The Green Sheet
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August 13, 2012 • Issue 12:08:01

Tight credit markets lead to new ISO, MLS financing options

The persistent weak economic conditions haven't been easy for business owners, especially those in the small to midsize range, including many ISOs and merchant level salespeople (MLSs). Banks have tightened credit standards, so even the strongest companies have been forced to seek new funding alternatives. This article explores resources available to ISOs and MLSs looking for capital to meet their own business needs. A prior article, "Financing options proliferate in payments sphere," *The Green Sheet*, May 14, 2012, issue 12:05:01, focused on financing options ISOs and MLSs can offer their clients.

Several years into what is often called the Great Recession, financing and other cash-flow issues continue to plague small businesses throughout the nation, according to a new report from the National Small Business Association. Among small business owners contacted for the *2012 Small Business Access to Capital Survey*, 43 percent reported they have needed funds at least once in the past few years but couldn't find any willing sources.

"Not only have small-business owners been unable to find new credit over the last four years, nearly a third had their existing credit slashed, and one in 10 had their loans called in early," said NSBA President and Chief Executive Officer Todd McCracken. Forty-four percent said credit card issuers were tightening the screws, too, in terms of interest rates and fees, according to the survey.

McCracken said one result of this is that more than a quarter of respondent businesses had changed financial institutions within the past four years, many opting to join credit unions or work with small community banks. Interestingly, 13 percent reported using prepaid card programs to achieve their financing goals; 1 percent said they had turned to payday lenders.

Capitalizing on merchant portfolios

For ISOs and MLSs, conventional lending vehicles are especially tough because banks and other traditional lenders don't understand how to value a merchant portfolio. "Typically, ISOs try to get an SBA [Small Business Administration] loan from their local bank, or take out a home equity loan against their home," said Darrin Ginsberg, CEO of Super G Funding LLC. "This is very hard to do in today's economic climate."

The same is true of venture capital firms: most won't even look at a small to midsize ISO, Ginsberg said. But some are willing, as evidenced by a growth recapitalization plan recently obtained by Merchant Warehouse, a midsize ISO based in Boston. The source is Parthenon Capital Partners, a private equity firm with $2.2 billion in capital under management. Ginsberg stated he has purchased more than 50 merchant portfolios over the past 12 years and he continues to buy portfolios. He also noted that in the past three years, 70 ISOs have

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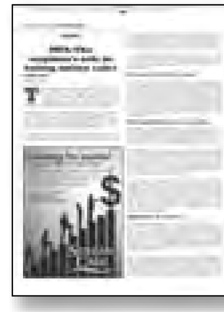

Just to put things in perspective, the MFA would levy taxes on billions of dollars of online sales and result in the collection of percentage points on the face value of those transactions.

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Forum

Revisiting the sell, lease or place debate

I have never rented or done a lease in my seven years in the business and never will. It's tantamount to stealing. My heart breaks every time I run across a merchant that is paying $49.95 a month for four years for a terminal I would have sold them at cost – around $200.

A few times I have bought a terminal myself and "rented" it to a merchant to help them out, but all rental payments went toward purchasing the terminal at cost.

Bill Hoidas
Matrix Payment Systems

Bill,

Thank you for responding to "Sell, lease or place equipment?" which appeared in this section of The Green Sheet, *June 11, 2012, issue 12:06:01. A case can also be made for the merits of leasing terminals, depending on a given merchant's objectives and tax strategies. However, it is vital that we all continue to communicate with one another when we have differing views on practices that shape the way payment professionals structure their offerings and serve the merchant community.*

Editor

A possible value-add for payment pros?

In response to your July 9, 2012, Forum edition seeking expert perspectives, I would like to extend a valuable tip/resource to fellow colleagues. I work with North American Bancard and have been in the payments business a few years now. I love and enjoy this biz due to the residual income and diverse market potential.

In addition to the merchant services industry, I am also a small-business consultant for a company offering legal protection against identity theft and fraud, in addition to providing legal insurance plans and services. I love this category of business for the same reasons I do the merchant services industry.

The point I want to drive home is that identity theft and credit fraud were voted by the FBI as "the fastest growing white collar crime in America these days and surpassing the drug trade." As ISOs, we collect vital information from merchants (Social Security numbers, Tax IDs, addresses and other sensitive information). According to the FACTA [Fair and Accurate Credit Transactions Act] laws, we all have to be in compliance when collecting and storing such information. The first offense can be a very costly fine and maybe worse, not to mention lawsuits galore.

We live in a very litigious society, so prevention is the best medicine. Many Americans have car insurance in case of an accident, they have health insurance in case of illness, they have life insurance in case of death, but most of us do not have legal protection in case of events such as information theft and other legal situations that arise.

According to federal guidelines, if you have a valid written and documented protection program, you can avoid certain costly fines and lawsuits. I believe it is worth it for ISOs to not only protect their own businesses, but also to offer their merchants this type of protection. I wanted to let GS readers know it is a possible line of business to consider.

Simon Ponce
ISO and Independent Consultant

Simon,

Thank you for sharing your experience and insights with us. Legal protection is not something we've heard much about within the payments industry, so it will be enlightening to see what our readers might have to say about it.

Editor

Gracias, merci, danke, thank you

While preparing this issue for publication, we, at *The Green Sheet*, paused to reflect on how grateful we are for our readers, contributors, advisers and advertisers who together form a community of professionals who care about the well being of the industry as a whole and the merchants whose business success leads to our prosperity. Thank you all for your participation in this always educational venture. And if you'd like to give a shout out to a remarkable or particularly helpful individual, company, association or industry initiative, you can do that on this page, too. Reach out to us via email at *greensheet@greensheet.com*, by phone at 800-747-4441, on Facebook at *www.facebook.com/thegreensheetinc* or on Twitter using *@the_green_sheet*.


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A quick summary of key articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

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Cover Story

Tight credit markets lead to new ISO, MLS financing options

The weak economy has been a struggle for many businesses. Small merchants who most need capital to grow their businesses can't get it from banks. The same is true for many ISOs and merchant level salespeople (MLSs). However, a vibrant sector that knows the true value of merchant portfolios has stepped in to fund ISOs and MLSs in need of financial resources.

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News

Google Shopping to take on Amazon?

By fall 2012, Google Inc.'s product search function will be rebranded Google Shopping and allow merchant offers to be embedded directly into search results. While insiders disagree about the effect Google Shopping will have on e-commerce, Google may have a larger goal for its new service – to take on Amazon Inc. in the e-marketplace arena.

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News

Major retailers reject proposed interchange settlement

Visa Inc., MasterCard Worldwide and a handful of issuing banks made a proposal to settle the "Wal-Mart case" once and for all. But big-box retailers and national associations have rejected the advice of their own lawyers, saying the settlement fails to fix the "broken" interchange system.

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News

MWAA celebrates 10 years, Chicago-style

The 10th annual Midwest Acquirers Association Conference held in July 2012 in Chicago spotlighted new technologies and industry education. The popular Shark Tank competition returned, and hot topics debated in panel discussions included the Europay/MasterCard/Visa security standard and the potential effects of mobile payments and regulation on the industry.

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News

LevelUp offers interchange-free mobile solution

Mobile payment firm LevelUp Inc. developed a system in which it receives compensation for its services not through interchange, but by fees from successful loyalty programs. LevelUp's Chief Executive Officer called transaction fees a "swindle." LevelUp's service only makes money when it provides "real value" to merchants.

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Feature

Prepaid, mobile and money laundering

Financial Crimes Enforcement Network Director James H. Freis Jr. testified before a congressional subcommittee about the agency's efforts to combat illicit money laundering activity by bringing the prepaid card industry into the regulatory fold. Innovative financial services technology is helping law enforcement fight financial crime, according to Freis.

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Education

The best prospects are in your portfolio

Familiarity does not breed contempt in merchant services – quite the opposite. Merchants who trust you and are already in your portfolio are far more likely to do more business with you than are prospective new merchants. The types of cross-selling and up-selling opportunities include merchant cash advance, prepaid card programs and remote deposit capture.

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Education

MFA: The acquirer's role in taxing online sales

All legislation that affects commerce offers a potential value-added service opportunity. If enacted, the Marketplace Fairness Act (MFA) would levy sales taxes on online purchases. But assigning sales tax to individual purchases that originate in 50 states with 50 different sets of requirements might be a profitable job for third-party MFA vendors.

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Education

Are you ready for mPOS?

Unlike traditional POS implementations dominated by feature-rich terminals, mobile POS is not defined by the device, but by the service. As Square Inc. and Apple Inc. seem to understand, merchants want commerce partners that can help empower their businesses more than they want to save on processing costs by 20 basis points.

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Inspiration

A handshake with that cup of Joe

Coffee shops can be ideal places to conduct business. And this applies, not just to vendor and partner meetings, but also to meetings with merchants. It starts with selecting a friendly café for the get-together and ends with a final top-off of java before parting ways. In 20 minutes, providers can have happy merchants ready to take the business relationship to the next level.


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IndustryUpdate

NEWS

Global Payments' breach update

International payment processor **Global Payments Inc.** said the data breach it discovered in March 2012 cost the company $84.4 million in remediation expenses and card company penalties this fiscal year. The company publicly shared the price of the breach damage for the first time in its fourth quarter year-end earnings report released July 26, 2012. Global Payment's fiscal year ended May 31, 2012.

The company also reported its investigation of the breach is complete and is working with the card brands to restore its Payment Card Industry (PCI) Data Security Standard (DSS) compliance certification – a process the company believes will be completed by the end of 2012.

In a conference call discussing the earnings report, company Chief Executive Officer Paul Garcia said he anticipates Global Payments will spend between $55 million and $65 million more in remediation in 2013. These costs may be partially offset by up to $28 million in additional insurance payments.

"The data intrusion incident will soon be behind us, and we will emerge with a world class technology infrastructure offering future operating leverage," Garcia said.

Smart Card Alliance EMV forum

The **Smart Card Alliance** formed a cross-industry forum to support the introduction of Europay/MasterCard/Visa (EMV) security standards and technology in the United States. The EMV Migration Forum is designed to help the payments industry transition from mag stripe cards to the more secure EMV contact and contactless cards.

SCA Executive Director Randy Vanderhoof said the lesson learned from introducing EMV in other markets is that cooperation among all participants is needed if EMV is to be implemented in the United States in an efficient, timely and effective manner. He said payments industry stakeholders are asking for the creation of a neutral organization to help facilitate the transition to EMV.

The EMV Migration Forum, while a part of the SCA's corporate organization, will have a separate membership and include representatives from card issuers, payment processors, merchants, acquirers, payment networks, industry suppliers, payment industry associations and other stakeholders.

The first meeting of the EMV Migration Forum will be held Sept. 12 to 13, 2012, at MasterCard Worldwide headquarters in Purchase, N.Y. Membership information is available at *www.smartcardalliance.org/pages/activities-emv-migration-forum*.

Apple acquisition to secure mobile payments?

Apple Inc. is acquiring Melbourne, Fla., security technology company **AuthenTec Inc.**, according to a report AuthenTec filed with the U.S. Securities and Exchange Commission.

Apple is paying approximately $356 million for the company which, among other things, manufactures a fingerprint sensor technology that can be used on both personal computers and mobile devices. Industry observers have speculated that Apple may use AuthenTec technology on its iPhones to secure mobile payments.

The SEC filing revealed the acquisition called for Apple

- The **National Retail Federation**'s *2012 Back-to-School and Back-to-College* surveys by **BIGresearch** revealed families will spend $688.62 on primary and secondary school students and $907.22 on college students, for a combined total of $68.8 billion in 2012.

- The ***IBM Retail Online Index*** showed retail sales executed on mobile devices rose 15.1 percent from the first quarter to the second quarter of 2012, while home goods captured the largest share of online purchase growth for the quarter at 35.3 percent.

- **Research and Markets**' *Global Housewares & Specialties* report projected sales of cookware, bakeware, dinnerware, beverage ware, flatware and cutlery will reach $67.4 billion in 2016, up from $49.3 billion in 2011.

to pay AuthenTec $7.5 million to independently develop a 2D fingerprint sensor for Apple products. Apple additionally agreed to pay $20 million for a number of AuthenTec patents, with the option to purchase up to $115 million in other AuthenTec patents.

WikiLeaks wins judgment against Valitor

A ruling by the Reykjavík District Court in Iceland said Icelandic acquirer **Valitor** must resume processing payments for the controversial document disclosure organization **WikiLeaks**. If Valitor fails to comply with the order, the court will impose a fine of 800,000 krona (about $6,000) for every day Valitor violates the judgment. However, Valitor's payment processing gateway will reportedly remain closed to Data Cell Ltd., the website hosting company for WikiLeaks, while the processor appeals the verdict.

The case stems from Wikileak's November 2010 document dump when it made public 250,000 U.S. State Department cables, which prompted Visa Inc. and MasterCard, along with other financial service firms, to stop online donations to WikiLeaks from being processed over their networks. WikiLeaks said this financial "blockade" reduced donations to the international online organization by over 95 percent and cost it more than $20 million.

Valitor, a partner of both Visa and MasterCard, stopped processing donations to WikiLeaks via WikiLeaks' Data Cell-hosted website. Data Cell then sued Valitor for allegedly violating contractual agreements.

ANNOUNCEMENTS

Apriva reaches $2.06 billion in transactions

Apriva LLC said its gateway processed more than $2.06 billion in wireless payment transactions in the second quarter of 2012. This was a 16.8 percent gain over the same period in 2011. The company said it processed $3.92 billion in transactions in the first six months of 2012.

ETA's new CPP class

The second round of the **Electronic Transactions Association**'s Certified Payments Professional (CPP) testing yielded 162 new CPPs from a list of 180 applicants who took the exam. There are now 343 CPPs nationwide, the ETA reported. The names of the payment professionals who passed the exam are posted at *www.electran.org/cpp*.

Heartland adds to Campus OneCard System

Leading acquirer **Heartland Payment Systems Inc.** added 15 colleges and universities to its Campus OneCard System. The multifunctional card can be used for contactless and mag stripe payments. It serves as a campus identification card and a prepaid card for use at dining halls, bookstores and vending services. The system also works with Google Inc. Android and Apple mobile devices.

IRS proposes new 1099-K form

The **Internal Revenue Service** released its proposed new Form 1099-K. New federal law requires all processors to report merchants' yearly credit and debit card transactions to the IRS on new 1099-K forms. The proposed form can be found at *www.irs.gov/pub/irs-pdf/f1099k.pdf*. Comments or change suggestions may be submitted at *www.irs.gov/formspubs/page/0,,id=10179,00.html*.

Isis gets fuel vendor support

Near field communication (NFC) mobile payment venture **Isis** said fuel equipment companies Wayne, which is a GE Energy Business, and Gilbarco Veeder-Root Inc. agreed to support Isis' SmartTap mobile commerce application. The SmartTap app is designed to allow smart phone users to pay for gas by tapping phones on fuel dispensers. Isis is set to enter the pilot phase for its NFC-based in-store mobile payment solution this summer in Austin, Texas, and Salt Lake City.

Lemon Wallet on Google Play

Mobile wallet platform provider **Lemon Inc.** said the Lemon Wallet is now available for Android mobile devices via the Google Play mobile app store. With the app, Android users can snap photos of bankcards and save them in the cloud. The photos can be accessed by users if physical wallets or cards are lost or stolen. That information can also be used to make payments online.

Merchant Warehouse expands offerings

Boston-based **Merchant Warehouse** expanded its merchant offerings. The company now has customer service and technical assistance available around the clock. The ISO added chat and direct email contact for customers via its website, as well as a self-service interactive voice response system that allows merchants to re-order products at any time.

ROAM Data SDK for mobile

Mobile commerce platform provider **ROAM Data Inc.** is introducing a software developer's kit (SDK). The company said the SDK will simplify secure integration of card-present mobile payments into Apple and Android mobile devices. The SDK, which supports invoicing, accounting and retail POS apps, ensures developers comply with the PCI DSS, according to ROAM Data.

SecurityMetrics' reseller program

SecurityMetrics Inc., a PCI DSS compliance and security vendor, launched its Vision Reseller Program at the annual RetailNOW 2012 conference in Las Vegas.

Value-added resellers will now have the opportunity to earn recurring revenue through the sale of SecurityMetrics Vision, a device that monitors business networks' PCI DSS compliance.

PARTNERSHIPS

ACI helps foreign bank enter U.S. market

Payment systems company **ACI Worldwide Inc.** implemented payment processing and fraud services for the **Agricultural Bank of China Ltd.** The People's Republic of China's third largest bank will use the ACI Money Transfer System and ACI Proactive Risk Manager to aid its expansion into the U.S. market.

e-Nabler, Ingenico EMV mobile solution

Cloud-based software-as-a-service company **e-Nabler Corp.**, developer of the eMobilePOS application, is integrating with **Ingenico S.A.**'s iSMP Mobile Payment Sled for Apple devices to create the industry's first mobile EMV chip and PIN in POS.

