



News

Industry Update	14
FTC bites YMA	49
NACHA clarifies ACH rules	51
W.net spreads the mentoring net.....	53
VeriFone vows to fix faulty accounting	55
Fifth Third banks on gift card kiosks.....	57
PayPal eyeing more merchants	59
Free terminals are thorny	62

Features

New ATM security measures tackle fraud By Uwe Krause, Contributor ATMarketplace.com	30
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Views

Rock, paper, electronics By Patti Murphy The Takoma Group	26
Run from mean streets to clean streets By Steve Schwimmer Renaissance Merchant Services	36

Education

Street SmartsSM New year, new plan By Dee Karawadra Impact PaySystem	74
MLS or ISO: Which one are you? By Adam Atlas Attorney at Law	80
Visa, PCI council make security move By Michael Petitti TrustWave	84
E-mail: It takes a plan By Nancy Drexler Marketing Moguls	88
Receipts still reveal too much By David Mertz Compliance Security Partners LLC	92

December 26, 2007 • Issue 07:12:02

Payments under the radar no more

The payments sphere was on its toes throughout 2007. Reports of a security breach that compromised nearly 100 million consumer bankcards created a media tempest in February. And the stage was already set for federal and state-level scrutiny, as well as stepped up enforcement of the Payment Card Industry (PCI) Data Security Standard (DSS). Indeed, security concerns swept the industry with machine gun speed.

Additionally, merchants fed up with interchange made their voices heard on Capitol Hill, and the Federal Trade Commission flexed its muscles to clamp down on alleged processing abuses. Against this backdrop, the industry sped on, fueled by the hard work of you, the ISOs and merchant level salespeople (MLSs).

To help you stay abreast of rapid-fire developments over the past year and provide you with tools to deal with the ever changing payments landscape, *The Green Sheet* covered big picture business strategies and shifts, as well as nuts and bolts tips and tricks for success.

Here are *The Green Sheet's* top picks for 2007: five attention-grabbers having broad industry impact followed by five hot-button business issues for ISOs and MLSs.

The big picture

1. PCI compliance

The Payment Card Industry (PCI) Data Security Standard (DSS) loomed large for the payments industry in 2007. The September 2007 issue of *GSQ*, Vol. 10, No. 3, entitled "Defend the data," covered PCI and data security in depth. Plus, we published news, educational or analytical articles on the topic in every issue of *The Green Sheet* because it has become increasingly obvious to payments professionals just how critical this issue is.

Data breaches in the news included the cloning of debit and credit cards used by patrons in Huntsville, Ala.-area restaurants; a hacker accessing credit card information of 11,500 customers of Johnny's Selected Seeds; and the stunning TJX Companies Inc. breach that compromised an estimated 94 million credit and debit account numbers.

The card brands set deadlines for merchant PCI compliance, set hefty fees for businesses found to be noncompliant and even offered financial incentives to the tune of \$20 million to parcel out to acquirers that get merchants on board with PCI. The good news is that more resources were developed to help the effort. These include formation of the PCI Security Standards Council, an independent standards board that manages global training and compliance certification. It is now working on PCI DSS version 2.

Additionally, American Express Co., Discover Financial Services, Visa Inc. and MasterCard Worldwide offer on their respective Web sites resources to assist mer-

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- » Sam Zeitz—American Bancard, LLC

 **Notable Quote**

Let me say that there is nothing wrong with cancellation fees; the problem lies in not disclosing to merchants the circumstances under which the fees will be imposed and not ensuring that they are reasonable.

- See story on Page 36



**Inside this issue:
CONTINUED**

Company Profile

Credomatic USA

A full-course business39

Barclay Square Leasing Inc.

Good things come in small companies45

New Products

Dialing for digital content101

Card printer of a different stripe102

Inspiration

Before you move on107

Departments

Forum5

Datebook112

Resource Guide116

Advertiser Index126

Miscellaneous

Sarcasm Sells – Editorial cartoon5

QSGS: Quick Summary Green Sheet8

Bottom Lines14

10 years ago in The Green Sheet48

AstroloGS96

POScript98



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Affiliations:



**President and CEO:**

Paul H. Green.....paul@greensheet.com

General Manager and Chief Operating Officer:

Kate Gillespie.....kate@greensheet.com

CFO/Vice President Human Resources & Accounting:

Brandee Cummins.....brandee@greensheet.com

Managing Editor:

Laura McHale Holland.....laura@greensheet.com

Senior Editor:

Patti Murphy.....patti@greensheet.com

Associate Editor:

Breanne Hubbard.....breanne@greensheet.com

Staff Writers:

Sue Luse.....sue@greensheet.com

Lisa Mann.....lisa@greensheet.com

Dan Watkins.....dan@greensheet.com

Junior Staff Writer:

Adrienne Smith.....adrienne@greensheet.com

Art Director:

Troy Vera.....troy@greensheet.com

Advertising Sales:

Danielle Thorpe, Advertising Sales Director.....danielle@greensheet.com

Rita Francis, Account Executive.....rita@greensheet.com

Kat Doherty, Advertising Coordinator.....kat@greensheet.com

Production:

Lewis Kimble, Production Manager.....lewis@greensheet.com

Circulation:

Vicki Keith, Circulation Assistant.....vicki@greensheet.com

Correspondence:

The Green Sheet, Inc.

800-757-4441 • Fax: 707-586-4747

6145 State Farm Drive, Rohnert Park, CA 94928

Send your questions,

comments and feedback to.....greensheet@greensheet.com

Send press releases to.....press@greensheet.com

NOTE – Please do not send PDF versions of press releases.

Print Production:

Hudson Printing Company

Contributing Writers:

Adam Atlas.....atlas@adamatlas.com

Nancy Drexler.....drexler@marketingmoguls.com

Dee Karawadra.....dee@impactpaysystem.com

David Mertz.....dave@csp-mw.com

Michael Petitti.....mpetitti@trustwawe.com

Steve Schwimmer.....thevisaguy@516phoneme.com

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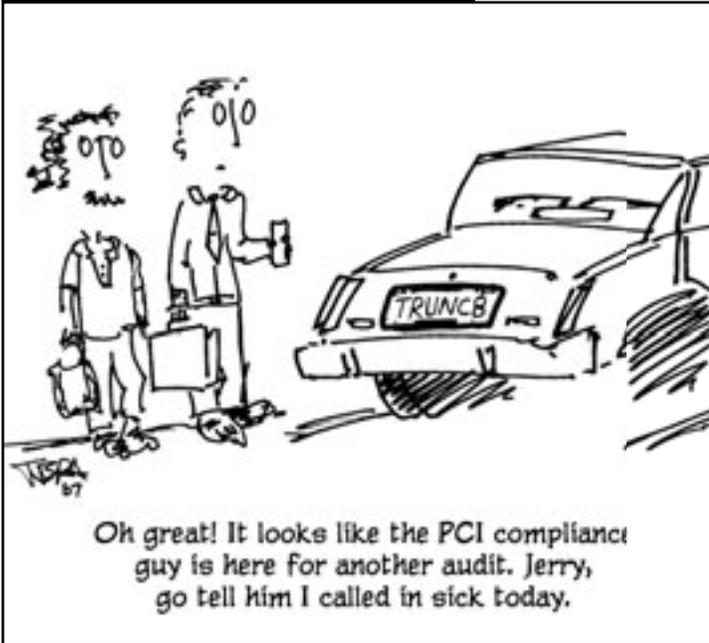


Forum

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Can they get a candy bar with a card?

I have a customer who wants to add bankcard acceptance to some vending machines in the back of his store. The machines currently only accept cash. Do you know which companies offer this capability?

Joe Maderan
True Retail Solutions Inc.

Joe,

Here are some ideas for you:

- The first place to look is under the Equipment and Leasing headings in our Resource Guide, which is published in every issue of The Green Sheet. The two categories suggested list more than 25 companies that may know of suitable alternatives for your customer's needs.
- Another thing to try is to pose a question on GS Online's MLS Forum. If you're not already a registered member of the MLS Forum, the sign-up process is quick and easy. Just press Register Today! in the upper right hand corner of our home page (www.greensheet.com) and follow the steps from there. Once you're registered, you can pose questions, as well as answer queries from other MLSs.
- Use our search engine, Fast Finder, to gain immediate access to archived articles dating all the way back to 1995. Enter

"vending" in the search field, and press submit. A list of articles containing that word will appear onscreen. You can't miss Fast Finder; it's just beneath our logo in the upper left hand corner of our home page.

I hope these suggestions bear fruit.

Editor

Getting the word out

Where should I send news about developments of interest to your readers?

Stacy Richardson
ElectroPR

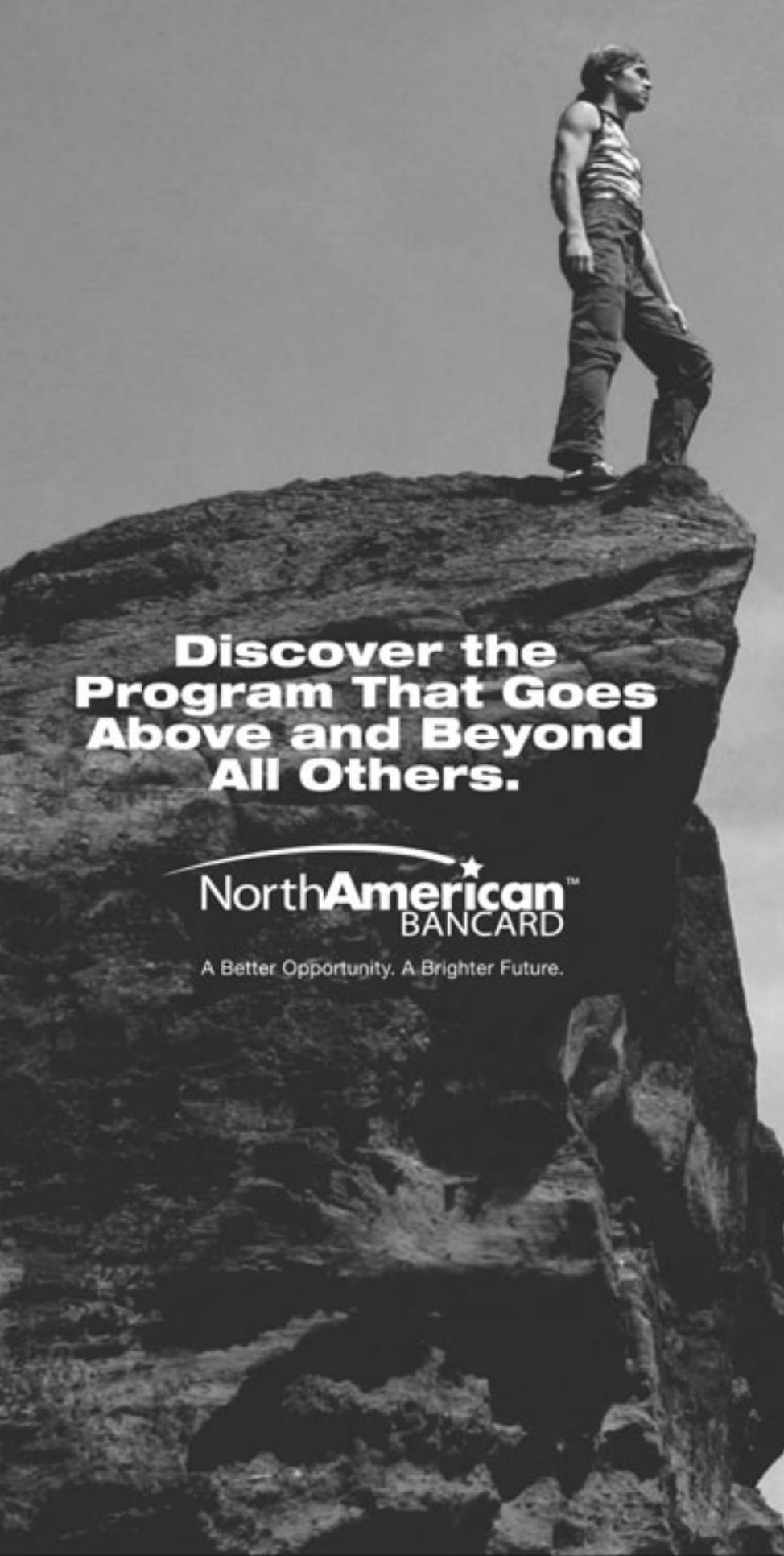
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YOUR NEWS IN A HURRY

Short on time? This section of *The Green Sheet* provides a quick summary of nearly all the articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

Cover Story

Payments under the radar no more

In 2007, a security breach compromising nearly 100 million consumer bankcards came to light. Federal and state governments zeroed in on payments, and enforcement of the Payment Card Industry (PCI) Data Security Standard (DSS) stepped up. Against this backdrop, the industry sped on, fueled by the hard work of ISOs and (MLSs).

Page 1

View

Run from mean streets to clean streets

Think you've heard about every possible deceptive practice in credit card processing agreements? Alas, dishonesty fueled by greed is still rampant in the industry. And we need to collectively stop unethical practices before an outside group decides to police us.

Page 36

News

FTC bites YMA

Beware. The Federal Trade Commission, in conjunction with seven state attorneys general, filed suit against Your Money Access LLC, a check and automated clearing house processor, claiming it violated federal and state laws by debiting, or attempting to debit, consumers' bank accounts with the help of fraudulent telemarketing and e-commerce merchants.

Page 49

View

Rock, paper, electronics

Electronic payments now outnumber checks by a factor of almost two to one. That's the news from the 2007 Federal Reserve Payments Study. The Fed also found that with an ever-growing number of check payments, electronic exchange technologies are used at some point during the collection process.

Page 26

News

NACHA clarifies ACH rules

In November 2007, NACHA – The Electronic Payments Association issued a clarification of a rule regarding transaction aggregation after receiving a request to do so. Some experts say banks sought the clarification because they are targeting Capital One Financial Corp.'s new decoupled debit card in the hopes the card will be pulled from the shelves.

Page 51

Feature

New ATM security measures tackle fraud

Criminals are constantly enhancing strategies and weapons for attacks on ATMs, among other channels. Companies wanting to thwart criminal attacks need to upgrade, too, with ingenious mechanical and electronic means of defense. Thus, security is a booming business.

Page 30

News

W.net spreads the mentoring net

The Women Networking in Electronic Transactions Mentoring Program, a means by which women in the payments industry can learn from each other's experience and expertise, is now accepting applications for 2008. This program is a win-win for mentors and protégés alike.

Page 53

How to Succeed in Today's Marketplace

A Great Opportunity for You to Grow

If you're a successful merchant services professional, chances are you are trying to grow.

The biggest challenge is providing infrastructure for your business. It takes a considerable amount of time and money to provide administrative, logistics, sales support, human resources, health coverage, and training. We have the solution!

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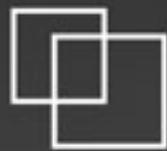
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News

VeriFone vows to fix faulty accounting

VeriFone Holdings Inc. disclosed that accounting errors had skewed 2007 net revenue reports, causing volatility among its investors on Wall Street. The company, however, appears poised to weather the storm and recently acquired the electronic funds transfer and POS services business of Australia's Peripheral Computer Industries.

Page 55

News

Fifth Third banks on gift card kiosks

Fifth Third Bancorp jumped on the gift card bandwagon, rolling out gift card kiosks to all its branch locations in its 11-state footprint. After an October trial of the Gift Card Center proved successful, the Cincinnati-based financial institution rushed the kiosks into its 1,200 branches to take advantage of the holiday shopping season.

Page 57

Education

Street SmartsSM: New year, new plan

December is traditionally the slowest time of the year for MLSs. Merchants are busy trying to take advantage of the holiday rush and don't have time to re-evaluate their merchant processing. This is a great time to dust the cobwebs off the business plan you put together for 2007 and plan for the next year.

Page 74

Education

MLS or ISO: Which one are you?

Gather a group of merchant acquiring agents and ask them how they define themselves. Most often they'll say they're ISOs. But, in fact, they could be more specifically characterized as processors, sub-ISOs or MLSs. There are, however, certain indicators that identify a sales office as either an ISO or an MLS.

Page 80



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Education

**Visa, PCI council
make security move**

Be prepared. Visa Inc. and the PCI Security Standards Council issued statements in the later half of 2007 regarding payment application security. Knowing how these announcements affect merchants will set an ISO or MLS apart as a trusted security resource.

Page 84

Education

Receipts still reveal too much

If cardholder data is supposed to be secure, how come so many card numbers are floating around? With all the focus on the PCI DSS, why are full card numbers printed clearly on so many merchant receipts? Why would any organization make a decision that is a risk to anyone involved in the complex chain of processing payments?

Page 92

Education

E-mail: It takes a plan

As e-mail recipients, we appreciate the ability to stay in touch from anywhere, any time, without having to actually talk to anyone. But at the same time, we resent the many e-mail abusers who invade our space without any consideration for our individual needs. Knowing when and how often to send e-mails requires a little planning and common sense.

Page 88

Inspiration

Before you move on

January is drawing near. Another new year's dawn symbolizes great potential – limited only by your drive and creativity. It's a good idea to pause and reflect on what happened in 2007 before embarking upon the new ventures and adventures that await you in the coming 12 months.

Page 107



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-Michael Mucciacciaro, Baltimore

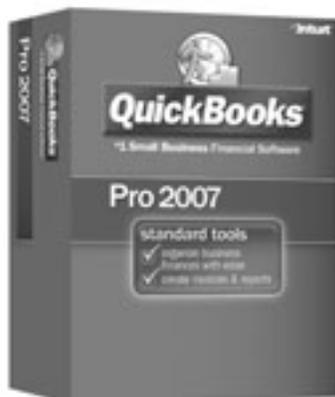
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- Scott Hausmann, Minneapolis



"It's often difficult to get prospects to listen to my sales pitch when you're like everyone else. The QuickBooks and Intuit brands give me immediate credibility when dealing with merchants and larger referral partners like banks, accountants and associations. It has really made a difference in my entire business approach."

- Todd Eichner, Los Angeles

"They have the best programs for small businesses, which really helps me close more deals, and makes me feel like I'm helping them with their finances."

- Keith Pollins, San Diego

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Industry Update

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NEWS

The Fed says card payments rule

The numbers are in folks, and we have a winner: Electronic payments, especially debit cards, are Americans' preferred payments.

