

Financial Technology Monitor

January/February 2003

2002 Financial Technology Review

Update's Financial Technology Index turned in its worst performance since inception with a 24% decline in 2002. This compares to a 26% increase in 2001 when the broader indexes struggled that same year with the S&P 500 off 12% and the NASDAQ off 20%. While a price decline in 2002 for the Fin Tech index is not viewed as a positive for the sector, on a relative basis, the Financial Technology companies that we track compared favorably to the NASDAQ's 32% decline and were on par with the broad market where the S&P 500 declined a comparable 23%. The anomaly we saw in 2001 with a rise in the Fin Tech index was directly attributable to the Transaction Processing companies that we track. Transaction Processors were a technology "safe haven" in 2001 and their performance pulled up the overall index. In 2002, the Transaction Processors were impacted by many of the same trends we saw across the board in technology and ultimately resulted in the overall index being reflective of the market.

From a valuation perspective 2002 saw a decline in P/E multiples from a forward median P/E at the end of 2001 of 27.6x to a forward median P/E multiple of 19.4x at the end of 2002.

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Financial Technology Industry News Briefs

- **Online banking - hype or reality?**
The number of US consumers paying bills online has doubled in the last two years. The nonprofit Pew Internet and American Life Project says 32% of consumers or 37 million people are banking online, compared with 17% in March 2000. Catalyzing this growth are two main factors: one, consumers want to be able to bank without having to talk to anyone, and two, many find it more convenient and a more private mode of banking.
- **Worldwide IT spending, a gradual recovery.**
According to the Aberdeen Group, worldwide spending on IT products and services is expected to increase 4.0% in 2003, with long-term growth in the 4% to 5% range. In the U.S., IT purchases will increase 3.6% in 2003, with 2004-2006 annual increases between 5% and 6%.
- **Drivers of bank technology spending in 2003:**
Bank technology spending will rise by about 4 per cent in 2003, roughly the same rate as in 2002, but 50 per cent lower than in 1999 and 2000, according to IDC. Security and risk management, e-payment technologies before the 'Check 21 Act' for truncation, and branch technology will catalyse growth in 2003. In addition, Online banking will remain on the agenda at many institutions, given the popularity of EBPP.
- **Casual payments catching on:**
Advent of non-bank related payment schemes such as PayPal have been a significant opportunity cost to banks. According to Celent Communications, non-banks, specifically PayPal are being increasingly used for casual payments. Like PayPal, as e-checks (on-line ACH debits) too are growing much faster than revenue generating payment modes for banks such as bill pay and credit cards.

Celent notes that the number of PayPal users will grow at a CAGR of 55% through 2004 to 31.5 million from 12.8 million at the end of 2001. While on-line banking users will also increase to 34 million in 2004 from 19 million in 2001, growth will half of what is projected for PayPal.

2002 Financial Technology Review (Cont'd.)

While this suggests that investors have become more cautious in their valuation approach, we would argue that in reality it represents a similar methodology and an expectation that earnings and margins are expected to return to healthier pre-2002 levels. We have surmised the above by comparing Revenue multiples which have remained consistent at the 2.2x level for both 2001 & 2002.

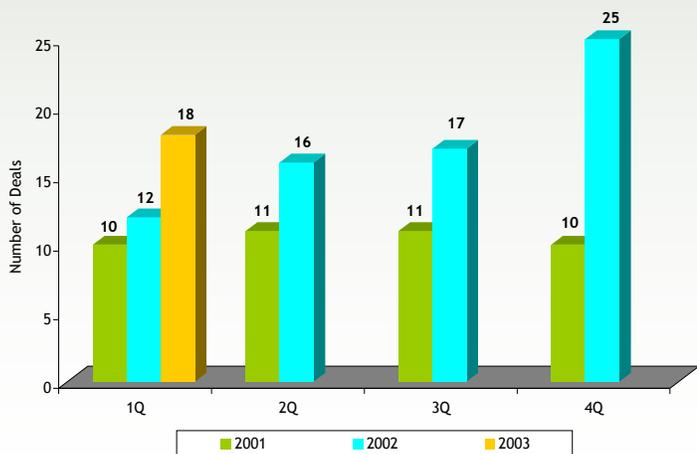
IPO activity in the sector was basically non-existent in 2002 with two glaring exceptions; PayPal and The Chicago Mercantile Exchange. Both deals performed exceptionally well during the year, with PayPal being bought for a 56% return and the CME ending the year up 25%. The venture capital community continues to invest in the sector with over \$100 million flowing into a few key segments including payments, risk analytics and wealth management. We also saw some larger Private Equity firms invest in the sector through sizeable buyouts (eg. GE Global eXchange Services purchased by Francisco Partners) as well as divest large positions (eg. sale of Island ECN to Instinet).

