

A CORPORATE HISTORY OF AUTO INSURANCE SHOPPER INC, NOW DOING BUSINESS AS NETQUOTE, INC.

Founding the Company

NetQuote began as Auto Insurance Shopper. Christopher Findlater and Nina Nichols founded that first company in 1990. In 1991, under the laws of the State of Colorado, they incorporated it as Auto Insurance Shopper, Inc. At that time, Nina Nichols owned fifty percent of the shares, and Chris Findlater had an equal share of fifty percent. Nina was the president, a position she held from 1991 until 1995, when Chris Findlater succeeded her as president.

From its inception until 1993, Auto Insurance Shopper was operated as a "live-operator insurance shopping service." However, Findlater and Nichols were constantly concerned about the high cost and frustrated with the difficulties in this inefficient system. They hired a programmer with the intent of automating, but thousands of hours and dollars later; they had not accomplished the task.

That came about with a phone call from Keith Lawton who called one day to discuss the similar businesses each had built. At the time, Lawton was the sole proprietor of Telerate, and the founder of the world's first automated insurance shopping service that he started in 1989. Keith was automated and needed only one employee, Bill Schneider, to compete in two markets. His brother, Harvey Lawton, a computer programmer, wrote Telerate's original interactive voice response system (IVR) that was used to answer telephones and send faxes. Lawton's call that day was motivated by his discovery that he had a competitor in a field that he believed was unique to Telerate.

A couple of months went by, then one day Chris Findlater returned the call, out of his concern about his operating costs. His huge long-distance phone bills and labor costs were eating up his profits. Findlater proposed an idea regarding his Yellow Page ad in the Phoenix phone directory. He offered to redirect the ad's inquiries to Telerate to learn if both their companies might benefit. Findlater had no doubt that there was opportunity for Auto Insurance Shopper, Inc. in adding Keith's technological savvy to his marketing skills.

As the planning began, Chris Findlater called Keith Lawton to talk about joining forces.

Auto Insurance Shopper had excellent advertising efficiencies, but these revenue gains were being consumed by labor costs. Telerate had such high advertising costs, Keith had difficulty keeping abreast financially despite the great efficiencies achieved through their automation. It was clear to both men that a merger of their talents and business practices had promise.

The Synergy in Combining Two Companies

The initial plan was for an actual merger. However, all parties noted that Telerate was \$167,000 in debt. Since Telerate was a sole proprietorship, all IRS tax returns were filed in Keith Lawton's name. Keith was also the sole owner of all the assets and liabilities of Telerate, therefore this debt was the personal responsibility of Keith Lawton. Harvey Lawton, Keith's brother, stated at the time that since he, Harvey was just an independent contractor, he did not share in any of the risk and was not responsible for any of his brother, Keith's, Telerate debt.

Because of this debt, and the plague of creditors, and the consideration that the name "Telerate" was the trademark of another company, it was decided to completely close Telerate and purchase its assets from Keith. Under this plan, Keith Lawton would be given fifty percent of Auto Insurance Shopper by Chris Findlater and Nina Nichols. The latter two partners would guarantee to discharge Telerate's debts and in return Keith would transfer ownership of the Telerate software and its computers to AIS. With these tools, they could automate.

Because Auto Insurance Shopper Inc had no debt and had good credit standing, it was able to buy advertising on 30-to-60 day payment schedules. Therefore, it was decided that it would be the corporation used by these newly combined forces instead of starting a new corporation. Although Auto Insurance Shopper, Inc. would in reality be responsible for Telerate's debts, the creditors did not know this fact. This provided Findlater a strong position from which to negotiate favorable repayment terms.

The Meeting of Minds

When Keith Lawton, Chris Findlater and Nina Nichols gathered for their first corporate meeting with the new shareholders, it was a day of some sadness for all three. Although they felt this new direction was a wise one, it meant that their respective companies that they had labored for and worried about for years were not going to continue in the same form. Keith's company Telerate would cease to exist entirely, and Findlater and Nichols would transfer away 50% of their corporation, one that they had built from scratch.

Structuring the New Organization

In the initial organization plan, Keith Lawton stated that he also felt an obligation toward William Schneider who had invested fifteen thousand dollars in Telerate. Therefore, Keith asked and Findlater and Nichols agreed to transfer five percent of Keith's potential 50% ownership in Auto Insurance Shopper Inc, to Schneider. That would leave Lawton with forty-five percent.

Out of a concern for maintaining voting balance, it was agreed that five percent of Findlater and Nichols' shares would be transferred to Jeanne Findlater, Christopher Findlater's mother. The rationale was that she had gifted ten thousand dollars to Chris Findlater so that he could purchase computers for two companies he owned earlier—Universal Colorado and AIS.

Harvey Lawton attended that meeting at Keith's invitation and met Findlater and Nichols for the first time. Just prior to the meeting Keith expressed his desire that his brother Harvey Lawton be included in the new company. Harvey had been instrumental, Keith felt, in programming the Telerate software. Out of loyalty to his brother, Keith stated that he felt so strongly that his brother should have shares in the corporation, that if it weren't granted Keith would not join Auto Insurance Shopper. Keith proposed giving Harvey ten percent, five percent from Keith's shares and five percent from Chris and Nina's shares. Nichols and Findlater declined to transfer five percent of *their* share of Auto Insurance Shopper, Inc. to Harvey Lawton.

Keith decided that his loyalty to his brother was so great that he would ask to have the entire 10% deducted from his now 45% and transferred to Harvey.

