



## Business Continuity Plan (BCP)

May 15, 2008

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NASD Rule 3510(c) requires that members relying on another entity for elements of their business continuity plan or mission critical systems must address that relationship in their plan. Our online brokerage services rely heavily on our clearing partner: North American Clearing. Internet Securities® used the template provided by FINRA to help formulate its plan. This template was written by FINRA for introducing firms that currently rely on a clearing firm for part of its operations. Internet Securities customized the language of the standard template provided by FINRA to reflect the Firm's activities and BCP.

### Critical Elements

There are 10 critical elements of a BCP specified in NASD Rule 3510. Internet Securities® addresses all these elements in its plan. Internet Securities provides investment banking, online brokerage, and registered investment advisory services.

- (1) Data back-up and recovery (hard copy and electronic);
- (2) All mission critical systems;
- (3) Financial and operational assessments;
- (4) Alternate communications between customers and the member;
- (5) Alternate communications between the member and its employees;
- (6) Alternate physical location of employees;
- (7) Critical business constituents, banks, and counter-party impact;
- (8) Regulatory reporting;
- (9) Communications with regulators; and
- (10) How the member will assure customers' prompt access to their funds and securities in the event that the member determines that it is unable to continue its business.



## **Internet Securities' Emergency Contact Persons**

Primary Emergency Contacts.

### **Michael Beardsley**

President & CEO

510/444-5240 (wk), 510/625-9855 (alternate)

[info@internetsec.com](mailto:info@internetsec.com)

### **Carol Troxclair**

Compliance Officer

707/761-2050

[ctroxclair@internetsec.com](mailto:ctroxclair@internetsec.com)

Secondary Emergency Contact

### **Bill Carson**

Financial Operations Principal

303/954-9879

[bcarson@internetsec.com](mailto:bcarson@internetsec.com)

Please note, Michael Beardsley, Carol Troxclair, and Bill Carson are registered principals with Internet Securities.

Internet Securities acknowledges that these names must also be reported to FINRA through FINRA's Contact System (formerly known as the NASD Member Firm Contact Questionnaire or NMFCQ).

These names will be updated in the event of a material change, and Michael Beardsley, the Firm's Executive Representative, will review them for accuracy, within 17 business days of the end of each quarter.

## **Internet Securities' Policy on Business Continuity with Significant Business Disruptions.**

Our Firm's policy is to respond to a Significant Business Disruption (SBD) by safeguarding employees' lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the Firm's books and records, and allowing our customers to transact business. In the event that we determine we are unable to continue our business, we will assure customers prompt access to their funds and securities.

### **Significant Business Disruptions (SBDs)**

Our plan anticipates two kinds of SBDs, internal and external. Internal SBDs affect only our Firm's ability to communicate and do business, such as a fire in our building. External SBDs



prevent the operation of the securities markets or a number of firms, such as a terrorist attack, a city flood, or a wide-scale, regional disruption. Our response to an external SBD relies more heavily on other organizations and systems, especially on the capabilities of our clearing firm.

### **Approval and Execution Authority**

Michael Beardsley, President & CEO, a registered principal, is responsible for approving the plan and for conducting the required annual review. Michael Beardsley and Carol Troxclair, Compliance Officer, have the authority to execute this BCP.

### **Plan Location and Access**

Our firm will maintain copies of its BCP Plan and the annual reviews, and the changes that have been made to it for inspection.

The primary electronic copy of our plan is located on:

*C:\My Documents\Business Continuity Plan\BCP Plan 5-15-08*

This file is located on the primary hard disc drive on the Desktop Computer located at the Office of Supervisory Jurisdiction for Internet Securities, the primary user is Michael Beardsley. 300 Frank H. Ogawa Plaza, Suite 210, Oakland, CA 94612.

The secondary electronic copy of the Business Continuity Plan is located on Michael Beardsley's Toshiba Laptop Computer at his home office

*C:\My Documents\Business Continuity Plan\BCP Plan 5-15-08*

This back up computer and separately stored back up CDs are located at the Firm's Primary Offsite Backup and Storage Location: 565 Bellevue Ave., Oakland, CA 94612.