New teammates for e-wallet

Management consultant services company **Global Payout Inc.** and **First American Electronic Payment Solutions Inc./Intradata Solutions** agreed to an e-wallet licensing deal that allows Global Payout to use Intradata's software on its MoneyTrac payment solution. Global Payout can now manage sales, marketing and customer service for its business-to-business (B2B) clients. Intradata will host the platform and provide technical assistance.

Mocapay partnership expands restaurant biz

Mobile commerce solution provider **Mocapay Inc.** expanded its strategic partnership with restaurant group **Lettuce Entertain You Enterprises Inc.** The agreement mobilizes the Lettuce Eats Frequent Diner Club loyalty program, giving its more than 100,000 members the ability to collect points and redeem rewards via smart phones in over 80 restaurants across seven states.

Precidia, Vantiv offer reseller solution

Payment and networking products company **Precidia Technologies Inc.** and payment processor **Vantiv Inc.** entered into a strategic relationship to offer POS software systems resellers Precidia's payment processing solution, TransNet. The product is targeted to small and medium-sized businesses.

Shift4, FoundryLogic join for mobile POS

Payment gateway **Shift4 Corp.** partnered with mobile POS application developer **FoundryLogic LLC** to create Retail Mobile POS, a processing and customer service mobile platform for Apple devices. The new payment solution is available to users of business intelligence software Retail Pro, versions 8 and 9.

TSYS division, BofA reach agreement

Payment processor Total System Services Inc.'s **TSYS Merchant Solutions LLC** reached a minimum six-year agreement with **Bank of America Corp.** to provide payment processing services for the bank's consumer credit card portfolios.

ACQUISITIONS

Blockbuster buys POS software provider

Movie and game disk rental company **Blockbuster LLC** bought cloud-based mobile POS software and services provider **Alpha Bay Corp.** Alpha Bay software delivers real-time inventory management, customer loyalty and business intelligence capabilities to retailers.

BridgePay purchases TGate

Payment application development company **BridgePay Network Solutions Inc.** bought **TGate Payments LLC**, an electronic payment service provider for the ISO and independent software provider markets. BridgePay plans to combine its technology and security tools with TGate's PathwayLINK payment gateway and PayLINK processing application.

FTS acquires Marathon Solutions

ISO and electronic processing services provider **Financial Transaction Services** purchased B2B payment processing solutions provider **Marathon Solutions Inc.** MSI offers PCI DSS-compliant, card-not-present payment capabilities for the B2B merchant community.

FleetCor completes CTF buy

Fuel card and workforce payment product provider **FleetCor Technologies Inc.** completed its $180 million purchase of Brazilian fuel payment processing services provider **CTF Technologies Inc.**

Merchant Warehouse buys Avatas

Merchant Warehouse purchased utility payment processing ISO **Avatas Payment Solutions**. Avatas offers online, electronic funds transfer (EFT), mobile and check-by-phone solutions. The Newton, Mass.-based ISO will continue to operate independently of Merchant Warehouse.

APPOINTMENTS

Chirpify hires Chan

Rayburn Chan was named Vice President of Corporate Development at Twitter commerce platform provider Chirpify Inc. Chan worked as Director of New Business Development at American Express Co. and was head of product and new business development at Vesta Corp., a mobile payment platform company.

Drysdale to head Heartland division

Heartland hired **Ian Drysdale**, former WorldPay US Inc. Senior Vice President of Product and Industry Relations, as its new President of Network Solutions. Drysdale is responsible for growing Heartland's retail, petroleum and e-commerce markets.

Sappington joins Merchant Link

Payment gateway and data security solutions provider Merchant Link LLC hired **Patricia Sappington** as its Director of Channel Development. Sappington was formerly with Elavon Inc., where she worked with value-added resellers (VARs). In her new position Sappington will focus on building VAR relationships for Merchant Link.

Schuessler assumes new role at Global

Morgan "Mac" Schuessler, formerly the Executive Vice President and Chief Administrative Officer at Global Payments, assumed the position of President – International at the processor.

Schuessler, a board member of the company's Asia-Pacific joint venture, will join the board of the company's joint venture in Spain. Schuessler succeeded Joseph Hyde, who left Global Payments to join a private financial services firm.

Weston new Jaffe Raitt partner

Expert mobile payment, merchant-acquiring, EFT and payment systems attorney **Sarah Weston** was named a partner at Jaffe Raitt Heuer & Weiss, P.C.

Yazdian new American Bancard President

Afshin Yazdian joined American Bancard LLC as President. Yazdian left iPayment Inc., where he was Executive Vice President and General Counsel, to take the American Bancard leadership role. He is charged with continuing American Bancard's growth and further developing the company's POS technology.

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Major retailers reject proposed interchange settlement

Some of the biggest retailers and retail associations in the country are rejecting their own attorneys' proposed settlement of a class action antitrust lawsuit brought against card companies Visa Inc., MasterCard Worldwide and a number of card issuing banks.

Wal-Mart Stores Inc., Target Brands Inc., the National Association of Convenience Stores and the National Grocers Association are all publicly repudiating the $7.25 billion settlement proposal submitted by attorneys representing their class to the United States District Court for the Eastern District of New York on July 13, 2012.

The merchants are rejecting the settlement even though their attorneys believe it to be the largest offer in the history of Sherman Act antitrust litigation. The merchants said they intend to continue to press antitrust claims against the card companies in an effort to create what they believe would be a fairer interchange system.

The NACS noted there is nothing in the agreement that would prevent Visa or MasterCard from raising rates to a point where merchants would be paying for their own settlement.

The settlement

The law firms of Robins, Kaplan, Miller & Ciresi LLP.; Berger & Montague P.C.; and Robbins, Geller, Rudman & Dowd LLP were appointed by the District Court in 2005 to represent the nearly 7 million merchant plaintiffs participating in the class action. The merchants' antitrust action alleges Visa, MasterCard and the banks collude to unfairly set interchange fees.

The settlement proposal calls for the defendants to pay $6.05 billion for past damages. The card companies would also agree to sustain a temporary reduction of 10 basis points in their interchange rates to add an additional $10 billion in settlement value for merchants. Visa estimated it will pay $4.4 billion if the settlement is approved. MasterCard said it will pay $790 million. The balance of the settlement would be paid by the defendant banks.

In addition, the settlement would allow merchants more freedom to disclose card fees, impose surcharges to recapture those fees and steer customers to less expensive payment options. "These new rules will give merchants the tools they need to put pressure on the credit card networks to lower interchange or 'swipe' fees," said Patrick Coughlin, an attorney with the Robbins, Geller firm.

The retailers' views

The retailers dissenting from the settlement insist the interchange system is "broken" and the proposed settlement payment, which amounts to less than two months' worth of interchange fees (based on an estimated $50 billion in such fees collected annually), fails to make the system either more competitive or more transparent.

"This proposed settlement allows the card companies to continue to dictate the prices banks charge and the rules that constrain the market, including for emerging payment methods, particularly mobile payments," NACS Chairman Tom Robinson said.

The NACS noted there is nothing in the agreement that would prevent Visa or MasterCard from raising rates to a point where merchants would be paying for their own settlement.

Wal-Mart issued a statement calling on "all merchants to put consumers first and reject the settlement." The company also said the proposed settlement "would not structurally change the broken market or prohibit credit card networks from continually increasing hidden swipe fees."

Target stated, "Target has no interest in surcharging guests who use credit and debit in order to allow Visa and MasterCard to continue charging unfair fees."

The NGA hired Constantine Cannon LLP to represent it going forward. It is the law firm that negotiated a $3.4 billion settlement in 2003 to resolve similar antitrust claims against Visa and MasterCard. That settlement resolved all antitrust claims against the companies up to January 2004. The new proposed settlement would cover all antitrust actions, past and future, occurring after Jan. 1, 2004.

Payments industry perspectives

Joseph Saunders, Visa Chairman and Chief Executive Officer, said, "We believe settling this case is in the best interests of all parties. We are comfortable with the terms, which we do not anticipate will impact our current guidance."

Noah Hanft, MasterCard General Counsel and Chief Franchise Executive Officer, stated, "Although we have strong defenses to all claims, a settlement avoids years of litigation and uncertainties that are inherent in such cases. We believe that today's settlements should resolve all issues with the merchant community."

Payments industry associations offered support for the proposed settlement. However, Jason Oxman, Electronic Transactions Association Chief Executive Officer, expressed concern that the settlement proposal would allow merchants to surcharge without reducing prices. He cautioned merchants not to impose surcharges on cards "to the detriment of their own customers."

The Electronic Payments Coalition hailed the agreement but noted surcharging is banned in 10 states.

LevelUp offers interchange-free mobile solution

Boston-based mobile payment company LevelUp Inc. is challenging the traditional interchange fee model by no longer charging its merchants transaction fees. LevelUp said with its new Interchange Zero program, revenue will instead come from fees retailers pay to use LevelUp's platform for customer acquisition and loyalty campaigns.

Interchange fees are paid by a merchant's acquiring bank to the customer's issuing bank to cover the costs of transactions – nominally, back-end credit and debit card processing costs. LevelUp concedes that at the start of the credit card industry, moving money was costly with infrastructure costs and insuring against risk. But today, reliable infrastructure and security are in place, making transaction fees a "swindle," LevelUp said in its Interchange Zero launch release.

LevelUp Founder Seth Priebatsch explained, "The process of moving money is now becoming a commodity, a de facto service. We're entering an era in which merchants should get – and will eventually only pay for – value above and beyond the transaction. LevelUp is skipping this 'race to the bottom' happening between the major payments companies and leading the way by providing real value beyond the transaction."

LevelUp's "real value" revenue comes through its customer acquisition and loyalty campaigns for merchants, Priebatsch said. The company charges 35 cents for every dollar of credit redeemed through merchant campaigns run on its platform.

Mobile payment problems solved?

Priebatsch believes LevelUp solves two mobile payment problems: finding a secure way to bypass near field communication-based payments and the requirement that a specific bankcard is necessary to make a payment.

When LevelUp users register credit and debit cards on its platform, they receive unique quick response (QR) codes to use for payment with LevelUp merchants. Virtual receipts are automatically emailed to users at the end of payment transactions. LevelUp said it wants users to turn phones into debit cards while it brings merchants a host of customer information and targeted campaigns.

LevelUp launched in March 2011 as a daily deals platform but rebranded itself in July 2011 as a mobile payment platform. LevelUp transactions use QR code technology on both Apple Inc. iPhones and devices using Google Inc.'s Android platform. The company said it has more than 200,000 users who spend at least $2 million monthly, and it is working with over 3,000 merchants in several U.S. cities.

Based on Google's business model

The LevelUp payment platform was created by SCVNGR Inc., a social location-based gaming platform for mobile phones that Priebatsch founded in 2008 when he was 19 years old. *Inc.* magazine estimated SCVNGR was worth approximately $100 million. In June 2012, LevelUp raised $12 million in funding from Highland Capital, Google Ventures and others.

Priebatsch compared LevelUp's business model to that of Google, which gives free access to its search engine and makes money from advertisers that pay for every hit directed to their websites via Google.

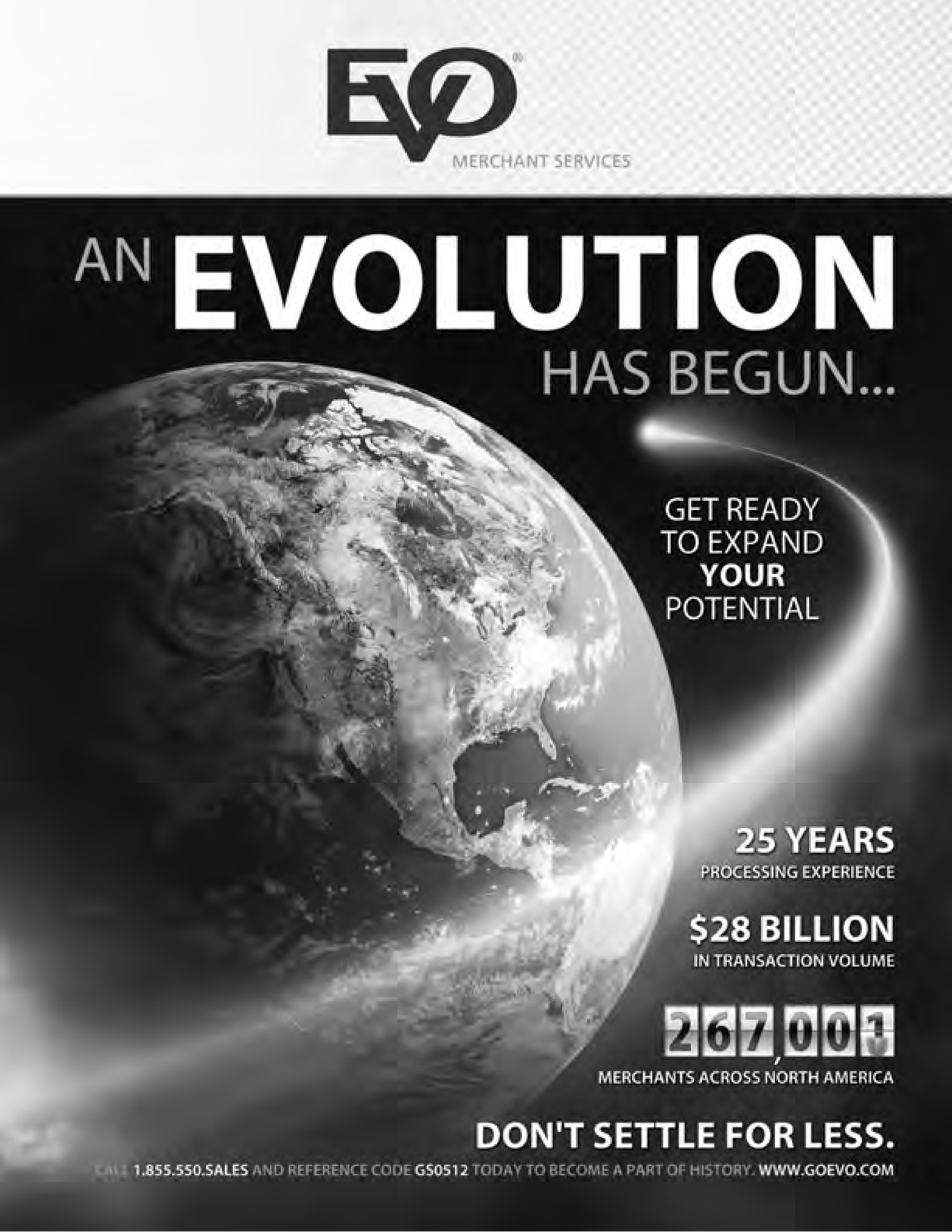
"We're going to enable the frictionless flow of money and only make money when we add real value for merchants – in this case, by driving a new customer to a business with a transaction," Priebatsch said.

Regulatory concerns

LevelUp's Interchange Zero launch comes as the federal government focuses on mobile payments. At a June 29, 2012, House Committee on Financial Services subcommittee hearing, lawmakers learned that nontraditional payment companies like LevelUp represent a potential problem for regulators in ways that may not be fully understood.

In the hearing titled *The Future of Money: Where Do Mobile Payments Fit in the Current Regulatory Structure?*, Stephanie Martin, Associate General Counsel of the Board of Governors of the Federal Reserve, testified that alternative payment products such as mobile wallets generally do not "result in changes to the basic rights afforded to consumers under those systems or to a bank's responsibility to ensure the security of that communication channel."

However, she added, "Making payments through nontraditional arrangements may change the legal protections related to the purchase, depending on the details of the arrangement and the applicable federal or state statutes and rules."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Google Shopping to take on Amazon?

In late May 2012, Google Inc. reported on its corporate blog it was revamping Google Product Search into an online marketplace. By fall 2012, Google expects the service, rechristened Google Shopping, will feature merchants' Product Listing Ads embedded directly into search results. Industry participants are split on whether Google Shopping is a step forward or a step back for online commerce.

On the May 31 Google blog post, Google Shopping Vice President of Product Management Sameer Samat said the new initiative would improve online shopping by streamlining the process. Instead of having to click several times on entries in Google's search engine to find products and services, shoppers will be able to research purchases, compare products, features and prices, and then connect directly with merchants to make purchases, according to Samat.

Merchants will need to buy Product Listing Ads to be featured in Google Shopping. The ads will appear at the top of search results and will be ranked based on a combination of relevance and bid price, as are Product Listing Ads today, Samat said. (The bid price is the amount merchants are willing to pay Google each time consumers click on their product listings in the search engine.)

"This will give merchants greater control over where their products appear on Google Shopping," Samat added. "Over time they will also have the opportunity to market special offers such as '30 percent off all refracting telescopes.'"

Samat said the transition to a "purely commercial model" for its product search engine will allow Google to deepen its ties with retailers. "We believe that having a commercial relationship with merchants will encourage them to keep their product information fresh and up to date," he noted. "Higher quality data – whether it's accurate prices, the latest offers or product availability – should mean better shopping results for users, which in turn should create higher quality traffic for merchants."

