



# ***TrendWatch 2.0***

**Payments System Industry Synopsis**

**Q2 2009**



## Editorial Comment

With the exception of the tongue-in-cheek commentary regarding interchange found on page 8, we've opted to skip the financial services reform and re-regulation dog pile.

In fact, we're taking a decidedly bullish outlook regarding the payments industry these days. VC and PE money is steadily flow in, First Data and Banc America Merchant Services pulled together a joint venture that helps both firms considerably and the industry as a whole, and a Russian firm has paid \$200 million for a paltry 2 percent of Facebook's preferred shares (thanks, comrades). What could be better?

All this bullishness started last quarter when Advent took a huge chunk of Fifth Third Bank's payments unit while Fidelity and Metavante announced merger plans. The Fifth Third/Advent deal closed at the end of the quarter but unfortunately the U.S. Department of Justice is seeking more information for its antitrust review and that deal has been pushed back to the fourth quarter. Remember, this is the same agency that forced First Data's sale of its interest in NYCE (funny how things come around) and torpedoed the Nautilus/Triton acquisition. A Fidelity and Metavante combination makes a lot of sense to us so, fingers crossed.

You will note a more conciliatory tone in this quarter's discussion on mobile. This is because we've figured out that if you treat "mobile" as noun rather than an adjective, the whole concept makes sense.

We started chatting up the utility, ease of use, and relative low cost (versus NFC chips) of contactless stickers two issues ago and can't help but be amazed by the progress being made by a handful of early-adopting processors, retailers, and card manufacturers. It's even rumored that Chase, the largest deployer of contactless cards under the "blink" moniker, is giving these Go Tag-like devices a hard look-see. Since FI issuers are an integral part of the success equation for all payments schemes, this is good news if true.

Did you happen to see that Thomas Hoenig, President of the Kansas City Fed thinks that the ACH network should be tweaked to provide an alternative settlement system for card and online payments? Fortunately he was speaking at a conference in Germany and avoided the firestorm of commentary he would have received here.

We get requests to launch a payments blog from time-to-time but based on input from a valued colleague have stayed away from that form of social media and daily grind. Nevertheless, last week we contracted the dreaded "Twitter Bug" and launched DoradoPayments at [www.twitter.com/doradopayments](http://www.twitter.com/doradopayments). Nothing ventured, nothing gained I suppose.



## 2009 Predictions

- The data breach at Heartland Payments and RBS WorldPay (and others to follow) will lead to efforts by Congress to further dictate data security standards and consumer recompense.
  - March 31: TARP, TALF, and PPIP got in the way.
  - June 30: Heartland gets good marks for post-breach actions but faces millions in litigation. The new Consumer Financial Protection Agency may get involved.
- At least one of the commercially owned EFT networks will be sold back into FI ownership extending the life and upping the value of the “association” model.
  - March 31: This going to take some time.
  - April 1: The FIS/MV deal might move things along.
  - June 30: New NYCE ATM pricing is designed to create more enterprise value – might NYCE be the one to go first?
- Alternative point-of-sale form factors (e.g., GO-Tag and Micro Tag) will dilute growth in contactless card roll-outs.
  - March 31: Take a gander at our discussion on Twitter and note that MasterCard is now in the go-tag game.
  - June 30: Check out what Bling Nation, Oberthur, Sheetz, Dairy Queen and Chase are planning for this year.
- Mid-tier banks will seek out private equity investments to soften the sting of TARP accommodations.
  - March 31: “Public-Private Investment Plan” about says it all.
  - June 30: Hasn’t happened yet because the FDIC is sticking to its guns regarding Open Assistance but Tier 1 banks raised nearly \$100 billion in new capital this quarter and TARP loan repayments are being recycled to fund advances to mid-tier banks.
- US ATM shipments will be lower than 2008 but industry earnings will rise.
  - March 31: NCR and Diebold plant closures are the first step toward matching supply with demand while lowering production expenses.
  - June 30: Both Diebold and NCR announced anemic or negative earnings this quarter but these things take time.



