

Update Bulletin

Connected Payments™ — Top Ten Questions & Answers

Updated: Issue 2
June 1, 2007

StoreNext has partnered with MTXEPS to meet independents' electronic payments challenges with a new consortium of the industry's key technology and processing suppliers – including Hypercom, New Edge Networks, First Data/Concord, Telecheck, Paymentech, Pay By Touch and other processors – to bring low-cost processing and better technology to these grocers.

Connected Payments, and the problems it solves, are really very simple:

Problem: Rising electronic payments fees are devastating independent's profits, but cost-cutting applications aren't purchased due to the up-front expense. Leading-edge payments technology is increasingly demanding and unprofitable for dealers to support. PCI compliance is a looming nightmare, now starting to impact even the smallest grocers and stores.

Solution: Replace up-front investment for payments applications with a low-cost subscription, run a new Web-based WinEPS to centralize operations and eliminate in-store support and PCI technology compliance issues. Ensure dealers always get paid.

With its important new feature capabilities and the great savings and advantages, Connected Payments is likely to be one of the greatest products and most powerful competitive advantages you have had for many years. And yes, it is exclusive.

*starting by wiping
\$3,000 - \$5,000 off every
one of your POS proposals.*

WHAT CONNECTED PAYMENTS IS — AND WHAT IT ISN'T

- **Is:** offering subscriptions as a better financial alternative to up-front purchases
But isn't: taking current software products and options off the market
- **Is:** keeping - and improving - all the traditional WinEPS security features in the store - dial backup, redundancy and store-and-forward/off-line stand-in
But isn't: only transferring current features. Subscribers get more security and capability, more features, and more powerful reporting that can't be done on a store PC
- **Is:** taking lots of code - and most of the dealer support work - out of the store and dramatically simplifying payments software support for the dealer
But isn't: adding risk to the store's electronic payments functions
- **Is:** routing transactions to processors from a new mainframe-based version of WinEPS
Instead of: sending transactions from the store PC directly to the processor
- **Is:** able to route multiple types of payment transactions to multiple different processors
But isn't: processing transactions. Connected Payments is *not* processing payments, and we have not become a payment processor
- **Is:** adding New Edge Networks to your arsenal to meet payment networking needs
- **But isn't:** requiring any specific network, VPN etc. to support Connected Payments
- **Is:** eliminating data-related PCI issues by moving payments data outside the store
- **But the store still must:** meet PCI's *non*-technology best practices requirements
- **Is:** designed to keep dealers active as one-stop suppliers with their customers. Period.

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QUESTION #1 — WHAT DOES IT COST?

We offer two subscriptions packages with special price breaks for (1) small-store, (2) pre-licensed customers (who already own WinEPS) and (3) Charter Subscribers in 2007 only.

The basic subscription is **\$35/\$25 per week for the “Criterion Package”** and it includes

- WinEPS/OpenEPS in-store system, with all traditional WinEPS capabilities (and a bunch of new ones). Credit→Debit conversion is standard.
- The ISS45 or ScanMaster POS interface
- The ISS45 or ScanMaster Signature Capture option
- **The ISS45 or ScanMaster Electronic Check Conversion (ECC/ECA) option**
- All maintenance charges are included
- **The new Connected Payments Electronic Payments Journal**
- **The Report Viewer from StoreNext Connected Services**
- A new report creation and customization system, easy to learn using standard Microsoft tools (think Excel or Access reports)

The **“Summit Package”** adds several additional features, and it's priced at **\$50/\$40**

- Bank Identification Number (BIN) file management option (required for Credit→Debit conversion if not processor-supplied or processor update services is not meeting expectations)
- Signature/Receipt Centralized Storage and Retrieval **for credit transactions**
- ISS45 or ScanMaster Pay By Touch option and interface
- ISS45 or ScanMaster Blackhawk option and interface
- **The Report Viewer from StoreNext Connected Services**

There is one further option currently available, which is storage and retrieval of Debit and EBT receipts and signatures for an additional \$5/week (same with all subscriptions).