Badge of credit

Diane Buzzeo, founder and Chief Executive Officer at e-commerce software firm Ability Commerce, believes Google is aiming for Google Shopping to become an online marketplace to rival Amazon.com.

"Instead of shoppers beginning their search for gifts on Google and clicking through to Amazon listings, they can stay within Google's walls," Buzzeo told *The Green Sheet*. "Because merchants have to pay for product listings in Google Shopping, Google expects to attract the highest quality inventory with the most accurate data. From a universal Google search alone, shoppers will be able to see product listings with thumbnails, descriptions and sale prices without having to navigate to a separate site."

Another aspect to Google Shopping is its Google Trusted Stores certification program, which could enhance merchant reputations in the eyes of consumers. The service will be implemented as a "badge" displayed next to a merchant's search result listing. The badge provides consumers with "background on merchants – whatever their size – including ratings for on-time shipping and customer service," Samat said.

Buzzeo said merchants apply for Google Trusted Stores status by adding a special Google code to their websites, which allows Google to monitor merchants' shipping and customer service over a 28-day period to determine whether merchants are awarded the trusted store designation.

Costly for small merchants

David Scarpitta, CEO of online discount retailer Das Cheap Inc., characterized Google as becoming a quasi drug dealer with Google Shopping. "They let you try it free, then get people hooked and dependent upon it, and then you are forced to pay in order to survive as normal," he said in a press release. He added that Das Cheap had already raised certain prices to compensate for the new costs associated with Google Shopping.

Andrew Davis, writing on Search Engine Watch, said Google's paid comparison shopping engine will have a major negative effect for e-commerce merchants. He predicted some small merchants will not adapt fast enough to the new pay model and lose out on traffic and sales.

Buzzeo agreed that Google Shopping will cost small merchants; however, she noted that search results will be based on both the relevance of a product to a query and the bid price. That combination could "even the playing field" between small and large merchants, according to Buzzeo.

Wallet integration

Buzzeo expects Google to integrate Google Shopping with its mobile wallet service, Google Wallet. "When shoppers search for and click on a particular product through Google Shopping, a list of online stores that carry the item will appear," she said. "Google then provides search filters for narrowing down these stores, including the option to only show merchants that accept Google Wallet as a method of payment. It's likely this is a precursor to allowing Google Wallet payments directly on the Shopping platform."

It is likely Google will eventually configure its online marketplace to allow the results of all searches to be purchased through Google Wallet, she noted.


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TradeAssociationNews

MWAA celebrates 10 years, Chicago-style

As befitting its 10-year anniversary, the Midwest Acquirers Association Conference pulled out all the stops for the 2012 show. Held July 17 to 19, 2012, at the historic Chicago Hilton in downtown Chicago, the MWAA hosted a record 655 attendees and featured 106 vendors.

"We had more vendors than we ever had, including a number of new vendors, many new faces and some new companies," MWAA President Donna Ayers said. "We had more room for vendors than we ever had. The rooms were big enough to open up and offer more booth space, and the vendors had room to spread out."

"I don't think I made it to visit every vendor," said Dee Karawadra, President of Impact PaySystem LLC. "There just wasn't time. They really did go all out."

The future showcased

In keeping with the "Back to Our Future" theme, the show kicked off with a Shark Tank competition where companies competed for cash prizes (and potential investors). The top four Shark Tank finalists, selected by the judges prior to the show, described their products before judges and convention attendees. "It was a chance to see new things people are coming up with in the industry," Ayers said.

Sacramento, Calif.-based customer relationship management (CRM) software firm POS Portal Inc. won first place and $1,000 for its P2 CRM software. The same software package won the Electronic Transactions Association Technology Innovation Award earlier this year.

POS Portal Marketing Manager Josh Johnstone said the P2 CRM solution succeeded at both events because it is designed for salespeople. "We think this is a vindication of our P2 system," he added. "We looked at the Shark Tank and saw an opportunity there. Our product is for ISOs, and we think it resonates with them."

Gateway operator PayLeap took second place and $500 for its demonstration of LeapLock, its on-demand secure payment form technology. Third place and $300 went to online payment processor USA ePay for its secure POS solution PaySaber. Reporting and sales software company MyClearReports.com took fourth place, winning $200.

Education at the forefront

Industry education was a focus of the conference. Executives from major payment companies, as well as nationally known consultants, offered insight, advice and education on challenges and changes facing the industry. Topics included the transition to the Europay/MasterCard/Visa (EMV) security standard and the effects of mobile payments and regulation on the industry.

EMV and the technology that underscores it were examined by a six-member panel moderated by Mark Dunn, founder of merchant services consulting firm Field Guide Enterprises LLC.

The education programs closed with MWAA Lifetime Achievement winners offering expert advice and industry forecasts. The panel members were: Robert O. Carr, founder and Chief Executive Officer at Heartland Payment Systems Inc.; payments industry consultant Linda Perry; Cynergy Data LLC CEO Kim Fitzsimmons; Electronic Merchant Services President and CEO Dan Neistadt; and Integrity Payment Systems President and CEO Mike Ponder.

Other panels tackled opportunities and hurdles facing the industry. Federal officials discussed the regulatory landscape, while Isis spokesman Tony Abruzzio and Consultant Todd Ablowitz of the Double Diamond Group LLC spoke, respectively, about new players in the space and the impact of industry changes on aggregators.

Prepaid in brief

NEWS

Veto of EBT reforms riles Mass. lawmakers

On July 8, 2012, **Massachusetts Gov. Deval Patrick** approved the state's budget for 2013, but rejected proposed reforms to its electronic benefit transfer (EBT) program that would have prohibited state government benefit recipients from using state-issued EBT prepaid cards to purchase such items as guns, alcohol, cigarettes and lottery tickets.

In vetoing the provisions, Patrick said he followed the recommendation of the special commission formed to research reported abuses of the EBT cards. According to Patrick, the commission rejected the restrictions for "reasons of feasibility, enforceability, cost and undue harm to households enrolled in cash assistance programs."

Campus cards under scrutiny

In June 2012, two Democratic legislators urged three federal agency leaders to look into the business practices of prepaid campus card programs. **Sen. Dick Durbin**, D-Ill., and **Rep. George Miller**, D- Calif., penned letters to the heads of the U.S. Department of Education and the Consumer Financial Protection Bureau, expressing concern that students are being "nickel-and-dimed" via fees on prepaid campus cards.

In the letters sent to U.S. Secretary of Education Arne Duncan, Department of Education Inspector General Kathleen Tighe and CFPB Director Richard Cordray, the lawmakers said campus cards can come with weak consumer protections and "high" or "hidden" fees, including PIN debit, balance inquiry, dormancy, account closure and reload fees.

FTC stops another calling card outfit

The **Federal Trade Commission** filed a lawsuit to halt the apparently deceptive advertising practices of another calling card provider. The FTC alleged that New York-based DR Phone Communications Inc. misrepresented the fees and the number of minutes on its calling cards.

The FTC said the company agreed to temporarily stop its advertising claims, pending a trial in which the agency will seek to permanently halt the company's practices and return its "ill-gotten gains."

In an investigation into DRPC, doing business as drphonecom.com, the FTC found the minutes displayed primarily on posters at the POS were not accurate when compared to the actual calling card minutes provided. Also the FTC said the posters claimed the programs had no hidden fees; however, the "small print at the bottom of the posters made vague reference to fees without adequately disclosing what those fees would be," according to the FTC.

ANNOUNCEMENTS

Blackhawk stays in Jersey

Following the June 29, 2012, signage into law of the New Jersey gift card compromise bill, S. 1928, Safeway Inc. subsidiary **Blackhawk Network** said it will continue to sell gift cards in New Jersey. Blackhawk said it worked with New Jersey state lawmakers to "ensure that the continued sale of prepaid products would not come at the expense of consumer privacy."

Boom Financial lands major funding

Mobile telecommunication company Digicel Group Ltd. led a $17 million investment in Palo Alto-based Boom Financial (formerly m-Via). **Boom Financial**, which is focused on providing financial services to the unbanked in North, Central and South America, said it has raised over $30 million in funding to date.

CashStar raises millions in venture capital

Portland, Me.-based **CashStar Inc.** received $5 million in funding from new investor Intel Capital, along with existing investors Passport Ventures, FTV Capital, and Steven Boal, co-founder and Chairman of CashStar, as well as President and Chief Executive Officer at Coupons.com Inc.

First Data reports dip in closed-loop prepaid

In its June 2012 *SpendTrend* analysis, **First Data Corp.** said dollar volume on closed-loop prepaid cards was down 4.3 percent from June 2011. Dollar volume growth on debit and credit cards was sluggish as well, due to stubbornly high unemployment and unseasonably warm temperatures, according to First Data.

InComm rolls out game cards in Brazil

Atlanta-based prepaid card distributor **InComm** launched a line of game cards in Brazil for such online game developers as Habbo, Aeria Games and IMVU. Additionally, InComm partnered with Peela, a Brazilian issuer of prepaid entertainment cards, to market cards for Internet courses, magazine subscriptions and online games.

i2c reaches new countries, territories

Prepaid card processor **i2c Inc.** said it is now processing payments in 216 countries and territories, including Latin America and the Caribbean, Africa, and Asia. In June 2012, i2c reported it was planning to bring a new data center online in Shanghai, China.

Openbucks gains significant VC funding

Gift card acceptance network operator **Openbucks Inc.** closed on a $4.8 million Series A funding round led by Yahoo co-founder Jerry Yang. Openbucks said the investment will support the development of its network, which allows gift card owners to use closed-loop gift cards in online games.

Direct Express earning praise

The **U.S. Department of the Treasury** said 95 percent of individuals who receive monthly Social Security payments via MasterCard Worldwide-branded Direct Express prepaid cards are satisfied with the service. Additionally, 93 percent of cardholders would recommend the card to others, according to the KRC Research survey commissioned by MasterCard on behalf of the Treasury Department Management Service.

PARTNERSHIPS

Blackhawk adds direct deposit

Blackhawk Network added **Prepaid Resources LLC**'s BenefitsDirect to the distributor's PayPower Visa prepaid cards. BenefitsDirect is an automated direct deposit, enrollment and management service that will allow PayPower cardholders to reload cards via direct deposit, Blackhawk said.

epay to process for PrepaYd

Euronet Worldwide Inc. division and prepaid card processor **epay** agreed to provide processing services for PrepaYd Inc. subsidiary **PrepaYd Wireless**. Per the agreement, epay will process prepaid mobile airtime transactions.

Wipit adds punch through Gigaway

Mobile application developer **Gigaway Inc.** joined with mobile payment provider **Wipit Inc.** to offer in-store rewards via Gigaway's mobile app Punchcard. Wipit allows consumers to pay for purchases in mobile apps or online using cash, and Punchcard provides rewards to retailers' loyal customers.

ACQUISITIONS

Brightwell purchases Directo

Maritime payroll card company **Brightwell Payments Inc.** acquired payroll provider Directo Inc. to grow Brightwell's footprint among U.S. financial institutions, professional employment organizations, staffing firms, agricultural businesses and other payroll providers. Both firms are based in Atlanta.

APPOINTMENTS

TransCard taps Anderson

Richard Anderson joined TransCard LLC as Chief Financial Officer. Prior to joining TransCard, Anderson was President and CEO of payment card personalization and fulfillment services company Shoreline Business Solutions Inc.

Gambale joins Rêv Worldwide board

Rêv Worldwide named **Virginia Gambale** to the international prepaid payment processor's board of directors. Gambale is an Independent Director at JetBlue Airways Corp. and a Managing Partner at technology and data communications advisory Azimuth Partners LLC.

Strange leaves Green Dot

Mobile imaging software solutions provider Mitek Systems Inc. hired **Michael Strange** as Chief Technology Officer. Strange was formerly Chief Technology Officer at Green Dot.

Features

Prepaid, mobile and money laundering

As money laundering schemes facilitated with prepaid cards gain in popularity, using smart phones for the same purpose is a growing trend. Cognizant of this Bermuda Triangle of illegal interests tied to money access devices, the Financial Crimes Enforcement Network (FinCEN) is in a race to shore up the regulatory framework for financial services to combat new ways to launder ill-gotten gains.

At a June 29, 2012, U.S. House of Representatives subcommittee hearing, FinCEN Director James H. Freis Jr. said, "[T]he ease with which prepaid access can be obtained and used, combined with the potential for the relatively high velocity of money moving through accounts involving prepaid access, and the potential in some cases for anonymity, could make it particularly attractive to illicit actors."

FinCEN renamed prepaid and stored-value cards as more broadly defined "prepaid access" devices to take into account new technologies, such as virtual cards and "wallets" on mobile phones, and their potential for abuse.

Freis stated, "[W]hile prepaid access is most often associated with a card, the new regulation was designed to be technologically neutral to allow it to be adaptable to a range of products, such as a plastic card, an Internet system, a mobile phone network, and other forms of developing technology that enable the ability to introduce and realize monetary value."

Choke points galore

The addition of mobile payments has increased the complexity of how law abiding consumers, as well as money launderers, access financial services. However, that complexity may actually help law enforcement to track down illegal operations.

Freis said various financial mechanisms, such as ATMs or POS terminals, "may merge and become interwoven in the same overall mobile payments transaction." He gave as an example a customer who initiates a person-to-person (P2P) money transfer at a money services business (MSB) agent location, such as a convenience store that provides P2P payments on behalf of a money transfer specialist like The Western Union Co. or MoneyGram International, which are considered principal MSBs.

That transaction is processed over the MSB's network, with funds ending up in a prepaid account residing in the mobile wallet of the recipient; the recipient is typically notified of the money transfer through a text message. Then the recipient may withdraw those funds using a prepaid debit card at an ATM.

"This transactional overlap often provides multiple international choke points that potentially lead to each other, which may, in turn, actually pose a benefit to law enforcement in their efforts to follow the money trails and identify other accounts and transactions associated" with a given subject, Freis said.

Serving customers, not criminals

Freis provided a brief history of how FinCEN's path to industry regulation resulted in the Prepaid Access Final Rule, which was published in July 2011 and went into

effect the following September. FinCEN was working toward developing a framework for how to integrate these newer and increasingly popular financial tools into the existing Bank Secrecy Act of 1970, which requires financial institutions to detect and prevent money laundering through anti-money laundering (AML) policies that include reporting suspicious transaction activity to FinCEN.

Then, in May 2009, President Obama signed into law the Credit Card Accountability, Responsibility and Disclosure Act (the Credit Card Act). The act, which mandated FinCEN to regulate prepaid access, accelerated FinCEN's timetable. According to Freis, the most important aspects of the Final Rule are:

- Renaming the alternative financial tools as "prepaid access"
- Targeting high-dollar amounts transacted via prepaid access devices, as they pose heightened money laundering risks
- Excluding cards with a dollar limit of $1,000, as well as payroll cards that:
  - Cannot be used internationally
  - Do not permit money transfers
  - Cannot be reloaded via nonbanks, such as MSB agent locations and self-service kiosks
- Excluding closed-loop products (such as retailer-specific gift cards) that limit load amounts on the cards to $2,000 or less on any given day
- Excluding government benefit cards, as well as health care-related cards funded by flexible spending accounts and cards designed to fund dependant care needs

Freis noted that FinCEN's final rule is designed to make money laundering more difficult by preventing large sums of money from being transferred from one place to another without leaving money trails behind. That is why FinCEN obliges MSBs to alert FinCEN of suspicious activity.

"[W]e see reflected in the AML policies of many financial service providers controls to limit the dollar value available to single individuals both through thresholds and tracking to prevent a single individual from purchasing multiple access devices to avoid the thresholds," Freis said. He added that the agency has been encouraged by the progress it has made in bringing prepaid access into the regulatory fold and helping financial service companies "focus on serving their customers, not criminals."

Understanding merchant needs is critical

Merchants are more optimistic about the possibilities for prepaid programs delivered through mobile phones than providers of such programs, according to an Aite Group LLC report. It is evidence that merchant perceptions of card programs and their most profitable delivery channels may not always correspond to the perceptions of card providers themselves.

The Aite Impact Note, entitled *Selling Prepaid Cards: The Merchant Perspective*, is based on a survey of 41 merchants and 21 prepaid providers conducted in February 2012. Aite researchers Madeline K. Aufseeser and Judith Fishman found that merchant perceptions aligned with provider perceptions concerning growth of prepaid usage over the next 24 months in terms of in-store and online delivery channels.

However, when it came to the mobile channel, the viewpoints diverged. Fifty-one percent of merchants surveyed said the mobile distribution channel for prepaid cards was growing; 14 percent said it was "booming." But providers had a different opinion, with only 39 percent saying the mobile prepaid channel was growing and just 6 percent saying it was booming.

Neither group had many respondents who believed the mobile channel would decline. But 50 percent of providers think the channel will remain flat, while only 32 percent of merchants think the same thing.

The report indicated providers are less optimistic than merchants because the infrastructure for the prepaid account-mobile phone payment combination is still limited. "Prepaid providers are still on the fence about digital wallets for prepaid cards because standards have not yet been established, and the POS systems have not yet been upgraded to support the transaction type," the analysts said.

