



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

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Insider's Report on Payments

It's Time to Prepare for a New Era of Paperless Checks

By Patti Murphy

Earlier this month, during the Northeast Acquirers' Association (NEAA) meeting in Vermont, I took part in a panel discussion of the Check 21 Act. Some of the questions posed by the audience gave me the sense that Check 21 isn't something people in the acquiring business have spent much time pondering.

With implementation of Check 21 set for this fall, it's a good idea to start considering the implications of this new law, and in particular what it will mean for check acceptance at the merchant checkout.

The Check 21 Act—shorthand for the Check Clearing in the 21st Century Act—will usher in the most significant changes to payments businesses since the introduction of ATMs. To be sure, these changes will not occur overnight—heck, it took more than a decade for ATMs to become pervasive.

But with time, the changes brought about by Check 21 will transform

the check system into a truly electronic payments system. And best of all, this transformation will have little or no discernable impact on American check writers.

Okay, maybe that's a slight exaggeration. People who like to play the float won't be able to continue that questionable practice in this new check clearing environment, since the lag time between the writing and posting of checks is substantially reduced.

The really big changes brought on by Check 21, though, are going to take place at banks: investments in big iron machinery that sorts and routes paper checks; the fleets of trucks and airplanes that move paper checks within and between banking organizations; special agreements between banks, and between customers and banks that make check truncation and electronic check clearing possible today—all these things go away.



See New Era on Page 51



Notable Quote:

Another market research report showed that a major credit card company saw its card users spend close to 100% more at QSRs than the average cash ticket. Additionally, we're seeing that true outdoor payment technology at QSR drive-throughs cut 10 – 15 seconds off the service time and increases the average transaction size 40 – 45% compared to cash.

See Story on Page 20

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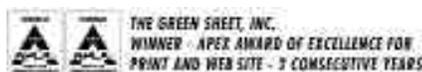
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Too Legit to Quit?

I need to know if companies that provide ACH services are required to be licensed to use the Fed, similar to an ISO registration. If so, where can I research a company that claims to provide such services to make sure they are registered?

They claim to have been in business for seven years in California. However, I searched the California corporation records and didn't find anything there or at the Better Business Bureau, either. The Web site domain name was just registered this year. All this makes me suspicious. I have a really big account I could give them, but don't want to do anything until I know the company is legit. If they are crooks, I would be setting myself up for a really big lawsuit if I send this deal to them.

Your help would be appreciated.

Tazman

Dear Tazman,

ACH companies don't necessarily have to register with the Fed, unless they actually process through the Fed. Typically, these companies have arrangements with banks that allow them access to the ACH; these banks may sponsor the companies into their local ACH associations.

We believe NACHA maintains a list of all non-bank ACH services companies. We suggest that you begin your research by contacting NACHA. You should also ask them for a bank reference and you should check the company out through NACHA.

Hope this helps.

Good Selling!

Questions from the Press

My name is James Gallagher. I am a reporter with The Augusta Chronicle in Augusta, Ga.

A co-worker of mine recently brought to my attention a new policy at Wal-Mart where they will no longer accept MasterCard signature debit cards. Upon further investigation, I've learned that Wal-Mart successfully sued MasterCard and Visa for their requirement that stores accepting their logos accept all versions of their cards.

I'm sure you are familiar with this legislation. I am looking to learn the ramifications of this decision. Melissa Berryhill, a Wal-Mart spokeswoman, provided me with the company's press release regarding their policy change, and it suggests customers affected by this should just use checks.

Is this a major blow to the credit card industry? Does this mean consumers should expect more retailers to limit the type of cards they accept? Technology brought us from checks to credits cards; is this a technological step backward? How do you expect people will make their purchases, without cash, in the future? These are some of the questions I have about this new policy. Any assistance you can provide in helping me understand this better would be greatly appreciated.

Thanks,

James Gallagher

Business Reporter, The Augusta Chronicle

Via e-mail

James:

We have written extensively on this subject since the suit was originally filed. Please use "Fast Finder" on our Web site. Searching Green Sheet specifically for instances of MasterCard + Wal-Mart produces the following results: Found 1376 total matches in 2 seconds within 108 pages.

I'm copying Patti Murphy, Contributing Editor, on this message. Patti can speak with you on behalf of The Green Sheet with expertise on this matter. You can reach Patti via email: patti@greensheet.com

Good Selling!



▶▶▶ INDUSTRY UPDATE

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NEWS

Economy Slowed in Fourth Quarter 2003

The U.S. economy grew at an annual rate of 4% in the fourth quarter of 2003, according to advance estimates of real gross domestic product (GDP) from the U.S. Department of Commerce's Bureau of Economic Analysis (BEA). In the third quarter of 2003, GDP increased 8.2%.

Major contributors to the Q4 increase include personal consumption expenditures (PCE), exports, equipment and software, inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased. The BEA will release Q4 "preliminary" estimates, based on more comprehensive data, on Feb. 27, 2004.

ACH Volume Grows 14% in Q4 2003

The Automated Clearing House (ACH) network grew by more than 14% in the fourth quarter of 2003 compared to a year ago, according to NACHA – The Electronic Payments Association statistics. NACHA said more than 2 billion transactions were conducted during the fourth quarter, valued at more than \$5.2 trillion.

These figures represent growth rates of 14.1% and 5.3% respectively, over the same quarter of 2002. There were 943 million debit transactions and 1.069 billion credit transactions in the fourth quarter, for a total of 2.013 bil-

lion. The statistics include commercial inter-bank and government transactions, but not "on-us" transactions.

ANNOUNCEMENTS

ATMIA Offers ATM Security Manual

ATMIA's Global ATM Security Alliance (GASA) has published a Best Practices Manual for Physical ATM Security. The document contains international minimum physical security requirements for both stand-alone and wall-mounted ATMs.

Key contributors to the manual include the ATM Security Working Group in the United Kingdom, Banksys in Belgium, BenAlpin Ltd and LINK Interchange Network in the United Kingdom and ATMIA.

The GASA includes representation from Visa and MasterCard and from major ATM networks in several countries and law enforcement and fraud prevention agencies. For more information, visit the GASAWeb site at www.globalasa.com.

InterCept Hosts Check 21 Seminars

InterCept, Inc. is offering a series of Check 21 seminars throughout the United States to help prepare and educate financial institutions about Check 21. The seminars will be held in Atlanta, Orlando, Dallas, Los Angeles, Philadelphia, Boston and Chicago in February and March 2004.



- ▶ **Ahold's** U.S. subsidiary, **Tops Markets LLC**, plans to sell its chain of 204 convenience stores. The stores include Wilson Farms Neighborhood Food Stores (127), Sugarcreek Stores (67) and Tops Xpress (10), the National Association of Convenience Stores reported.
- ▶ **One Price Clothing Stores Inc.**, a women and children's clothing store retailer with 494 stores, filed for bankruptcy protection under Chapter 11.
- ▶ Teen apparel retailer **Gadzooks Inc.** filed for bankruptcy protection and is closing 156 stores and cutting jobs to reorganize as a smaller retail clothing chain.
- ▶ **Big Dog Holdings, Inc.** will acquire **The Walking Company** for cash, debt and equity securities in excess of \$15 million. The Walking Company declared bankruptcy in the summer 2003.

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Laura N. Pringle, an expert on Check 21 compliance and a partner in the Oklahoma City law firm of Pringle and Pringle, and Clearing House network Endpoint Exchange's Mark Craig will present on Check 21.

InterCept also recently launched a Check 21 Web site (www.intercept.net/check21) that includes articles, white papers and information about Check 21 and image exchange.

Landmark Merchant Announces New Sales Program

Landmark Merchant Solutions announced a new Sales Center program, offering daily warm leads, acceptance of faxed applications with no pictures required, same day approvals, a liberal credit policy with a 97% approval rate and MOTO/Internet merchants.

The program allows ISOs/MLSs to offer each new merchant a free custom-built 15 page Web site, a free domain name, free hosting and free e-mail accounts.

For more information, visit the company's Web site www.LandmarkMerchant.com; call CEO Alan Gitles at 1-800-882-4896 x410 or send an e-mail to ISO@LandmarkMerchant.com.

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Paymentech Opens Europe HQ

Dallas-based **Paymentech, L.P.** opened its first-ever European office in Dublin, Ireland in response to merchant requests that the company establish a presence in Europe.

The new office will support operations and the needs of its global merchants such as America Online, Symantec, Lands End and Amazon.com; John Shirey, Paymentech Managing Director, will head up the new location.

In other news, Paymentech won a multi-year processing agreement for **The Container Store's** 30 locations, which will transition from dial-up processing to frame relay and will add a PIN-based debit option at the point of sale.

Shift4 Reports 400% Growth in 2003

Shift4 Corp. said its Web-based e-payment solution, \$\$\$ ON THE NET, processed nearly \$6 billion in payments, representing nearly 32 million transactions, in 2003.

The company attributes its growth to a number of factors, including new customer signings (such as N9NE Group, Purdue University and Kohler's American Club); they selected \$\$\$ ON THE NET to process credit, debit, gift card and check transactions; and the emergence of Shift4's Channel Partner Program, including POS/PMS providers, consultants, solution developers and MSP/ISOs who act as resellers or referrers for Shift4.

Triton Makes 100,000 ATMs

ATM provider **Triton** said it recently manufactured its 100,000th ATM (a RL5000 ATM). The company began making ATMs in 1994.

VeriFone Omni 3750 Class-A Certified

VeriFone, Inc.'s Omni 3750 payment terminal with IP/Ethernet capability has earned Class-A certification from **Paymentech, L.P.** Paymentech will use the Omni 3750 to enable its NetConnect processing solution, which serves the retail, petroleum and restaurant industries. The Omni 3750 has a 32-bit processor, built-in Ethernet connectivity and SSL encryption; it has been certified by all of the leading U.S. processors; and it supports solutions from over 20 value-added application providers.

PARTNERSHIPS

Burger King Expanding Card Acceptance

Burger King Corp. selected **Chase Merchant Services, L.L.C.**—a joint venture between **JPMorgan Chase Bank**

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and **First Data Corp.**—as the processor for a card acceptance program intended to expand the number of its restaurants accepting credit card and signature-based debit card payments nationwide.

Currently, card payments are accepted in more than 2,100 Burger King restaurants, and the company hopes to increase this number at its U.S. franchises.

The Burger King system operates more than 11,285 restaurants in all 50 states and in 58 countries and territories around the world. About 91% of Burger King restaurants are owned and operated by independent franchisees, many of them family-owned operations that have been in business for decades.

Certegy to Use SLIM CD

Certegy, Inc. selected **SLIM CD Inc.**'s software to process transactions in an incoming call-center environment. Certegy recently launched a new program with one of its large partners to provide stored value cards to millions of potential cardholders.

The initial card registration process requires the collection of a fee, which will be processed using SLIM CD's product.

In a separate agreement, **Home Depot** will use Certegy's check collection and recovery services in 1,587 of its stores in 50 states, the District of Columbia and Puerto Rico. Implementation of Certegy's solution in Home Depot stores began in September 2003.

Shift4 and Ingenico Partner

Shift4 Corp. integrated **Ingenico's** e^N-Touch 1000 touch screen and signature capture terminal and the eN-Crypt 2100 payment terminal with its \$\$\$ ON THE NET electronic payment solution for retailers.

Retailers using \$\$\$ ON THE NET will be able to provide customer-activated electronic payment acceptance, PIN entry for online debit and electronic signature capture with the Ingenico payment terminals.

NPC Renews with Retail Ventures

National Processing Company, LLC (NPC), a wholly owned subsidiary of National Processing, Inc. renewed a credit card processing agreement with **Retail Ventures, Inc.**, a leading off-price retailer with stores in 29 states.

NPC will continue to provide authorization and settlement services for all Visa and MasterCard transactions accepted at Retail Ventures retail locations, including Value City Department Stores, Filene's Basement stores and DSW stores. NPC has been processing for Retail Ventures for more than 10 years.

NPC also signed a multi-year credit card processing agreement with **Mimi's Cafe**. NPC will provide authorization and settlement of all MasterCard, Visa, American Express, Discover and Diners Club transactions accepted at all 82 Mimi's Cafe restaurant locations in California, Arizona, Colorado, Florida, Kansas, Nevada, New Mexico, Oklahoma, Texas and Utah.

Enterprise Car Rental Signs with NSF

NSF Check Retrieval announced that **Enterprise Car Rental** will use NSF Check Retrieval's free check recovery service to collect on bounced and bad checks.

NSF Check Retrieval handles check collections through a process called "electronic re-presentment," which allows the company to debit each bad check and a state-defined service charge directly from the bad check writer's bank account.

Taco Bueno IP-enabled with VeriFone

Taco Bueno completed installation of **VeriFone, Inc.**'s Omni 3750 Internet Protocol (IP) enabled terminals in its locations nationwide. Network integrator designed and installed the IP network over which the VeriFone Omni 3750 terminals communicate to **Paymentech**, Taco Bueno's processor.

MERGERS & ACQUISITIONS

Global Axxess Buying Merchant Portfolio

Global Axxess Corp. said it expects to acquire approximately 900 ATM/merchant contracts from a privately held Southeastern-based company for \$3.9 million in cash.

Two Check Companies Merge

Check guarantee company **Insta-Check** and **BankServ Check Services, LLC** have merged; the name of the combined companies is **EnCircle**, and it is located in Miami. EnCircle will offer an integrated suite of check products and services, including electronic check conversion, verification, guarantee, collections, RCK, consolidated returns, check imaging and administrative returns handling.

The company said any of these offerings can be combined or tailored depending on client requirements. EnCircle also offers ARC and TEL to VISA POS Check customers. The combined companies have more than 25 years of experience in the business; EnCircle's management team has more than 100 years of combined experience.

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NetBank Acquires Electronic Cash Systems

NetBank, Inc., parent company of the country's first commercially successful Internet bank, NetBank, announced that its wholly owned subsidiary, **NetBank Payment Systems Inc.** (formerly Financial Technologies, Inc.), completed its acquisition of select assets of **Electronic Cash Systems Inc. (ECS)**.

NetBank acquired ECS in order to expand its focus on merchant processing; the deal adds more than 1,000 ATMs to its portfolio and additional POS and merchant processing customers.

With the addition of the ECS assets, NetBank Payment Systems will have more than 5,000 ATMs deployed across the country processing more than 1.5 million or \$72 million worth of transactions per month.