For small stores of 5 lanes or less, a \$10 savings per week (the lower of the figures above) applies.

For pre-licensed sites – defined by having already purchased WinEPS – there is also special pricing. Pre-licensed users can choose either:

- Get the Summit Package for the price of the Criterion Package – for the life of their Connected Payments agreement and any renewals. Small or large store pricing is okay.
- Or get the Criterion Package for \$15 for the first two years. Requires a two-year agreement, and this price applies to either large stores or small stores. ***This is about the same price as their current WinEPS maintenance only!***

Special Charter Subscriber Offer:

Charter Subscribers – who sign at least a one-year agreement for the “Summit Package” and process transactions via Connected Payments in 2007 – get the following bonus benefits:

- **Free FSA/HRA Option License:** this new software is a massive upgrade of in-store software from end to end, and the ISS45 and ScanMaster licenses are currently planned for early 2008 with a \$995 list price. This license will be provided to all Charter Subscribers at no charge, adding \$995 immediate ROI.
- **Lifetime Price Protection:** for as long as the user maintains an unbroken Connected Payments agreement in good standing for the “Summit” Package, the subscriber will receive any additional subscription features that may be added to the Connected Payments feature roster for the “Summit” price.



- The Electronic Journal from StoreNext Connected Services – in combination with the Connected Payments Journal, the Connected Services EJ will enable electronic search and retrieval of transactions across time periods and all stores – now for both POS transactions and for the details of the electronic payments transactions. Note that the Charter Subscriber Connected Services EJ may be provided as a “lite” version with some exceptions to the full package’s multiple/nested search options.

The Summary Chart:

	Criterion Package	Summit Package
Regular Pricing:	\$35	\$50
Small-Store Pricing:	\$25	\$40
Pre-Licensed Site (all):	\$15 (two years)	\$35 (forever)
2007 Charter Offer:	N/A	1. Lifetime Price Protection 2. FSA/HRA upgrade 3. Connected Services EJ
Sig/Receipt Debit/EBT:	\$5	\$5

This is the kind of thing sometimes described as "a sellable proposition."

QUESTION #2 — IS THERE ENOUGH ROI?

Day one, the grocer gets \$17+ back in hard returns for every \$1 of subscriptions. This ROI is extraordinary (not only can the store stay in business) in part because electronic payments costs are so extreme that this “low-hanging fruit” has rich savings.

To make it easy to scale the ROI to larger or smaller stores, we’ve used a \$100,000/week supermarket as a basis. Individual saving and cost assumptions are never-ending debates, so these numbers come from standard data from NGA, FMI, wholesalers and surveys that have been generally accepted by the industry and will deliver results in the ballpark.

The savings in the lower section are even more dramatic, but there are several additional assumptions and contingencies involved. The sample processing cost savings (\$0.02) are normally easy for any grocer to achieve coming from an old contract, but implementing gift cards or Pay By Touch involves more planning than the “Big Three” of signature capture, credit→debit and ECC.

Returns for the Grocer	
Store Volume:	\$ 100,000
Weekly EFT Transactions:	2,367
Weekly Savings from Signature Capture:	\$ 154
Weekly Savings from Credit→Debit:	\$ 192
Weekly Savings from ECC:	\$ 260
Total Big Three Weekly Savings:	\$ 606
Weekly Subscription:	\$ 35
Hard ROI from "Big Three":	17.3 Times Subscription Cost
Weekly Processing Cost Savings:	\$ 47
Weekly Additional Pay By Touch Savings:	\$ 174
Weekly Additional Blackhawk Profit:	\$ 277
Total Weekly Additional Returns:	\$ 498
Additional Weekly Subscription:	\$15
Additional Hard Profit:	33.2 Times Subscription Cost

The \$35 price here assumes the Criterion Package subscription at regular-store prices.

QUESTION #2 — HOW DO SUBSCRIPTIONS COMPARE WITH BUYING UP-FRONT?

For the Criterion Package in a standard store, it would take almost 4½ years of subscriptions before a grocer would “cross over” to an up-front purchase. Of course this doesn’t factor in all the advantages and savings from subscribing instead of purchasing software options, but it’s still useful to know.