Stores of perception

Another perception revealed by the research is that merchants do not recognize that encouraging customers to use prepaid cards would help reduce their overall payment acceptance costs. "Yet, this very strategy could help merchants and prepaid providers alike," the researchers noted.

Merchants' belief that their payment acceptance costs were too high – chiefly due to the interchange they paid to card issuers – culminated in the October 2011 enactment of the Durbin Amendment to the Dodd-Frank Act of 2010, which placed price caps on debit card interchange. Aite said it was predicted that merchants would then try to influence consumers to use debit cards over credit cards, since credit card interchange remains unregulated and more costly for merchants.

But this didn't happen, according to the researchers. "As the implications of the Durbin Amendment have started to emerge at the POS, though, relatively little evidence suggests that large merchants are doing anything to change or influence consumer behavior," the report said.

Aite research seems to reinforce that statement. Sixty percent of merchants surveyed did not see that encouraging customers to use prepaid cards was a way for merchants to reduce payment acceptance costs, even though merchants pay no interchange on closed-loop gift card transactions, for example.

The researchers suggested that a restricted authorization network (RAN) approach, by which a collection of select merchants are pooled onto one semi open-loop, network-branded, general purpose reloadable (GPR) card program, could achieve the same transaction processing cost savings for merchants as closed-loop gift card programs.

In contrast to Aite's mobile prepaid channel statistics, providers are more enthusiastic about RANs than merchants. Twenty-five percent of providers, as opposed to 20 percent of merchants, think implementing RAN strategies over the next 24 months is a priority. Although 66 percent of merchants said RANs are only a "back-burner" issue, Aite believes those respondents may simply be uninformed about their benefits as cost savers.

Better correspondence needed

Aite pointed out that the benefits to providers of particular card programs do not necessarily correspond to the benefits for merchants. For example, fully open, branded GPR cards are more profitable for providers because, in comparison to closed-loop gift cards, GPR card usage is higher and the cards' lifetimes are longer, the researchers stated.

But merchants might rank GPR cards below their own closed-loop gift cards, Aite noted. Unlike such gift cards, which are redeemed at the stores where they were purchased, GPR cards can be used at any store where the card brand is accepted, thus potentially depriving GPR card selling merchants of revenues.

"Understanding merchant needs is a critical component for any prepaid provider that utilizes the retail channel as part of its prepaid product distribution and acquisition model," Aite said. By segmenting merchants by their needs, providers can better tailor services to merchants. "This marketing approach will drive a higher level of interest and participation among existing and prospective merchant clients, thereby increasing overall card sales," the researchers said.

The card company settlement: What's next?

By Brandes Elitch
CrossCheck Inc.

On July13, 2012, Visa Inc. and MasterCard Worldwide agreed to settle antitrust litigation titled the Payment Card Interchange Fee and Merchant Discount Antitrust Litigation. The original action was filed in June 2005. Plaintiffs alleged the card brands violated the Sherman Antitrust Act by unlawfully fixing interchange fees and rules, other network rules and corporate reorganizations, which constituted unlawful price fixing, unreasonable restraint of trade, monopolization, lessening of competition and fraudulent conveyance.

Plaintiffs reviewed 50 million pages of documents and deposed over 400 witnesses. I can't even begin to understand numbers this big. Just for perspective, merchants pay over $30 billion a year in "swipe" fees, according to the National Retail Federation.

A win for the card brands

About the settlement, industry consultant Philip Philliou said, "Hopefully, retailers learn that litigation is not the vehicle to affect change. … If retailers truly want to change the payment landscape, they need to play a role in building or acquiring a payment network."

Yes, the card companies have to pay more than $6 billion for "alleged past damages" and another $1.2 billion to cut costs for eight months, as well as lift the "no surcharging rule." But they didn't concede any meaningful changes to the interchange system. They don't have to change the way they set rules and prices. And merchants gave up their rights to sue the networks and card issuers over these issues. I expect interchange rates will continue to increase over the long run.

Some observers predict banks and retailers will blame each other for how consumers will be affected, just like they did when the Durbin Amendment to the Dodd-Frank Act of 2010 changed the pricing for debit card transactions, and consumers started paying more for checking accounts.

There is much hoopla about surcharging, but people forget that several states, notably California, New York and Texas, prohibit surcharging. PayPal Inc. doesn't allow surcharging either. Merchants, particularly larger merchants, will have a difficult time convincing consumers to accept surcharging. And, in any event, even if merchants are allowed to surcharge, they cannot charge more than their incremental cost.

Interchange isn't going to change, because today's payment innovations are largely built on credit and debit card accounts. Take Apple Inc.'s iTunes, for example. You pay by typing in your card number, and iTunes has 150 million of them on file. Amazon Inc. already has buyers' card numbers on file, too. The card networks can happily outsource innovation to entrepreneurs who are building new apps, because the networks are the default payments architecture.

Rate hikes on the horizon

As for pricing, rates aren't going down. Industry observer Felix Salmon believes the networks could raise prices by as much as 30 percent without losing any customers. Salmon wrote the following in "The Stranglehold of Payments Networks" published on the Thomson Reuters blog March 29, "Merchants feel forced to accept such cards, while the costs to consumers are well hidden. Visa and MasterCard levy a non-negligible tax on a huge percentage of retail payments in a largely invisible manner, bribing the consumers to force the merchants to pay the tax."

The original concept behind interchange was to help banks issuing credit cards by giving them an annuity revenue stream whenever the cards they issued were used by cardholders. Interchange, which is paid to issuing banks, helped pay their startup fees and for the inevitable losses from bad debt. Now, large issuers devote most of their income to paying for loyalty programs for top-tier customers and pay for this with charges imposed on subprime customers.

Payments without interchange

New payment systems without interchange have been tried, notably Pay By Touch, which failed in 2008, and Revolution Money (originally Gratis Card Inc.) was sold to American Express Co. in 2010 and never gained traction. Sophisticated investors were involved in those companies – and some big money, too.

One alternative is "bank direct payments" in which consumers provide their checking account numbers, and their accounts are debited for payment, usually via automated clearing house (ACH) debits. One issue with this payment option is that NACHA – The Electronic Payments Association rules call for a "commercially reasonable" method of determining the identity of the consumer. But solutions such as CashEdge and Yodlee Inc. exist for dealing with that. Another issue is what happens if the consumer closes the account or if the account has insufficient funds.

You see, this is the beauty of taking a card, particularly in a card-present environment: if the merchant gets a signature and swipes the card, the likelihood of a chargeback is nil. With a credit card, there is online, real-time authorization. You don't have that when you debit a


trust:
reliance on the integrity, strength, ability, surety of a person or thing; confident expectation of something

SME merchants are under attack. For example, Amazon has a price check app. It allows a consumer to scan a bar code at the store and then check the price on Amazon. Amazon is going to be 8 percent cheaper right off the bat because there is no sales tax, and to boot, the consumer gets an additional percentage off from Amazon.

checking account. Of course, you could have the ACH debits guaranteed by a check guarantee company.

An alternative to using traditional ACH debits is to use a PIN debit network, not signature debit, to clear payments. The issue, from a mobile payment perspective, is that this requires Triple Data Encryption Standard encryption, which would be easy enough to do with a small, inexpensive device attached to the keyboard. But so far, no large bank is willing to pay the $10 per device that it would cost to do this.

Developments to watch

Most ISOs and merchant level salespeople serve "small and medium enterprises," sometimes referred to as SMEs. The top 200 retailers are probably going to negotiate directly with the card networks for their rates. The reality is that this settlement is not likely to affect SMEs much. But there are other things that will. Here are some things that ISOs should follow:

- New entrants like PayPal and Square Inc. are targeting SMEs to acquire their card processing business. In some cases, they will supply a free card reader and free mobile apps. Square charges 2.75 percent. PayPal charges 2.7 percent, but it has the added advantage of being able to accept PayPal transactions, and thus invoices and checking account-based payments. In some cases, PayPal can settle funds the same day.

- VeriFone Inc. is emerging as an acquirer – something I would not have predicted for a terminal manufacturer so reliant on the ISO community. It charges 2.7 percent for a "free" account. For an extra $10 a month it will lower the rate to 1.95 percent. VeriFone is in a good position, because the 11 million terminals deployed in the United States will need to be replaced in the next few years, and a great number of them were made by VeriFone.

- Both card networks have spent a lot of money on their own alternative payment platforms. Visa has the V.me digital wallet; MasterCard has the PayPass mobile wallet. This raises the question of whether the dominant contactless payment platform will be the device or whether the wallet will sit in the cloud. A mobile wallet that works in only one environment is not likely to succeed long term.

- SME merchants are under attack. For example, Amazon has a price check app. It allows a consumer to scan a bar code at the store and then check the price on Amazon. Amazon is going to be 8 percent cheaper right off the bat because there is no sales tax, and to boot, the consumer gets an additional percentage off from Amazon.

- Fewer than a dozen large bank acquirers exist. The days of small bank acquirers as "principal banks" are over. However, some acquiring banks have significant credit issues on their books. For example, look at Bank of America. By any statistic (net income; earnings before interest, taxes, depreciation and amortization; cash flow per share; five-year dividend growth rate; quarterly earnings revenue; earnings growth rate; etc.) the bank has issues. If you invested $100,000 in the stock 10 years ago, it would be worth $55,000 today.

  Many large banks will need to increase retained earnings to address loans on nonaccrual. In many cases, large banks cannot even realistically estimate their current exposure to bad mortgage loans. These banks need capital and retained earnings. They are not likely to reduce their merchant processing charges – or any other reliable source of fee income. They will want to see higher interchange fees, not lower.

So there you have it. As the French say, *plus ça change, plus c'est la même chose* – the more things change, the more they stay the same.

Brandes Elitch, Director of Partner Acquisition for CrossCheck Inc., has been a cash management practitioner for several Fortune 500 companies, sold cash management services for major banks and served as a consultant to bankcard acquirers. A Certified Cash Manager and Accredited ACH Professional, Brandes has a Master's in Business Administration from New York University and a Juris Doctor from Santa Clara University. He can be reached at brandese@cross-check.com.


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ADVISORY BOARD

New times, new strategies: What are you doing? – Part 2

The rapid speed with which the payments landscape is transforming requires ISOs and merchant level salespeople (MLSs) to be attentive and flexible so they can remain competitive. With that in mind, we asked members of *The Green Sheet* Advisory Board the following questions.

1. What new business strategies are payment businesses employing right now?
2. How do you know when the time is right to sell (or buy) a business?
3. How do you evaluate new business models and determine when it is the right time to adopt a new model?

Following is the second portion of the responses we received. The first segment, "New times, new strategies: What are you doing?" was in *The Green Sheet*, July 23, 2012, issue 12:07:02. The final portion will be published in a future issue of the magazine.

Heartfelt thanks to those who took time out from their busy schedules to share their expertise and knowledge via these questions.

Joseph N. Bizzarro

PE Systems LLC

1. As an independent payments consulting and advisory, PE Systems' new strategies are focused around initiatives in assisting merchants in navigating the ever changing payments landscape.

Merchants are in a general state of confusion regarding the many new payment options, whether they be legacy payment solutions or new proprietary payment systems. One of our strategies is to bring clarity to our clients in evaluating their payment options as to the cost, the return on investment and how it may or may not increase their revenue.

Merchants, not only as a group, but as individual entities, are becoming more activist, as they see that the Durbin Amendment regulations may not have been fully vetted at the merchant level. With card brands instituting new fees, like Visa's FANF (Fixed Acquirer Network Fee), it just adds to the general nature of merchant suspicion.

Our strategy is to act as a merchant advocate, providing our expertise and guidance as to how best to approach these matters.

PE Systems works with the major acquirers, processors and ISOs every day of the week. While our strategy is focused around reducing a merchant's total cost to process transactions, we realize that we must be seen not just as a fee reduction organization, but as a firm that works side by side with the acquirer or processor in creating a better relationship for all parties.

2. Having grown up in the mergers and acquisitions world, I have found there are many factors that determine when is the best time to sell or buy a business. They include, but are not limited to, the following:

- The soundness of the business model.
- Is the business scalable?
- What is the current EBITDA (earnings before interest, taxes, depreciation and amortization) or net income?
- What is the top-line revenue trend?
- What is the profit contribution by division or, in this world, by merchant?
- The competition landscape.
- The technology supporting the business.
- The overall economic environment ... this is a good time to buy, not much as to selling.
- The capital markets as to how much debt and equity can be raised for potential buyers.
- And, the big one: earnings multiples – multiples have gone up recently, but remain depressed from pre-2008 levels.

Overall, now is a great time to buy a business, as values are depressed. Looks like it will be late 2013 before valuations will increase.

3. The payments world is changing very rapidly and all of us must adjust to these changes, or our business will be impacted. However, the challenge is this: making radical changes to a business model is fraught with difficulty even in the best of economic times. In our current recessionary environment, it could lead to catastrophic business failure.

My advice is simple: change your model in a manner that does not compromise your underlying core cash flow, as new ventures will consume cash very rapidly. Unless you have capital funding to undertake a radical change to your business model, do it slowly.

Matt Golis

YapStone Inc.

1. Payment businesses have to re-evaluate where they have a proprietary advantage in their respective market. With both new companies disrupting the traditional merchant model at point-of-sale and online, as well as the awareness around pricing due to the Durbin Amendment, payment companies need to focus on what they offer that is sustainable beyond just the "technology du jour."

For some companies that means focusing on superior client service and retention, and for others it is staying one step ahead on innovation and sales focus. Selling new accounts the way many companies did just five years ago simply will not work in the years ahead.

The combination of merchant-level education on pricing, demand for social and/or mobile solutions, and the new focus on "integrated payment solutions" for specific vertical markets are the primary reasons.

2. YapStone is actively buying payment businesses right now, as we see tremendous opportunity in new vertical markets and expanding our footprint in the property management industry.

The characteristics of the companies we have bought recently (from a buyer's perspective) have been a clear path to profitability in the short-term combined with efficiencies that we can bring to bear with better execution and/or improved margins. This is when we know it is the right time to buy a business.

From a seller's perspective, if a business has plateaued in growth due to increased competition for new business, attrition of existing clients above normal levels or focusing on other new business opportunities, it is typically the right time to sell.

With the exception of a few Internet payment companies that have commanded very high valuations (from a traditional payments industry multiple perspective), it has been better to be a buyer than a seller in this current market.

3. Payment companies need to re-evaluate their business model regularly to insure that the thesis for why it remains a good business to be in is still intact. It seems obvious, but many businesses keep doing what they have always done (whether it be in servicing specific industries, geographies or even being a generalist) simply because that is what they know.

The changes we have already witnessed due to the Durbin Amendment have challenged the status quo for merchant pricing like never before.

Payment companies that have thrived off tiered pricing will be forced to adopt more competitive pricing or risk excessive attrition, as many merchants are getting competitive bids for pricing from multiple payment companies online. With so many changes in technology and pricing, adapting is vital to survival.

Curt Hensley

Impact Payments Recruiting

1. We see several payment companies investing in technology in an attempt to differentiate themselves from their competition. We also see companies adding to their product/service offerings in order to attract different merchants. We've seen some payment businesses tighten their belts on spending, while others with better cash flows have become more active in buying portfolios.

2. Our firm has been helping buyers and sellers of payment businesses connect with each other for the past two years, and we've seen many different reasons for buying and selling. For selling a business, this question is right on because it's all about timing.

Personal timing, company timing and market timing are the three biggest factors. If the owner is ready, the company has maximized its value and the market is ready to offer a good multiple for the business, then it's probably the right time.

It's a more complicated answer for buying a business. The answer to timing is a variable of cash availability for purchase, a good analysis of what the purchase of the business will mean to the bottom line of the entity buying it and the risk factors of a change of ownership for the purchased business.

That's just the beginning of knowing whether it's the right time to buy. Other factors include what the market conditions are like, an analysis of how market conditions will change and operating strategy of a merger (just to name a few).

3. Most clients that we see evaluating new business models are trying to meet a market demand in a different way that will be more efficient, make them more profit and make their business worth more.

If an in-depth analysis of the new model shows there's tremendous gain in profits, value, client loyalty, client attraction and value of the overall business, then usually they will go with the new model.

Typically payment companies try a new model when their current model is flawed, a change to a new model appears to be much more profitable or when adding a new model will increase their business when combined with their current model.

CompanyProfile

National Benefit Programs LLC

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Atlanta, GA 30338
Phone: 877-688-8844
Fax: 770-552-0003
Website: *www.nationalbenefitprograms.com*

ISO/MLS benefits:

- Discount products and services for merchants
- Fifty total benefits spanning 20 business categories
- Email marketing, plus web design and maintenance
- Free access to benefits for resellers
- Month-to-month contract

The quintessential value-add

In an age when ISOs struggle to boost profit margins and distinguish themselves from competitors, the services of National Benefit Programs LLC represent the ultimate value-add, according to NBP Chief Executive Officer Mark Zisholtz.

"Many ISOs are looking for ways to increase their revenue base, and one way to do it is with value-added products," Zisholtz said. "Well, we have the most comprehensive and best merchant benefits product in the entire industry. And what makes these benefits special is they're all business benefits."

