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## **EXECUTIVE SUMMARY**

Electronic Payment Systems, LLC and all of the wholly owned subsidiary companies (herein and after known as EPS) are the quintessential American success story. Two men had an idea and the courage to follow their dreams. As the company grew, so did the dreams. Yes there was hard work and yes there were a few setbacks, but they persevered and built their company and changed the industry along the way.

The evolution of the company has followed a relatively traditional path that had ownership involved in virtually every step along the way. In the beginning many of the steps were micromanaged directly by the owners. As the company grew and the projects became more numerous it was necessary to delegate and divest from the detail in order to manage the path of EPS. This was not an easy transition as the owners are “hands-on” type administrators; however, difficult tasks have never dissuaded EPS from the job at hand.

EPS is now an autonomous operation and has a synergistic approach to problem solving. The company has been built on solid principals and maintains a strong work ethic.

Over the years EPS has grown. Strong alliances have been forged, processes have been refined, managers and employees have been groomed and educated, and operations have been stabilized. EPS has gone from a reactionary position as most businesses start out to a proactive and forward looking organization. EPS has inserted structure and accountability. EPS brags that they are a sales organization and in essence they are, but once you scratch the surface you will find much more.

EPS created a tried and true marketing method, they have established a strong footprint in the industry, they have put together a comprehensive offering of products and services that is rivaled but not duplicated, and in the process created a vehicle that races to unprecedented profit margins. Their customers’ sales drive up their revenues. Their success is the engine that motivates us all.

EPS provides products and services that capitalize on the merchants financial needs, and carves a profit out of the merchants’ cash flow. The basic business model is solid and proven in practice, the expansion and future opportunities in these tumultuous times are unparalleled, and EPS is poised and prepared to keep moving onward and upward. EPS revenues have remained strong and they maintain the largest profit to revenue ratio in the industry.

EPS has always been an innovator and leader. They are actively marketing several exciting programs that will capitalize on new and burgeoning markets and opportunities. Pioneering check programs, plug-and-play modules that interface with the most popular small business accounting packages, groundbreaking pricing programs for credit card processing, and expansion to markets and locations that have not otherwise seen product offerings similar to those offered by EPS will catapult EPS revenue to new heights in the future.

EPS 90 is the new check program sold as a No Credit Check in-house financing product that allows a merchant to offer ninety-(90) day terms for goods and services without requiring EPS to fund the transaction until the consumer presents the check for processing. This product is ideal for markets and business types that have slightly higher retail pricing (automotive shops, fitness equipment, furniture stores, dental offices, etc.), that have customers that want what they offer, although may not have the available funds at that time or simply do not want to deal with consumer debt. At the customer level this product not only appeals to impulse buyers, but it may also facilitate add-on or upgrade sales similar to credit cards. This product creates a new market for EPS and appeals to merchants that are more than likely already accepting cards, which feeds the EPS core business. EPS 90 is a compliment to credit card merchant services. You will hear much more about this product as well as the others noted in this summary further in this document.

All small businesses have some sort of accounting and bookkeeping practice. By far, the most prolific and widely used product available in the market today is QuickBooks®. For many years Intuit had a monopoly on merchants wanting to integrate a card processing system with the QuickBooks product. By design, Intuit was the only company that had a working add-on to accept credit cards and communicate with their proprietary products. There is an overwhelming call for a product that would interface and allow merchants to have a choice of service provider. EPS became an independent third-party developer for Intuit, the parent company for all of the Quicken and QuickBooks products. EPS has added functionality that will enhance the offering by generating automated e-mail verifications of payment to the customers and customized reporting for the merchant. The QuickBooks Module developed by EPS breaks the monopoly and exposes a massive market that was previously inaccessible.

Every merchant is concerned with the cost of doing business. For many years there were essentially two methods of pricing to the merchant. A traditional two-level system defined by the method by which cards were accepted (in person or a card not present environment like a telephone order or on the Internet) as one, and an Interchange Plus program that uses a cost-plus system as the second. Each program has its benefits and drawbacks. The two-level system is very limiting and requires surcharging to offset more expensive levels of Interchange. The Interchange Plus programs are complex with over 300 different variations for charging the merchant which leads to many questions from confused merchants. In short, one program is not flexible enough, and the next is vastly too complex. To satisfy both scenarios EPS has developed a six-(6) tiered "Bucket" program that combines the ease of the two-level system without the surcharging, and a graduated product without the inherent complexity of the Interchange Plus programs. The Bucket program will appeal to a price conscious merchant that does not want to spend days attempting to decipher a credit card processing statement. Albeit a seemingly simple solution, the process of developing the levels, accounting for the changes in statementing and application, and gearing up customer service to handle the new questions was a daunting task. In early testing the acceptance of merchants exposed to the pricing model is very high. This product will serve as a marketing advantage when stacked up against the two traditional methods in existence today, and it may take years for other providers to mobilize and create a similar variation.

EPS has long believed that foreign markets, especially the Canadian market to be an untapped cornucopia of opportunity. EPS has been approached by Merrick Bank (EPS's Sponsor Bank into VISA and MasterCard) to pursue the expansive Canadian market. Rates paid by merchants of four percent (4%) or more and merchants offering only one card type as a form of payment is commonplace. The margins available are massive and the competition is minimal when compared to the more savvy American merchant and marketplace. Canada is the easiest door to open into the foreign market, although it will not be the last. Getting into a budding international market early will allow EPS to gain a foothold. Opportunity is knocking. Merchant services are not sold internationally in the same manner as they are in the United States. International markets are the holy grail of the future.

Pioneering programs and markets has always been a strong suit for EPS. Actually, the opportunities presenting themselves now are enormous, even greater than the ones that have fueled the EPS growth to date. EPS will again follow the path and reap the benefits of their actions for years.

## **HISTORY AND BACKGROUND**

### **SYNOPSIS**

The roots of EPS began in the infancy of the industry as they know it today. A little over 20 years ago the only way to become a Merchant (business that accepts credit cards as a form of payment) was to be set-up with a traditional Bank. This was not always an easy or streamlined task as not all Banks had Credit Card “Acquiring<sup>1</sup>” as a service offering, and the ones that did were afraid of the responsibility associated with card based transactions. In short, the Banks acted like Banks were known to act, and looked for reasons to say “NO” to Merchant applicants. This was pretty much the rule unless of course the Merchant and individual that owned the business had impeccable credit, personal and business, a “brick-and-mortar” location (physical place where business is transacted), several years of tax returns and financials, and a traditional business entity (the Banks frowned on Sole Proprietors and simple Partnerships).

John Dorsey recognized the opportunity in overcoming the Bank obstacles, and in association with others secured agreements and found a way to market and sell “Merchant Services” to a much broader and more diverse client base. John worked with a company by the name of Peachtree, in the Chicago, IL area, which expanded rapidly to virtually every major city in the continental United States. This created explosive growth of Merchants throughout the country, which also facilitated a massive proliferation of credit card use. The acceptance of cards as a form of payment started down a path to the point they are today, arguably the primary purchase tool used worldwide. Today, the dollar is not as welcome in many countries as it once was, but VISA and MasterCard are easily accepted forms of payment. The merchant accepting the card is paid in their home currency in the exact amount of the sale, and the cardholder pays the exact amount at the current exchange rate. John Dorsey was instrumental in the rapid development of a market that they now, for the most part, take for granted.

Virtually simultaneous to the birth of the newly defined industry (now commonly referred to as ISO’s – Independent Sales Organizations, and MSP’s – Merchant Service providers) Tom McCann became involved in the leasing business and was a principal in Dallas Leasing. The combination of lease services with Merchant services proved to be a juggernaut combination as

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<sup>1</sup> “Acquiring” in the industry refers to the act/process of getting cardholders to use credit cards at a Merchant’s business.

the funding of a lease for the terminal required to accept the credit cards as a form of payment provided immediate gratification for the sellers and fueled the expansion of Peachtree as a service provider. McCann's expertise with finance and Dorsey's flair with sales are unique in the industry and complimentary to each other.

Peachtree grew beyond anyone's wildest imagination and eventually was sold for a tidy profit making the key individuals independent with means. At that point Dorsey and McCann went separate ways for a short while helping others in their respective industries and enjoying life in general. Tom was the first to settle in Colorado opening a small sales office (ISO) also in the Merchant Services business and was relaxing into a semi-retired lifestyle. Dorsey realized that his family was starting to grow and he needed to decide where he wanted to raise his children. Tom and John had kept in contact, and Colorado is a beautiful place to live, so John came for a visit to look things over. Upon seeing the beauty and strong community values in Colorado, John moved and immediately started helping Tom with sales and staff training in his sales office. With the combination of John's "Class A" enthusiasm and personality along with Tom's consummate business experience, it wasn't long before the two were recruiting agents/MLS<sup>2</sup>, making sharper Bank deals, and growing in leaps and bounds.

Now nearly 15 years later EPS has been responsible for training some of the largest ISO's and agents in the industry. They have created a niche that many imitate but none have mastered, and have not only created a trend, but they have set the bar in Merchant Services with their unique approach to underwriting, risk mitigation, and business management.

One of the key factors to EPS success is having all ancillary services and companies internally based. Tom and John have been diligent and consistent in their efforts to have each product offering proprietarily branded and controlled. These products round out the service offerings and afford EPS lucrative profit centers.

The EPS merchants are diverse bridging an ever widening demographic. This is a large reason EPS enjoys the largest known profit to volume ratios in the industry. EPS targets the smaller business that truly needs to accept credit cards as a form of payment, and they identified and filled the need of these merchants.

The future is full opportunities. EPS is posed to attack and has the faculties and resources to take the company and the industry to the next level. Now is the time to present new products and innovative solutions in the payments world. In-house finance programs, direct PIN-based debit relationships as a processor, "Merchant Cash Advance" (finance of future VISA and

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<sup>2</sup> The term "agent" or "agents" and "MLS" are interchangeable and synonymously applied.

MasterCard transactions), and products that interface with computers and programs like QuickBooks® are all on tap and will be rolled out in 2008 (In-house finance and Merchant Cash Advance have recently been added to the arsenal and are available now).

Additionally, the excitement is just beginning to build with the recent announcement by VISA that they are waiving the “prohibition of duality<sup>3</sup>.” This change will create a massive need with our International neighbors up north, and it only leads you to believe that our neighbors in the south will attempt to follow suit. Eventually it will be a true world economy. Globalization is not a dream; it is simply a matter of time.