APPOINTMENTS

Fleet One Promotes Marketing Director

Fleet One, L.L.C promoted **Stacey Bright** to Vice President of Marketing. Bright previously served as Director of Marketing for Fleet One and was responsible

for planning and implementing the company's national re-branding campaign.

Prior to joining Fleet One, Bright served as Senior Marketing Manager at Nashville-based BlueStar.net, a provider of broadband communications and Internet service applications.

Ciccarone Comes to Wachovia

John Ciccarone has joined **Wachovia Corp.'s International Division's Global Payments Services Group** as Vice President and Market Consultant for the Global Financial Institutions Americas and U.S. Dollar Payment Products groups.

Ciccarone comes to Wachovia from ABN Amro where he was a Vice President in the Product and Services Group. Prior to that, he worked in various positions in the International Division at Bankers Trust. Ciccarone earned his MBA in finance from Temple University.

Howard Herndon Joins First American

First American Payment Systems, L.P. named **Howard W. Herndon** to serve as Executive Vice President and General Counsel. Herndon was most recently a member of Nashville, Tenn.-based Waller Lansden Dortch & Davis, PLLC.

He was the Chairman of Waller Lansden's Venture Capital Practice Group, Co-Chairman of the Opinions Committee and he served on the firm's Operations Committee. He was the firm's representative and voting member of the Electronic Transactions Association (ETA).

First Data Names New Card Issuing Services President

James L. Schoedinger, a 24-year veteran of the financial services industry, was appointed President of **First Data Corp.'s Card Issuing Services** business unit.

In this role, Schoedinger will oversee the Card Issuing Services business unit in Omaha, reporting directly to Charlie Fote, First Data Chairman and CEO. Schoedinger also will serve as a member of First Data's Executive Committee.

He most recently served as President of Transamerica Real Estate Information Services, one of Transamerica Corp.'s largest business units.

Before joining Transamerica, Schoedinger spent 16 years at GE Capital, where he held full profit and loss responsibility for three GE Capital businesses: Private Label Credit Cards, Personal Lending and the start-up of GE's Visa/MasterCard business.



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- Comprehensive ISO training program



For more information, call (800) 672-1964 ext. 4883

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How to Stop the Churn and Burn: A Call for Integrity in an Unregulated Industry

By **Marcelo Paladini**

CEO, Cynergy Data

Sell, sell and sell more. That was our philosophy when John Martillo and I started our business in June of 1995. Back then, selling equipment was all we knew. Credit card processing had recently transitioned from paper drafts to electronic authorizations, creating a great demand for POS equipment. With a marketplace of merchants who knew little or nothing about the terminals they suddenly needed, it became fairly easy to sell these merchants at a high price and generate significant upfront revenues.

Leasing companies allowed high ceiling prices; with "nobody watching," payments went through the roof and many good merchants were locked into monthly payments that were not necessarily in line with the benefits they were receiving.

The only thing a rep needed to do was to get there first, grab the account, sign a lease and lock the merchant in for

48 months. Get the upfront commission and run, and then repeat the process.

That was the electronic processing business then. New reps began flooding the industry, attracted by the opportunity to charge any fee they could get, make a quick profit and move on. As more and more reps generated more and more offers, merchants found themselves inundated with quotes and offers.

Competition drew prices down and low pricing now became the industry's prime selling tool. Merchants thought they were getting great deals; in fact, the merchants were victims of this price war.

Only a handful of professional reps really cared about selling the right terminal and services tailored to each merchant's needs; others knew little about terminal applications, add-on services or merchant ROI.

Yes, merchants were now getting some benefit—low prices. But in fact, lack of regulation, integrity and honest education resulted in many merchants buying equipment they didn't need, or the wrong equipment, or equipment they didn't really understand or know how to use. The result: they were saddled with lower monthly leases, on terminals that just ended up collecting dust.

While leasing companies moved from restricted to liberal underwriting practices, approving leases for virtually anyone who applied, no industry leaders stepped forward to take action, to set policy, to establish regulations. While our 'reason for being' should have been the well being of our merchants, we were instead making money at the merchants' expense. And eventually, the merchants caught on.

Merchants reacting to the influx of "low price" offers became smarter and more educated and started jumping ship. Conversions and rollovers were rampant. So-called sales reps invaded the industry, bringing unprofessional service and unaccountability with them.

In order to attract and retain reps, ISOs and processors started competing intensely, with no point of difference other than incredibly low pricing and a lifetime of questionable promises. Integrity, commitment and loyalty were not considered important, and processors and ISOs did nothing to change this.

In fact, many reps jumped on the bandwagon, leaving

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one acquirer for another based solely on which ad in The Green Sheet promised the lowest price.

This, I believe, is what the Bankcard industry has become. We forget who our real customers are. We are unregulated and, as a consequence, somewhat out of control.

In the name of free commerce, we are forgetting that true business success comes not just from the delivery of a fair price, but also from delivering a real value at these prices.

I'd like to call on my industry partners and colleagues to change that. I'd like to ask you, for the sake of our clients, our industry and ourselves to step up and join me in creating an industry standard that calls for educated, trained professionals, fair pricing and effective, efficient service.

Anyone can deliver a transaction. But not everyone can, or will, do business with an eye toward honesty and integrity. To deliver true value, to be proud of what we do, I'm asking that we begin to regulate ourselves and raise our industry to higher standards.

Here are some of the standards that I would like to see incorporated into our expected business practices:

- Remember that your primary reason for being is to provide quality service—to your merchants, your sales agents and your associates.
- Partner only with the best of the best—employees, vendors and agents.
- Do not base your marketing and sales on price. If low pricing means low quality, that is a problem. Pricing is only as good as the products and people behind it. And we can deliver good quality at a good price.
- Along those lines, let's remember that price wars hurt everyone. Advertising based solely on price communicates the message that nothing means as much as a lower rate. That is simply not true. Service does. Value does.
- Focus on keeping your clients by delivering the honest, real value and meaningful post-sale benefits and solutions. Any good businessperson knows that keeping current customers is more cost-effective than constantly recruiting new ones. Churn and burn is hurting our industry.
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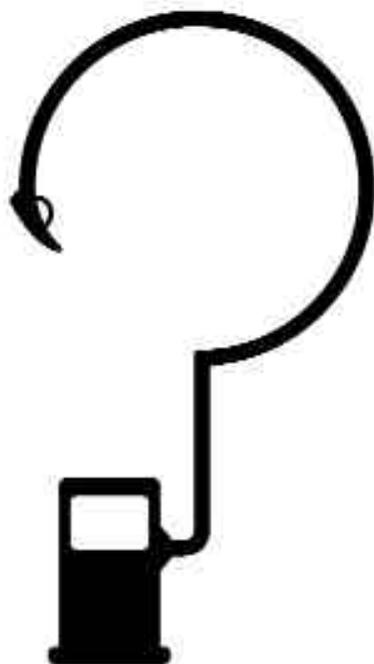
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your priority to continually review, revamp and update programs and technologies that maximize the success of your merchants and agents. Their success is your success.

- Compete against size and wealth by creating solutions, fulfilling promises and caring.
- Make a commitment to the future. Success is not always about growing, merging, consolidating and getting bigger. It is about building from a solid foundation, one client at a time, and keeping those clients with you because they respect your company and because they are succeeding with you.
- Measure yourself and your success against these standards, and make sure you continue to live up to them.

This, I believe, is the definition of

value: providing lifetime value-added benefits to our agents and more solutions to our merchants. There are times when providing these benefits may require us to take time and money from our own pockets and invest it in our clients and in our future. This is not always an easy choice, but for the sake of the industry, it is a choice I hope you will make.

The electronic payments industry is an endless road of changes and challenges. Creativity, integrity and vision are what can set us apart and make us proud of what we do. And if my company is any kind of indication, your investment will pay off.

Background

Cynergy Data is a merchant acquirer that provides a wide array of electronic payment processing services while continually striving to develop new solutions that meet the

needs of its agents and merchants. In addition to offering credit, debit, EBT and gift card processing, along with check conversion and guarantee programs, the company offers its ISOs the ability to borrow money against its residuals, to have Web sites designed and developed, to provide merchants with free terminals and to benefit from state-of-the-art marketing, technology and business support.

Founded in 1995 by Marcelo Paladini and John Martillo, Cynergy Data strives to be a new kind of ISO with a unique mission: to constantly explore, understand and develop the products its ISOs and merchants need to be successful and to back it up with honest, reliable, supportive service.

For more information on Cynergy Data contact Nancy Drexler, Marketing Director at nancyd@cynergycard.com



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Card Payments at QSRs Ringing Sounds of Success

By Lisa Shipley

Hypercom Corp.

Are you In Search Of ways to profit from the expected explosion of card payments at quick service restaurants (QSRs), pharmacies and other retailers? This is a potentially huge opportunity for ISOs. My goal for this column is to put you in a position to win big in this fast-emerging profit segment. The opportunity and the technology are ready—are you?

As you may have read in The Green Sheet ("Opportunity for Growth in the QSR Market," issue 03:08:02, August 25, 2003), while card payments at QSRs are starting to take off, this movement is still in its infancy—in part because ready knowledge about deploying and integrating card payments in this segment has been either incomplete or inaccurate.

According to reports I've seen, 14% of QSRs accepted credit cards in 2002, which might sound low, but it is nearly double the 2000 figure of around 8%. You can see momentum is picking up.

QSR merchants should jump for joy when you present this opportunity: a study of more than 95,000 quick-service transactions done in 2000 revealed that credit card customers spent upward of 20% more than those paying with cash.

Another market research report showed that a major credit card company saw its card users spend close to 100% more at QSRs than the average cash ticket.

Additionally, we're seeing that true outdoor payment technology at QSR drive-throughs cut 10 – 15 seconds off the service time and increases the average transaction size 40 – 45% compared to cash.

Though the numbers vary from report to report, the message is clear: ticket sales go up when card payment is an option at QSRs. The initial fear that card-based transactions would slow the checkout process is not only unfounded, but dead wrong.

Another recent report suggested that the transaction time for a card payment is more than 30% faster than cash. In addition, the big QSR corporations are conducting or have completed pilots to test credit card payments both inside the restaurant and at the drive-thru. Some chains are already recommending that their franchisees add card payment options right away.

Finally, I would estimate that only a small percentage of QSRs have card payments at the drive-through and maybe 5% have card payments inside the restaurant. So the opportunity for ISOs/MLSs is BIG.

If you're waiting for the caveat, the exclusion, or the 'oh by the way' qualifier that will dash all of the good news you've just read, there isn't any—at least that I'm aware of.

QSRs are not the only retailers adding card payments to their drive-throughs and that means a potential new opportunity for you.

To break into this segment of card payments, target franchisees. Most QSRs are owned and operated by franchisees, so you don't have to try to sell or move a big 'corporate mountain.' Target those franchise owners with multiple locations—say 20. Build your list with these players and begin the pursuit of sales.

Here's a suggested pitch: "I want to talk to you about how I can help you increase your per-customer sales tickets...help increase the volume of customers both in and outside the restaurant (drive-thru), cut down on transaction times and cut down on cash errors at the register—even reduce labor costs." How could they refuse?

Some franchise owners may be afraid of investment costs, but you can put those fears to rest. To implement card payments at the drive-thru, there is no need for a big, expensive wiring job.

It's really quite simple: With the proliferation of advanced secure and relatively inexpensive wireless technologies,





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Don't be concerned about installing and integrating card payment technology at QSRs. Odds are your terminal technology provider is ready to make you the hero by either handling the installation and integration or providing you with ready resources. Remember, the card payment terminal technology companies want you, need you, love you.

there is little need to hard-wire when installing card payment technology at the drive-thru.

If your franchisee 'pushes back' because of the perceived expense involved with installing card payment technology, you can assuage the concern by advising that it can all be done wirelessly outdoors, at the drive-thru, with traditional payment terminal technology indoors.

Today's card payment technology offers you and your franchisee many options. Card payment at the order board is easy and includes transaction terminals and keypads designed for harsh conditions and abuse from weather or determined criminals.

The technology is the same as you're already selling—except it has been configured to be suitable for these types of environments.

Offer your prospect the option of having the card payment technology built into the order board or having the card transaction technology installed adjacent to the order board.

Remind the franchisee that this will cut down on a window stop (the 'pay' window) for many customers and will reduce customer time. It could also mean one less employee is needed. Remind them, too, that card association regulations specify that no signatures are required for purchases under \$25.

Processors are on board with QSRs, too. They are certifying QSR card payment technology, both inside and outside the restaurants, and snags on the back end are being eliminated.

Don't be concerned about installing and integrating card payment technology at QSRs. Odds are your ter-

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minal technology provider is ready to make you the hero by either handling the installation and integration or providing you with ready resources. Remember, the card payment terminal technology companies want you, need you, love you.

Ask them and expect them to help you. If you're working with the right companies, they'll help get it done. Card transactions at QSRs mean more than credit and debit—much more.

Once you and the franchisee make the move to card payments in and outside the restaurant, you can get going with a variety of added profit generators.

Card-based transactions, including loyalty cards, gift cards and co-branded cards, all have the potential to increase the bottom line for both of you.

Considering the many benefits of adding card payments—including increased sales per ticket, serving more customers in less time and less foot traffic and cars going to the competitor because the line was too long—there should be little franchisee resistance to the initial investment. One end result is immediate and long-term ROI.

Get the first account and others will follow. Review your target list for ideal franchisees for this opportunity. I believe they would all benefit from this, but start with the 'low hanging fruit.' From my experience, industry groups tend to follow each other. If the "guy next door" is doing it, the others will at least look into it.

You will give yourself a competitive edge and hopefully gain a customer for life in the process. Franchisees with smarts, or at least those who like making money, will not forget

who helped bring new sales and profits to them.

Imagine someone bringing you an easy avenue to increase your top and bottom line. Wouldn't you want that person on your team for the long term? And, don't forget, the burgeoning segment of retailers, including pharmacies, who are adding drive-throughs are your opportunities, too.

QSR owners are hungry for the means and methods to grow their businesses, profits and do more with less. You want to win more business and grow your installed base. Consumers want the conveniences and options for paying. Do you hear that ringing sound of success?

Lisa Shipley is Senior Vice President, Hypercom Corp. Reach Lisa at lshipley@hypercom.com

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FTC After Processors—Again

The Federal Trade Commission (FTC) has filed a complaint against three payment processors, charging them with providing assistance to fraudulent telemarketers and several additional related offenses.