According to a just-released report – 2007 Federal Reserve Payments Study – more than two-thirds of all noncash payments in the United States last year were made electronically. The Fed's much-awaited payments study found that in 2006 Americans made 19 billion more electronic payments than they did in 2003, when the Fed last surveyed Americans' payments habits.

Of approximately 93 billion noncash payments last year, about 63 billion were electronic, just 33 billion were checks, and about 3 billion of those were converted to electronic payments and cleared through the automated clearing house system.

The Fed's report also shows debit card use now outpaces credit card use, although total dollars spent using credit cards outstrips debit card spending by two to one. There were 25.3 billion debit card payments last year with a combined value of \$1.0 trillion, according to the report, and 21.7 billion credit card payments totaling \$2.1 trillion.

A summary of the report can be downloaded at www.frb-services.org/Retail/pdf/2007_payments_study.pdf.

ISF provides leakage information

Information Security Forum provides guidelines about identifying and avoiding information leakage on its Web site, www.securityforum.org. A new report from the ISF states that while the term "information leakage" may be considered new, it is an old problem.

Information leakage or a "breach of confidentiality of information" can take place at any weak point in a company's security system where data is being stored, processed, transmitted or copied.

Human error accounts for most of the loss. For example, insufficient protection, sending confidential information to the wrong e-mail address or laptop theft. Social networking Web sites like *Myspace.com* and *Facebook.com* have become liabilities, as well as high capacity storage devices such as USB keys or MP3 players, according to ISF.

MPS to ponder card practices

The **Merchants Payments Coalition** was encouraged by a congressional hearing to consider unfair credit card practices. In a recent hearing held by the Senate Permanent Subcommittee on Investigations, certain practices by credit card companies on consumers and merchants were analyzed.

"This hearing is another example of how serious the issue of credit card abusive practices is for everyone," said Mallory Duncan, MPC Chairman, and Senior Vice

BOTTOM
LINES

HEADLINES
FROM THE
RETAIL
WORLD

THANK YOU, PLEASE READ AGAIN!
TRNS ID: 460465, EMP: 129408

- A **National Retail Federation** survey conducted by **BIGresearch LLC** showed hobby, book music and sporting goods stores' unadjusted sales grew substantially in November; 11.3% year-over-year and 2.2% since October.
- **Safeway Inc.** is placing prepaid kiosks and racks in more than 1,000 stores to boost sales this holiday season. The supermarket chain expects its Blackhawk Network gift card division will hit \$100 million in pretax profits this year.
- **Deloitte & Touche USA LLP's** 22nd Annual Holiday Survey determined 18% of holiday shoppers planned to buy "green" products this season; 17% said they were willing to pay more for eco-friendly gifts.

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Industry Update

President and General Counsel of the National Retail Federation. "The credit card industry has profited from outrageous fees, and congressional attention is beginning to shed some light on a broken system."

Duncan testified on MPC's behalf in a July hearing on interchange held by the House Judiciary Committee's Antitrust Task Force. Duncan argued that Visa and MasterCard's interchange rates have violated federal antitrust laws. Credit card companies' interchange fees don't appear on monthly statements whereas other fees do, forcing stores to include the fee in the price of merchandise, meaning higher prices for consumers.

TJX settles with Visa

The **TJX Companies Inc.** has entered into a settlement agreement with **Visa Inc.** regarding the cardholder data security breach in January 2007. An alternative offer will be made to eligible U.S. Visa issuers of payment cards affected by the unauthorized computer intrusion. TJX has agreed to pay up to \$40.9 million pretax in recovery payments.

Issuers will be paid by Dec. 27, 2007. Certain rights to any other recovery through litigation will be waived, and releases of TJX and its U.S. acquiring banks will be provided. The settlement will also

provide for certain releases by Visa, TJX and Fifth Third Bancorp.

Level 4 merchants highest risk

TrustWave investigated card compromise statistics and has determined that in approximately 300 hundred cases, 85% happened at level 4 merchant locations. Visa and **MasterCard Worldwide** define level 4 as merchants who process fewer than 20,000 Visa or MasterCard e-commerce transactions per year or up to 1 million transactions regardless of the acceptance channel.

A payment card compromise occurs when an unauthorized individual finds a flaw in a system that processes, transmits or stores cardholder data. The intruder then gains access to card numbers, expiration dates, card validation codes or track data.

Ensuring compatibility with the Payment Card Industry (PCI) Data Security Standard (DSS) and using a payment application that agrees with Payment Application DSS (formerly Payment Application Best Practices) could protect against such compromises.

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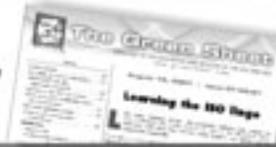
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Industry Update

encourage consumers to pay bills online to help children this holiday season. Through the end of 2007, for every five bills paid on their Web site, www.usbank.com U.S. Bank and CheckFree will donate \$10 to Toys for Tots, run by U.S. Marine Corps Reserves. The goal is to raise \$50,000 while collecting and distributing new toys to needy children.

"Every year during this special time the Marine Toys for Tots Foundation counts on special miracles to occur," said Maj. Bill Grein, retired Marine and the Vice President of the Toys for Tots Foundation. "This year we are so pleased that U.S. Bank and CheckFree have teamed up to help raise enough money to fulfill the Christmas holiday dreams of over 5,000 needy children."

GEAR measures payments services

Visa now measures the extent to which governments in 43 countries provide electronic payment services. Results are reloaded via the Government ePayments Adoption Ranking (GEAR) study. The countries make up approximately 83% of the human population and 91% of global economic output. The GEAR study determined Canada is the world's leading nation at 92.4 out of 100% for government electronic payments.

"The GEAR study provides Visa and our client financial

institutions with valuable insights into the government payments sector, helping us generate new ideas to meet governments' needs through safe and reliable electronic payments alternatives," said Darren Parslow, Visa's Senior Vice President of Commercial Products.

"Visa is committed to working with governments around the world to develop innovative programs that help governments improve operational efficiencies to better serve their citizens and stimulate commerce," Parslow said.

ANNOUNCEMENTS

Bill Me Later now an Amazon option

Amazon.com Inc. signed an agreement with **Bill Me Later Inc.**, making the Bill Me Later payment option available on Amazon's Web site.

Amazon also stated it is making an equity investment in Bill Me Later. The transaction between the two is anticipated to close in the first quarter of 2008.

"Bill Me Later has developed a very customer-centric method to make online shopping even easier," said Matt Swann, Vice President of Payments at Amazon. "We are pleased to make the convenience of Bill Me Later available to our tens of millions of Amazon customers."

Surcharge-free ATMs at Costco

CO-OP Financial Services, the operator of the CO-OP Network and its surcharge-free ATMs, stated 26 million credit union cardholders now have surcharge-free ATM access at **Costco Wholesale Corp.**

The addition of 341 ATMs expanded the existing relationship with **Cardtronics Inc.** and CO-OP Financial.

Discover's new gift card

Discover Financial Services' new eGift Card is a prepaid, stored value card that can be used for purchases online or over the phone where U.S. merchants accept the Discover card. A recent survey conducted by Discover stated that 55% of participants plan to purchase a gift card this holiday season.

The eGift Cards allows shoppers to choose the denomination ranging from \$20 to \$500, and 49% of respondents listed this as one of its best features. It also allows the cards to be personalized by virtually giving them a name and a personal greeting.

"We've expanded our offerings to enhance the customer experience by delivering more choices, convenience, value and personalization," said Dana Traci, Vice President of Prepaid and Partner Marketing at Discover. "The Discover eGift Card is an innovative way to help

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Industry Update

consumers complete their holiday shopping. If need be, they can wait until the last minute to purchase their eGift Card and still make it in time for the holidays."

IdeaEdge offers American Idol gift card

IdeaEdge Inc. launched an online program that offers customers the ability to customize gift cards and greeting cards online for the "American Idol" fan, at www.americanidolgifts.com.

Gift card purchasers will have the option of choosing from several "Idol" themed designs or upload personal digital photos onto the card.

"Over 40 million fans visited the show's Web site during the most recent 'American Idol' season," said Jim Collas, Chief Executive Officer at IdeaEdge. "Our customized gift card and greeting cards will allow fans to continue their interactive experience and enjoy a vast array of great American Idol merchandise available from our Web site."

MasterCard offers prepaid travel

MasterCard's prepaid travel cards are now available through travel industry data and financial solution provider **Airlines Reporting Corp.**'s agent locations.

According to Bill Mathis, Executive Vice President of Relationship Management at MasterCard, the card can be used at more than 25 million locations in more than 210 countries.

"Travelers no longer need to fumble through foreign currency or carry bulky travelers' checks. Instead, they can simply swipe or tap and go and be on their way," Mathis said.

The card has the ability to be reloaded and features MasterCard PayPass. It is a prepaid travel card, including contactless technology and amenities such as lost luggage insurance and emergency traveler assistance. It also offers cardholders the ability to retain local currency at any ATM machine in the MasterCard Network.

ACQUISITIONS

Fiserv gains CheckFree

Fiserv Inc. has completed acquisition of **CheckFree Corp.** for approximately \$4.4 billion (\$48 per share). More than 3,000 financial service Web sites use CheckFree's electronic billing and payment services. Growth is expected to continue as the demand to move from paper to electronic processes increases.

The newly combined companies will support financial institutions in many areas such as electronic billing, core processing, risk management, payments and wealth management.

Purepay secures CybrCollect

Purepay, acquirer and operator of payments companies, has obtained **CybrCollect**, an electronic check recovery provider. This is Purepay's third recent acquisition this year.

"Electronic check collection helps merchants effectively recover funds due to them, and CybrCollect's system and reporting tools are among the best in the industry," said Steve Valachovic, Managing Director at Purepay.

"We believe an industry consolidation led by a best-in-class national player will result in strong economies of scale, benefiting both merchants and the industry."

PARTNERSHIP

CheckFree partners with Allstate

CheckFree, now a part of **Fiserv**, has entered an agreement with **Allstate Corp.**, part of **Allstate Insurance Co.**, to send electronic bills to customers through electronic billing and payment Web sites, powered by CheckFree.

In December, customers received electronic bills from

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First American, Metavante pen deals with Discover

• **First American Payment Systems LP**, a merchant credit card processing acquirer, entered a merchant acquiring agreement with **Discover**.

First American will provide a processing package that includes Discover Network card transactions and can offer merchants a full-service payments solution and their sales channels a competitive advantage. First American hopes to process Discover Network transactions within the first quarter of 2008.

• **Metavante Corp.**, a payment solution company that delivers electronic money movement through an integrated payments network, signed an agreement with **Discover** that allows its merchant clients full-service processing for all Discover Network card transactions.

"Our agreement with Discover makes it possible for Metavante to provide integrated processing services for Discover Network and other card associations," said Bruce Hopkins, Metavante Acquiring Solutions' Division President.

"Beyond facilitating merchant acceptance of Discover Network card transactions and an enhanced range of point-of-sale payment options, Metavante now offers a streamlined payment processing solution, evolving into a single source for merchant services."

APPOINTMENTS

Festa to serve as Hypercom VP of Sales

Hypercom Corp. appointed **Connie Festa** as HBNet Vice President of Sales. Festa will drive sales globally and take responsibility of the company's high security network and transaction transport services and solutions.

Siner moves up at First American

First American Payment Systems, LP, promoted **Dustin Siner** to Vice President of Business and Product Development. Siner joined the company's sales team in September 2005 and has advanced recruiting for new independent sales offices. 📍



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Insider's report on payments**Rock, paper, electronics****By Patti Murphy***The Takoma Group*

Electronic payments now outnumber checks by a factor of almost two to one. That's the news from the 2007 Federal Reserve Payments Study. However, the Fed found that with an ever-growing number of checks payments, electronic exchange technologies are used at some point during the collection process.

At the time of its survey, the Fed said about 40% of all inter-bank checks were replaced with electronic information along the collection process.

So, although checks are sure to remain part of the U.S. payments mix for many years to come, it's pretty clear now that the paper shuffle associated with checks is following in the footsteps of telex. (As recently as 20 years ago, there were banks still using telexes to initiate wire transfers.)

"The results of our study underscore the ongoing importance of check electrification and other innovations that improve the efficiency of the U.S. payments system," said Richard Oliver, Executive Vice President of the Federal Reserve Bank of Atlanta and the Federal Reserve Banks' Product Manager for retail payments.

"With around 33 billion checks written in 2006, we expect checks to be around for some time," he added.

Checks go electronic, debit eclipses credit

According to the Fed's research, Americans made 93 billion noncash payments in 2006. Just 33 billion of those payments were checks; and of those, 3 billion ended up getting cleared through the automated clearing house (ACH) system.

Under ACH rules, certain types of consumer checks – those written at the POS or submitted as bill payments, for example – can be converted to electronic payments and cleared through the ACH.

The report also shows that for the first time since anyone has been keeping track, debit card usage now surpasses credit card usage, although in terms of dollars Americans are spending much more with credit than they are with debit cards.

One of the most significant changes identified by the Fed's research is the increasing number of checks that end up getting processed as electronic payments.

About one-third of the checks written in 2006 (3 billion) wound up as ACH debits, which represents an eight-fold increase over 2003 tallies, the Fed said.

According to NACHA – The Electronic Payments Association, the fastest growing applications for check conversion is POP, which is used to convert POS checks to ACH items.

During the third quarter the ACH saw more than 123 million POP transactions, compared to just over 80 million during the same period in 2006, NACHA reported.

SVPCO, the largest private sector image exchange network, is on track to move about 3 billion electronic check files this year.

The next two fastest growing check conversion applications are for Internet payments (so-called Web transactions), which increased 26.62% over the third quarter of 2006 and consumer bill payments (ARC transactions), which grew 19.63% year over year.

In addition to the ACH, some financial institutions are exchanging check images in lieu of moving paper checks through the clearing stream.

SVPCO, the largest private sector image exchange network, is on track to move about 3 billion electronic check files this year. During the month of October, the network cleared 328.7 million checks worth \$535 billion.

In October, Aite Group issued optimistic projections about check clearing. Nancy Atkinson, a Senior Analyst at Aite said she expects the number of checks written will fall to 25 billion, but only about one-quarter of those payments will clear in paper form.

Several other analysts have made similarly optimistic projections. And a study by the Independent Bankers Association of America released this summer, showed that most of America's hometown banks (in excess of 85%) expect to be sending and receiving check images within two years.

Two-thirds will be offering merchant remote check capture, and 75% will be capturing check images at the branch level.



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Parsing the data

By the Fed's reckoning, electronic and check payments were roughly equivalent in 2003, but by 2006 electronic payments had soared by 19 billion, while the number of checks paid fell by about 7 billion.

ACH transactions grew by almost 6 billion during that three-year span and totaled 14.6 billion in 2006, the Fed said. Those transactions carried a combined value of \$31 trillion, making ACH payments the leader by far among electronic payments, with 18.6% annualized growth between 2003 and 2006.

Here's a rundown of other highlights of the Fed's 2007 Payments Study.

- The 30.6 billion checks that cleared as checks in 2006 had a combined total value of \$41.7 trillion.
- Electronic payments totaled 62.7 billion in 2006, for a combined value of \$34.7 trillion.
- There were 25.3 billion debit card payments worth \$1 trillion in 2006, representing a 17.5% annual rate of growth between 2003 and 2006.
- Credit card transactions numbered 21.7 billion and were valued at \$2.1 trillion. The annual growth rate between 2003 and 2006 was 4.6%.

- Electronic benefits transfers (EBT) card transactions totaled 1.1 billion and \$29.6 billion, representing an annualized growth rate of 10% since 2003.
- Americans made 5.8 billion ATM cash withdrawals worth \$0.6 trillion, reducing their use of ATMs for cash at an annual rate of 0.4%.

The Fed began surveying the use of different payment types in America in 2001. The study published in December is the third in what the Fed intends to be an ongoing series.

Several research and consulting firms were commissioned to gather and analyze data for the study, which actually included three different studies in which 1,400 financial institutions and 65 of the largest payments networks were queried. Details of the third study, which categorizes checks by payees, payers and purpose, are expected during the first quarter of 2008.

Assisting on the study were Global Concepts, a subsidiary of McKinsey & Co., and Dove Consulting Inc., a division of Hitachi Consulting. 

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. E-mail her at patti@greensheet.com.

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Feature

New ATM security measures tackle fraud

By Uwe Krause, Contributor

ATMMarketplace.com

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Criminals are constantly "upgrading" – enhancing their strategies and weapons for attacks on ATMs, among other channels. Companies wanting to thwart criminal attacks need to upgrade, too, with ingenious mechanical and electronic means of defense.

Security is booming. The segment is chalking up double-digit growth rates, mainly in the banking sector. However, this isn't surprising when we consider that no other industry is exposed to such refined and brutal attacks by criminals, and that no other depends so greatly for its success on the trust of its customers and the security of their assets.

In addition, those in charge at financial institutions (FIs) face considerable personal consequences if they neglect bank security.

Today's branches tend to have only insignificant amounts of cash easily accessible in conventional teller cash drawers. For this reason, more and more attacks are directed at electronic and mechanical equipment at banks and savings banks.

The culprits are brutal, mobile and use increasingly refined tactics. At risk are primarily automated teller machines, information technology systems, transport routes and data networks. Also critical is the dramatic rise in theft of cards and PIN data, which can be used for withdrawing money abroad.

The situation will not ease in the near future: More and more machines are being installed, and increasingly at off-premise and highly frequented locations. Moreover, storage volumes keep growing. State-of-the-art systems can hold 12,000 banknotes, and even that amount is on the rise.

Luckily, preventive measures are having an impact. But it is a race in which the criminal community has a head start, at least for now. The trend toward manipulating ATMs, mainly by skimming PIN and card data, remains unbroken, despite refined protective measures.

For a long time, Germany was a target for most fraudsters. Credit cards normally used abroad for self-service

transactions traditionally promised far greater gain for criminals. Losses from such attacks in Germany are only around one-tenth of the 95 million euros (\$137.2 million U.S. dollars) lost every year in the United Kingdom to card fraud.

Anti-skimming: Mechanical and electronic protection

But Europe's push to EMV appears to be motivating criminals to train their sights more strongly on the Federal Republic of Germany. Industry estimates now suggest that ATMs play a role in about 15% of all cases of identity theft. Up to now, banks have shouldered the losses. Now the losses are too great for the banks to continue to bear the financial load.

