Business at the University of Rochester and received an AB in Economics from the College of the Holy Cross.

About Capital Confirmation, Inc.:

Capital Confirmation, Inc. provides secure electronic confirmation services for auditors, those responding to confirmation requests and their shared client. Capital Confirmation's patented Confirmation.com service minimizes fraud and brings efficiency to the audit confirmation process. Confirmation.com's unique Authentication and Authorization process validates the authenticity and authorization of each user. Several hundred responding companies and over 10,000 accounting firms in 100+ countries trust Confirmation.com for their audit confirmation needs.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Schellhorn, would you tell us about Capital Confirmation?

Mr. Schellhorn: My colleague and I began this business about 12 years ago. My colleague was a young accountant, CPA working for one of the Big Four and he recognized that the confirmations were a highly inefficient process. It was at the time when the big firms were automating their electronic working papers and delivering confirmations back to auditors took between 4 to 6 weeks after a request was made. He recognized that the paper process was easily manipulated by fraudsters working to steal and misuse cash from a business they ran or were an investor in. We created the first secure online clearing house for audit confirmations which now allows auditors to receive confirmation responses back as quickly as 60 seconds. It has been effective at uncovering multiple confirmation frauds over the last years. The most recent and significant was the PFG fraud.

CEOCFO: Please explain how the system works.

Mr. Schellhorn: Essentially, when an auditor is auditing a business they are required to validate certain pieces of information that the client provides. Some of that information is bank balances, loans, interest rates, collateral and things of that nature. The auditor prepares a request. There is a series of standard forms that the AICPA, the professional accounting organization and the ASB, Auditing Standards Board, has approved. They submit the forms to a financial institution; the financial institution does the appropriate research and responds back to the auditor with a completed form. It is a pretty simple and straight-forward process.

CEOCFO: How do you fit into the process?

Mr. Schellhorn: Prior to the creation of Capital Confirmation and our patented process, all of this information was done through the U.S. mail and in some cases fax. We sit between the bank, the auditor and the auditor's client. We validate for the bank the auditor's and client's identities. For the auditor, when a response comes back we validate that it came from an authorized responder within the financial institution. If you go back and look at the PFG financial fraud that occurred earlier in 2012, Russell Wassendorf, CEO Peregrine Financial Group created a fictitious account and established a PO Box for all correspondence to be sent to. The auditors submitted confirmations to what they thought was U.S. bank at this PO Box for response and Wassendorf would intercept those confirmations and respond to the auditors as if he were the financial institution. The fraud that he created ended up costing his investors over \$225 million. Basically, he had a fabricated bank account.

CEOCFO: How is Confirmation.com able to validate and protect against criminals that are getting smarter everyday?

Mr. Schellhorn: We have created a closed system. We validate the auditors who are requesting the confirmations, validating for the banks that they are legitimate requestors. For the auditors we validate the financial institutions, today several hundred financial institutions that use our service that respond to confirmations. All the top 10 banks and the Federal Reserve are responders using our service. We sign up those financial institutions to respond. We validate their participants who are going to be responders and the auditors know that responses from our system have come from an authorized financial institution. This is opposed to the old-fashioned way where the auditor would send a confirmation to an address that they would find on the statement or one that the client provided and submit it to someone presumably at that institution and hope that it was being responded to

appropriately. It is not just business owners who have the potential for fraud. If you can imagine, here is a lending officer at a financial institution who has a vested interest in the success of a client being represented for a particular loan. Perhaps the confirmation will be submitted to someone who is not intended to be a responder who is working with the company on making them look financially stronger than they actually are.

CEOCFO: What is Capital Confirmation's revenue model?

Mr. Schellhorn: We are a transactional model, a per-confirmation or per-request charge. We charge the CPA for the service. In some cases, the banks today charge us for their participation.

CEOCFO: Do most banking institutions know that Capital Confirmation exists?

"We set the standard, we are the creators of electronic confirmations. We are a rising star with double digit growth over the last 5 or 6 years along with the fact that we have a service that any of the businesses that they are invested in should be required to use because of the confidence it will bring to them as investors."- Christopher F. Schellhorn

Mr. Schellhorn: That is a great question. In some cases, the answer is no. We have some banks that have continued to resist using our service because they believe that they do not have a potential risk problem or they do not see the immediacy for responding quickly to confirmations. We have banks that run the gamut of very large to very small, a couple 100 million dollars in assets. We are still growing the platform, adding responders and requesters. Today we have over 100 financial institutions and in addition to that have over 10 thousand accounting firms that request confirmations through our system from over 100 countries. While we have large numbers, there is still plenty of work to do as we continue to grow the network and enhance our platform.

