



TrendWatch 2.0

Payments System Industry Synopsis

Q3 2009

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Editorial Comment

Random Thoughts

There's a joke that dates back to the Great Depression that involves a banker walking up to a young man selling apples on the sidewalk. The youngster is holding a sign saying "Apples! \$1,000,000." The banker says "son, you're not going to sell many apples at those prices." "Don't need to sell many, mister, just one" replies the lad.

We're reminded of this 1930's knee-slapper by news (via Bankrate) that banks and other ATM deployers have raised surcharge fees by 12.6 percent in the past year. Most of those contacted regarding these findings indicated that the increase is warranted because fewer consumers are conducting foreign ATM transactions, preferring to utilize their own bank's machines or to obtain cash back at the point of sale.

Wouldn't *lowering* surcharge fees to stimulate usage be a more realistic approach? Or, are our banking brethren hoping for that one-and-done million dollar transaction?

We've got a few questions for the folks at the Merchants Payments Coalition, those consumer-friendly retailers that are lobbying for interchange reform and pricing transparency with print ads, videos on YouTube, and a website (www.unfaircreditcardfees.com) that comes complete with a "custom" letter writing tool.

First question: If, as the website declares, interchange represents a ". . . \$48 billion hidden tax. . ." on consumers and they are paying it in the form of higher product prices because merchants are passing along their merchant services costs, who should consumers be more mad at? Card companies for charging interchange in the first place, or retailers for passing it through?

Second question: If interchange was reduced by say, fifty percent, would MPC members and spokespersons continue to wring their hands over a ". . . \$24 billion hidden tax. . ." or is \$24 billion in the "about right" range?

Last question: MasterCard and Visa rules permit discounts for cash. Why do so few retailers adopt the practice?

I'm not saying, I'm just saying.

Older California residents will remember the TV ad gasoline retailer Arco/ampm ran in 1980s depicting an explosion and announcing that credit cards would no longer be accepted – a very successful strategy. The same clever merchant is now issuing OptiPay, a MasterCard branded decoupled debit program with rewards and a prepaid feature. Worth a look-see here: <http://optipaycard.com/1/2/3/cards>.

Thanks for all the follows on Twitter @doradopayments! More tweets on the way when content warrants.



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.
 - September 30: Not much progress as yet. In the meantime, fraudsters are becoming proficient in using email phishing schemes to expand their hacking efforts. Hotmail.com and PayChoice are recent victims. The URLZone Trojan continues to play havoc with users of online banking services. Just a matter of time.
- 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?
 - September 30: Still waiting to see what Discover plans for PULSE and how FIS rationalizes its AFFN and NYCE holdings. Postscript: Would the PayPal/Star deal have been done under bank ownership of the network?
- 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.
 - September 30: When was the last time an FI released a new article touting the number of contactless cards and/or its number of transactions experience?
- 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.
 - September 30: “Iowa Credit Union League seeks approval to purchase Arizona-based credit card bank.”



2009 Predictions - Continued



















- 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.
 - September 30: Both NCR and Diebold report improved net income on reduced top line revenue in recent quarterly earnings statements. New Aite study of US/Canadian bank CIOs says “nyte” to ATM purchases.
- 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.
 - September 30: While we’re waiting for this prediction to become fact, Diebold is aggressively entering and potentially disrupting the business.
- 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.
 - September 30: The MPC versus EPC struggle continues with “transparency” being at the heart of MPC’s argument. Nothing’s more transparent than POS surcharging they say in Australia, where Visa and MasterCard capitulated in 2007.



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TrendWatch Scorecard/Summary – Q3 2009

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

Industry Players To Watch

MPC and EPC: Both coalitions are starting to play their hands using viral marketing pushes. 7-Eleven's signature campaign was certainly interesting; but effective?

Prepaid Card Segment: NY Times publishes a fairly biased article on prepaid card fees in September. So far, no major impact or retaliation but there's still time.

Consumer Financial Protection Agency: We'll either have an agency or a sheaf of legislation that will produce the same results. Frankly, the agency might be the better way to go. Fewer compromises to make and backs to scratch. But read page 8 for a rant.

Discover: The card company is making a very serious commitment to international acceptance of its family of brands – Diners, Discover and PULSE – watch for additional moves in Latin America and India.

NACHA: Same day ACH processing plans are moving forward at a rapid clip. Both check conversions and WEB transactions are being considered and if the latter functionality is permitted, alternative payment schemes that settle by ACH could route faster than card-based e-commerce. There could be a fist fight brewing.

