Q&A with Joseph R. Caplan, CPA, Managing Director and Creative Director of FinSoft, LLC providing Asset Based Lending Software Products for Commercial Finance Underwriting, Fraud Reduction and Mitigation, Receivable and Inventory Financing due diligence

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CEOCFO: *Mr. Caplan, would you tell us about the range of services you offer? What is the market for you?*

Mr. Caplan: We are a software company that specializes in commercial finance products, specifically Asset Based Lending (ABL). My background, as a CPA, included bank auditing where you audit the borrower, not at the bank, (not internal audit). Our focus is software to assist with receivable and inventory financing due diligence. I took those skills, from being a bank auditor for 19 years, and I translated that into a software company. Our products are all focused on commercial finance underwriting, due diligence, fraud reduction and fraud mitigation type products.

CEOCFO: *Mr. Caplan, there is a long history at FinSoft LLC. You just celebrated your twenty second year. What is the focus today?*

Mr. Caplan: We are continuing to rewrite our last remaining legacy products while adding the most requested features that are not in any of our products. We've made a substantial and ongoing investment in modernizing our software and the last product is almost done. At the same time, we are constantly looking for the next thing which could be enhancements or cloud based or just "new" and not an existing product on the market. We've got some synergies in our software ecosystem that need to be expanded and one of the most important products in ABL software is largely under-marketed by us, so we'll be pushing that technology awareness more in 2018.

CEOCFO: *What might you include in the mix when you are doing an assessment, when you are doing an audit for a client, that less knowledgeable people do not take into account or that are not able to fit into a program or an application?*

Mr. Caplan: For us, it is the fact that we are good at making *assumptions*. It is sort of the programming way of doing artificial intelligence based on industry knowledge. We spend a lot of time figuring out what people should be looking at or what they want to get and how they waste time. Then we create the logic, inputs and the reports that allow people to very quickly gather and assess the dynamics of the numbers. But, numbers, in and of themselves don't mean much. It is the interpretation of the numbers that might matter. In our business, or pretty much any accounting business, you spend a lot of time gathering data. In fact, you probably spend most of your time gather data and another good amount of time analyzing the data. We are trying to take that process and prevent people from going through mindless data gathering that a 6th grader could do. That also includes the seemingly endless calculations and summaries that require strong industry knowledge to complete. We are automating that process and the analysis of the numbers at a high expert level and doing what cannot be done by hand in a reasonable amount of time.

For one simple example, our audit software, AssetWriter; we can consolidate an unlimited number of divisions in four mouse clicks. You could have a music store chain of 50 stores or 10 nursing homes, Etc. We could consolidate all the data and reports in four mouse clicks. That is something you just cannot do with Excel, but you want to, you dream that you could and your job sucks because you must grind-on to get it done.

On our data download product, AssetReader, where we download data from clients, we can go through, for example, forty thousand invoices in under one minute and tell you if the aging ages correctly, if there are invoices that are out of sequence, if there are duplicate invoice numbers or other problems that would make a lender nervous and recalculate all of the ineligible collateral. We have other products that let you analyze that downloaded data over time to spot adverse trends, balances and invoices or even confirm the amounts. We even pump that data into the audit product for more time savings and greater accuracy. It is really about the human intelligence to sift through and derive something from the data so that the analysis is simplified. We call that "Finding dirty needles in the haystack of data." If we can figure out what people can't see or are trying to see, we can automate that for them and go beyond the mass amount of numbers to provide business intelligence, reduce risks and save time.

CEOCFO: *You are developing software, but who is using it? Are you doing the audits as well or are auditors now using your software to service their clients?*
Mr. Caplan: I'm an ABL "subject matter expert." The people that use our software are commercial lenders and consultants that need expert-level software. You could say our users fall into two groups. First, it would be banks that are doing audits or that are doing the download of the daily and monthly reporting that is required in a commercial loan. There are the auditors that use the software in the bank and there is also the operations department that uses the software for the monitoring and reporting to sift through the data. That is the bank group. The other group is the outside, independent field examiners that are basically consultant accountants or accounting firms. They specialize in commercial finance and they use our products to download data and prepare the field examination reports.