Stolen cash amounts are declining, and the number of attacks on branches and ATMs is stagnating in some areas. But theft activities are simply shifting to another stage.

A customer's PIN can be stolen using a commercially available mini-camera hidden in a fire alarm, light box or brochure rack. The card data can be read using a skimming device, with the captured data and PIN mailed or sent by mobile phone to another country, where the information is used to plunder a cardholder's account.

Such crime sprees can easily cause losses in the high six-digit range. Several offerings can protect cardholders at the ATM, however.

Some institutions prefer mechanical defenses. Common anti-skimming card throats prevent skimming devices from being attached to ATMs. These new throats are designed so that they cannot be broken or cut out of the machine.

Those types of throats are popular in Germany. In other countries, financial institutions tend to rely more heavily on intelligent sensors located inside the card slot that do not alter the appearance of the ATM. These sensors monitor signs of manipulation and sound the alarm if anything has been altered.

ATM video surveillance

New criminal tricks have also helped bring about a revival in the cash-out camera, which complements surveillance with portrait and room cameras.

The tiny cash-out camera, positioned at the height of the output slot, has two functions. First, it records attempts by customers to defraud the bank by removing only part of a

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Chris and Monica Collins

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bundle of notes (causing the rest to be deposited in the reject tray). Second, it is an effective antidote to cash trapping, also known as reversal fraud.

With cash trapping, the output slot is obstructed so that customers making cash withdrawals cannot take their money. The trapped cash is then removed later by the criminal. Now with integrated image-recognition software, FIs are alerted as soon as an obstruction mechanism has been mounted on the ATM. The ATM is then shut down by the FI or operator.

But what about other types of scams, such as those that involve a group of fraudsters who work to distract an ATM user?

The remedy to that type of fraud is a security area around the ATM, one that is constantly monitored by a camera. If someone enters the zone, a warning appears on the ATM's screen. The customer can then assess the situation and decide whether to break off the transaction or complete it.

What about fraud that moves beyond the physical? Standard operating systems are gaining a growing foothold in network operations, meaning that ATM networks have become gateways that are easy to open, thus allowing criminals access to sensitive customer data. The result is a huge increase in the risk of unauthorized access.

Wincor Nixdorf, for instance, has developed virtual private networks that securely protect branches and host systems against data interception and internal misuse. Because it works on the principle that anything that is not explicitly permitted is forbidden, an attack, no matter how ingenious, cannot unfold.

A further step toward enhancing the security of transactions is the Secure Cash Out Procedure, which prevents cash from being withdrawn if there is an internal attack or if a trojan is infiltrated from the outside.

Cash is dispensed only if data has been exchanged between the bank's host system and the cash-out application and the transaction has been approved.

Ink staining on the rise

FIs' and off-premise operators' ATMs in Germany and other countries are introducing ink staining (also called maculation) at the ATM.

For a long time, this approach met with a lukewarm response; but an upswing in ATM violence has brought about a change of heart and provided the impetus for refinements in maculation technology.

The staining process can be triggered not only in response to blast waves



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or a change in location, but also if and when criminals weld open the rear panel of the ATM. Admittedly, the greatest protective effect offered by maculation is deterrence.

Stolen cash amounts are declining, and the number of attacks on branches and ATMs is stagnating in some areas. But theft activities are simply shifting to another stage.

Cash-in-transit operators are targets more often than they were in the past. To combat that type of crime, locating systems based on mobile communications complements security mechanisms in cassettes, attaché cases and cash boxes.

Using GSM mobile phone technology, which has been introduced in more than 130 countries, a security center can precisely track criminals.

If the microphone is activated remotely, security forces can even hear what the thieves are saying.

RFID chips: Total control

Contactless radio frequency identification (RFID) tags are expected to offer a new dimension of security.

According to the latest RFID Report by consulting firm Eurospace, RFID technology will be used in marketing and distribution, as well as in tracking transports and vehicles.

The capabilities that RFID chips offer for logistics are being examined for the banking industry, since FIs and insurers want to pinpoint the location of the cash being transported.

Errors in replenishment processes and the transportation of cash cassettes can practically be eliminated.

Wincor Nixdorf estimates that up to 2% of replenishment operations for cash cassettes are carried out incorrectly: The cash volume in the cassettes is recorded incorrectly, the cassettes are mixed up or the cash simply disappears en route.

Centrally monitoring the ATM network

Financial institutions should take proactive measures to protect their overall networks.

To that end, they need to understand risk factors and revealing fraud patterns. For example, a certain number of aborted transactions may indicate that preparations for manipulation are under way.

Thieves, driven by their high level of criminal energy, are always a step ahead, however quickly the forces of law try to keep up with them. 

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Run from mean streets to clean streets

By Steve Schwimmer

Renaissance Merchant Services

Think you've heard about every possible deceptive practice in credit card processing agreements? I, too, thought dishonesty fueled by greed had reached its pinnacle in the payments industry, but sadly it hasn't.

And we need to collectively stop unethical practices before an outside group decides to police us.

What might this entail? It is not difficult to envision the future role of federal and state governments. Rumbblings about containing us underneath a microscope lens are growing louder in capitols throughout the land.

Reaping bad karma

We didn't get here overnight. Some in the industry even say we deserve government oversight; we have failed to stop the few whose deceptive practices are harming customers the majority of us are doing our best to serve.

Talk of merchant processing agreements and lack of full disclosure on the part of industry professionals has made its way into the conversations of politicians who are debating the imposition of fees on those who do not comply with honest disclosure in sales practices.

As members of this industry, we need to analyze our role in all of this and be part of the solution.

The Arkansas legislature approved Arkansas Act 911, which imposes strict disclosure requirements on merchant processing agreements and places a cap on fees that can be assessed by processors.

The bill took effect on July 31, 2007, and is an example of what is

happening around the country. (For more information, see "New Arkansas law caps early termination fees," *The Green Sheet*, June 7, 2007, issue 07:06:01.)

Some companies in our industry mislead merchants into signing contracts that undermine the merchants' businesses and line the pockets of the processors.

Ultimately, however, the damages from this practice are greater than the profit these companies receive.

But this subject is a difficult one to broach with potential customers who often do not have enough industry knowledge to distinguish between honest and dishonest bank-card processing contracts.

Paying the piper

As merchant level salespeople (MLSs), our primary focus is to sell our services and products. When inching toward closing a deal, it can be very difficult to step back and pause to fully discuss fees that can arise when a merchant terminates a signed contract.

My contracts contain fees as well, and I inform my customers about them. I am confident if I perform to the best of my ability and offer fair pricing, an excellent business relationship will ensue.

However, I am not naïve – there are other MLSs who can get my customer's ear and promise the world. I know this because it has happened, but the client, who was misled by a shifty competitor, eventually returned to me.

There are MLSs who do not disclose the fact that the company they represent charges cancellation fees.

Let me say that there is nothing wrong with cancellation fees; the problem lies in not disclosing

to merchants the circumstances under which the fees will be imposed and not ensuring that they are reasonable.

Merchants need to know why termination fees are imposed: There are costs and expenditures involved with setting up merchant accounts – costs that need to be recouped should there be an early exit from a contract.

I know there are circumstances whereby processors are not only not disclosing fees but denying they exist, with the hopes they will never be imposed because the importance of closing the deal outweighs the risk.

Let me tell you, this risk-taking is why regulators are starting to breathe down our necks.

Resisting temptation

Contracts are designed to protect us. For example, a contract will offer protection to the processor from fraudulent activities the merchant might engage in. Contracts are a good thing; they keep everyone on the same page.

Things go wrong when the parties to a contract do not understand what they are signing. This leads me to another aspect of deception: falsifying contracts. Never, ever fill in the blank spaces of a contract to your advantage after a customer has signed it.

The sooner deception within our industry comes to an end, the better our industry will be. ■

Steve Schwimmer is President of the National Association of Payment Professionals. He has been serving the payment processing industry since 1991 and is the Long Island Director of Sales for Renaissance Merchant Services. Call him at 516-746-6363 or e-mail him at thevisaguy@516phoneme.com.



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Company Profile



Credomatic USA

ISO/MLS contact:

Joe Creegan
 Phone: 305-372-3000 ext. 223
 Fax: 305-350-5228
 E-mail: jcreegan@credomaticusa.com

Company address:

848 Brickell Ave, Fifth Floor
 Miami, FL 33131
 Phone: 305-372-3000
 Fax: 305-372-3056
 E-mail: info@credomaticusa.com
 Company Web site: www.credomaticusa.com
 Agent Web Site: www.credomaticpartners.com

ISO/MLS benefits:

- Next-day funding
- Free terminal program
- Web-based POS solutions
- Upfront daily income on equipment sales and leases
- Weekly income on merchant cash advances
- Monthly residuals on all payment services
- Conversion bonuses

A full-course business

What do merchants want from their ISOs and merchant level salespeople (MLSs)? Trust. When faced with decisions, merchants want to be confident their partners will make ethical, smart choices.

ISOs and MLSs are looking for the same trust in their processors. Credomatic USA has an established history, a solid reputation and strong backing to offer ISOs and MLSs peace of mind.

Savory recipe

Credomatic, founded in Miami more than 25 years ago, is a division of BAC Credomatic Group, which is 49% owned by GE Money, a trade name of GE Consumer Finance Inc.

It focuses on the U.S. acquiring market, offering a wide range of payment solutions and POS systems.

Credomatic's 50 employees support merchant services operations in the United States, as well as issuing and acquiring services for banks in the Caribbean and Central America.

As a worldwide acquirer and issuer of bankcard transactions, BAC Credomatic's numbers are impressive. It has offices in nine countries, serves more than 90,000 merchants in 20 countries, and processes more than \$3.5 billion in credit and debit card processing volume annually.

BAC Credomatic supports more than 65 financial institutions and 1.5 million cardholders; it has more

than \$4 billion in assets. Citing its established history and record sales volumes, John Dorris, Vice President of Merchant Services for Credomatic, said the company "is positioned to be a leading player in the bankcard industry for many years to come."

Comfort food

A variety of factors make Credomatic an attractive partner for ISOs and MLSs. First, it has the support of two powerful entities. "With the backing of Credomatic Network and GE, we always try to make it possible," Dorris said.

Another important feature is Credomatic's well-established name in the payments arena. A universal concern among ISOs and MLSs is whether their processors will be sold and if so, how changes in ownership will affect them. Dorris said Credomatic's history helps ease some of those anxieties.

"There is a little more assurance that their [the agents'] residuals are protected and safe when you have a company that has been in business in Florida since 1981 and in processing since the beginning of credit cards," Dorris said.

ISOs and MLSs want to depend on their partners. "Because Credomatic has been in existence for so long and because we are owned by GE, our code of ethics is increased," Dorris said. "Agents can go to bed not worrying about their residual income."

Dorris also said his company practices fair and honest treatment,

Company Profile

Credomatic tailors merchant agreements and pricing case by case. While it focuses on retail merchants, the company also works with some high-risk industries, including airlines and travel agencies.

noting that it makes no sense to put his company's reputation at risk.

New ingredients

Credomatic has enjoyed success and built a large, profitable organization, but that doesn't mean its leadership is ready to set the cruise control and let the company run itself. Even at the top of its game, Credomatic must continue to evolve and develop, or it will be surpassed by the competition.

To that end, Credomatic has achieved several new milestones within the past year, including forming new partnerships and offering enhanced services.

This year, it expanded its relationship with Telecommunications Systems Inc. to support in-house payment solutions, including electronic checks and gift cards.

According to Dorris, both solutions help merchants make the most of their time and resources. "These are all billed with credit and debit cards on a single merchant statement and settled on a single batch deposit," he said.

Credomatic also formed a marketing agreement with merchant cash advance provider AdvanceMe Inc. Under the terms of the agreement, Credomatic will offer ISOs, MLSs and merchants an integrated merchant funding solution that is repaid with future credit card receivables from Credomatic processing services.

Credomatic also introduced a new funding option, which enables it to offer merchants guaranteed next-day funding if requests are submitted before the 9 p.m. EST deadline.

It also offers a premium funding program, with a 1 a.m. EST deadline, targeting the hospitality industry.

"This is an exciting advantage for Credomatic sales partners to offer their clients funding that beats the banks," Dorris said. "Such funding options are attractive to many merchants, especially those who need quick access to cash, such as gas stations, restaurants and convenience stores."

Eclectic tastes

Since Credomatic is part of a large organization, some may assume it prefers to deal only with larger retailers or that it isn't flexible enough to work with smaller merchants. Neither is the case.

Credomatic is interested in working with a variety of merchant sectors. "We are willing to look at deals of all sizes, and that is our strong point," Dorris said.

Credomatic tailors merchant agreements and pricing case by case. While it focuses on retail merchants, the company also works with some high-risk industries, including airlines and travel agencies.

In addition, Credomatic welcomes ISOs and MLSs of all sizes and in any location. ISOs partnering with Credomatic don't worry that their volume, or the fact that they serve small or mid-sized merchants, will affect the service levels they receive.

"Whether it's the merchant only doing \$1,000 a month or doing \$20 million, they are treated the same in our customer service department," Dorris said.

Credomatic's primary marketing channel is the ISO and MLS community. The company offers a free terminal placement program, based on VeriFone VX570 terminals.

It also offers integrated solutions, with all payment services billed on a single statement and settled with a single deposit. So merchants don't need to reconcile multiple statements.

Bilingual support is available during normal business hours for merchants as well as ISOs and MLSs. After-hours calls are forwarded to TSYS Acquiring Solutions.

Dorris believes Credomatic has created an agent program that rewards ISOs and MLSs for a variety of services. "We offer lucrative upfront and residual income opportunities, with daily, weekly and monthly income streams," Dorris said. Agents can choose from two programs: a partner solutions program and a referral program.

Menu options

Credomatic's referral program is designed for agent banks, POS resellers, software developers and trade associations. Partners who choose the referral program simply refer processing leads to Credomatic sales partners to earn upfront and residual income opportunities.

"We close the deal," Dorris said. "This is more for POS suppliers, banks or organizations that have members and want to offer a member service."

"We give them a piece of the action, but it's not the same residual stream of an agent."

While ISOs or MLSs can choose the referral program, they would earn more revenue from the partner solution program, designed specifically for them.

Agents working with the partner solution program earn upfront income, as well as ongoing residuals on all processing services.

"It's a true revenue share program, 50%, 60%, 70% of revenue above interchange and our processing costs," Dorris said.

In addition to the 50% to 70% revenue share, Credomatic pays agents activation and placement bonuses of \$100 to \$200 per merchant. Additionally, agents are rewarded with a 1% conversion bonus, up to \$1,000 per account, when they convert merchants to Credomatic.

ISOs and MLSs also have equipment revenue opportunities, earning 100% of the margin on terminal sales and leases. And Credomatic offers a Web-based POS solution. When agents sell or lease this solution, they earn commissions of 10% to 15% of the revenue share.

For agents who focus more on nonbankcard activations, Credomatic offers income opportunity as well.

It supplies one-time payments of \$25 for each gift card and Discover Financial Services activation, and \$50 for each American Express Co. and check verification/guarantee activation.

Additionally, ISOs and MLSs who sell the merchant cash advance program receive a one-time 4% commission up front, as well as a monthly 1% commission on the payback amounts.

Credomatic wants to be an equal partner to ISOs and MLSs. With a 25-year history, the support of GE Money and daily, weekly and monthly income opportunities, it works to create safe and lucrative relationships with its ISOs and MLSs.

"We treat everyone as a partner," Dorris said. "When you come on board to submit deals, you are going to be able to sleep well at night knowing your portfolio is secure and you can grow your business here."

Looks like Credomatic aims to bring its partners sweet dreams. ☺



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Company Profile



Barclay Square Leasing Inc.

ISO/MLS contact:

Wendy M. Zucker

Phone: 516-935-6277

Fax: 516-935-1701

E-mail: wendy@barclaysquareleasing.com

Company address:

388 South Oyster Bay Road

Suite 1

Hicksville, NY 11801

Phone: 866-396-2754

Fax: 516-342-4243

Web site: www.barclaysquareleasing.com

ISO/MLS Benefits:

- Personal service
- Independently owned
- Retains lease portfolios
- Choice of scoring method

Good things come in small companies

Agents have many choices when deciding how to handle their POS equipment needs. They can buy and resell the equipment or select a program that offers merchants free terminals. Agents can even select a program that leases equipment.

When leasing is the best option, agents must decide which provider will provide the right solution for them. Barclay Square Leasing Inc. is a smaller company with a unique set of features and benefits. "We are too small not to care," Wendy Zucker, Barclay's National Sales Manager, said.

Barclay focuses exclusively on POS equipment. All other types of equipment are handled through its affiliate companies. "We believe that Barclay provides a valuable niche in the leasing market place," Zucker said.

A boutique micro-ticket leasing company, Barclay concentrates on service and quality. The goal is to provide the best service and work with the highest quality reps and portfolios.

"We are not just driven by pure volume but by the quality of the portfolio," Zucker said. "This is different than the larger leasing companies. Our pricing reflects our view."

Single status

Barclay is not owned or funded by another company. "With continued consolidation in the leasing industry, most roads unknowingly lead to

one or two providers," Zucker said. "We remain independent of any leasing company, processor or cash advance company."

Additionally, Barclay services all merchants for the full term of the lease. This includes day-to-day servicing, as well as collection efforts and issue resolution. "We hold all paper for the full term of the lease," Zucker said. "Many of our competitors immediately have the leasing company that funds them service their leases."

Initially, Barclay purchased leases from other leasing companies but now the company has direct leasing relationships with its agents and ISOs. Zucker and her team believe Barclay will be a stronger company if it originates its own leases.

Retaining the lease means Barclay has the opportunity to create a personal relationship with its clients. This benefits agents and merchants. "Because we own the leases and do not sell them off, we are in touch with the rep if there is any kind of issue with the merchant," Zucker said. "Not many people do this."

For example, if Barclay receives a call from a merchant indicating he is considering switching processors, Barclay will notify the processor so the account can be saved. In instances where collection efforts are necessary, Barclay will handle the situation internally for two months. The staff will also notify the rep that the account is going to be placed in collections.

Company Profile

Respect

Barclay treats each agent and merchant, regardless of its size or volume, with respect. "I don't want to rip off a customer because I get the unhappy phone calls tomorrow," Zucker said. She also pointed out that Barclay earns its profit at the end of the lease term, so it is in its best interest to keep the client happy throughout the life of the lease.

