



TrendWatch 2.0

Payments System Industry Synopsis Q1 2007

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What's the "2.0" All About?

Short answer: it's trendy.

More importantly, it signals a slight change in how *TrendWatch* is composed. We began to notice secular changes in payments business activity back in Q2 2006 but didn't emphasize the point at the time. Q1 2007 activity across the payments industry points out that this is not a homogeneous milieu – there are champions and challengers.

This quarter saw a plethora of events in the mobile banking and mobile payments sectors while debit, credit, and prepaid remain relatively quiet (the Prepaid Card Expo in February notwithstanding). Obviously, there were new developments in these arenas but, for the most part, they consisted of form factor changes, strategic or marketing partnerships, and compliance announcements.

M&A, which isn't a "product" per se, behaved as if it were.

So, this edition of *TrendWatch* emphasizes new activities in mobile and M&A while identifying a handful of interesting changes in the other sectors.



Executive Abstract

- **Bellwether Announcements:** Unless you intended your press release to go unread, you had to include the words “mobile” or “acquisition.” To insure fully that your firm remained in obscurity, you would include a reference to “ATM” in external communications.
- **Regulatory Environment:** It looks like the payments industry has been given a temporary pass, having been overshadowed by the current fizzle in subprime lending. And why not? There’s much more notoriety associated with a bailout bill than one curtailing free market conditions in payments.
- **Seed Tree Money:** Venture capital investments in mobile and other emerging payments seemed puny compared to the private equity deals even though the sector attracted \$78 million in VC and Series money. The KKR/FDC deal alone will plant \$22 billion in new debt, throw in another \$700 million from Warburg Pincus to buy its 25 percent interest in Metavante, plus whatever the imputed value of Visa will be when it IPO’s and we’re starting to talk about real money.
- **Curious:** With all the hub-bub about mobile banking and payments about, wouldn’t you think that financial institutions, wireless carriers, processors, and technology vendors would *collectively* sit down together to hammer out a set of standards? Apparently we haven’t learned anything from the FI/retailer chasm or the early days of EFT network formations because we have two organizations – one bank-centric and the other dominated by global wireless companies – closeting themselves in separate parts of the world to “consider the viability of interoperable standards.” Brilliant; here we go again.
- **Switch-o change-o:** EFT networks PULSE and NYCE are about to take one giant step closer to direct investor ownership while Star becomes privately owned once more. Banks with direct ownership in Visa (through its mutual status) and MasterCard (through B share ownership) will soon relinquish a modicum of control. Be careful what you wish for, they say.
- **Ka-ching:** The industry closed out 2006 with a flurry of growth in both revenue and net profit and continued to out-strip the S&P in terms of investment return. Might provide a clue as to what KKR is thinking about regarding First Data.



Possible Events of Interest – From TrendWatch Q4 2006 In Retrospect, What Happened?

- Primed with a new name (“Tempo Payments”), corporate identity, Fiserv relationship, and \$8 million of HSBC’s money, Debitman may snag a large retailer/issuer to complement its growing list of acquirers or it will sell out.
QuikTrip, the gasoline and convenience store retailer that operates 473 retail outlets in 9 states signed up for the program while Tempo’s major investor, HSBC, launched a private label payment and loyalty program with Tempo’s technology imbedded branded as OptiPay.
- There will be another round of congressional hearings on interchange, but no legislation.
There was, and there wasn’t.
- Visa and Discover will begin churning out new products as their respective public introduction dates near.
Visa launches a flurry of announcements about its ReadyLink reload network and takes a sharp interest in mobile technology by investing in dotMobi, the mobile phone domain master registrar. Discover renames two popular cash-back cards, Platinum and Gas to More_{sm} Card and Open Road_{sm} Card, respectively and teams up with Green Dot for prepaid card reloads. Separately, Discover launches a rewards card program for small businesses.
- Processors or other non-FIs currently lacking a prepaid card solution will beg, borrow, buy, or steal one.
Metavante buys ValuTec, a provider of closed loop card programs to small and medium sized retailers.
- One of the card companies will throw in the towel and settle a large piece of its potential liability under retailer litigation.
Not yet, but MasterCard is making some interesting changes in its capital structure while letting its former owner banks cash out early.
- Wal-Mart will receive approval of its ILC license application, freeing up the current FDIC bottleneck. States will myopically attempt to “protect” their banking franchises with predatory legislation.
Our bad. Wal-Mart blinked, took their marbles and went back to Arkansas (and the drawing board). Ever wary though, several states (Colorado, West Virginia, Kansas, and Tennessee) have subsequently passed anti-ILC legislation. Slightly more savvy legislators from Connecticut and Florida sensed the wind shifting, dropped their pending legislation and moved on to other matters of import.