### WHAT MAKES US UNIQUE

The process of selling in the Payments industry has always run two paths. Nothing happens in the world until something is sold. The traditional method employed by the Banking industry leaves it up to the merchant to seek out the services. EPS has pioneered and perfected the second avenue which includes the hiring, training, and building of a sales force that actually goes out to the Merchants Face-to-Face and makes the sale. Not only was this John Dorsey’s forte, it was his passion. He created a “benefit based” selling system that has been copied time-and-time again. The one difference... no one could do it as well as him. In addition to the ability to sell, more importantly John had the ability to teach others how to work his program. The specifics of the system will be explained in greater detail further on, but this ability to virtually “copy” himself fueled rapid and steady growth of EPS. These are the “brick and mortar” building blocks of the entire industry.

From a product standpoint, each new and exciting change in the Payments Industry is evaluated by EPS to identify the market and seek out the opportunity. To that end EPS is always evaluating our offerings, considering upgrades and revisions to keep pace if not keep ahead of the trends and changes, and striving to streamline the management processes behind each offering.

In a time when outsourcing is the norm, EPS refuses to follow the trends. EPS takes the concept to the next level by owning the ancillary and supporting product offerings that compliment the business. The process of internalizing numerous facets related to our business pays great

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<sup>3</sup> “prohibition of duality” in this context is related to the long standing position of VISA that prohibits member Banks from issuing cards or accepting transactions for both VISA and MasterCard products on the International stage.

dividends and is a multi-pronged advantage as it allows EPS to control pricing, manage expenses, and pass savings on to the Merchant Level Salespeople (MLS) that support our programs while maintaining the ever-so-crucial profit margins. Product ownership allows for near immediate response to market changes and adaptations to product design and enhancements which are ongoing and seamlessly incorporated into the various offerings. It is also important because it keeps MLS from seeking other providers for ancillary products, which creates additional revenue and protects EPS by eliminating the merchants need to look at another provider for services. EPS remains competitive on all product offerings and meets all of their immediate business needs of the MLS and merchants with the myriad of services and products offered.

### *ABC's OF THE MERCHANT SERVICES INDUSTRY – ( A GENERAL OVERVIEW)*

Every ISO/MSP must either align themselves with another ISO/MSP that is registered with VISA and MasterCard and therefore become a “Sub-ISO<sup>4</sup>”, or become registered themselves. In order to be registered, an ISO/MSP must be sponsored by a “Member Bank<sup>5</sup>.” The process of becoming registered is somewhat rigorous and requires a level of comfort on the part of the Member Bank. Financial statements of the business are reviewed as well as the tax returns and asset statements of the principals. A due diligence visit is required by the Member Bank where all facets of the registering candidate are reviewed including but not limited to: the facilities, policies and procedures, background and experience of key employees, history of the business, risk mitigation programs, and utilization of technologies.

Many ISO's have Sub-ISO's and MLS that contribute applications for merchant processing. Some ISO's have their own sales staff in addition to the contributing Sub's and MLS. When an application is submitted to the ISO/MSP, evaluated as discussed below with successful applicants being assigned a Merchant Identification Number (MID) and a terminal is programmed or a web application is made active.

After ISO/MSP (in coordination with the Sub or MLS) establishes pricing to the merchant, the ISO/MSP is responsible for managing the account from this point forward providing customer

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<sup>4</sup> **“Sub-ISO”** simply signifies that the entity is gathered under a “Registered” ISO and that some of the Liability associated with the Sub-ISO's operations are under the umbrella of the “Registered” ISO.

<sup>5</sup> **“Member Bank”** is a commonly used term in the industry and it signifies that the Bank is member of VISA and/or MasterCard (typically both).

service, technical support, communication, and education to the merchant. Once the merchant is established and starts processing the flow of day-to-day business, the process becomes relatively mundane and is only interrupted when the merchant has questions. On occasion there may be questionable transactions that require the Risk Department to step in and assure all parties that the transaction is legitimate, however, risk involvement with a merchant is not a regular occurrence but can be necessary to insure the integrity of the system and mitigate loss.

Typically, once a month the Sponsoring Bank will provide summary reporting of the activity for the prior month along with the net amount due to the ISO for the activity. This process is commonly referred to as "Settlement." The ISO will review the Settlement data and pay a residual income to the Sub's and MLS that have agreements with the ISO. Residual income to the Sub's and MLS make a strong case for continued efforts driving more business into the ISO's doors.

### *WHAT IS IT THAT THEY REALLY DO?*

At the core they (being EPS and all the subsidiaries) are service providers. They emphasize the fact that our most recognizable product is providing "Merchant Services," which is an industry term meant to describe credit card acceptance as a form of payment to the merchant from the card "Associations" (VISA U.S.A., Inc., MasterCard International, American Express, Discover, JCB and others). In addition to processing "Credit" transactions, EPS offers the ability to process "Debit" and "Offline Debit" transactions as well, although card processing is just one part of the business they operate. Supporting the card processing activity is a product that provides transactional and statement related data called "EPS Online." They are also active and through a subsidiary company provide equipment warranties, transaction based "Point Of Sale" (POS) equipment and deployment, and an ever-expanding myriad of check and conversion related products along with the equipment required to process these specialized transactions. EPS has a "Virtual Terminal" product that is geared to the needs of the merchant that prefers to process from their computer vs. a terminal, and a "Gateway" product for the Internet shrewd merchants. As an enhancement for a computer savvy merchant that employs the most prolific and widely distributed accounting program in the market (QuickBooks®), EPS is developing a product to process cards and integrate seamlessly with this popular software product. EPS has long had a check guarantee product known as "ElectCheck," but in recent years enhanced that offering with a conversion product known as "ElectCheck Plus +" to capitalize on the large volume of check transactions processed in the country today and eventually worldwide. As a

compliment to the check services EPS recently developed and implemented a product that allows merchants to have an “off the shelf” in-house No Credit Check financing program called “EPS 90” that lets the merchant finance sales and profit from the process. EPS has a “Gift Card and Customer Loyalty” product that is targeted at keeping customers coming into the merchants business. EPS also owns and operates an “Internet Service Provider” (ISP) and sells hosting, publishing, and web design services. They are active in the “Cash Advance” marketplace which has incredible potential for growth and expansion. EPS is also involved in some of the specialty processing markets, specifically the “Pay-at-the-Pump” fuel dispensing market with a product known as “Petro-Partners.” With the price of fuel today, this market has yet undetermined size and potential.

Each of the above noted offerings will be discussed as a “Profit Center” further on. Aside from this, the best way to really give the flavor and flow of the industry and EPS is to walk through the process of getting a merchant enrolled with us.

Everything starts with a sale. This is true and fundamental of any business, and EPS considers itself above all, a sales organization. In the beginning EPS was out there day-in, day-out working with the merchants themselves selling the ability to accept credit cards as a form of payment and the equipment required to facilitate the process.

Once the sale is finished and the “Merchant Application” has been completed and signed, it’s time to get on with the process of establishing the account. For demonstration purpose, they will assume this sale was made by a contributing agent. Typically the applications will be sent in via facsimile (EPS does have an on-line system of application processing that employs a digital signature technology that can be submitted via the Internet or e-mailed as well) and is reviewed by the Agent Relations department for completeness. Each applicant is checked against the “Office of Foreign Assets Control” (OFAC) list, which is now a standard process for virtually all financially based businesses. Provided the application has passed all the aforementioned tests it goes down to our Data Entry department. At this juncture a credit report is generated for each applicant, a file is started, a few other checks are made on the application and then an underwriting sheet is attached. Each application must be reviewed by senior management. Primary reviewers are Chief Operating Officer Anthony Maley, Risk Department Manager John Meinel, and finally the Data Entry Manager Laura St. Romain. If any of the approving authorities are uncomfortable with the application there is always a way to discuss the case with one or more of the other approving authorities.

The EPS philosophy about underwriting is simple. You don’t lose money by approving a merchant application; you lose it if the merchant activity isn’t watched. This allows for an

open-door approach to underwriting and leads EPS to approving a wide variety of diverse company and business types. Many Banks and other Merchant Service Providers subscribe to a “Crystal Ball” type of underwriting, which excludes many legitimate and worthwhile businesses. EPS prefers to say yes to new business, which is the job they were hired to do.

Once the application is approved it returns to the Data Entry department where they begin the process or “boarding” the merchant. The term boarding refers to the process of entering all the crucial data and information related to the merchant agreement (names, addresses, rates, merchant type, etc.). For many merchants this entails entries on several separate and distinct systems. EPS has direct “real-time” connections to the transactional processor’s systems that allows for the boarding directly on their systems. This gives EPS a distinct marketing advantage. They publish and advertise that it only takes a maximum of four-(4) hours from the time they receive an application until the point that a merchant could process a transaction.

Once boarded, the merchant file is sent to the Tech Support department so that the specific software file can be built on the EPS download servers for eventual upload to the card processing terminal the merchant chose to purchase or already owns. EPS owns and maintains several of these specialized servers that support the major brands and terminal manufacturers’, as well as multiple connection lines to afford several simultaneous downloads. The files are maintained in the EPS systems in the event the download needs to be repeated. The files are specific to the merchant and their unique merchant number and are assigned a similarly unique “Terminal Identification Number” (Terminal ID).

The file now returns to Data Entry for scanning into the proprietary “Customer Service Look-up” program, which allows for departments that manage the accounts to view the document without the need to “pull” a file. This program has greatly streamlined the account management processes.

The merchant is now ready to process transactions. Once transactions begin to flow the account is maintained by the Customer Service department. They provide information to the merchant related to funding of the sales, timing of deposits, fee reconciliations for the accounts and transactions, and general service questions. The Customer Service function is maintained by EPS 24/7/365. In addition to the Customer Service EPS maintains a Tech Support department, which can assist with download issues, terminal functionalities, troubleshooting of hardware related issues, and assist the contributing agents with a myriad of issues and processes.

Supporting all departments and most of the operations of EPS is an internal Information Technologies “IT” department, which is responsible for the management of all communications

technologies, software applications, proprietary programs and systems, and hardware related to departmental and operational functionality. This department manager has been in the credit card industry at the technical levels since the start of the little square boxes, for which some of the original software was written by Warren Zunino, the department manager. Warren is also responsible for writing some of the terminal emulation and communications programs, scripts, and code that is necessary to support the EPS sales operations. Timm Marshall has been with EPS since his graduation from technical school and he writes many of the programs that have become part of the EPS proprietary management modules. Timm is an expert in SQL databases and employs queries integrated with Visual Basic to create the programs necessary to manage the portfolio. EPS's recent addition to the IT department is Zeek Mullins. Zeek was recruited from a consulting firm and has many years of experience in the IT world as well as holding the designation of Microsoft Certified Systems Engineer (MCSE). This combination of software and hardware specialists has proven to be a potent combination for EPS and keeps us at the technological forefront of the industry. The combination of these professionals and over a million dollars in hardware and software provides a stable platform for EPS to operate and control merchant activity.