Barclay has staff on hand to answer phone calls, eliminating the need for voice mail. Agents can also contact Zucker directly if they need help with an issue. Barclay will train new reps and even modify processes to fit their agents' needs. The majority of Barclay's growth is due to referrals, which the 7-year-old company hopes sheds a positive light on its service and client satisfaction. It takes a short time to gain a bad reputation; it takes much longer to earn a great one.

Simple gestures

Barclay accepts verbal or written verifications for equipment installs. It also accepts co-signers not directly related to the business and starter checks, which is ideal for new businesses. Barclay strives to be quick and flexible. It usually scores merchants within two hours, funds them the same day by automated clearing house and supports split funding for equipment providers. It provides training and

offers different types of rental programs.

Barclay also offers a choice of credit scoring methodologies, meaning agents choose the method of credit scoring they prefer, whether it's Barclay's or Fair Isaac Corp.'s. In addition, Barclay reads each credit application, which Zucker said provides a more accurate credit score. "About 15% to 20% of the time, our credit scoring methodology results in higher payments over those companies that score strictly by FICO," she said.

Barclay recently started offering funding for other equipment through its affiliate companies. The product list includes POS systems, medical and dental equipment, software, computer technology, restaurant and office equipment, and other capital equipment.

Barclay banks on its experience and prides itself on supporting ISOs that are growing. "We bring a unique and beneficial range of experience to the POS micro-ticket leasing industry," Zucker said. And size just might be Barclay's biggest asset.

"We are a logical alternative for those individuals looking for more personalized and focused service than the largest companies can offer," Zucker said. "In this regard, our size is truly our strength." 



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10 years ago in The Green Sheet ...

December 29, 1997
Issue 97:12:03

The Green Sheet

News and Advisory Service for ISOs in the Financial Services Industry

Inside This Issue

- 1 Another Year
- 1 Web Savvy—The New ISO Paradigm Part II
- 2 Web Site Construction
- 2 Voluntary ECP Patent Compliance
- 3 Knowledge Is Power!
- 3 Tales of Sales Experience
- 4 Debt Risks
- 4 A Possible Home for "High Risk" Accounts
- 6 The Resource Guide
- 9 Bulking Up with Smart Card Equipment
- 9 Coming Soon to an ATM Near You!
- 9 Printer Service with a Twist
- 10 GS Seminar
- 10 BUYPASS Helps Financial Institutions Ramp Up for EFT
- 11 It's a Bird! It's a Plane! It's Mr. Payroll
- 11 WWW-ing ...
- 11 DataCap Announces DataTran Certification
- 12 Get the Most From Your Work Day
- 14 Time Trials

Another Year

It is really hard to believe that yet another 26 issues of *The Green Sheet* are complete with this story. As I sit here writing this last installment for 1997, I am happy to say that the year turned out to be a very productive one. We began the year as a six-page, 3,000-word, bi-weekly publication and ended the year as a sixteen-page publication with an average of 6,800 words per issue. While it is true that the new format has a good deal of advertising, it has paid and proved the way for more information for our readers in each issue.

We have dramatically improved the graphics and are now writing our own industry commentary through the stories and the columns in each issue. We were fortunate to be able to produce our first Check Study in 1997. As a result of our three 1997 corporate sponsorships (American National Bank of DeKalb County, Illinois, Cross-Check Inc. and National Bank of the Redwoods, [NBR]) *The Green Sheet* has become the reliable source for payment systems information. The Green Sheet's United States Check Study has been distributed by a variety of banking and financial institutions including CoreStates Financial Corporation and the National Organization of Clearing Houses (NOCH). CoreStates presented the study to 200 university and college buses at their Illness, Cashier, and Treasury Management Conferences in 1996 and 1997, and NBR distributed the study to their commercial customers as well as Cash Management consultants.

Portions of *The Green Sheet's Check Study* are used daily in the specialized marketing materials of a variety of entities, including the nationally recognized magazine *Collection & Credit Risk* and NetStar Corporation's *Electronic Checks at the Point of Sale*, as well as by SCAN. The Study is also cited in *Short-Term Financial Management: Text and Cases* by Terry S. Marston and John T. Zetlow (The Dryden Press), a textbook used in colleges and universities as a primary reference for finance students.

In looking forward to 1998, we are pleased to report the launch of two new projects: *GSQ: The Payment Systems Quarterly* magazine will debut in February 1998, and our new conference schedule "Financial Services Today—Creating Wealth as an ISO," will launch in January and run through May 1998. Along with the addition of Dr. Dave Barrett's monthly *Sales Psychology* article ("Talk to Dr. Dave") and a year-long series from guest columnist Robert Carr focusing on business sales, we hope that 1998 will be the best *Green Sheet* year ever.

As always, we continue to respond to your comments, so please continue to let us know what you think. We print the notes and the raves, so don't be shy.

Good Selling in 1998!



Web Savvy—The New ISO Paradigm Part II

We've received a number of calls about the December 1, 1997 issue of *The Green Sheet* and the lead story, "The New ISO Paradigm." To answer the two most common questions, first let me offer a brief description.

We believe that many merchants can benefit by using the online MerchantWAVE software to maintain their physical store inventory. Imagine that with a PC or two equipped with a cash drawer, and the willingness to use the Internet to maintain all or a portion of a merchant's inventory, the merchant can gain the benefits of opening their store to the world. It takes no additional capital to open stores, yet the inventory is one physical store becomes the basis for a worldwide virtual one.

In addition, the economics of commerceWAVE are extraordinary. From the least expensive buy rate at \$450, plus \$59.95 (five products) per month to the most expensive at \$8,500 and \$650 per month (500 products) the cost of a completely commerce-enabled site is very, very lucrative for an ISO.

With this "anything is possible" approach you can make some very serious money. And the talent and systems to back your sales are available and ready today.

Has everyone bought into this idea? Well no, but that is changing rapidly. If you're on the West Coast, you may have seen the com-

- As evidence that smart card technology had arrived, a product called Visa Viewer was able to read the cash value and transaction history on Visa cards.
- A Forrester Research report indicated e-commerce was not keeping businesses afloat; they still made more money from phone, fax and direct sales transactions.
- Epson America Inc. came up with its Spare in the Air program: When a replacement POS terminal arrived at a merchant location, the merchant used a prepaid label to mail back the faulty POS terminal – complements of Epson.

FTC bites YMA

The Federal Trade Commission, in conjunction with seven state attorneys general, has filed suit against a Lake Mary, Fla.-based check and automated clearing house processor, claiming it violated federal and state laws by debiting, or attempting to debit, consumers' bank accounts with the help of fraudulent telemarketing and e-commerce merchants.

The processor, Your Money Access LLC, dba Netchex Corp., along with its affiliates in Florida and Pennsylvania, allegedly processed over \$200 million in debits and attempted debits between June 23, 2004, and March 31, 2006. According to the FTC, more than \$69 million of the attempted debits from consumers' bank accounts were returned or rejected by consumers or their banks, indicating that the debits were unauthorized.

The FTC claims the scheme involved inducing consumers to divulge their personal bank account information "through misrepresentations and omissions in connection with the marketing of products or services." One of the schemes reportedly tricked consumers into believing that they could easily receive government grants.

According to the FTC, the allegedly fraudulent merchants would then transmit consumers' bank account information to YMA, the collective designation given by the FTC to include both YMA and its affiliated processors.

"Payment processors play a key role in many commercial transactions, and they are positioned to monitor return rates on these transactions," said Lydia Parnes, Director of the FTC's Bureau of Consumer Protection. "The defendants purportedly saw extremely high return rates and looked the other way. We allege that consumers lost millions of dollars as a result, and that the company's conduct violated federal and state laws."

The FTC believes that in many cases YMA knew the telemarketing and e-commerce merchants were fraudulent, that merchant sales pitches to consumers were false, or highly likely to be false, and that therefore the merchants would generate high return or reverse transaction rates – a sign, according to the government, that unauthorized consumer debiting was likely.

But, the FTC claims, YMA did business with these merchants anyway.

Reportedly, the merchants did, in fact, generate high return rates for YMA to process, anywhere from 20% for some merchants and more than 80% for others. And YMA allegedly knew about it.

The complaint, filed in the United States District Court, Eastern District of Pennsylvania, includes seven states as co-plaintiffs: Illinois, Iowa, Nevada, North Carolina, North Dakota, Ohio and Vermont.

The defendants in the case are YMA, Universal Payment Solutions, Check Recovery System, Nterglobal Payment Solutions, Subscription Services Ltd., and two top officers in YMA Company LLC, Derrelle Janey and Tarzene Dixon.

2007 has been a busy year for FTC actions brought against businesses in the electronic payments industry.

In January 2007, the FTC filed a complaint in Florida against Global Marketing Group Inc., Global Business Solutions LLC, Globalpay Inc., Synergy Consulting

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Services LLC and First Processing Corp., alleging that the processors debited funds, deducted processing fees and forwarded the balance of the proceeds to telemarketers.

In April 2007, the FTC took action against Oregon-based Merchant Processing Inc. and two other firms, Vequity Financial Group Inc. and Direct Processing Inc., alleging the companies engaged in fraudulent and deceptive trade practices while selling debit and credit card processing services.

In August 2007, the FTC also lowered the boom on several California-based prepaid card companies allegedly involved in unlawfully debiting consumers' bank accounts. 

NACHA clarifies ACH rules

The field of debit cards is tight, and some banks are feeling a pinch from the surfacing of decoupled debit cards. But just how far are these banks willing to go to keep a hold on stakes they originally claimed? In November 2007, NACHA – The Electronic Payments Association issued a clarification of a rule regarding transaction aggregation after receiving a request to do so.

Some experts say banks sought the clarification because they are targeting Capital One Financial Corp.'s new decoupled debit card in the hopes the card will be pulled from the shelves.

NACHA stated transactions requiring settlement to payees within 14 days may not be bundled. This will affect transactions linked to POS debit cards that are PIN-protected but rely on the automated clearing house (ACH) for settlement.

Capital One's new MasterCard Worldwide-branded debit card, introduced in June 2007, allows merchants to issue co-branded debit cards linked to consumers' existing demand deposit accounts.

Consumers do not need to change their existing bank relationship. Instead, funds are pulled from the consumers' account via ACH. (For more information, see "Changes afoot for signature debit," by Ken Musante, *The Green Sheet*, Nov. 12, 2007, 07:11:01)

The card is often referred to as decoupled because it separates the relationship between the issuer and the demand-deposit account backing the card. The NACHA rule description raises costs for Capital One, as it is forced to reprogram systems that were designed for aggregation. Instead, the company will have to pay ACH origination fees on each transaction instead of on bundles of payments.

There might be a silver lining in NACHA's rule. Ken Musante, President of Humboldt Merchant Services, thinks it would be in Capital One's best interest to not bundle payments. "Not only would [bundling payments] create cardholder confusion, but it would be frustrating for cardholders to initiate disputes," Musante said.

"Were [Capital One] to launch this product with bundled debit transactions, it would leave them vulnerable to attacks from the traditional issuers that do provide a description with each transaction. I would expect most cardholders would prefer the existing structure to a higher reward offering (even if the debit and credit rewards were combined)." Musante acknowledged Capital

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"Banks have maintained the primary deposit relationship, in part, by maintaining the check card/debit card relationship. If this product becomes distributed in the same fashion as the credit card, banks could lose their grip on their customer base and with it, their deposit base."

— Ken Musante
President, Humboldt Merchant Services

One's expenses will increase, but the product will only find success if two instances occur:

- The card Associations provide a true reward interchange for debit.
- Capital One uses the decoupled card as a gateway product that allows it to capture deposits.

"They could do this in a myriad of ways, such as partnering with a National ATM network or providing one-time rewards for establishing a DDA [demand deposit account] with Capital One," Musante said. "This would dovetail well with their existing credit card offering by providing low cost deposits and leveraging the customer base."

No one knows for sure whether banks played a role in this. But one thing is for certain: Banks are starting to feel the heat. "Banks are threatened because there is a land grab for deposit relationships," Musante said. "Managing the DDA makes that financial institution likely to also house that customer's savings accounts. Banks are being disintermediated by credit unions, insurance companies, brokerage houses and online financial institutions.

"Banks have maintained the primary deposit relationship, in part, by maintaining the check card/debit card relationship. If this product becomes distributed in the same fashion as the credit card, banks could lose their grip on their customer base and with it, their deposit base."

NACHA officials have denied the rule clarification is aimed directly at Capital One. The ruling, officials stated, will affect several businesses. 📺

W.net spreads the mentoring net

The W.net Mentoring Program, a means by which women in the payments industry can learn from each other's experience and expertise, is now accepting applications from women who want to be mentors and protégés for 2008. Mentors can benefit by heightening their leadership skills, gaining exposure to alternative business strategies and taking pride in advising a potential up-and-coming industry leader. Protégés can receive the opportunity to network and learn from high achievers in the industry.

The program is the brainchild of Women Networking in Electronic Transactions (W.net), which was founded in 2005 by Holli Targan, who is a Partner in the

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law firm of Jaffe, Raitt, Heuer & Weiss; Mary Gerdts, Chief Executive Officer and President of both POST Integrations, Inc. and EboCom, LLC; Linda Perry, Vice President and Regional Manager of Member Relations at Visa Inc.; and Diane Vogt, President of National Merchant Services for First Data Commercial Services.

The mission: to provide a forum where professional women in the industry can come together to educate themselves, learn from one another, meet other women, network and talk about balancing a flourishing career with a happy personal life.

"Women opening doors for women is at the heart of W.net's mission," said Victoria Tobin, W.net's Managing Director. "The Mentoring Program is one of the premiere benefits of membership in W.net and is designed to maximize the expertise of the brightest and most talented women in the industry to serve as mentors, to help foster the careers of the future female leaders in electronic transactions. We are thrilled to have the participation of these women in the program."

Members of W.net come from all corners of the payments industry: merchant acquirers, processors, card issuers, as well as those specializing in the stored value, loyalty, check and automated clearing house sectors.

They also represent a range of positions, including chief executive officers, managers and other leaders, and all levels of experience – rookies straight out of college to experienced veterans.

"It's an excellent way for women in our industry to exchange thoughts and bounce ideas off of each other," said W.net mentoring committee member Kate Gillespie. She is also General Manager and Chief Operating Officer of *The Green Sheet*.

The W.net Mentoring Program will facilitate the matching of mentors and protégés through Feb. 1, 2008, on its Web site, www.w-net.biz. On April 1, 2008, the mentoring relationships will begin.

According to the article, "All good things come to women who mentor," published in *The Green Sheet* March 12, 2007, issue 07:03:01, members stand behind the program and its mission. "I firmly believe in this program," said pilot mentor, Jan McGrath, Director of Operations and Implementation at TXNPlus Ltd. "Women in the payments industry are the minority, and too few of them are in senior positions within the industry."

Making new friends and forming alliances in the payments industry can be beneficial for the long haul to both new players and experts. Teamwork is successful when members understand one another and are working toward a common goal, and this seems to be the prominent message of W.net. ■

VeriFone vows to fix faulty accounting



On Dec. 3, 2007, VeriFone Holdings Inc. disclosed that accounting errors had skewed 2007 net revenue reports, causing volatility among its investors on Wall Street.

VeriFone said its accounting errors were related to overstatement of inventory and the misvaluation of manufacturing and distribution overhead. This caused the company to overestimate the size of its inventory and underestimate its costs. Based on its faulty figures, VeriFone believed its profit margins were higher than they actually were.

According to VeriFone Chairman and Chief Executive Officer Douglas G. Bergeron, the errors only surfaced early in the last week of November 2007 and involved the double entry of shipments from VeriFone's international headquarters in Singapore to its main distribution center in Sacramento, Calif.

Once these errors surfaced, VeriFone did a more extensive review of its operation and discovered more errors

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in double-booking of overhead in Sacramento; Tel Aviv, Israel; and other smaller distribution centers.

Based on this review, VeriFone expects to reduce previously reported inventories by approximately \$7.7 million, \$16.5 million and \$30.2 million for the first three quarters of fiscal year 2007, which ended for VeriFone Oct. 31.

As a result, VeriFone's restated earnings statement – which is set to be released in January 2008 – will reflect a decrease in its actual pretax income by \$8.9 million, \$7 million and \$13.8 million for the comparable three quarters. The largest reduction in the size and value of its inventory is for the third quarter since, according to Bergeron, the largest amount of accounting errors occurred in the previous quarter.

In a Dec. 3 conference call with analysts, Bergeron characterized the mistakes as "a huge black eye" for the company. But he said, "We are confident that we have isolated the problems in our systems and in our accounting. We are also confident that this issue did not exist before fiscal year '07." In addressing why these accounting errors occurred, Bergeron conceded that the "increasing order of complexity" of the company may have been a factor.

As reported in *The Green Sheet*, VeriFone acquired the Tel-Aviv-based POS terminal manufacturer Lipman Electronic Engineering Ltd. in November 2006. According to Bergeron, that merger gave VeriFone a 65% market share in the U.S. payment systems market. (For more information, see "VeriFone + Lipman = very big footprint," *The Green Sheet*, Nov. 13, 2006, issue 06:11:01.)

But the move may have outpaced VeriFone's ability to handle the complicated supply chain dynamics. Analysts have noted that due to the complexity of combining the two businesses, VeriFone could not track its inventory solely with its automated system, but instead its cost accounting group had to enter the data manually, which led to the double-booking errors.

But Bergeron is convinced the acquisition of Lipman was the right move for VeriFone strategically. Still, Bergeron conceded the accounting errors were "unacceptable, and we're going to fix it and fix it fast."

In response to VeriFone's Dec. 3 statement, a class action lawsuit was filed Dec. 4 in the United States District Court, Northern District of California on behalf of investors who purchased stock in the company between March 1 and Nov. 30, 2007.

The complaint alleges the San Jose, Calif.-based POS terminal maker, Bergeron and VeriFone's Executive Vice President and Chief Financial Officer Barry Zwarenstein violated federal securities laws by knowingly publishing false and misleading statements about the company's earnings.

But Credit Suisse Financial Analyst Paul Bartolai said in a research note that "these issues seem to have taken management completely by surprise, and we do not believe there is a more sinister plot here."