First American Payment Processing, Inc., CET Corp., Check Processing Center, LLC and individual defendants allegedly processed electronic payments for telemarketers who deceptively sell advance fee credit cards or who engage in other deceptive or abusive telemarketing practices, according to the FTC.

The Arizona-based defendants, Carl Towner, Matthew Robinson and their spouses, are named in the complaint as principals of all three companies; they have also done business as CheckGateway.com and edebit.com, according to FTC documents. The complaint was filed in U.S. District Court, District of Arizona, Phoenix Division on Jan. 13, 2004.

In the complaint, the FTC said the defendants violated the Telemarketing Sales Rule (TSR) by providing "substantial assistance and support to numerous client telemarketers" whom the defendants either knew or consciously tried

not to know were using abusive and deceptive telemarketing practices. The FTC said the defendants violated the law by processing those fraudulent transactions through the Automated Clearing House (ACH) Network. Because the defendants have agreements with financial institutions to adhere to NACHA operating rules that govern the ACH, they are also in breach of contract.

The complaint was filed in U.S. District Court, District of Arizona, Phoenix Division on Jan. 13, 2004. The court entered a stipulated preliminary injunction order on January 20 prohibiting the corporate defendants and their principals from continuing to process ACH transactions for entities engaged in similarly fraudulent endeavors. This action is just one the FTC has taken recently against ISOs and payment processors. In July, the FTC filed charges against Electronic Financial Group (EFG) and its principals for their role in processing transactions for fraudulent telemarketers seeking to drain funds from consumer bank accounts.

In January 2004, the FTC announced that Certified Merchant Services (CMS) paid \$23.5 million in January 2003 to settle charges brought against it in February 2002 for not disclosing or making clear the fees it charged merchants for payment processing accounts (see "A \$23.5 Million Lesson," page 72).

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Small FIs, Big ATM Ideas

By Ann All

Editor, *ATMMarketplace.com*

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The bigger they are, the more innovative they are—at least it seems that way when it comes to introducing new ATM technologies.

Based on the amount of dollars spent, press releases generated and speaking slots filled at trade shows like the Retail Delivery Conference, large financial institutions like Bank of America, Wells Fargo and Bank One seem to be leading the way in advanced ATM functionality.

Yet some smaller financial institutions aren't far behind. They enjoy some advantages over their larger counterparts, primarily a streamlined decision making process.

"The bigger you are, the more bureaucracy there is," said Chad Lynch, ATM Services Manager for Utah's \$2.7 billion America First Credit Union. "Smaller financial institutions tend to be better at empowering people and getting rid of a lot of the red tape."

"Three or four people, at most" are involved in ATM decisions at America First, Lynch said. In many cases he acts on his own authority. A recent project to streamline the "Big Four" ATM transactions—withdrawals, envelope deposits, account inquiries and transfers—involved Lynch and one other person creating flow charts for all transactions, then eliminating screens where possible.

In the past 18 months, America First has introduced check cashing to the dollar on eight of its 80 Diebold ATMs, with plans to add more in the future. The credit union also tried allowing ATM users to open accounts or apply for loans on a handful of Web-enabled machines, but dropped those services when they proved unpopular, Lynch said.

America First offers several different check-cashing transactions: check cashing with cash back, check cashing with deposit, check cashing/bill payment (for a loan or other America First account) and check cashing/bill payment with cash back. Nearly 200 checks a day are cashed at one ATM location with three machines near Brigham Young University, Lynch said, putting check cashing second only to cash withdrawals in total transactions at that site.

What's Important

While large financial institutions tend to garner headlines for adding functionality to their ATMs, many smaller FIs

are innovative as well.

A streamlined decision making process and smaller, more compact networks are just some of the advantages smaller FIs enjoy.

Conversely, smaller FIs typically don't have as much capital or other resources to devote to their ATMs. Many don't drive their own machines, which makes them more reliant on outside providers.

"A smaller financial institution is rarely going to have to go through four or five departments to get things done," said Tom Conroy, Vice President of National Accounts for NCR. He likened large financial institutions to luxury liners and smaller FIs to tugboats—which sometimes pull the liners to shore.

Conroy expects smaller FIs may be among the first to implement check imaging at their ATMs—largely because they were also early adopters of check imaging systems in their back offices. Indeed, according to an Independent Community Bankers of America survey, 53% of community banks were using check-imaging applications in 2003, up from 47% in 2002—with another 39% planning to evaluate the technology in the next 12 to 18 months.

"Many community banks and credit unions adopted (check imaging) in the mid-1990s," Conroy said. "It costs a major financial institution millions and millions of dollars to deploy the technology to capture, archive and print image statements of checks. For smaller financial institutions, it's an easier implementation at a far lower cost."

All FIs are re-evaluating their ATM networks in light of pending regulatory requirements, including Triple DES encryption and audio capabilities for the Americans with Disabilities Act. Because smaller FIs typically don't have as much of an investment in legacy technology as larger FIs, it may be somewhat easier for them to adopt newer applications from the ground up, said Peg Bost, Diebold's director of Financial Industry Marketing.

Close Followers

"It's not bad being a close follower," said Jerry Silva, a Senior Analyst for the TowerGroup consulting firm, who noted that all financial institutions are benefiting from declining technology costs.

"Today's smaller, faster, cheaper machines can do a whole lot more than the old ATMs. Larger FIs in many cases have driven ATM technology developments before they're ready to incorporate them. So the smaller guys may get them to market faster."

Brian Hartline, President and Chief Executive of \$330 million Nova Savings Bank, said he sees offering advanced

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"A great deal of time and effort is spent combining the organizations and driving costs out to help pay for the acquisition. It's hard to focus on new technologies while they're still trying to standardize the existing technologies."

—Tom Conroy

Vice President of National Accounts, NCR

ATM technology as "a way for smaller banks to level the playing field against the bigger guys."

Nova recently installed three Fujitsu ATMs equipped with Prism 1:1 software that allows for targeted marketing campaigns and personalized transactions—at a new location at Villanova University and two existing sites in Philadelphia. Nova is also offering a specialized distribution system for basketball tickets via the Villanova ATM.

Like America First's Lynch, Hartline said decision making at Nova is a relatively uncomplicated process. "It's no big deal for me to get our entire management team together at one time in a room to discuss ATM strategies," he said.

At smaller FIs, a single person can sometimes make or break a decision, said Steve Hensley, Executive Vice President of Sales for software developer KAL. "You may have that one dynamic guy who can drive a new technology. You rarely, if ever, find that kind of a cult of personality at a larger institution."

KAL is finding a receptive audience among smaller FIs, which Hensley said often feel neglected by traditional ATM vendors. "They're pretty fed up with the status quo. The big vendors don't worry about customers with 25 to 100 ATMs, because it's too expensive for them to focus on those accounts."

Hensley said KAL is currently working with a network, which he declined to name, that has recruited one of its financial institution members to pilot KAL's Kalignite software for standard transactions on its ATMs.

If the pilot is a success, the FI will add prepaid telephone top-ups through KAL partner ewi Prepaid Services, and the network will offer the new transaction to all of its members.

"This wouldn't have happened two years ago. We've seen a nice shift in independence," said Hensley. "I think some of the networks are getting tired of having to approach each vendor independently when they want to add a new ATM functionality."

Local Area ATM Networks

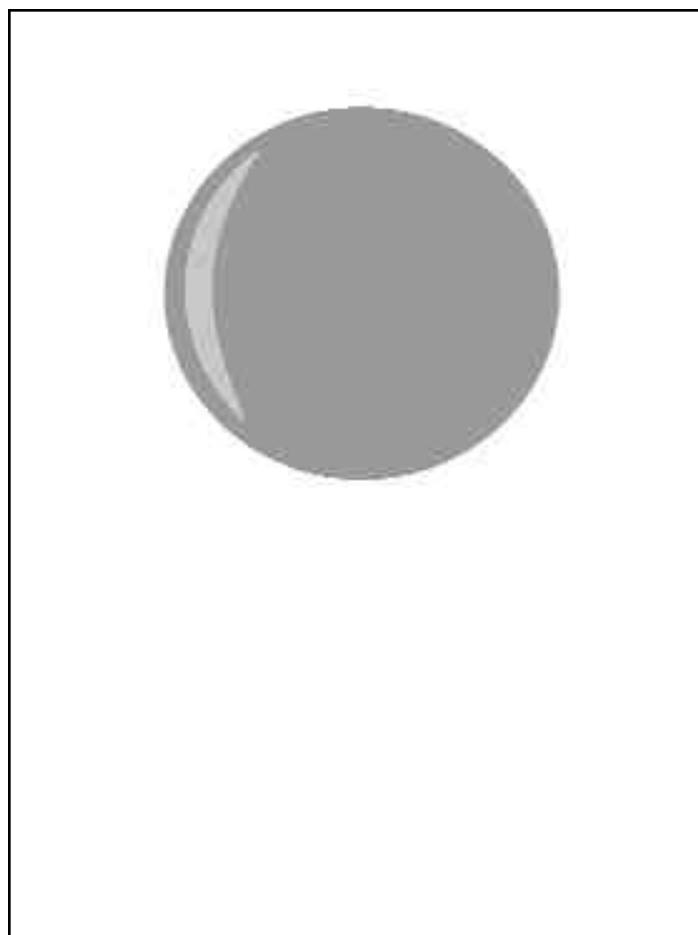
Small FIs tend to have geographically compact networks, which makes it easier for them to add new transactions—across a network or only on selected machines.

"Because of their smaller service areas, smaller institutions are generally a little quicker to do something new, or strategic, or different," said NCR's Conroy, who noted that an NCR client in the New York metro area recently added a Portuguese language option to a handful of its ATMs.

"By necessity, ATMs are a commodity at a bigger bank," said Nova's Hartline. "Smaller banks can provide a different experience for their customers. It's one way to set themselves apart."

"We're in one state versus 30," Lynch said. "When you're in that many states, you're going to have what I would call subdivisions of ATMs."

It's especially difficult for large FIs to coordinate ATM



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activities in the aftermath of mergers, Conroy said. Several big deals are pending, including Bank of America's purchase of FleetBank Boston and JPMorgan Chase's acquisition of Bank One, with more expected to follow.

"A great deal of time and effort is spent combining the organizations and driving costs out to help pay for the acquisition. It's hard to focus on new technologies while they're still trying to standardize the existing technologies," he said.

Driving and Dollars

While smaller FIs are at an advantage in some respects, they do face challenges in introducing ATM innovations. Perhaps the single biggest one—for FIs that do not drive their own ATMs—is their reliance on transaction processors.

"They're dependent on Fiserv or Metavante or Concord or whoever drives their machines to keep abreast of technology," said Tower Group's Silva. "Those folks' models are based on low cost, not on innovation. The software they use does not typically allow for customization."

America First's Lynch said his institution drives its own machines, which "makes it easier to turn on a dime."

Concord EFS drives Nova's ATMs; Hartline said gaining approval from Concord's Star network for its new ATM applications took some time. "We tested the software here faster than Star. When you're reliant on someone else, you're linked to their timeframe and their staffing situation," he said.

KAL's Hensley believes this may be changing, with the advent of open, standards-based application software. "The networks are really looking at who's going to control what. They're evaluating how much freedom they can give their customers without affecting their core processing business," he said.

"Relying on self-service networks and application providers can restrict bringing new services to market," said Diebold's Bost. "Larger FIs, as a rule, have the size and scale to be able to do this all in house."

No matter the total investment required, smaller FIs have the additional challenge of coordinating several components of a solution. Often the challenge is not money, but rather resources to commit to managing alliances."

Because of First America's size—largest credit union in Utah and 13th largest in the nation—and the relative importance of its ATMs, Lynch is responsible only for the ATM program and related services. Not all of his peers are so fortunate, he said. "I've talked to other credit

unions at trade shows, so I know the ATM guy sometimes has to wear more than one hat and he may not get the support he needs."

ATM infrastructure is dependent on fixed costs, including software, telecommunications, cash management and first- and second-line maintenance, Silva said. "If you're not outsourcing, you have to have money and staff dedicated to those issues."

Yet Hartline said ATMs can serve as a "cheaper alternative delivery channel" to a branch. "You'll get the same return from four or five ATMs in key locations as you will from a branch, at least in the short term, say three to five years. After that, the branch will probably beat the ATMs," said Hartline, noting that Nova allocates 7% to 10% of its capital spending for its ATM program.

"I think smaller banks are generally more willing to include non-quantifiable benefits in their cost analysis," he said, noting for example that Nova expects to garner real-time marketing data from its Prism 1:1-equipped ATMs, a benefit to an institution that lacks the resources for more traditional market research. 📺

Original story: www.atmmarketplace.com/news_story.htm?i=18084



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TRADE ASSOCIATION NEWS

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By Julie O'Ryan-Dempsey
General Manager, The Green Sheet, Inc.

A Great Start for a Very Busy Year

The payment-processing industry's 2004 conferences and expos are off to a terrific start. Attendance is increasing steadily as MLSs/ISOs find more regional shows available than ever before. Networking is key to any business success, and the networking opportunities this year are superb whether you want to travel the United States to open new markets, or stay close to home to look for new options.

Snow Flurries and Maple Sugar

National Association of Payment Professionals (NAOPP)

The National Association of Payment Professionals, in association with the Northeast Acquirers' Association's (NEAA) midwinter meeting in Mt. Snow, VT, held another overwhelmingly successful event that demonstrated further strength and support for this upstart organization.

Participants, including new members, existing members and the Board of Directors attended from all over the country—including Los Angeles, Birmingham, AL, Chicago, Dallas and Florida. The wide demographic area of attendees at the meeting shows that interest in this organization is spreading.

NAOPP will hold a cocktail reception for all members (both new and existing) in Las Vegas in April 2004 to coincide with the Electronic Transactions Association's (ETA) annual meeting—check the NAOPP Web site (www.naopp.com) and The Green Sheet for announcement of time and date.

In a cooperative effort with the ETA, to promote the educational experience of ETA's annual meeting, NAOPP announced it will offer an \$85 subsidy to all MLS members attending the 2004 ETA Meeting in Las Vegas. This is in addition to the discounted invitation currently being offered to MLSs by ETA; the admission price to NAOPP members (MLSs) is an attractive and affordable \$100.

"This is a once-in-a-lifetime offer that every MLS in the country should not miss," said Corey Saftler, a member of the NAOPP Board of Directors. "To attend the industry's most prestigious show, to experience an educational opportunity and be able to network with your peers at a highly discounted price shows NAOPP has made significant progress in furthering industry support for the MLS."

