



# The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

September 26, 2005 • Issue 05:09:02

## Inside This Issue:

### News

Industry Update ..... 14  
 MasterCard Plans IPO ..... 43  
 CardSystems Meets Compliance  
 Deadline, Visa and AmEx Retain  
 Original Position ..... 72  
 GS Online: 2.8 Million and Climbing ..... 73  
 Financial DNA Explores the Unbanked ..... 74

### Features

**Industry Leader: Michael Nardy**  
 The 'Little Businessman' Grows Up ..... 34  
 Katrina's Impact on ATM  
 Industry Hard to Assess  
 By Tracy Kitten & Nick Wiselogel,  
 ATMmarketplace.com ..... 54

### View

FTC Has ISOs in Its Sights  
 By Patti Murphy ..... 24  
 Rules and Fines: The Cost of  
 Cardholder Data Security Breaches  
 By Ken Musante ..... 31

### Education

**Street Smarts<sup>SM</sup>:** Security and the MLS  
 By Kathy Harper ..... 76  
 Finding New Revenue Streams  
 in Your Current Merchant Base  
 By Nancy Drexler and Sam Neuman ..... 84  
 The Leading Edge:  
 Advanced ATM Functionality  
 By Tommy Glenn ..... 90  
 Making the Call With a VoIP Solution  
 By Joel Rydbeck ..... 94  
 The Nonpublic Personal  
 Information Hot Potato  
 By Adam Atlas ..... 100

### Departments

**QSGS:** Quick Summary Green Sheet ..... 8  
 Company Profile ..... 47  
 New Products ..... 109  
 Inspiration ..... 113

Table of Contents  
 Continued on Page 3

## Payments Industry Responds to Hurricane Katrina

First the wind and rain came, then the flooding, all brought by Hurricane Katrina, possibly one of the worst natural disasters in U.S. history. Soon after, funds and relief began pouring in for victims of the catastrophe. From the largest card Association to the smallest ISO, many of the companies offering help are from the payments industry.

American Express Co., MasterCard International and Visa U.S.A. each announced pledges of at least \$1 million. Morgan Stanley's Discover Financial Services is donating \$2 million. First Data Corp.'s Western Union cut its service fees in half for Western Union Money In Minutes transactions sent from within the United States to Mississippi, Louisiana and Alabama.

### Trade Associations Get Involved

To help the merchant acquiring industry support businesses that have lost the ability to process payments because of damaged or destroyed equipment, the Electronic Transactions Association (ETA) established an online resource to link businesses in need of supplies and equipment with ETA members willing to donate or lend those services (for more information, visit [www.electran.org/about/katrina\\_information.htm](http://www.electran.org/about/katrina_information.htm)).

"Rebuilding these Gulf Coast communities will take many months and the efforts of countless heroes working to assist those in need. ... I challenge the entire ETA community to do whatever possible to support those in need

now and in the many months ahead that will be required for this recovery," said Carla Balakgie, ETA Executive Director.

The ATM Industry Association and ATMmarketplace, an industry trade publication, are seeking donations to assist hurricane victims. They will deposit them into ATMIA's Education and Development Fund, a nonprofit charity, and then dispense the funds to the American Red Cross and an ATM business hardest hit by the damage, said Tom Harper, President of AMTIA and publisher of ATMmarketplace.

(Read more about how the hurricane has affected the ATM industry in the ATMmarketplace article, "Katrina's

See Katrina on Page 67

### Ways You Can Help



**Red Cross:**  
 800-HELP-NOW or  
[www.redcross.org](http://www.redcross.org)

American Red Cross

**Salvation Army:**  
 800-SAL-ARMY or  
[www.salvationarmyusa.org](http://www.salvationarmyusa.org)



**AmeriCares:**  
 800-486-HELP or  
[www.americares.org](http://www.americares.org)

# IndustryLeader

## The 'Little Businessman' Grows Up

**T**hink back to when you were five years old. When penning a wish list for Santa, what was at the top? A bike? Legos? Maybe a new baseball mitt?

For one five-year-old, **Michael Nardy**, future Founder and Chief Executive Officer of Electronic Payments Inc. (EPI), "businessman supplies" were at the top of his list. Luckily, the request made its way to the North Pole, and that year a very excited boy found paper, pens, folders and a file cabinet under the Christmas tree.

"My parents called me their 'Little Businessman,'" Nardy said. "Unlike most gifts, I still have that file cabinet in my office today."

As technology developed, so did Nardy's supplies. A few years later, when he was eight years old, his father brought home a computer. Nardy would sit at the computer for hours playing with the DOS and BASIC shell commands, skills that would later help him when writing one of EPI's ISO tools, the ISOinterface.

"I was always into computers as a kid and that continued throughout my childhood," he said. "I literally lived at our computer table. There [were] times I would quickly run upstairs to shower and return stark naked and still wet, just to continue my 'work.' Lucky for my employees, I don't do that anymore."