## 2009 Predictions - Continued





















- At least one ATM outsource processor will concede the market to others and withdraw.
  - March 31: This going to take some time.
  - April 1: Does the FIS/MV deal count?
  - June 30: Still waiting; deferral of the FIS/Metavante transaction may push this event into 2010.
- Discussions regarding ATM surcharging will all but disappear from the trade and popular press; a debate over POS surcharging will replace the subject altogether.
  - March 31: “Non-surcharge ATM” stories out-number those about rising fees 3-to-1.
  - June 30: PULSE has strengthened its surcharge free network and POS surcharging is likely to become part of the three bills working their way through Congressional committees now.



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# TrendWatch Scorecard/Summary – Q2 2009

	Activity Level	Industry Impact	Entrenched Payer Impact	
				<ul style="list-style-type: none"> <li> Positive</li> <li> Mixed</li> <li> Negative</li> </ul>
<b>Med</b>				1. New Payment Forms
<b>Mixed</b>				2. ATM Restructuring
<b>Med</b>				3. POS Volume Trend
<b>High</b>				4. Legal/Regulatory Issues
<b>Mixed</b>				5. Prepaid Card Growth
<b>Med</b>				6. Earnings Announcements
<b>Med</b>				7. Industry Investments

## Market & Industry Situation

- 1 – Social networks, PFMs, and contactless tags moving up fast.
- 2 – The Triton/Nautilus un-wind will make things more complex.
- 3 – Transactions are up 6% but volume is down 5%; lower spend, more debit.
- 4 – Consumer Financial Protection Agency: TSA on steroids.
- 5 – New legislation is painting all “prepaid” with the same brush; never a good thing.
- 6 – Adjusted for 2008’s excesses, the industry is not doing as poorly as expected.
- 7 – Lots of VC and PE money starting to flow. VisaNet IPO (Brazil) was an eye-popping success.

## Industry Players To Watch

**Bling Nation:** Well funded (another \$8.0 million closed July 2), managed, and advised (including John Reed, Jeff Stiefler, and Steve Zelinger), BN is gaining traction among community banks and appreciation from the retailer segment.

**Prepaid Card Segment:** After being unfairly hammered (our view) through the Credit CARD Act creation process, program managers, processors, and issuing banks are being forced to re-think strategies and operations.

**Consumer Financial Protection Agency:** It’s quite likely that CFPB will suffer from “scope creep” as consumer advocates lobby for expanded powers and coverage of every possible ill to befall uninformed consumers including athlete’s foot.

**Visa and MasterCard:** Both companies have launched serious forays into “mobile.” Time will tell if their influence will change adoption rates.

**In-house processed card issuers and acquirers:** Computer Sciences Corporation (CSC) has announced plans to migrate its Tier 1 FI and processor-focused CAMS II software to IBM P series computers, granting more affordable access to the system for midsized issuers and acquirers. CSC’s actions could lead to a range war in the card processing software field.

**Total Systems:** Losing WaMu on the card issuing side and BAMS on the acquirer processing side cannot be comforting. Coupled with the general economic malaise, TSYS might be rethinking its corporate direction and options.



## Q2 2009 Payments Industry Yields

“A rising tide lift all boats,” they say. The Dow and S&P closed out the quarter with 9.7 and 13.6 percent gains, respectively. Our slice of the payments industry held its own with a few participants holding onto triple digit gains for the year albeit against despicably low starting prices. Hopefully, the foul weather conditions predicted by this quarter’s cover page will not come to pass and the financial tides will continue to buoy the industry.