> **"Some will continue to waste time with other products and risk catastrophic errors, I am okay with that, but I know I can modernize it. Maybe these people are paid by the hour?"- Joseph R. Caplan, CPA**

CEOCFO: *What is your business model?*
Mr. Caplan: We like to have fun and build original great software; honestly, this is not work to us, but a passion. Our business model is to have cutting-edge, state-of-the-art, over engineered for insights, is super reliable and easy to use. Reliability and ease of use are two of the most important things that we work on because it means few support calls. Because we get very few tech support calls here, that has let us double in size several times with no additional staffing. We're also very quiet and secretive about what we work on and I am intentionally not telling you the whole story here, sorry, company policy.

CEOCFO: Why w*ould a company purchase your product? Is it a SaaS product? How does it work?*
Mr. Caplan: Our products are mostly desktop software. You essentially go through a purchase price model where you purchase a license and then you pay annual maintenance fees for ongoing support and upgrades. I noted that our users are both office and fieldwork oriented. Laptops in the field tend to require an installed product to avoid Internet connection issues or where security considerations are encountered. We have a lot of Citrix or Remote Desktop users that run our stuff as virtual desktops and the IT departments like that install it once setup. You might be surprised at how much banks hate cloud-based products that store customer data in the cloud and how stringent the security requirements can be. I am all for great security and would not put my money in a bank that was not vigilant, would you? But customer data in the cloud from SaaS is not always fast enough or flexible enough or portable enough for some applications. The security requirements for one well known SaaS vendor that we know about exceeded $4,000,000 for one install; not exactly minor and not something you would do for 10 or even 100 users. We have also seen SaaS models that are great for up to say 10 users, but the cost for say 25 or even 100 users would make a software install (not SaaS) a fraction of that price. Sure it is changing and we'll be ready, but SaaS is not the end goal for all of our products nor most of our users.

CEOCFO: *You mentioned Excel before. Are you surprised that people are still trying to do things in 2018 with Excel?*
Mr. Caplan: No. Excel is perhaps one of the most used software products in the world. It is extremely reliable, it is extremely well tested, and I am not surprised. I think that the realization, the *awakening* if you will, is that you're dealing with people that still use Excel or any other time-tested product is that people doggedly hold on and will not let go of their

time investment to see another way. You need to understand that this hanging-on thing is your competitor. When people say, "Who is your competitor," our competitor is Excel in the case of audit software or some other in-use product.

Convincing people to give me an hour or so of time to show them why FinSoft, LLC has a better solution than their Excel models for audit. Hard to say the exact cause of this, probably a time investment or fear to change thing? We encounter "know-it-all" types and A+ personalities here and there. Maybe not looking at our products is because they don't care, maybe they think they have the greatest Excel models in the world, maybe they don't mind spending two or three days consolidating ten divisions, maybe they don't care about accuracy from bad math? We've seen some people get sacked for big errors (losses) that we can catch. It is interesting to see how people don't take the time to look at our 22+ years of development, but we just smile and move on when we encounter that. Some will continue to waste time with other products and risk catastrophic errors, I am okay with that, but I know I can modernize it. Maybe these people are paid by the hour? Who knows?

CEOCFO: *How do you reach out to people who may not know about FinSoft?*
Mr. Caplan: First, the ABL marketplace is small and everyone knows everyone. I have been in the ABL industry my entire adult life, since approximately 1985. Being in the business for such a long-time, people know of me of FinSoft and they know our products or product users. I also own a sister company named Clear Choice Seminars Inc. and I'm the president. Classes are now mostly on-line as self-serve courses through ABLTrain.com. The seminar business has let people know who I am and of course I have met thousands of people. Then that became a marketing vehicle for FinSoft where former students or managers would connect, "This is the guy that teaches the Intermediate Asset Based Lending course…." Professional recognition has been a part of our marketing.