Possible 2007 Q2 Events of Interest


















- Key mobile payments industry participants will move toward issuer/acquirer symmetry by either launching mobile “checkout” options or by structuring ventures designed to achieve the same end.
- More than one of the top ten US banks will join Citibank and US Bank in announcing plans to stretch beyond handset browser banking into cellular payments.
- MPC and NRF will campaign for merchants’ rights to surcharge debit and credit point of sale payments; Discover and American Express will affirm their willingness for that to occur.
- Another payments network will be re-privatized.
- PayPal and Bill Me Later will begin separate moves to be accepted as alternative payment forms *in brick and mortar stores*.



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TrendWatch Scorecard/Summary

Activity Level	Industry Impact	Entrenched Payer Impact	
			 Positive  Mixed  Negative
HIGH			1. New Payment Forms
Low			2. ATM Restructuring
HIGH			3. POS Volume Trend
Low			4. Legal/Regulatory Issues
HIGH			5. Prepaid Card Growth
HIGH			6. Earnings Announcements
High			7. Industry Investments

Market & Industry Situation

- 1 – Mobile commerce shaping up to be the new “prepaid” for 2007
- 2 – No buzz may lead to questioning of ATM relevance in payments
- 3 – Visa, MC, and Discover reload networks may push growth
- 4 – Merchant Payments Coalition may be forced to go it alone as it foments the interchange war
- 5 – Growth trends continue to look good and new applications abound
- 6 – Positive sector returns continue and guidance warnings are for the most part shrugged off
- 7 – Even though it’s probably just a private equity play, \$29 billion for FDC pretty much says it all

Industry Players To Watch

Western Union: The FDC private equity play may wind up with WU owning some international debit assets KKR doesn’t want.

Metavante: The long awaited spin-out is likely to be far more successful than the 2000 IPO would have been. Far more processing assets and a logical approach to industry verticals may be well received by investors and customers.

FDC: There’s just no way of telling which way KKR will take FDC. Up or down, the view will be spectacular.

The Wireless Industry: Individually and collectively, wireless is moving head-long into payments, a move they may regret or do well by.

Total Systems: The fate of a spin-off by its majority owner will be known this year; the FDC transaction will likely have some influence.

Discover/PULSE: Speculation that the Star network might be in play could spill over to Discover/PULSE (and Metavante/NYCE for that matter). We’ll see.

PurePay: No serious investments have been made as yet but with \$100 million in PE funds targeted for the payments industry, something should happen soon.

Euronet: Despite “outperform” analyst ratings and the recent close of the RIA money transfer acquisition, EEFT is getting no respect in the market. Watch for activity designed to alter that situation.



Q4 Earnings Roundup

Fourth quarter earnings for our processor group reflected continued growth in transaction volume and account (card or deposit) churn. Despite growth-spurring themes discussed elsewhere in *TrendWatch*, the figures posted below have not been materially propped up by M&A or new sector incursion activities.

Industry Player	Q4 Revenue	Q4 Earnings	Revenue Δ	Earnings Δ	2006 Yield
Cardtronics	\$ 74.8	\$ 2.4	7.2%	250.0%	NM
Global Cash Access Holdings	\$ 141.9	\$ 13.6	7.2%	21.8%	13.1%
TRM - Delayed	\$ -	\$ -			-71.9%
Alliance Data Systems	\$ 524.5	\$ 39.6	24.5%	27.0%	76.2%
eFunds Corporation	\$ 141.0	\$ 20.0	2.0%	20.0%	17.3%
Euronet Worldwide	\$ 166.8	\$ 15.4	16.0%	114.0%	6.8%
Fidelity National Information Services	\$ 1,129.1	\$ 75.1	59.5%	65.1%	-1.2%
First Data Corp	\$ 1,900.0	\$ 240.0	14.0%	5.0%	NM
Fiserv Inc.	\$ 1,200.0	\$ 105.9	19.0%	-30.0%	21.1%
Heartland Payment Systems	\$ 288.0	\$ 6.6	27.0%	20.0%	17.8%
Jack Henry & Associates (Q2)	\$ 167.2	\$ 27.8	13.4%	28.7%	12.1%
MasterCard Worldwide	\$ 839.0	\$ 41.0	17.2%	182.4%	114.1%
Total System Services	\$ 503.9	\$ 87.1	20.0%	75.0%	33.4%
Wright Express	\$ 70.8	\$ 19.0	10.0%	-32.8%	41.7%