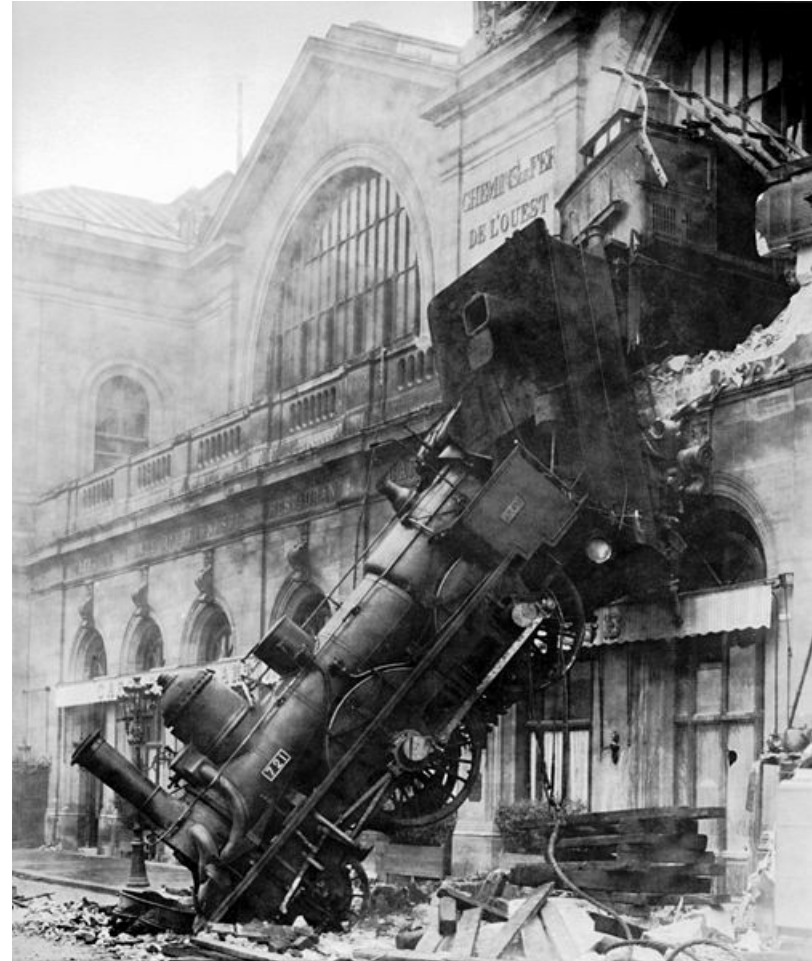
Industry Player	3/31/2009	6/29/2009	Price $\Delta$	Cap Value $\Delta$	YTD 2009 Yield
Alliance Data Systems	\$ 48.60	\$ 41.25	\$ (7.35)	\$ (437.3)	-13.3%
Cardtronics	\$ 1.77	\$ 3.99	\$ 2.22	\$ 90.4	200.0%
Discover Financial Services	\$ 6.31	\$ 10.69	\$ 4.38	\$ 2,106.3	12.4%
Euronet Worldwide	\$ 13.06	\$ 19.45	\$ 6.39	\$ 322.1	61.1%
Fidelity National Information Services	\$ 18.20	\$ 20.05	\$ 1.85	\$ 353.0	17.6%
Fiserv Inc.	\$ 36.46	\$ 45.75	\$ 9.29	\$ 1,448.3	19.8%
Global Cash Access Holdings	\$ 3.82	\$ 7.79	\$ 3.97	\$ 306.1	243.2%
Heartland Payment Systems	\$ 6.61	\$ 9.10	\$ 2.49	\$ 93.1	-49.4%
Jack Henry & Associates	\$ 16.32	\$ 20.85	\$ 4.53	\$ 380.1	6.6%
MasterCard Worldwide	\$ 167.48	\$ 168.09	\$ 0.61	\$ 78.9	12.2%
Metavante	\$ 19.96	\$ 26.03	\$ 6.07	\$ 724.8	58.4%
Online Resources	\$ 4.21	\$ 6.25	\$ 2.04	\$ 60.6	33.3%
TNS	\$ 8.18	\$ 18.73	\$ 10.55	\$ 264.8	100.1%
Total System Services	\$ 13.81	\$ 13.20	\$ (0.61)	\$ (120.4)	-11.2%
Visa	\$ 55.60	\$ 62.98	\$ 7.38	\$ 6,242.7	17.9%

Sources: Company releases, Morningstar.com, Bloomberg.com  
 2008 YTD yield excludes dividends; based on 1/2/09 – 06/29/09 closing prices

## The New Regulatory/Legislative Horizon

It seems there's just no getting around the fact that re-regulation of the financial services industry is inevitable. Interchange appears to be the next target. The comptroller general's report to Congress on interchange is due in the fall and trade associations for both sides of the issue are gearing up for a fight. The Electronic Payments Coalition and Merchants Payment Coalition are taking their respective messages directly to the consumer via YouTube and other social media outlets.