Merger and Acquisition activity in the sector has been increasing at a rapid rate from the lull in 2001. With only 42 deals closed in the areas we track in 2001, we saw a historic low. 2002 was met with increasing deal activity as a total of 70 deals were closed with 25 coming in the last quarter alone. The first two weeks of 2003 have already been met with 9 announced transactions. Moreover, deal size has crept up from 2001 with an average disclosed deal value in 2002 of \$165 million versus \$81 million in 2001. It is important to note that there were also a few large high profile deals in 2002 that skew the numbers. Namely the Ameritrade/Datek deal (\$1.3 billion) and the Ebay/PayPal deal (\$1.3 billion).

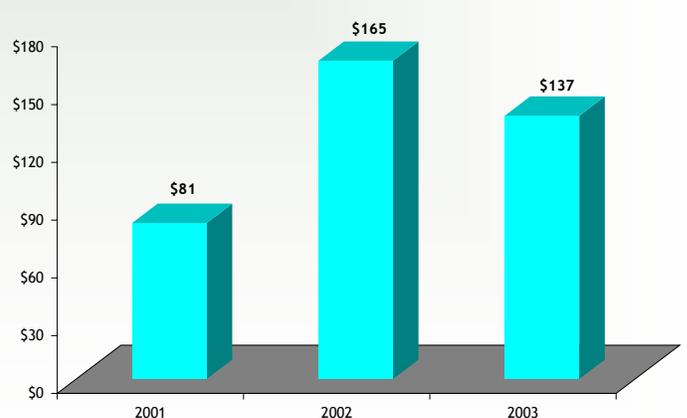
2003 Outlook: We expect to see a modest recovery in the operating performance of the financial technology companies that we track. It tends to vary by segment, with the Software companies and Outsourcers expected to recover more rapidly than the Liquidity Providers and Payments companies. We also expect to see not only continued consolidation in the sector, but an increasing rate of consolidation. The quarterly deal activity in 2002 progressed in an accelerated fashion with deal activity of 12, 16, 17 and 25 deals in each of Q1, Q2, Q3 and Q4, respectively. We expect this trend to continue in 2003. More importantly, as financial institutions look for greater financial stability from their vendors and a reduced number of vendor contracts, we believe that most larger Financial Technology players will continue to fill in and/or broaden their product offering to better serve their customers. In 2002, 74% of the M&A transactions announced were made by a buyer that had made more than one acquisition during the year.

In summary, we see 2003 as a year of increasing stability and profitability across the sector. While we expect anemic levels of capital markets activity, we expect continued activity by both venture capitalists and private equity/buyout groups as well as a more robust M&A market. Specific sectors to watch include, risk analytics, online banking, payments and securities exchange and transaction processing technology. The Financial Technology sector continues to offer exceptionally exciting investment opportunities whether it be through early stage venture investing, mature buyouts or strategic acquisitions.