Sources: Company releases, Morningstar.com, Bloomberg.com

Note: 2006 Yield excludes dividends

Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
Sapphire Mobile Systems	Cardline January 23, 2007	<ul style="list-style-type: none"> • Sapphire begins enrolling customers of two unnamed banks in a program that enables SMS message based transfers between consumers with bank accounts <i>or prepaid cards</i>. Those with neither are sent a MasterCard prepaid card loaded with the remittance amount. Pricing is organization-centric and should run about 25¢.
Early Entrants	American Banker January 5, 2007 Payments New March 27, 2007 Payments News March 30, 2007 American Banker February 21, 2007	<ul style="list-style-type: none"> • AB identifies banks that are taking a run at mobile banking along with their providers: BancorpSouth/Firethorn, Synovus/Firethorn, Wachovia/Internal, Broadway National Bank/TRG Mobilearth, Bank of Oswego/Tyfone and HopFed/Online Resources (using Access Softek code). • In a subsequent announcement Firethorn brought to light the fact that it is working with AT&T (ex-Cingular) and three banks – Wachovia, Regions, and SunTrust to provide mobile banking services and payments support. • BankSouth has gone live with its mobile banking platform provided in conjunction with AT&T Wireless. • Citigroup announces a remittance system to be tested in the UK and Kenya later this year in conjunction with Vodafone Group. Later in the quarter, Citi Mobile is announced with southern California being the first roll-out site.
30 Second Software	Payments News January 24, 2007	<ul style="list-style-type: none"> • A mobile software company enters the m-commerce world with Digby, a client package designed for the Blackberry family of phones. The system enables phone-based shopping for FTD, Godiva, Capalbo, Vermont Teddy Bear, and other products. Payment is achieved through standard means with the encrypted and password protected card information resident in the Blackberry unit. (Editorial note: since January, Digby has added jewelry from Blue Nile and an array of products fulfilled through Buy.com to its shopping storefront.)

Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
Discover Financial Services	Cardline February 13, 2007	<ul style="list-style-type: none"> The card issuing and network company launches a two city pilot using NFC technology on phones also capable of retrieving account information and paying bills. Participating partners were not disclosed for this 1,000-person trial scheduled to last through March 2007.
Visa International	Cardline January 10, 2007 American Banker March 29, 2007 Private Equity HUB March 30, 2007	<ul style="list-style-type: none"> Visa used the Consumer Electronics Show to debut its NFC enabled mobile handset approach to payments. This isn't the first foray into NFC for Visa who has participated in similar pilots here and in Malaysia. Visa also announced new working relationships with Qualcomm and Kyocera for integration of NFC chips with banking/payments software the card association developing. It also has announced a deal with VeriSign for mobile device content. Separately, Visa International has made a venture capital investment in DotMobi, the official global registry for the .mobi top level domain. “.mobi” is the suffix assigned to domains specifically tailored for access by mobile phone. (Sorry, www.visa.mobi is already taken.) This is Visa International's third m-commerce investment which also includes mFormation and Ecrio, handset software developers.
HSBC Group	Cardline January 26, 2007	<ul style="list-style-type: none"> The global HSBC bank launches a six-month trial in multiple cities using MasterCard's PayPass NFC technology in 7-Eleven, McDonalds, and other merchants so equipped.



Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
MasterCard Worldwide.	<p>Cardline February 12, 2007</p> <p>Cardline April 2, 2007</p>	<ul style="list-style-type: none"> • MasterCard will work with GSM Association (the wireless trade association with 700 members) for the purpose of piloting money transfer programs in two countries and targeted at consumers who own cell phones but not deposit relationships. This adaptation of the Money Send technology will involve at least one wireless carrier, probably in Europe. • The card company launches MasterCard Nearby, a web service that allows users to find ATM locations, get directions, and earn rewards for taking merchants up on special offers.
GSM Association	<p>Cardline January 14, 2007</p>	<ul style="list-style-type: none"> • Fourteen mobile phone network operators launch the “Pay-Buy Mobile” project, an effort to make NFC transactions at the point of sale easier. MasterCard and LG (the Korean phone manufacturer) are also involved but no banks.
Bank of America	<p>Cardline February 15, 2007</p>	<ul style="list-style-type: none"> • BofA announces a roll-out plan for mobile banking access through wireless providers Cingular, T-Mobile, Sprint, and Verizon using handset browser technology and an internally developed encryption system.

Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
Cyphermint	Cardline February 21, 2007	<ul style="list-style-type: none"> • Cyphermint, operator of the PayCash Mobile Wallet, announces plans to roll out 20,000 of its mobile wallets to unbanked immigrants as an alternative to using the traditional banking system. The company claims to have 6.0 million accounts worldwide and is converting them to be accessible via handset browser technology. • In an April press release, Cyphermint announces plans to launch a handset based bill payment system through a venture with Fidelity Express.
eBay Inc	American Banker February 23, 2007	<ul style="list-style-type: none"> • In a “we should have seen this coming” move, eBay will soon link the remittance capability of PayPal with another subsidiary, Skype. Skype delivers free international telephone service via the Internet. Although some hurdles to full consumer acceptance exist (who pays the fee and the need for the recipient to have a bank account), the announcement was made to rave reviews.
Citibank US Bank	American Banker March 1, 2007	<ul style="list-style-type: none"> • Two major US financial institutions join forces with relative start-ups. Citibank will test market a person-to-person payments system in conjunction with Obopay while Élan, the US Bank subsidiary, will work with Sapphire to provide payments, card transfers, and balance inquiries for those having PayCard branded reloadable prepaid cards. Citibank has now endorsed three alternative payment methods; Obopay, the Vodafone solution, and Google’s Checkout.



Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
ClickandBuy	Payments News March 6, 2007	<ul style="list-style-type: none"> • ClickandBuy, operator of a Euro Internet payments service as well as being a content manager, plans to launch its telephone billing system in the US in 2007. The service will enable US merchants to outsource Internet and cellular purchases/payments to the vendor on a virtually turnkey basis.
First Data Corp	Cardline March 16, 2007	<ul style="list-style-type: none"> • FDC has selected Crandy, a P2P wireless payments service owned by NCS Mobile Payment GmbH for distribution on a global basis. Crandy already operates in Germany, France, Belgium, the UK and on a limited basis in the US. Used in its “full strength” version, Crandy supports cell phone top-ups, vending machine purchases, use with parking meters, and traditional P2P SMS payments.
Cellular South & Kyocera	Cardline March 23, 2007	<ul style="list-style-type: none"> • A wireless operator and handset manufacturer intend to launch a new payments network including 40 retail locations in Mississippi and Tennessee. The devices will use NFC technology with terminals the two parties will distribute to participating retailers. An “unnamed” bank will manage the credit function in the background. The trial is set for August with full wallet roll out slated for the fourth quarter.