NBP's merchant benefit program offers 50 total benefits, spanning 20 business categories. For example, the category of shipping might include UPS services as one benefit and other mail or shipping services as additional benefits. Further offerings include office supplies, hotels, car rentals, legal services, payroll services, web design, computer products, and document and data destruction, among others.

A club meant for business

All services are purchased in bulk and sold, through resellers, at major discounts to merchants. NBP markets the program to banks and ISOs. "For ISOs and other merchant providers that want to cut attrition and increase revenue, this is a great way to do it," Zisholtz said. "We have improved on the merchant club concept, which usually consists of just a few benefits, and we've expanded that into a full suite."

The program functions similarly to a discount club card used at retailers or grocery stores. The difference is that NBP's product is marketed to businesses, not individuals, and its discounts apply to a broad range of services offered by a host of providers, each one individually contracted with NBP, according to NPB President and Director of Sales Gary Alloy.

"If you want a pair of shoes, if you want a discount at the cleaners, don't come to my website," Alloy said. "But if you want shipping services, come to my website. If you want car rental and electronics discounts, and if you want legal benefits through the Legal Club of America – if you want things that help businesses grow and save money – come to my website. We are in the business of helping other businesses grow and thrive."

A tool to boost retention, revenue

For ISOs and merchant level salespeople (MLSs), the merchant benefit program is a valuable tool in driving revenue and retention, according to Zisholtz. He said ISOs pay a monthly fee to subscribe to the merchant benefit program, and an added perk is that ISOs and MLSs selling the program are themselves eligible for the program – free of additional charge. "Obviously, that increases loyalty and increases competence," Zisholtz said.

Zisholtz noted that resellers are required to buy the merchant benefit program as it is packaged, rather than picking and choosing what program services to buy; however, they can integrate their own value-adds into NBP's product suite. "They have the ability to add whatever benefits they want," Zisholtz said, adding that resellers also have considerable leeway regarding pricing.

Alloy said that merchants commonly benefit from services they wouldn't normally think of purchasing and that the breadth of offerings ensures the package is optimized for the greatest number of people. "There may be a benefit that I love that somebody else might not, and somebody else might love a benefit that I'm not interested in," Alloy said. "Our goal is to take care of everybody's needs, including ones they might not [foresee]."

Assistance with marketing, implementation

The merchant benefit program also includes a multilayered marketing campaign for ISOs. So when they join the program, ISOs must upgrade their websites to include listings and descriptions of the NBP product suite, as well as incorporate technical changes for hooking into NBP's platform.

All of that work is performed by NBP staffers, usually in conjunction with one technical point-person working for the ISO. NBP further relieves the ISO of burden by overseeing the continued maintenance of the site and the online marketing of value-adds, Zisholtz said.

As for design, ISOs can decide either to change their website's overall aesthetic or simply incorporate NBP into their existing design and color scheme. "We custom build every merchant benefit site, and it's completely private-labeled," Zisholtz noted.

In addition to providing web help, NBP's marketing services also include a private-label email campaign to prospective and existing merchant customers, according to Zisholtz. "We'll typically email the merchant twice a month, and it will look to them like the email is coming directly from our client," he said. "We can do a generalized email campaign or, if the ISO wants to feature certain benefits or products, then we'll focus on those."

Incomparable volume discounts

NBP's services are available not only to a business itself (for, say, ordering bulk office supplies), but also to each individual worker it employs.

Thus, employees of companies enrolled in the merchant benefit program can use the benefits for personal needs related to travel, shipping, legal services and the like. "Primarily merchants use it, but they can share it with their employees," Zisholtz said.

According to Alloy, NBP is the country's largest provider of bulk services and products to businesses. "Nobody has a program as big as ours," he said. "And when I sign a contract with a vendor, they have to give me a benefit that's better than anywhere else, including anything that's offered on [the Internet].

You want to get a benefit from UPS? It won't be as good as my benefit [on shipping]. Nobody is ever going to call me up and say, 'I can get this benefit equal to or better than what you offer.'"

NBP's services are not only cheap but uniformly first-rate, Zisholtz pointed out. "We're saying, 'Hey UPS, we're going to provide you with a whole bunch of volume, and in exchange for that volume, we want to be able to buy your services at a much lower cost," he said.

Zisholtz also said NBP has every incentive to see its services used. "We provide access to large numbers of people out there, and what we're doing is leveraging that power. And … we want people to use our benefits.

The more people use our program, the more leverage we have to negotiate top quality discounts with our partners. That's why our discounts aren't available to the general public – because we're providing our [distribution] partners with business."

A program meant to be used

To further emphasize how important it is for businesses to use the benefits the program provides, Zisholtz contrasted NBP's offering with insurance plans, in which the providers hope clients use the provisions as little as possible.

NBP doesn't seek to deny or restrict benefits in any way; it instead actively encourages merchants to use them.

Zisholtz added that merchants who seek legal help get legal help; employees who require dental care receive it; and a business that orders huge quantities of discounted office supplies gets the quantity it demands – no roadblocks, no exceptions.

Zisholtz also contrasted NBP's program with offerings that typically function as loss leaders – the attractive but ultimately unprofitable services that ISOs, as well as many other businesses, use to entice prospective customers but which they prefer those individuals would never take advantage of.

"As an example, some ISOs or processors will have a terminal replacement program but won't charge a fee for it, and it becomes a loss leader," Zisholtz said. "Others may charge for it, but there's low participation. We'll take a program that's generally unsuccessful, integrate it into our package and make it highly profitable."

Growth based on customers' needs

Zisholtz and Alloy co-founded NBP in 2009, and both have backgrounds that overlap considerably with their current work. Zisholtz was a lawyer who specialized in corporate and employment law, and he dealt extensively with the merchant benefits industry. Alloy has worked in the discount benefits industry for more than 35 years.

Zisholtz said that upon founding NBP, both he and Alloy called merchants around the country with a single question: what value-added benefits do you lack that you're most in need of? In large part, the responses they got from that question determined what NBP included among its benefits.

At the end of 2011, NBP added another officer when it brought in Diane Vogt Faro as its Executive Vice President. Faro has worked for over 30 years in the payments industry, including as President of Global Merchant Services for First Data Corp.

She was also the President of the Electronic Transactions Association for the 2004 – 2005 term and is a founder of the Women's Network in Electronic Transactions (W.net).

"She brings a tremendous amount of experience and industry knowledge, and the fact that she's part of our team is a very strong validation of the quality of our product," Zisholtz said.

The company continues to rely on feedback as it expands and tweaks its package to best meet the needs of the market. "We're constantly interacting with clients, and they give suggestions of benefits to get for them," Zisholtz said.

"We had a client who recently surveyed its merchants and asked what they'd like to see added. Wireless provider was the most popular response." Soon thereafter NBP added a wireless carrier to its benefits package. What comes next will, of course, depend on what NBP's customers want.

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Tight credit markets from page 1

received almost $10 million, combined, in loans against their residual streams from Super G. Ginsberg believes he is especially well positioned to work with ISOs and MLSs because he has been building portfolios for more than 20 years.

Typically, ISOs need money to fund marketing, hire new reps, implement new sales programs and pursue other growth opportunities. Merchant Warehouse, for instance, said it plans to use at least some of the capital infusion it received from Parthenon to help fund a new customer engagement platform. Super G's loans look a bit like a merchant cash advance product, but instead of taking a cut of each day's transaction fees, Super G takes monthly drawdowns for interest and principal before the borrowing ISO even sees residuals, which typically post two days later.

Borrowing against versus selling portfolios

ISOs actually selling portfolios are more apt to be looking to get out of the business, Ginsberg said. They also will incur more expenses. Selling a portfolio can be 30 percent to 60 percent more expensive than borrowing against residuals; plus, a sale takes longer to execute, and proceeds are treated as taxable income, Ginsberg added.

Residual loans, on the other hand, are not income and can be fully funded in a matter of days. "If you're planning to stay in this business, it's better to borrow than to sell," Ginsberg said. The minimum loan size Super G offers is $25,000; the maximum is $2 million.

Typically, borrowers qualify for loans amounting to five times their monthly residual streams, Ginsberg said. That means to qualify for a $25,000 loan, an ISO or MLS needs $5,000 in monthly residuals. Repayments are deducted from residuals over periods ranging from 12 to 36 months. Simple interest rates assessed on typical loans work out to 17 to 19 percent, he added.

Super G enjoys working through upstream ISOs and recently entered into a referral agreement with Cynergy Data LLC. The lending model Super G uses is one of several options for ISOs and MLSs aiming to raise capital.

Letting objectives guide deal structure

"There's no one way to negotiate or structure a deal," said Dean Caso, President of Velocity Funding LLC in Norwood, Mass. Caso has been purchasing merchant portfolios since 2003. He started out when he was an ISO and was unable to convince a bank to lend him money to purchase another portfolio. So he used $1.5 million of his own money to make the purchase. "And I proved to the bank that it worked," Caso said.

Caso uses homegrown software and 15 metrics to analyze the purchase of an ISO portfolio (for example, attrition rates, concentration and pricing). Offers are made in multiples of the portfolio's yearly revenues and disbursed in two payments: an upfront payment equal to between 50 and 80 percent of the valuation, and the remainder two to three years later when certain contractual benchmarks (like attrition guarantees) are fully met.

Vertical market concentration and merchant attrition rates are critical variables in Velocity's decision process. "If 10 merchants represent 60 percent of a portfolio, then I'm going to weigh that differently," Caso said. As for attrition, anything over 20 percent is cause for concern. "It may not affect overall what I pay, but it will affect what I pay upfront," he said.

Dallas-based Calpian Inc. looks at both present and past attrition when it considers purchasing merchant portfolios, tracking portfolio activity over a span of five years. "Not all years are the same," Calpian CEO Harold Montgomery said. Adopting a historical perspective also provides a better sense of overall profitability, he said. If a company looks good now, but was in a slump last year, that could be a red flag.

Initially, Calpian paid cash for portfolios. Now, as a publicly traded company, it purchases portfolios, or

Questions for ISOs, MLSs evaluating lenders, purchasers

Following are key considerations for ISOs and MLSs wanting to borrow against or sell merchant portfolios:

- How well do you know the lender or buyer?
- Is the company financially sound?
- What is the company's track record, specifically its experience lending against or purchasing merchant portfolios?
- What do other folks in this market think of the lender or buyer?
- Are your payout expectations in line with what others in your market are receiving for their portfolios?
- Are you planning to exit the business completely, or do you just need money to grow?
- Do your processor agreements make demands regarding the transfer of portfolio ownership?
- Does the buyer's or lender's agreement explicitly set forth what is expected from each party?

Questions for lenders, buyers evaluating portfolios

Following are several points for lenders and buyers to consider when evaluating merchant portfolios:

- How well is the portfolio performing now, and how has it fared over the past few years?
- How diverse is the portfolio in terms of transaction types, merchant size, vertical markets, etc.?
- What does the company's revenue stream look like? Does it rely on services fees instead of transaction growth?
- What types of risks is the portfolio susceptible to?
- What's the portfolio's average ticket?
- Which processor is used, and what do the seller's or borrower's agreements look like both with its processor and its clients?
- How does the ISO sign merchants – employee or independent contractor agents?
- How many services do merchants use in addition to transaction processing?
- What are the attrition rates, both in terms of transactions and merchants?
- Do attrition guarantees fall within the typical 10 to 15 percent per year for a period of two to three years?
- Will the ISO stick around to service the portfolio?
- How long will the noncompete period after a purchase be?

portions of portfolios, for a combination of cash and shares in Calpian. "Being a public company has allowed us to structure deals that deliver value over time, versus cash now," Montgomery said. "Our program is different from other residual buyout programs in the marketplace today in that our partners … are encouraged to continue to build and operate their businesses at their own discretion."

In April 2012, Cooper & Schifrin LLC entered into its third financing arrangement with Calpian. Calpian said it paid the ISO $280,000 in cash along with 12,308 shares of Calpian stock for a chunk of the ISO's portfolio.

Cutter Financial Group LLC pays cash for partial or entire portfolios, typically in two installments. Either way, Cutter, headquartered in Franklin, Tenn., also prefers deals where sellers stay on and work at growing their portfolios.

"We do a good job servicing portfolios," said Denise Shomo, Cutter's Chief Operating Officer. "The ISO staying involved is key to keeping attrition low." Staying involved also is good for ISOs and MLSs, Shomo noted. "By working with us, and with us working with the processor, they stand a better chance of obtaining a subsequent payment," she said.

Cutter has arrangements with upstream ISOs who refer their ISOs and MLSs looking for capital. Shomo said Cutter prefers working through upstream ISOs because they're in the best position to know which ISOs and MLSs need capital. "We try really hard to build relationships with ISOs," Shomo said. "We don't want to compete with them." Indeed, if the upstream ISO wants the portfolio Cutter is negotiating to purchase, Cutter will walk away from the deal, she added.

Montgomery made a similar assessment of Calpian. "We're like Switzerland," he said, noting that Calpian has working relationships with processors large and small.

Understanding market dynamics

According to Ginsberg, multiples paid to purchase merchant portfolios, as opposed to borrowing against residuals, can range from 12 to 35 times monthly residuals, with larger portfolios ($500,000 a month and up) commanding the highest multiples. Multiples increase according to size because, typically, the larger the portfolio, the less risk involved, Shomo said.

Risks a buyer considers when assessing a portfolio, in addition to merchant attrition, include the potential that an upstream ISO will stop paying residuals, the likelihood that a seller will try to poach merchants as it creates a new portfolio, and economic factors such as the impact of rising fuel prices on airlines or new rules like debit interchange caps.

Not every ISO selling a portfolio is looking to exit merchant acquiring. Caso said only about 20 percent of the ISOs Velocity works with are getting out of the business. Most just need to raise additional capital and thus only want to sell a portion of their portfolios. Others are shopping around for a sense of what the market might pay for their portfolios, he said.

"We will make offers on most, but we don't necessarily purchase all of them," Caso said. That's because often the seller has a different price in mind, he added.

Montgomery said he has seen plenty of ISOs selling strong portfolios. Often they're looking for capital to start a new sales organization, he said. Shomo noted that "everybody has their own unique reasons for selling."

And every buyer or lender has its own agenda. Velocity, for example, prefers to purchase static merchant portfolios, making attrition the company's number one consideration, Caso said. He added that Velocity works to keep merchants by providing a high level of support.

Each of the executives interviewed for this story said the market for merchant portfolios is brisk. Caso mentioned he had taken "12 calls in the past three weeks" from ISOs and MLSs seeking to sell all or portions of their portfolios. Shomo said Cutter, too, is being approached by more ISOs wanting to sell all or portions of their portfolios, but it declines many offers because they aren't a good fit for the company.

So, with portfolio sales and borrowing against residuals on the rise, let's hope a lift in the economy is coming close behind.

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The secrets to overcoming objections

By Jeff Fortney
Clearent LLC

Education index

Ask any salesperson, and he or she will likely tell you sales is among the toughest professions. However, it's one of the few that rewards you based on your efforts, thus making it a lucrative career for many. Because salespeople face many challenges, they are always on the lookout for the answer to this important question: How can I make my job easier? Often they turn to sales training to find an easier way to success.

Sales training comes in many forms and fashions, as evidenced by the 560 million hits I received when I googled the term. There are varied themes and approaches, from the ones offered by Jeffrey Gitomer in his book *Little Red Book of Selling* to advice from self-help pioneer Dale Carnegie.

You can learn to sell to VITO (Very Important Top Officer) or how to never cold call again. Some methods have been around since Ben Franklin's time; others just hit the scene this year. A select few appear specific to payment processing sales, but in most cases, a sale is a sale, and the techniques taught in other sales spheres translate well to our profession.

Back to school

Choosing the right class can be tricky. That's why I know many sales professionals who have taken multiple courses, picking and choosing elements from each to help sharpen their skills.

Even with all of these available approaches, most sales training courses have one common module – handling objections. No matter what your technique or how you sell, the time will come when merchants will raise objections to your pitches. All training courses recognize that how you handle objections may make the difference between success and failure.

Some courses offer six ways to handle objections; others might offer eight. Some are titled "Overcoming Objections"; others are called "Eliminating Objections" or "Objections as Sales Opportunities." Even with all of this advice at our fingertips, none of it seems to address the industry-specific objections we all face.

If handling objections correctly has such a large influence on one's success, it is only prudent to examine the most common objections in the payment processing business. It's also essential to know which excuses presented by prospects are not true objections.

Merchants may give you many reasons that sound like rejections, but often they are not voicing true objections. The same is true for straightforward no answers. A yes is obviously not an objection, unless it's followed by the word "but"; then it's what comes after that one little word that you need to be concerned about.

Each sales trainer will provide the following steps for

Unlike other objections, a reactionary objection can be avoided, as long as you're conscious about what you say and do.

handling objections (dubbed LREA for the first letter of each step):

- Listen
- Repeat the objection
- Explore
- Answer

The steps are the same regardless of the objection. They also apply to the payments world. However, how you explore and answer the objections you face will vary greatly.