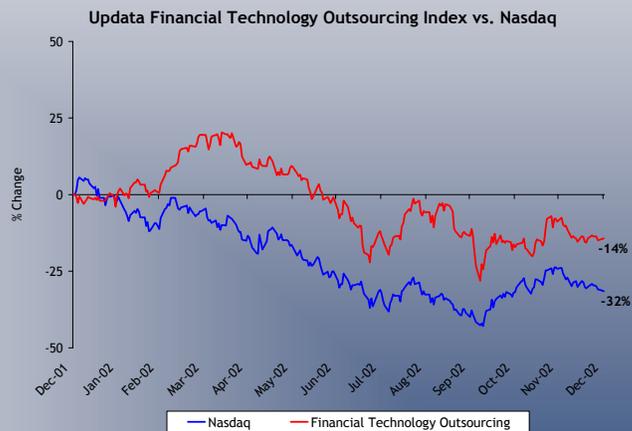
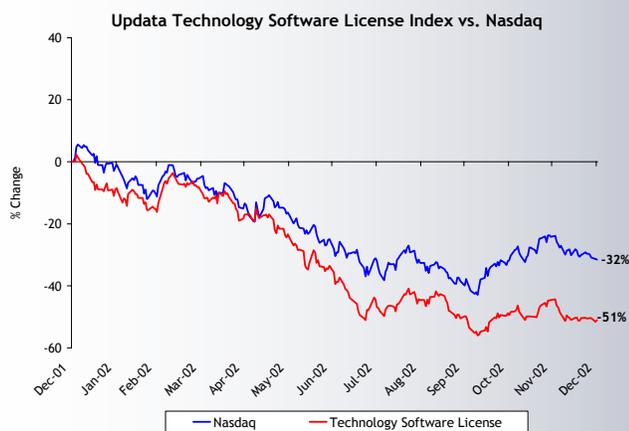
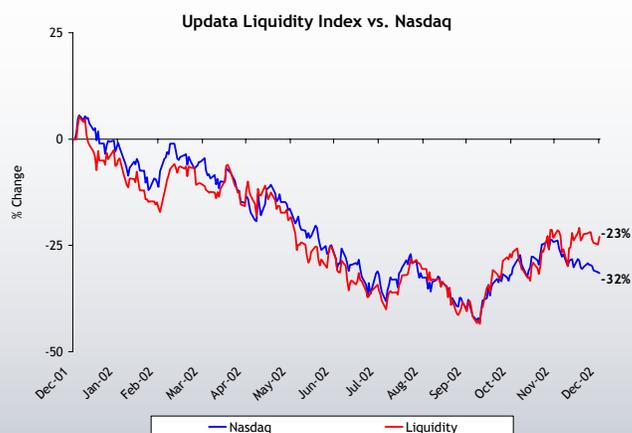
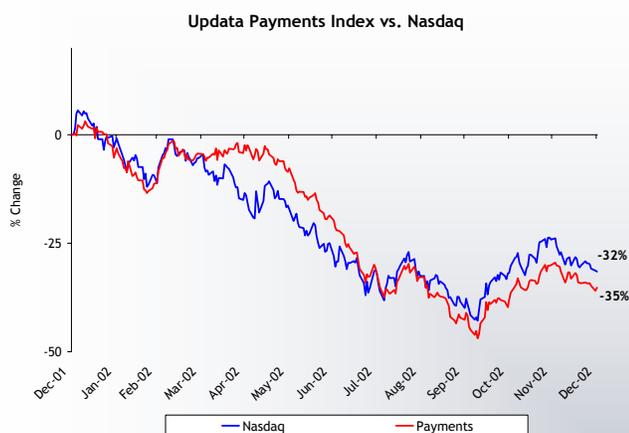
Increasing Pace of Consolidation



Average Disclosed Deal Value



Update Various Financial Technology Composites: 2002 Price Performance



Technology Outsourcing index includes BSG, DGIN, DST, FISV, TREE, SEIC, STT, SDS, ADP, FIC, JH
 Technology Software License index includes SVNX, ADVS, BARZ, CORI, JKHY, INTD, INTU, JH, SONE, SCAI
 Liquidity index includes ESPD, ITG, INET, NITE, NYFX, TRAD
 Payments index includes ADS, ACRT, EPAY, CEY, CKFR, CEFT, EFDS, FDC, GPN, NAP, TSS, TSAI, TTPA, FNDD, ORCC, INTD

Financial Technology Company News Briefs

NEW YORK, NY, Dec. 17 (BUSINESS WIRE) -- **eSpeed, Inc.** (NASDAQ: ESPD), a subsidiary of Cantor Fitzgerald and the leading developer of electronic trading technology, today announced that it has entered into an agreement with the **Chicago Board of Trade (CBOT)**, the world's oldest and third-largest derivatives marketplace, that significantly enhances trading opportunities over the eSpeed system. The agreement, which will distribute the leading futures exchange's products through the eSpeed system, will provide customers with the ability to trade both cash and futures in one neutral, fully electronic, real-time marketplace.

STAMFORD, CT, Feb. 10 (BUSINESS WIRE) -- **NYFIX, Inc.** (Nasdaq:NYFX) today announced it has formed an alliance with direct access technology vendor **Neovest, Inc.**, enabling Neovest clients to route order flow through the NYFIX Network and on to their destination of choice. The agreement will provide Neovest customers with direct FIX-enabled links to any Broker/Dealer, \$2 Broker, ECN/ATS, or Exchange connected to the NYFIX Network. In addition, Neovest clients will gain access to the full suite of NYFIX listed equity execution products.