Finally the summation of all activity is gathered and dissected. EPS has a program that pays a residual income to the contributing agents based on the revenue generated by the merchant. Tom McCann has engineered and designed the programs to maintain profitability for EPS while remaining competitive in the market. This stream of residual income creates a bond with the contributing agents and establishes a symbiotic relationship that is hard to break away from resulting in loyalty.

The idiom of "the devil is in the details," could not be more true and relevant than in the merchant services industry. Tenths and hundredths of dollars add up, and the proper management of all those fractional dollars is an area in which EPS happens to excel. EPS balances the overall activity of the portfolio daily to assure all transactions have been processed and sent to the proper Association for funding. At the end of the month the additional fees related to the transactions processed are assessed and billed to the merchant. The combination of the daily collected fees and monthly fees constitutes the pool of monies that are the "Gross Revenues from Processing Activities," which are in part offset by expenses required to process the transactions. The daily balancing process also affords EPS an opportunity to review ongoing activity from a profitability standpoint, and the result of daily balancing is factored into the monthly activity which can be viewed in a "Trial Balance" format. Typically on the 15<sup>th</sup> of the month following the activity EPS receives from the Bank the "Net Income from Processing Activities" along with the supporting documentation. This information is reviewed for accuracy by Mr. Maley, and then reported to Mr. McCann and Mr. Dorsey.

The foregoing is an overview of the process, although many factors must be considered in the pricing and costing of the services. Interchange, Mid-Qualified, Non-Qualified, Debit, Offline Debit, and buy-rates are daily terms in the industry. Diligence is required in navigating the waters of pricing in all businesses, and this is no different in merchant services. EPS has met the challenge and responded with a newly introduced “bucket” program that gives additional pricing flexibilities to the contributing agents. The “bucket” program and how it works is discussed in greater detail later in this document.

Management has confidence in the programs that have been established and the personnel they have in place to carry out their programs. To an extent, the business has the ability to “run by its self.” Mr. Maley has general oversight and manages the day-to-day operations. There is no need for a top-heavy group of executives. Meetings, when necessary, are informal and impromptu. Effective management does not mean over-management. Relieve distractions and let people do their jobs. Convey information through the managers and use the utilities that are available at all of our fingertips (i.e. telephones, faxes, e-mails).

In summary, EPS applies a fluid dynamic to managerial oversight and relies on the tried and true processes that have been developed and refined over many years. The merchant approval process is streamlined and efficient, the oversight and management of the account is thorough and comprehensive, and the portfolio management is intense and precise. All of this leads to a well oiled machine ready to rev-up and meet the next challenge with virtuosity and vigor.

## COMPETITION

If you listen to John Dorsey, the only competition out there is you. John and Tom have never been ones to allow others to dictate their actions and path. The great American Thomas Paine put it best: “lead, follow, or get out of the way!” Visionaries the likes of Lee Iacocca and Ted Turner lived by the words, as do the owners of EPS. The agent programs developed by Tom McCann, and the benefit based sales system developed by John Dorsey are second to none. EPS’s portfolio management is so efficient that they can approve and control more types of merchants than any of our competitors, which gives us a distinct edge. Add the fact that they turn around that application in four-(4) hours or less, so the agent can have a deal done and their merchant happy with their efforts on the merchant behalf, and you have a formula for success.

What sets EPS apart from the others is the combination of services as a comprehensive package fully in the control of EPS. EPS chooses to say yes where others find reasons to say no as fear is not allowed to take the place of focus at EPS. This does not mean that caution is thrown to the winds, it just means that they attempt to evaluate the merchant for who they are and what they do, not just what others consider being a marginal risk.

This is important because it clearly sets EPS apart from anyone who chooses to call themselves competitors. EPS views the totality of the product offerings, service levels, attentive response to MLS needs, speed in providing service, and overall commitment to providing a comprehensive and quality service as one thing; this is EPS!

## **OPERATIONAL COMPOSITION**

### **OWNERSHIPS ROLE IN OPERATIONS**

In the beginning, nothing flowed through EPS without the knowledge and blessing of either John Dorsey or Tom McCann. Their fervor and intense attention to detail lead to rapid and extensive growth for EPS. As time went on the industry progressed to more diverse product needs, the Internet became integral in day-to-day life, and the tasks that required supervision expanded rapidly. Ownership began to delegate portions of the operational details and started to establish departments and an organizational structure.

Operations today are managed departmentally. Ownership has relinquished most of the daily control and trusts their staff. They obviously want to know what is happening in their business and how projects are progressing on a high level, although they leave the management and supervision up to the individual manager or employee assigned to the project with a particular skill set to pursue.

### **KEY EMPLOYEES AND STAFF**

Anthony S. "Tony" Maley is our Chief Operating Officer and has been in the merchant services industry and EPS for fifteen-(15) years. Tony started as a MLS for a company in Cleveland, Ohio,

which is where he met John Dorsey, Tony quickly determined that he could do much more than just outside sales, and as fortune has it John felt the same way. A friendship was formed that lives on today. Tony by nature is analytical and practical at the same time. He has a unique talent for gleaning reality from data, and works well with the banks and processors he is required to deal with on a regular basis. His responsibilities include general oversight of all EPS operations and specific project management of others. He maintains the accounts for EPS and reconciles settlement data with the bank. Mr. Maley is a member of the ETA<sup>6</sup> and NACHA<sup>7</sup> and has served on several committees.

John Meinel is our Risk Manager and has been with EPS for nine-(9) years coming from another ISO in the Boulder Colorado area where he worked his way up from investigator to assistant Risk Manager. Mr. Meinel holds a Masters Degree from Cal State – Long Beach, and attained his undergraduate degree from the University of Wisconsin. John is an unfaltering guardian of the EPS Portfolio and keeps EPS well grounded. His diligence is contagious and it shows in his staff. John supervises a group that includes three-(3) investigators and oversees management of the “nuts and bolts” that comprise our Conversion and Check Guarantee products. Mr. Meinel prides himself on the fact that he has one of the lowest loss ratios to processing volumes known in the industry. He is in here for the long run and EPS is fortunate to have him.

Lois Nash is our Check Services, PCI,<sup>8</sup> and PA<sup>9</sup> - DSS<sup>10</sup> administrator. Lois has been with EPS for 9 years starting only months prior to the arrival of John Meinel. Lois reports to John Meinel as her responsibilities entail management of financial transactions and therefore have a component of Risk. Lois will also be involved in the back-office management of the EPS 90 product. Lois maintains tight controls on the flow of dollars in and out of the check services products and works autonomously except in the case where she decides that another

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<sup>6</sup> “**ETA**” is an acronym for the “Electronic Transaction Association.” The Electronic Transactions Association is an international trade association representing companies who offer electronic transaction processing products and services. [www.electran.org](http://www.electran.org)

<sup>7</sup> “**NACHA**” is an acronym for the “National Automated Clearing House Association.” NACHA is a not-for-profit association that oversees the Automated Clearing House (ACH) Network, one of the largest electronic payment networks in the world. [www.nacha.org](http://www.nacha.org)

<sup>8</sup> “**PCI**” is an acronym for “Payment Card Industry.”

<sup>9</sup> “**PA**” is an acronym for “Payment Applications.”

<sup>10</sup> “**DSS**” is an acronym for “Data Security Standard.”

perspective is required. At that point she is free to go to John Meinel, and in the event John is not available and a more immediate answer is required she can speak to Tony Maley, John Dorsey, or Tom McCann. Company structure and protocol has its place, but taking care of the customer and protecting the integrity of the transactions must come first. Lois provides daily ad hoc reporting to Mr. Maley to check against the activity in the accounts. Her responsibilities related to Data Security Standards (DSS) are evolving as the demands of the industry evolve. EPS started requiring the Self Assessment Questionnaires a month prior to the official beginning of the program so that they would hit the ground running and not deal with every other company attempting to comply with the demands of the bank to produce the documentation. This early rollout has been a great opportunity to work with the ISO/MLS community to get them on-board so that their applications will not be held up due to unfamiliar paperwork.

Chonda Pearson is an EPS stalwart and has held several positions within the company in her nearly eight-(8) year tenure. She is currently an executive assistant to the company officers. Chonda also deals with some of the "Major" accounts as a personal liaison dealing with their unique needs. Some of these larger accounts are personal friends of ownership so her task in managing those accounts takes on multiple layers. Chonda started with EPS in Customer Service and eventually moved herself up to be the Manager of the department. Her transition to executive assistant filled a sorely needed role and her contributions are immeasurable.

Laura St. Romain heads our Agent Relations department and started with EPS over seven-(7) years ago. Laura started as a clerk and worked her way into her current position of department manager. Her position requires a gentle hand and heart in dealing with the ISO's and MLS. Everyone wants to feel important and get their work done before everyone else. Laura has the unique ability to make them feel that way. Don't let that fool you though, when needed she can easily convey the difficult news (i.e. a merchant application they submitted cannot be approved, the MLS is not holding up their end of the bargain, etc.), and in many ways have them understand why it must be that way. Laura was formerly our Data Entry and Processing Manager during which time; in association with Chonda Pearson they had developed several manuals with step-by-step instructions to facilitate the proper handling of transactional failures. These manuals are more detailed and comprehensive than the training guides distributed by the processors.

Robert “Rob” Johnson is the Processing Manager and has been with EPS for nearly two-(2) years. Rob oversees other employees in the day-to-day functions of Data Entry. He also works closely with the processors systems to input all the application data and manage the various transactional rejects that naturally occur when the levels of volumes are processed in a Portfolio.