In a small store, the crossover is 6.2 years. (!) The gray column below is the “worst case” assuming that the grocer would buy WinEPS but still use *none* of the cost-saving features.

The chart below shows the current feature prices for the grocer and comparing it to the subscriptions. A 14% discount to the end user has been assumed: The “Good-Better-Best” scenarios show increased levels of feature sophistication and how they affect the outcome. The analysis uses the typical 10% cost of money – a simple cash comparison is also included.

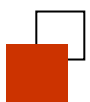
Financial Comparison	List Price	14% Discount		Good	Better	Best
WinEPS:	\$2,500	\$2,150		\$2,150	\$2,150	\$2,150
OpenEPS Interface:	\$995	\$856		\$856	\$856	\$856
Signature Capture:	\$595	\$512			\$512	\$512
ECC:	\$995	\$856			\$856	\$856
Pay By Touch:	\$995	\$856				\$856
BlackHawk:	\$995	\$856				\$856
Maintenance (Annual):	\$700	\$602		\$1,806	\$1,806	\$1,806
BIN File (per week):	\$5	\$5			\$780	\$780
Three-Year Purchase TCO:				\$4,812	\$6,959	\$8,671
Connected Payment Weekly Subscription:				\$35	\$35	\$50
Financial Buy/Subscribe Crossover at 10%, Years:				3.1	4.4	3.9
Simple Cash-on-Cash Crossover, Years:				2.6	3.8	3.3

QUESTION #4 — HOW DOES THE DEALER MAKE OUT?

In discussions with dealers, it’s now clear that there is no “standard” scenario to use for comparison purposes. The major factors – WinEPS discount used, installation charges and profitability assumptions, maintenance discounted or at list, assumptions on maintenance profitability, wholesaler [non-] participation etc. change the numbers too dramatically for relevant analysis here. So this is why the chart from the previous version has departed.

But when you punch your own figures in the calculator, you will find the following to be true:

- Criterion package: 5-year dealer share (30%) is \$2,730
- Summit package: 5-year dealer share (30%) is \$3,900
- Small-store pricing: means \$780 less dealer share over 5 years
- Pre-Licensed sites that already bought WinEPS: this gives Dealers another bite at the apple after having sold (or the wholesaler having sold) WinEPS already. So moving the grocer to Connected Payments is all gravy for the dealer.
- Wholesaler deals: some internal wholesaler payments programs have pretty much locked dealers out of this area of the business. Dealers can now take their share of the subscriptions while the grocer stays with the wholesalers program. No blood on the floor.
- Competition: this is the easy part – knock \$3,000 - \$5,000 off your proposals, deliver a better product and make more money.
- Transaction revenue stream: all processors in the program are compensating all dealers. Dealer agreements in place are *not* reduced by Connected Payments. If there were instances (e.g. wholesaler program exceptions where the dealer was not paid a share of the transactions) these cases will likely remain as-is depending upon the dealer/processor relationship.



QUESTION #5 — HOW CAN I BE SURE IT WORKS?

Our Connected Payments customer trial has been live for eight months at a six-store chain in the Midwest. The rollout and results have been a total success. Authorization response times through Connected Payments have been three seconds or less.

The installations and operations have been so smooth, the customer is so happy, and the financial benefits (especially due to Credit→Debit conversion) have been so large that this is a made-to-order case study. We're working on it.

Connected Payments operates in dual/balanced ultra-secure data centers with fail-over management.

The Connected Payments application, including the in-store components and the data center software applications (called "ServerEPS" and listed with MTXEPS of course) have been fully Certified for PCI compliance and listed on PCI's Web site.

Don't forget - all the protections (redundant payments, store/forward, persistent dial backup and so forth) from the traditional WinEPS systems *are still in Connected Payments* so you have even more levels of safety.

QUESTION #6 — WHAT'S NEW AND BETTER IN THE SOFTWARE?