Regardless, the company's stock has taken a hit. On Nov. 30, VeriFone's stock was valued at \$48.03 per share at closing. The following Monday, Dec. 3, its stock had plummeted 22 points to close at \$26.03, representing a 45% decrease in its value. It bottomed out at \$19.13 in the early trading day, Dec. 7.

But business goes on for VeriFone: After this snafu came to light, the company acquired the electronic funds transfer and POS services business of Australia's Peripheral Computer Industries to bolster its one-stop electronic payments products and services. ☐

Fifth Third banks on gift card kiosks

Fifth Third Bancorp has jumped on the gift card bandwagon, rolling out gift card kiosks to all its branch locations in its 11-state footprint. After an October trial of the Gift Card Center in pilot

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markets proved successful, the Cincinnati-based financial institution rushed the kiosks into its 1,200 branches in November to take advantage of the holiday shopping season. But the kiosks reportedly will remain in place year-round, the product offerings changing to suit customer preferences.

The bank now offers its customers not only checking and savings accounts, but also a wide range of prepaid gift cards, including MasterCard Worldwide- and American Express Co.-branded gift cards in any denomination, or gift cards from retailers such as Foot Locker, Lowe's, J.C. Penney, Dell, Eddie Bauer, Borders Books, Circuit City, and restaurants such as Applebee's and Subway.

Fifth Third makes money each time a gift card is purchased. The MasterCard and AmEx cards include a fee, a portion of which goes to the bank.

The move toward banks becoming more like retail environments, selling its customers products that are normally found at retail stores such as Wal-Mart and Best Buy, gained momentum in 2005 when eFunds Corp., an electronic payments provider, introduced Card in a Box, a prepaid service offered to small and mid-sized bank and credit unions.

Then, in 2006, Lake Oswego, Ore.-based West Coast Bank teamed with coin-counting machine and prepaid card provider Coinstar to offer its Gift Card Mall suite of gift cards within its bank branches. It's not a kiosk, but instead the cards are displayed on J-hooks.

Retailers and restaurants taking part in the program include Starbucks, Hollywood Video, Linen n Things, Borders Books, Lids, Tony Roma's, Chili's Grill and Bar, Circuit City, AMC Theatres, KB Toys and Timberland.

The bank also offers cards from prepaid card provider Green Dot Corp. The strategy behind banks offering gift cards in their branches is seen as two-pronged:

- Create a new distribution channel for existing customers.
- Reach out to new consumer segments, namely teens and the unbanked.

Robert D. Sznawajs, President and Chief Executive Officer of West Coast Bank, said the bank's gift card program has been effective as a "one-stop convenience for the customer." But as a way to draw in new business, "I don't really think so," he said.

As for the future of gift cards in banks, Sznawajs is philosophical. "Banks have always been trying to emulate other successful retail concepts. ... Gift cards are another payment device, and a fast growing one." Although gift cards are a relatively small part of the overall equation, Sznawajs predicts "they're here to stay." ■

PayPal eyeing more merchants

If you're interested in increasing the number of e-commerce merchants in your portfolio, watch out for PayPal. It has improved its tool box, making it easier to make payments via PayPal on the Web.

PayPal Labs launched several applications that run the gamut of raising funds, requesting loans, or allowing merchants to integrate PayPal's payment services.

All of the applications can be tested at www.x.com, "a showcase site for PayPal Labs, which we created to tap the creativity, innovation and passion among our engineers, product managers and other employees," said Hugo Olliphant, head of PayPal Labs.

To launch this site, PayPal Labs focused on even the tiniest details. "Our URL, www.x.com, is unique as one of the few single letter URLs in existence," he said.

"It reflects the startup nature of PayPal Labs, paying tribute to PayPal's startup days when PayPal merged with another innovative online payment pioneer called x.com."

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News

A PayPal Lab invention of most concern to ISOs and merchant level salespeople is the Merchant Integration Wizard, a step-by-step guide for combining PayPal's payment services.

A series of screens instruct merchants on how to incorporate the application into existing Web sites.

At the end of the process, a code appears that can be copied and pasted into a merchant Web site. The Integration Wizard even informs merchants where to place the code.

The Integration Wizard allows merchants to give customers the option of purchasing items using their PayPal accounts on a secure site.

Once implemented, the application will still be a five-step checkout process but PayPal checkout is incorporated in the middle steps for customers.

Instead of entering a shipping address and billing information at checkout, this application gives consumers a chance to log in to their PayPal accounts and confirm the shipping and billing details already embedded in their security-guaranteed accounts.

PayPal Labs urges merchants to take its new applications

for a spin. Perhaps it's time to see just what the competition is up to at www.x.com. ☑

Free terminals are thorny

A November 2007 study conducted by First Annapolis, a Maryland-based payment industry consultancy, revealed that acquirers are giving away POS terminals to their merchant clients at an advancing rate. The findings indicate a trend of what acquirers are willing to do to attract business in an increasingly competitive market.

The study characterized the trend as "a particularly disruptive form of price competition."

The research is based on the equipment financing strategies of 19 acquirers, ranging from small ISOs to major acquirer-processors.

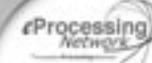
Almost two-thirds of the acquirers surveyed – representing 60% of the entire industry in volume transactions – were offering free terminals as an incentive for prospective merchants to sign up for their service.

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In the payments industry, offering free terminals usually means offering free terminal placement.

The merchant does not actually pay money for the terminal, but the merchant does not own it either; the title to the terminal is retained by the processor or acquirer.

But free terminals have also been a carrot dangled by ISOs to attract merchant level salespeople (MLSs) to acquire merchant processing accounts for them.

MLSs could then sell, lease or rent devices to merchants to stimulate business for ISOs, while MLSs pocket the POS sales upfront.

But now it seems some ISOs are bypassing the MLSs more often and going straight for the merchants. What does this mean for the MLSs?

Ken Boekhaus, Vice President of Marketing and Business Development for Electronic Exchange Systems, said in "Free-terminal talkathon," *The Green Sheet*, Feb.12, 2007, issue 07:02:01, "If you approach a prospect with free-terminal options in your pocket, you can maximize your profit in each account and walk away with more deals. Free terminals are not ruining the MLS business; they are just transforming it."

Many acquirers have counted on the upfront revenues gained by the selling, leasing or renting of equipment to fund sales incentive plans.

The free terminal trend is occurring at the same time that competition is intensifying and, as a result, sales productivity is falling, causing the purchase cost of terminals to increase.

The First Annapolis study found that approximately 9% of merchants now receive free terminals, as opposed to terminals that are rented, leased or sold.

"Though 9% doesn't seem like much ... this particular form of price competition is disproportionately disruptive to cash flow precisely because it is front end loaded," the study stated.

"But even more fundamentally, when the net acquisition cost ... of a merchant becomes higher than the value of that merchant in a sale, then most ISO's main economic premise is fundamentally altered."

Marc Abbey, Managing Partner at First Annapolis, told *The Green Sheet* the trend is not "long-term good for salespeople" because it puts "a lot more pressure on the sales models in the marketplace [and] exacerbates trends in the acquiring business."

Abbey noted that in the long run, as always, "some businesses will succeed and some will fail." ☐



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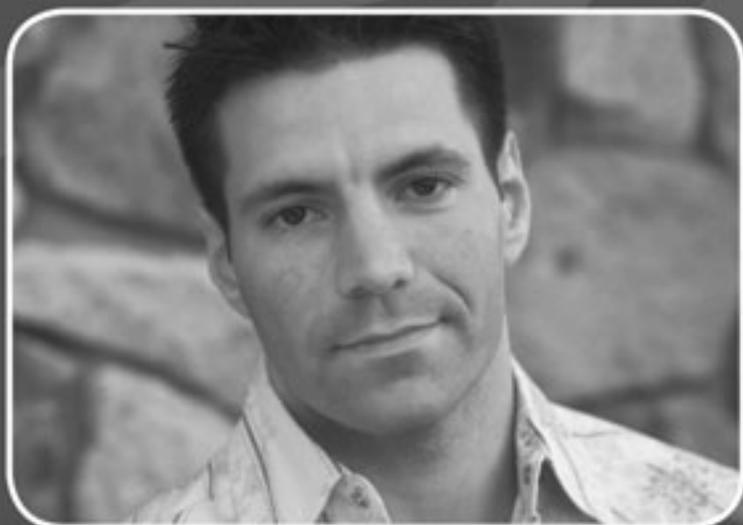
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Payments from page 1

chants and acquirers with compliance. (For more details, see "Resources for ISOs, MLSs, clients and partners" in *GSQ*, Sept. 2007, Vol. 10, No. 3.)

Some lawmakers at both federal and state levels think the payments industry is not doing enough on its own to secure cardholder data. Industry experts urged all ISOs and MLSs to keep apprised of any legislation in the works and to get involved to affect the outcomes. (See more on this topic under "3. Politics unusual" in this article.)

Despite ongoing educational efforts and success in bringing a greater percentage of merchants into compliance, the National Retail Federation's David Hogan claimed in October that the PCI DSS has failed to protect sensitive customer information from theft and fraudulent use. PCI compliance is obviously going to be a major issue in the industry for the foreseeable future.

2. Interchange wars

In January, Visa introduced the PCI Compliance Acceleration Program, an additional security incentive to merchants. Those whose transactions were PCI compliant became eligible for lower interchange rates.

In February, Congress started to poke around on the issuing side, examining costs linked to debit and credit cards – a warning that an investigation on the acquiring side could be next. Almost simultaneously, a 2004 federal lawsuit in California challenging interchange fees was moving through the courts.

The card Associations implemented new interchange fee schedules, a common occurrence in the springtime. Visa U.S.A. implemented a new credit card type – Signature Preferred – that raised rates on certain transactions. Visa also modified its existing commercial card rate schedule. It created three interchange categories by which it now identifies each commercial card transaction.

Dissatisfied with the status quo, the NRF appealed to lawmakers in an effort to force major changes to interchange, claiming the fees are exorbitant, arbitrary and unjust. In June, lines were being drawn in the sand. Congress stepped on the battle field in August to make sense of the mess and cool everyone's jets. But it didn't take long to heat back up; interchange hit the Congress floor again in October.

3. Politics unusual

Arkansas lawmakers approved Arkansas Act 911, which imposed strict disclosure requirements on merchant processing agreements, as well as caps on certain fees. The legislation also capped fees that can be assessed for early termination of card processing contracts. The bill applies only to nonbank providers of merchant services.

On Aug. 14, 2007, the U.S. District Court, Eastern District of Texas ruled against AdvanceMe Inc. in a patent infringement suit. AdvanceMe filed the suit against Business Capital Corp., First Funds LLC, Merchant Money Tree Inc., RapidPay LLC, Reach Financial LLC and Fast Transact Inc. (doing business as Simple Cash).

The court found that the defendants directly infringed the asserted claims of the U.S. Patent No. 6,941,281, but the patent itself was invalid for two reasons: There was prior art, and the patent was obvious and anticipated.

The Federal Reserve Board and the U.S. Treasury Department proposed rules implementing the Unlawful Internet Gambling Enforcement Act, and initial industry responses suggested implementation would be a non-event for acquirers and their partners.

The rules, proposed as a new set of federal regulations (Reg. GG), set out how the government intends to enforce a 2006 law that aims to stop most forms of Internet gambling by U.S. residents by making it illegal for banks and other payment companies to process transactions tied to Internet gambling.

Meanwhile, California Gov. Arnold Schwarzenegger vetoed a California consumer data protection bill on

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Oct. 13, 2007, citing overlap with the PCI DSS. If it had become state law, AB 779 would have made merchants follow data security standards, provide easily accessed information about breaches to affected consumers and compel merchants to pay consumers reimbursement costs for credit or debit card replacement.

Much like the PCI DSS, the proposed California bill, AB 779, attempted to limit the amount of consumer data stored by merchants. But, unlike PCI DSS, the bill would have required "specified reimbursement and notice provisions" to consumers.

4. MPI licks wounds

It was a bad year for Merchant Processing Inc. In April 2007, the FTC filed a complaint in the United States District Court of Oregon against MPI; its owner, Aaron Lee Rian; and two other firms Rian controls, Vequity Financial Group Inc. and Direct Processing Inc.

The FTC alleged the company engaged in fraudulent and deceptive trade practices while selling debit and credit card processing services by failing to disclose the true terms of contracts to some of its merchants. The court froze the assets of the defendants and appointed Michael A. Grassmueck as MPI's Receiver.

In the aftermath, MPI, under the control of Grassmueck, took steps to correct the problems that prompted the FTC's action. MPI went through a dramatic restructuring, affecting everything from its merchant agreements to its staff.

5. Shifting payments landscape

The demise of cash is predicted every year, but we're not there yet. However, the 2007 Federal Reserve Payments Study released in December indicates electronic payments, especially debit cards, are America's preferred form of payment.

Three years after implementation of the Check Clearing for the 21st Century Act – federal legislation commonly referred to as the Check 21 Act or Check 21 – it now seems conceivable that a majority of checks will some day clear and settle electronically.

Contactless payments grows every year, and some experts believe it's only a matter of time before this technology pushes other payment forms off the path.

Prepaid card purchases continue to climb, especially during the holiday season. The cards are increasingly favored as a way to give employees bonuses.

Alternative payments such as PayPal and Google Checkout appeal to online shoppers looking for extra security. Plus, they help merchants slash credit and debit card processing fees – uh oh.

Day-to-day business issues

1. Shrinking margins, rising costs

Shrinking margins and rising costs were an unpleasant fact of life in 2007. And they created their own set of challenges – small mistakes can have big consequences; inattention can lead to insolvency; and business techniques that might have been labeled "nickel-and-diming" a decade ago have become many a business owner's best friend.

The most successful businesspeople in this industry are those who can pinpoint what exactly their

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hairline-thin profit margin is. And they are constantly on the watch for tips and tricks to cut costs or increase profits. (You'll find them reading industry publications like *The Green Sheet*, sharing or exploring new strategies on the GS Online's MLS Forum and attending industry events to stay current.)

With razor-thin profits the industry norm, tips that save (or earn) even small amounts of money are analyzed for their return on investment (ROI) and implemented. While small mistakes can lead to big problems, small savings can lead to large profits. During 2007, some businesses nickel-and-dimed themselves to failure, and others nickel-and-dimed themselves to success. But everyone found themselves watching their pocketbooks like never before.

2. Value added services

Unless you've just come out of a coma, you've heard of value added services. In 2007, you likely heard about value added services a lot. And the reason has everything to do with (you guessed it) shrinking margins and rising costs. In addition to razor thin margins, 2007 brought increased competition for a shrinking pool of new merchants.

In 2007, you would have been hard pressed to get rich on volume alone. But with some ingenuity, a little luck, a lot of work and value added services, wealth was still possible.

Value added services – whether additional products like prepaid or gift cards, or your own expertise and consulting in something like the business-to-busi-

ness (B2B) market – help you earn additional income from existing merchants (improving your ROI), improve your customers' "stickiness," and help you stand out in a competitive field.

A little knowledge can go a long way in creating a business plan rich in value added services. That's why *The Green Sheet* covered a huge range of value added services during 2007, from prepaid products to merchant cash advances.

3. B2B: Opportunities outside retail

Another 2007 trend was to prospect outside the retail/restaurant box. One nonretail market that shows a lot of promise is B2B – with over \$2 trillion in annual sales in the United States alone.

Celent LLC believes over half of all B2B transactions will be made electronically by 2012. However, the B2B market is sluggish, encumbered by manual processes, legacy systems and proprietary formats.

Still, B2B's projected 30% to 35% growth and the higher average tickets are enough to garner some close attention even though these sales require more MLS expertise and a longer time from initial contact to closing.

The move to a cashless society is still excruciatingly slow, but emerging sales strategies in 2007 showed business sectors MLSs neglected 10 years ago may soon become hot prospecting territory.

4. MLS certification

Every scandal involving unethical behavior on the part of an MLS (and every threat of increased regulation) brings up the discussion of MLS certification.

Most agree that a voluntary certification program could help prevent a government regulated one and help cure the lingering bad reputation MLSs have with some



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merchants. It would also provide ISOs a way to differentiate potential star agents from the bad apples. And certification would be an effective marketing tool that showcases the knowledge of certified MLSs.

But creating a certification program that would cover all aspects of an ever-changing industry is gnarly enough; finding an impartial organization willing to take on the administering of the certification process – and any potential liability – is a show stopper.

Even though 2007 didn't see the launch of a MLS certification program, it did see the National Association of Payment Professionals begin researching just what it would take.

The fact that NAOPP was looking at the issue was enough to pull a lot more attention on the need for education, which meant more ISOs providing or paying for continuing education, and more MLS improving their skills and knowledge.

5. 1099 versus W-2

Red or blue, Coke or Pepsi, toilet seats up or down – some issues just don't seem to have much middle of the road, and the 1099 (contractor) versus W-2 (employee) debate is one of those.

Some ISOs insist on their MLSs being W-2 employees; they say it ensures their salespeople's undivided attention and makes it more likely that the employee will represent them in the way they want.

Others insist the investment an ISO must make to bring in a W-2 employee is so high that they are less likely to take a chance on a new employee. They also believe 1099 independent contractors are more motivated to sell.

MLSs, too, are divided. Some say the lack of benefits and a long period before substantial residuals build up in the 1099 model discourage anyone new from entering the industry unless they're moonlighting or supported by someone else.

Others say they gravitated toward this industry because of the freedom to run their own show. They insist a W-2 model could limit their potential profits. All might agree that flexibility in terms of employment status is a plus.

All in all, 2007 was a very good year for payments professionals. And for those who continue to improve their industry knowledge and insist on the very best business practices among their partners and clients, 2008 ought to be even better. 

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A: Chris Anderson for starters. He's Editor-in-chief of *Wired* magazine, and his bestseller *The Long Tail: Why the Future of Business is Selling Less of More*, defines an entirely new economic model. Chris will share critical tactics that can help a payments franchise thrive and profit in today's market.

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New year, new plan

By **Dee Karawadra**

Impact PaySystem

December is traditionally the slowest time of the year for merchant level salespeople. Merchants are busy trying to take advantage of the holiday rush and don't have time to re-evaluate their merchant processing.

This is a great time to dust the cobwebs off the business plan you put together for 2007 and plan for the next year. Review the goals you set for the ending year, and evaluate your performance.

Did you meet or exceed your goals? If not, why? Look for new approaches to meet those goals in 2008. End your year with a great plan to start your new year off right.