MLS members must be registered with NAOPP by April 1, 2004 to be eligible for this subsidy. Sponsorship opportunities are available for this program through NAOPP. For more information e-mail Corey Saftler at coresa@integratedleasing.net

Northeast Acquirers' Association (NEAA)

Mt. Snow, VT was the location of the NEAA Winter Gathering on Monday and Tuesday, Feb. 4 and 5, 2004. This show was a resounding success for vendors and



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attendees. More than 62 companies exhibited and over 350 attendees braved the New England winter to meet and greet. The meeting was extended to two full days this time, and the vendor hall overflowed with four "strolling" vendors.

Tuesday's session began with "Basics of Electronic Payment Processing" presented by Linda Ford, Card Systems. Ford expertly presented an in-depth topic to a full house. Everyone in attendance—newbies and veterans alike—benefited from her insight.

Several inches of fresh snow fell just in time for the tubing party, hosted by the NEAA, American Express, Global eTelecom and Paymentech. After sliding down the hill, folks warmed up with hot toddies and classic rock.

Wednesday was a full day of meet-

and-greet opportunities with the vendors and included expert industry presentations. American Express discussed "The Franchise Opportunity," MasterCard presented its "Paypass Program" and Discover Financial gave an overview on changes occurring in the industry.

An expert panel discussion titled, "Understanding Check 21," featured Brandes Elitch, CrossCheck; Judy DeSomma, Visa POS; Tom Kettell, RDM Corp.; and The Green Sheet's own Patti Murphy. The presentations focused on how Check 21 will affect the POS transaction and offer opportunities for MLSs/ISOs.

Wednesday afternoon concluded with presentations by Randy Sagar, NPC; and Barry Davis, First Annapolis Consulting. The Vendor Fair and Reception followed these presentations. Attendees were

awarded various door prizes throughout the day and during dinner, including signed copies of Paul Green's "Good Selling! 2," provided by The Green Sheet.

Thursday's events included snowmobiling and skiing for those truly hardy souls. Mt. Snow received over eight inches of new snow during the NEAA presentations, so the slopes were freshly groomed for the intrepid.

The next NEAA event is scheduled for June 8-10, 2004 in Woodcliff Lake, NJ; it is already shaping up to be bigger and better than any of the previous NEAA conferences. Vendor space is limited.

Watch The Green Sheet and the NEAA Web site for an upcoming announcement from the NEAA in collaboration with the American Ski Company, which will benefit all NEAA participants. 



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For more information contact Jacques Breton
jbreton@gcfinc.com or visit the NEAA Web site
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New Acquirers' Association Forms

Western States Acquirers' Association (WSAA)

The Western States Acquirers' Association (WSAA) has been formed to embrace the needs of the payment professional on every level within the merchant acquiring industry, located on the left side of the country.

Building on the successes of the other regional acquirer associations, the founding board felt it was time to bring this educational and networking forum to the western U.S. The inaugural meeting will take place Nov. 3-4, 2004 at the Sir Francis Drake Hotel in San Francisco.

The WSAA Founders:

- Sherry Friedrichsen, General Credit Forms, Inc.
- Ken Elderts, VeriFone, Inc.
- Lynele McGill, CardSystems Solutions, Inc.
- Steve Christianson, TransPay USA

- Steve Eazell, Secure Payment Systems
- Bruce Ferguson, United Merchant Services
- Alice Kong, Concord EFS, Inc.

Registration fees will be \$75 for all attendees. Hotel rooms are currently available for \$129. No membership is available or required. Vendor registration and fees, sponsorship opportunities, committee assignments, conference agenda and format will all be available soon. The WSAA's Web site is currently under development.

For more information, please contact Sherry Friedrichsen at 760-243-7990 or e-mail her at sfriedrichsen@gcfinc.com

ETA Announces Two New Regional and Vertical Market Initiatives

ETA: Reaching Out to the Face of the Industry

The Electronic Transactions Association (ETA) announced in mid February 2004 plans to expand access to its educational and business networking offerings to the MLS market. Specifically, the association launched two initiatives designed to better meet the needs of independent sales agents who are a vital component of

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the service delivery process and the frequent "face of the industry" to merchants.

"We realize that the merchant level salesperson is the main point of interaction for many merchants," said Mary Dees, ETA President. "We hope to provide this group with the resources they need to be successful."

The first initiative allows individuals who would otherwise be ineligible to become a member of ETA to affiliate with the association and qualify for reduced fees on select programs, products and services. Titled the Affiliate Service Provider (ASP) program, the plan provides the independent MLS's with the following benefits:

Standing Benefits

- Free one-year subscription to Transaction Trends Magazine (\$150 savings)
- Registration to any of four ETAU Introductory Courses at \$100 per person, per class (\$95 savings per course)
- Registration to the new ETA Expo Network events at member rate of \$75/person (\$25 savings)

Introductory/One-time Benefit

- One-day registration for ETA's 2004 Annual Meeting at \$185/person (\$145 savings)*
*NAOPP's MLS members may receive an additional incentive to make this offer even better; see story above.

COST: The fee for affiliation is \$165 annually.

This opportunity is available to individuals only. Those eligible include individuals selling payment services to merchants, including but not limited to credit card processing, check services, ATM or ATM services, e-commerce services, or gift and/or loyalty card services. They are not registered as an MSP or an ISP with Visa or MasterCard. They must be an individual sales agent with no sales personnel selling on his/her behalf and a 1099 contractor; they should not be a W-2 employee of any company.

The second initiative is a series of regional education and business networking events, known as the ETA Expo Network. These meetings are designed to be a low cost, easily accessible alternative for MLSs that have not traditionally attended ETA's large, national events.

Attendees will gain access to major vendors through a tradeshow and quality education through ETA University offerings and conference sessions. The first show will take place June 24-25, 2004 in La Jolla/San Diego, Calif. Additional regional events, to be held throughout the country, are planned for the future.

"With these new programs, ETA now addresses the full spectrum of the merchant acquiring business," said Carla Balakgie, ETA Executive Director. "From the 'feet on the street' to the major processors and beyond, ETA is actively addressing the needs of the industry."

ETA believes that expanding the delivery of its educational and business-networking activities to the MLS will benefit the entire community. Sales agents who are better educated about the many facets and complexities of the industry and who are up to date on issues, services and technology will realize a direct return for growing their business and will provide increased value to everyone involved in electronic payments processing.

Additionally, with a changing regulatory climate and increased scrutiny on consumer protection and data security, ready access to knowledge, information and education for all that need it is vital to ensuring the highest levels of effective business practices.

"This is an opportunity for us to strengthen our industry community," Dees said. "Merchant level salespeople are a key value component in our business. ETA's new events will offer these individuals quality education and increased opportunities to further their success."

ETA stresses, however, that it has not changed its primary mission. It is still fully focused on serving the needs of its member companies in delivering their products and services to the marketplace. It sees the ASP and Expo Network programs as ways to accomplish this mission by fostering a highly educated and professional MLS. In the end, their success helps drive everyone's success.

ETA Annual Meeting and Expo

MGM Grand, Las Vegas

April 20-22, 2004

General sessions will feature the following keynote speakers: Charles Fote, Chairman and CEO of First Data Corp.; Wayne Best of Visa USA; and weatherman Al Roker.

ETA already has more than 100 vendors signed up to exhibit, and it is expecting over 130 vendors to be represented on the expo floor. This year's meeting will feature 12 breakout conference sessions scheduled in four tracks (sales and marketing, technology, emerging markets and operations).

For additional information on ETA programs and events please visit the ETA Web site at www.electran.org or contact: Kevin Brosnahan at 202-828-2635 x 203 kevin.brosnahan@electran.org

Midwest Acquirers Association (MWAA)

Second Annual MWAA Conference

Drake Hotel, Chicago

July 28-29, 2004

Nominations for the 2004 Midwest Acquirers' Association (MWAA) Lifetime Achievement Award will



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be accepted starting the first week in April 2004 only on the MWAA Web site www.midwestacquirers.com. The MWAA Board will review the nominations and announce the recipient at the Second Annual MWAA Conference in July.

The MWAA Lifetime Achievement Award honors the outstanding individual who has made significant contributions throughout a career of service to the merchant bankcard and electronic payments industry.

This award is a unique tribute given only to the individual who is worthy of "Hall of Fame" status. The 2003 MWAA Conference celebrated the achievements of Robert O. Carr of Heartland Payment Systems.

In order for the MWAA board to accept a nomination, these conditions must be met:

1. The nomination must be submitted by someone who personally attended the 2003 MWAA conference in Chicago.
2. The nomination must place before the Board the name of someone who has given a career of significant contributions and service to the merchant bankcard and electronic payments industry.

3. The nomination must describe the nominee's contributions to the industry and tell why he or she is worthy of this recognition.
4. No one may nominate someone within their own company or a subsidiary of their parent company.

For more information on the nomination process or registration for the 2004 MWAA meeting visit the Web site at www.midwestacquirers.com

Immediately prior to the MWAA meeting in Chicago, Copia Cash Managers is sponsoring the "Field Guide for the Developing ISO" Seminar, an intensive one-day seminar on building and succeeding in the ISO Business.

Where: Drake Hotel, Chicago, Illinois
 When: July 28, 2004, 8:30am to 4:00pm
 Open to MLSs, ISO Sales Managers and anyone looking to be successful in the ISO business.
 Cost: \$100 (includes lunch)

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Keeping an Eye on First Data?

First Data Corp. subsidiary, Western Union Financial Services, Inc., has been put on notice to supply information to the U.S. Department of Justice (DOJ).

Western Union confirmed on Feb. 4, 2004 that it received a Civil Investigative Demand (CID) from the DOJ. A CID is a request for additional information in a civil investigation; it does not mean that legal proceedings have begun.

The CID was issued in regard to an antitrust investigation the DOJ is conducting over the contractual relationships between Western Union and its money transfer agents.

Western Union has also been informed that certain states are aware of the CID and may join in the

investigation or conduct separate inquiries of their own concerning the competitive aspects of its money transfer business.

The Federal Trade Commission (FTC) and one state began preliminary investigations of similar issues between 2000 and 2001. These investigations were closed without any resulting actions being taken, however.

First Data believes the investigation centers on Western Union's agent exclusivity requirements. Under the company's current guidelines, agents agree to offer Western Union's money transfer services on an exclusive basis.

Western Union and its subsidiary, Orlandi Valuta, together make up one of the world's largest money transfer networks with a combined

total of approximately 182,000 agent locations in more than 195 countries and territories. The DOJ's concerns would affect only the 50,000-plus U.S.-based Western Union agents.

Credit Suisse First Boston, a global financial intermediary and advisor for institutional, corporate, government and individual clients, does not expect this current DOJ investigation to have any short-term implications for First Data.

While it may lose some agents, long-term impact for Western Union would most likely be limited to a relatively small number of agents adding alternative transfer networks to their existing offerings.

First Data does not expect news of the CID to affect the progress toward completion of its acquisition of Concord EFS, Inc. on course to be finalized by mid-March 2004. ■

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We've also created an online presence, www.greensheet.com, where anyone, anywhere, anytime can access articles, discuss issues with peers and read up on the latest industry news. Each issue since 1995 has been published both online and in print. The entire backlist is available in HTML and PDF formats and is completely keyword searchable with "Fast Finder," the Green Sheet's search engine.



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Web Hits

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January 2003

1,970,090

January 2004

Statistics compiled with Webalizer V2.01

We've just completed an analysis of our Web site traffic for 2003. The site got a facelift in June; subscribers now log on and navigate through the pages much more efficiently.

"Changing the look and feel of the Web site changes the way people use it," said Kyle Rankin, Systems Administrator for The Green Sheet. "Readers don't have to click on as many pages now to access the specific article or services they want as they used to."

We reduced the number of areas that are password-protected so that visitors only need to log on once; we also reorganized the information and added graphics and drop-down menus so visitors have an easier time getting where they want to go on the site.

Our "News From the Wire" and "Breaking News" sections, added in January 2003, quickly became two of the most visited areas on the site, following directly behind the MLS Forum, which remains the most popular place to be on greensheet.com. Having a place to exchange ideas, network and talk shop among colleagues is apparently one of the most important resources for MLSs.

Rankin also greatly improved Fast Finder, making it easier to find references to any topic, name or phrase published in The Green Sheet, GSQ or anywhere else within the Web site.

What did all these changes add up to? Our audited statistics show that the number of hits to the Web site increased last year and averaged 1.5 million per month.

We are always looking for ways to bring the right stuff to the right people in the right way—right now! If you have any comments or suggestions, please write to julie@greensheet.com.



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I know first hand how hard it is to be a successful merchant level salesperson. I come from the streets, having sold my first few thousand accounts personally. I'm recognized as a long-time advocate and spokesperson for merchant level salespeople. My allegiance is to MLS because I value the hard work you do. I possess an unwavering commitment to insure you not only get treated fairly but also get paid generously.

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I urge you to review Total Merchant Services' partner program in detail. Please stop what you're doing right now and take 10 minutes to check out our partner website - www.upfrontandresiduals.com - where all the specifics are laid out. Even if you have looked at us before, there are new program features that will make all the difference for you in 2004.

I'm making this personal appeal to you, the hardworking MLS. Make Total Merchant Services your primary merchant account acquirer. I won't let you down!

Sincerely yours,



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See New Era on Page 51

The payoff for banks? Billions of dollars a year in potential savings, industry-wide, from the elimination of transportation, float and back-office costs; plus, they'll benefit from revenue boosts from new product opportunities.

One obvious new product we can expect to see as a result of Check 21 is check truncation at the point of sale, eventually (if not initially) backed by new-age authorization services. (The ATM infrastructure is situated to play a critical role in this line of services.)

What is Check 21?

Let's be clear about one thing: Check 21 does not mandate check truncation; instead, it creates a new legal environment in which truncation can evolve.

It does this by sanctioning a legal replacement for checks, called the "substitute check," which can be generated from a check image file when the paying bank and/or the check writer insist on receiving paper rather than electronic check images as proof that a payment occurred and was settled.

Technically, substitute checks will need to be created by banks, according to regulations proposed by the Federal Reserve that implement the new law.

But banks can enter into agreements with merchants (similar to the way things are handled in the ACH check conversion arena today) that allow merchants to capture check images at the point of sale and begin the truncation/electronic clearing process before those checks enter the inter-bank collection stream.