House Judiciary Committee Chairman John Conyers reintroduced his shop-worn bill to remove antitrust hurdles to let merchants enter into collective-bargaining agreements with banks. And Senator Richard Durbin followed up with a Senate version. Representative Peter Welch, not to be left out, has authored a bill designed to amend the Truth In Lending Act to allow retailers to set minimum and maximum amounts for card payments, offer discounts for particular forms of payment, avoid card-differentiated interchange, and steer consumers to least-costly payment types. As consumers, we're titillated. As taxpayers, we're appalled.





## Let's Turn "Mobile" into a Noun

Not sure why it took so long to sort this out but the root cause of our angst over mobile banking and mobile payments has been solved. We need to transform "mobile" into a noun instead of an adjective. Used in the latter sense, we get "mobile banking," "mobile payments," "mobile transfers," "mobile alerts" and a host of other quasi-products *which they aren't*. "Mobile" as a noun is both an end as well as a means to an end which makes more sense to us.

Visa's recent alliance with Neustar, the telecom interoperability hub may indicate its preference for mobile, the noun, even though the card company simultaneously launched Visa Mobile Pay in Peru.

In Paris, they've figured out that continually returning to your vehicle to pay for on-street parking is a real pain so Vinci Park SA is harnessing the capabilities of mobile, the noun, to enable two-way SMS texting for alerts and payments. Pretty clever, but surely not a product.

True, CheXout Systems and its CheXsplit tool enable users to either pay for meals or apportion the bill among multiple diners but what's more important is that both transaction types are done within a technology cloud that can also handle alerts, communication, and financial management functions. So what's more valuable, CheXsplit or "mobile?"

The good folks at Veritec created their newest security application to enable consumers to deactivate debit cards via their cell phones not because there was a hue and cry for a "mobile-debit-card-deactivation" product but because mobile, the noun, helps cardholders figuratively cut up their cards immediately when they're lost or stolen without having to listen to Muzak endlessly while on hold with their bank's call center.

And while banks and processors are busy building product-wise organization charts and multi-layered infrastructures, start-ups like Boku are quietly buying up resources and cloud technology while promoting mobile, the noun, as suggested by the tag line shown below. Just a thought.



## Social Networks and Payments? Chances Are!

A few of us might recall the failure of the first social network-connected universal currency, Second Life's Linden dollar, an offering plagued by scammers and user-run cyber banks. (What, no TARP?) This disaster notwithstanding, slowly but surely, universal currency is easing its way into the payments lexicon again through the global phenomenon known as social networks. It's not likely that these systems of exchange will replace dollar bills or cards soon but their influence is being felt already.

The 200 million member-Facebook social network appears to be leading the way by offering its own virtual currency or "credits" and "Facebook Wallet" along with a plug-in from OneTouch, the online payments engine from eBIZ.mobility. Members can purchase premium application merchandise using Facebook credits or select from the OneTouch suite, among others.

Hi5, another network with much of its user base located internationally, launched its Hi5 Coins currency to circumvent foreign currency conversion challenges. Paymo, the mobile payments service recently acquired by Boku, enables Hi5 members to acquire Coins for purchase of virtual content via cell phone.

CircleUp uses the Amazon Payments engine to organize collective money-gathering for youth sports teams, YMCA groups, and Boy Scout units. One million "teams" currently use the service which is email-based and linked to the CircleUp social network.

Other names to watch for are Spare Change and Jambool's Social Gold, two universal currency systems available for use on Facebook and other social and gaming sites.

Standing back in the shadows of the universal currency movement is Twofish, a company that helps developers and networks manage virtual currencies by providing data and analytics.

It usually takes three tries for a new payment form to take hold. Round one fatalities include Cybercoin and Beanz. Round two took the Linden Dollar. Third time's the charm?