Hands-on approach

The perception is that business plans only raise capital, but in reality they are a good way to measure success. Your plan should be a work in progress. Even successful, growing businesses should update their plans regularly.

As any good salesperson knows, you have to know everything you can about your products or services in order to persuade someone to buy them.

To fine-tune your plan, you must be willing to roll up your sleeves and get a little bit dirty looking for information.

Since not all information gathered will be relevant to the development of your business plan, it will help to use good references like *The Green Sheet* archives to obtain data.

Business plans come in many formats and styles. Use a format that best fits you. It is not necessary to put an elaborate business plan together.

Education index

Adam Atlas	80
Michael Petitti	84
Nancy Drexler	88
David Mertz	92

However, make sure you have the following key components.

In so many words

The executive summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company.

This section reveals where your company is and what direction you want to take it.

More than anything else, this section is important because it tells why you think your business idea will be successful.

Be sure to have a mission statement that briefly explains the thrust of your business. It could be two words, two sentences, a paragraph or even a single image. It should be as direct and focused as possible.

Winston Churchill said, "If you have an important point to make, don't try to be subtle or clever. Use a pile driver. Hit the point once. Then come back and hit it again. Then hit it a third time; a tremendous whack."

Yell out what your mission and goals are.

This is also the section where you can start targeting your potential partners.

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A good business plan is more than a road map. It is your navigation system. It is crucial to stay up-to-date on the industry trends and new opportunities with value added products.

Skills on display

The market analysis section should show your knowledge about the industry. It should also present general highlights and conclusions of any marketing research data you have collected. Again this is a good time to use *The Green Sheet* as a resource.

Your target market is simply a group of customers you want to pursue. When you are defining your target market, it is important to narrow it to a manageable size; many agents make the mistake of trying to be everything to everybody. Often, this leads to failure.

Distinguish what your niche is going to be for the coming year. This section includes information about the critical needs of your potential merchants, the degree to which those needs are (or are not) currently being met and the size of the primary target market.



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This is where to define the levels of your pricing to merchants and your buy rates.

In the service and product offering section, describe your service or product, emphasizing the benefits to potential and current merchants.

Break out what your core products are and what value added products you plan to push for the year. How will these bring you more opportunity to sell your core products?

Focus on the areas where you have a distinct upper hand. Identify the key advantages your products have for the target niche you are focusing on.

Fun with numbers

The financials should be developed after you've analyzed the market and set clear objectives.

That's when you can allocate resources efficiently. If you have been in business for at least a year, show your numbers from the previous year and carve out a projection for the upcoming year based on your track record.

This is a great place to determine how many new merchants you would like to obtain in the next year.

It is also good to break it down by merchant volume as well. Include any potential bonuses and residuals.

A good business plan is more than a road map. It is your navigation system. It is crucial to stay up-to-date on the industry trends and new opportunities with value added products.

You want to be on a constant lookout for the right product mix. I wish you tons of success in 2008.

Safari Njema. Safe journey. 📧

Dee Karawadra is the founder, Chief Executive Officer and President of Impact PaySystem, based in Memphis, Tenn. He and his team have a wealth of knowledge on the merchant services industry, with a niche in the petroleum market. Dee's experience on the street as an agent has guided him in laying a foundation for an agent program that is both straightforward and lucrative for his agents. Contact him at 877-251-0778 or dee@impactpaysystem.com.



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Additionally, we do not compromise your interests by putting ourselves in direct competition with our ISO partners. Unlike many competing organizations, our corporate website does not market directly to merchants or encourage them to bypass the independent sales channel. Instead of competition, United Bank Card provides you with a variety of revenue generating programs to help you increase your merchant portfolio and profit from our principles!



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Education (continued)

Legal ease

MLS or ISO: Which one are you?

By Adam Atlas

Attorney at Law

Gather a group of merchant acquiring agents and ask them how they define themselves. Most often they'll say they're ISOs. But, in fact, they could be more specifically characterized as processors, sub-ISOs or merchant level salespeople (MLSs).

There are, however, certain indicators that identify a sales office as either an ISO or an MLS.

Many interpretations exist as to what constitutes an ISO, so my observations are not necessarily the last word on the subject. My positions are based on customary use of the term ISO in the payments industry. I offer my thoughts only to help individuals find the category that best represents them.

Signed, sealed, registered

The first thing you should know is that ISOs register. Registration is perhaps the best indicator of whether a merchant services business is an ISO or an MLS.

The term ISO means independent sales organization, which is a title given to merchant services businesses that register with a bank affiliated with either Visa Inc. or MasterCard Worldwide.

If your business is registered as an ISO, then congratulations – you're an ISO. As most readers know, a registered ISO is obligated to identify itself to merchants as "ACME ISO, a registered ISO of XYZ BANK."

These days, some processors are instructing ISOs to omit a reference to the processor's name in marketing material and refer, instead, only to the bank name.

What's in a name?

Generally speaking, if you are a merchant services sales organization that does business under your own name – keeping in mind, of course, that your processor and acquiring bank must give you that legal right – then, without a doubt, you are a registered ISO.

But also remember that, by law, no sales organization is permitted to use any name except the name of a registered ISO when promoting merchant services.

Unfortunately, that does not reflect real world practices; some sales organizations do not respect this rule.

It is important, therefore, for MLSs and those new to our industry to make sure if they are entering into an agreement with a sales organization that uses its own name, that the organization is actually registered.

Consider this example: Bob becomes an agent for ACME ISO. But ACME is not registered. So, when Bob solicits merchants under the name ACME, Bob is exposing himself to liability for hefty fines levied by card Associations.

In a perfect world, every ISO that uses its own name would be registered. However, the world is not yet perfect, and there is no evidence that it will be anytime soon. So, save yourself time and money before you sign a sales contract with a merchant services business claiming it can use its own name. Make sure it is registered first.

Liability

Some sales organizations might wrongly assume because they have taken legal steps to protect themselves against liability in case of merchant fraud and chargebacks, they are an ISO. This is wrong.

Whether you have or do not have liability has no bearing on whether your business is an ISO. As I have written many times in the past, if you're new to the merchant acquiring business, avoid liability for at least one or two years so that you can learn:

1. The very real cost of liability
2. Underwriting skills (to avoid liability in the first place)

Direct processor relationship

An ISO does not need to have a direct relationship with a major processor to be referred to as an ISO. Some ISOs take it upon themselves to have their sales offices become independently registered. These registered satellite offices are commonly referred to as sub-ISOs.

You're probably wondering why a sales organization that is big enough to sell under its own name wouldn't take its business directly to a processor rather than register under an existing ISO.

There are a few reasons why this might occur:

1. The newly registered sub-ISO may have a good working relationship with the sponsoring ISO, which makes continuing that relationship

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more profitable than starting afresh with a direct processor.

2. A sub-ISO might find that, for its purposes, it can acquire better pricing by remaining a sub-ISO than by going into a direct relationship with a processor.
3. The sub-ISO may be under an exclusive agreement with the sponsoring ISO that prevents the sub-ISO from starting an independent and direct relationship with a processor.

So, just because you're an ISO does not necessarily mean that you have the correct referral relationship with a processor.

By the way, as I have written before, avoid exclusivity. In other words, do not put all of your eggs in one basket (for more information, see "The ISO/Agent Relationship: What's the Deal?" by Adam Atlas, *The Green Sheet*, Oct. 24, 2005, issue 05:10:02 and "Facing Your Worst Fear: Wrongful Residual Termination," by Adam Atlas, *The Green Sheet*, Dec. 24, 2004, issue 04:12:02).

Your own roof

Having your own physical space or address from which

to operate has nothing to do with your ISO status. There are plenty of unregistered MLSs who operate out of independent offices with distinct addresses.

In addition, some registered ISOs work from offices of other registered ISOs. This observation may seem obvious, but it does make the point that having your own sales office has no bearing on whether you're actually an ISO as defined by the payments industry.

Your own agents

Just as operating out of your own office does not change your status from MLS to ISO, having agents working for you does not necessarily give you ISO status either, which brings me to an important observation concerning MLSs who have other agents working for them.

If you're not a registered ISO but you operate under a registered entity with agents working under you, please take a moment to reflect on:

1. Your contractual relationships with those agents under you
2. The extent to which the ISO above you needs to have knowledge of your agents and have those agents registered

In recent years, acquiring banks have been registering not only ISOs, but also all of the independent contractors (ICs) who work under them. On one hand, this is a good way to keep track of ICs who have a legitimate right to offer the services being promoted.

On the other hand, any ISO that hands over its list of agents to a processor knows it is exposing itself to losing those agents if the processor takes advantage of the information.

No matter where you are in your company's chain of command, be wary of disseminating lists of your MLSs or information concerning them. A list of agents is as valuable as the processing business of every merchant those agents have ever signed.

Whether you're an ISO or an MLS does not really matter as long as you understand the rights and obligations incumbent on you and then act accordingly. If you're not an ISO according to the above criteria, make sure that you do not mislead merchants or MLSs into thinking you are. ☐

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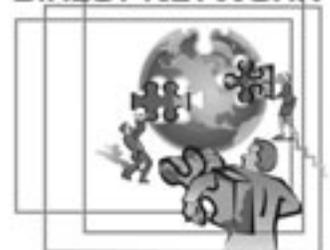
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Education (continued)

Visa, PCI council make security move

By Michael Petitti

TrustWave

A version of this article originally appeared in the December 2007 issue of Trusted News, a TrustWave publication.

Be prepared. Two major announcements made in recent months will send merchants scrambling to their payment application vendors and merchant level salesperson (MLS) for guidance and clarity.

Visa Inc. and the Payment Card Industry (PCI) Security Standards Council (SSC) issued statements in the later half of 2007 regarding payment application security. Knowing how these announcements affect merchants will set an ISO or MLS apart as a trusted security resource.

Payment applications that lack in security threaten the payments industry. In Trustwave's investigations of approximately 300 payment card compromises, an insecure or incorrectly configured payment application contributed to the majority of these compromises.

Had the compromised payment applications been configured in a secure manner and adhered to Visa's Payment Application Best Practices (PABP), it's likely that a great number of these compromises would not have occurred.

Visa created PABP to prevent payment card compromises by guiding software vendors in developing payment applications that support a merchant's compliance with the PCI Data Security Standard (DSS). The PCI SSC and Visa detail plans to unify a payment application security standard and begin enforcing the use of adherent applications.

Total takeover

The PCI SSC took over management of PABP in November, and renamed it the Payment Application Data Security Standard (PA DSS). New standards are expected to be released by the first quarter 2008. (For more information, see "Farewell PABP, hello PA DSS," *The Green Sheet*, Nov. 26, 2007, issue 07:11:02)

While the PA DSS is based on the PABP and remain similar, feedback received from various stakeholders may alter the PA DSS slightly. While these differences will impact software developers, merchants will not likely be affected.

Merchants will not need to look into the detailed requirements of the PA DSS or comply with it per se – applications developed for internal use only must still comply with the PCI DSS. Merchants only need to ensure that the payment applications they use are certified as PA DSS compliant. (For a list of validated, PABP-adherent payment applications, visit http://usa.visa.com/download/merchants/validated_payment_applications.pdf)

Once the transition is complete, the PCI SSC will maintain the list of validated applications. MLSs should ensure that the payment applications they offer are on this list. If not, MLSs should consider removing the offering from their portfolio of products.

As with the PCI DSS, the council will maintain its position as governing body of the PA DSS. Enforcement will continue to fall under the authority of the individual card brands.

While the transfer of the PABP standard to the PCI council will increase awareness of payment card security and increase adoption of secure payment applications, Visa's recent announcement will probably have a more immediate effect on your merchant customers.

Calendar of events

In October, Visa set forth a plan to mandate merchants'



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use of PABP-adherent (now PA DSS-adherent) applications. The plan entails a number of deadlines set by Visa to eradicate the use of vulnerable payment applications and payment applications that do not adhere to the PA DSS.

While the deadlines for the program are set for acquirers, VisaNet processors and agents because these organizations stand above merchants in the payment card acceptance process, the deadlines also apply to merchants.

Following are the specific mandates and deadlines Visa established:

- Jan. 1, 2008 – Merchants cannot use payment applications identified by Visa as vulnerable. For a list of these vulnerable payment applications, contact your acquirer.
- July 1, 2008 – VisaNet processors and agents cannot grant access to their network to new payment applications that are not PA DSS certified.
- Oct. 1, 2008 – Newly boarded level 3 or 4 merchants must prove their PCI compliance or use PA DSS-adherent payment applications.
- Oct. 1, 2009 – Payment applications identified by Visa as vulnerable will be decommissioned from the Visa network.

- July 1, 2010 – Merchants must use PA DSS-adherent applications to accept Visa transactions.

Field of queries

It's likely that a number of current customers or potential customers will have questions about the new requirements.

Here are talking points to remember during these discussions:

- The PA DSS does not supplant the PCI DSS.
- The PA DSS supplements the PCI DSS.
- The card brands will continue to require that merchants continue to comply with the PCI DSS.
- Visa is the only card brand thus far that will require the use of PA DSS-compliant payment applications, but other card brands are likely to follow.

Michael Petitti is Chief Marketing Officer of TrustWave and is responsible for all of the company's marketing initiatives. He serves on the Merchant Risk Council's board of advisers and on The Green Sheet Inc. Advisory Board. Call him at 312-873-7291 or e-mail him at mpetitti@atwcorp.com.



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Education (continued)

Marketing 101

E-mail: It takes a plan

By Nancy Drexler

Marketing Moguls

As e-mail recipients, we appreciate the ability to stay in touch from anywhere, any time, without having to actually talk to anyone. But at the same time, we resent the many e-mail abusers who invade our space without any consideration for our individual needs.

I'm probably not the only one who ever made a decision not to do business with someone solely because I found the volume of e-mail emanating from that person irksome or offensive.

may, in fact, welcome your message.

But most of us are hurriedly concluding important business, trying to leave the office with a clear conscience and a clearer desk.

Often, we print out e-mails we don't feel like reading and add them to the junk pile of information we'd like to wade through when we have time (which, of course, we never do). Some of us leave these e-mails for Monday and then delete them then.

And others are so ready for the weekend that, even if recipients do read those e-mails, they've long forgotten their contents before the Monday morning crunch.

seasons. Try to sell them something in the period leading up to or during their prime season, and you'll not likely get their full attention.

But speak to them after the season – and address the unfortunate problems they may have faced during the crunch, and the many ways you can alleviate them – and you're likely to find your market more receptive.

If your market is restaurants, you already know how difficult it is to reach an owner or key decision-maker. Many times, these people are only on-site during the restaurant's busiest hours.

Knowing when and how often to send e-mails requires a little planning and common sense. And as researchers study what works and what doesn't, they provide information that can help us be more sensible.



Knowing when and how often to send e-mails requires a little planning and common sense. And as researchers study what works and what doesn't, they provide information that can help us be more sensible.

Time it right

When you get to work on Monday morning, is your inbox too crowded? Do you quickly delete all the items that don't demand your attention? Many people do. So, sending e-mails during the weekend, or before noon on Monday morning, is not a good idea.

The same is true for Fridays. Sometimes people are using that time to catch up on lighter chores and responsibilities, and those people

Holidays are also ineffectual times to send e-mails. Don't send your missives before or after a three-day weekend. Don't assume anybody wants to think about much during the December holiday season.

And if you can avoid it, don't send important messages during the summer, especially in August. Your thoughts may be read on a beach somewhere, read by an assistant or not be read at all.

Understand your market

Though these are general, common sense rules for sending e-mails, there are exceptions. And these are created largely by the needs of unique markets.

Retail businesses have their selling

For them, it is often easiest to communicate during the small window of quiet time before business peaks. But with markets like these, trial and error is usually necessary.

Interestingly, it remains true today that a higher percentage of men than women are likely to be online during the prime time evening television hours.

If your male prospects or customers bring their work home, 8 p.m. to 10 p.m. might be a good time to try to send them an e-mail.

Most e-mails are opened within the first few hours of delivery. Research shows approximately 38% of e-mails are opened within the first three hours of distribution.

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You'll want to time your delivery to take advantage of this.

And always remember your time zone. If you want your mail to be read first thing in the morning, and you've got a significant number of prospects on the East Coast, don't send your message at 9 a.m. PST.

Click send, repeat

In the world of e-mail – as in the world of old-fashioned, direct mail and phone calls – once is not enough.

There are too many reasons why one e-mail could be bounced to a spam folder, deleted, missed, or misread. Even the messages that do get opened can easily fail to motivate a reader to take action the first time.

Selling is a process, and conducting business via promotional e-mails is no different. Though all e-mails must deliver a real benefit and a call to

action, the process might be viewed like this:

- Announce something.
- Reinforce the message while boosting brand and awareness.
- Sum up the key benefits.
- Close the deal in the final e-mail.

If part of your e-mail marketing involves sending a regularly scheduled or promised communication, stick to that schedule or promise.

If, for example, your readers expect a monthly newsletter from you, send that newsletter every month. Ideally, send your newsletter not only on the same weekday or date but also at the same time of the day. Timely delivery – or its failure – reflects on your honesty, credibility and commitment to customer service.

Count on customer service

Following up is an essential element

of e-mail marketing. Responding to individual customer requests is that and more: It is good business practice.

If somebody sends you an e-mail or clicks through on an offer, this indicates an interest in your products or services. If you do not reply promptly, you will not only miss the opportunity, but you will probably lose a customer for life.

Even worse, lost customers will tell others. You are striving for positive publicity, not negative reviews. To avoid this and to ensure you're not closing any doors, make it a top priority to reply to all incoming mail within 24 hours.

Find a reason

How many times have you said something and wished you could take it back? We are human beings, after all.

But unless you like scrambling for the unsend button, I recommend *not* sending an e-mail when you are angry, bored, gossiping, not sure what you want or have nothing concrete to say.

Don't let e-mails take the place of communications better done in person or by phone. If you've made a mistake and need to apologize, if you want to change direction, or if you're going to fail to live up to a promise or expectation, take responsibility.

If the thread of replies is clogging up your inbox, pick up the phone and work toward a resolution. Subsequent e-mail may be necessary, but one-on-one communication will be more effective and efficient in getting you through the crunch.