Timm Marshall is our Software Engineer and Database Administrator, and has been with EPS for almost nine-(9) years. He is responsible for development and maintenance of most of our internal proprietary programs used daily to maintain and manage accounts. Timm completed his coursework and received his accreditation from Computer Learning Centers in Garland Texas. Timms’ first job out of school was with EPS. He has been responsible for writing the code and developing our customer service look-up program, several comprehensive knowledge bases, internal document imaging acquisition program, agent look-up program, self generating ACH<sup>11</sup> program to bill for our ancillary products, reporting and calculation programs to support our payments to ISO’s and the MLS, a web interface for merchants to view their statements online, and another web interface for an ISO or MLS to see their residual data and merchant activity, and he also functions as the EPS Webmaster. Timm has been with EPS for quite a while and his contributions are substantial and ongoing. EPS found a good one in Mr. Marshall.

Warren Zunino is our IT (Information Technologies) manager and comes to EPS with over 20 years of diverse and detailed experience in the payments industry. Warren was recruited from a processor where he was responsible for building the communication vehicle (commonly referred to as the “Front-End” in the industry) that allows the terminals to speak with the processors and attain authorizations and capture the transaction. His pedigree goes back to Verifone where he was involved in the initial software development for some of the first electronic processing terminals. His primary role is oversight and project management. He is also developing the QuickBooks product for EPS, was the primary author of the EPS 90 product, will be integral in EPS becoming a direct Debit Network processor, and will be building another “Front-End” for EPS. His plate is full and he is up to the task.

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<sup>11</sup> **“ACH”** is an acronym for “Automated Clearing House” and is the network that allows for transactions to be introduced for payment or collection to checking accounts in an automated (vs. paper system) process.

Dustin Godec is our Customer Service Manager and stepped into the role when Chonda was promoted. Dustin has been with EPS for over three-(3) years and started out as a CSR for us. His ability to work with merchants was apparent from his first few weeks of taking calls. He runs a fairly tight ship and prides himself on an average sub one-minute wait time for customer service to answer an inbound call.

Chris Stanek is our Technical Service Department Manager and stepped into the role nearly a year ago. Chris has been with EPS for over six-(6) years and has been responsible for organizing and managing the staff in the “Tech” as well as assisting in recent and ongoing product development from the practical and technical standpoint. His management efforts have resulted in a department wide customer call “wait time” averaging less than one-minute, similar to our Customer Service Department.

## **CUSTOMERS**

### **WHO ARE THE EPS CUSTOMERS**

EPS services are marketed primarily through ISO’s and MLS, although the argument could be made that the EPS Customer is actually the merchant. EPS views both as customers and provides marketing and service options that avail a diverse and comprehensive suite of products to the merchant that the MLS can sell, and therefore share in the revenue. An oversimplified analogy would be that EPS is the service provider, ISO’s and MLS are the retailers, and merchants are the end-users.

#### ➤ **ISO’s AND MLS AS CUSTOMERS**

As the retailer, the ISO/MLS are on the front lines of the sale and represent the first contact and exposure a merchant has to EPS. The role of the ISO/MLS is crucial in establishing a good start to a long relationship. The products offered need to fulfill the merchants known and, until brought to light by the ISO/MLS, unknown needs. For the most part, once the sale and initial delivery and/or programming of the equipment is

complete the role of the ISO/MLS in the process is fulfilled. The roles of Customer Service, Technical Support, reporting, and account management are put into the capable and experienced hands of EPS. With EPS dealing with the day-to-day management of the account the ISO/MLS is free to go out and solicit the next customer. The best activity they can have the ISO/MLS involved in is selling the next merchant. EPS supports the ISO/MLS community by relieving their responsibilities related to on-going account maintenance of the merchant.

✓ HOW DO THEY MARKET EPS TO ISO's AND MLS

EPS believes that marketing to the ISO/MLS community is multi-faceted and requires a synergistic approach. In the forefront of the efforts are the products offered by EPS along with a competitive price and rate structure. EPS believes that the balanced and complete collection of product offerings combined with a competitive rate structure make strong arguments for doing business with EPS. This is made apparent to the ISO/MLS's that do business with EPS, and made a point of discussion with every potential new ISO/MLS. EPS employs an Agent Relations department with ISO/MLS Advocates that have regular contact with the ISO/MLS. The department is typically staffed with three-(3) advocates. When an application comes in the Agent Relations department is the first to see it. They log in the application and contact the ISO/MLS if there is incomplete data. There are specific links that are password protected on the EPS Web Portal that the ISO/MLS has access to that provides updates on the application in process. EPS prides itself on a four-(4) hour turnaround of applications from the time of receipt. Consistent, responsive, and regular contact along with comprehensive and cutting edged products that meet and in some cases surpass the needs of the merchants serviced by the ISO/MLS helps EPS maintain a presence with the existing ISO/MLS customer.

To an extent, marketing to potential ISO/MLS contributors is built on the products and services used to maintain the existing contributors. The difference here lies in the ways and methods utilized to solicit and engage the prospects. To that end EPS employs a myriad of approach mechanisms including but not limited to; attendance at trade shows around the country with displays and/or booths and staff talking about EPS to prospects, advertising in trade publications, ads in the USA Today and many local publications followed up with a calling campaign to listed ISO/MLS in the area, searches and advertisements in

“Monster.com” which include an e-mail campaign to independent contractors in search of career opportunities, product and service oriented marketing materials, and of course referrals from existing ISO/MLS.

Personal attention and care from the advocates along with industry sensitive product offerings and competitive pricing are, in the opinion of EPS, the best way to solicit and keep contributing ISO/MLS's.

➤ MERCHANTS AS CUSTOMERS

Even though EPS's primary source of new merchants is the ISO/MLS community, EPS does have some merchants that they enroll directly. These merchants come to EPS in many ways such as personal referrals or contacts to the owners, managers, and employees of EPS. As new merchant accounts are necessary and part of the flow of daily business, taking care of the previously enrolled merchants is paramount.

Merchants are the end-users of the products offered, and there is no denying their importance. The actions of the merchant using our services support the entire industry. The merchants in the EPS portfolio are very diverse and range widely in a large demographic cross-section. Although their activities may be diverse, the essence of the merchant needs from the merchant services industry is relatively consistent. That is, products and service related to credit cards and checks that are responsive to the financial needs of the merchants' specific operation, that will assist with efficiency, and maximize the payment options the merchants can offer their customers.

Regrettably there is little that can be done when a merchant fails, and they all know that businesses in the United States fail with much too high a frequency. Small business is not for all, and even the best have bad days. Compassion is a key component EPS tries to build into every phase of their operations. Good business requires good customer relations.

The process of taking care of the merchant as a customer begins with the initial sale where a contract is completed that outlines and lays out the responsibilities and obligations of the parties. Once the application is approved and the terminal is programmed, a “Welcome Kit” is sent to the merchant and the role of EPS shifts from the sales organization to the service functions. To support that role EPS has departments for Customer Service and Technical Support that provide live 24/7/365

response to merchant needs. Courteous, prompt, informed, and accurate answers to a merchants question are arguably the best method of keeping a merchant on the books.

## **PROFIT CENTERS**

### *Merchant Services*

Simply put this is a business of margins. In the pricing models they are dealing with the cost of a transaction, which in itself has multiple parts and numbers in the many millions of varying sales to come in the future. For card processing there are two-(2) elements that interplay in the pricing that a typical merchant would see. One being the percentage of a transaction taken as a fee for processing cards as a form of payment commonly referred to as a “Discount Rate.” The second is a “Per Transaction” fee. For this initial discussion they will deal primarily with these two factors. There are quite a few other services/price considerations that will be discussed immediately following this discussion.

For credit card transactions EPS establishes two-(2) “buy-rates” (one for the typical “Retail” merchant type, and a second for the “MOTO” [Mail Order Telephone Order] merchant type which also encompasses much of the Internet based transactional types) that it publishes and sells to the MLS community which greatly simplifies the pricing considerations for the merchants and MLS alike. The buy-rate is a combination of a Discount Rate and a Per Transaction fee. This allows for a consistent and relatively uncomplicated manner of account reconciliation and tracking. In all actuality there are over 200 different levels of “Interchange<sup>12</sup>,” and over 300 variations based on types of cards used and environment of the sale. EPS employs a volume sensitive weighting method of blending when pricing the buy-rates. With such a wide range of potential and possible qualifying rates, pricing for future incoming business is at best an exercise in “crystal ball economics.” To offset the dilemma arising out of the variable of transaction qualifying EPS applies formulas that employ recent historical data to establish a “trending” analysis including but not limited to: dollar volume and transaction volume by qualified category, and classification of qualified category. Not all variations of Interchange occur in the EPS portfolio for one reason or another. Ones that do not

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<sup>12</sup> *The fees charged for the Associations, card acquirers, and card issuers involved in a credit card transaction for the process by which they manage the processing, clearing and settlement of credit card transactions, including the assessment, and collection and/or distribution of fees between parties.*

occur receive no dollar or transaction volume and therefore have no influence in the blending process. Transversely, higher volume categories carry much more weight in the calculations. This weighting concept applies to the Discount Rate as well as to the Per Transaction pricing. In theory, the types and mix of businesses and industries brought into the EPS portfolio have a certain consistency. There is no reason to believe that the contributing MLS will vary their approach significantly in securing new business, so it is reasonable to assume that the businesses currently in the portfolio are a fair reflection of future merchant additions. The EPS portfolio is large enough to provide a reliable comparator for past and future transaction types, and can absorb any minor fluctuations until the next time rates are reviewed. Historically buy-rates are only changed as a reflection of changes in Interchange. This provides for another level of consistency for the MLS and merchant as increases in this cost of doing business at their level is tied to the increases imposed by the Associations.

A similar process is applied to Personal Identification Number “(PIN) Based Debit<sup>13</sup>” transactions and “Offline Debit<sup>14</sup>” transactions, although debit has long been disassociated with VISA and MasterCard transactions. In recent years the Offline Debit transaction variety wherein a PIN is not used has been incorporated into the category of a “Credit” transaction as opposed to a “Debit” transaction.

This methodology and application is important because it maintains the profitability of EPS while remaining sensitive to the Merchant Services community. EPS does not try to be the cheapest, nor do they want to be the most expensive. It is important to remain “rate competitive” so the other relevant facets of the EPS offerings are not overshadowed or deemed irrelevant based on a cursory review of base rates.

➤ *NEW Bucket Program*

EPS now has a new industry sensitive buy-rate program for the MLS and merchants alike. The Wal-Mart anti-trust case brought much needed attention to the idea of transaction pricing in the credit card industry. Even though the primary emphasis of the case was related to required acceptance of VISA and MasterCard branded debit cards, the attention created a much broader impact. EPS believes that a product of the litigation will be a general re-evaluation of card acceptance pricing. Some competitors must believe the same as they have jumped into the fire by identifying expense for

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<sup>13</sup> PIN Based Debit transactions are ones that require the cardholder to enter in a secret four-(4) digit code to process the transaction.