Financial Technology Company News Briefs (Cont'd)

DALLAS, TX, Jan. 23 (PRNewswire-FirstCall) -- **Alliance Data Systems Corp.** (NYSE: ADS), a leading provider of transaction services, marketing services and credit services, and **Brylane Inc.**, a leading catalog and e-commerce retailer today announced the signing of a 10-year contract extension, which will significantly benefit both parties. Under terms of the agreement, Alliance Data will continue providing private label credit services to Brylane's catalog brands, which include: Chadwick's of Boston, Lane Bryant Catalog, Roaman's, Brylane Home, Brylane Home Kitchen, Lerner Catalog, King Size, Jessica London and La Redoute. Since 1986, Alliance Data has provided private label credit services for Brylane's multiple catalog and corollary Internet brands, and will now continue to do so through January 2013. Alliance Data will continue providing a full array of services, including receivables funding, credit card marketing, billing and remittance processing, and e-business services that complement Brylane's e-commerce efforts.

ALPHARETTA, GA, Jan. 3 (PRNewswire-FirstCall) -- **Certegy Inc.** (NYSE: CEY), today announced that on December 31, 2002, it completed the purchase of substantially all of the assets of **Netzee, Inc.** (OTC Bulletin Board: NETZ) for \$10.4 million in cash. Netzee is a leading provider of integrated Internet banking and bill payment products and services to approximately 800 community banks and credit unions.

ATLANTA, GA, Feb. 5 (PRNewswire-FirstCall) -- **CheckFree Financial and Compliance Solutions (CFACS)**, a business unit within CheckFree Corporation (Nasdaq: CKFR), today announced the launch of its scalable enterprise-wide reconciliation product, CheckFree RECON-Plus Frontier(TM). CheckFree RECON-Plus Frontier is a browser-based, real-time reconciliation solution that provides a comprehensive solution to automate the reconciliation workflow of banks, insurance firms, broker/dealers, government entities and corporations.

ATLANTA, GA, Jan. 15 (PRNewswire-FirstCall) -- **CheckFree i-Solutions**, the leading provider of interactive e-billing and e-statement software and services and part of CheckFree Corporation (Nasdaq: CKFR), and **ExxonMobil** (NYSE: XOM) today announced that four million personal credit card holders can now receive and pay their ExxonMobil credit card bills online. ExxonMobil personal credit card users can quickly retrieve and review the same billing information online that they currently receive by mail. Customers who pay their bills electronically through CheckFree are protected against late fees resulting from processing delays and unauthorized transactions by CheckFree Guarantee.

MEMPHIS, TN, Jan 9 (BUSINESS WIRE) -- **Concord EFS, Inc.** (NYSE:CE), a leading payment processor and operator of the STAR(SM) network, today announced that it has signed a non-binding letter of intent with **Credit Union 24, Inc.** to acquire the Credit Union 24® Network, a member-owned ATM and point-of-sale network based in Tallahassee, Florida. The Credit Union 24® Network connects over 400 credit unions via 7,200 ATMs and 7 million cardholders in 35 states. A definitive agreement is currently expected to be reached during the first quarter of 2003, with closing of the transaction subject to final approval by the shareholders of Credit Union 24® and other customary conditions.

PITTSBURGH, PLANO, TX, and NAPA, CA, Dec. 23 (PRNewswire) -- **eONE Global, LP**, an innovator in identifying and developing emerging payment technology businesses and subsidiary of First Data Corp., the world's leading payment processor, (NYSE: FDC), today announced that it has acquired **BillingZone, LLC** from **PNC Bank, National Association** (NYSE: PNC) and Perot Systems Corporation (NYSE: PER). BillingZone is a leader in providing electronic invoice presentment and payment (EIPP) services for the Global 2000 and their trading partners. The planned combination of BillingZone's services and First Data's existing paper document and check handling capabilities would create the most comprehensive offering available to large companies for automating both paper and electronic financial supply chain transactions.