Objections fall into many categories. Understanding these categories is what helps salespeople respond effectively. Before examining common payment objections, I want to examine reactionary objections.

Reactionary

Once, after completing a seminar on the payment cycle to a roomful of merchants, I asked for questions. An older woman who reminded me of Granny from the Tweety Bird cartoons rose to ask the first question. She said, "I get 20 to 25 salespeople who come into my business every week. They all say, 'Show me your statement, and I'll save you money.' What should I tell them?"

Her question was one of those I was taught early on not to answer directly. It's like when you're asked, "Does this dress make me look fat?" So I responded with a question, "What would you like to tell them?"

Standing at all of five feet tall, she said, "I want to tell them to stick it up their behinds." The room erupted in laughter. I told her she had every right to tell them that. I then shared a few instances where letting a sales rep see her statement might help her.

Unlike other objections, a reactionary objection can be avoided, as long as you're conscious about what you say and do. Recognize what upsets merchants and avoid that situation. In essence, LREA occurs before you even make the call. Know what you're going to say before you say it. If you know the common statements that frustrate merchants, you won't have any objections to address.

Delaying tactics

I asked fellow members of the GS Online MLS Forum for input. Many offered examples of common objections they face.

JMATHIS shared the following, "The owner is not in," "My spouse handles that," "I don't have time to talk to you right now" and "Can you come back later?"

CARDPLAYER added a unique perspective to delaying tactics. "The best example is a nail salon where the clerk came out from behind the backroom curtain to advise the following: 'Owner say that owner not in.'"

In each case, the merchant is trying to get the MLS to leave, without even having to talk to the rep. You are then left with two choices: leave and return later, hoping the merchant will talk to you then, or address their objection right then and there.

Here's how you could use LREA in this situation:

- Repeat: "You want me to come back?"
- Explore: "Great. What would be a better time?"
- Address: "I will be back next Wednesday. Could you put me on your calendar, please?"

This even works with **CARDPLAYER**'s objection. You could say to the store employee, "Could you please go ask the owner when the owner will be back in?"

Delaying tactics are common in every industry. However, if you take control of the situation and make sure the merchant understands that your time is important, too, you'll be able to overcome these delays.

Avoidance

Often avoidance is followed by a delay. When you return at your scheduled time, some prospects look for a reason to avoid even talking. According to **1SLICK67**, the most commonly heard delay is "We are happy with our current processor." Others along this same vein are "I process with my bank" and "We don't know how long we'll be in business and don't want to sign a contract."

When responding to an avoidance objection, the key component of LREA is E: explore. Ask questions, such as:

- "Who is your current processor? I always like to know about those that are doing a good job."
- "Who is your bank? We process with many banks, so who knows? You may already be using a platform I can help you optimize."
- "Are you planning to sell? Maybe there is something I can do to help."

In every case your question prompts the merchant to answer, thereby helping you overcome the merchant's objections. Many merchants may not even know the name of their processors or their representatives.

They won't likely know that banks are not processors or that they outsource that portion of their business. In all cases, present yourself as an interested professional who can provide merchants with information they didn't have before.

Contrarian

The contrarians' objections often extol the virtues of their current service provider relationships, what a great price they have, and how it would be difficult and expensive to change. Others may have had such negative experiences with payment processors that they may have no desire to speak to you whatsoever.

Common objections focused on price include, "No one can beat my price" and "I'm only paying 1 percent."

Your next step is to explore, but you should direct the exploration. Both of the objections just mentioned can be handled the same way.: "I do hear that occasionally, and sometimes it's true, but sometimes it's not. I would be thrilled to see if it's true, but often when we look at the pricing together we find something unique. Has anyone helped you confirm your price?"

BER concentrates on the POS world and has heard several objections related to expense, including, "Because of my POS provider, it will cost you $1,000 to switch me" and "I have a cash advance terminal that you can't switch."

In some cases, these truly are deal breakers, not objections. The only way to know is to explore the situation more deeply. Say something like, "I work with many POS providers/cash advance/loyalty companies. Who are you working with? Maybe we work together already, and I might be able to address any concerns you have with the product or support."

If you determine the rate actually is 1 percent or the POS system is truly proprietary, then you can honestly advise the merchant of the situation and thank the individual for his or her time. However, the majority of merchants are not paying 1 percent, and many available POS systems work on multiple platforms. Don't allow the merchant's skewed perception to be the reason your deal doesn't proceed.

You may also hear, "You're all crooks" or "You're no different than that last guy who lied to me." Handling these objections requires great skill and tact. Apologize for the merchant's previous experiences and speak honestly about the industry.

You can also add, "Sadly there are those in our industry who have little to no ethics. I am not one of them. Could you explain what happened to make you feel this way?" Sometimes all it takes is letting the merchant vent, and you'll be on your way to closing the sale.

It's all relative

You may also come across instances in which a personal reason is behind an objection. **CCGUY** offered two examples: "My processor is a relative" and "My brother/cousin/brother-in-law, etc. is my bank card agent." **JMATHIS** added: "My cousin's aunt's uncle's daughter Georgia set me up."

It is true that blood is thicker than water, and overcoming these objections can be very difficult. One option is to compare the level of service. For example, say, "That is very handy.

" However, I have found situations where merchants like you weren't 100 percent satisfied with the service they were receiving. Sometimes family relationships can be a major stumbling block. Could that be the case here?"

Another option is to ask, "Do you think they're looking for a job? Your loyalty tells me they may be very good at what they do."

In both cases, listen closely to their responses; you may find an opening to discuss how you can better serve their needs if only their cousins/aunts/uncles weren't involved.

There are hundreds of objections that aren't mentioned here. The majority will either be delaying, avoidance or contrarian, and can be handled accordingly. If you remember to follow LREA, you can and will be able to address almost every objection.

Lead with integrity

Beyond LREA, remember that overcoming objections by making false claims or promising more than you can deliver is never wise. As **BER** added, "By far the most important sales tool we have is our integrity. You can't make a good deal with a bad guy. Don't live one way and sell another."

You will not sign every deal, but if you hold yourself to the highest ethical standard, you will succeed.

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The best prospects are in your portfolio

By Peggy Bekavac Olson
Strategic Marketing

Most companies in the payments industry spend significant time and effort cultivating new business. In addition to focusing on new merchant acquisition activities, it's important to remember the customers who got you to where you are today, especially because it's much easier to drum up additional business from existing merchant customers than it is to find new ones.

A multitude of research studies on selling tout statistics similar to these:

- It's 70 percent easier to make a sale to someone you've sold to in the past.
- It costs six times more to get a new customer than it does to keep an existing one.
- It's 16 times easier to sell to an existing customer than to a new one.
- Acquiring new customers is five to 10 times the expense of retaining an existing one.
- The average spend of a repeat customer is a whopping 67 percent more than a new one.

Regardless of all the studies and the actual numbers, the important message to be gleaned is that your merchant portfolio can and should play a significant role in generating more revenue for your business.

Why is it easy to look for additional revenue from customers you've already won? Because these merchants are already familiar with you; their trust in the credibility of your business is already established. And if you've done your job well and the merchant experience has been a happy one, the likelihood of these merchants doing business with you again is a good bet.

Acquirers, ISOs and merchant level salespeople should never underestimate the potential for new revenue to be found by tapping existing clients.

Cross-selling and up-selling

Since you've already sold merchant services to businesses in your portfolio, you need to look at offering additional solutions and services that your merchants would find valuable. These add-ons to the original sale fall into one of two distinct categories: those for up-selling and those for cross-selling.

And although these terms are often used interchangeably, they are really quite different. Up-selling is getting your customers to spend more money buying a more expensive, more benefit- and feature-rich version of the same product or service they already have.

An example of up-selling is to identify the merchants in your portfolio with old equipment, like the outmoded POS terminals with limited functionality, and trying to move them to the latest Europay/MasterCard/Visa (EMV) equipment, a PC-based all-in-one package, or even one of the new mobile iPhone or iPad solutions.

Cross-selling is getting your merchants to spend more money with you by signing them up for new products and services that are complementary to your basic merchant services offering and that they want and need to improve their businesses. These are commonly called "value-added" products and services, and many are available to choose from in the marketplace.

Here are a few to consider adding to your basic merchant services offering, but know that the list provided is not exhaustive:

- Merchant cash advances
- Gift card programs
- Email and mobile marketing programs
- Check verification and electronification services
- Remote deposit capture
- On-premise ATMs
- Chargeback and data breach insurance
- Loyalty programs
- Payroll services
- Prepaid legal assistance

Exploiting a golden opportunity

The industry as a whole is doing a resoundingly poor job of up-selling and cross-selling. Most merchant portfolios today contain a large number of merchants who have never upgraded the original equipment that was installed when they first started accepting card-based payments. Additionally, portfolio penetration rates for value-added solutions and services remain surprisingly low.

In February 2012, the Electronic Transactions Association released the results of a merchant study conducted in conjunction with Trevelino/Keller. Of merchants surveyed, 78 percent indicated their Merchant Service Providers had sold them nothing but credit and debit card processing alone.

What this means is the opportunity for your business to make more money through up-selling and cross-selling is big. It also means too many ISOs and merchant level salespeople are out there selling on price alone. This adds

If you assume the merchants in your portfolio are aware of all of the products and services you have to offer and the value they can deliver, think again.

to the misery of dealing with the spiraling downward pressure on revenue associated with price compression, as well as the lack of any tangible way to strengthen merchant relationships to stave off attrition.

Taking action

If you assume the merchants in your portfolio are aware of all of the products and services you have to offer and the value they can deliver, think again. It's not their job to assess what they need from what you have to offer; it's yours. Remind your merchants of all the solutions and services your company offers, both new and old, and show them how they can be used to accelerate their businesses.

First and foremost, make sure your sales and customer support staffs know everything you sell inside and out. If not, get them trained and up to speed pronto. Then, include your entire merchant portfolio in all of your outbound sales and marketing efforts, right along with all your prospects. Make sure they're included in your telephone, mail and email campaign lists.

Give your existing merchant customers the opportunity to purchase more by asking for additional business from them again and again. If they're not interested, they'll say so. But when they're included in the same communications and promotions you give to new prospects, they'll know all you have to offer and remember when the time comes to buy.

Make it a priority to stay on the radar screen of current customers by regularly checking in. So much of up-selling or cross-selling success depends on being in tune to the needs and wishes of your merchants.

Keep in touch to identify and understand the business challenges they face by engaging in low-pressure, sales-pitch-free discussions about real business issues and problems. Listen carefully to identify up-selling and cross-selling opportunities consistent with their needs. Then let them know how your products and services can fulfill them.

Offering deals

Value-added solutions are considered bolt-ons or add-ons. They offer desirable, but typically nonessential, functionality beyond your basic merchant services offering. You may want to offer a discount for buying two or three of them at the same time bundled into a package in a "buy two, get one free" scenario to make them more attractive. Your customers will feel they got a deal, while your company will still benefit from the added revenue that multiple products and services can bring – without taking too much of a bite out of your profit margin.

So while your business always needs new merchants, don't forget that the easiest and most predictable source of new revenue is right under your nose. It comes from merchant customers who already know your company. Make an effort to give up-selling and cross-selling a try if you want to make more money from the merchants you already have. You'll be pleasantly surprised when the money starts rolling in.

Peggy Bekavac Olson founded Strategic Marketing, a full-service marketing and communications firm specializing in financial services and electronic payment companies, after serving as Vice President of Marketing and Communications for TSYS. She can be reached at 480-706-0816 or peggyolson@smktg.com. *Information about Strategic Marketing can be found at* www.smktg.com.

Fifty little things I've learned

By Jeff Broudy
Total Merchant Services

My first real job was with a national accounting firm over 25 years ago. Since then, I've worked with a lot of great (and not so great) people whom I continue to learn from every day. Following is a list of the little things I've learned that have helped me, and others, during my career. I hope the list helps you as well.

1. Block out unscheduled time in your calendar ever week. You'll need it.
2. Try not to gain weight when your work-life balance is not optimal.
3. Don't resort to email when someone wants to talk to you.
4. Listening is more important than talking.
5. If someone asks you to lunch, accept the invitation.
6. Be five minutes early to a meeting, 15 minutes if you are leading it.
7. Make someone laugh every day.
8. Celebrate the victories small and large.
9. Put more in your 401(k) than you spend on clothes in a year.
10. Find a mentor; be a mentor.
11. If something doesn't feel right, it's not.
12. When you start longing for the weekend on Monday, take a vacation or find a new challenge.
13. Don't text and drive – please.
14. You're only as good as the worst performer on your team.
15. A problem is usually not as bad as it first appears.
16. Owning every outcome changes the way you approach everything.
17. You can learn a lot from people who decide to leave a job.
18. Good questions are as important as correct answers.
19. It's usually better to show up in person.
20. Think ahead, way ahead.
21. It's easy to lose touch with customers and employees. Embrace them.
22. Goals are more achievable when written, read and reviewed.
23. There are many forms of recognition. All are important.
24. Put birthdays in your calendar as annual recurring meetings.
25. If someone offers you a mint, take it.
26. Be careful with Facebook and the "Send" button.
27. Preparation trumps nervousness.
28. When your boss makes fun of you in a group, you're doing all right.
29. Spend more time with employees who talk to customers every day.
30. Don't be the last one to call it a night at an off-site company function.
31. Define what you want to learn every year in January, and then learn.
32. Take action to make your leader's job easier.
33. Shorten your emails; be explicit if you require a response; treat cc's as an inform only.
34. Put yourself in someone else's shoes – often.
35. Go out of your way to make new people feel welcome.
36. Treat the company's money the way you would treat your family's money.
37. The people who make you nervous don't want you to feel nervous.
38. The longer the working relationship, the harder it is to give and receive useful feedback.
39. If it's important, don't rely on email only.
40. Plan your vacations during the right times. They will be more enjoyable.
41. Silence is a great negotiating tool. Let others talk.
42. If you're not sure how to pronounce someone's name, call the person's voice mail late at night.
43. If everyone on your team agrees with you too often, look for stronger teammates.
44. A second chance is enough.
45. Fully appreciate where you are right now.
46. Don't wear white socks with black pants.
47. Ask people what they are reading.
48. Use spell check on both your computer and your mobile device.
49. If you are not sure whether you should use your personal or business credit card, use the personal one.
50. Talking about your imperfections makes you more approachable and likeable.

It's often the little things that make the biggest differences (I guess that's number 51). I love receiving feedback. Please send me your thoughts on this list, including any of your "little learnings."

Jeff Broudy has been a CPA, owner and founder of a small business, and Sales Leader for Intuit Inc.'s Payment Solutions Division. Most recently, he joined Total Merchant Services as Vice President of Sales and Marketing. Contact him via email at jbroudy@totalmerchantservices.com.

Legal ease

MFA: The acquirer's role in taxing online sales

By Adam Atlas
Attorney at Law

The federal Marketplace Fairness Act (S. 1832) is not yet law. If it is enacted, as many believe it will be, online merchants will be under a strict requirement to collect the same sales taxes already charged by their brick-and-mortar counterparts.

Also known as the Amazon tax, the MFA is supported by associations of shopping centers and chambers of commerce, all of which are losing business to online competitors that do not collect applicable state sales taxes.

The purpose of this article is to serve as an early warning to the acquiring industry, for which the MFA may be as boisterous a topic as the Payment Card Industry (PCI) Data Security Standard (DSS), the matching of taxpayer identification numbers – or TIN-matching, and Visa Inc.'s Fixed Acquirer Network Fee (FANF), all rolled into one.

Just to put things in perspective, the MFA would levy taxes on billions of dollars of online sales and result in the collection of percentage points on the face value of those transactions.

No more free lunch for e-tailers

The MFA would require out-of-state online retailers to collect state and local taxes just as in-state merchants do. The taxes applicable to each individual sale are a function of the location of the merchant, the location of the buyer, the type of goods or services sold and the purchase price. The online versus brick-and-mortar playing field would be leveled – at least on the subject of taxes. Driving and parking issues will still differentiate these two ways of shopping.

MFA intermediaries as bounty hunters

Naturally, no individual online merchant could look up the tax applicable to each of its sales in real time. Enter the MFA intermediaries. These businesses provide real-time look-up services for the tax applicable to a given sale.

For example, if I am selling a book from my online store, based in Arizona, and the buyer is in Vermont, the intermediary will be able to determine the correct tax that must be added to the total price for that individual sale. As a merchant, I would then automatically add the item to my shopping cart and collect the tax.

At the end of the month, the intermediary would bill the merchant for the tax levied that month. Then, the intermediary would remit the right amount of tax collected by the merchant to the correct state revenue departments. Intermediaries are compensated by the states for this effort, which is considerable, by a small percentage of the taxes they collect. In this sense, intermediaries are like state tax bounty hunters.

Opportunity for acquirers

The acquiring market has a golden opportunity here to enable MFA intermediary services for their merchants. The pricing models for this additional service will vary across the industry, but one thing is certain: if the MFA becomes law, the acquiring market has an opportunity to earn fees in exchange for assisting in the delivery of MFA support to merchants.