<sup>14</sup> Offline Debit transactions are best quantified as a VISA or MasterCard “branded” Check Card and/or other “branded” card used as a debit card and employing the use of a secret four-(4) digit code to process the transaction.

processing at the Interchange levels, although when you consider the 300 + possible qualifications with very little if no ability to influence it is a virtual exercise in futility. The prior transaction qualifications cannot be changed, and future transactions are going to be accepted by the merchant. After all, the merchant wants to make the sale. Now the merchant has to deal with a multi-paged statement with countless lines related to the different transaction qualifiers. Even more discouraging is the fact that the merchant cannot count of which rate will apply to a transaction. In the absence of a blending of rates for the merchant the possibility of a transaction qualifying at a rate considerably higher than anticipated is an unpleasant reality. The blending process protects the MLS and the merchant. It is likened to the concept of shared expensing. More expensive categories are offset by lesser, and therefore the overall is still fair and smoothes the hills and valleys of Interchange pricing.

The EPS “NEW Bucket Program” takes all the above into consideration and is sensitive to the changes in the market and industry. Essentially EPS will eliminate the traditional two-(2) type merchant system (Retail and MOTO) and the Offline Debit categories and replace them with one that can accept transactions across the board. PIN Based Debit will remain a stand-alone category. EPS believes this will eliminate a fundamentally sound yet confusing merchant type designation problem. The buy-rates will still be blended, although they will be blended into six-(6) “Buckets” instead of the traditional two-(2). This will still afford some transaction cost protections for the MLS and merchant while being sensitive to an expanded awareness of Interchange qualifications. In essence, the change will afford merchants a more responsive pricing matrix while still protecting them with blended rates in a wider range of categories.

This NEW Bucket Program is important as EPS wants the MLS and merchant to feel comfortable with the rates. Additionally, EPS believes it is important that the oversight required to reconcile their credit card business with EPS does not detract from them doing the business they are in.

### *EPS Online*

This product provides access to transactional data for a merchants account. They can simply connect via their Internet connection to [www.eps-na.com](http://www.eps-na.com) and use the link at the top of the page to access timely data on their activity. They are in the information age, and some

merchants can't wait to see their activity on a monthly Processing Statement. For them, EPS Online is the answer.

This is an important service offering of EPS because it is sensitive to merchant needs. If both of those parties are happy then EPS in turn, relying on the pricing models is not only happy, they are making money as well.

Future enhancements of the EPS Online product are scheduled for early 2009 in an effort to keep pace with the ever-changing complexion of processing cards.

### *First Merchant Platinum Warranty "FMP"*

This product/service offering is an equipment warranty company owned and operated by EPS, and has been a part of the business model and suite of products since the beginning in the Denver area. This product was developed in response to the ever-present possibility of mishap and accident that plagues everyday life. Merchants and the MLS they dealt through were concerned that a spill, nudge off the counter, or a clumsy drop of an item on the "little electronic box" would damage it to the point that they would not be able to process a sale. EPS identified a need and filled the requirement. At the time of inception this product was a valuable tool for the sellers of terminal based processing as the hardware items (the terminals themselves) were not typically covered by commercial insurers. Once a merchant starts taking credit cards as a form of payment they typically don't stop. The customers of a merchant become accustomed to paying by card, and a change in convenience for the paying public is typically not well received.

EPS maintains a \$250,000 inventory comprised of a wide variety of terminals to support this program and the merchants and MLS that rely on it. When a terminal is warranted that is outdated and EPS does not have a suitable replacement they will deploy an upgrade, or in some cases possibly even a new terminal to keep the customer happy and processing sales.

This service is important to everyone involved. The merchant has peace of mind that they will be able to process transactions for customers even in the event of a mishap with very little interruption. The MLS can relieve some of the anxiety related to equipment purchases by his customers facilitating that sale (and share in the revenue generated by the warranty product), and the continuation of processing supports our core business of card processing.

## Transactional Equipment Sales

EPS maintains an extensive inventory (retail value in excess of \$12,000,000) to support terminal sales nationally. The current terminal deployments are not prohibitively exclusive to the United States Markets and can be deployed in many countries. At present EPS primarily uses the Nurit 8320 terminal, one of the newest in a long line of excellent product offerings from the Lipman companies. EPS does maintain inventory of other manufacturers sufficient to cover present demands, although not nearly as extensive as the Nurit 8320 model. Lipman was recently bought out by VeriFone, and they have agreed to support these terminals indefinitely. The Nurit line of terminals has provided a stable and reliable processing platform for merchants for many years. As the owners of “FMP Warranty” they are acutely aware of the general failure rates of many manufacturers, and the Nurit 8320 is reliable. The EPS success in Transactional Equipment Sales is not predicated on a particular terminal or terminal brand, and quite frankly price, availability, terms, and ease of use dictated the decision to make the Nurit 8320 the current flagship of the terminal lines. When it comes time to re-evaluate EPS will apply the same evaluative process it has successfully applied in the past and move forward.

For this reason and others related to past terminal deployments and proliferation of several manufacturers of terminals, EPS maintains their own Download servers for three-(3) manufacturers (VeriFone did purchase Lipman so now there are only two-(2) they consider primary, although the programming differences require separate servers). They are the now absorbed but a server is maintained for Lipman (branded Nurit), HyperCom, and the aforementioned Verifone. In addition to the servers EPS maintains a myriad of connection methods for each server allowing for multiple simultaneous downloads.

In addition to having the inventory, EPS can and does program and send terminals for installation by the MLS, and will even walk the merchant through a terminal set-up over the telephone (in this scenario the programming of the terminal has already been done here in the Denver offices and sent to the merchant directly). This can be done without prior payment if the MLS has a “Split-Funding<sup>15</sup>” arrangement with a terminal leasing company. EPS can also accept a credit card payment from the MLS, program and then send the terminal out within a ½ hour window of the conversation via FEDEX to anywhere in the United States for delivery within 24 hours of the initial call or less. EPS provides the programming and downloading services for free as an enhancement to the terminal sales package.

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<sup>15</sup> “Split-Funding” is a process by which an MLS has pre-arranged to have a Leasing Company at the time of settlement to the MLS pay EPS the predetermined price for the terminal deployed, effectually “splitting” the disbursement.

Having inventory, product support for inventory, and providing the programming and downloading services for free is important because it maintains a mutually beneficial relationship between MLS and EPS. If they make it easy for the MLS to do their terminal purchasing with us, they will. EPS makes a sale, and the MLS puts another merchant on the books, which benefits us all.

### *Virtual Terminal and Gateway Products*

The rise of processing on laptops, through the Internet, and on desktop terminals in the office is a rapidly expanding marketplace. EPS is in the final development stages of a product that is designed for the Laptop and desktop processing scenarios, and replaces the current product that was built several years ago. Computers and software change rapidly and the current iteration of the computer based product has compatibility issues with some of the new operating systems and is not capable of efficiently handling “swiped” transactions. The new product named “VT Cruiser” will replace the current Virtual Terminal product and be capable of running on the latest versions of Microsoft operating systems. This is a proprietary product being designed, developed, coded, built, and maintained exclusively for and by EPS. This is important because of the proliferation of laptops in the business environment and the connectivity available now via wireless networks and wireless broadband connections. This is a burgeoning market as a laptop can now connect to the Internet over a broadband card, the credit card to be processed can be swiped on an inexpensive card reader that connects easily via a USB port, and a transaction can be approved with the receipt being e-mailed immediately to the cardholder.

The possibilities are enormous here. Every contractor, distributor, manufacturers’ representative, every sales professional that wants to wrap up that order, and virtually every business that has a laptop and needs to collect money can utilize this type of product. This is an exciting horizon that EPS plans to take full advantage of in the coming years.

Several years ago EPS introduced a product to meet the needs of the Internet merchant called “EPS SecureNet.” This is also a proprietary product designed, developed, coded, built, and maintained exclusively by EPS. The product has the ability to incorporate shopping carts (EPS also provides a shopping cart as part of the service, although some larger and savvier Internet merchants prefer to use a program of their choosing that gives them more flexibility to change

product, dialogue, and pricing) and processes transactions in a secure (SSL<sup>16</sup>) environment. In addition to the SecureNet product EPS maintains a proprietary Internet Gateway which is a portal allowing for the connectivity to the Transactional Processors. This product also has the ability to do recurring billing, which is a huge selling point in the fitness/health business. Recurring billing allows for the secure storage of card information for use in following months to initiate charges for agreed services and/or product deliveries.

This is an important offering for EPS because it capitalizes on the growth and proliferation of the Internet and people doing business on the Internet. Everyone has heard about the Dot-com overnight millionaires, and the Internet Billionaires like Google founders Larry Page and Sergey Brin. This is a market that is not likely to slow or disappear and EPS needs to maintain a strong product to keep our footprint in the massive industry.

As discussed earlier about the VT Cruiser product, the EPS SecureNet product is positioned to fill the needs of a large sector of the buying and selling public and the business that support those groups. I doubt any reader of this document has not made a purchase that was not processed by a Virtual Terminal or Internet Gateway product. It would not be unreasonable to believe that one or more of those purchases were made via the use of an EPS product.

### QuickBooks Module

QuickPay Connect was released in the first quarter of 2009, and is an add-on module that will seamlessly interface with the popular QuickBooks and QuickBooks Pro accounting software programs. The product will allow the merchant the ability to process transactions through an Internet connection and will fully integrate with the QuickBooks program. Invoices will be posted as paid, accruals will be satisfied, assigned Bank accounts will show the deposit, and valuable time will be saved.

This is an exciting addition to the EPS product line and is much in the vein of the VT Cruiser and EPS SecureNet product offerings. This product addresses a business need and marketplace

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<sup>16</sup> "SSL" is the acronym for "Secure Sockets Layer," which is the standard for handling sensitive information. SSL's provide:

1. An SSL Certificate enables **encryption** of sensitive information during online transactions.
2. Each SSL Certificate contains unique, **authenticated** information about the certificate owner.
3. A Certificate Authority **verifies** the identity of the certificate owner when it is issued.

previously held hostage by Intuit, the parent company of Quicken who makes QuickBooks. QuickBooks is arguably the most prolific general accounting package in use today for many small to medium companies (the exact market EPS thrives in). For the longest time, if you wanted to integrate a QuickBooks product with card acceptance software you had to deal with one vendor, and one Merchant Service Provider. The product was exclusively available through QuickBooks (an Intuit company), and the MSP was owned by Intuit. EPS has become a third party developer for QuickBooks and has the Software Development Kit (SDK) necessary to write the programs to integrate EPS as the merchants MSP. As you may imagine, this appears to be yet another massive market just out there and waiting for someone to enter. Keep in mind, Intuit is a software company. They are not a merchant services company and do not have the other products to adequately service the needs of the merchant.