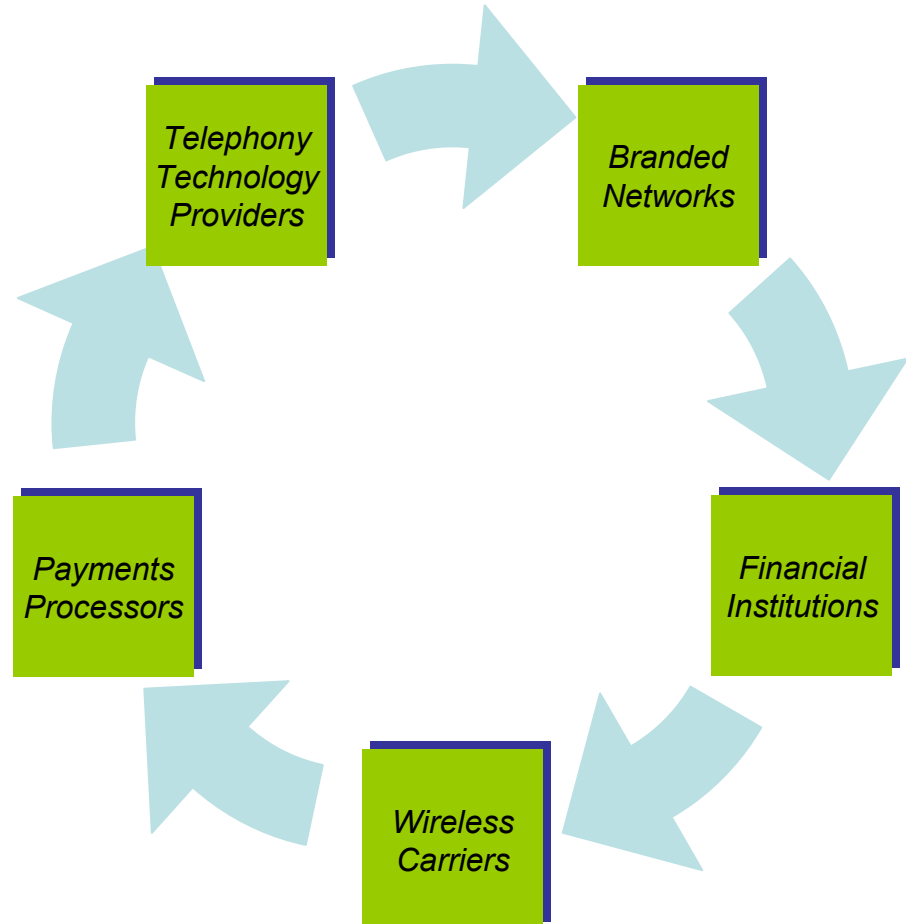


Activities and Trends – Mobile Banking and Payments

Subject	Source/Date	Substance
China UnionPay	Pacific Epoch March 27, 2007	<ul style="list-style-type: none"> • China UnionPay, the payments network that has been stringing together bilateral switching agreements around the world, has launched its own NFC pilot and will be distributing 1,000 special SIM cards to participating consumers. It will also install hundreds of special POS readers in locations throughout Shanghai.
Metavante	Payments News March 27, 2007	<ul style="list-style-type: none"> • Metavante has entered into an agreement with Euro provider of secure mobile banking and payments services, Monitise, for the provision of mobile phone access to account balance, bill payment, and funds transfer functionality. The resulting service will be patterned after Monilink, the joint venture offering created by Monitise and LINK, the UK payments network. The NYCE network will be connected to Monitise for account access.
VivoTech	Cardline March 27, 2007	<ul style="list-style-type: none"> • The NFC payments terminal company is partnering with Mobile Candy Dish, a phone commerce firm to enable consumers to obtain movie information, buy tickets via a debit or credit card and redeem tickets at a theater. The scheme comes with a loyalty program attached and will be test marketed in the Midwest later this year.

Activities and Trends – Mobile Banking and Payments

Conclusions Drawn: Everyone is trying to get into the game. Yet, a successful mobile payments system doesn't need everyone. For instance, a wireless carrier could offer the service without using a bank and SMS messages don't require Visa or MasterCard network rails or rules. Wireless banking will require more collaboration but at this point, m-commerce is exhibiting "wild west" characteristics of an emerging payments (and banking) form. It will take some time for the evolution process to bring all the parties into alignment. Hopefully, we won't end up with two or more entrenched camps warring over standards, pricing, and security. For now, the "for sure" winner looks to be the wireless operators who benefit from banks taking their traditional wait-and-see approach with mobile banking as well as the more aggressive non-FIs that are heading pail mall into mobile payments processing.¹



¹ A Juniper Research report released in April 2007 has this to say about the mobile banking segment: "Just eight percent of online consumers who own a cell phone are interested in using mobile browsing to check account balances."



New/Enhanced Product Announcements

- **Bank of America** partners with MedImpact HealthCare Systems to launch another co-branded HSA and FSA card program with double rewards associated with spending on health-extending purchases.
- **Discover** launches its reloadable (Green Dot network) prepaid card in conjunction with Columbus Bank and Trust, a Synovus affiliate. Previous Discover prepaid cards were disposables.
- **MasterCard** selects New Labor, a New Jersey based organization that works with immigrants to introduce “SiGo Money MasterCard,” a reloadable payroll card. MetaBank is the sponsoring bank.
- **Fiserv** joined the Allpoint ATM network to provide its bank customers that participate in the Accel/Exchange No Sur network additional access through Cardtronic’s 32,000 ATMs.
- **National Payment Card LLC** enrolls Flash Foods Inc., operator of 180 convenience stores in its loyalty and payments program designed to benefit the retailer through price arbitrage using the ACH for settlement.
- **7-Eleven** joins the Visa ReadyLink prepaid card reload network.
- **PayPal Mobile** launches a corresponding program for merchants with mobile web storefronts.
- **Coinstar** expanded its Coin to Card™ program to include purchases at DisneyShopping.com. Transaction performed for this purpose include waiver of the standard coin-counting fee.
- **GratisCard LLC**, a new payments company backed by Steve Case and headed by Jason Hogg, has secured an agreement with the Philadelphia Flyers to provide card-based payments within NHL team’s home arena.
- **Citibank** has begun selling American Express co-branded gift cards through its branch network.



Key Competitor Activities

Visa

Jan 8, 2007: Visa partners with Atlanta Spirit, Chase, Cingular, Nokia, NXP Semiconductors, and ViVOtech while announcing its US mobile commerce platform.

March 15, 2007: Announces introduction of the Signature Preferred credit card focused on consumers that spend at least \$50,000 per year on their cards along with new interchange rates for acceptance.

MasterCard

Q1 2007: Numerous announcements of new merchant acceptance and the MasterCard Nearby mobile gambit.

American Express

Mar 14, 2007: Citibank initiates in-branch selling of AMEX gift cards.

Mar 30, 2007: Two new international issuers were signed - Tarjeta Naranja in Cordoba, and Banco Itaú in São Paulo.

Euronet

See M&A/Alliance Activity.

Discover

Feb 13, 2007: Discover partners with Motorola for a consumer program that enables balance checking and mobile payments using M-Wallet and NFC technology.