And remember, don't feel the need to continue an e-mail exchange when the communication is at an end. ☐

Nancy Drexler is the President of Marketing Moguls and its division, PIMPS (Processing Industry Marketing and Promotion Services). She can be reached at drexler@marketingmoguls.com.

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Education (continued)

Receipts still reveal too much

By David Mertz

Compliance Security Partners LLC

If cardholder data is supposed to be secure, how come so many card numbers are floating around? With all the focus on the Payment Card Industry (PCI) Data Security Standard (DSS), why is it that I see card numbers printed clearly on the receipt everywhere I go?

Granted, I may have a skewed perspective. In my day-to-day job, I work with clients across the country to help them reach PCI compliance. So, maybe I am more attuned to it.

Nevertheless, I still see card numbers everywhere. I go to the dry cleaners and see a receipt with full card numbers. I go to a restaurant and see the full card number printed on both the merchant and cardholder receipts. With Visa Inc. holding acquirers accountable for the compliance of their merchants, there shouldn't be so many card numbers visible on receipts.

Why would any organization make a decision that is a risk to anyone involved in the complex chain of processing payments? Why, with attorneys looking for consumers who have been harmed by this practice to be the foundation of class action lawsuits allowed under Fair and Accurate Transactions Act of 2003 (FACTA), would merchants want to expose themselves to the potential legal liability?

Why, with FACTA having been passed, which prohibits merchants from printing full card numbers on receipts beginning Jan. 1, 2008, are card numbers still appearing on receipts?

Why, why, why?

Needless information

I am tired of scratching out the card number on the merchant's copy of the receipt. The merchant is not entitled to my card number once the swipe has occurred, the transaction has been transmitted and the approval or denial of the transaction has been received by the merchant. Not on a receipt, in a database – not anywhere.

Failure to meet this basic requirement exposes merchants and acquirers to significantly greater risk than any chargeback. Sure there are exceptions (recurring transactions, or using the old imprint devices), but those exceptions require their own protections.

The merchants have everything they need from the

signature: validation of identity by requesting secondary identification (a practice which is, thankfully, becoming increasingly common), a transaction ID, an expiration date, the last four digits of the card number and an authorization code. What else does the merchant need to prove the transaction occurred? Nothing, according to Visa Inc.

Wide cracks

At the Midwest Acquirers Association in July 2007, I was asked to make a presentation on information security responsibilities in the acquirer's offices. And I addressed many of those. However, when I arrived in Cleveland for the conference, I encountered another troubling aspect of card data security failure.

I stopped in the gift shop of the hotel, picked up a few items and used my Visa-branded debit card to complete my transaction. And what should appear on the receipt – my full card number and the expiration date on my receipt as well as the merchant's receipt.

As force of habit, I started scratching out the card number. I informed the clerk that the shop needed to update its terminals because retailers are not allowed to print full card numbers on receipts. The clerk informed me that her manager didn't care, and to not bother scratching out the card number on the receipt because the manager was just going to reprint the receipt.

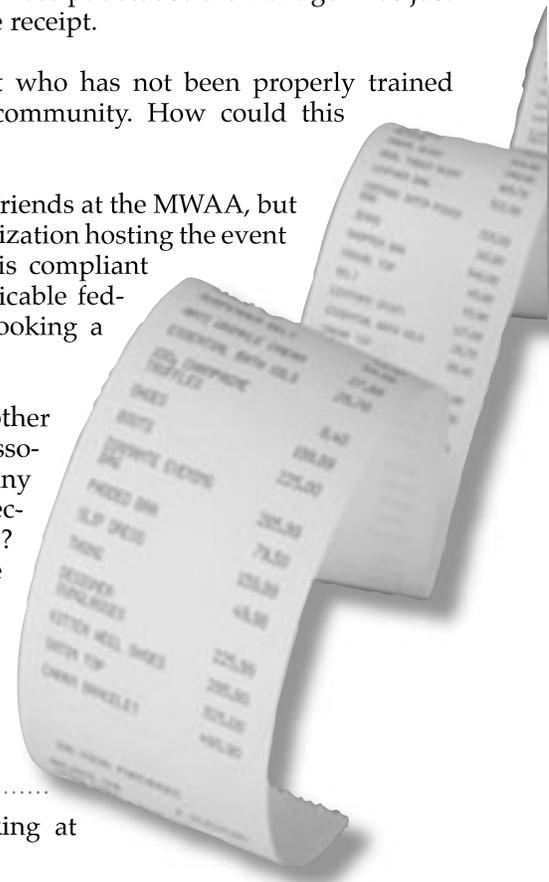
This is a merchant who has not been properly trained by the acquiring community. How could this happen?

Not to pick on my friends at the MWAA, but shouldn't the organization hosting the event ask the hotel if it is compliant with PCI and applicable federal laws before booking a reservation there?

How about the other regional acquirer association shows, or any show involving electronic payments? Shouldn't this be one of the qualifications when determining which hotel should host the convention?

Lawful acts

Let's start by looking at





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Education

the legal requirements – specifically FACTA. This law states receipts may not include more than the last five digits of the card numbers. No other data on the card or on the magnetic stripe – including expiration dates – may be printed on the receipt.

Under FACTA, if a receipt printer went into use before Jan. 1, 2005, you have until Jan. 1, 2008, to upgrade or replace it. If it went into effect after Jan. 1, 2005, it should have been fixed already.

The legislation does not say merchant receipts can have card numbers and consumers cannot. It says all receipts. Period. Neither the merchant nor the cardholder should have more than five digits of the card number displayed.

For those who think they need to have the full card number on the receipt in a case of chargebacks and other contested transactions, my response: horsefeathers. Visa's Data Security Brief, released Aug. 27, 2007, states, "Consult with their merchant bank to determine whether truncated card numbers are acceptable to facilitate business functions in order to eliminate the need to store this information."

It is obvious Visa does not expect merchants to store the full card number to respond to chargebacks and other contested transactions. The question becomes, if Visa doesn't believe a merchant needs the transaction, no one else in the chain should either. Further, requiring merchants to keep this data on receipts is a violation of federal law and complicates PCI compliance.

And, if these institutions are publicly traded – and what banks aren't pub-

licly traded anymore – then they are in violation of their requirements to be in compliance with federal, state and local ordinances under the Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act, also called SOX or Sarbox) and may need to report this violation in quarterly reports.

At the very least, it needs to be reported to the organization's Board of Directors and the committee with oversight of regulatory compliance and regulatory reporting.

In August 2007, *The Recorder* published an article about law firms trying to establish class action lawsuits against retailers who printed full card numbers on receipts. What is important about FACTA is this: No harm needs to be established by the plaintiffs to sue under legislation.

Two factors make merchants vulnerable to litigation under FACTA:

- Violation of the law (printing more than five digits of the card number on the receipt)
- The merchant having been properly notified of the requirement

Penalties under FACTA range from \$100 to \$1,000 per receipt. Multiply that by the number of transactions since a merchant needed to be compliant, and you have the total liability a merchant faces for lack of compliance with FACTA.

Currently, more than 250 class action lawsuits have been filed under FACTA. They involve some of the leading retailers in the country. It begs the question: Why do I still keep getting receipts with full card numbers? ☒

David Mertz is the founding partner of Compliance Security Partners LLC. He has spent the last four years working with merchants and service providers to meet Payment Industry Security Standard compliance. For more information, e-mail dave@csp-mw.com.

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AstroloGS

As the new year looms, *The Green Sheet* decided to consult the stars and see what 2008 holds in store for ISOs and merchant level salespeople. (Disclaimer: This is only for fun!)

Leo (July 23 to Aug. 22)
Lions will have to be endurance runners in 2008. After June, business-to-business efforts will bear fruit. If your ISO partner went under in 2007, good news: This year you can build a new foundation with a stronger partner. Remember, you are ruler of the jungle, not even card associations can tame you.

Virgo (Aug. 23 to Sept. 23)
Put on some armor and grab a helmet; you are going to face an uphill battle to keep merchants happy. To win this one, you will need to stay focused and determined. When the residuals are within reach, don't get picky; you might come up empty-handed. And be careful of the MATCH list - one of your merchants might be on it.

Libra (Sept. 23 to Oct. 22)
Your finance scale will not balance in 2008. This will lead to new business plans in new markets, possibly resulting in new markets, possibly resulting in new markets, possibly resulting in new markets. You will have to work per-of-the-table, not per-of-the-table. You will have to work when difficulties might create a problem. ISO managers in new markets will even out by the first slightly, but things will be on it.

Scorpio (Oct. 23 to Nov. 22)
Soddy, scorpions, the new year will sting. A dark cloud will form early (think Jan. 1). You will experience many snafus. Your booth might not even arrive at EIA, leaving you looking lonely and foodish. However, a ray of light will shine later in the year. You will find a new strategy once the Western State Acquirers Association comes around.

Sagittarius (Nov. 23 to Dec. 21)
Congratulations, you might as well be named MLS of 2008. Everything will come your way - enhanced respect, financial gain and success. But, your 15 minutes will expire in July. Standing your clients. Don't worry; your merchants will come running back once they get a taste of the other side.

Capricorn (Dec. 22 to Jan. 20)
If you are a gambler, this is the year to let it ride - it should be a smooth one. Your chances of success are quite high, and your portfolio will flourish. It might even be time to sell a portion of it and retire on the proceeds. You will be admired by your colleagues and feared by other MLSs. Everything you touch will turn to gold.

Aquarius (Jan. 20 to Feb. 20)
Your business will be rock solid in 2008, allowing you to move forward with the innovative POS system with a major software developer. Your trendy all-in-one gadget will be your moneymaker, so make sure you get the word out at tradeshows. And bring a box of your business cards - everyone will be interested in your product.

Pisces (Feb. 20 to March 20)
The new year will be a complete 180 from 2007. Your luck was down when the FTC ordered a halt to your ISO's processing, and a chemical leak ruined your office. But greener pastures are ahead. You will find a new ISO partner and reach new business heights. You might not win a medal for overcoming adversity, but you'll at least get some parts on the back.

Aries (March 21 to April 20)
Luck be an Aries in 2008. Your broad-based gift card business is bound to show you with money. Recognition and success will be high, so don't forget to dress nice for the Prized Card Expo (no one looks like a lumb). Be careful of business ties with who looks like a lumb. You never know who wants more than a fair share of your prized pie.

Taurus (April 21 to May 21)
You will see an increase in roadwork, and your career will be something to smile about. It won't be a cake walk, though. You will endure obstacles along the road (think fairly POS terminals), and you might have to assure your merchants that you're worth sticking with. In the end, your hard work will be rewarded.

Gemini (May 22 to June 21)
The new year will be your time to shine. But you need the leader of MLS success. Business doesn't get handled out of a silver platter; you'll have to roll up your sleeves and get to work. You will have to complete the explanation process.

Cancer (June 22 to July 22)
You will do well in 2008 if you don't give in to doubt. To land lucrative e-commerce merchants, you'll need to put in effort - a lot of effort. Keep informed so you can explain the superiority of your offerings. And be careful not to overload your home page with widgets, or you'll have, so, coming your.

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POScript

ShortStack

Ho, ho, holy moly

Let's imagine for a moment that elves don't exist (wink, wink) and Santa Claus has to purchase all of his presents from actual stores, whether they be brick-and-mortar or online. The price to bring joy to children all over the world is a hefty one.

According to Credit Union National Association, in 1987 Santa's presents cost a grand total of \$5,812,289,483.26. In 1996 the cost rose slightly to \$6,350,023,426.30. And Santa had to spend a whopping \$12,937,252,980.25 in 2006 to provide for everyone on the nice list.

Although numbers for 2007 aren't in, it's safe to say Santa will shell out at least \$14 billion for goodies. We bet Santa wishes more kids were on the naughty list.



ISO-Q test

Which of these statements is true?

1. A technology group from Ohio has designed a prepaid card that also holds digital pictures.
2. Two men in Houston are suspected of using magnetic stripe cards to steal more than \$100,000 from ATMs.
3. A data card security breach at a small coffee shop in California compromises hundreds of credit card numbers.

The second statement is correct.

MLScapes

"I had my credit card stolen two months ago," a guy says.

"Stolen? Oh God, how terrible!" says his concerned friend. "Have you told the police?"

"Nope."

"Why, for heaven's sake?"

"Well, my last two statements show me he's spending less than my wife did!"

Source: Betterjokes.co.uk

Biz bytes

Indirect channel is a way of selling and distributing products to customers using wholesalers, distributors, agents, dealers, retailers or other intermediaries.

Indirect cost is a fixed or overhead cost that is not attributable directly to the production of specific goods. It is incurred even when a company has no output.

Loopy laws

If traveling to New Orleans for the Southeast Acquirers Association meeting in 2008, check the windows before hitting the hay. Snoring is prohibited in Louisiana unless all bedroom windows are closed and securely locked.



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New Products



abandon online shopping carts when credit cards are the only payment option.

Furthermore, a study by Brulant Inc., an e-commerce consultancy, found a 267% increase in the use of nontraditional payment methods from the largest e-commerce online stores.

Therefore, the potential customer base for Bill2Phone's technology is huge. According to BSG, its technology can reach 150 million wireline households in the United States (which is 90% of the country), making the combined wireless and wireline reach to be around 390 million.

Bill2Phone runs on BSG's Advanced Payments Gateway, a Payment Card Industry Data Security Standard compliant payment processing platform that connects e-commerce merchants to 1,400 LECs nationwide.

Dialing for digital content

Product: Bill2Phone

Company: BSG Clearing Solutions

BSG Clearing Solutions' Bill2Phone is simple and straightforward: In purchasing online digital content, why not charge it to the consumer's local phone bill?

BSG worked for two years with 1,400 wireline and wireless local exchange carriers (LECs) like Sprint Nextel and Verizon Communications to develop a way for consumers to buy online using only their wireless phone numbers.

The end result is Bill2Phone, a way for merchants to expand consumer reach to include vast segments of society that do not have access to traditional electronic payment methods like credit and debit cards – namely teens and the unbanked.

According to statistics cited by BSG, 60 million to 80 million U.S. consumers are unbanked, and 15% of the total U.S. population are teenagers. Approximately 50% of shoppers

It can be used to shop online for "mobile consumables" – tools and features associated with wireless phones, such as games, videos, news, horoscopes, sports highlights and stock market updates.

Users initiate transactions from their phones or through merchant Web sites by simply inputting their local phone numbers.

Then BSG's automated system takes over, authorizing and authenticating user IDs, followed by standard bankcard transaction processing steps, ending in settlement with merchants. When a customer's phone bill arrives, charges for online purchases appear on it.

According to BSG, Bill2Phone reduces online cart abandonment by offering consumers an easy way to pay for online purchases without credit cards. And it increases online sale conversion because Bill2Phone's fraud-prevention technology screens out nonpaying or nonbillable individuals.

Abie Reifer, Chief Technology Officer at BSG, said there are an estimated 240 million mobile devices in use today. Calling this "a big number," Reifer said, "[Bill2Phone]

NewProducts

opens up to our merchants new avenues [of potential revenue]." And it gives those merchants "tools to offer and expand their operations."

ISOs in on the action

Tim Riley, GM of BSG's Payment Services, said, "By tapping many unserved customers, Bill2Phone can drastically open up new revenue opportunities for merchants. This solution gives ISOs and merchant level salespeople an opportunity to offer a product that greatly expands a merchant's purchasing demographic and differentiate themselves from other competitors."

In its relationship with an ISO, Riley said, "BSG [would] be responsible for providing the Bill2Phone brand, underwriting, various approvals and actual merchant boarding."

"Some services, like settlements and risk management can be shared between BSG and the ISO, depending on arrangements."

"BSG also provides many value-added services, such as merchant care, customer billing support and advanced reporting capabilities. ... ISOs and agents can receive a wholesale rate and participate in revenues for any merchant accounts that are sold above the contracted wholesale rate."

ISOs interested in offering the Bill2Phone service as a value-added product are encouraged to contact Greg Carter, President of BSG Clearing Solutions, North America, at the phone number following this story. ☐

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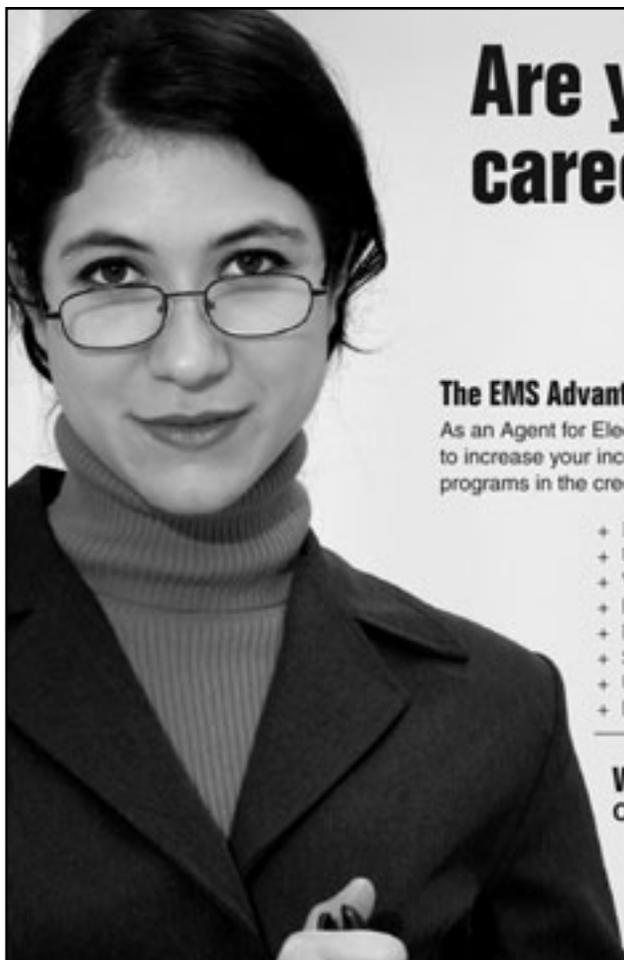
Card printer of a different stripe

Product: Zebra P100i

Company: Zebra Card Printer Solutions

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The Zebra P100i prints single-sided full color or monochrome cards for a variety of applications, including employee and student ID, loyalty, gift and membership, and transit and recreational passes.

One card at a time is fed into the front of the printer, where it is printed and encoded, and then dispensed from another tray at the front of the printer.

This front feed and exit option is especially handy for retail applications such as personalized gift and membership cards.