This product is important because it taps a virtually captive market that is processing now. Most of these accounts are assumed to have a track record of transactional processing, will understand the nature of card processing as opposed to a new business, and have enough fiscal wherewithals to utilize a formal accounting package.

### *ElectCheck and ElectCheck Plus +*

The two-(2) product offerings are grouped together here and will be discussed as such. To explain the reasoning they need to go back to the beginnings of the service offering when “ElectCheck” was a stand-alone product. A merchant was able to accept a check, manually key certain critical information into the credit card terminal, receive an authorization code and then accept the check with the knowledge that the face amount of that check was now guaranteed. Once the process of authorization was complete the merchant would simply deposit the check and do business as normal. Only in the event of the check failing did ElectCheck once again become involved in the process. The merchant would receive the physical check back from the Bank, fill out a claim form and forward the documents to ElectCheck (a wholly owned subsidiary of EPS that operates from the same offices) for guarantee processing. Provided the check met the prearranged standards of a guaranteed transaction (commercially imprinted check, name on check matches name on signature line, face amount – date – and payee on the check were consistent with the data received during the original guaranteeing process, and the merchant was in good standing with ElectCheck [current with all applicable fees]), ElectCheck would issue the merchant a check in the face amount of the deposited item making the merchant whole on the transaction. This process now seems almost archaic, although it was a valuable service

offering at the time and a hot item in the industry. ElectCheck still has merchants that utilize this exact process yet today.

The aforementioned procedures have evolved over the years from the manual process of check handling to the product they have today known as ElectCheck Plus +, which takes advantage of the “Check 21<sup>17</sup>” laws and converts the checks to an Automated Clearing House (ACH) transaction. This change adds a high level of convenience and efficiency to the merchants’ day-to-day tasks. The checks for ElectCheck Plus + are run through a check reader or imager (readers and imagers are also transactional equipment terminals sold and deployed by EPS), the verifications are completed and the check can actually be returned to the writer (return at time of tender only applies to checks processed through an imager; otherwise the merchant maintains the physical check). The paper transaction is “converted” (this process of converting is commonly referred to as “Check Conversion”) to an ACH and a withdrawal/deposit process is initiated. As a check and balance process ElectCheck Plus + withdraws the funds from the writers account and allows the transaction to sit for 24 to 48 hours assuring that the check is legitimate and not immediately rejected by the issuing Bank for any reason. Once this cursory integrity process is complete an ACH is generated to put the money into the merchants account. No more filling out deposit slips, no more addition errors, and no more trips to the Bank. For a merchant that receives any volume of checks this is a huge convenience and timesaver.

This is an important product as it rounds out the group of payment options available to a merchant and puts a guarantee on the merchants’ revenue. Cash, credit card, and check can all guaranteed forms of payment provided the merchant operates in a reputable manner. Why not accept all forms of payment with confidence? A sign stating “No Checks Accepted” is a negative and a deterrent to doing business. Not to mention that bounced checks are very expensive to deal with and often result in the loss of a customer. The embarrassment of receiving a call about a check that has not cleared may be enough to keep an otherwise good customer from returning to the business.

Currently in the United States, and globally in the future ElectCheck Plus + is viewed as the number “2” of the “1 – 2” punch of selling consolidated services. This product will set EPS apart from the competition in new markets like the anticipated expansion into Canada. The issue with checks is not confined to the United States. Research will need to be done and rates may be affected, although the market is wide open.

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<sup>17</sup> The “Check Clearing for the 21st Century Act” was signed into law on October 28, 2003, and became effective on October 28, 2004. This is commonly abbreviated and known as Check 21.

## EPS 90

This is a new and exciting product offering that is taking the country by storm. EPS 90 is a product that facilitates an “in-house” No Credit Check financing program and is available in an “off-the-shelf” package. Incorporating the convenience of check conversion with a strategically timed deposit schedule geared to when the customer will have the money to pay creates a golden combination. Target markets for this product are dental practices, furniture stores, appliance stores, and auto repair businesses just to name a few. The target industries process a prodigious amount of credit card transactions as well, and the MLS will have the opportunity to offer a suite of financial products to cover a much wider range of payment options for the merchants’ customers.

EPS 90 has relatively easy functionality. A merchant makes the sale, establishes a plan to facilitate full payment within a ninety-(90) day time period, fills in the customer agreement with the dates to submit, check number, and amount of check. Once this process is complete the checks are processed through a check imager (again, an item available from EPS transactional equipment sales). Barring the check writer is not known as a bad check writer the transaction is approved and the merchant provides the product/service. ElectCheck Plus + will guarantee the face amount of the checks to an aggregate amount of \$5,000. The checks are then processed at the pre-appointed time via ACH and the deposits are forwarded to the merchant in the same manner as described for a standard ElectCheck Plus + transaction.

This product is available in a PC based format and can work from a laptop with the check imager attached. The PC version of the product has the ability to pre-print the customer agreement with the present dates and check data as part of the document adding an additional level of professionalism. ElectCheck Plus + will also “Private Label” the product for a merchant to further enhance the presentation value to a prospective customer.

This product is important to EPS because it employs a creative method to approach a lucrative market. MLS and salespeople in general are always looking for the next great item that will get them in a door that has typically been closed, or at best difficult to open. This product does exactly that. Coupled with a reasonable Merchant Services agreement, the necessary equipment to function, and a Platinum warranty to protect the investment, the MLS has a well rounded and unique offering.

As a potential future evolution of this product it may be possible to actually fund the transaction to the merchant and pay them up-front for the sales at a very favorable rate. These

transactions mature in 90 days so the “turn” on the dollars is rapid with the first third of principal returned immediately.

### *ACCESS-NOW.NET*

This is our ISP (Internet Service Provider) company and it has also evolved dramatically over the years. At first it was brought about in an effort to capitalize on the “Dot-com” trends in the early post Y2K era and was seen as a natural complement to the then current offerings. Since that meager start the growth has been sustained and consistent.

Currently they employ a standardized template program to give a smooth and somewhat custom look to the merchants’ site that contains critical contact information. Access-now.net (another wholly owned subsidiary of EPS) creates, publishes, edits at no charge, and hosts the site for the merchant. EPS maintains the servers and connections internally so integrity of the offering is maximized and controlled.

Access-now facilitates a dynamic combination of services offered by EPS. A Merchant Service agreement can be executed to be processed with the EPS SecureNet product utilizing the shopping cart provided by SecureNet on a site designed and hosted by Access-now, and combine the ElectCheck Plus + product with the new EPS 90 (both processed through a check imager purchased through the EPS equipment sales avenues). Once the merchant establishes a track record of processing with EPS they may also qualify for a “Cash Advance” from EPS Merchant Money (this is another product offering that will be discussed later in this document) to expand their business. Additionally, the imager is a product that would be eligible for the FMP warranty program coverage. EPS is not aware of another ISO/MSP that has the same capabilities.

This is important because it provides an “outside of the box” product solution that can further enhance the success of our merchants in their competitive marketplace, which gives a distinct advantage to the MLS that is representing the EPS suit of products. The scenario above affords EPS and the MLS with seven-(7) distinct revenue opportunities, some of which have long reaching residual compensation for continued use of the product.

## *Gift Card and Customer Loyalty*

The concept is simple and the returns are obvious. A merchant sells or gives a card to a customer who in turn gives the merchant a payment/deposit (yes, they can pay with a credit card further enhancing the return for EPS and the selling MLS) to place a dollar amount on the card for future use. As you may guess and the name implies, this card may be given as a “gift” to another customer or it may literally create a future customer. The gift-card holder must return to the store to redeem the amount (or in the case of a chain however large or small to any of the participating locations) and can only use the card for purchases (no cash refunds). This locks in future sales for the merchant which is a method of creating “loyalty.”

Gift and loyalty programs are an exciting and wide-open market that is somewhat untapped. Many of the major retailers have programs that drive sales and dollars into their doors, although the mid-sized or regional retailers have not really jumped on the boat that has been sailing for years with the department stores and national retailers. Multi-location regional furniture and clothing stores, small chain hardware stores, automotive parts retailers, and jewelry stores are prime markets. Regional restaurants and sandwich shops could benefit from these programs. In all reality, it is easier to spread the low initial start-up cost across several locations, although this should not rule out the single location retailers that want to further commit an already loyal customer base. EPS has a strategic alliance with TenderCard, an industry leader in the Gift and Loyalty program business that allows EPS to be fully functional in the management and control of merchants utilizing this product.

This is important because it exposes the MLS to businesses that may be difficult to approach if all you have to talk about is Merchant Services. Everyone in sales looks for an “Edge.” This is a reason for the customer to consider the product they are offering over the competition. Gift and Loyalty programs offer an even more elusive advantage as it is not generally a product offered by many companies. Once in the door an MLS can offer other services like card processing, check services, in-house finance programs, and possibly a cash advance as discussed below. Not only is this product a door-opener, it can be a real deal closer.

## EPS Merchant Money

One of the fastest growing markets for relatively safe “ROI<sup>18</sup>” is in the cash advance arena. In general, a merchant is evaluated for their ability to repay a short-term (typically six-(6) months or less) advance against future sales. Transaction/revenue volume is evaluated from the most recent months credit card processing statements and an advance is made. There are several trains of thought on formulas to determine the amount to advance, although what seems to be a fair “rule of thumb<sup>19</sup>” is the advance of an amount roughly equivalent to one months processing volume. Repayment is achieved by “diverting<sup>20</sup>” a portion of credit card transactions (typically 16% to 18%). The elegance of this scenario is that the merchant still receives the largest share of the sale proceeds allowing for continued cash flow, and the repayment to the advancer is rapid and not contingent on the receiver making payments. EPS controls the flow of the sale proceeds so no payments are missed.

If the merchant continues to process the same volumes as indicated in the recent statements (no reason to believe their would be a substantial drop-off as the advances are made to enhance business operations and the merchant will still need to accept cards as a form of payment in the business) then repayment is completed within 6 months. Since this is not a loan, but an advance against future sales, typical rules related to rates of return do not apply. Oversimplifying the process, an amount of return is calculated (typically a flat percentage in the area of 21% to 38%) and added to the principal balance.