First Data/Star

Feb 28, 2007: Wells Fargo Bank two others announce plans to in-source card processing.

Q1, 2007: FDC goes on buying spree and then sells itself to KKR – See M&A/Alliance Activity.

Apr 19, 2007: Star begins testing PIN-less micropayment transactions.

Metavante/NYCE

Nothing notable announced.

Fidelity Information Services

Nothing notable announced.

Fiserv

Jan 17, 2007: Accel/Exchange joins Allpoint surcharge free network.

eFunds

Feb 15, 2007: EFD and MasterCard Worldwide cancel their processing alliance.

Mar 06, 2007: eFunds Corporation changes its name to EFD.



M&A/Alliance Activity

Buyer	Target	Payments Emphasis	Possible Strategy
CheckFree (pending regulatory approval)	Corillian	Home Banking software/processing	CKFR agrees to pay \$245 million, a 60 percent premium to Corillian's stock price, in a move to create tighter integration between electronic banking and bill payment platforms. Corillian brings with it 30 of the top 100 banks and 21 of the top 100 CUs as clients.
CheckFree	Carreker	Check imaging software/tools	CKFR pays \$206 million to acquire the last independent provider of check imaging software – a minor premium over market value. Generally viewed as a diversification play, there appears to be a synergistic link between the two companies' respect plays in check and ACH.
Metavante	Valutec Card Solutions	Private label gift	The M&I Bank processing subsidiary moves to expand its existing open loop prepaid card offering by acquiring a privately held processor for closed loop retailer gift cards. Consideration was undisclosed; Valutec has 13,000 retailer relationships.



M&A/Alliance Activity - Continued

Buyer	Target	Payments Emphasis	Possible Strategy
Euronet Worldwide	<p>La Nacional</p> <p>Brodos AG</p> <p>Unnamed Target</p>	<p>Money Transfer Service</p> <p>Romanian prepaid card system</p>	<p>EEFT buys another money transfer service to go with its November 2006 acquisition of Ria. Terms were undisclosed.</p> <p>EEFT enters its twelfth prepaid region in Europe through the acquisition.</p> <p>In other company news, EEFT announced the private sale of its equity, raising \$159 million in funds earmarked for an unnamed acquisition.</p>
Intel Capital	ClickandBuy	Internet payment systems	The VC arm of Intel Corp. invests an undisclosed amount in this Switzerland-based processor of proprietary payments. The funds will be used for expansion into South America and Asia.
Obopay	BillMonk	Processor for “social money” exchanges	BillMonk enables individuals to pay one another via a web portal. Obopay brings cell phone technology to the web access point.



M&A/Alliance Activity - Continued

Buyer	Target	Payments Emphasis	Possible Strategy
Citigroup	Ecount	Prepaid program manager/processor	Citigroup jump starts its entry into the corporate sponsored prepaid card program. Ecount has 1,200 client relationships covering 1/3 of Fortune 100 companies.
Visa International	DotMobi	Registrar for .mobi websites	.mobi is the new suffix for website domains designed to be accessed by cellular telephones. Visa has made a VC investment in this Ireland-based registrar “for strategic reasons.”
Voca	Link	ATM network and processor	Two UK FI-owned payments schemes are merging to take advantage of SEPA and align BACS money transfers and ATM transactions.
Core Capital Partners	FreedomPay, Inc.	Cashless payments and loyalty scheme operator	CCP and BlueRun Ventures invest another \$6.0 million in Series D funds in FreedomPay, a processor that targets the fast food industry.



M&A/Alliance Activity - Continued

Buyer	Target	Payments Emphasis	Possible Strategy
New Spring Ventures II L.P. & Clayton Associates	ProfitPoint	Gift and loyalty program manager	This operator of the “rewardforloyalty” card program receives \$6.0 million in equity capital to expand its penetration in the retail, travel & leisure, and sports franchise segments
Greylock Partners	Payoneer, Inc.	Prepaid card program operator	Two year old processor of funds used to pay teens and make money remittances through MasterCard branded cards receives \$4.0 million in Series A equity funds.
Cuesol, Inc.	MobileLime	Supermarket focused wireless payments scheme operator	Cuesol, operator of supermarket focused loyalty and marketing programs acquires MobileLime, a wireless (cell phone) payments operator.