Another thing is that we wrote the industry reference guide, and I do mean THE industry guide for Asset Based Lending. It is called **ABL-Help** and we are also the authors, which is on thousands of computers in the commercial finance industry. It has our name all over it. It has banner ads on every screen. We include that in our software products, in our classes and we sell it through www.ablhelp.com. All the proceeds go to charities.

We do some more traditional advertising and direct marketing. We have a website too, but anyone buying certain ABL software products will be doing comparisons.

CEOCFO: *What is involved with implementation and training? How do you insure that what you create is user friendly?*
Mr. Caplan: That is really two questions. In some consulting work that I did in the past with Adobe Systems we might have a discussion topic about user interfaces and it would make the engineers cringe to hear what we call "death of a thousand clicks". If you really want to see what I am talking about then try to go on to any airline site and book a flight or say, "I would like to confirm my seat," and then go to Southwest Airlines to see how it should be done. The death of a thousand clicks is to give the user what they want in front of them. Break it down into steps and make decisions in the code. That is a big part of what we do. We figure out what the steps are and how to box it in or automatically fix issues so that you are basically dealing with an input screen or logical steps. We are then doing all the heavy lifting behind the scenes to create consolidation and analytical reports that would take a very seasoned auditor to do just one report. However, we are doing them instantly because they are coded. That is a big part of what we do on the user interface. We study what people are doing and we figure out how to get rid of clicks or to eliminate bad setups or even put the user where they need to be. Lots of designs get scrapped.

On the training side, I want to tell you about a mistake and how we corrected it. I am a trainer. I have been doing stand-up live training since public accounting back in 1984. I love presenting in front of people and getting them to see the light. Along the way I taught people how to use our data product, AssetReader. What we found was that people were calling us after the training; clearly too many calls. They were stuck or they did not get something, but we got the calls. We said, "We have failed in training." It was an honest assessment and then we came up with a case study-based training seminar for the data products. We go through about ten to twelve full sets of imports and each one gets harder. To do this, we had to double the amount of time spent on training, so instead of doing the training in eight hours we do the training now in sixteen hours. We did not increase the price for the course, just the content depth. We made it more rigorous and more repetitive, but with skill building. The result of that was a win for everyone. Except for the first two weeks after training, we get almost no phone calls after training. That is a pretty big difference but a core quality element of helping both our users and ourselves.

We invest a lot of time into our Help file documentation for instant reference and we update the Help topics as the calls come in. I think we have over 10,000 pages of documentation across our products, plus ABL-Help and the on-line tutorial series for users. We even update the software when we have problem areas so that we stop getting calls about certain topics. Our new or enhanced features are documented with tutorials that are a visual and voice webcast of how the new stuff works.

When we rewrite products, we have a few months of live and repeating webinars for the users to get back up to speed on the new designs. Overall, we take documentation and training to a high level of quality and professionalism. Being a trainer and owning a seminar business has helped. It is hard for some people to believe, but I do the training and that lets me see things that can be improved as I present or as students ask questions. Again, those insights all go back into the product, usually that same week. I learn how to improve the products as I teach.

CEOCFO: *You talked about new technologies and new ideas. What are you looking for? Are there things you would like to be able to do with your products that just cannot be done yet with technology?*
Mr. Caplan: No. I do not think that there is any technology that is not at our fingertips. I like to internally joke that we are an *R&D company*. We are a software company, but we are really an *R&D company* in our approach. We might spend a week or more of programmer time investigating just one thing to see what would be the best way to do something. That goes back to your question about that user interface and what works and the death of a thousand clicks. We are not married to our ideas. We do not just code a screen and say, "That is good enough." We test it. We find something faster or easier to use. We kill-off, refine, scrap stuff, rework ideas and spend both time and money to make it the best that we can.