**EXAMPLE:** A \$10,000 advance would require the repayment of the \$10,000 and an additional \$2,100 (if calculated at 21%) to satisfy the debt. Further enhancing the return is the repayment schedule which, at 19% of sales, has the entire debt repaid in just over 6 months (\$10,000 in monthly sales X 19% = \$1,900 per month --- \$1,900 X 6 months = \$11,400 --- just \$700 shy of full repayment).

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<sup>18</sup> A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

$$ROI = \frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

<sup>19</sup> A “**rule of thumb**” is a principle with broad application that is not intended to be strictly accurate or reliable for every situation. It is an easily learned and easily applied procedure for approximately calculating or recalling some value, or for making some determination.

<sup>20</sup> “**Diverting**” in this context is the process by which a pre-determined percentage of every transaction is paid to an advancing company to satisfy a portion of the repayment arrangement/agreement.

Even though the duty is steep, many merchants look the other way as the advance will allow them to purchase equipment on a cash basis getting deeper discounts, take advantage of volume pricing for inventory, make sorely needed property improvements, upgrade technologies to make the business more efficient, and smooth some of the hills and valleys of cash outlays for raw materials, parts, or supplies until project completion and payment from their customer. In fact, over 28%<sup>21</sup> of most companies that take a cash advance will take at least one more.

This product is important for more reasons than the obvious return from the advance. An MLS gets to walk in asking the merchant how much money they need instead of asking for money for what the MLS wants to do for them. If the merchant accepts the advance they agree to not move their processing account to another source until the entire advance including return for the advancer is repaid creating additional revenue for EPS and the MLS in the form of processing volumes.

### Petro-Partners

Paying for fuel purchases at the pump has become a hot-button for America and a distinct revenue builder for the Merchant Services industry. Even though it may seem to be second nature to pay for fuel purchases with a credit card right at the dispenser while never talking to an attendant, the process of getting to that point was anything but. Petro-Partners is actually a branded product of a transactional processor utilized by EPS and the EPS Sponsor Bank (Merrick Bank). Programming of the specialized equipment requires certain expertise and is a niche all in itself. To get the ability to process not only the typical cards (VISA, MasterCard, American Express, Discover, JCB, etc.), and the major fleet service brands “WEX<sup>22</sup>” and “Voyager<sup>23</sup>” which give the merchant the ability to accept the “GSA<sup>24</sup>” cards EPS has formed a strategic alliance with Merrick Bank and the Petro-Partners program.

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<sup>21</sup> SOURCE: “Merchant Money, Inc.,” who is a company out of Houston Texas that has been in the cash advance business since 2005.

<sup>22</sup> “WEX” is the newest name for “Wright Express,” a premier provider of fleet management services to the fleet vehicle industry servicing a large majority of the market in the United States.

<sup>23</sup> “Voyager” is a large provider of fleet management services that caters to governmental clients (States, Cities, and Municipalities) and they also maintain a footprint with the commercial fleet industry.

<sup>24</sup> “GSA” is the acronym for the United States Government “General Services Administration.”

Pay-At-The-Pump programs are important because they help round out the suit of products offered by EPS and can generate high volumes and transaction counts. The opportunities in this market are geared more to the independent retailers than any chain. The chains typically have their own programs and due to their size have direct relationships. The independent on the other hand does not have the astronomical shear volumes to bargain with and needs the services that this product offers. Many independents have multiple facets to their operations such as a convenience store, repair services, towing, or even rental services. There is no reason to think that an MLS that can get the fuel business would not be able to also in turn get the business for other offerings.

## **STRATEGIC ALLIANCES**

### **BANKING**

As mentioned earlier every ISO/MSP must have a Sponsor Bank, and EPS is no exception. Currently the primary sponsorship for EPS is at Merrick Bank. Not wanting to keep all our eggs in one basket, EPS is actively seeking another Bank relationship to compliment our position and keep the avenues open in the case of unforeseen events. Let us say that the Merrick and EPS relationship is strong and good, although recent economic events have proven that a “Plan B” is only prudent. Before they discuss another relationship a bit of history about how the Merrick relationship came to be would be appropriate. EPS is a loyal partner in business and believes in working through the tough issues that all relationships have instead of walking away. To that point, it is important to note that the current sponsorship relationship had its beginnings in the late 1990’s with a Bank in Metropolis Illinois known as National State Bank (NSB). NSB was just getting into the merchant services industry and was excited about the prospects of getting a large producer like EPS (EPS was not known by the current name at that time but for clarity purposes they will refer to the entity that is now known as EPS and all of their wholly owned subsidiaries as EPS). This relationship started out very well and EPS prospered along with NSB. Rick Able, the former president of NSB, was so enamored with the merchant services business that he chose to do business with other ISO’s that did not have the experience and expertise of EPS. This proved to be a foolhardy move. Mr. Able sought out John Dorsey for his thoughts about taking on this new ISO that had these grand plans on how they were going to run their business. Mr. Dorsey listened very closely to the program and promptly warned in the strongest way that the association may have a bad impact on NSB. The other ISO was not

financially sound enough to withstand a setback, let alone a substantial one, and the types of business they were going to take on as merchants were notorious for having high levels of chargeback's. Nonetheless Able chose to accept the ISO and started doing business with them. To make a long story short, the new ISO did experience chargeback's to the extent they could not withstand the loss and folded leaving the sponsor Bank responsible. The chargeback's escalated into the millions and eventually struck deep at NSB to the extent that the FDIC<sup>25</sup> had to step in and take over the Bank. Due in part to the quick action of the FDIC with cooperation from EPS the impact to merchants was relatively minimal and resulted primarily in delays to the merchant deposits. EPS rallied virtually every employee to the phones to handle the calls and settle the nerves of many merchants.

Every cloud has a silver lining, and this was indeed the case with the NSB failure. Provident Bank, a strong Midwest regional bank and part of the Carl Lindner group of companies took over the merchant services part of NSB and a long and fruitful relationship began. Over the years at Provident EPS grew steadily and business was good. EPS had no reasons at that time to consider any other sponsor as the relationship was working for everyone. Provident had the same "work through not walk away" attitude about problems and this meshed nicely with EPS.

In 2004 Provident decided to exit many of their interests including merchant services and many of their retail Bank locations. The transition here was much easier than the one from NSB and EPS smoothly migrated to Merrick Bank. National City Bank had purchased the retail locations, and Merrick had purchased the merchant services component of Provident. Essentially the Agreement was assumed by Merrick and is still the contract EPS functions under today. The relationship with Merrick is healthy and works well for all parties. EPS does keep in contact with some of the Provident staff that they dealt with and Merrick had taken on several of the Provident people going forward.

Essentially, EPS has maintained to the best of their ability the same sponsorship throughout many years and several different entities. This is important because it shows a stability that is respected and appreciated by the MLS that utilize the EPS programs and it also gives some leverage when gentle nudges are needed to get things done.

EPS is happy with the Merrick relationship, although they do not want to be lulled into a false sense of security. For that reason and the general concerns over the economy and lending markets EPS is negotiating with another Bank.

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<sup>25</sup> The "**Federal Deposit Insurance Corporation**" (FDIC) is a United States government corporation created by the Glass-Steagall Act of 1933. It provides deposit insurance which guarantees the safety of checking and savings deposits in member banks, currently up to \$100,000 per depositor per bank.

## TRANSACTIONAL PROCESSORS

Much in the same vein as the EPS Banking relationships they have remained loyal and to this day maintain a relationship with the first processor known as Maverick International (Maverick International was not known by the current name at that time but for clarity purposes they will refer to the entity that is now known as CardWorks) that EPS (continuing the use of EPS in lieu of the names EPS was known by at the for clarity purposes) secured back in the 1990's.

As a processor CardWorks, as they have come to be known today has had a rather checkered past. The original company they negotiated with at the time was known as Maverick International and one of the owners (John Honeycutt) was a prior associate of John Dorsey's. At the beginning of the relationship there were the typical speed bumps, although it progressed and grew to a very comfortable stage. Eventually Maverick sold and the processing entity became known as Card Service International. The name had changed and senior management was also a victim of the change, but the core staff that EPS dealt with at the time stayed making the transition fairly smooth and uneventful. Eventually there was a "changing of the guard" and another name change. EPS is not totally clear on the actual events or details of the change, and they ended up with yet another group of senior managers and a new name "CardSystems." The name CardSystems has become somewhat notorious in the industry. This is the processor that in 2005 had a security breach and over 43,000,000 credit card numbers were compromised. As if a Bank failure wasn't enough, EPS was now confronted with being associated with the company that had the largest security breach of financial data in history. As a result of the breach CardSystems was going to be shut down by VISA and forced to transition their merchant services business. Eventually assets were sold to a company by the name of Pay By Touch.

Immediately after the breach EPS in conjunction with Merrick Bank (Merrick had 17 other smaller ISO's they sponsor on the CardSystems processing platform at the time of the breach) started searching in earnest for a transactional processor to replace CardSystems. Merrick had a previous arrangement with a company known as VITAL which was a joint venture of VISA and Total Systems (the name VITAL is a contrived acronym --- VI for the VISA portion and TAL for the Total Systems component). With the pressure coming from all angles and the need to show stability in the selection of the successor to CardSystems EPS agreed to use VITAL. It was believed that a relationship with a company partially owned by VISA would bring stability to a chaotic situation.

The transition to VITAL was much more complex than the previous transitions at CardWorks. With VITAL, every merchant would need new programming in their terminals to work with the VITAL systems, which requires a download of critical data as opposed to the CardWorks changes that were name and management personnel only and virtually invisible to the merchants. VITAL touted a seamless transition, although it was anything but. At the very point in time EPS was to start processing with VITAL, EPS was informed that Total Systems had bought VISA out of the company and they would be known as TSYS Acquiring Solutions (TSYS) going forward (TSYS is another contrived acronym for T = Total and SYS = SYStems). Rethinking the selection was out of the question and EPS went forward with the conversion.

EPS has survived a Bank failure, the largest security breach of financial data in history, a difficult conversion to a company that changed their makeup midstream and eliminated one of the considerations that lead EPS to choose them, and all of the financial and reputation repercussions that came with all of the challenges.

The above is especially noteworthy because a lesser company would not be able to withstand even one of the events described above. EPS believes that these facts speak to the strength of what they have built.