Primary Paper Copy of the Firm's BCP is located in Internet Securities' Business Continuity Planning 2008 folder which is located at the Firm's primary filing cabinet location at the Firm's Office of Supervisory Jurisdiction for Internet Securities. 300 Frank H. Ogawa Plaza, Suite 210, Oakland, CA 94612.

### **Business Description**

Internet Securities® is an investment bank, online brokerage, and registered investment adviser. Internet Securities® provides investment banking services to companies which participate in high growth market segments within the communications technology, Internet, biotechnology, energy & water, software, and real estate industries. Internet Securities® online brokerage and registered investment advisor divisions serve individuals, companies, and non-profit organizations. In terms of its online brokerage services, the Firm acts as an introducing broker-dealer and relies on its full service clearing partner, North American Clearing to provide clearing services. Internet Securities does not hold customer funds or securities.



All transactions are sent to our clearing firm (North American Clearing), which executes our orders, compare them, allocate them, and clear and settle them. Our clearing firm also maintains our customers' accounts, grants customers access to them, and delivers funds and securities.

### **Clearing Firm**

Our clearing firm is North American Clearing, 1385 West State Road 434 Longwood, Florida 32750. Phone: 800/599-4811; [sandi@northamericanclearing.com](mailto:sandi@northamericanclearing.com)  
[www.northamericanclearing.com](http://www.northamericanclearing.com)

Our Primary contact person is Bruce Blatman, President and CEO.  
Phone: 407/774-2105  
[bruce@northamericanclearing.com](mailto:bruce@northamericanclearing.com)

Alternate contact person is Sandi Farr, Director of Compliance, Phone: 407/774-2145 and Cell Phone: 386/523-4608. Email: [sandi@northamericanclearing.com](mailto:sandi@northamericanclearing.com)

### **Internet Securities' Office Locations**

#### Primary Office

300 Frank H. Ogawa Plaza, Suite 210, Oakland, CA 94612.  
Phone: 510/444-5240; Fax: 510/444-5280.  
Email: [info@internetsec.com](mailto:info@internetsec.com); website: [www.internetsec.com](http://www.internetsec.com).

Our employees may travel to that office by means of foot, car, subway (BART), and bus. This location is the primary corporate headquarters for Internet Securities. It is also the Office of Supervisory Jurisdiction. This location includes an office facility, conference rooms, telephone and computer systems, high-speed Internet access, and electronic and hard copy file back up storage facilities. We do engage in order taking and entry at this location.

#### Alternate Office Location

565 Bellevue Ave, Oakland, CA 94610.  
Phone: 510/625-9855.  
Email: [info@internetsec.com](mailto:info@internetsec.com); website: [www.internetsec.com](http://www.internetsec.com).

Our employees may travel to that office by means of foot, car, subway (BART), and bus. This location is an Alternate Office Location for Michael W. Beardsley, President of Internet Securities. This location includes an office facility, telephone and computer systems, high-speed Internet access, and electronic and hard copy file back up storage facility. We do not engage in order taking and entry at this location.



### **Alternative Physical Location(s) of Employees**

In the event of an SBD, we will move our staff from the primary office location to the alternate office location (see above.). Both of these office locations are in Oakland, California. If none of these office locations are available to receive our staff, we will re-locate office operations to:

726 Oak Grove Ave, #2 Menlo Park, CA 94025.

Phone: 415/595-6520. Email: [Henryw@internetsec.com](mailto:Henryw@internetsec.com); website: [www.internetsec.com](http://www.internetsec.com).

We do not engage in order taking and entry at this location.

The above alternative office location is the Home Office of Henry Wong, Chief Technology Officer'.

### **Customers' Access to Funds and Securities**

Our firm does not maintain custody of customers' funds or securities. They are maintained at our clearing firm, North American Clearing. In the event of an internal or external SBD, if telephone service is available, our registered persons will take customer orders or instructions and contact our clearing firm on their behalf, and if our Web access is available, our firm will post on Internet Securities' Web site that our customers may access their funds and securities by contacting Bruce Blatman, North American Clearing, President and CEO. The Firm will make this information available to customers through its Disclosure Policy.