It Bests ACH Check Conversion

POS truncation will prove to be a lot more popular than POS check conversion, for a variety of reasons. For example, a check imaged and truncated at the point of sale continues to be covered by check law even though it clears electronically.

In POS (ACH) check conversion, checks cease to be governed by check law because the payments, in reality, have been converted to electronic payments.

Federal and state EFT laws are more consumer friendly than check laws. Under ACH law, consumers have 60 days from the date they learn of a questionable transaction (presumably when they receive their monthly bank statement) to file a complaint with their bank. Check law allows consumers just 40 days to dispute transactions.

More checks are eligible for POS truncation in a post-Check 21 environment. Business checks, courtesy checks,

cashiers' checks—any and all checks can be truncated. ACH check conversion is limited to traditional consumer checks.

Perhaps the most obvious advantage of POS truncation for merchants, though, is that truncated checks will clear and post more expeditiously than checks converted to ACH transactions. That means better availability and a better jump start on identifying fraudulent payments—a problem that is believed to be costing the merchant community \$10 billion, or more, a year.

The ACH is a batch processing system. That means checks converted to ACH payments must be sent en masse by a certain cut-off each day (usually in the afternoon) to the bank that processes the items through the ACH. With truncation, a merchant conceivably could image and transmit a check payment to its bank at the moment of acceptance.

A merchant may choose (or have to because of technology constraints) to send truncated check images all at once. But with truncation, a bank's cut-offs for check deposits can be much later than is the case today, because there's no transportation component to the deadlines. That means a larger share (possibly all) of a merchant's check

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deposits become one-day items.

In other words, when checks are truncated and electronically deposited, funds are posted to the merchant's account the very next day, even if the electronic files arrive at the bank after 9:00 pm. Most ACH payments post to merchant accounts two days after a check is converted at the point of sale.

The benefits of POS check truncation are too significant to ignore. That's why acquirers, ISOs and merchant level salespeople need to be thinking now about how they can help merchants get ready for this new era of check acceptance.

To assist in that process, I have developed this short Q&A on Check 21. You may wish to refer to these as you discuss Check 21 and the emergence of POS check truncation with employees and your merchant customers.

What's all the fuss over Check 21?

Check 21 represents a new era for check payments. Instead of moving paper checks between merchants and banks, it is now possible to clear checks using advanced electronic technologies, such as check imaging and electronic image exchange. (No more paper shuffle.)

This significantly reduces check clearing times, and eliminates the impact of unforeseen problems (like inclement weather) on the check collection process.

When does the Check 21 Act take effect?

The law is effective beginning October 28, 2004.

Does Check 21 preempt existing law?

Check 21 supersedes any state or federal law that is inconsistent with this new law, including provisions of the Uniform Commercial Code.

What, exactly, is check truncation?

Check truncation refers to any of several techniques that stop the movement of paper checks through the clearing and settlement systems.

Under Check 21, check truncation occurs when a bank or business payee captures an electronic image of a paper check and the subsequent forward and return collection processes occur through the exchange of electronic check files.

What is a substitute check?

A substitute check is a legally sanctioned document about the size of a "business" check that can be provided to a paying bank or consumer in lieu of an original check that has been truncated along the collection stream. A substitute check is considered the legal equivalent of its original

check for all purposes and reasons, including proof of payment.

A substitute check (which can be generated by a bank or its check services provider) must contain images of the front and back of the original check (complete with necessary signatures and endorsements), a statement identifying it as a substitute check and legal copy of the original and MICR encoding (which allows for the document to be handled using traditional check processing equipment).

What types of checks will be eligible for truncation as a result of Check 21?

Any and all types of checks can be truncated and re-converted, as needed, into substitute checks.

What is an IRD?

IRD is an acronym for Image Replacement Document. IRD is sometimes used interchangeably with substitute check.

What happens to the originals of truncated checks?

In many cases, original checks are destroyed once the electronic (digitized) versions are created. However some may be stored in a secure location at the discretion of the bank/merchant that digitized the checks, to be destroyed at a later date once the payments have cleared and have been posted to check writers' accounts.

What does truncation mean for bank deposit cut offs?

Merchants are often constrained by narrow windows for depositing paper checks into the collection stream. Substitute checks and check image exchange push open those windows.

With modest investments on their part, business customers will be able to capture check images upon acceptance, transmitting those electronic check files to their banks 24/7. Good riddance to late-night deposit drops.

How will Check 21 and truncation affect check fraud?

Check fraud is a serious and growing problem for merchants. Annual losses to check fraud are believed to exceed \$10 billion in the retailing community. Having access to check images as soon as the items enter the collection stream means banks (and merchant customers) can identify potential frauds early and take immediate steps to prevent losses. ■

Patti Murphy is Contributing Editor of The Green Sheet and President of The Takoma Group. She can be reached at patti@greensheet.com

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Check, Please!

We're already a couple of months into the New Year, and no one has broken any New Year's resolutions—or have you? Don't worry. I won't let you down. I'll help you keep at least one of them: remember the one where you resolved to become an expert in a new product offering?

My next series of columns will focus on ensuring that you, the professional merchant level salesperson (MLS), successfully learns to sell at least one new solution to add value to your existing credit/debit processing service offering. I won't introduce different products and services. Instead, I will teach you how to sell them.

The first value-added product I will focus on is check conversion (with or without guarantee). This product enables merchants to accept and process checks in a way that is similar to how they accept and process credit cards—by handing the check back to the customer.

Check conversion eliminates paper checks by converting them into an electronic funds transfer (EFT) and then processing the transaction through the automated clearing house (ACH). Merchants' accounts are funded within 48 hours and remain funded (even if the check is returned NSF), when check guarantee is part of the service.

Returned check fees are reduced, as is the need to make daily deposits to the bank. Merchants with multiple locations can consolidate funds and combat counterfeit checks with the use of their non-MICR ink detecting check readers. This all translates into merchants feeling more secure about accepting checks for payment and increasing their sales.

Recently, I had the opportunity to interview two leaders in the check services space, Global Payments Check Services and Global eTelecom, Inc. I asked the companies the following questions:

- MLSs need to have an edge when presenting new products to both prospects and existing merchant clients.

What products would you recommend MLSs include in their packages?

- What sets your products apart from others?
- What are the major selling points of your products?
- How would you recommend MLSs present your products?
- How do MLSs benefit by selling your products?

Global Payments Check Services recommends that MLSs always mention opportunities to increase efficiencies at the point of sale by using a check conversion product—such as Global Payments' solution. This will facilitate merchants' settlement, improve cash flow and reduce their current bank charges, either for deposits or returns.

Global Payments said there are many ways to differentiate its offering from other solutions:

- No secondary ID needs to be entered onto the terminal (ease of use)
- A 45-day submission for returns on merchants using the paper deposit program
- A 48-hour or less funding for conversion merchants and a 7-day reimbursement for those merchants who use the paper deposit program, with no additional fees
- Guarantee program does not use turndowns at the POS to manage risk and or profitability of the merchant's account
- A one-day variance between check date and authorization date, and they provide the merchant, free of charge, with a record of the checks authorized as a standard with their monthly billing

The company cites product reliability and ease of use as the major selling points for its check service products.

Global Payments recommends that when MLSs talk about check conversion, they present it as they would present credit cards. The process for accepting checks and

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merchants being funded is as simple as accepting credit card transactions. And when talking about its standard guarantee product, easy integration with current equipment should be the focus.

According to Global Payments, there are numerous benefits for MLSs when incorporating their check products:

- The ability to secure a merchant with a one-stop shop for payment options
- An on-going residual stream created by the accounts they bring on the books
- Equipment sales, upgrading the merchant to new equipment for the conversion accounts
- A company that has been in the check guarantee industry for over three decades supports Global Payments' products. MLSs will work with a designated support person, providing one-on-one training and assistance with the sales process

Global eTelecom said that MLSs should promote a "total payments solution" package to their merchants, the most popular being gift and loyalty, EBT and check. The company recommends MLSs think outside the box in regard to what other services merchants need or currently use.

Check programs have evolved beyond the old-fashioned

paper guarantee offering. There's electronic check conversion with a guarantee option, RCK (representing NSF paper checks electronically), recurring ACH debit and ARC (electronic conversion for mailed-in checks).

Global eTelecom cites the following differentiators and advantages for using its guarantee product:

- No check imager required, a less expensive check reader is acceptable
- A much higher percentage of consumer checks are approved at the point of sale
- Merchants won't be charged a discount percentage on checks declined at the point of sale
- Free online reporting for merchants
- Its program is protected by the ECC patents, thus ensuring uninterrupted service for merchants
- Most comprehensive terminal/reader compatibility in the industry (VeriFone, Hypercom, Nurit, Talento, RDM, MagTek, Ingenico)

Global eTelecom said it created its product "to be sellable for the MLS." The company's executive management staff is comprised of experienced professionals who have specifically designed all functions of Global eTelecom to be ISO friendly. Its internal departments—customer service, tech support, finance, sales, collections and R&D—all

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are focused on serving the ISO/MLS, especially since it is the company's only sales channel.

Global eTelecom recommends the concept of "you can now accept and process checks similar to a credit card transaction" as the best way to sell its primary product of check conversion with guarantee. It even offers examples of questions that will interest a merchant in the product:

- Do you take checks the old way or the new way?
- Wouldn't it be nice if you could lower your bank fees and eliminate your trip to the bank for deposits?
- Have you seen the program that enables you to accept and process checks with the same security as a credit card—all for a lower cost?
- Did you know you can now accept checks and get paid electronically without worrying about bad checks?

According to Global eTelecom, the number one benefit to MLSs selling their product is...money:

- Check conversion requires a check reader, which creates an additional equipment sale
- Its products create an additional residual income stream for monthly fees and processing fees
- The company believes that merchants who have multiple

services with one agent will be more reluctant to switch bankcard services, thus increasing merchant retention and keeping residual payouts going longer

- Agents will lead with Global eTelecom's check product to get their foot in the door and follow up with the bankcard sale
- Global eTelecom's suite of products empowers MLSs to target certain niche markets that may not have been accessible with a simple bankcard offering

After speaking with these two companies, I turned to MLSs for their views on check services. Last month, I posted the following on The Green Sheet's MLS Forum:

"What benefits do you get from offering these check services such as check conversion/check guarantee? Do you offer them for financial gains or to improve customer satisfaction and retention? If you don't sell check services, why don't you? Is it from lack of knowledge or lack of interest?"

Here are some excerpts of some of the responses I received:

"If it is just conversion/guarantee you are asking about, we have found the following to be true for us: Not all

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businesses need it. I always say 'In the proper environment.' If you get educated in this service, you can do quite well. If you simply throw it in, you'll lose your merchants' respect, and then all of their processing that you provide them.

"Great item, in the proper environment! I did not mention the additional equipment, as it is not an issue when placed properly. Imaging is now the right equipment for this. And when it starts franking, it'll be even better!" —Q

"I think I make more money per customer on check as compared to bank card. And I think my merchants will stay with me longer if I have more services on the machine. I prefer MagTek readers with Talento or Nurit Terminal. I have had more service calls out of ten imagers than with 200+ terminals, so I am done with imagers. It seems like a lot of

merchants quit using this service after a month or two.

"Although I lead with check guarantee and fully explain it to each merchant, only about 10% take it and a lot of them drop it. When talking about Check, you may want to mention Recovery. It is an important product too." — bancardrep1

You need to recognize that it's becoming more and more difficult to start a conversation with a merchant just about credit card processing services, discount rates and fees...let alone new value-added products. This is particularly true if you're talking to a merchant that currently accepts credit cards.

Every MLS gets opportunities to reprogram existing, processing merchants. You must maintain reasonable margins so you don't rely on price alone. To do so, you'll have to

offer something new and beneficial to the merchant. I cannot think of anything more beneficial than a good check guarantee and conversion program for both your new and current accounts.

Begin by introducing the product, but emphasize benefits such as ease of use, increases in cash flow, reduction of bank charges, decrease in counterfeit checks, funding within 48 hours, online reporting, etc. SELL the benefits!

I also think that having more than one thing to sell shows a merchant just how professional you are. They'll see you as a consultant rather than just a salesperson. You need to offer and present more than one solution to meet their needs including credit card processing, credit with check guarantee, check reader (no imager), credit guarantee and conversion (with imager) and

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Something else to remember: the great thing about selling check services is that it's not very complicated for anyone already comfortable selling credit card services. Check-related products are sold with the same types of rates and fees: discount rates, per item fees, statement and service fees, monthly minimums, etc.

From the comments on the MLS Forum, a couple of things concerned me—for instance, the complaint about check imagers breaking. My advice: Sell something with a proven track record. At Total Merchant Services, we offer a \$499 package deal with the Talento T1 and RDM 6004i check reader (imager). It's working very well for our sales partners, and we've had no problems with the equipment.

Another area of concern for me is when merchants discontinue check services after a few months. To avoid this, you must present the product properly and emphasize the benefits from the beginning. Some salespeople just add check services into the mix without going into detail about the benefits. If your merchants do not fully understand and appreciate the value of check services and how they will benefit, they will not continue to use it. I especially like the questions Global eTelecom suggests you

pose to the merchant to encourage a dialog about check services. USE them!

Once you've closed the deal, make sure your merchants get fully trained, either by you or your check services provider. The key to making sure your merchant continues to use the service is you doing your job. That's what we call good follow-through!

Finally, and most importantly, when selecting a service provider, choose a company with a proven track record using your ISO/MSP provider, or at least, your front-end processing network (e.g. Global East, Global Central, VisaNet, Paymentech, First Data).

You need to make sure you know when and how to load the check part of the download separately. Even better, do what we decided to do—partner with a provider that offers one download program that's pre-loaded to work for all the services you're providing: credit, debit and check. With one download program that is set up for credit/debit and check conversion with guarantee, there's less chance of making an error.

I would like to thank both Global Payments Check Services and Global eTelecom, Inc. for their invaluable contributions to this article. My next column will focus on gift and loyalty programs. Look for my upcoming post on the MLS Forum. As always, I'd love to hear from you. Please send your comments to streetSMARTS@totalmerchantservices.com.

"Whenever you are asked if you can do a job, tell 'em, 'Certainly I can!' Then get busy and find out how to do it."

—Theodore Roosevelt

See you next time where the rubber meets the road.

Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Ed is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.