As an interesting sidebar to all of these happenings, Pay By Touch purportedly mismanaged some of the investment capital they were given and was forced into an employee initiated bankruptcy. The parent company of Merrick Bank purchased them. The name of that parent is CardWorks!

EPS was approached to partner with CardWorks (by and through the contacts at Merrick Bank that manage the EPS relationship) in the venture and at the time EPS agreed to purchase half (½) with certain understandings. Merrick wanted to get the operations under control and both parties still consider the offer to be “on the table.” EPS has kept several hundred merchant accounts on the CardWorks platform to keep an active relationship. Those merchants remain there today!

## *VENDOR RELATIONSHIPS*

### ➤ *CARD PROCESSING EQUIPMENT*

Credit Card processing “terminals” are the primary hardware component in the industry and EPS has been in the terminal sales business since it started. Over the years EPS has

developed relationships with the main players in the terminal manufacturing business purchasing many, many Millions of dollars (wholesale) worth of terminals directly from the manufacturer.

Like many other areas, EPS has been around long enough to see substantial change in this industry as well. In the beginning at EPS they dealt with a company by the name of Verifone® (VeriFone Holdings, Inc. (NYSE: PAY)). You may not recognize the name but EPS is sure you would recognize the product. If you ever saw the little square box in dark gray plastic with buttons and a single line LED screen at the top that processed a card transaction for you, you have seen a Verifone product. That box would have been part of the “Zon” or “Tranz” series of card processing terminals.

At one point EPS broke away from the Verifone line of products for a sharper looking product that had more programming flexibility and technological advantages (more internal memory, faster modem speeds, etc.) known as Nurit (owned by Lipman). The Nurit brands of terminals are very reliable and still the primary deployment of EPS to this day. The “change” alluded to earlier in this sections comes in here. As noted above, Verifone has purchased Lipman and the Nurit terminals now fall under the Verifone umbrella for support. If you can’t bet ‘em, buy ‘em!

HyperCom is another one of the main players and EPS does sell some of these terminals. The HyperCom series of terminals seem a little more challenging from a programming standpoint and many of the MLS that EPS deals with prefer the ease of use they get with the Nurit or Verifone terminals.

Again, EPS maintains relationships with the manufacturers and has a different server to build, store, and download applications from for each manufacturer.

EPS also maintains a healthy working relationship with one of the largest terminal distributors in the country for smaller orders known as “The Phoenix Group.” At this time EPS has somewhat cornered the market on the remaining Nurit terminals and is the primary supplier to The Phoenix Group for these terminal types.

### ➤ LEASING SERVICES

EPS maintains relationships with several Lease Vendors that provide the ISO/MLS with funding. In most cases the leasing companies will also “Split-Fund<sup>26</sup>” a transaction. This unique financial arrangement affords the ISO/MLS the option of receiving the equipment they are leasing to the merchant without first paying for it. Once the sale is complete and the terminal lease verified,

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<sup>26</sup> **“Split-Fund”** is the process by which the leasing company with prior authorization from the ISO/MLS and EPS will disburse the proceeds of a lease funding. This is typically done to reimburse EPS for the processing terminal with the balance of the funding paid directly to the ISO/MLS.

the leasing company pays EPS for the terminal and the balance flows to the ISO/MLS. This saves the expense of maintaining an inventory and the interruption to cash flow that sustaining your own stock creates. Currently EPS has relationships with three-(3) vendors that are recommended to the ISO/MLS's for their choosing. They are:

- ❖ International Leasing Centers  
Oxnard, California  
<http://www.internationalleasecenter.com/>
- ❖ LeaseSource Inc.  
Melville, New York  
<http://www.lsinet.org/index.php>
- ❖ Barclay Square Leasing, Inc.  
Hicksville, New York  
<http://barclaysquareleasing.com/>

Maintaining direct relationships with leasing sources are important because they are vital to the ISO/MLS that focuses on terminal sales. Leasing is a part of the industry business model that has helped feed its growth. EPS doubts that card acceptance would be as prolific as it is today had the ability to lease processing terminals not been available.

➤ *OFFICE EQUIPMENT AND SUPPLIES*

Virtually all of the office equipment, fixtures, trade fixtures, and technology were purchased without finance. At times a little old fashion (“if you can’t pay for it you don’t need it”) attitude is not a bad policy. EPS does rely on several vendors for products and services when a purchase is necessary. EPS does purchase computers and servers from several sources, depending on the specific need. Of late the preference in the IT department has been Dell, although Hewlett Packard has been the product of choice for the servers that handle the majority of the databases and functionality. EPS has a direct relationship with Dell ([www.dell.com](http://www.dell.com)), and primarily uses Insight ([www.insight.com](http://www.insight.com)) for most other IT related purchases. Corporate Express ([www.corporateexpress.com](http://www.corporateexpress.com)) was a provider of many of the office products, although recently EPS was able to find more favorable pricing at a company known as EON Office Products ([www.eonop.com](http://www.eonop.com)).

For the most part EPS has very little need. The office is fully equipped with fixtures and technology, and most of our needs are in the area of updating equipment and maintaining what they have.

EPS is fully equipped now, and making sure that the future will not have surprises to the extent they can be anticipated and actions taken to avert issues.

➤ **OUTSOURCED SERVICES**

As a rule EPS tries to keep everything “in-house” for the control factor that it affords and responsiveness it gives to most situations. On the whole there are only two outsourced services related to day-to-day functionality. Printing of some forms is often a need in most businesses and EPS is no exception. Recently EPS has added a color copier that is utilized to print our own marketing materials. This allows for more change “on-the-fly” and trial and error. When printing is needed for more complex projects, (i.e. multi-part Merchant Applications, Check Service Applications, etc.) EPS relies on Hampden Press ([www.hampdenpress.com](http://www.hampdenpress.com)).

The one area that makes sense for EPS to outsource is copiers, printers, and facsimile machines. EPS utilizes Lewan and Associates, Inc. ([www.lewan.com](http://www.lewan.com)) for these services. The cost of maintenance and service in the form of a “copy contract” (contracts that would cover repairs, service, toners, and general maintenance) rivals the expense of the lease for the equipment. EPS engages in a hybrid lease which includes the aforementioned copy contracts.

EPS has had a long term relationship with Lewan and they are sensitive to our needs. When equipment becomes troublesome it gets replaced. Most of our service needs are resolved within 4 hours of the call.

Along with the marketing materials in color, EPS also utilizes the equipment to print the merchant statements and any general mailings that need to be distributed. EPS gets good use out of the equipment and Lewan keeps it working for us.

## **FUTURE PLANS AND GROWTH OPPORTUNITIES**

EPS is currently exploring opportunities in three-(3) categories; Transaction Authorization Services, Financial Services, and Globalization. Each area of interest has its own challenges and rewards. This is not to say that these three-(3) areas of interest are the only ones under review, but more accurately the ones that have made it to the planning stages.

➤ TRANSACTION AUTHORIZATION SERVICES

Currently EPS is pursuing a relationship with PULSE ([www.pulse-eft.com](http://www.pulse-eft.com)) to be a direct processor of PIN<sup>27</sup> Based ATM/Debit transactions. EPS will actually handle the transaction as it flows from the merchant location and makes contact with the card issuer for authorization. This is yet another area that EPS is looking to internalize as much as possible to incorporate costs, which will result in a pricing advantage in the marketplace. Maximizing the margins of profit for EPS and the ISO/MLS alike creates competitive advantages and profits.

Much in the same vein, EPS is working toward doing the Authorizing and Capture portion of the processing for VISA and MasterCard transactions (previously noted as the “Front-End” portion of the sale). Controlling the transaction at this juncture serves multiple purposes. First of all it allows for additional efficiencies in pricing similar to those noted above for the PIN Based Debit transactions. Secondly, and potentially more importantly it puts EPS in the position of being able to direct where the transaction flows for settlement. This would relieve some of the dependence on the Sponsoring Bank and Transactional Processor. Additional relationships could be negotiated.

EPS, in control of the transactions at this stage of the process, affords competitive advantages and price efficiencies.

The ability to do the Authorizing and Capture portion of a transaction places EPS in the unique position of being able to offer this control to larger ISO’s as yet another product and Profit Center. This is also viewed as a valuable asset in the future expansions to other countries. The systems and companies that provide these services in the United States are abundant, although this is not the case elsewhere.

➤ FINANCIAL SERVICES

EPS has a footprint in the Merchant Cash Advance business, although this is seen as an area that could be greatly enhanced. Many of the participants in the industry right now have severely tighten the criteria (in light of the recent financial turmoil in the Financial Markets this may not be a bad idea), although this may also present opportunity. Merchants that would have made advances last year are now unacceptable based on Risk profiles that have recently changed. EPS is reviewing this area for potential funding as the return on this type of lending is lucrative.

Check Services have always been a part of the EPS business model. The EPS 90 product utilizes the ACH capabilities of EPS, although they only deals with the checks when they are to be

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<sup>27</sup> **“PIN”** is an acronym for “Personal Identification Number.” This is the four-(4) digit number requested by processing terminals when a customer is selecting a Debit transaction.

submitted. Currently, to our understanding, no entity is advancing the amount of the checks to the merchant. This is seen as a great opportunity for rapid turnaround of capital at exceptional rates. Even though there is inherent risk, there are ways to mitigate that risk and provide a unique product that has NO COMPETITION.

Leasing was a part of the EPS business model in the beginning, and EPS exited that market several years ago to focus on building the Portfolio. This is another lucrative “rate of return” industry, and EPS has a built in sales force with the ISO/MLS’s that contribute merchants to us now. It would be a smooth and easy transition to offer leasing.

Offering credit card processing is at the core of the business that EPS is in, it only seems natural to pursue other related financial services.

➤ *GLOBALIZATION*

VISA has recently announced that they are waiving the prohibition of duality, and therefore it now makes much more sense to expand operations than ever before. Rates charged to merchants in many countries are much higher than those charged in the United States. Dropping the prohibition changes everything. Now a merchant will be able to have VISA and MasterCard on the same terminal. This will create explosive growth. Because of the difficulty associated with marketing card services, the Merchant Services industry did not develop in the same way. In many countries selling the services has been relegated to the Banks. That same scenario is what existed in the United States over twenty-(20) years ago when John Dorsey got started in this business. Done right, foreign markets represent an opportunity to attack relatively virgin territory. The difference now is that they have the knowledge and expertise attained from the lessons they learn here in the States.