Soon the youngster stopped playing business and began conducting it. At age 12, he started a tennis racquet stringing company called Strings N Things.

He was a junior tennis player who participated in tournaments and needed to continually restring rackets. He recouped some of the cost of a \$1,200 racquet-stringing machine by stringing others' racquets.

"I even sold one racquet when my dad took out an ad for me in the local paper," Nardy said. "A man called from the ad, bought a racquet sight-unseen, and my mom drove me over to his house to deliver it. It's pretty funny when I look back at it; this 12-year-old kid selling a racquet, but it was everything to me at the time."

### From Serving Aces to Serving Customers

As Nardy matured, his aspirations shifted from tennis to medicine. He attended summer school at Brown University for a medical-intensive program. "I ended up dissecting a human cadaver, did blood work, shadowed

a physician and promptly decided I wasn't cut out for medicine," he said.

Nardy attended Boston College and graduated with a double major in English and History. "A far cry from the merchant services industry, but I always felt you should do what you want and the pieces of your career will fall into place as they may," he said.

In Nardy's dorm room in 1998, EPI was born. "Originally I was running an IT company doing Web programming and database development for companies in the U.S. and Canada," he said.

"I even had a client in Malaysia, and as a result, missed a lot of classes because we would e-mail and IM, and the time difference was about 12 or 13 hours."

The telephone to his dorm room was his business line. Friends would call and hear the greeting and wonder if they had misdialed. Nardy's first experience in the financial services industry came from his Internet clients. "One of our flagship products was an eBay-style auction program called Auction Out!

"The requirement was we integrate our software with VeriSign Payflow Pro and Authorize.Net, so we ended up working with Harris Bank, Vital and Moneris Solutions, a partnership that gave us the ability to work with Canadian and U.S. businesses.

"The growth of my company taking place in college doesn't seem like the natural way a company is built, but I was eager to be off on my own and growing a business in an industry I felt I could contribute something to," he said.

Eventually, business was getting big enough that EPI set up an 800 number; the same 800 number in use today. From his dorm Nardy closed deals, and many clients that called thought it was a huge business. "I didn't want to tell them I was still in college," he said.

When he went home for the summers, the company's headquarters moved to his bedroom in his parents' house. From there he ran the business while also working as a pest control technician for his father's 50-year-old pest control company.

### Moving On

After graduation Nardy and EPI moved off campus.

**IndustryLeader**

"Moving on with my company was just what felt right, what was natural for me," he said. "When I moved into my own house, the company was run from my basement. There were servers, computers, a phone system and equipment all over the place; it was cramped. We then expanded into a sublet office in my town, and now into an office building down the road from that."

Nardy acknowledges that EPI entered an already crowded marketplace. But, he saw an opportunity and jumped at it. "It probably wasn't the easiest path we could've taken, but it was the best path to grow the business in the way I wanted to," he said.

If you've done the math you've probably realized that Nardy is young. Although he doesn't discuss age, he admits to being in his twenties. "As far as youth, most of our ISOs know I am young, but it certainly doesn't dissuade them from signing up with EPI or sending us business," he said.

"The fact is, it doesn't matter if I'm 30 or 50. This company isn't going anywhere, and I'm going to be the same person in 30 years that I am now. Consistency is a big part of my makeup."

**'Think Big and Act Small'**

Nardy is a quick thinker and quick to take action. "I think the fact that I am quick to act is both my greatest strength and weakness ... I am always trying to keep EPI ahead of the competition, and any of the growing pains we've experienced have been short-lived and our ISOs have been incredibly supportive," he said.

He also strives to be available and accessible. Rather than cloistering himself away in a CEO's office, he chooses to work alongside his employees to keep a small company atmosphere.

Most of EPI's ISOs, and many of its merchants, have Nardy's personal cell number. He responds to e-mails day and night. "The more accessible to your staff and ISOs, the more cohesive the vision for your company can remain," he said. "So being accessible is integral to the operation of my company."

"I think that my main business philosophy is to think big and act small. ... I have always taken on more responsibility, more work, more challenges in trying to be a completely in-house shop."

He believes that in order to be successful, you need control. He believes EPI's success comes from underwriting and approving its own accounts, controlling merchants' funding, and monitoring risk, chargebacks and retrievals. He said that this in-house approach offers the freedom to grow quickly and offer competitive programs.

"Taking on the liability of a portfolio was, and is, a daunting challenge, something most wouldn't even consider, especially with the ISO programs being offered today," Nardy said. "I don't know if it was the right move, but it gave us incredible freedom to grow when I needed it. And in turn, we try to pass that freedom down to our ISO base."

That doesn't mean it has always been easy or without risk.

**Lessons Learned the Hard Way**

The cost of running a full-liability MSP can be great, especially when Nardy shares the story of "... a merchant who busted out to the tune of a \$40K loss." He explains that this was a merchant whom he knew personally, on which he performed the required due diligence, verified transactions, checked bank balances, etc., yet he still lost money. "It was an incredibly tough loss, and the money is unrecoverable," he said.