However, Harvey was not receptive to the proposal. He turned to Findlater and Nichols and said, "Keith seems to think this is a really good idea, but I don't. No offense, but why should I want shares of your ***** little company. I mean like, what's so great about it?"

Findlater knowing that this was of utmost importance to Keith, recounted all of the benefits to reassure him, however Harvey insisted that he would rather be paid for his programming and be done with it. Keith did not agree.

Findlater and Nichols were already dismayed at the prospect of giving up fifty percent of the new company, now more so to someone that clearly did not want to participate. Findlater proposed that the Telerate programming cost be added to the Telerate debt that would, in turn, be paid by Auto Insurance Shopper, Inc.

However, Keith insisted and Findlater acquiesced without the support of Nichols. (As a consequence, Findlater later settled with her for these diverted shares out of his personal money at the time of their divorce.)

As they walked into the meeting, Harvey Lawton stated that he wanted everyone to understand that he was not going to pay any of debts of Telerate, a company that he had nothing to do with other than writing some software. He said he didn't care who did pay the Telerate debt as long as everybody understood that he, Harvey, wasn't going to.

At this point, all the parties sat down to the table and so began the first corporate meeting of the new Auto Insurance Shopper.

Due to the looming battle with the Telerate creditors, Findlater suggested that Keith's wife, Karen Hummel, hold Keith's shares.

These negotiations resulted in the following shares and shareholders:

- Karen Hummel, 35%
- Nina Nichols, 22.5%
- Chris Findlater, 22.5%
- Harvey Lawton, 10%
- Bill Schneider, 5%
- Jeanne Findlater, 5%.

The software ownership problem

At this first corporate meeting convened, Harvey Lawton, now a 10% percent shareholder, announced that the software he had written for Telerate was his sole property and under no circumstances was it to be ever to be considered the property of Auto insurance Shopper Inc. Despite the payment of the shares, he would not give up the software ever. And any work he did would have to be compensated in cash. He would however allow

Auto Insurance Shopper to use his Telerate software by paying a licensing fee for every computer that contained his code.

It should be noted that consequently, in 1995, when Auto Insurance Shopper Inc moved to the Internet as NetQuote, new software was written, Harvey Lawton was not involved to any significant degree, and care was taken to prevent the problem of loss of ownership of the software code from recurring.

The 1997 Redistribution of Shares

In 1997, with all Telerate creditors satisfied, and with the permission of the board of directors, Karen Hummel transferred all of her 35,000 shares, representing 35% ownership of the company, to Keith Lawton.

Also with the permission of the board of directors, and as part of their divorce settlement, Nina Nichols transferred her 22,500 shares, or 22.5% ownership, to Findlater.

Keith Lawton felt that this represented an unfair balance of shares, so at Keith's request, and with the permission of the board of directors, Chris Findlater transferred 10,000 of his shares to Jeanne Findlater.

Therefore the present day shareholders are:

- Keith Lawton, 35,000 shares
- Chris Findlater, 35,000 shares
- Jeanne Findlater, 15,000
- Harvey Lawton, 10,000 shares
- Bill Schneider 5,000

Subsequent Activity

The only other activity involving the stock shares of Auto Insurance Shopper INC, occurred in late summer of 1999, when Harvey Lawton announced that he had an offer for his shares of the company. The offer, never exactly clarified, appeared to be between \$50,000 and \$100,000.

After being informed that corporation rules specify that any transfers of shares must have board approval and that other shareholders have the first right of refusal to match or exceed such offers, Harvey decided not to pursue the matter.

Although Findlater urged him to do so, Keith Lawton declined to buy Harvey's shares, insisting that although Harvey did not value his shares of Auto Insurance Shopper Inc. as highly at the principals, he would later feel cheated regardless of the price paid.

Chris Findlater proposed that, if the money was an important factor to Keith that he should allow Findlater to make an offer for Harvey's shares. After he bought them, he would

transfer them to Keith, (at cost or no cost); just to have this resolved between the brothers. Keith thanked him, but asked that Findlater not make that offer.

Shortly after, Harvey requested an outside audit of the company at his expense, citing his suspicion of mismanagement of the company. He engaged Andrew Horning, Esquire, a relative of Harvey's by marriage, and the audit was conducted at the offices of Auto Insurance Shopper INC. At the time, these offices were in Findlater's home. That meant, to accommodate Harvey's request, that Findlater had to sacrifice his non-refundable tickets to Florence, Italy and his first opportunity in years for a two-week holiday. The audit produced not one mistake being noted by attorney Horning, who stated by telephone that the corporation was sound and exonerated the corporate officers of Harvey Lawton's charges of impropriety and wrongdoing. Although asked, Attorney Horning was never able to produce a written statement after having diverted the attention of the corporate officers from their regular duties during a period of intense competition from Insweb and having caused the cancellation of Findlater's vacation.

In Spring, 2001, there was further talk of transferring or selling shares. Because Findlater and Lawton value their roles in the corporation, they wish to make a personal offer to buy any offered stock back from their respective friends and family. This represents a great opportunity for anyone displeased with the management of the corporation to withdraw from the venture with a handsome profit.

Despite corporate threats and occasional interpersonal conflicts, Keith Lawton and Chris Findlater are proud of the fact that they have worked hard to maintain their good working relationship and family friendship, and have conducted themselves with the utmost integrity in running Auto Insurance Shopper now known as NetQuote.com. The vow they always will.

Keith Lawton Chris Osborn Findlater Thursday, June 07, 2001

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