FIS: The Metavante deal closed October 1, 2009. We should see what the new face of FIS will look like soon. There's a lot of purchase premium to claw back through expense take-outs. Might FIS get serious about exiting the check guarantee/authorization business?

Market & Industry Situation

- 1 – Watch for the gaming payments specialists to branch out.
- 2 – Discover, Interac, Link and others continue to strike bi-lateral sharing agreements; hopefully good for both parties.
- 3 – Debit growth continues while consumers sit on their credit cards or issuers cancel them.
- 4 – Senator Dodd isn't going to stop until CFPA is in place.
- 5 – Recent re-pricing led by Wal-Mart, Green Dot and Amex should kick things up a notch.
- 6 – Q3 was good for investors; the story for shareholders is still open.
- 7 – A banner quarter for VC and PE investments in payments companies. Intuit/Mint acquisition raised some eyebrows.



Q3 2009 Payments Industry Yields

Q3 2009 added to the momentum initiated on April 1st resulting in one of the best six month periods in seventy years. The Dow and S&P closed out the quarter with 12.4 and 12.1 percent gains, respectively. Benchmarked against the pitifully low numbers that began the year, all but two of our sector participants have posted serious gains on a YTD basis. The \$17 billion gain in market cap this quarter suggests good times for those holding on for the ride.

Industry Player	6/29/209	9/30/2009	Price Δ	Cap Value Δ	YTD 2009 Yield
Alliance Data Systems	\$ 41.25	\$ 61.08	\$ 19.83	\$ 1,179.9	28.3%
Cardtronics	\$ 3.99	\$ 7.82	\$ 3.83	\$ 155.9	488.0%
Discover Financial Services	\$ 10.69	\$ 16.23	\$ 5.54	\$ 2,664.2	70.7%
Euronet Worldwide	\$ 19.45	\$ 24.03	\$ 4.58	\$ 230.8	99.1%
Fidelity National Information Services	\$ 20.05	\$ 25.51	\$ 5.46	\$ 1,041.8	49.6%
Fiserv Inc.	\$ 45.75	\$ 48.20	\$ 2.45	\$ 382.0	26.2%
Global Cash Access Holdings	\$ 7.79	\$ 7.31	\$ (0.48)	\$ (37.0)	222.0%
Heartland Payment Systems	\$ 9.10	\$ 14.51	\$ 5.41	\$ 202.3	-19.4%
Jack Henry & Associates	\$ 20.85	\$ 23.47	\$ 2.62	\$ 219.8	20.1%
MasterCard Worldwide	\$ 168.09	\$ 202.15	\$ 34.06	\$ 4,407.4	35.0%
Metavante	\$ 26.03	\$ 34.48	\$ 8.45	\$ 1,008.9	109.9%
Online Resources	\$ 6.25	\$ 6.17	\$ (0.08)	\$ (2.4)	31.6%
TNS	\$ 18.73	\$ 27.40	\$ 8.67	\$ 217.6	192.7%
Total System Services	\$ 13.20	\$ 16.11	\$ 2.91	\$ 574.4	8.4%
Visa	\$ 62.98	\$ 69.11	\$ 6.13	\$ 5,185.4	29.3%

Sources: Company releases, Morningstar.com, Bloomberg.com
 2009 YTD yield excludes dividends; based on 1/2/09 – 09/29/09 closing prices



Enough Already!

Let's see if we've got this "unintended" or "unforeseen" consequences thing right.

ACTION: Mark-to-market regulation.

REACTION: Derivatives melt down forces FIs to gut their capital accounts *today* to prepare for *future* impairments that may never happen. Banking system wobbles badly.

ACTION: TARP introduces relatively low cost capital to FIs that may or may not need (or want) it.

REACTION: FIs use the funds to buy others or to build a nest egg. (Okay, a few use the money for bonuses or boondoggle events.)

ACTION: Credit CARD Act of 2009 legislation supersedes pending Fed regulations designed to do about the same things.

REACTION: Absent the ability to risk-adjust rates in near-real time, issuers cancel \$500 billion in lines/accounts, slash entire product lines, announce rate increases, curtail rewards programs, and introduce annual fees. In general, consumer credit dries up.

ACTION: Congress introduces Expedited Credit CARD Act to speed up implementation of the original Act.