## Interesting News This Quarter

Subject	Source/Date	Substance
Bling Nation	American Banker May 2009	<ul style="list-style-type: none"> <li>• Already unique because of its network approach aimed at enabling community banks to provide merchant acquiring services to local merchants, <b>Bling Nation</b> is testing a service expansion that includes contactless payment stickers linked to consumers' cell phones.</li> </ul>
Oberthur Technologies	Payments News May 2009	<ul style="list-style-type: none"> <li>• <b>Oberthur</b> the global card manufacturer introduces the FlyBuy Sticker which is compatible with MasterCard's PayPass technology. The company is positioning FlyBuy as a rapid-response tool for issuers eager to enter the contactless market without full card portfolio reissue expense. Like Bling Nation, Oberthur also visualizes a market of issuers not willing to wait for NFC telephone chips.</li> </ul>
Sheetz	Cardline May 2009	<ul style="list-style-type: none"> <li>• Convenience store operator, <b>Sheetz</b>, announces plans to sell First Data's Go-Tag payment sticker through its 350 locations this summer. The tags are compatible with Visa's payWave network. Sheetz announced earlier in the year a joint NFC pilot with Wright Express for fleet fuel applications.</li> </ul>
Daily Queen	American Banker June 2009	<ul style="list-style-type: none"> <li>• <b>Dairy Queen</b> will utilize a contactless sticker made by Tetherball LLC to enable customers to benefit from a new rewards program. ViVOTech manufactures the POS readers which enable the consumer to cash in on rewards points, mobile coupons, and other sweepstakes prizes uniquely tied to the tag.</li> </ul>
Cred-Ex	Cardline May 2009	<ul style="list-style-type: none"> <li>• <b>Cred-Ex</b>, an online credit service for consumers making online purchases, expands its offering to include Merchant Advantage, an on-the-fly credit system. Customers supply the merchants with traditional identification data but no bank account or credit card information. Approval takes from five to ten seconds. Approved transactions can be paid off by the consumer with from three to six installments. Card-Ex is owned by Emerging Payments Technologies, Inc.</li> </ul>



## Interesting News This Quarter – Continued

Subject	Source/Date	Substance
Maverick Network Solutions	Cardline May 2009	<ul style="list-style-type: none"> <li>• Maverick is an ISO based in Wilmington, Delaware with a new mousetrap. The company is piloting a merchant private-label PIN debit card that will use the payments networks rails (Interlink, Maestro, Star, etc.) for authorization but will settle via the ACH. Naturally, the key selling items for retailers are the lower cost and full authorization. Maverick hopes its participating merchants will invest the savings into a rewards/loyalty scheme for consumers.</li> </ul>
Kansas City Federal Reserve Bank	DigitalTransactionNews May 2009	<ul style="list-style-type: none"> <li>• While speaking at a retail banking conference in Frankfurt, Germany in May, Kansas City Fed president Thomas R. Hoening suggested that the Fed could make a few modifications to the existing ACH network and position it as a direct competitor to private-sector networks for debit card processing. This suggestion was a companion to his other thought that the Fed as an “operator” in various payments markets could begin to play a more active role in regulated electronic payments. The text of Mr. Hoening’s comments carry the usual disclaimer that his views are not necessarily those of the Fed. Right.</li> </ul>
Green Dot nFinanSe	Various June 2009	<ul style="list-style-type: none"> <li>• By sheer coincidence both <b>Green Dot</b> and <b>nFinanSe</b>, two leaders in the market for general purpose reloadable prepaid cards announce plans to lower their issuance, reload, and maintenance fees in response to Wal-Mart’s similar action taken in February 2009. Both program operators have tailored their fees to lessen the burden borne by their more loyal users. Well, that didn’t take long, did it? No word on the matter from netSpend as yet. Russell Simmons from Rush Communications acknowledged begrudgingly that it may be time for the company to introduce new products with lower price points. The RushCard activation fee will remain at \$19.95 with a \$1.00 transaction fee. Pricing for the BabyPhat RushCard will likely remain unchanged as well</li> </ul>
Credit Union 24	Cardline June 2009	<ul style="list-style-type: none"> <li>• <b>Credit Union 24</b>, a credit union-owned ATM network and POS system, joined other network players including NYCE, PULSE and Accel/Exchange in agreeing to support Acculynk’s PaySecure system for PIN debit purchases on the Internet. In test mode, for now.</li> </ul>