When we rewrote AssetReader we moved away from Visual Basic 6.0. When we rewrote that we wanted it to be really fast. We had one calculation that used to take approximately 1 minute and 45 seconds and we got that down to under 8 seconds. That research to get it down to 8 seconds was several weeks of trying different approaches to get it to where it would be superfast! That has nothing to do with the user interface. It was a decision to create speed, so that the end-users could move on and get more work done and not be waiting. We do the same type of development work on the user interface and the "death of a thousand clicks." Technologically, I think that we are somewhat advanced and up to date. One of the people on my team has a PhD from Carnegie Mellon in computer science and our Director of Software Engineering has over 40,000 hours of experience into our code language. New technology is not that hard to learn, it is just part of running a software company.

CEOCFO: *How much do you need to understand about regulatory issues so that you can do an assessment correctly, privacy issues and of course security issues?*
Mr. Caplan: Regulatory wise, we are not a bank. We are not necessarily dealing with things like customer data in the cloud that a bank would be concerned about from a regulatory standpoint. However, if you move software to the cloud and you now have client data hosted and you are the software provider that is hosting that data, you now have regulatory requirements. You now need to make sure that things are encrypted, secure end-to-end and at rest. You make sure that things are locked down and that hackers cannot easily get in by limiting login attempts and then logging those attempts. To that respect, to that topic, we have spent a great deal of time and a great deal of money in locking down our servers, in providing very deep security for the people that could log into our server, but I will not comment here about how many layers of security we built into our products and delivery of our products. We are not hosting client data, so we do not have that aspect of regulatory requirements where a bank wants us to prove how we are doing our security. As we move into the cloud we will have those requirements and we'll be well equipped to deal with any cloud based security issues at the risk levels that we encounter.

CEOCFO: *What is the competitive landscape? Are there many companies trying to carve a niche in this arena or is it under the radar screen for many?*
Mr. Caplan: I think commercial banking is specialized. It is mostly made up of commercial lending, lines of credit, factoring and equipment leasing. I think that the market is extremely specialized. For example, there are about 6,800 FDIC insured commercial banks, but the people that are actually *commercial lenders* that do lines of credit; I would guess that there are probably less than five thousand total people that are in the industry of commercial lending for ABL. Again, that is a guess. My count would include auditors, bank officers underwriters, back office operations, appraisals; people that specialize in commercial lending for ABL. Therefore, the people that are in the software business tend to be insiders, they tend to be specialists and the people that are in the business are already using some software. Therefore, if you think you are going to enter the business and compete in the software arena, good luck, because you are going to have to take-out whoever existing lenders are using. Again, it is just like Excel. People that are using Excel do not want to change and

that is true for most products that have trained users that can run a system or where you can get product trained people from recruiters. There is always room for growth, but we prefer to offer unique and original products that are nothing less than outstanding, rather than me too, more of the same, our product doesn't suck, Etc. As a quick side note, our policy is to NEVER bad-mouth a competitor in any way.

CEOCFO: *Why is FinSoft LLC noteworthy?*
Mr. Caplan: Personally, I can't believe that I make a living having so much fun. Our success is a combination of our reputation, work ethic, reliability and fanatical focus on what we do. I think that because we are doing what other products do not do or cannot do, that we are not only a niche player within the industry; we are a subset of the niche itself. I also think that our quality and our focus on detail allows us to provide products that deliver what you need without the tech support, without the hassles and you can get work done. I also happen to know that as people leave banks and they switch banks, they go from bank A to bank B, I know that they are bringing our software with them. That is an indication of the reliability and the quality of the services that we provide. We treat every customer the same, as if they are our only customer. I'm sure you have heard that cliché before. We try to make sure that every user gets their work done with efficiency. Attention to detail and quality are the norm in our products and company. I'm having a blast and our users are happy too.