REACTION: Issuers move faster to introduce rate increases or announce new "unified" rate structures at higher levels. Consumers now pay more, faster.

ACTION: Barney Frank launches his Consumer Financial Protection Agency crusade Act. (H.R. 3126)

REACTION: Carve-outs for real estate brokers, auto dealers, credit reporting agencies, tax preparers, credit unions under \$1.5 billion, banks under \$10 billion, and *lawmakers* emerge fast and furious leaving nonbank financial institutions and larger banks to fend for themselves. Can't tell the regulators/regulated apart without a program.

ACTION: Rep. Maloney introduces the Consumer Overdraft Protection Fair Practices Act. (H.R. 1456)

FORESEEN REACTION: If enacted, issuers/processors will be unable to meet the compliance time limit imposed and will decline all overdraft transactions. Consumers will not be pleased.

Recommendation to Congress: Try playing Whack-A-Mole online rather in real life. It's free and has virtually no unintended consequences.



Interesting News This Quarter

Subject	Source/Date	Substance
Sears	Cardline August 2009	<ul style="list-style-type: none"> Once-mighty retailer Sears reinvents the Christmas Club (at one time the sole domain of banks and credit unions) by launching a no-fee, perpetual-life prepaid card account. Consumers must activate their cards before October 31 and can add funds in Sears and Kmart stores, by using a credit card, or through eBillme or PayPal. Funds credited before November 14, 2009 earn a 3 percent bonus. What's next, "eLayaway?" See below
eLayaway	PR Newswire September 2009	<ul style="list-style-type: none"> Sears and Kmart announce availability of the eLayaway service for consumers using the two retailers' online shopping websites. eLayaway has been around since 2006 and operates its own e-tailer website while providing deferred payment services for others (including the Jacksonville Jaguars, but at 2 and 3, who cares?) The company charges a 1.9 percent fee on each layaway transaction.
Kemesa LLC	Cardline August 2009	<ul style="list-style-type: none"> Kemesa launches Shop Shield, an anonymous online payment scheme that utilizes virtual Visa card numbers instead of shoppers' permanent payment card numbers. The system is user-funded and costs \$9.99 per month or \$99 per year for unlimited usage. The service is free to the consumer if linked to a checking account for ACH debits. www.kemesa.net
Monnet Payments	American Banker HomeATM Blog July 2009	<ul style="list-style-type: none"> Fueled by the Single Euro Payments Area (SEPA) fiat, several European banks are moving forward with a plan to introduce a new payment mechanism to compete with Visa and MasterCard. Named after Jean Monnet, a French economist who advocated a united Europe, Monnet plans to promote a "secure debit" solution for pan-European transactions. Details remain sketchy but announcement of a formal organization and timetable is expected in October 2009 with roll-out occurring in Q4 2010. So far, no white flags waving over Visa or MasterCard headquarters.
Zoompass	Payments Views Blog July 2009	<ul style="list-style-type: none"> Three Canadian wireless carriers form EnStream to launch Zoompass, a device-based P2P payments system that relies on the Canadian ACH system for settlement. An interesting twist here is the option to utilize a prepaid MasterCard to spend the balance held in the Zoompass account. Money recipients ride for free since the remitter is charged for the privilege of using the system to settle up.