LOUISVILLE, KY, Jan. 23 (PRNewswire-FirstCall) -- **National Processing Company**, a leading provider of merchant credit and debit card processing and a wholly owned subsidiary of National Processing, Inc. (NYSE: NAP), unveiled Merchant Explorer(SM) OnLine. NPC's Merchant Explorer is a web-enabled application that supports merchants in managing their exception item processing. Merchant Explorer OnLine allows merchants to query chargeback information and retrieval requests in an online, real-time environment. In addition, Merchant Explorer OnLine offers a number of display, print and export options -- providing great flexibility to deliver the right information, to the right people, in the right format and at the right time.

NEW YORK, NY, Dec. 19 (PRNewswire-FirstCall) -- **BISYS**, a leading global provider of business process outsourcing solutions for the financial services sector, today announced its acquisition of Washington-based **Select Insurance Marketing Corporation (SIMCO)**, an insurance brokerage firm specializing in the wholesale distribution of long-term care insurance. Terms of the transaction were not disclosed. SIMCO's strong and growing West Coast platform and loyal distribution channels also expand BISYS' presence and potential in this lucrative insurance marketplace.

SAN FRANCISCO, CA, Jan. 27 (PRNewswire-FirstCall) -- **Advent Software** (Nasdaq: ADVS) is pleased to introduce a software and services solution for the independent broker/dealer market, which will help firms attract and retain independent advisor representatives and provide those representative with a choice of leading technology tools to run their businesses. "Advent/Techfi for Broker Dealers," developed from the combined resources of Advent and Techfi Corporation, offers consolidated reporting, performance reporting, portfolio management, compliance, integration with leading third-party applications, and a comprehensive sales and marketing program to assist independent broker/dealers in rolling the solution out to their representatives.

ATLANTA, GA, Jan. 17 (PRNewswire-FirstCall) -- **Harland Financial Solutions**, a division of John H. Harland Company (NYSE: JH), and **Strategic Technology Solutions, LLC** (STS), a premier communications solutions provider, have partnered to deliver disaster recovery and remote communication services to Harland Financial Solutions' clients that utilize the ULTRADATA System. The ULTRADATA system provides real-time core system solutions to over 400 credit unions. Within minutes of a disaster, emergency or communications system failure, STS steps in to automatically answer and route calls so that member communications are not interrupted. Member calls and voice messages can be queued to member service agents and staff through STS' hosted communications back-up recovery services. Member calls can be routed based on credit union- defined criteria so that member service agents can work from any location that is convenient using an ordinary phone line and Internet connection.

DENVER, CO Feb. 3 (BUSINESS WIRE) -- **Intuit Inc.'s** (Nasdaq:INTU) Denver-based Public Sector Solutions division today announced that its latest product release, Intuit FundWare(TM) 7.20, offers the feature not-for-profit and governmental organizations want most from their financial management software -- better reporting tools. Intuit FundWare version 7.20 introduces an optional Advanced Financial Reporting tool designed to eliminate the nightmare of reporting for organizations with a mission to serve. Intuit FundWare is one of Intuit's growing roster of software solutions tailored to meet the needs of specific vertical industries. Intuit also provides industry-specific solutions for the construction industry, commercial and residential property managers and durable goods wholesalers.

MONETT, MO, and CHICAGO, IL, Jan. 2 (PRNewswire-FirstCall) -- **Jack Henry & Associates, Inc.** (Nasdaq: JKHY), a leading provider of technology solutions for financial institutions, today announced it has purchased **National Bancorp Data Services, LLC** (NBDS), an item capture processor. The terms of the cash transaction were not disclosed. NBDS currently provides item capture and check imaging services for 14 banks. NBDS services financial institutions in the greater Chicago communities in Northern Illinois, Southern Wisconsin and Northern Indiana, generating approximately \$1.5 million in revenues in 2002. "Our ability to provide a full-service outsourcing solution in the Chicago market is greatly enhanced by this acquisition: It completes our footprint in this important geographic area, which is home to a large number of financial institutions," said Michael E. Henry, Chairman and CEO of JKHY.

ATLANTA, GA, Dec. 18 (BUSINESS WIRE) -- **S1 Corporation** (Nasdaq: SONE), a leading global provider of Enterprise solutions for the financial services industry, today announced it has entered into a strategic relationship with **EastPoint Technologies**. Through the agreement, EastPoint Technologies will integrate and resell S1 Enterprise Solutions, including S1 Personal Banking and S1 Business Banking, with EastPoint's core-processing solution, EastPoint Enterprise Banking System, for current and prospective community and regional banking clients. EastPoint is a software and service provider of core-processing solutions for community banks, finance companies and farm credit banks. The EastPoint client base is composed of institutions with assets from de novo to over \$10 billion. EastPoint Technologies is the first core processor to create a real-time SOAP interface between its systems and the S1 Enterprise Personal and Business Banking applications.