The device prints one monochrome card (black, blue, green, gold, red, silver or white) in 6 seconds and a multicolored card in 35 seconds, both at a print resolution of 300 dpi.

But the P100i has optional features not typically available in its product class, namely USB plug-and-play and Ethernet connectivity, and smart card and magnetic stripe encoding.

The Zebra i Series is compatible with Microsoft 2000, XP and Vista operating systems, but its Ethernet connection allows the P100i to be integrated into other platforms, too.



Zebra P100i

Its advanced connectivity enables merchants to deploy and manage card printers at remote offices and branch locations.

The printer's smart card and mag stripe encoders are compatible with MasterCard Worldwide and Visa Inc. financial applications, and it has received regulatory approval in the United States and Canada.

Compact and lightweight, the P100i takes up little counter space. And it uses a drop-in ribbon cartridge, LCD screen for status and diagnostic messaging, and three integrated card storage bays for up to 100 cards.

Zebra Card Printer Solutions, a division of Zebra Technologies Corp., advises only Zebra ribbon cartridges be used on the i Series printer, with Zebra's patented TrueColours reportedly supplying a more accurate color reproduction.

One thousand cards can be printed on a single-color ribbon cartridge; four-color ribbons are good for 200 cards. Zebra ribbons are also extra wide for better edge-to-edge printing.

The P100i is sold through authorized Zebra card printer resellers worldwide and comes with a two year warranty. 

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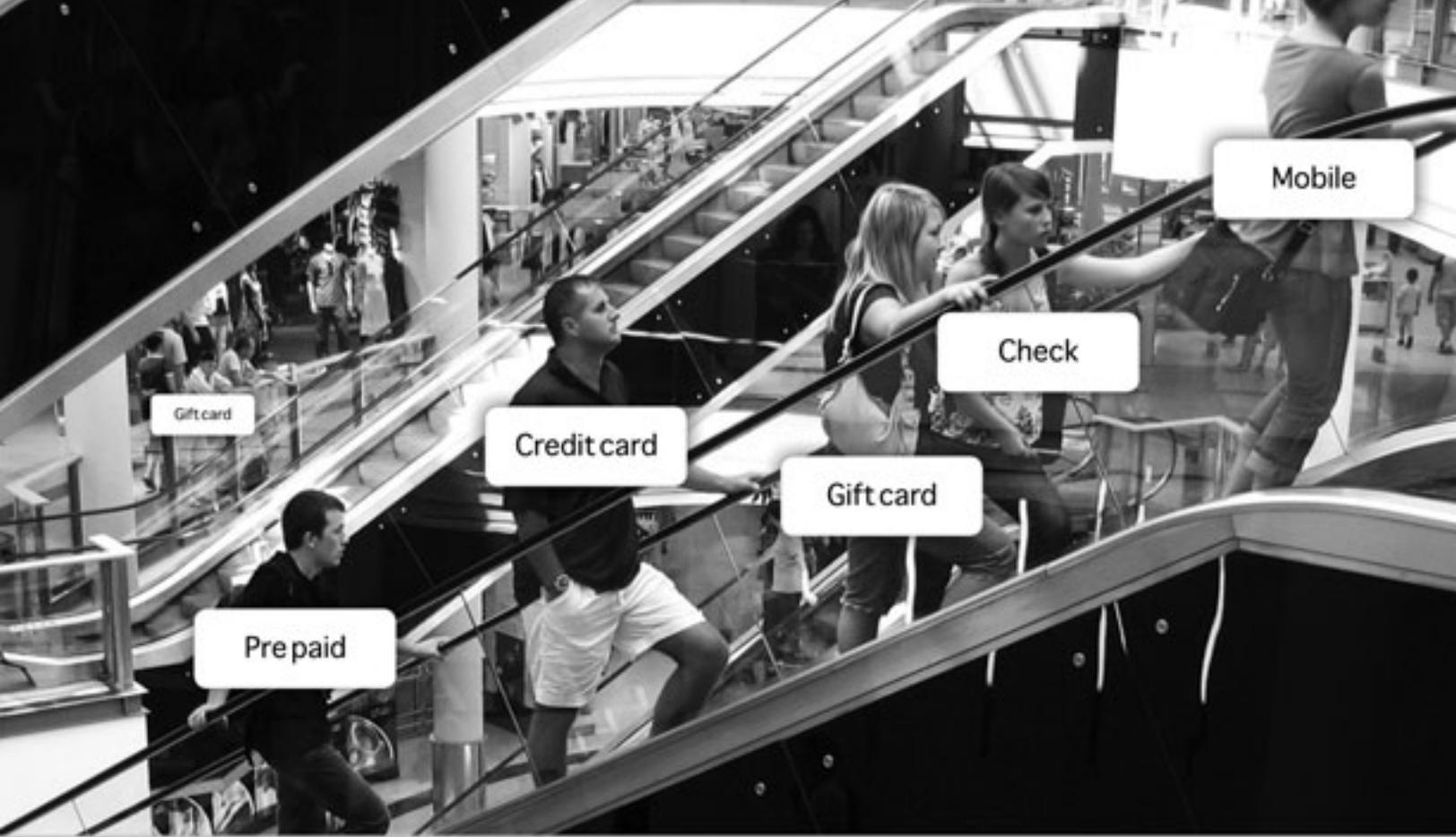
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It's something unpredictable, but in the end is right; I hope you had the time of your life.

- Green Day

Before you move on

January is drawing near. It's a time of hope and renewal despite the nip in the air. Another new year's dawn symbolizes great potential – limited only by your drive and creativity.

And as ISOs and merchant level salespeople, many of you are already thinking about business and personal goals for 2008.

But what about the year that just passed? What happened for you in 2007, what made you happy or sad, and what did you learn?

It's a good idea to pause and reflect on your experiences before embarking upon the new ventures and adventures that await you in the coming 12 months.

Relax a bit

So, find a comfortable spot, perhaps a cozy chair by a window with a view. Make yourself a cup of hot cider or tea to sip throughout this exercise. Bring a notepad and pen or your favorite electronic substitute. Sit down; take off your shoes. Wiggle your toes. Stretch and yawn.

Now, try these steps to take your mind off of whatever may be preoccupying your mind at the moment:

1. Take in the scenery. Is there a rabbit hopping through the snow outside? Do you see mountains in the distance? Is a leaflet dancing in the wind on a sidewalk below your window sill? What's the farthest thing you see in the distance? What's the closest? Look at the world around you inside and out.

2. Listen. What sounds do you hear? Are birds chirping in swaying branches outside? Does a truck rumble by on a nearby street? What about children?

Are they laughing and calling out to one another as they dash down the road?

3. Taste. Let a sip of your drink linger in your mouth before swallowing. How does it strike you? Are there subtle tastes you never noticed when drinking more quickly?



4. Get tactile. Touch your clothes. Are you wearing a warm, nappy sweater or a sleek silk shirt? How does it feel? Run your fingers over your watch or jewelry. Do you feel bumps and shapes you never noticed?

5. Use your nose. What aromas waft through your room? Incense? Embers from a fire in the hearth? Someone's perfume or aftershave? Do you smell spices from a nearby takeout restaurant or warm bread baking in your oven?

Take stock

Now, think about 2007, the year that is coming to a close. Was it a great year or one you'd just as soon forget? Do you remember what you set your sights on at this time last year? How did you feel about your chances of success?

Review the year in your mind's eye month by month. As events come to mind, take notes, listing the highs *and* the lows. Write about how each one affected you and those you care about.

Don't rush. This may take some time. Breathe deeply.

If you feel strong emotions, either negative or positive, notice them. Let them be. Don't suppress them or try to

Inspiration

hold on to them. Good or bad, they will pass as all things do. When you are done, review your list. Add anything that comes to mind that you might have missed.

Celebrate all of it

Now, it's time to celebrate the year's blessings. Did your portfolio grow beyond your expectations? Did you win your company's highest sales award? Did you take a dream vacation to Bali or Tibet? Did you make new friends? Get a new degree or accreditation?

Did you fall in love, get married? Was your first grandchild born? Whatever good things happened, acknowledge them. Give thanks for them.

Were you able to make a difference in your community in small and large ways?

Buying groceries for an ailing neighbor counts just as much as making a large financial contribution to a food bank. Appreciate all of your good deeds.

And, let's not forget the difficult times. It's not easy to think of the rough spots as blessings, but they, too, bring each of us gifts and new discoveries about ourselves and the world around us.

Did you lose a loved one or a valued colleague? Take a moment to think of that person and all that he or she brought to your life.

Have you done something to honor that person's memory? Is there more you'd like to do? If so, make plans to do it. And take comfort in knowing that as long as you remember those who pass on, they live on inside of you.

Did you miss your earnings mark or have another type of business reversal? Take a moment to think about how hard you worked, and appreciate your tremendous efforts on your own and your family's behalf.

Reflect upon every negative development with an eye for finding the kernel of goodness each setback holds for you. If nothing else, you will have learned something, and that is a plus.

Also, think about people who helped you during the year. Come up with a plan for how you will express your thanks in a way that will be meaningful for each individual.

And if you did something to harm anyone, make a



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Inspiration



commitment to make it right just as soon as you finish this exercise.

Let go of regrets

If you have regrets about anything, acknowledge them. Express your disappointment out loud if you have to. But

then, let them go. Really, let them go. And do it before you leave that comfy chair you've been sitting upon.

We all know we cannot undo the past. But sometimes our emotions about perceived failures tie us to cumbersome memories, and we forget how much power we have to shape the present and the future.

Don't dwell on old wounds or victories once you've done your review.

Be kind to yourself. Be the loving parent you may never have had.

No matter how young or old you are, or how accomplished or inexperienced you may think you are, remind yourself that you are lucky to be alive and in business.

Now, say a fond farewell to 2007. Get up, stretch again and say hello to 2008.

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DateBook

Visit www.greensheet.com/tradeshows.htm for more events and a year-at-a-glance event chart.



National Retail Federation

97th Annual Convention & Expo

Highlights: This international show features retail attendees from more than 64 countries, offers workshops, roundtable discussions, networking opportunities and a Retail Study Tour, which takes a behind-the-scenes look at the internal workings of several New York retail stores.

Sunday night features an opening night reception at New York's hot spot, Gotham Hall, and a members-only luncheon on Monday.

When: Jan. 13 – 16, 2008

Where: Jacob K. Javits Convention Center, New York

Registration: Visit www.nrf.com.



Bank Administration Institute

BAI TransPay Conference and Expo

Highlights: This conference demonstrates how to target new markets, identify customers' needs in payment products and services, meet demands, and beat out the competition. It will focus on operation, trends, management, products and risk.

Distributed capture – what it is and where it's going and legal issues involved – is expected to be a hot topic.

Speakers will include Chris Anderson, Editor-in-chief of *Wired* magazine and the author of "The Long Tail"; Mark N. Greene, Ph.D., Chief Executive Officer of Fair Isaac Corp.; and many others.

When: Feb. 5 – 7, 2008

Where: Gaylord Texan Resort & Convention Center, Grapevine, Texas

Registration: Visit www.bai.org/transpay or call 312-683-2464.



ATM Industry Association

ATMIA Conference 2008, "Rising Again"

Highlights: This conference is dedicated to business renewal in New Orleans. Its purpose is to show support for rebuilding the city two years after the Katrina disaster. It is organized to teach ATM businesses and operations how to transcend today's issues and threats.

Topics will include trends and the renewal of the ATM for the

21st century, new sources of revenue for ATM operators, and industry updates for ATMs.

A portion of each registration will be donated by ATMIA to Kingsley House.

Since 1896, Kingsley House has helped educate children, strengthen families and build communities in the New Orleans area.

When: Feb. 20 – 22, 2008

Where: New Orleans Marriott, New Orleans

Registration: Visit www.atmiaconferences.com.



Electronic Retailers Association

eRetailer Summit (formerly Mid-Winter Conference and Trade Expo)

Highlights: The conference will give experts the opportunity to gather and exchange knowledge in profitability and innovation to help ensure e-retailers have the tools and information needed to succeed at competitive levels.

Full registration includes admission to exhibit hall, education sessions, breakfast, lunch and receptions for both days.

When: March 2 – 4, 2008

Where: Intercontinental Hotel, Miami

Registration: Visit www.retailing.org.



Institute for International Research

Prepaid Card Expo

Highlights: This expo will offer attendees the chance to discover the strengths and weaknesses of alternative payment solutions. It will also teach how to recognize international opportunities, and how consumers and businesses are using prepaid as an important revenue generator.

Some speakers will relay lessons learned after a security breach, and will give inside tips on how to strengthen antifraud and security controls.

More than 2,000 people are expected to attend the event, providing opportunities to share ideas and network with other professionals, as well as check out many exhibitors.

When: March 3 – 5, 2008

Where: Rio All-Suite Hotel & Casino, Las Vegas

Registration: Visit www.iirusa.com/prepaidcardexpo.

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Association for Financial Professionals
Payments Forum

Highlights: This forum will unveil techniques on overcoming challenges when implementing electronic payments. The "how-to" session focuses on important payments issues facing corporate financial professionals.

The two-day conference will feature small roundtable sessions with corporate practitioners in addition to in-depth lectures that include topics such as check conversion and new developments in international payments.

This conference caters to those dealing with automated clearing house, cards, check imaging or check conversion, global payments and so forth. There are also optional seminars – E-Payments: Instruments and Processes; and Financial Risk: Identification, Measurement and Management Techniques – available before and after the forum.

When: March 9 – 11, 2008

Where: Sheraton Wild Horse Pass Resort, Chandler, Ariz.

Registration: Visit www.afponline.org, or call 301-907-2862.



ACA International
Credit & Collection Business Academy 2008

Highlights: The event offers more than 20 hours of learning and professional opportunities.

A faculty of industry experts will speak about operations, ethics, sales, compliance, persuasion, security and privacy issues, legal matters, state and federal laws, and management.

By attending this conference you can earn industry-specific credentials and certificates to contribute to your own knowledge and the growth of business.

When: March 9 – 12, 2008

Where: The Marriott, Delray Beach, Fla.

Registration: Visit www.acainternational.org/events.

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The Forum ...continues

The Forum Index >> ISO FORUM >> ISO to work for?

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Page 2 of 2
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Author	Message
<p>ISOLated Joined: 25 Oct 2005 Posts: 55</p>	<p>“ upandATM wrote:</p> <p>Merchant Warehouse has the best program right now. I heard about their conversion bonus a couple of months ago and gave them a call. They had me up and running in 24 hours.</p> <p>”</p> <p>You guys were right – Merchant Warehouse set me up the same day I called. I got my first conversion bonus check yesterday for \$3,500!</p>
<p>21 Dec 2007 9:23</p> <p>upandATM</p>  <p>Joined: 14 Mar 2004 Posts: 270</p>	<p>Yeah, their 6 times conversion bonus and 60% split on their interchange plus pricing is a pretty sweet deal.</p>
<p>21 Dec 2007 10:34</p> <p>Residual Effect</p>  <p>Joined: 26 Nov 2002 Posts: 346</p>	<p>Dude, you should see some of their other benefits - bonus programs, promotions, marketing support, and a \$500 health insurance benefit.</p> <p>They have the top program right now. Every ISO should call Michael Gavin at 1-800-743-8047.</p>
<p>21 Dec 2007 10:52</p> <p>ATMosfear</p>  <p>Joined: 12 May 2001 Posts: 7,001</p>	<p>I have nothing relevant to post today.....except this:</p> <p>For sale: "Toy" poodle, born 10/25 and responds to "Fluffy". Warranty, vitamins, 1st puppy shots, groomed, treats & baby pics. Loves to cuddle.</p> <p>Hey ISOLated, you have that huge residual check – are you interested? ☺</p>
<p>21 Dec 2007 11:03</p>	



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A handwritten signature in black ink, appearing to read 'A. Andreozzi Sr.'.

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Advertiser Index

2000Charge	67	Ingenico	46
2GS LLC	104	Innovative Merchant Solutions.....	13
Advanced Payment Services	91	International Bancard	121
Alpha Card Services Inc.	32, 108	iPayment Inc.	103
American Bancard	15	IRN/Partner America.....	24, 25
AmericaOne Payment Systems.....	9	JRs POS Depot	110
Apriva Inc.	12	Lease Source Inc.	82
Assurz Inc.	73	Merchant Warehouse	123
Authorize.Net.....	10	MLS Direct Network	83
Bank Administration Institute	72	Money Movers of America.....	17
Blackstone Merchant Services	47	Money Tree Merchant Services	75
Blue Bamboo	70	MSI NJ.....	19
Central Bancard LLC.....	113	MSI NJ 1-800-Bankcard.....	69
Charge Card Systems.....	125	myARCworld Inc.....	56
Comstar Interactive	105	NAOPP.....	11
Credit Cash	90	National Bancard Systems.....	111
Credomatic.....	119	National Transaction	20
CrossCheck Inc.....	71	Nationwide Payment Solutions	54
Cutter LLC.....	100	Network Merchants Inc	68
Cyndigo	35	North American Bancard	2, 6, 7
Direct POS.....	94	Northeast Acquirers Assoc.	34
Direct Technology Innovations	66	NPC.....	33
Electronic Merchant Systems.....	41, 102	OTI America	93
Electronic Payment Systems.....	115	Pivotal Payments.....	42, 43
Electronic Payments Inc. (EPI)	58, 127	POS Portal Inc.....	63
eProcessing Network LLC.....	84	RBS Lynk.....	49, 51, 53
Equity Commerce	18	Reliant Processing Services.....	85
EVO Merchant Services	60, 61	Secure Payment Systems	99
ExaDigm Inc.	97	Signature Card Services.....	95
EXS - Electronic Exchange Systems	21	Terminals Exchange	87
EZCheck	28	The Phoenix Group.....	55, 57, 59
First Funds.....	86	Total Merchant Services.....	31, 64, 65
Fast Capital Inc.	52	TRIBUL.....	23
First American Payment Systems.....	50	United Bank Card Inc.....	77, 78, 79
First Data Corp	117	United Cash Solutions.....	81
First Data Global Leasing	114	United Merchant Services	27
General Credit Forms.....	37	United Payment Service.....	16
Greystone In Advance.....	76	USA ePay	22
Humboldt Merchant Services	62	VeriFone.....	38
Hypercom Corp.....	128	Vision Payment Solutions.....	29
iMax Bancard.....	89	WAY Systems.....	109
Impact PaySystem.....	44		



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