Interesting News This Quarter – Continued

Subject	Source/Date	Substance
Zong	American Banker August 2009	<ul style="list-style-type: none"> Offered by the Swiss phone payments company, Echovox Group, Zong announced earlier this year that it has processed payments for over 10 million customers. The service enables consumers to use their mobile phones for impulse purchases inside online games and other forms of digital content. Average ticket size is \$9.00. Transactions are billed on users' wireless phone accounts and merchants are paid <i>after</i> consumers pay their monthly bills which could take from 30 to 60 days. Zong is one of the payment options available to Facebook users for purchase of FB credits.
Visa MasterCard New Zealand Bankers	Cardline Various August 2009	<ul style="list-style-type: none"> Both Visa and MasterCard and seven New Zealand banks blinked, ending two years of struggles with the New Zealand Commerce Commission over the pricing of payment services and system access. Both card companies ponied up millions to cover the Commission's cost of pursuing the case and agreed to actively engage in rate negotiations with retailers, allow network access to non-FIs, and stand by while merchants are free to assess surcharges on POS transactions. A Commission spokesman theorized that the agreement would result in Kiwi merchants saving from NZ\$70 to NZ\$80 million over the next three years. Visa characterized the agreement as "a cooperative settlement ...based on market dynamics." How quaint; wonder if Senator Dodd knows about dynamic markets?
JPMorgan Chase & Co.	Cardline August 2009	<ul style="list-style-type: none"> While many others are cutting back on rewards programs, Chase announces enhanced rewards for checking account customers who also hold Chase Freedom credit cards. Labeled Chase Exclusives, the program provides better rates, larger discounts, and more rewards across a spectrum of financial products. The uplift amounts to roughly 50 percent for a moderately active depositor/card user.
Alaska Option	Press Release September 2009	<ul style="list-style-type: none"> Alaska Option becomes the sixth U.S. EFT network to enroll in AccuLynk's PaySecure offering for PIN debit payments over the Internet. AO joins Shazam, NYCE, CU 24, Accel/Exchange, and PULSE in the on-going pilot program. Check out Star's response below.
First Data/Star	Press Release October 2009	<ul style="list-style-type: none"> PayPal and First Data announce that Star is the first EFT network to enroll in PayPal's Debit Access program. Star banks can choose to link their debit cards to PayPal so that depositors can fund their PayPal accounts with debit transactions. Unlike other PayPal debit transactions, these will both authorize and settle through the EFT network rather than the ACH.



Interesting News This Quarter – Continued

Finovate is a special purpose conference focused on introducing relatively new players in financial services to pundits and other followers of the industry. Companies are hand-selected by the sponsor – Online Financial Innovations. Participants are given seven minutes to demo (no slideshows permitted) their vision for changing the financial services world. Finovate 2009 was held in September. Here are a number of snapshots for companies considered particularly relevant to payments.¹

Participant	Focus	Snapshot
SmartyPig	Social networking meets consumer savings needs	<ul style="list-style-type: none"> • \$250 million in savings amassed so far; launching in Australia now. • Funds disbursed to savers via ACH, SmartyPig debit card, retailer gift card. • Savers can link to other social networks – Facebook and Twitter – to attract other friends and followers to a savings goal and to notify contacts of updated goals.
MShift	Mobile payments processor	<ul style="list-style-type: none"> • Nine year old company with 200 live deployments. • Showed a remote capture function for all phones with a data plan and 2 MP camera. • Backend processor performs Check21 conversion and submission. • Company claims to be bank-, handset-, and carrier-independent.
Backbase	Web portal software for personalized analytics	<ul style="list-style-type: none"> • Uses widgets to enable depositors to improve their financial position through direct inquiry of bank data – “How can I improve my credit score?” “How am I spending my money?” etc. • Query’s are custom designed by the user with guidance from the portal infrastructure. • iGoogle is a similar application but Backbase is banking-centric.

¹ Hat tip to Glenbrook Partners’ PaymentsViews blog.



Interesting News This Quarter – Continued

Participant	Focus	Snapshot
Firethorn	Mobile banking program provider	<ul style="list-style-type: none"> • Three new applications were shown: <ul style="list-style-type: none"> – Mobile enrollment using preloaded application. – Peer-to-peer payments through a consolidated mobile banking and payments platform. – Provider payments support. • Since becoming part of QualComm, Firethorn claims to have developed the largest number of mobile apps for FIs.
TILE Financial	Money transfer and monitoring for parents and advisors	<ul style="list-style-type: none"> • Parents and advisors transfer set amounts of money to children for spending, investing, donating. • Designed for high net worth young adults. • Designed as a bridge between FIs and Gen Y. • Beta version expected to be up in Q4 2009.
iPay Technologies	Bill payment services	<ul style="list-style-type: none"> • Provides bill payment backend services for 3,600 small banks and credit unions. • Services consumers and small businesses. • Small business support includes invoice generation, receiving and making payments, and generating payrolls with direct deposit. • Mobile application is also available.



Interesting News This Quarter – Continued

Participant	Focus	Snapshot
Kapitall	Investing tools and forum	<ul style="list-style-type: none"> • Dashboard for financial and non-financial data. • Social interaction forums for investment chat/discussions. • News feeds, stock screeners, and a partnership with TD Ameritrade that enables direct investing through the Kapitall site.
CashEdge	Money transfer and remote banking backend	<ul style="list-style-type: none"> • Older player with 650 bank customers. • Launched POPMoney, a P2P service deployed from within their online banking site. • Remittances to any email address or mobile phone number. • Four FIs signed and implementing by year-end.
Bling Nation	Mobile payments	<ul style="list-style-type: none"> • Contactless stickers used with mobile phones for local market merchant payments. • Deployed in four markets so far with one locale having 70 percent merchant acceptance. • Amending its original business model; now partnering with core processors and white labeling for other bank vendors.