How can acquirers integrate? Some of the MFA intermediaries are sophisticated enough to integrate at any level of our industry. For example, the look-up and tax-collection services may be sold to merchants, shopping carts, gateways, merchant level salespeople, ISOs, super ISOs, pro-

cessors, third-party processors, Internet payment service providers, banks, or payment networks.

One way to minimize the number of disputes is to discuss with your processor how future regulatory items should be priced for mutual benefit.

The service is needed, of course, at the merchant level. But like so many of the services in our industry, it can be offered to merchants through any of a number of channels. Acquirers that don't want to miss the (big) boat on this new service should probably engage with a competent MFA intermediary to integrate the intermediary's offerings into the suite of services they offer merchants.

Work out terms with your acquirer now

How should ISOs prepare? Don't let your acquirer be the last to the MFA party. ISOs should query their acquirers to learn what their strategies will be and how ISOs will be compensated on revenue the acquirer would make from the new service should the MFA become law.

As was the case with the PCI DSS, TIN-matching and FANF, disputes will arise between processors and ISOs that cannot agree on how to price merchants and compensate each other for the new service. One way to minimize the number of disputes is to discuss with your processor how future regulatory items should be priced for mutual benefit.

Cash advance providers should think about their split funding arrangements and prepare for large automated clearing house debits from merchants in the form of sales tax remittances at the end of each month.

Brother, can you spare a tax dollar?

You may be tempted to dismiss this as a waste of time to prepare for a law that might never pass. However, one need only look at the towns going bankrupt around America to know that they need more tax revenue. The MFA attempts to correct the inherent unfairness of competition between online retailers who pay no tax and brick-and-mortar merchants that pay multiple taxes.

States' and municipalities' dire need for revenue to keep the lights on, together with the competitive disadvantage brick-and-mortar merchants currently face, will likely bolster bipartisan support for the MFA, or a similar initiative.

In the event the MFA passes, failure to collect and remit the applicable sales taxes could lead, as in all tax compliance cases, to serious penal consequences for merchants. Bringing all merchants into compliance will take time, but the power of the state to enforce tax code will motivate them.

Given the enormous sums of money in play, we should plan for extensive discussion of the MFA and possibly its integration into acquiring sales and processing. My firm publishes a short blog on the MFA at *http://marketplacefairnessact.blogspot.ca* with some useful links and background.

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Are you ready for mPOS?

By John Biscevic
retailcloud

Simply put, mPOS is point of sale combined with a mobile device. But don't confuse it with mobile payments or think it is about the device. It's not. As a matter of fact, lose that idea right now, lest ye be stuck in 2010.

Mobile payments allow for nothing more than card processing. On the other hand, mPOS is about commerce and the functionality of its enabling software. It combines the features of a POS system with the freedom of a mobile device, but not a specific device.

Square Inc. would want you to confuse the two. Square is in the mobile payments space, right? Wrong. Look at its Register product, new loyalty rewards program and inventory management updates. The company clearly understands commerce and is planning to capitalize on commerce-related functionality.

Square, like any successful startup, continues to evolve. It is capturing market share by offering low-cost processing. Square isn't lowering processing rates because it has to, but because it can.

The company's long-term strategy will be to offer a significant merchant base – which it wins by offering thin-margin processing – expanded commerce-related functionality, either for a fee or by capitalizing on the underlying consumer shopping data.

At Macworld 2007, Apple Inc. founder Steve Jobs quoted hockey great Wayne Gretzky: "I skate to where the puck is going to be, not where it has been." That concept also applies to this industry. While the proverbial puck may be in the payments space right now, it is definitely on the move.

Mobile payments have been readily available via Square for a year. PayPal Inc.'s Here and VeriFone Inc.'s Sail have also entered the space. Those provide the ability to process card transactions, for now.

Focus on functionality

Innovation creates a constantly changing market. Understanding the value of something not yet available and believing in it enough to invest time and resources is deemed "visionary." Thus, only 16 percent of people are early adopters or innovators in the technology lifecycle. And while those people typically carry the biggest risk, they also reap the greatest rewards.

Square's executives are counting on you to miss the boat on mPOS by viewing mobile devices as just a way to process card transactions.

Square's product creates a new sales paradigm for merchants by putting commerce-related software on a tablet or smart phone and directly into the hands of a salesperson. It helps merchants make more money, better manage their businesses, engage with customers and create positive shopping experiences. Square is adding more commerce-related functionality, while many other providers are just barely getting to mobile payments.

Square may take even more processing business from ISOs. Every transaction processed by Square is a transaction lost by an ISO. The more you, the competition, focus on where the proverbial puck was (in this case, payments), the better off Square is.

According to the company, merchants using Register are five times more active on a weekly basis than users of the Square Card Reader, and they process approximately twice the revenue.

Tim Munto of Total System Services Inc. (TSYS) recognizes this as the new direction. In a recent interview, he said, "All the new entries are causing some to speculate that the traditional ISO … is not going to be successful, and that's true. But those that embrace change and bring to market all the innovation that is occurring will continue to be quite successful.

"Those who stick to the old ways of doing business are most vulnerable. Those who continue to sell on price and price alone or want to give away free terminals – that value proposition is definitely ineffective."

He gets it, and TSYS is partnering with third-party solution providers to bring commerce-related functionality to ISOs and merchants. TSYS is looking ahead.

Be a Sherpa, not a pied piper

Retailers want a relationship with someone in the know. To help them evaluate available options, retailers want someone following industry trends to recommend appropriate solutions. They want someone to help them make more money, grow and better manage their businesses. Square won't readily tell them about encryption and security issues or mention that under certain circumstances it will hold merchants' money for 30 days.

That is why merchants rely on you to stay abreast of industry developments and make them aware of what they need. I'm not telling you anything you don't already know, but your merchants trust you and look to you for recommendations. In many cases, they will do what you recommend because of that trust. I'm not suggesting that you abuse it, just that you understand it for what it really is: the most important factor in the equation.

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Inc. 500

Merchants could buy extremely targeted ads delivered only to the specific consumers most likely to be interested in their merchandise. Now, layer an instant coupon service on top of the ads and other data.

I asked one of our partners what his merchants buy. "They will buy whatever I tell them to buy," he said, not because he's cocky, but because he knows they trust him. He has a history of taking care of them and steering them in the right direction.

Concentrate on sales growth

Do you imagine your merchants staying awake at night wondering how they're going to reduce their processing costs by 20 basis points? Probably not. They're more interested in making more money. They care about processing only when you or your competition brings it up.

Engage merchants in conversations about commerce-related functionality, such as a solution that includes a recommended-items function – think Amazon.com – that will help them sell more. Amazon claims its recommended-items engine is responsible for 35 percent of its revenue. Even a 10 percent boost could mean thousands of dollars every month in sales to a retailer.

Square, PayPal and VeriFone all offer solutions that allow a merchant to get in front of their customers without a counter between them. Sure, they can process payments away from the store, but retailers find more value in the ability to engage customers.

For me, data really unlocks some cool functionality. Think about what can be done with currently available data. Imagine you're a merchant, and your ISO tells you about an advertising platform that combines the purchase history of consumers with publicly available social information and location awareness.

Independently, these types of information don't offer a lot of value, but together they can. If that same system has a merchant's inventory, we can enable the merchant to determine which consumers near them will be most interested in their available products.

Merchants could buy extremely targeted ads delivered only to the specific consumers most likely to be interested in their merchandise. Now, layer an instant coupon service on top of the ads and other data.

Merchants who have bought in to the ad network get exponential marketability with the added value of instant gratification. I don't know how much research Square, PayPal and VeriFone have done, but I suspect it is a considerable amount.

Don't dismiss the new kid on the block

That's all fine and well, but what is an ISO to do? First, don't underestimate Square. It's coming for and getting your merchants. Excite.com underestimated Google. In 1999, the Google founders reportedly offered the fledgling search engine to Excite@Home CEO George Bell for $1 million, but he declined.

Google now has a market capitalization of about $200 billion, while Excite lost market share and was, itself, acquired.

The lesson of the Excite story is to not underestimate Square. Many times I have heard, "Square is focused only on kiosks and farmers' markets." But with a $4 billion valuation, Square has much bigger plans than that. Square is going down Main Street.

Silicon Valley investors are savvy. They understand their portfolio industries, do a lot of due diligence and have subscribed to Square's growth plans. And so, you too must find solutions to offer Main Street. Knowing the threat is only half the battle. The other half is doing something about it.

That's where mPOS stands now, but where is it going? What does mPOS look like, longer term? Perhaps the next iteration will be called POSm and will be integrated into cloud commerce solutions with social buying data.

And perhaps ad networks will integrate into mobile POS with inventory availability layered on top. Three things are certain:

1. mPOS will be defined by features and functionality, not devices.
2. Square will offer something like it.
3. ISOs must offer more than just processing if they are to survive.

What are you doing to survive?

John Biscevic is retailcloud's Vice President of Strategic Relationships. He is a Silicon Valley technology entrepreneur who came from Skaboosh.com Inc., a company that connects merchants and consumers in the activities space. He founded several technology startups and has held senior technology and management positions at Bank of America Corp., Chiron and Chevron Corp. Contact John at jbiscevic@retailcloud.com.

MeetTheExpert

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Mark Cerminaro

Senior Vice President of Sales and Marketing at RapidAdvance

Merchants needed cash advance before the economic meltdown in 2008, according to Mark Cerminaro, Senior Vice President of Sales and Marketing at RapidAdvance. "There were still a lot of obstacles for individuals who had that kind of need-based desire for capital," he said. It was that need that convinced Cerminaro to make the move from financial adviser at Morgan Stanley to inside sales manager at RapidAdvance.

Chief among the skills Cerminaro honed as a financial adviser was communication. "I would meet with clients, and we would lay out their financial picture and get an understanding of what they wanted to accomplish and what their needs were, and then be able to identify what was the best fit for them," Cerminaro said.

That attitude prevails at RapidAdvance. "We've really embraced that type of culture at Rapid," he added. "You really have to listen to what people need versus telling them what they need."

Bethesda, Md.-based RapidAdvance has partnered with over 1,000 ISOs to resell its merchant cash advance (MCA) product based on that philosophy. "They know best what they need," Cerminaro said. "You have to guide them and educate them. But you have to understand what they're looking to do to make a successful partnership."

Timing's right for MCA

Cerminaro is convinced MCA is a product for the times. He feels that even if merchants could get bank loans, MCA is still the better option because of how the product is structured, with advances repaid over time via percentages of credit card receivables.

"Since we're buying a percentage of their future sales, we only get paid when they make a sale," he noted. "So if business takes a dip for one month, and fluctuates, and their sales aren't necessarily consistent all the time, they're simply paying us less in that month."

MCA requires a different selling strategy for ISOs as well. It's the type of sales tool available at just the right time, according to Cerminaro. "It doesn't have to be a hard sell where I can get you money right now," he said. "You want them to know that you can get them that capital.

"What you want is that when that need does arise – you know, their oven breaks, their air conditioning goes out, and it's a restaurant and it's in the middle of the summer, and they need that money and they need it quickly – you want to be that phone call that they make."

But that doesn't preclude ISOs and merchant level salespeople from mixing MCA into pitches and steering the conversation away from the standard rates and equipment play, Cerminaro said.

"So it's something where they can find a different need that the merchant may have that previously they weren't able to say we can take care of," he added. "And they're able to continue to offer something to fill that need and ultimately offer their processing services as well."

The game in the name

Selecting or changing a business name is tricky, for a name can help accelerate or retard company growth. Many factors go into choosing a name – how it sounds when said aloud, what it conveys about the company, how distinctive it is when compared with competitors' names and how memorable it is. It is a subjective exercise to evaluate a company name; however, certain basic criteria seem to separate good names from bad.

1. **Syllables:** Many well-known and successful payment businesses have only two or three syllable names. It's not a hard and fast rule, but such names are usually easy to pronounce and remember.
2. **Acronyms:** Sometimes an acronym is more distinctive than the name it abbreviates. But sometimes companies run the risk of obscurity or confusion when using acronyms. For example, Marvelous Payments Inc. and Magnificent Processing International both reduce to the acronym MPI, which could be confusing and counter productive in the differentiation game.
3. **Target audience:** Companies focused on target markets often echo those markets. For example, a prepaid card provider targeting teens may have a name that plays off current popular language used by teenagers, while a provider focused on a certain immigrant population would choose a name that population can relate to.
4. **Attributes:** A company that strives for the highest level of data security may have "secure" or "safe" in the name. Or if it's a company that prides itself on the speed of its service delivery, it might have a name that mimics the idea of speed and real-time transaction processing.
5. **Quirkiness:** Companies risk being branded as lightweight if they try to be too clever. Transposing letters to make a name sound unique, lower casing entire names and mashing two words together into an awkward combination are common traps. In comparison, a less flashy, basic name can make a company look like a bastion of stability.

A name only defines a business to a point. If an ISO establishes a solid reputation for providing excellent customer service, most merchants won't care much about its name.

Research Rundown

Cooperation needed for mobile wallet adoption

Hidden controls are apparently holding back the development of mobile wallet technology, according to a white paper published July 6, 2012, by a task force created by European banking industry association **Mobey Forum Mobile Financial Services Ltd.** This is the third installment in a series of Mobey Forum task force papers on mobile wallets.

The task force found that a mobile wallet implementation requires a complex variety of systems to interoperate if it is to achieve mass adoption by consumers and merchants. Researchers pointed out stakeholders in those systems have almost no experience working together. Thus, they called on rivals in the arena to set aside differences and create commonalities, standards and service offerings that will encourage mobile wallet adoption.

"Collaboration is vital if the technology is to move forward," the paper stated. "No single group of stakeholders has sufficient expertise, infrastructure capabilities, market penetration or consumer loyalty to dominate the market with a single mobile wallet solution." Hidden control points defined in the paper include the point of interaction, value and payment services, and merchant back-end systems.

The task force findings substantiate Mobey Forum's position that the mobile wallet must deliver unique value to the consumer and merchant if it is to achieve its full potential. The paper stated that consumer engagement from pre-purchase to post-purchase processes will be critical elements in mobile wallet adoption. Researchers also noted that content for mobile wallets must be developed with openness, usability and relevance in mind if consumers are going to share personal information with merchants and if merchants are to establish relationships with customers through mobile sensors, interfaces and technologies.

For a copy of *Mobile Wallet: The Hidden Controls*, visit: *www.mobeyforum.org/press-resources/white-papers.*

Merchant payment security issues revealed

A webinar presented jointly by **CyberSource Corp.** and **Trustwave** outlined key challenges and tactics identified in a payment security survey of Level 1 and 2 merchants conducted by the **Ponemon Institute**. In addition to vulnerabilities created by employees, other barriers to higher-level payment security cited by merchants were discussed in the survey results session.

Organizational barriers to payment security:

Lack of resources	43 percent
Ability to assess and prioritize security tasks	43 percent
Complexity of enabling security technologies	30 percent

Source: *2012 Payment Security Survey* results webinar

Changes in store at POS

The *2012-2017: Retail Point of Sale Forecast* by **Javelin Strategy & Research** revealed that card products, dominated by debit, have displaced cash as king at the retail POS.

The study tracks the mix of payment data, identifying key drivers expected to shape transaction trends in credit card, debit card, cash, paper check, prepaid card, gift card and mobile payments in the years ahead.

Text alert fraud fighters

A white paper by **The Members Group** titled *Turn Mobile Phone Users into Fraud Crime Stoppers* offers information to dispel common misconceptions expressed by financial institutions about the effectiveness of fraud text alerts.

The paper summarizes the potential advantages of using this simple, yet noninvasive tool to reach cardholders and stop fraud in its tracks.

A P2P payment analysis

According to the *2012 Person-to-Person (P2P) Payments Study* by **First Annapolis Consulting**, electronic P2P payments represent a market opportunity of $80 billion to $120 billion annually.

The study analyzes 12 industry leaders spanning mobile wallets, banking applications and standalone solutions. And it provides data on the functionality, performance, business models and pricing present in the P2P arena.

Rapid PCI compliance for merchants

Product: PCI Rapid Comply

Company: First Data Corp.

To ease the burden of data security compliance, First Data Corp. launched PCI Rapid Comply, an online Self-Assessment Questionnaire (SAQ) and vulnerability scanning tool designed to assist small to midsize businesses (SMBs) achieve and maintain Payment Card Industry (PCI) Data Security Standard (DSS) compliance.

Delivered as a merchant-facing, help-based web application, the solution reportedly simplifies the entire PCI compliance process for busy merchants. "Many smaller merchants have been under the assumption that they need to be security experts to be PCI compliant, and the process can be overwhelming," said Bruce Dragt, Senior Vice President and Division Manager, Payment Acceptance at First Data.

"With the PCI Rapid Comply solution, merchants can now quickly and easily complete the necessary SAQ online at any time with extensive built-in help including live chat from First Data."

The integrated compliance service is being offered directly to First Data customers as part of the company's comprehensive suite of data security solutions. "Because our customers are already in our system, we can streamline the process by helping to pre-populate some of the most difficult technical questions included in the SAQ," Dragt noted.