If SIPC determines that we are unable to meet our obligations to our customers or if our liabilities exceed our assets in violation of Securities Exchange Act Rule 15c3-1, SIPC may seek to appoint a trustee to disburse our assets to customers. We will assist SIPC and the trustee by providing our books and records identifying customer accounts subject to SIPC regulation.

### **Data Back-Up and Recovery (Hard Copy and Electronic)**

Our firm maintains its primary hard copy books and records and its primary electronic records at 300 Frank H. Ogawa Plaza, Suite 210, Oakland, CA 94612. Michael Beardsley, President & CEO, 510/444-5240 is responsible for the maintenance of these books and records.

In addition, Evault Inc. maintains certain records on electronic storage media pursuant to a written service agreement and in accordance with Rule 17a-4(f)(3)(vii) under the Securities Exchange Act of 1934.

Our Firm maintains the following document types and forms that are not transmitted to our proposed clearing firm: Supervisory Procedures Manual; Customer Correspondence; Correspondence with Regulators, Suppliers, Investors, Other Broker-Dealers; Financial Records for Internet Securities including Net Capital Computation, FOCUS Reports, Income Statements, Balance Sheet, Annual Audits, and all other reports and documentation which supports the daily operations of Internet Securities.



## **Alternate Backup Locations**

Bill Carson: 11666 Osceola St. Westminster, CO 80031. Phone: 303/954-9879

All financial documents. Our Firm maintains back up copies (electronic and hard copy) of all its financial records (Net Capital computation, Trial Balance, Income Statements, Balance Sheets, bank statements, check registers, etc. The above address is the primary office location of Bill Carson, Internet Securities' Financial Operations Principal.

**Selected Documents.** Our Firm maintains back up copies (electronic and hard copy) of important selected documents including: Supervisory Procedures Manual, Customer Information, Investor Network, Business Continuity Plan, Corporate Bylaws, Corporate Minutes, etc. at an Alternative Office Location: 565 Bellevue Ave, Oakland, CA 94610. Phone: 510/625-9855.

These records are both paper copies and electronic back up files. Michael Beardsley, President and CEO, 510/444-5240 is responsible for the maintenance of these back-up books and records. Our firm backs up its significant paper records by copying and taking back paper copies this back up site. We back up significant dynamic documents and records with electronic copies every 3 months. We back up non dynamic significant documents with paper copies every 6 months. A dynamic document or record is one which is updated monthly or quarterly.

All electronic documents are copied quarterly to CD backup diskettes and stored at the Firm's back up storage facility, 565 Bellevue, Ave, Oakland, CA 94610.

In the event of an internal or external SBD that causes the loss of our paper records, we will physically recover them from our back-up site. If our primary site is inoperable, we will continue operations from our back-up site or an alternate location. For the loss of electronic records, we will either physically recover the storage media or electronically recover data from our back-up site, or, if our primary site is inoperable, continue operations from our back-up site or an alternate location.

## **Financial and Operational Assessments**

Internet Securities attempts to periodically assess the changes in exposures to risk of SBD.

## **Operational Risk**

Operational risk includes the firm's ability to maintain communications with customers and to retrieve key activity records through its mission critical systems.

In the event of an SBD, we will immediately identify what means will permit us to communicate with our customers, employees, critical business constituents, critical banks, critical counterparties, and regulators. Although the effects of an SBD will determine the means of alternative communication, the communications options we will employ will include our Web site,



telephone voice mail, secure e-mail, etc. In addition, we will retrieve our key activity records as described in the section above, Data Back-Up and Recovery (Hard Copy and Electronic).

### **Financial and Credit Risk**

Financial risk involves the firm's ability to fund operations and maintain adequate financing and sufficient capital. The firm also may face credit risk (where its investments may erode from the lack of liquidity in the broader market), which would also hinder the ability of the firm's counter-parties to fulfill their obligations.

In the event of an SBD, we will determine the value and liquidity of our investments and other assets to evaluate our ability to continue to fund our operations and remain in capital compliance. When we support online trading services, we will contact our clearing firm, critical banks, and investors to apprise them of our financial status. If we determine that we may be unable to meet our obligations to those counter-parties or otherwise continue to fund our operations, we will request additional financing from our bank or other credit sources to fulfill our obligations to our customers and clients. If we cannot remedy a capital deficiency, we will file appropriate notices with our regulators and immediately take appropriate steps. This may include drawing on an emergency line of credit.