To learn more about Total Merchant Services, visit the website at www.totalmerchantservices.com. To learn more about partnering with Total Merchant Services, visit www.upfrontandresiduals.com or contact Ed directly at ed@totalmerchantservices.com

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Beyond Bankcard

The Case of the Missing Merchants

Lin Fellerman

Secure Payment Systems

I have written before about merchant attrition resulting from pricing avarice. Let's consider another angle to the case of the missing merchants: Assume for a moment that top management's attention to detail has something to do with customer erosion. It seems somewhat inconceivable to me that some of the best sales- and marketing-driven companies fail to focus on back-end, post-sale account maintenance, but they do.

The fact that merchant account providers can sign 500 new accounts but lose 150 for a net gain of 350 is a wonderful thing indeed, but over time the impact of those losses is staggering. When everything is here today and gone tomorrow, sales representatives can never depend on reference listings. I can assure you that your departing merchants generally will not pass on glowing recommendations of you to their neighbors, drinking buddies, col-

leagues or Monday night bowling team (who might very well be your drinking buddies, too).

Wouldn't it be easier, and far more productive, to simply analyze why your customers are leaving? Should they even have been signed in the first place? Was the target—I mean prospective client—too easy a mark for that equipment sale? You covered the costs of the initial sign-up and didn't chew on any chargebacks, so you could argue that nothing was ventured and nothing was gained.

Is merchant attrition just part of the cost of doing business? Sounds more like the cost of not doing business, once they've moved on. But consider all your hard work—you signed them, installed them, trained them and maybe actually serviced them on a regular basis (although this is unlikely, isn't it?).

Or maybe the sales rep got a full-time gig doing something else and was just milking the ISO residual payment stream. Who is servicing the account then? The answer to that question is probably 'no one,' making the "I have left you" outcome inevitable.

"But why did you leave without calling me first?" pleads the salesperson (assuming he or she even knows the account is gone before examining the residual check a year later).

"You didn't call, you didn't write, you didn't love me anymore," replies the merchant (assuming he or she is still in business).

Sales management analyzes the daily new merchant application numbers, the daily equipment sales numbers, sales contest effectiveness, etc. But few take the time to analyze why and when customers leave, let alone how to minimize that impact. When businesses start up, the top echelon of management is usually very hands-on, playing an intensive role in running the business in the beginning. They measure the pulse of the business as events occur on a real-time basis. So what goes wrong?

Growth can be intoxicating and may hide the ill effects of customer attrition that happen over time. Management becomes so focused on the good stuff that the bad stuff is ignored. Perhaps the cost of dealing with it simply outweighs the cost of not dealing with it. Either way, the only one dealing with it is the customer.



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If you ignore customers whose pricing is too high in relation to your standards or new business pricing, then you can assume simply that those customers will leave; it's only a matter of time.

On the other hand, it's amazing how much attrition can be eliminated by simply lowering the unusually high fee structures on those older books of business. It's also amazing what phone calls from service representatives (yes, from live walking, talking personnel) can do to lower attrition. It isn't always about price. We all preach it, but we don't all practice it.

Unfortunately, I have to point at top management, who bear sole responsibility to ensure the same practices that helped a company become successful on day one are still there on day one thousand.

If the bathtub is emptying out as fast as it is filling up, that means salespeople are working hard to get tired. Try talking to and servicing your customers on a prearranged timetable based on stratifying your customers into volume ranges. This could work wonders for your bottom line and make sales personnel feel like they are developing relationships for important future referrals and not just equipment sales.

I know those old high-priced customers continue to be attractive and you don't want to forsake that revenue stream going forward. But by not addressing them or without something new to offer—for example, a competitive advantage from innovative solutions beyond dial-up POS terminals or systems integration—you will eventually lose those high-priced relationships.

So where do we go from here? Identify the obvious attrition elements: price (including those unmentionable hidden fees in the fine print); customer service (or lack thereof); chargebacks; rejected claims; speed of authorization; referrals; declines; speed of reimbursement; and equipment support. Prioritize and deal with them. Make yourself and your company stand out from the rest so that you ultimately stand above the rest.

Most important, if you do nothing, then remember that the only things that will change are your customers. ☒

Lin Fellerman is Founder, President and CEO of San Diego-based Secure Payment Systems, a national provider of electronic check and gift card processing services. Prior to founding SPS in 1996 Fellerman was a 20-year employee and 10-year President of Telecredit/Equifax Check Services (now Certegy Check Services). Visit www.securepaymentsystems.com, or send e-mail to him at lfellerman@securepaymentsystems.com



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Close Encounters of the Fraudulent Kind

A Green Sheet Advisory Board Member Catches On, Passes It On

"We got lucky—we caught it," said Doug Mack of Card Payment Systems (CPS) about a brush with merchant fraud his company experienced recently. Here's what happened:

Mack recalled he didn't think too much of the phone inquiry he answered about merchant accounts on Jan. 24, 2003, although it did strike him a little odd when the caller said CPS had come up in a Google search for merchant account providers.

Mack acknowledges his company doesn't have a big Web presence and that its Web site is mainly used by agents and merchants who log on to review account activity, not as a marketing tool.

The caller had a distinctive, but unplaceable, accent and sounded friendly. As CPS does with all potential merchant accounts, Mack checked out the merchant Web site, which looked professional, and verified the incorporation

information. The application for ProMarts Development was approved and the merchant paid for his gateway.

Mack said the account was active by Jan. 31, 2003 and transaction volume for the account soon picked up. By all accounts, this was a good merchant account.

In April 2003, Mack said he happened to answer another inquiry from a caller who coincidentally also found CPS through a Web search. Something about the caller sounded familiar—it wasn't the same man, but the accent was exactly the same as the other caller's. But Mack said CPS' risk management department approved the account for Mareb, LLC on April 24, and like ProMarts Development, initially it looked to be a winner.

Then a third call came in from someone else with a familiar-sounding accent, saying he had found CPS on the Web. A CPS rep took this call and something about it piqued his curiosity. This time, CPS compared information for all three merchants including domain registration address, phone numbers—both were off by just one or two digits—and the wording of privacy and refund policies for all three merchants, which was identical.

CPS did not open that third account and put both the others on hold.

The company's risk management department began to review activity for both accounts and discovered the merchants were sending through high volumes of transactions and refunds. They noticed that many of the refunds were requested for cards other than the one used for the purchase.

"They were doing lots of volume, but with the refunds, the volume levels didn't exceed their limits," Mack said.

CPS continued to let ProMarts process transactions, but took \$50,000 out of the reserve account to cover the chargebacks they expected to start coming through. Sure enough, Mack said, the chargebacks came—to date, thousands of dollars worth and counting. CPS closed the ProMarts merchant account on May 27, 2003; the Mareb LLC account has been "TMF'd," he said; meaning, it's now a terminated merchant file. It's still open, but CPS is holding all sales for the account.

Still, the phone calls kept coming in all last year—Mack said CPS received well over a dozen just like the first one, with the most recent on Feb. 5, 2004. This time, though, it

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was a female voice with the tell-tale accent calling about opening an account.

Like the other 'merchants,' the woman from Dvar Sales, Inc. gave a toll-free return number with what Mack said is a "weird voice-mail system," and has what appears to be a legitimate Web site. "They all had nice Web sites that looked good from the front," he said, "but they were never complete. Clicking farther into the sites just leads to dead links."

The sites for the first two accounts are no longer live, but a visit to www.dvar-inc.com will shed some light on this apparent case of merchant fraud.

The opening page features Flash animation, sound and tells shoppers, "This site sells high-quality clothing from various manufacturers." Item descriptions indicate that

those manufacturers include several high-end outdoor and active wear labels. But with only four categories of men's clothing offering nine items each—the short sleeve shirt section has only long sleeve shirts in it—the pickings are slim.

Shoppers are not offered any choices for colors or sizes; there are no shipping options provided. Clicking on the item photos leads shoppers to the "Contact Informations" and "Payment Informations" pages.

The site is apparently not secure either—Mack said he received a warning about the validity of the security certificate.

It's hard to believe that any consumer would be gullible enough to enter credit card information on an unsecured, incomplete site like dvar-inc.com.

So where did all the transaction vol-

ume come from on the other two sites for CPS to process?

"Their goal is not to capture sales," Mack said. "The purpose behind the sites seems to be to scam merchant services providers. This is strictly a guess, strictly theory—they seem to be running bogus cards as sales and then refunding partial amounts to valid cards."

Mack just wants merchant services providers—and the agents who sell for them—to pay attention to what's going on. "Being on The Green Sheet Advisory Board, I thought it was a good idea to advise people about it.

"I really hope other agents and ISOs will take a look at some of their accounts right away and see if they fit the description. Hopefully, if more of us are aware of the situation, and tell them to take a hike, they will move on and find another industry to pick on." ■



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▶▶▶ EDUCATION [CONTINUED]

Legal Ease

The Catch-22 of Association Rules in ISO Agreements

Adam Atlas

Attorney at Law

This column is a commentary on a troubling, yet rampant practice in the electronic transactions business: parties being bound by rules they have never seen. I challenge readers of this column (including the Associations) to send me a copy of a single current ISO agreement that deals logically with the application of Association Rules.

Rules Apply But They Are Secret

As readers know, the relationship between processor and ISO is almost always made subject to the application of the rules of the relevant credit card associations, such as Visa or MasterCard. These Association rules are often defined in ISO agreements as the "Rules."

It makes perfect sense that an ISO should be bound by the Rules because the ISO is a key link in the chain from merchant to ISO to processor to bank. However, one of the

"Rules," of which ISOs may not be aware, is that only member banks have access to the Rules. In addition, member banks are not allowed to disclose the content of the Rules to other parties, such as ISOs or merchants that are bound by the Rules.

Any reasonable person will realize that (a) the Rule to not disclose the Rules to entities that are not member banks and (b) the standard ISO contract clause stating that the "ISO shall be subject to the Rules" are two completely incompatible concepts. Nonetheless, to my astonishment, these two incompatible concepts are in virtually every ISO relationship existing today. At the most recent Electronic Transactions Association (ETA) event in Boca Raton, Fla., I asked a vice president of Visa and a vice president of MasterCard (who both made presentations on interchange) to explain to me how banks are supposed to deal with this fundamental contradiction.

The response I received was that banks have an obligation to take those parts of the Rules that apply to ISOs and spell them out in ISO contracts or ISO policy manuals, without disclosing the rest of the Rules that are to be kept confidential. After reviewing many ISO deals, I have yet to see one where this requirement of Visa and MasterCard was implemented. This survey includes the biggest names in the business today.

Obviously it would take a lot of effort, and lawyer time, to sit down with the Rules (that are many volumes thick) and extract those that actually apply to ISOs for inclusion in a properly drafted ISO agreement. I have yet to negotiate opposite a bank or processor that has gone through this procedure.

What's An ISO To Do?

Before signing an ISO agreement that makes the ISO subject to the Rules (and does not provide the ISO with any access to the Rules), at the very least the processor and ISO should have a laugh about the silliness of this kind of agreement. If you are an ISO, and you feel like getting more than a laugh out of your processor with this kind of situation, I advise the following solutions:

- **Copy to Be Provided:** Request that the ISO agreement be re-worded so that the processor covenants to provide the ISO with a copy of the Rules. When the processor fails to deliver the Rules, and if the ISO violates one of them, the ISO may be able to use in its defense the fact that the processor failed in its obligation to deliver a copy of the Rules.

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• **Bound By Only Rules Provided:**

Request wording in the ISO agreement to the effect that the ISO will be bound by only those Rules actually provided to the ISO. This will help to motivate the processor to consider which Rules apply to the ISO.

• **Provide Rules Upon Violation:**

Request wording in the ISO agreement to the effect that a copy of a relevant Rule will be provided to the ISO when it has been violated after which the ISO will have a reasonable cure period to come into compliance with the Rule.

If you are an ISO, whether or not you actually see a copy of the Rules, I advise that you comply with them. Please also set realistic expectations for an ISO. I do not expect a bank or processor to agree to provide a copy of the Rules or remove an application of the Rules to ISO agreements.

Currently, you are likely to be asked to comply with Rules that you have

never seen. In the event that you are held to be in violation of those Rules, I recommend that your attorneys use, as their first argument, the argument that the Rules do not apply since they were never made known to the ISO.

If you are an Association, bank or processor, I also recommend setting realistic expectations. I would be very surprised if any judge would hold an ISO liable to comply with a Rule that has never been made known to the ISO.

Of course, I am not encouraging ISOs to avoid complying with the Rules, but I am simply providing my view that the majority of ISO agreements today are very poorly drafted in relation to the application of the Rules.

The result of this poor drafting is to weaken, I believe, the application of the very Rules that the Associations

so eagerly seek to enforce.

I am surprised that the legal teams in the Associations and banks persist in including this ambiguity in ISO agreements. Going one step further, I am surprised that the lawyers for the Associations, banks and processors have not given their clients better advice on this subject. There are enough complexities in the electronic transactions business. I think we should all make an effort to get rid of the usual nonsensical Rules clauses in ISO agreements.