According to First Data, using the PCI Rapid Comply tool can reduce the number of questions merchants must answer on the SAQ by as much as 85 percent. To operate the system, merchants must answer a few pre-SAQ questions. PCI Rapid Comply then directs each merchant to the proper version of the SAQ for his or her business and fills in accurate answers to designated questions.

A real-time dashboard tracks merchant progress in the PCI compliance process and shows what percentage of the SAQ has been completed. Once a merchant achieves PCI certification, PCI Rapid Comply generates and submits to merchants customized Information Security and Incident Response Policies based upon which version of the SAQ was completed.

Features of PCI Rapid Comply include:

- Streamlines PCI compliance process for SMBs
- Offers merchant-facing, online SAQ with live chat
- Pre-populates appropriate answers to SAQ questions
- Executes automatic quarterly vulnerability scans
- Provides 24/7 access to online PCI compliance tools

For merchants who are required to perform quarterly scans, PCI Rapid Comply includes integrated vulnerability scanning tools.

After a merchant sets up the first scan, the application automatically executes quarterly scans, reducing the time necessary to conduct subsequent scans. If the system should detect a compliance issue, PCI Rapid Comply produces a remediation plan to help merchants correct the problem. Also, because the tool is online, merchants have 24/7 access to it.

First Data Corp.

800-735-3362
www.firstdata.com

Cloud-based POS platform for SMBs

Product: NCR Silver

Company: NCR Corp.

Compared with large enterprises, millions of small businesses remain at a technical disadvantage when managing inventory and connecting with customers. To close the technological gap, NCR Corp. recently introduced NCR Silver, a cloud-based POS software platform capable of performing all major business functions via an Apple Inc. iPhone, iPad or iPod Touch device.

"NCR Silver takes the best of big-business technology and brings it to small business in an affordable package that's easy to use, enabling them to focus all of their attention on running their business, not their technology," said Christian Nahas, NCR Vice President of Small Business. "NCR Silver is much more than a simple credit card payments swipe; it enables business owners to do the things they need to succeed."

NCR reported that the analytics tools within the platform allow merchants to track inventory, transactions, profit margins and other critical data in real-time. Quick-view graphical report dashboard and detailed reporting options make it possible to view sales and transaction details as they occur. And merchants can track the profitability of an individual item or product category and adjust pricing, whether sold by piece or weight. Discounts can be applied to an individual item or entire ticket.

A quick tips guide offers instructions on how to set up inventory items, employee access and store information, NCR noted.

Integrated credit card processing includes online, automated credit card settlement and secure end-to-end encryption to protect card data. A built-in template enables merchants to connect with customers through targeted digital marketing campaigns designed to welcome new customers or inform existing customers of sales, new inventory and store events.

According to NCR, merchants pay a flat monthly subscription fee to use the service for the first device registered and a transaction fee for each device thereafter, up to a monthly maximum.

The subscription includes access to the POS software, back-office analytics and reporting from any registered Internet-connected device, ongoing alerts, digital marketing tools, 24/7 customer support and next-day replacement of any NCR Silver hardware purchased.

Features of NCR Silver include:

- Real-time access to critical business data
- Quick-view sales dashboard and custom reporting
- Profitability tracking by individual item or category
- Data encryption through SecurePay end-to-end solution
- Customer purchase history tracking and digital marketing

NCR Silver reportedly integrates with other POS equipment, including cash registers, scanners and receipt printers, which are also available through NCR. The system requires Internet connectivity using Wi-Fi or a data plan from a mobile provider. The application can be downloaded from the Apple App Store. NCR Silver is initially available to businesses in the United States only.

NCR Corp.

877-630-9711
www.ncrsilver.com

DateBook

Visit *www.greensheet.com/datebook.php* for more events and a year-at-a-glance event chart.

Trade Associations

Women's Network in Electronic Transactions (W.net)

Career & Leadership Summit

Highlights: Strategies for Advancement: Aligning Personal Talents with Professional Opportunities is the theme of W.net's annual leadership summit, which opens with an evening reception. On the main agenda are a Diva Awards ceremony, educational sessions and a networking reception. Featured guest speakers include Lifedesigns LLC President and Chief Executive Officer Gail Blanke, *Selling in a Skirt* author Judy Hoberman, AT&T Vice President of Advertising Valerie Vargas, and Transformational Leadership Inc. CEO Henna Inam.

W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities.

When: Sept. 10 – 11, 2012
Where: Hyatt Regency Hotel, Atlanta
Registration: *www.w-net.biz*

Trade Associations

Western States Acquirers Association

WSAA 9th Annual Conference

Highlights: WSAA's 9th annual conference will provide networking opportunities and a chance to participate in breakout sessions and panel discussions about key issues impacting the payments industry. Keynote speaker Jeffrey Hayzlett, a former Fortune 100 business executive and author of *The Mirror Test* and *Running the Gauntlet*, will present fresh perspectives on professional development, mass marketing and social media.

Attendees who register for the optional golf tournament in Fountain Valley's Mile Square Golf Course will be treated to a continental breakfast, opportunities to win prizes and barbeque lunch afterward. The conference site is situated on the sprawling sands of Huntington Beach, Calif., also known as Surf City, U.S.A.

When: Sept. 26 – 27, 2012
Where: Hyatt Regency Resort & Spa, Huntington Beach, Calif.
Registration: *www.westernstatesacquirers.com*

Trade Associations

WesPay

Payments Symposium 2012

Highlights: Quality education at a reasonable price is the aim of Payments Symposium 2012. In keeping with that goal, the event offers networking opportunities with hundreds of payment professionals, credits for those seeking to gain or renew their Accredited Automated Clearing House Professional or Certified Treasury Professional status, information on the latest developments in the payments industry, and guidance from leading industry experts.

Headliners slated to speak at the symposium include Lee Wetherington, Director of Strategic Insight at ProfitStars; Jim Van Dyke, President and founder of Javelin Strategy & Research; and Janet Estep, President and CEO of NACHA – The Electronic Payments Association.

When: Sept. 17 – 18, 2012
Where: Hard Rock Hotel, San Diego, Calif.
Registration: *www.wespay.org/symposium/registration.htm*

Industry Events

Bank Administration Institute

2012 BAI Retail Delivery

Highlights: For more than 30 years, BAI Retail Delivery has showcased innovations in banking and technology, as well as insights from global thought leaders. This year's event will feature banking and financial services professionals in sessions covering multichannel strategies, sales effectiveness, technology for business, marketing and management, mobile services, compliance, and more. Over 200 exhibitors and thousands of senior-level decision makers are expected to attend.

Slated keynote speakers include Sir Richard Branson, founder of Virgin Group; Guy Kawasaki, former Chief Evangelist for Apple Inc.; and Aaron Dignan, Founding Partner and CEO of Undercurrent. New this year will be the prepaid, debit and card services hub, and a business and customer analytics showcase on harnessing big data.

When: Oct. 9 – 11, 2012
Where: Walter E. Washington Convention Center, Washington
Registration: *www.bai.org/events/registration/register.aspx?ec=3966&rt=conferences*

Inspiration

WaterCoolerWisdom:

You don't get paid for the hour. You get paid for the value you bring to the hour.
– Jim Rohn

A handshake with that cup of Joe

There is nothing quite like the warmth of a fresh cup of coffee. The first frothy sip has such appeal that millions of Americans stand in line for it as part of their daily ritual. Is it any wonder the longest lines at payments industry tradeshows are at the nearby coffee shops?

Many deals have been sealed over a cup of java at tradeshows. The same strategy can also be applied to merchant alliances as long as your objective is to determine how you can enrich the merchant's business. What would be equivalent to a swirl of caramel in the retailer's cup? Could it be testing a new loyalty program? A POS system that handles Europay/MasterCard/Visa, near-field-communication and mag stripe payments via an affordable lease program? The variations are limitless, but value is core.

Perfecting the coffee meeting

Here are four general coffee-meeting steps that can lead to positive results:

1. **Common ground:** Agree to meet with your merchant at his or her favorite coffee house at a time most convenient for the merchant. Meeting outside of the hustle and bustle of the retailer's business offers a pleasant reprieve that is conducive to open conversation. Offer to pay for the beverage, as well as any side items the merchant might enjoy.

2. **Fresh pour:** Once settled in at a suitable table, maintain an open forum. Allow the merchant to address concerns about business and life. Listen carefully for clues about where the retailer's business is headed, and consider how you might help the merchant connect with customers in more meaningful ways through technology or untapped sales channels – offer to guide the merchant through the process.

3. **Last drop:** Shortly after the merchant has finished his or her beverage, bring the meeting to a close. Coffee meetings tend to be brief, which explains their popularity. If there are unfinished details or paperwork to sign, set an agreeable time to drop by the merchant's store. Close the meeting by outlining the next steps to be taken by both parties.

4. **More, please:** If follow-up to the first coffee meeting has proceeded toward attaining stated goals, offer to meet periodically with the merchant at the same location, keeping in mind that with each cup of Joe, you have an opportunity to strengthen the business relationship. Use subsequent visits to check in and resolve any issues early on – and to set new goals.

The plan is beautifully simple yet, if executed well, the ramifications can result in bonds that last a lifetime.

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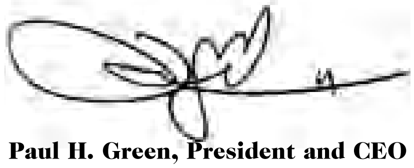

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IS NOW

HARBORTOUCH

We're changing our name!

Our free Harbortouch POS program has been an enormous success, differentiating our sales partners and enabling them to build a stronger merchant portfolio. We are confident that this is the future of the industry and, as such, it has become increasingly central to our operations. To reflect the fact that we are moving in this direction, United Bank Card's name will be changed to "Harbortouch". It is important to note that we will be the same company, same management and same employees; it is simply a name change to highlight our shifting focus as an organization.

Introducing

HARBORTOUCH POS *Elite*

THE FREE POS SYSTEM FOR HIGH-END MERCHANTS

All-in-one design - the CPU is built right into the monitor

Cast aluminum body for maximum durability and sleek appearance

State-of-the-art processor delivers blazingly fast speed

Massive storage and impressive power

Visit www.isoprogram.com today

for more information on the free POS program and these exciting new announcements

For more information, contact:

Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136

Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145

Brian Fitzgerald, National Sales Manager Central: 800-201-0461 x 257

Max Sinovoi, National Sales Manager West: 800-201-0461 x 219

HARBORTOUCH

PLUS OTHER EXCITING IMPROVEMENTS TO THE EXISTING FREE POS PROGRAM:

- **Innovative Enhancements to Harbortouch Hospitality**
  - Harbortouch Reservations - allows restaurants to accept online reservations and track them through their POS system
  - Harbortouch Tableside - enables servers to input orders right at the table using an Apple iPad®
- **Major Improvements to Harbortouch Retail**
  - Color/size/style matrix
  - Support for rentals and consignment
  - Robust customer and inventory management
  - Vendor and PO management
  - and many more new features!

NEW SPECIALTY SOFTWARE!

- **NEW Harbortouch Delivery**
  - Perfect for pizzerias, Chinese restaurants and any other hospitality business offering delivery services
- **NEW Harbortouch Spirits**
  - Custom features for wine and liquor stores
- **NEW Harbortouch C-Store**
  - Designed specifically for convenience stores

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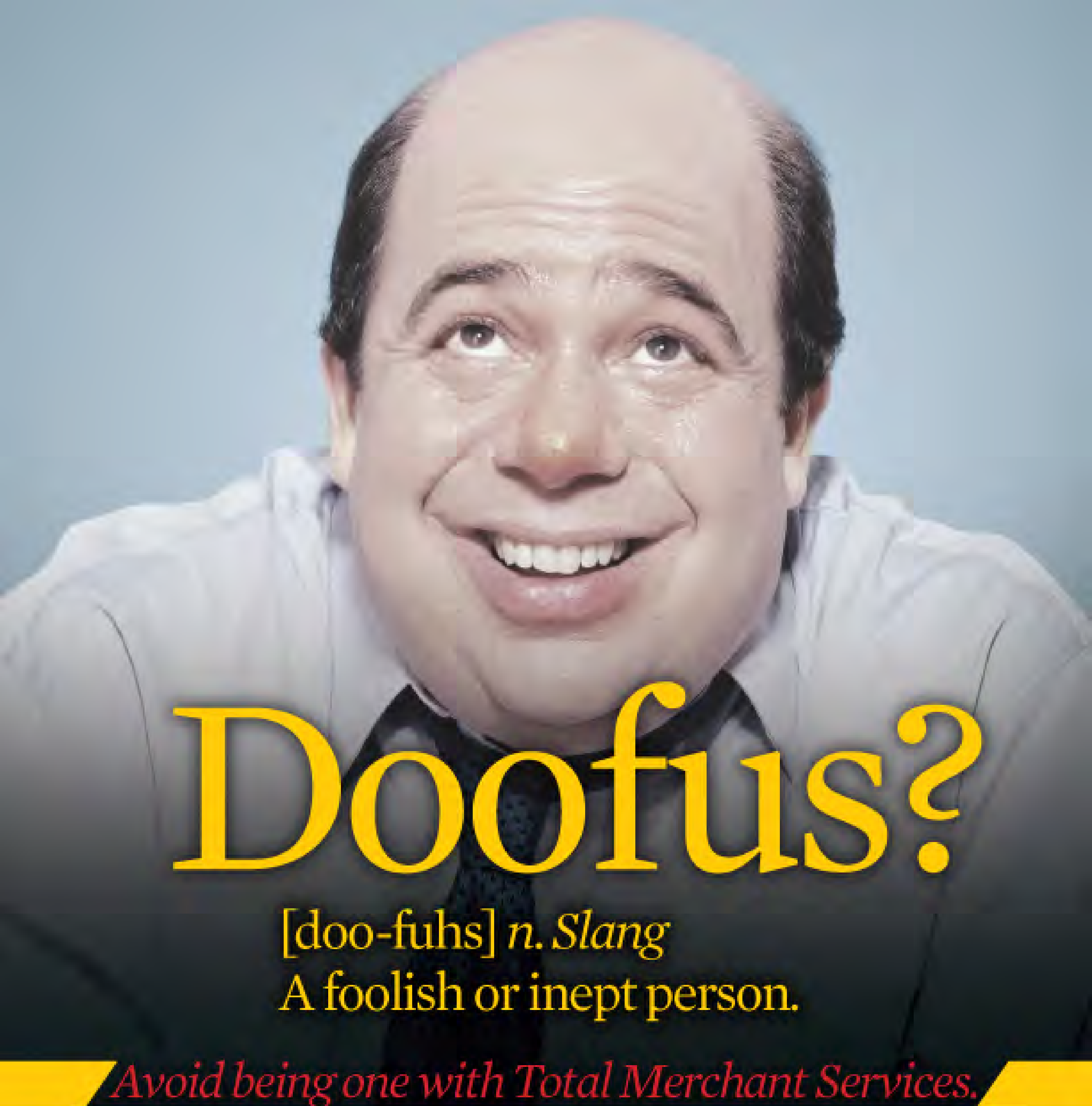

Doofus?

[doo-fuhs] *n. Slang*
A foolish or inept person.

Avoid being one with Total Merchant Services.

Who wants to get slapped with an undisclosed $79 - $99 Compliance Fee? ***Not your merchants!***

Who wants to get angry phone calls from merchants who feel they were tricked? ***Not You!***

Who is going to get a referral from those angry merchants? ***Not You!***

See the many ways Total Merchant Services **protects you and your merchants!**

Hidden Compliance Fees?
Angry Merchants?
Don't take it anymore!

We've got some better ideas! Take a look:

You can have it all! You can still earn an 8x upfront bonus, 50%-65% revenue sharing splits, the best free terminal placement programs in the business, with an honest, transparent, reasonable Compliance Program.

Total Transparency

Total Merchant Services protects you and your merchants with total transparency. We take a reasonable approach in disclosing the financial details of our Compliance Program to every new merchant on our Schedule Of Fees in simple, clear language.

Easy To Sell

All our merchants receive the Compliance Program at no additional charge during the first year of their processing relationship with us and these services may be accessed immediately. On the 13th month of processing, and from that point forward, merchants will be assessed a fee of $4.95 per month. We even offer a $25,000 Compliance Reimbursement Program to make sure our merchants feel good as they are getting something in return.

Honesty is our Everyday Policy

At Total Merchant Services, you'll find no compliance fee trickery and zero surprises. We believe in being upfront, honest and ethical in all of our business dealings. We will not use bait and switch tricks or surprises to get over on merchants or sales partners. We know that doing anything less would be a recipe for disaster—not growth.

Still not sure? Want to be convinced?

If you'd like help comparing our program, including the true impact of the Compliance Program fees, please give us a call. We'll show you that chasing a deal that looks better is NOT going to make up for a Compliance Fee Program that destroys your reputation and your business.

Who's going to have happier customers?

You!

Who's going to earn more money?

You!

Who's going to get more referrals?

You!

Who's going to break through in '11?

You!

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