

# Belzberg Technologies Management's Discussion and Analysis

Second Quarter Ending June 30, 2001

---

## *General*

Belzberg Technologies Inc. is a leading provider of trade execution, order management, and routing software for the financial industry. The Company's customers include broker-dealers and their customers, and use Belzberg trading software to buy and sell equities and stock options on a variety of stock exchanges, Electronic Communications Networks (ECNs), or Nasdaq market maker trade management systems. Belzberg products enable traders to execute and manage large volumes of transactions at high speed, and with great reliability and security.

Major financial institutions, broker-dealers, buy-side institutions, banks, and others use all, or a subset, of Belzberg trading products to automate their order execution, basket trading, arbitrage, retail order management, and real-time inventory management, as demanded by each situation.

## *Overview*

### Revenue By Quarter

4 <sup>th</sup> Qtr 1999	\$ 1,608,000
1 <sup>st</sup> Qtr 2000	\$ 2,444,000
2 <sup>nd</sup> Qtr 2000	\$ 2,592,000
3 <sup>rd</sup> Qtr 2000	\$ 2,936,000
4 <sup>th</sup> Qtr 2000	\$ 3,980,000
1 <sup>st</sup> Qtr 2001	\$ 4,567,000
<b>2<sup>nd</sup> Qtr 2001</b>	<b>\$ 6,455,000</b>

*Revenues for the Company have increased in each of the past seven quarters.*

*Revenues of \$6.5 million for second quarter 2001 represent an increase of 149% over second quarter 2000.*

*Net Loss for the second quarter was \$956,000 as compared to a loss of \$251,000 in the second quarter of 2000.*

*Income (Loss) before interest, taxes, depreciation and amortization of (\$183,000) for the six months ended June 30th, 2001 compares to \$201,000 for the first half of 2000.*

***Revenues by Country and Segment***

For the periods ended June 30,

	<b>Six Months</b>							
	<b>2001</b>				<b>2000</b>			
<i>(\$000s)</i>	Subscrip- tion Fee Revenue	Transac- tion Fee Revenue	Other	<b>Total</b>	Subscrip- tion Fee Revenue	Transac- tion Fee Revenue	Other	<b>Total</b>
Canada	3,030	1,695	586	<b>5,311</b>	1,308	235	1,319	<b>2,862</b>
USA	2,009	3,385	317	<b>5,711</b>	1,167	943	65	<b>2,175</b>
<b>Totals</b>	5,039	5,080	903	<b>11,022</b>	2,475	1,178	1,384	<b>5,037</b>

	<b>Second Quarter</b>							
	<b>2001</b>				<b>2000</b>			
<i>(\$000s)</i>	Subscrip- tion Fee Revenue	Transac- tion Fee Revenue	Other	<b>Total</b>	Subscrip- tion Fee Revenue	Transac- tion Fee Revenue	Other	<b>Total</b>
Canada	1,675	1,421	367	<b>3,463</b>	734	88	492	<b>1,314</b>
USA	1,016	1,798	178	<b>2,992</b>	668	573	37	<b>1,278</b>
<b>Totals</b>	2,691	3,219	545	<b>6,455</b>	1,402	661	557	<b>2,592</b>

Gross revenue increased from \$5.0 million in the first half of 2000 to \$11.0 million in first half of 2001, an increase of 118%. Substantial revenue growth occurred in both US and Canadian operations, as shown above.

***Gross Profit and Gross Margin***

For the periods ended June 30,

	<u>Six Months</u>		<u>Second Quarter</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Revenue	\$11,022	\$5,037	\$6,455	\$2,592
Cost of Revenue	\$ 4,613	\$1,679	\$2,775	\$ 981
<b>Gross Profit</b>	<b>\$ 6,409</b>	<b>\$3,357</b>	<b>\$3,680</b>	<b>\$1,612</b>
<i>Gross Profit%</i>	<b>58.2%</b>	<b>66.7%</b>	<b>57.0%</b>	<b>62.2%</b>

***Capital Assets and Amortization***

Capital asset expenditures amounted to \$1,543,000 for second quarter 2001, most of which represents construction of new offices in Toronto and the balance for computer network improvements. Amortization of these assets is on a three-year, straight-line basis, except for leasehold improvements which has a 10 year amortization. The increase in amortization expense from \$187,000 in second quarter 2000, to \$413,000 in second quarter 2001 is a reflection of increased capital asset expenditures in the last three quarters of 2000 and the first two quarters of 2001.

***Capital Leasing and Interest on Obligations Under Capital Lease***

Interest on capital leases in second quarter 2001 was \$119,000 as compared to \$21,000 in the same period in 2000. capital assets of \$375,000 were acquired under capital lease during the first half of 2001.

Capital lease obligations increased from \$2.3 million at the end of 2000 to \$2.7 million at the end of second quarter 2001. The term of these lease obligations closely parallels the amortization policy on these assets, thereby matching the payment for these assets against their use.

***Earnings Before Interest, Taxes, Depreciation and Amortization***

For the quarters ended June 30,

	<u>2001</u>	<u>2000</u>
Net Income / (Loss)	(\$956,123)	(\$251,409)
Interest	\$144,580	\$98,989
Taxes	\$40,467	-
Amortization	\$443,728	\$186,678
<b>Earnings Before, Interest, Taxes, Depreciation and Amortization</b>	<b>(\$327,348)</b>	<b>\$34,258</b>

### ***Liquidity and Capital Resources***

At June 30, 2001, the Company's cash and short-term investments amounted to \$9.1 million, up from \$5.6 million at December 31, 2000. This strengthening in cash arose from a private placement of 333,334 shares from Treasury generating net proceeds of \$4.7 million.

The Company is debt-free except for capital lease obligations.

### ***Improvement in Shareholders' Equity***

Shareholder's equity as at June 30, 2001 is \$13.6 million compared to \$10.7 million at December 31, 2000.

In the first quarter 2001, the Company issued 5,600 shares upon the exercise of share options by employees and directors for proceeds of \$20,000. The Company purchased 40,800 of its own shares on the Toronto Stock Exchange at a cost of \$475,000 under its Normal Course Issuer Bid.

In the second quarter, the Company purchased 1,100 of its own shares on the Toronto Stock Exchange at a cost of \$7,733 under its Normal Course Issuer Bid.

### ***Stock Based Compensation***

The Company has a policy of granting stock options to management and employees. Stock options are issued at the fair market value or greater at the date of their issuance. The granting, vesting, and expiry of options is governed by the Company's stock option plan. As at June 30, 2001, the Company had 3,921,900 options outstanding to all parties with exercise prices ranging from \$3.00 to \$18.00 per share. 3,358,900 of those options were vested. This compares to 3,889,500 options outstanding at December 31, 2000 of which 3,130,500 were vested.

### ***Compensation Expense***

Under US GAAP, options issued to persons who are not employees or directors of the Company are valued under the Black-Scholes method. The valuation obtained is considered as additional deferred stock compensation, and is amortized over the life of the option as an additional expense. The Black-Scholes valuations derived from market conditions during second quarter 2001 resulted in an expense of stock compensation expense amounting to \$86,000.