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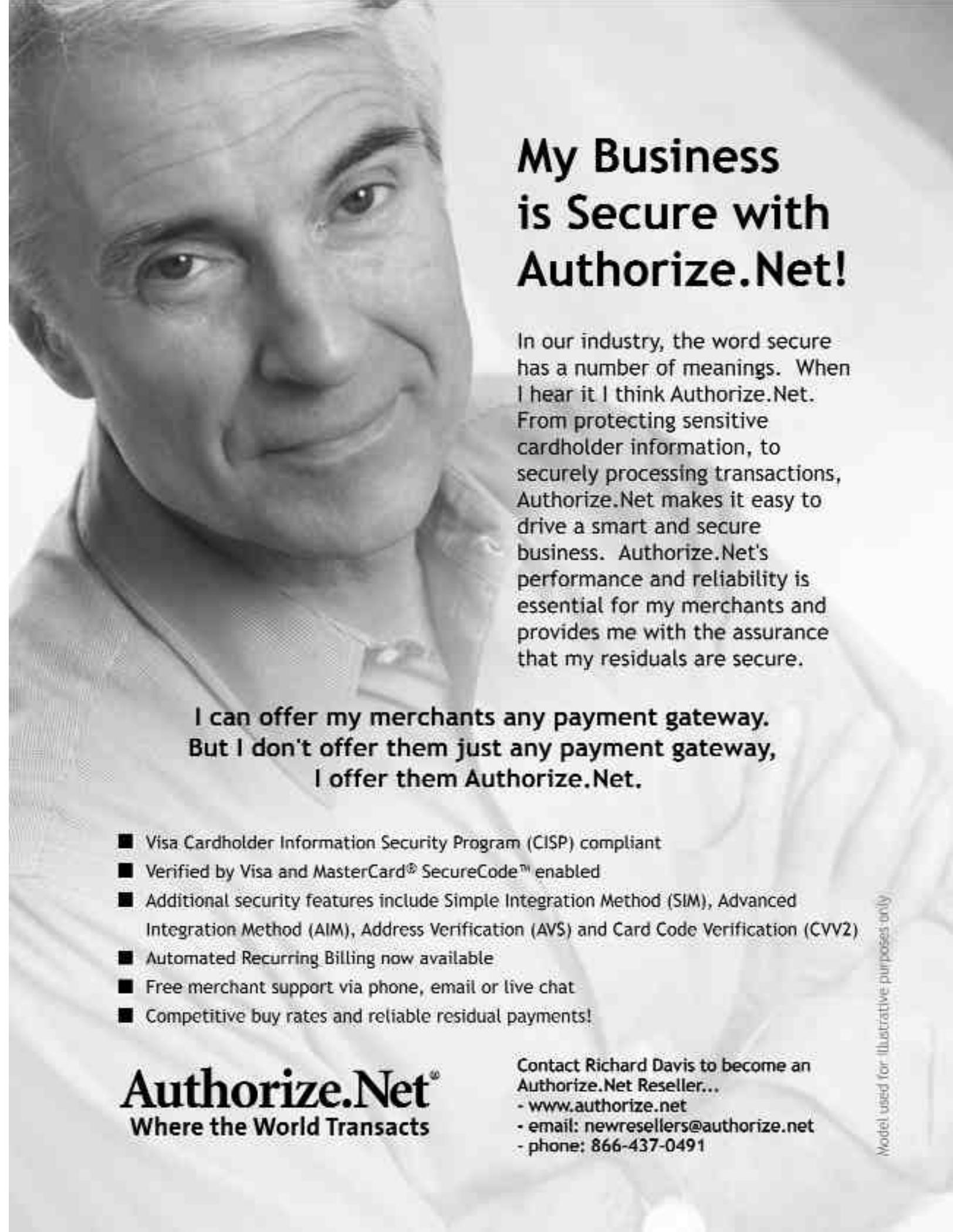
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▶▶▶ EDUCATION [CONTINUED]

A \$23.5 Million Lesson

By David H. Press

Integrity Bankcard Consultants, Inc.

On Jan. 15, 2004 The Federal Trade Commission (FTC) announced it accepted \$23.5 million to settle charges that Certified Merchant Services (CMS) violated the FTC Act while providing merchants with credit-card payment services.

The payment to the FTC came from the forced sale of CMS' assets to First American Payment Systems, L.P. The FTC and CMS agreed that the payment would provide full redress to the CMS merchants. The sale was part of the stipulated final judgment and order and settled the FTC's first-ever complaint against an ISO for practices related to the marketing of credit and debit card merchant accounts to small businesses.

The stipulated final order was filed on Dec. 30, 2002. The

court made public a partially sealed version of the order in January 2003. However, the actual judgment amount remained under seal until Jan. 5, 2004, the date the court ordered that the payment made to the FTC to satisfy the judgment could be made public.

In February 2002, the FTC charged CMS and its principals as individual defendants (see *The Green Sheet*, issue 04:02:01, Feb. 9, 2004) with contacting small business owners throughout the United States to induce them to establish merchant accounts. (The original complaint was later amended in June 2002.)

In the process, CMS violated the FTC Act by unfairly and deceptively: 1) modifying customer contracts; 2) debiting customer accounts without authorization; and 3) making misrepresentations regarding various goods or services offered.

In addition, the defendants were permanently barred from debiting, billing or receiving money, or assisting others in doing the same: 1) before the defendants have provided the merchants with the promised card processing services or goods; 2) for check conversion processing before the merchants have signed up for and activated such services; and 3) for services or goods after the merchants have cancelled. If the defendants could not defer automatic debiting, the order required them to reimburse any debits that fall into the categories above.

The FTC order focused on misrepresentations of material facts and specifically on the following types of false claims that should be lessons for all ISOs and MLSs:

- If merchants buy an ISO's services, they will save money on their business expenses, including their card processing expenses
- If merchants are dissatisfied with any services or misrepresentations made by the ISO, they can cancel or transfer to another card processor at any time without further obligation
- There is no monthly minimum fee or expense associated with merchant accounts or the services
- There are no fees or expenses in addition to the discount rate and per-transaction fee agreed to by the merchants

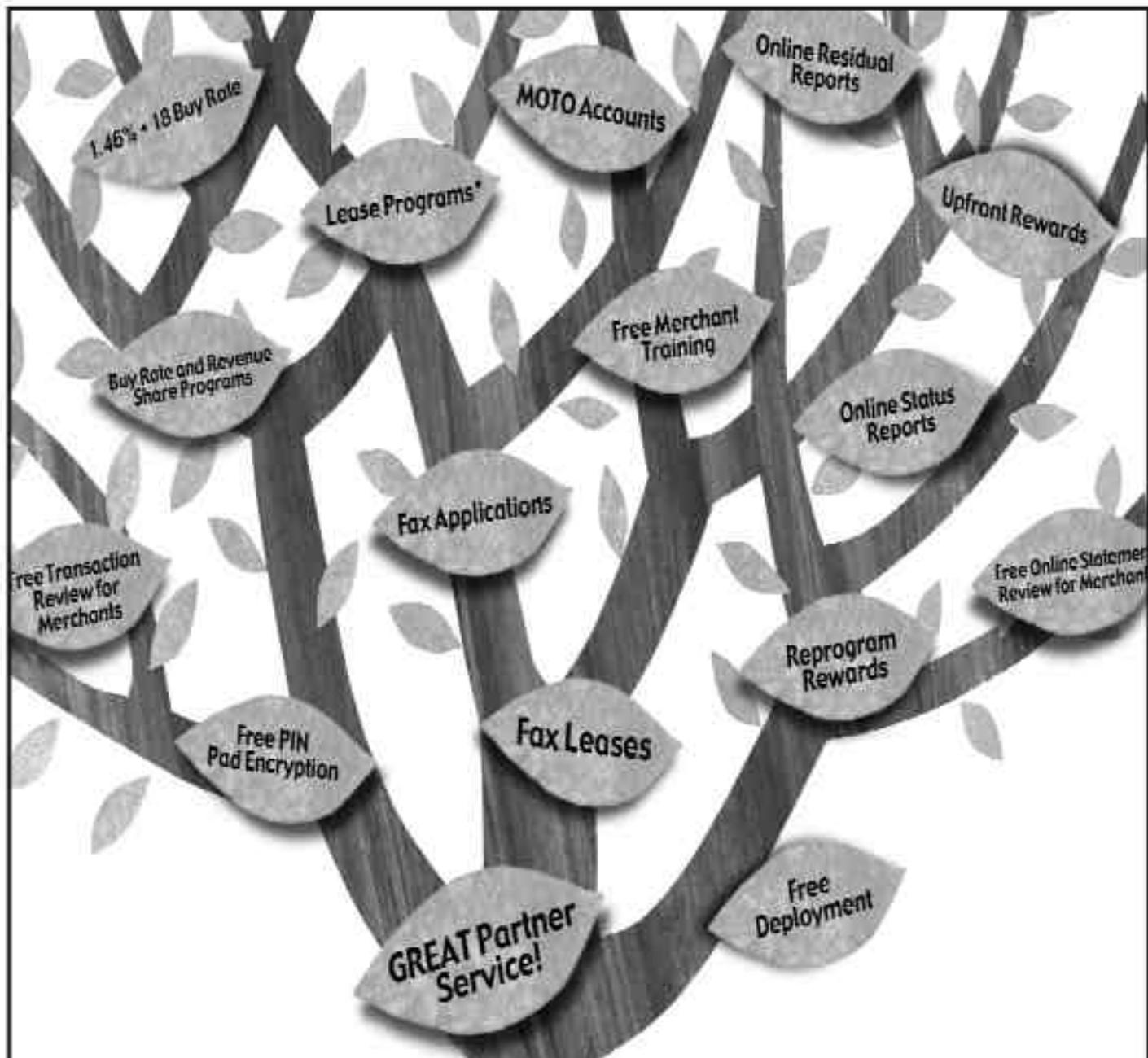
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ISOs that charge ... fees ... "buried" in the fine print of a merchant agreement should consider revising the agreement and make full disclosure of all fees in bold type near the space for the merchant's signature.

- If merchants are charged cancellation fees by prior credit card processors, the ISO will reimburse the merchants
- If merchants have an existing equipment lease, the ISO will buy out the remainder of the lease
- Failing to disclose, clearly and conspicuously either orally or in writing, any material fact relating to fees as detailed in the fine print of the merchant agreement.

The order stated further that if the defendants had obtained the signature of any merchant on a contract pertaining to the sale of any goods or services, they should have provided the merchant, at that time, with a copy of the executed document.

The order also required the defendants to take "reasonable steps" to monitor the conduct of their "agents, representatives, employees or independent contractors" in complying with the terms of the order.

The FTC alleged that CMS failed to disclose various charges or fees. According to the agency, "in many instances CMS deceptively failed to disclose, clearly and conspicuously, that they would charge merchants certain fees, including a minimum of \$25 if the merchants did not reach a certain level of card sales; a semi-annual fee of between \$33 and \$50; and a cancellation fee of between \$300 and \$400 for canceling within three years of signing a service contract."

ISOs that charge similar fees, especially if they are "buried" in the fine print of a merchant agreement, should consider revising the agreement and make full disclosure of all fees in bold type near the space for the merchant's signature.

Merchants need to be aware of these provisions. ISOs can use a "checklist" and review all the rates and fees quoted in contracts with merchants, indicating with whom the fees were verified and the date, time and phone number called.

Some ISOs still need to re-do their merchant agreements so that all fees are clearly disclosed—especially the cancellation fee. The cancellation fee may help minimize merchant turnover, but if it is used you may be

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a target for investigation by the FTC. This issue should be revisited with legal counsel the next time any merchant contract is revised.

Also remember to adequately disclose changes to your merchants, whether they are fees, charges or other terms of the agreement. A recent action in Tennessee, American Golf Schools, L.L.C. v. EFS National Bank, was brought under the state consumer protection acts by a class of merchant plaintiffs.

The complaint alleged the bank engaged in several unfair and deceptive trade practices and originally sought more than \$70 million in damages; it was recently settled for \$37.5 million.

All of the claims were based upon the failure to properly notify the merchants of changed terms in the business relationship.

The plaintiffs alleged that the defendant violated the state consumer protection acts by:

- Charging higher rates for electronic transactions without prior notification
- Charging an increased rate for manual or voice authorizations without prior notification
- Applying new charges to bill statements without any prior notification
- Charging for services in excess of rates stated in the agreement without prior notification

Regulators are now treating merchants as "consumers," which gives merchants additional power either through regulations and/or class actions that can potentially put ISOs out of business.

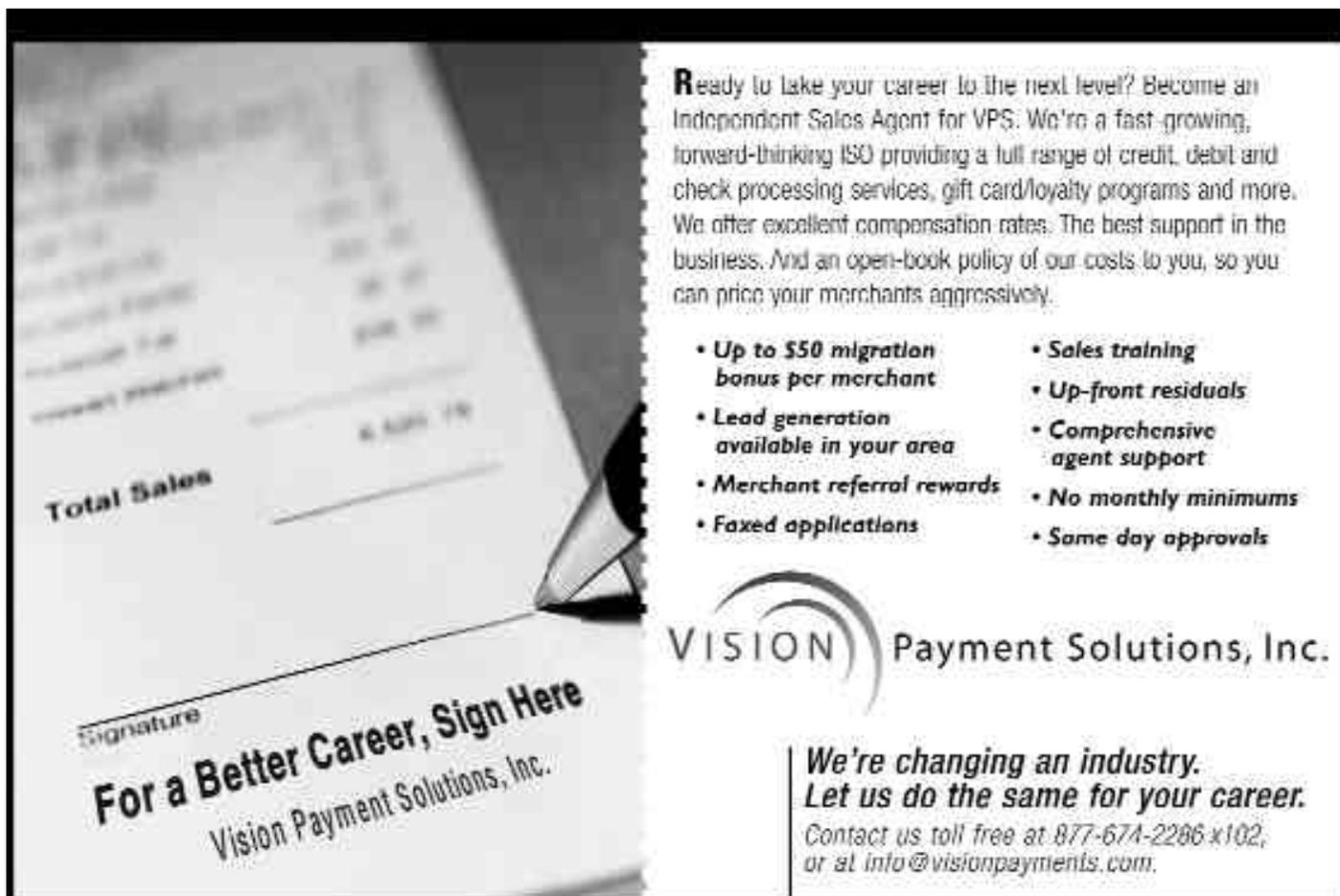
It's not worth the cost to lie to or deceive merchants; by the same token, ISOs should not allow their agents to do this either.