### **Mission Critical Systems**

Our firm's "mission critical systems" and those of our clearing partner, North American Clearing, will ensure prompt and accurate processing of securities transactions, including order taking, entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, and the delivery of funds and securities. Although we will be heavily dependent on our clearing partner to ensure adequacy and robustness of the execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, and the delivery of funds and securities.

We have primary responsibility for establishing and maintaining our business relationships with our customers and will have sole responsibility for our mission critical functions of order taking. Our clearing firm provides, through contract, the execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, and the delivery of funds and securities.

Our clearing firm contract provides that our clearing firm will maintain a business continuity plan and the capacity to execute that plan. Our clearing firm represents that it will advise us of any material changes to its plan that might affect our ability to maintain our business. Internet Securities attached North American Clearing's Business Continuity Plan. In the event our proposed clearing firm executes its plan, it represents that it will notify us of such execution and provide us equal access to services as its other customers. If we reasonably determine that our clearing firm has not or cannot put its plan in place quickly enough to meet our needs, or is



otherwise unable to provide access to such services, our clearing firm represents that it will assist us in seeking services from an alternative source.

Our clearing firm represents that it will back up our records at a remote site. Our clearing firm represents that it operates a back-up operating facility in a geographically separate area with the capability to conduct the same volume of business as its primary site. Our clearing firm has also confirmed the effectiveness of its back-up arrangements to recover from a wide scale disruption.

Recovery-time objectives provide concrete goals to plan for and test against. They are not, however, hard and fast deadlines that must be met in every emergency situation, and various external factors surrounding a disruption, such as time of day, scope of disruption, and status of critical infrastructure—particularly telecommunications—can affect actual recovery times. Recovery refers to the restoration of clearing and settlement activities after a wide-scale disruption; resumption refers to the capacity to accept and process new transactions and payments after a wide-scale disruption.

### **How the Firm will Handle Order Taking in the Event of an SBD.**

Internet Securities receives orders from customers via telephone/fax/e-mail/and our Web site at [www.internetsec.com](http://www.internetsec.com) and in-person visits by the customer. During an SBD, either internal or external, we will continue to take orders through any of these methods that are available and reliable, and in addition, as communications permit, we will inform our customers when communications become available to tell them what alternatives they have to send their orders to us. Customers will be informed of alternatives by various hardcopy and electronic newsletters and information posted on our website. If necessary, we will advise our customers to place orders directly with our clearing firm at 1-800-707-0278.

### **External SBD**

Internet Securities does not currently conduct online trading activities. Although in the future, if our customers are prevented from entering orders directly to our website, our Firm will enter orders by taking them over the phone and recording them on paper and electronically and sending them to our clearing firm electronically or telephonically. In the event of an external SBD, we will maintain the order in electronic or paper format, and deliver the order to the clearing firm by the fastest means available when it resumes operations. Alternatively, we intend to place customer orders through North American Clearing's trading platform directly.

### **Internal SBD**

In the event of an internal SBD, we will enter and send records to our clearing firm by the fastest alternative means available, which include fax, email, and telephone. In addition, during an internal SBD, we may need to refer our customers to deal directly with our clearing firm for order entry.



**Alternate Communications Between the Firm and Customers, Employees, and Regulators**

**Customers**

In the event of an SBD, we will assess which means of communication are still available to us, and use the means closest in speed and form (written or oral) to the means that we have used in the past to communicate with the other party. For example, if we have communicated with a party by e-mail but the Internet is unavailable, we will call them on the telephone and follow up where a record is needed with paper copy in the U.S. mail.

**Employees**

We now communicate with our employees using the telephone, e-mail, and in person. In the event of an SBD, we will assess which means of communication are still available to us, and use the means closest in speed and form (written or oral) to the means that we have used in the past to communicate with the other party. We will also employ a call tree so that senior management can reach all employees quickly during an SBD. The call tree includes all staff home and office phone numbers. We have identified persons, noted below, who live near each other and may reach each other in person:

The person to invoke use of the call tree is: Michael Beardsley

Caller	Call Recipients
Michael Beardsley, CEO	Bill Carson, Henry Wong, Matt Dooley, Berni Ai-Kuo
Carol Troxclair, Compliance Officer	

**Regulators**

Describe the alternate means of communications that your firm will use to communicate with its regulators in the event of an SBD.