CEOCFO: How does Capital Confirmation grow?

Mr. Schellhorn: In many cases, now that we have gotten so many users, they are requesting more end-points. It is not unusual to have a mutual client of a bank and accounting firm go out and suggest to their bank that they need to sign on and use the service. That coupled with our relationship with two of the regulatory bodies enhance our position and result in new users signing up for the service. We have an exclusive endorsement from the American Bankers Association and the American Institution for Certified Public Accounts. We get a lot of recognition from them, both for the work that we do as well as creating awareness. Signing up these large enterprises is a very rigorous process, whether they are banks or accounting firms. We go through what used to be referred to as a SAS 70 and a SYS Trust, today they go under the nomenclature of SOC Reviews (Statement on Standards for Attestation Engagements or SSAE). They are operational audits. We go through one of those every 6 months along with an ISO 27001, a security review process. They are self-imposed to demonstrate to the accounting profession and the banking industry that we are committed to security. In addition in many instances those large financial institutions go through an extensive security review of us both initially and then with some regularity, ensuring we continue to maintain a highly secure operation.

CEOCFO: Technologically, what was the most difficult piece to put together?

Mr. Schellhorn: The most difficult piece for us was to get that very first bank and accounting firm to use our service, to get the very first transaction to go through the clearing-house, so we could demonstrate that we had participants on both ends. It is fine to have a platform that works; it is another thing to have users. The accountants wanted to see that we had banks that would respond before they joined and the banks wanted to know that we had accountants that would

request confirmations. The hardest part was to build those initial responders, the banks, and requesters, the CPAs.

CEOCFO: Is there any competition in this niche?

Mr. Schellhorn: For the moment it is ours. We have begun to expand internationally—we have business partners in South Africa, Australia and Turkey. We have decided to expand our business with partners on an international basis because it is a more efficient model. There have been a few startups that have tried to enter the space but the biggest challenge is that we set the standard, we are the creators of electronic confirmations. They are faced with a need to match what we do and the very first thing a bank or firm is going to ask them is, “Who is signed up to use your service?” It is not enough to say that you have a service but before they use you, banks want to know that a response or request is going to come through the platform. That is our biggest line of defense along with our patented technology.

CEOCFO: Are there particular geographic areas that, as Capital Confirmation is expanding, draw more interest?

Mr. Schellhorn: Now that we have had great success in the U.S., we look to initially expand into English speaking countries where language is not a

barrier and we do not end up with a great deal of development work to do by adding an international language. On the heels of that, we look progressively to Europe and to South America. We have foreign language releases of our cloud based service that will come out later this year. Along with that, we came out with a new tool for educators, that is a replica of our working site. It was introduced late last year on a pilot basis. Today, it is being introduced by many of the top undergraduate accounting programs and business schools around the country. We create awareness with those very young CPAs who are electronic savvy. When they show up at their new firm for work when they graduate with their accounting degrees, they are off to the races and ready to go. It has been very well-received.

CEOCFO: How is business?

Mr. Schellhorn: It is doing great. We have continued to see double digit growth since 2007. We have been very fortunate to continue to grow in a difficult economic environment.

CEOCFO: Why should people in the business and investment communities pay attention to Capital Confirmation?

Mr. Schellhorn: From the investment community’s standpoint, they may see us as a business that overtime is worthwhile to invest in. But they also should view us from their role as a

financial advisor and business owner. One of the things that these investors ought to be thinking about is if they have investments in companies, particularly mid-tier and small business that aren’t using our service as part of their audit, they should question the auditors and the management of those businesses as to “why not?”. From a security and control perspective the old-fashioned way is fraught with risk and they as investors might have their audits misrepresented because they have not received accurate data. We are a rising star with double-digit growth over the last 5 or 6 years along with the fact that we have a service that any of the businesses that they are invested in should be required to use because of the confidence it will bring to them as investors. We are poised for some significant growth as we expand in the international market along with our great success here in the U.S. One of the other approaches to our international growth is that several financial institutions have a presence in the U.S. We have made headway with many of those domestic operations with the idea that it will be our foothold into the global market and eventual for them as responders. We also have global agreements in place with all of the large firms, routinely known as the Big Four, and receive confirmations from them around the world.



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