I do not believe that there is any monetary advantage for ISOs and MLSs to lie to merchants to get their business. Long gone are the days of the big upfront commission from equipment leasing.

Today the income comes from maintaining a long-term relationship with merchants.

That's a lesson worth remembering—and worth more than \$23.7 million. ☑

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Finding Recurring Revenue in Recurring Payments

In 2002, a total of 8.94 billion payments worth more than \$24.4 trillion were processed through the ACH network. As more merchants and their customers transition from paper checks to electronic payments, the companies that provide them with ACH services, according to NACHA, are poised for growth.

National Cash Flow Systems (NCFS), a provider of electronic payment processing services to merchants, specializes in automated payment technology—technology that the banking, insurance and health club industries have been using for more than 30 years to process their monthly payments and accounts receivable.

But NCFS also offers payment services such as ACH/EFT, credit cards, NSF check recovery, ARC/back office electronic check conversion, Internet check, telephone check and call center capabilities.

"We consider ourselves a one-stop shop for payment processing," said Mark Allyn, CEO and co-founder of NCFS.

The company was founded in 1997, and started out offering only one payment service, which was automated payment. "We offered this through what I would call the 'antiquated' paper draft system," he said. "But we realized early on that to stay competitive, we should provide a range of different automated payment services."

Since then, NCFS has been growing rapidly. For the past five consecutive years, NCFS has realized a 40% annual growth rate, according to Allyn. In 2002, the company acquired PayTech Solutions, which specialized in ACH payments. PayTech's CEO, Thomas Stafslie, is now the President of NCFS. Stafslie earned an AAP certification from NACHA in 2003.

"The two industries that started the need for automated payments are the health club industry and the insurance industry," Allyn said. "Health clubs are a prime example—because they are a pure recurring payment. Customers sign up, give a voided check and every month a payment is deducted from their checking account. They are now one of the strongest industries in the marketplace."

Health clubs are just one example of the kinds of businesses that depend on recurring payments. NCFS works with merchants of all types and sizes. In addition to health clubs and gyms, it has clients in the medical/dental, Internet-based, telecommunications, public utilities, stored value, non-profit and debt consolidation industries.

"Any company that wants to collect their receivables electronically and reliably is a prospect for our services," Allyn said.

NCFS positions itself as a 'broker' of payment processing services, meaning that the company seeks out and



finds its customers the best fit for their processing needs—meaning price, underwriting, transaction costs and the right type of service for them.

"We're one of the first payment companies to position ourselves as a broker," he said.

Allyn said NCFS is continually seeking 'best of breed' payment solutions and the latest services for merchants of all sizes and in all industries. The company does its own processing, but also has formed strategic alliances with multiple processors offering the best processing services at cost effective rates.

For example, for a health club, usually considered a low risk merchant, NCFS would research a few different processors to determine which one offers the most cost effective rate for that merchant.

But for a pre-paid phone card merchant, which is considered higher risk, NCFS would seek out a processor that typically works with high-risk customers, ultimately giving them the best pricing and the most efficient underwriting requirements.

Allyn compared this service for ACH and payment pro-

cessing to what Geico Direct does for car insurance: shops around for the best deals for their customers.

"We do the same thing. We will take merchants' information and based on it, we are able to determine from our processors with whom they should be placed."

In addition to automated recurring payments, some of NCFS' electronic payment processing products and services include ACH Checks By Phone, where a merchant can accept customers' checks over the phone and fax or by e-mail. The process uses bank routing and account numbers, which are printed at the bottom of every check. This information gets entered into NCFS' software and then is transmitted via the Federal Reserve's Automated Clearing House (ACH) network.

NCFS' Virtual Terminal solution, or payment gateway, is used for obtaining authorizations, settlement and/or funding and provides transaction reporting via the Internet. Electronic debits/credits from either a checking or savings account, electronic credits to both checking or savings accounts, credit cards and check services can be processed—and in several different ways—including real-time, batch mode and recurring (weekly, bi-monthly, monthly, quarterly).

The company's e-Recovery solution allows merchants to recover non-sufficient funds (NSF) checks without having to deal with their customers directly in potentially awkward situations. "We take that out of their hands so they don't have to worry about ill will or bad customer service, especially if they are dealing with people that they've had very long-standing relationships with," Allyn said.

"When the returned check comes in, we work with the merchant's bank and turn it into an electronic transaction. We automatically resubmit and attempt collection on those funds, and when we've received the funds through our service, we give the merchant the full amount of the check back, plus part of our collection fee."

Allyn said NCFS' e-Recovery system is a zero-cost service to merchants. There are no statement fees, no annual fees or equipment or setup fees. The RCK system pays them a portion of the fees it collects. When the funds are settled, merchants receive 100% face value of the check plus a percentage of the processing fee, paid on collected and released funds.

"NCFS' electronic payment product and service offerings are targeted toward improving a company's bottom line," Allyn said. "Expanding electronic payment options substantially increases sales, and converting customers from credit card to ACH electronic check payments substantially cuts payment-processing costs."

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"We improve the amount of time it takes for merchants to get their money, because the time value of money is really important," he said.

"A lot of companies would improve their bottom line if they knew what was coming in.

"For instance, if I knew that I had 1,000 payments coming in at one time as opposed to being scattered throughout the month, I could set budgets, I could set advertising limits, I could explore new product offerings."

NCFS provides telephone support to its merchants from 6 a.m. to 7 p.m. In addition, the company has a 24-hour number customers can call.

"We have e-mail as well," Allyn said. "We will respond no later than within 24 hours maximum. Customers have access to leave us their mes-

sages 24 hours a day."

In terms of selling its solution, NCFS does a little bit of inside sales, but the majority of the company's sales are made through its ISO/MLS network.

"They are very quick in underwriting, and they do a great job as far as servicing the client," said Ed Cornia, CEO of Electronic Bank Data, an ISO based in Salt Lake City. Cornia said his company sells NCFS' services to merchants ranging from karate studios to dental and medical offices.

NCFS uses buy rates, provides ongoing recurring revenue sharing and residual income. It also gives its ISO/MLS partners a detailed breakdown of each of their individual customers' performance on a monthly basis. ISOs/MLSs will then be paid based on their customers' volume in a timely manner.

The company provides on-site training, and the Document Central page of its Web site offers applications, manuals and marketing materials available to be downloaded. NCFS is also working on making available software, demos and video tutorials for its sales partners.

"We will go to a credit card organization and train their sales people so they have the best tools possible to sell our product," Allyn said.

"If they aren't trained on it, they are not going to be effective; they aren't going to make money, and we aren't going to make money.

"Everybody that sells our products can get ahold of myself or one of the other principals of the company 24 hours a day," Allyn said. "They can call us anytime. We want them to be successful—that's our primary focus." ■



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MBNA, AmEx Sign Deal to Issue Cards

For the first time, American Express Co. has entered into an alliance with a financial institution to issue credit cards under its brand in the United States. The agreement with MBNA Corp. was announced on January 29, 2004; financial terms were not disclosed.

MBNA is already the world's largest issuer of Visa- and MasterCard-branded credit cards. The alliance with American Express means MBNA will be the first financial institution to participate in all three major networks.

The cards will be branded with the American Express logo. MBNA will own the loans and will manage and service accounts on its own systems.

MBNA will issue the cards and process the transactions over American Express' network, rather

than through systems owned by Visa or MasterCard. The existence of three networks is expected to increase competition and promote innovation.

The deal marks what could be the beginning of a changing landscape in credit card issuing. It was made possible by the 2001 federal court decision in an antitrust case brought by the Department of Justice, in which Visa and MasterCard were ordered to drop their long-standing rules prohibiting their member banks from also issuing cards from competing brands, including American Express.

Visa and MasterCard are appealing the lower court's decision and say they will take it to the Supreme Court if necessary; if the appeal goes in the associations' favor, it will prevent the partnership between

American Express and MBNA from being finalized.

American Express does have established partnerships with banks outside the United States to issue its card products but up to this point, the company has not been able to secure agreements within the country due to Visa and MasterCard's policies. It is significant that its first U.S. partnership is with a bank the size of MBNA. Some analysts expect additional alliances to form as other banks stay competitive; more partnerships will also allow American Express to add increasingly popular debit products to its current list of offerings. Also, American Express' cardholder reward programs will likely benefit any issuing financial institutions by increasing consumer usage.

MBNA and American Express plan to begin issuing the new cards before the end of 2004. ■

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Signature Capture Terminal Creates Advertising Opportunities

Product: Ingenico 6600

Company: Ingenico

Ingenico announced the release of its latest touch screen and signature capture payment terminal, the Ingenico 6600.

This point-of-sale device has a large color touch screen that supports graphics, making it a focal point for consumers at the check out and creating visible and colorful advertising and slogan opportunities for retailers.

The I6600 has a tempered glass surface that makes it resistant to scratches and damage, and will not need replacement after repeated use, according to Ingenico.

The terminal has a triple track magnetic stripe reader, an integrated Visa-PED approved and 3DES-ready PIN pad, and an electronic pen. It supports electronic signature capture for credit and signature debit, PIN entry for online debit, and EBT.

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A Contactless Gift Card Solution

Product: ViVOtechgiftcard

Company: ViVOtech, Inc.

Gift cards are hot, and they're getting hotter. For the 2003 holiday shopping season, the National Retail Federation estimated that consumers spent \$17.24 billion on pre-loaded plastic cards, accounting for about 8% of all holiday sales. That's a lot of gift card swiping.

With the increasing popularity of gift cards, consumers' wallets are filling up fast with gift and loyalty card plastic. ViVOtech, Inc. recently introduced the industry's first contactless gift card solution. Instead of adding yet another card in their wallets, consumers can use a keychain device, or "fob," for 'cashing in' their gift credit at the

store. And this will give their wrists a rest from all that swiping.

ViVOtech's solution also serves as a way for retailers to differentiate their gift cards from others. The company said with its solution, retailers can better fight (and potentially win) the battle of "wallet share."

This solution, called ViVOcard, rolls multiple gift card solutions from multiple participating retail locations into one single card using the company's contactless technology. The ViVOtech devices work seamlessly with a retailer's existing POS system. Customers can load/reload their gift cards/fobs and check their balances online or through cell phones.

Any retailer can brand the system, and the contactless devices can be ordered in unique forms such as a key fob in the shape of a coffee cup for a coffee shop.

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It may be a simple story, but there's a real lesson in it. Perseverance and belief in your own abilities, when all signs point in the opposite direction, can help in overcoming many obstacles.

Sometimes, the only thing keeping us from success is our attitude. How would you characterize yours?

In Petaluma, a small city in northern California, a group of seven junior high school students have achieved what many believed they could not. This city, with a population of about 50,000, had no movie theater.

The theaters that had once been there moved or shut their doors. For more than two years a trip to the movies meant a drive of at least 15 miles.

Several local teenage girls started talking about the lack of a movie theater in town. They dubbed themselves the "Superb Seven" and set out on a journey to bring the movies back to their home town. They didn't know they couldn't make this happen, so there was no reason to hesitate.

The group sought advice from friends and families. They learned how to prepare a business plan and how to do a cost/benefit analysis.

Meanwhile, developers and politicians were getting exactly nowhere with their attempts to open new movie theaters—if these influential people couldn't get anything done, certainly these teenagers didn't stand a chance.

The local paper ran a piece on the girls and their mission; still, many people in town had little faith in what they were capable of.

INSPIRATION

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Time passed and the girls quietly worked behind the scenes gathering support from individuals and organizations in the community.

They made presentations to banks, developers and politicians. They contacted experts—even some from Lucasfilms, Ltd., the film production company that is located a few miles down the road from this city.

With public interest in their mission waning, the girls arranged a screening of George Lucas' film, "American Graffiti," which he had filmed in Petaluma many years ago. Because there were no theaters, the movie was projected on the side of a downtown building.

People began to believe that maybe these girls could



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Registration: Visit www.wespay.org

NACHA Payments 2004

Highlights: The numbers for electronic payments are impressive: One billion e-check payments were processed in 2003, which is doubled from 2002; 8.95 billion ACH payments were processed in 2002, up by nearly 1 billion from 2001; 2003 will be the year in which the number of electronic payments exceeds the number of checks in the United States. The overall theme for Payments 2004 is "Innovative Services + Effective Risk Management = Greater Value." Attendees will learn from actual practitioners who are implementing and growing electronic payment programs of all types—across platforms and across borders. More than 120 concurrent sessions and workshops delivered by a broad range of industry experts will give you the most timely information on the latest advances and best business practices in ACH, eCheck, Corporate Payments Priorities, Global Electronic Payments, The Payments Biz and Public/Private Convergence. Meg Whitman, President and CEO of eBay, Inc. is the keynote presenter.

When: March 21 – 24, 2004

Where: Washington State Convention and Trade Center, Seattle

Registration: Visit www.nacha.org

accomplish the impossible. Perhaps movies would return to town.

Then the unthinkable happened—a developer joined their cause. The city council approved a plan and, thirteen months after the Superb Seven took on a task no one believed they could achieve, construction began on a new 12-screen theater complex.

The theaters are one part of an overall new "theater district," a project designed to bring entertainment dollars back to Petaluma and enrich the lives of all of its citizens.

So why were these teenagers able to accomplish what others couldn't, even though they had no experience or knowledge? How can some people make everything they do look so easy? Why do some of us struggle and work so hard for every success?

Perhaps part of the secret is that the girls didn't know they couldn't do it. They paid attention to the people who told them they could and ignored the ones who said they couldn't. They started their project believing it was possible.

Are you struggling? Is cold calling just too hard? Do you believe you 'can,' or is the word 'impossible' creeping into your thoughts?

Approach every new prospect with a positive attitude and see each new sale as a fresh slate. Never use the word 'can't.' Replace it with the word 'can.'

If a goal seems too out of reach and you get discouraged, look at what inspired you to start this project in the first place. You must have believed the outcome would be positive—why else would you begin something?

Keep telling yourself, "I think I can. I think I can." You'll get much farther if you don't know you can't.

Aerodynamics tells us that it is impossible for the bumblebee to fly. I guess no one ever told the bee.

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