M&A/Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Digital Media Investments DCM Leader Ventures	Vindicia	Online payments provider, on-demand fraud detection	Vindicia, a provider of online gaming payments solutions and creator of on-demand fraud systems, raised another \$7.5 million in VC money lifting its total outside capital raised to \$21 million. The company's CashBox application provides billing functionality for gaming, content licensing, and digital downloads.
Bain Capital Espirito Santo Ventures High Peaks Venture Partners Village Ventures	TxVia, Inc.	Prepaid card processing platform	New York City-based TxVia raises \$15.5 million in Series C funding bringing its two year total to nearly \$30 million. TxVia is a processing-as-a-service adherent founded by Anil Aggarwal, co-founder of Clarity Payment Systems, now part of Total Systems.
Lightspeed Venture Partners Intel Capital Matrix Partners India	ItzCash	Prepaid card program	ItzCash is India's first multi-purpose prepaid card. Among other uses, ItzCash facilitates general purpose spend, utility payments, donations, and securing marriage proposals through www.bharatmatrimony.com . Lightspeed led the investor group in a \$10.32 million tranche.
Sprint Nextel	Virgin Mobile USA	Prepaid mobile telephone provider	Sprint pays \$483 million to strengthen its position in the pay-per-minute segment of lower-end wireless communications.



M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Mint.com	Waseela Equity, LLC	Prepaid and payroll card operator	Dubai-based Waseela Equity enters into a non-binding LOI with Mint.com in a \$2.5 million take-over agreement. The transaction gives Mint UAE, a new subsidiary, a 10 percent share of the UAE market of 3 million migrant workers. So, true to the prediction, Mint.com starts its transformation into a payments company. Wonder what that makes Mint.com worth? See the next entry.
DAG Ventures Founder's Fund Benchmark Capital Shasta Ventures First Round Capital Sherpalo	Mint.com	Personal financial management portal operator	Mint raises \$14 million more in VC money to finance additional market growth. Subscribers now number 1.4 million. Total funding so far is \$31 million. This notice was released on August 12, 2009. See the next entry.
Intuit	Mint.com	Personal financial management portal operator	On September 14, 2009, Intuit announces the acquisition of Mint.com for \$170 million. Nice pay-off for the VC guys. Intuit intends to complement its own PFM portal and to integrate Mint.com's functionality with its Quicken software offering.
Jack Henry & Associates	Goldleaf Financial	Payments system and delivery system automation	Jack Henry adds Goldleaf to its portfolio of client-facing solutions (i.e., ProfitStars) to gain additional traction in the smaller bank and credit union segment. JKHY paid \$0.98 per share to Goldleaf holders.



M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
First Data	CashAcess	ATM services outsource provider	First Data pays an unclosed sum for this South African provider of ATM-related services with 200 devices deployed. FDC has operated in the region since 1993 and just eliminated a competitor.
AER Investments	PaymentOne	Mobile payments offering	PaymentOne, the company behind the “no card needed” PhoneBill™ service, raises \$7.0 million in equity and debt financing for market expansion and working capital. PhoneBill enables digital marketers to invoice purchases directly to consumers’ telephone bills. PaymentOne claims to have handled \$1.5 billion in billings in its history. That’s a lot of ringtones, folks.
Madrona Venture Group	Jambool	Social network payments provider	Jambool began as a developer of social games but now enables publisher partners to monetize social gaming endeavors through links to major credit card networks and PayPal. “SocialGold” is the company’s primary offering. Madrona led a group of other investors in a new \$5.0 million round of funding.