## Interesting News This Quarter – Continued

Subject	Source/Date	Substance
Tempo Payments	DigitalTransactionNews April 2009	<ul style="list-style-type: none"> <li>• <b>Tempo Payments</b>, one of the creators of decoupled debit cards under the Debitman brand, teased the industry a bit at a trade show with hints that its new line of products will include a co-branded open-loop offering. Whether the product is fully open is yet to be seen. Tempo has been touting data suggesting that open-loop programs generate four times the monthly transaction volume as closed-loop systems. A July arrival date is the current plan.</li> </ul>
RegaloCard	American Banker June 2009	<ul style="list-style-type: none"> <li>• A new arrival to the mobile remittance game, <b>RegaloCard</b> has spent the past two years developing its prepaid card-based system for remitting funds between the United States and Central America. Remitters provide RegaloCard with the recipient's name and cell phone number. A text message is sent to the recipient who can use the information to make purchases from participating merchants.</li> </ul>
MasterCard Worldwide	Cardline April 2009	<ul style="list-style-type: none"> <li>• <b>MasterCard</b> announces that it is in discussions with several Canadian banks in efforts to persuade them to offer Maestro-branded PIN debit cards. PIN debit in Canada is accommodated exclusively through Interac, a bank-owned utility. Interac is attempting to convert to a for-profit organization in contemplation of changes in the competitive market for PIN debit. MasterCard hopes to piggyback its efforts on Canada's move to EMV compliance in the coming years (2012) leading to cards equipped with magnetic strips and chips.</li> </ul>
Fleet One	Paybeforenews April 2009	<ul style="list-style-type: none"> <li>• <b>Fleet One</b>, a provider of fuel cards for large fleet operators, has joined with National Payment Card Association to offer a consumer-focused decoupled debit card. Fuel retailers who currently accept the Fleet One commercial card (e.g., Hess, Chevron, and Sunoco) will be eligible to issue cards that settle through the ACH system thereby avoiding interchange due on other debit and credit card offerings.</li> </ul>



## Interesting News This Quarter – Continued

Subject	Source/Date	Substance
NYCE Payments Network	Cardline June 2009	<ul style="list-style-type: none"> <li>Metavante owned network <b>NYCE</b> announces plans to alter its ATM pricing schedule effective August 1, 2009. Off-premises machine interchange will be reduced to \$0.50 from \$0.52 while the \$0.03 fee imposed on surcharged transactions will be eliminated. In exchange for these pricing concessions, NYCE announced a \$0.025 ATM acquirer fee for all approved and denied NYCE branded transactions. ISOs and net acquirer FIs might not be pleased.</li> </ul>
PULSE EFT Association	Payments News May 2009	<ul style="list-style-type: none"> <li><b>PULSE</b> re-energizes is surcharge free network branded “Select” by entering into an alliance with US. Bank’s MoneyPass network. Doing so brings the number of ATMs available to Select/MoneyPass consumers up to 16,500.</li> </ul>
CashEdge	Wall Street Journal June 2009	<ul style="list-style-type: none"> <li><b>CashEdge</b> a ten year old company that provides online banking and aggregation services, launches POPmoney for P2P transactions using cell phone technology. POPmoney is positioned against PayPal, Obopay, and Canada’s new Zoompass. In its first iteration, POPmoney users will be able to send and accept funds. A subsequent version will include the ability to request money. A September 2009 go-live date is anticipated.</li> </ul>



## M&A/Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
BServ Inc.	Commerciant LP	Handheld card acceptance devices	San Francisco-based BServ, which does business as BankServ, pays an undisclosed price for the assets necessary to migrate from cyber-acceptance to the physical-world. Commerciant makes a portable card and check reader that BankServ intends to position against the independent contractor segment.
Western Union	Custom House, Ltd	B2B international payments solutions	WU pays \$370 million to expand its international payments business focusing on business-to-business transactions. The buyer gets roughly 40,000 new corporate customers and over 600 new employees worldwide.
Pipeline Data Inc.	PayPassage	Merchant services ISO	Pipeline acquires another company founded by former Paynet Systems executives. Pipeline bought Paynet in 2006. Not surprisingly, the former PayPassage shareholders have formed yet a third merchant services company and are now using Pipeline for processing.
Gray Ghost Ventures Village Ventures NextLevel Venture Partners	iSend LLC	International bill payment/remittances	iSend raises \$2.0 million in Series A Preferred Stock Financing to expand its South and Central American networks.