M&A/Alliance Activity - Continued

Buyer	Target	Payments Emphasis	Possible Strategy
First Data Corp	Size Technologies, Inc.	Loyalty, stored value, and transaction marketing	FDC expands its footprint in prepaid card solutions and processing by adding to its stable of vertical industry and technology options.
	Datawire Communication Networks	Internet based transaction delivery	FDC makes a move to provide global payments delivery through acquisition of this Internet protocol network provider
	Intelligent Results	Customer analysis software	The company plans to use IR technology to provide issuers and retailers with added transaction analysis capabilities.
	Instant Cash	ATM network operated by Wells Fargo Bank	WF gets out of the proprietary network business by selling the network and processing agreements to FDC. The bank also moves to take its card processing in-house from FDC.
	PolCard SA	Issuer and merchant card processor	FDC continues to expand internationally by acquiring another European processing to tuck in with its German and Greek acquisitions made in 2006. Purchase price was a hefty \$325 million.



M&A/Alliance Activity - Continued

Buyer	Target	Payments Emphasis	Possible Strategy
Kohlberg Kravis Roberts & Co.	First Data Corp	Integrated payments processor and network operator	KKR steps up to a \$29 billion price tag to take FDC private. Speculation over which pieces, if any, will be spun out to reduce the \$22 billion in debt being raised to fund the acquisition might be premature.
First Data Corp	FundsXpress	Online banking, cash management services, processing	FDC moves to strengthen its position in accounts-related services to augment its transaction-related processing offerings. Deal price was not disclosed.
M&I Bank shareholders and Warburg Pincus	Metavante	Integrated payments processor and network operator	M&I Bank will sell WP a 25 percent interest and spin out the balance to shareholders in a deal valued at \$4.25 billion.



M&A/Alliance Activity - Summary

1. Consolidation within the credit card industry observed throughout 2005 and 2006 taught us that the “monoline” model had run its course. That being the case, it shouldn’t be surprising that we saw:
 - CheckFree move its payments processing engine toward closer integration with check imaging (Carreker) and home banking (Corillian).
 - First Data execute a series of tuck-in acquisitions that strengthen its control over transaction processing (Intelligent Results, Size Technologies, FundsXpress), the international market (PolCard SA) and delivery (Datawire Communications).
 - Obopay strive to capture prospective users on a wholesale basis by acquiring BillMonk, a social network of consumers wedded to SMS payment technology.
2. By the same token, it’s often easier to buy rather build one’s way into new market segments – Citibank’s acquisition of eCount and Metavante’s Valutec deal seem logical viewed in this light. The same can be said for Cuesol’s acquisition of MobileLime. The operator of a novel supermarket loyalty scheme wants to add a payments option which MobileLime has already developed.
3. Behind it all, we see VC and PE investors fully prepared to fund almost any new form of alternative payments – ClickandBuy, DotMobi, FreedomPay, ProfitPoint, and Payoneer all were beneficiaries of this largesse. Perhaps by this time next year, we’ll see these names again as category 1 or 2 companies. Or, they could be gone.

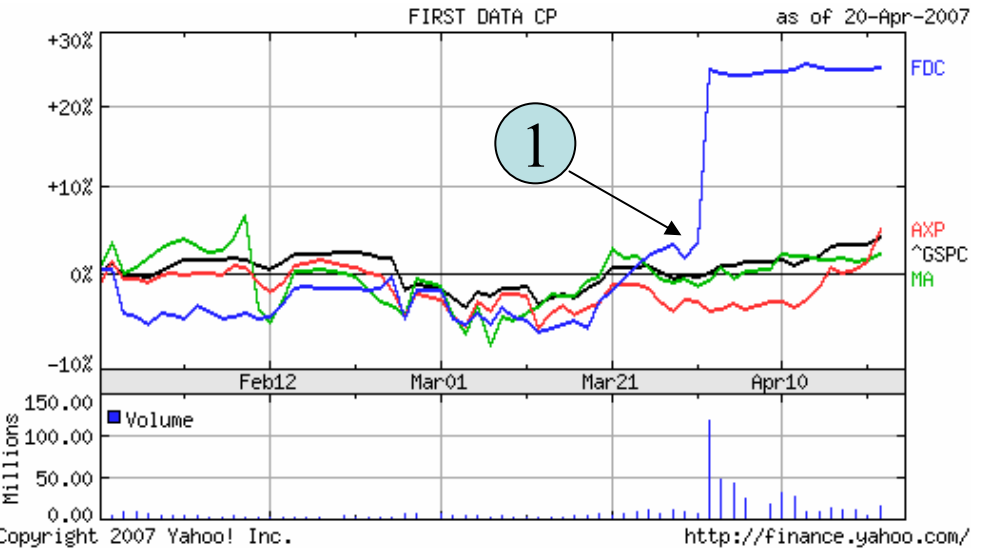


Appendix

Materials presented on the following pages have been sourced through Yahoo Finance. Changes in the price of the common shares of First Data (FDC), MasterCard (MA), American Express (AXP) are compared against the same metric for the S&P in the first chart. Total Systems (TSS), Euronet (EEFT), and Fiserv (FISV) are compared in the same way in the second chart while eFunds (EFD), Transaction Systems Architects, Inc (TSAI), and Fidelity Information Services (FIS) are tracked in the third chart.