Connected Payments is what you get by moving WinEPS from a PC to the power of a mainframe computer. Not only do users get anytime/anywhere access to their reports and data, but the mainframe database enables analysis reporting and tools that are simply unavailable to PC-based apps. Now:

- Connected Payments provides a new Reports and Analysis system using the mainframe-based Microsoft Reporting Services. This is very powerful but easy to learn, using Excel or Access-like processes to create new reports or customize existing WinEPS reports
- All the familiar WinEPS reports are there, but now you can also consolidate and reconcile payments reports across dates and selections of stores
- Reports can be across all processors on the same report and in the same format
- A central "payments dashboard" – with a superb user GUI will centrally specifies, stores, controls and applies all store configurations, parameters, transaction flows and tailored operations (fall availability)
- Remote automated diagnostics and automated software updates of store-level OpenEPS, PIN pad software – and even PIN pad firmware. This takes the support load off the dealer and ensures your software is in compliance with the continually-evolving PCI requirements (fall availability).
- A new centralized Electronic Payments Journal, across times, stores, processors. Included in all packages.
- Centralized Signature Capture Storage for credit, faster and more secure than in-store storage (Summit package).
- Automatic BIN file service (Summit package). Much faster downloads and quicker to get new card types and numbers than other services – and may be much less expensive.



QUESTION #7 — WILL WHOLESALERS COMPETE WITH ME FOR SUBSCRIPTIONS?

StoreNext has already started meetings with key wholesalers to ensure Connected Payments relationship with StoreNext dealers is a cooperative and mutually beneficial one.

The technology and support architecture of Connected Payments can solve some of the most significant problems for wholesalers' payments programs, and we expect many of these programs will blend their offerings with Connected Payments to provide better services.

For dealers this is good news since it ensures that all dealers can once again share a major part of payment system revenues while enjoying relief from the difficult support issues that sometimes occur.

Understand that we are all at the start of this program — there will be much learning, many meetings and details and relationships and agreements nationwide as we move forward. But a few key points are already clear:

- Dealers will get their share of Connected Payments subscription revenue — including cases where the dealer received no WinEPS or ongoing revenue in the past
- Dealers will keep account POS control and the account relationships, and dealers are primary in securing grocer agreements. In cases where wholesalers currently manage electronic payments support for member stores in their programs, expect this to continue. With Connected Payments' centralized support and control, however, this will go much more smoothly than it has in the past.
- Wholesaler programs from which Dealers have traditionally not received a *transaction* revenue stream will most likely continue in that mode.
- However, all processor partners in the Connected Payments program — and all those we anticipate joining — *will* provide dealers with a share of the transaction revenue for merchants outside pre-emptive wholesaler programs.
- And this includes processors who have not traditionally offered any transaction revenue to dealers in the past.

So the simple answer in wholesaler programs is that Connected Payments has plenty of upside potential for dealer revenue and relationships with no evident downsides.

QUESTION #8 — WHO ARE THE PROCESSORS IN THE PROGRAM?

Connected Payments is partnering with a selective group of the most important grocery-industry processors — those that provide the best services over the most reliable networks. Connected Payments processing agreements have already been executed with:

- First Data/Concord
- Telecheck (ECC/ECA services)
- Pay By Touch
- **Chase Paymentech**

Other agreements are nearing completion and will be announced in the coming days and weeks.



QUESTION #9 — WHEN CAN WE SELL AND INSTALL?

Just about immediately — go-to-market plans and timing will be provided this coming week via First Friday with a full Program Bulletin to follow

- The Connected Payments product is Generally Released and in full operation with one processing network today
- Additional processors will have Connected Payments agreements completed and the necessary lines installed into the Connected Payments Data Centers within 30 days and be ready to install.
- Other processors require additional interface work and/or final negotiations and will be announced and come on-line over the remainder of the spring and summer.
- All currently-anticipated processors in the program are likely to be on-line with Connected Payments by the end of September.

QUESTION #10 — WHO IS RESPONSIBLE FOR WHAT PARTS OF THE SALE AND IMPLEMENTATION?

There will be a really nice chart that lays all this out in the Program Bulletin.

To Your Success,



Antony van Seester