## M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Shasta Ventures Bay Partners First Round Capital Harrison Metal Capital	Plastic Jungle, LLC	Gift card buy, sell, exchange marketplace	Plastic Jungle, the first viable exchange site for unwanted prepaid cards, raises another 4.8 million with a Series A funding. Funds are earmarked for personnel growth and business development activities.
Solutran	MoneyGram's corporate processing unit	B2B payments processing	MoneyGram goes in the opposite direction of WU and sells its B2B platform for an undisclosed price. Solutran focuses on corporate payments and backend processing.
Thoma Bravo	Entrust	Payments IT provider	Thoma Bravo plans to take Entrust private for \$114 million in shareholder consideration. Entrust develops private key infrastructure and secure socket layer technology for encryption and transmission of documents via the Internet.
Global Payments	HSBC Merchant Services	Merchant services processing	Global Payments pays \$307.7 million to buy out HSBC Bank's 49 percent share in HSBC Merchant Services, a JV established by the two parties in 2008. We credit this action to TARP. Another JV held by GP and HSBC for Asia Pacific remains in place, for now.



## M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Metaphoric Ventures KPG Ventures New York Angels Fund	oneTXT	Payment processing for social networks	Start-up oneTXT raises \$2.0 million in Series A money to facilitate payments between social networks and their audiences. This web based platform uses consumers' cell phone numbers as the authentication token. Payments are settled apart from their cell phone account. <a href="http://www.oneTXT.com">www.oneTXT.com</a> for more information, but not much.
Prospective at this point	Warburg Pincus LLC	Credit card payments	Warburg announces that its Germany-based Easycash asset is for sale. Easycash was purchased in 2006 from First Data which was forced to disgorge the company for German anti-trust reasons. First Data bought Gesellschaft fu Zahlungssysteme in 2005 subject to selling Easycash. \$416 million is the asking price.
Visa	Monetise plc	Mobile payments processor	Visa pays \$13 million to take a 14.4 percent interest in the mobile banking scheme operator and forms a JV for future solutions delivery. Monetise USA and Metavante have a processing arrangement for mobile payments.
Unknown	VeriFone	POS terminal manufacturer	GTCR Golder Rauner LLC confirms that it has sold its 7.0 million shares of VeriFone – roughly five percent of the outstanding stock.



## M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Citicorp Steve Case Goldman Sachs Others	Revolution Money	Emerging payment card program	Revolution Money raises an additional \$42 million in capital from a variety of investors. The company operates RevolutionCard, a new low-priced payment method and Revolution MoneyExchange, a P2P payments service with a reported base of 400,000 consumers. The company also reports that 650,000 merchants now accept the RevolutionCard, few as there may be in existence.
Pivotal Payments	Tangerine Payment Solutions Corp.	Merchant services provider	Pivotal, a U.S.-based merchant services processor, pays \$18 million to expand within the Canadian market through acquisition of Tangerine and its 8,500 merchant relationships.
TMT Ventures Endeavour Capital	GFG Group	Mobile banking and payments	Two new investors bring total funding up to \$10 million for GFG, a New Zealand-based operator of mobile banking and payment schemes covering 115 million subscribers (actual enrollment and usages figures were not disclosed).
PlaySpan	Spare Change	Social network micropayments provider	PlaySpan also owns PayByCash, Ultimate Game Card, and Ultimate Points and all deal with monetization of social networking and gaming websites.