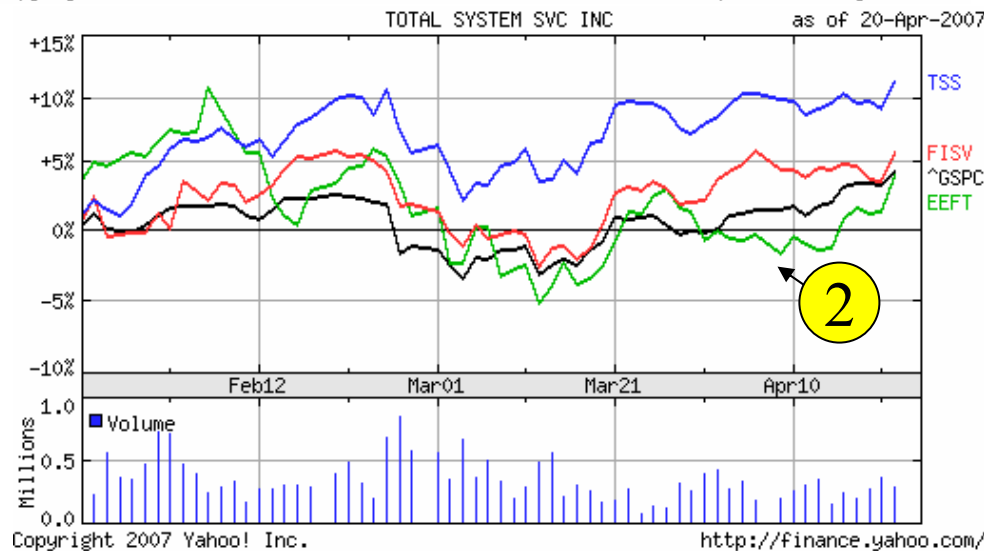
Significant market events and/or announcements have annotated where a potential causal relationship is thought to exist between the events and share price movement.

Market Announcements/Impacts

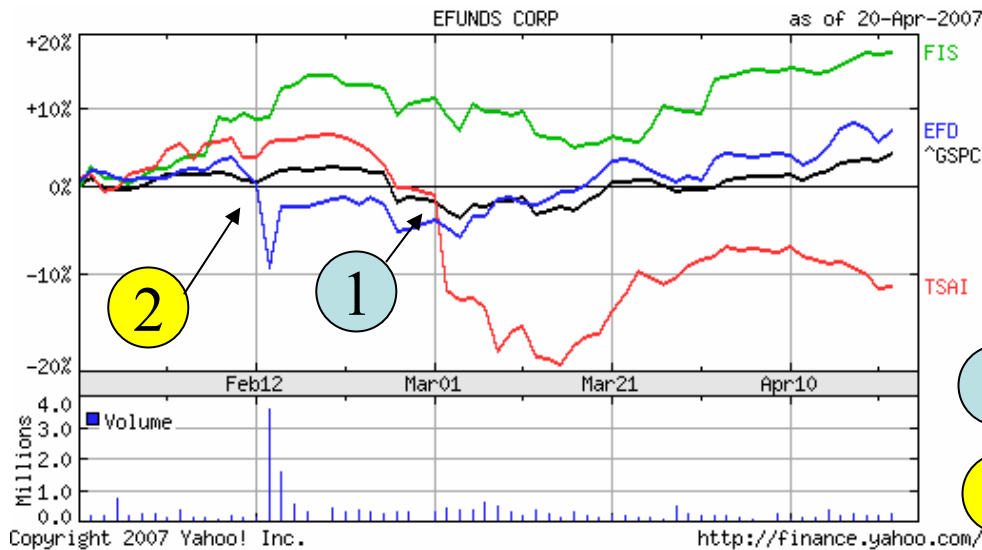


1 04/02/07: KKR to acquire FDC for \$29 billion.

2 03/31/07: EEFT closes the Ria acquisition.



Market Announcements/Impacts



- ① 03/01/07: TSAI announces stock options challenges.
- ② 02/13/07: EFD files litigation papers with MasterCard.

Observations:

- Investors continue to shrug off analyst rating changes for MasterCard.
- FDC prices continues to reflect a 5-7 percent discount from the KKR price.
- In general, these public processors are riding the current wave of share price growth with the notable exception of TSAI.