SAN RAFAEL, CA, Dec. 19 (BUSINESS WIRE) -- **Fair, Isaac and Company** (NYSE:FIC) announced today that its industry-leading TRIAD(TM) adaptive control system will help Canada's largest issuer of Visa and general purpose credit cards make more profitable portfolio and individual account-level customer treatment decisions. Under the agreement, Fair, Isaac's TRIAD 7.0 will serve as the single strategy engine platform to service Canadian Imperial Bank of Commerce's (CIBC) more than 5 million Visa credit card accounts at TSYS (NYSE:TSS), a global provider of electronic transaction services for some of the world's best known and most respected financial institutions and retailers. The three-year agreement builds upon Fair, Isaac's existing relationship with CIBC. CIBC has been using the client-installed version of Fair, Isaac's TRIAD adaptive control system to manage its card portfolio for nearly a decade and will transition its accounts to TRIAD 7.0 at TSYS by early 2003. TRIAD has over 90 percent of retail market share and over 80 percent of financial services market share in Canada.

WINDSOR, CT, Jan 29 (BUSINESS WIRE) -- **SS&C Technologies Inc.** (Nasdaq: SSNC), a leading provider of investment and financial management software to the insurance industry, today announced the signing of a long-term co-marketing and technology sharing agreement with **Milliman USA**, the nation's largest insurance actuarial consulting firm. Under the agreement, the two firms will cooperate in the distribution, development and servicing of the PTS® and MG-ALFA(TM) financial modeling software products. Concurrent with the agreement, SS&C announced the launch of AnalyticsExpress, its new reporting and data visualization tool.

Financial Technology Company News Briefs (Cont'd)

ATLANTA, GA, Jan. 10 (RNewswire-FirstCall) -- Through a new agreement between Harland Printed Products, a division of **John H. Harland Company** (NYSE: JH), and **BISYS** (NYSE: BSG), a leading global provider of business process outsourcing solutions for the financial services sector, banks using BISYS solutions can increase branch efficiency, reduce check order errors and enhance customer satisfaction. The agreement integrates Harland's checks.center Branch with BISYS' Relationship Manager Suite, a comprehensive sales, marketing, and customer service solution powered by Siebel eBusiness Applications that is designed to rapidly increase revenue generation and customer satisfaction across multiple distribution channels. Through the integration, BISYS' Relationship Manager Suite clients will have access to Harland's state-of-the-art Internet check ordering management solution. The integration provides a seamless check ordering interface that gives financial institution branch, call center and service department employees a comprehensive view of customer information including available checking products, current check orders and order history.

CHARLOTTE, N.C., Feb. 10 (PRNewswire-FirstCall) **LendingTree, Inc.** (Nasdaq: TREE), the leading lending Exchange, today announced that consumers who visit the www.lendingtree.com site will now have the opportunity to utilize a customized home valuation option provided by **FNIS** (Nasdaq: FINS), a leading source for real estate-related data, technology solutions and services. The addition of FNIS' home valuation tools to the LendingTree site will enable consumers to conveniently access online information about home valuation. Additionally, consumers can also use the tools to research home value ranges and neighborhood comparable home sales, as well as relevant neighborhood and crime information.

BOSTON, MA, Jan 31 (BUSINESS WIRE) -- **State Street Corporation** (NYSE: STT) announced today that it has completed the primary closing of its acquisition of a substantial part of **Deutsche Bank AG's** (NYSE: DB) Global Securities Services (GSS) businesses. Under the terms of the definitive agreements, first announced on November 5, 2002, State Street's initial payment to Deutsche Bank for all of the business units is approximately \$1.1 billion. A separate closing will be held in the near future for business units in Italy and Austria, upon receipt of applicable regulatory approvals. In the period ending on the one-year anniversary of the closing, State Street will make additional payments of up to an estimated EUR 360 million, based upon the performance of the acquired businesses. Through the acquisition, State Street gains substantial parts of Deutsche Bank's global custody businesses, which had approximately \$2.2 trillion in assets under custody as of August 31, 2002. State Street has also acquired fund administration and Depotbank services, securities lending capabilities, performance measurement services (through the WM Company) and benefit payments services, as well as U.K. and U.S.-based domestic custody and securities clearing operations. With the Deutsche Bank global securities services businesses, State Street becomes a leading provider of investment services in Europe. The acquired businesses serve investment managers, private and public pension funds and insurance companies in 92 markets. Approximately 3,200 Deutsche Bank staff members around the world have become State Street employees.