## M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Boku	Paymo MobillCash	Mobile payments system provider	Start-up Boku raises \$13 million in funding from Kholsa Ventures, Index Ventures, and Benchmark Capital to acquire Paymo and MobillCash, two mobile payments companies. Boku claims to have captured 1.6 billion customers using 193 wireless carriers in 53 countries. Cellular payment transactions are settled in local currencies to each customer's respective wireless carrier's statement. The Boku management team is loaded with refugees from accept.com, mBlox, Apple, and Amazon.
First Data	Banc of America Merchant Services LLC	Merchant services processor	First Data and BofA form a JV for management of BAMS, the bank's merchant services processor. First Data will contribute the 140,000 merchant relationships once covered in the Chase Paymentech JV. When added to those already processed through BAMS, the total rises to 380,000. First Data will ultimately wind up processing all BAMS merchant acquired credit, debit, prepaid, and mobile transactions. First Data owns 48.5 percent of the JV, BofA has a 46.5 share, while Rockmount Investments LLC is a minority owner. BAMS has a processing agreement with TSYS which lapses next April.



## M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Digital Sky Technologies	Facebook	Social network	Private Russian internet investment group Digital Sky Technologies invests \$200 million for a 1.96 percent equity stake in the network's preferred stock rendering an imputed value of \$10 billion. In addition, GST plans to offer to purchase at least \$100 million in Facebook common shares from existing owners.



## M&A/Alliance Activity – Didn't Happen

Buyer	Target	Payments Emphasis	Possible Strategy
Nautilus Hyosung	Dover Corp.	ATM manufacturer	Buyer and seller mutually agree to terminate their agreement for the sale of Triton Systems. The U.S. Justice Department appears to be man-in-the-middle because of concerns over the market for entry level ATMs becoming far less competitive were the deal to go through.



## M&A/Alliance Activity - Summary

Merger and acquisition continues to be a significant factor in payments. We continue to use a three-way model for distilling M&A activity since it seems to capture market activity pretty well.

1. Money Plays
2. Product Plays
3. Infrastructure/Distribution Plays

As noted on the following page, measured in terms of the number of transactions, money plays drove this quarter's activities – a good sign we believe.

## M&A/Alliance Activity - Summary

### *Money (or lack thereof) Plays*

- *VC/iSend*
- *VC/Plastic Jungle*
- *Thoma Bravo/Entrust*
- *Global Payments/HSBC MS*
- *VC/oneTXT*
- *PE Firms/Revolution Money*
- *Pivotal/Tangerine*
- *VC/GFG Group*
- *GST/Facebook*

### *Product Plays*

- *Visa/Monetise plc*
- *PlaySpan/Spare Change*
- *Boku/Paymo & MobillCash*

### *Infrastructure / Distribution Plays*

- *WU/Custom House*
- *BServ/Commerçant*
- *Pipeline/PayPassage*
- *Solutran/MoneyGram*
- *First Data/BAMS*



## Useful Links for More Information

*We threw a lot of new names out this quarter. Here's a list of links for you to learn more.*

Company	Role	Link
Bling Nation	Alternative payments	<a href="http://www.blingnation.com">www.blingnation.com</a>
CheXout Systems	Mobile restaurant application	<a href="http://www.chexoutsystems.com">www.chexoutsystems.com</a>
Neustar	Telecommunications interoperability	<a href="http://www.neustar.biz">www.neustar.biz</a>
Boku	Alternative payments	<a href="http://www.boku.com">www.boku.com</a>
Twofish	Universal currency management	<a href="http://www.twofish.com">www.twofish.com</a>
Spare Change	Universal currency	<a href="http://www.sparechangeinc.com">www.sparechangeinc.com</a>
Jambool	Universal currency (Solid Gold)	<a href="http://www.jambool.com">www.jambool.com</a>
CircleUp	Social money-gathering	<a href="http://www.circleup.com">www.circleup.com</a>
Cred-Ex	On-the-fly lending	<a href="http://www.cred-ex.com">www.cred-ex.com</a>
RegaloCard	Cell phone remittances	<a href="http://www.regalocard.com">www.regalocard.com</a>
PlaySpan	Suite of universal currencies	<a href="http://Corp.playspan.com">Corp.playspan.com</a>
Tetherball LLC	Mobile marketing	<a href="http://www.tetherball360.com">www.tetherball360.com</a>