We are currently regulated by the following SROs: FINRA, SEC, and California Department of Corporations (Broker/Dealer division). We communicate with our regulators using the telephone, e-mail, fax, U.S. mail, and in person. In the event of an SBD, we will assess which means of communication are still available to us, and use the means closest in speed and form (written or oral) to the means that we have used in the past to communicate with the other party.



## **Business Constituents**

We have contacted our critical business constituents (businesses with which we have an ongoing commercial relationship in support of our operating activities, such as vendors providing us critical services), and determined the extent to which we can continue our business relationship with them in light of the internal or external SBD. The Rotunda Office building management, where Internet Securities' primary offices are located, has routine fire alarm drills and other emergency planning preparation. We will quickly establish alternative arrangements if a business constituent can no longer provide the needed goods or services when we need them because of a SBD to them or our firm.

## **Office Building Management**

Rotunda Office Building Management:  
Molly Doung, Property Manager 510/268-8500; email [shauna@leaseoakland.com](mailto:shauna@leaseoakland.com)  
Security Guard Cell Phone: 510/376-2877.

## **Banks**

Internet Securities banks currently include: Wells Fargo Bank and Silicon Valley Bank.

### **Wells Fargo Bank**

Phone: 800/225-5935  
Business Banking Customer Service

### **Silicon Valley Bank**

Phone: 408/654-7400  
Business Banking Customer Service

If our banks and other lenders are unable to provide the financing, we will seek alternative financing immediately this may include an emergency line of credit.

## **Counter-Parties**

Although Internet Securities currently does not have any critical counter parties, when such parties arise, we intend to contact them and establish business continuity planning procedures. These counter parties may include: other broker-dealers. Where the transactions cannot be completed, we will work with our proposed clearing firm or contact those counter-parties directly to make alternative arrangements to complete those transactions as soon as possible.

## **Regulatory Reporting**

Our firm is subject to regulation by the FINRA, SEC, and California Department of Corporations (Broker/Dealer division). We now file reports with our regulators using paper copies in the U.S. mail, and electronically using fax, e-mail, and the Internet. In the event of an SBD, we will check with the SEC, NASD, and other regulators to determine which means of filing are still available to us, and use the means closest in speed and form (written or oral) to our previous filing method. In the event that we cannot contact our regulators, we will continue to



file required reports using the communication means available to us. Regulator contacts include the following:

**NASD San Francisco District Office**

One Montgomery Street  
Suite 2100  
San Francisco, CA 94104  
Phone: 415/882-1200  
Fax: 415/546-6991

**Securities Exchange Commission**

5670 Wilshire Boulevard  
11<sup>th</sup> Floor  
Los Angeles, CA 90036  
Phone: 213/965-3998  
Fax: 213/965-3815

**California Department of Corporations**

Securities Regulation Division  
71 Stevenson Street, Suite 2100  
San Francisco, CA 94105  
Phone: 415/972-8586  
Fax: 415/972-8590

**Disclosure of Business Continuity Plan**

We intend to provide in writing a BCP disclosure statement to customers at time of account opening and on an annual basis to each customer thereafter. North American Clearing provides Annual BCP disclosure statements to all Internet Securities brokerage customers. We currently post our BCD disclosure statement on our web site and mail it to customers upon request.

**Updates and Annual Review**

Our firm will update this Plan whenever we have a material change to our operations, structure, business or location or to those of our clearing firm. In addition, our firm will review this BCP annually, on **January 15<sup>th</sup>**, to modify it for any changes in our operations, structure, business, or location or those of our proposed clearing firm.



### **Senior Manager Approval**

I have approved this Business Continuity Plan as reasonably designed to enable our firm to meet its obligations to customers in the event of an SBD.

Signed: Michael W. Beardsley

Title: President & CEO

Date: 5-15-08