Upcoming Financial Technology Events

March 9 - 11, 2002:	7 th Annual National Collections and Credit Risk Conference, Las Vegas, NV
March 27, 2003:	Data Management Conference, New York, NY
May 12 - 15, 2003:	13 th Annual CardTech/SecurTech Conference and Exhibition, Orlando, FL
May 18 - 20, 2003:	15 th Annual Card Forum & Expo, New Orleans, LA
September 21 - 23, 2003:	16 th Annual Benefits Management Forum & Expo, San Diego, CA
September 22 - 24, 2003:	The Bond Buyer's 13 th Annual California Public Finance Conference, San Diego, CA
October 15 - 17, 2003:	12 th Annual Credit Cards Collections Conference, Orlando, FL
October 23 - 24, 2003:	Small Business Banking Conference, Baltimore, MD
October 27 - 28, 2003:	ATM & Debit Forum, New Orleans, LA

Recent Financial Technology Private/Venture Capital Financing

Date	Company	Description	Amount Raised (Mil.)	Investors
Feb-03	Peppercoin	Online payment systems	\$1.7	ND
Feb-03	CashWorks	ATM-based check cashing services	\$5.0	Capital Southwest
Feb-03	CashEdge	infrastructure that enables financial institutions to manage their customers' online transactions	\$5.0	CIBC Capital Partners, RBC Financial Group.
Jan-03	DerivaTech	Advanced currency derivatives pricing, analytics, transaction processing, and risk management applications	\$7.0	Trident Capital
Dec-02	Qpass	billing software for wireless carriers and other network operators	\$10.7	RRE Ventures, Westbury Partners, Hook Partners, Oak Investment Partners, Seapoint Ventures, and Venrock Associates
Dec-02	StockDiagnostics	Stock research firm	\$1.3	N/A
Dec-02	PayCycle	Internet based payroll management services	\$11.5	Conning Capital, August Capital
Dec-02	Cyota	Online payment security software	\$8.0	RRE Ventures

Financial Technology M&A Activity

(\$ in Millions)

Date Closed	Seller	Buyer	Deal Value	Revenue	Mult of Revenue
Pending	Caminus Corp	SunGard Data Systems	\$159.3	\$89.2	1.8x
Pending	ProBusiness Services Inc	ADP	\$500.0	\$168.6	3.0x
Pending	Hoover's Online	Dun & Bradstreet	\$117.0	\$32.0	3.7x
Pending	Brand and Trade Processing Technology of Proponix	American Management Systems	ND	NA	NA
Pending	AVT Technologies	Reuters	ND	NA	NA
Pending	SEDONA's Customer Base	Fiserv	ND	NA	NA
Pending	S&P ComStock	IDC	\$115.0	\$52.5	2.2x
Jan-03	Proquote	London Stock Exchange	\$36.0	NA	NA
Jan-03	Mergerstat	Factset	ND	NA	NA
Jan-03	DirectAdvice	Mellon Financial	ND	NA	NA
Jan-03	Euronet's UK ATM Network	Bridgepoint Capital	\$29.6	NA	NA
Jan-03	International Card Establishment	iNetEvents	\$2.1	\$1.2	1.8x
Jan-03	GlobalTech	iNetEvents	\$0.8	\$8.0	0.1x
Jan-03	BrokerTec	Icap	\$291.4	\$97.3	3.0x
Jan-03	Kryptosima LLC	InstaPay Systems	ND	NA	NA
Jan-03	Avidyn	Fiserv	\$10.5	\$8.0	1.3x
Jan-03	Lester Associates	TRADEPAQ	ND	NA	NA
Jan-03	Credit Union 24 Network Business	Concord EFS	ND	NA	NA
Jan-03	Lenders Financial Services	Fiserv	ND	\$8.0	NA
Jan-03	National Bancorp Data Services	Jack Henry & Associates	ND	\$1.5	NA

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