M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Monetise	Monilink	Mobile banking technology	Monetise spends up to \$5.0 million to buy out Vocalink, its partner in Monilink and will embed the company's operations within the Monetise Mobile Money brand. Monetise operates in both the UK and US and has recently branched out to Africa and the Middle East.
Commonwealth Capital Spark Capital Appian Ventures	OneRiot	Social search engine	Boulder, Colorado based OneRiot picks up \$5.7 million of a \$7.0 million package of new funding from returning investors. OneRiot's search engine crawls through Twitter, Digg, and other social sharing services to accumulate topical points of view. (www.oneriot.com)
Existing shareholders	nFinanSe	Prepaid card provider	Not one to give up the ghost, nFinanSe continues to raise equity through preferred stock and warrant subscriptions. This time the company garnered \$12.2 million on the heels of announcements that it will now offer Visa reloadable prepaid cards (through Palm Desert National Bank) in addition to its Discover-branded offering and has a new distribution agreement with Coinstar for 30,000 retail endpoints.
Allegis Capital Societe Generale UMC Capital Worldwide	QSecure, Inc.	Developer of electronic-powered credit and debit cards	QSecure raises another \$5.25 million from current investors in a effort to electronify the world's magnetic stripe plastic card base. QSecure's SmartStripe™ product generates a one-time-only PAN on each transaction.



M&A/Alliance Activity - Continued

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Adams Capital Management	Dynamics Inc.	Developer of electronic-powered credit and debit cards	QSecure is not the only player in the electronic card space. Dynamics has been around since 2007 but hasn't sold much yet. No matter, it raised \$5.7 million in Series A funding from Adams Capital and others. Dynamics has a patent on fully-programmable magnetic striped cards.
Spartan Mobile Lacuna Venture	Mocapay	Mobile payments system provider	Mocapay promotes a payment scheme that links consumer gift cards to their mobile phones for use at accepting merchants. The company raised \$3.0 million in VC funds for customer implementations and growth. (www.mocapay.com)
Insight Venture Partners T. Rowe Price Institutional Venture Partners Spark Capital Benchmark Capital Morgan Stanley	Twitter	Social micro-messaging network	Posting annual revenues of "zero," Twitter raises \$100 million in funds on top of \$55 million already sought and spent. Estimated valuation is estimated to be \$1.0 billion. Sweet tweets or "irrational exuberance?" Only time will tell.
Syntek Capital Others	eCommLink	Prepaid card processor	eCommLink raises another \$10 million in funding from its cadre of backers. The company provides integrated prepaid card processing services for issuers across the full spectrum of card and program types. eCommLink undertook a management restructuring earlier in the year; must have worked.



M&A/Alliance Activity – **OOPS!**

Buyer	Target	Payments Emphasis	Possible Strategy
ComVest Group	Cynergy Data	Payments processor	Cynergy Data files for Chapter 11 citing assets of \$109 million and liabilities of \$186 million. ComVest is a stalking horse bidder and, if approved by the court, will wind up owning this processor that claims to have 80,000 merchants conducting \$10.0 billion in annual volume.
No one	TipJoy	Micropayment processor	TipJoy closed its doors after raising \$1.0 million in funding from Betaworks and others. The company provided a facility that enabled authors and bloggers to solicit “tips” in exchange for providing valuable content. Either no one cared for the content or someone was rifling through the tip jar to pay babysitters, we guess.



M&A/Alliance Activity - Summary

Merger and acquisition continues to be a significant factor in payments. We 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

The number of VC and private equity deals announced in Q3 2009 dwarfs the past six quarters, a very good sign for the industry.

M&A/Alliance Activity - Summary

Money (or lack thereof) Plays

- *Vindicia*
- *TxVia*
- *Thoma Bravo/Entrust*
- *ItzCash*
- *VC/oneTXT*
- *Mint.com*
- *PaymentOne*
- *Jambool*
- *GST/Facebook*
- *OneRiot*
- *nFinanSe*
- *QSecure*
- *Dynamics*
- *Mocapay*
- *Twitter*
- *eCommLink*

Product Plays

- *Sprint Nextel/Virgin*

Infrastructure / Distribution Plays

- *Mint/Waseela*
- *Intuit/Mint*
- *Jack Henry/Goldleaf*
- *FDC/CashAxxcess*
- *Monetise/Monilink*



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	www.blingnation.com
Vindicia	Online gaming payments	www.vindicia.com/
TxVia	Prepaid card processing platform	www.txvia.com
ItzCash	Prepaid card program manager (India)	www.itzcash.com
PaymentOne	Mobile payments	www.paymentone.com
Merchants Payments Coalition	Retailer cabal re: interchange	www.unfaircreditcardfees.com
Electronic Payments Coalition	Issuer cabal re: interchange	www.electronicpaymentscoalition.org
Jambool	Universal currency (Solid Gold)	www.jambool.com
Zoompass	Canadian mobile payments scheme	www.zoompass.com
eLayaway	Virtual layaway mall/service	www.elayaway.com
SmartyPig	Social network and savings plan	www.smartypig.com