Nardy learned a hard lesson, and he's not afraid to admit it. "Just because you 'know' a merchant doesn't mean it's all rosy after you sign them up," he said. "And doing all

the right things still cost me money. Even some merchants that are on your books for years can turn out to burn you."

He shares this experience with others in the hope that they will avoid the same pitfalls. "If I learned anything from this, I am certainly sharing it with potential ISOs who talk about a full-liability deal; it's just not worth it for them unless they are heavily capitalized and experienced," he said.

### Helping Others Navigate the Bankcard Industry

This candid information is a direct result of Nardy's experience in the industry. He felt knowledge was scarce, and he was only exposed to the information he researched himself.

"Every conversation I had and every scrap of information I could locate I devoured, and I would just try to absorb everything I could learn," he said. "For me, this industry was very elusive. I had no [GS Online MLS Forum] to turn to when getting into the industry like many others now benefit from."

Now, he tries to make the way a bit easier for those who follow him. "I just think back to my first relationship manager and how tight-lipped she was about sources for information about this industry," he said. "Knowledge shouldn't be secretive; the more we share with our ISO partners, the better producers they become."

Nardy recognizes the importance of sharing information with all ISOs, not only those that work with EPI. "I like to share what I know," he said. "Similar to others on The Green Sheet Forum, having a presence and helping others grow their businesses, even if they aren't writing with us, does us a great deal of good will."

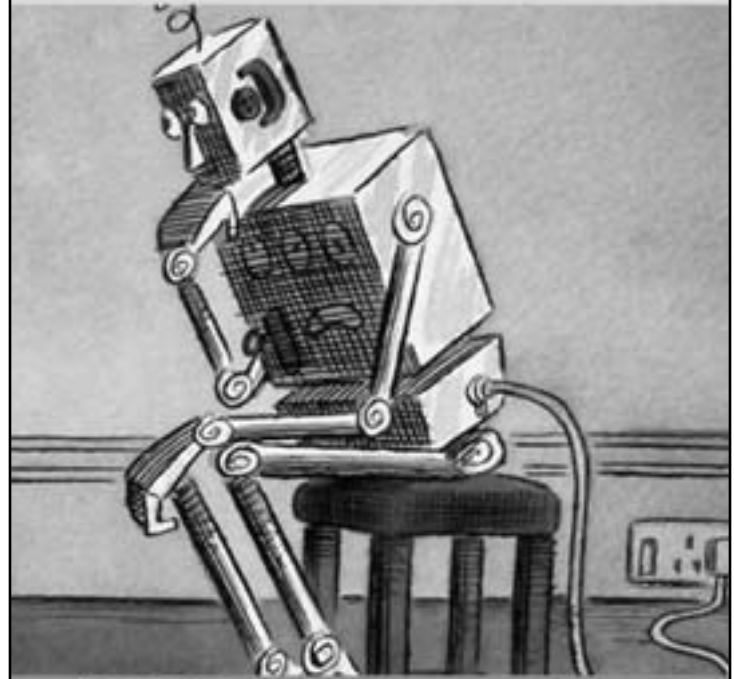
### Never Satisfied

Nardy will be the first to describe his work style as ad-hoc. "If it feels good, sounds good, and looks good, then why not try it?" he said.

"I'm always willing to try something once. I always want more. I want our ISOs to earn more, to sign more deals, to build their businesses. I sometimes wake up in the middle of the night thinking we've lost our edge, and then I hit my computer and come up with a new program that makes it easier to manage our ISOs' businesses."

One such initiative is EPI's new healthcare program. EPI will pay up to 100% of its ISOs' health insurance premium, up to \$307, the average cost of health insurance. "This is a good program, I am very proud of it," Nardy said. "I hope others follow suit, and

I KNOW WHAT YOU MEAN.  
MY MOTHERBOARD HAS NOT  
INTERFACED WITH ME FOR  
YEARS NOW. SOMETIMES  
I JUST WANT TO CRASH.



"I'm Yadira,  
Your Personal  
Service  
Representative."

**COMPUTER-DRIVEN  
SOLUTIONS AREN'T ALWAYS  
THE ANSWER. WE LISTEN  
AND FIND SOLUTIONS**

Over the past 10 years,  
we have exceeded  
expectations for  
thousands of customers.

**CALL US TODAY! 800-398-9701  
REAL PEOPLE, REAL SERVICE**

**I**  
**INTEGRATED**  
LEASING CORP.

**WE'RE THE INDUSTRY LEADER  
IN WIRELESS TERMINALS!**

We're Proud to Say...  
  
All of our Operations  
are in America.

## IndustryLeader

▶ **"In an industry that is by its nature ... a sales-based profession, transient and often filled with stories of unfortunate experiences of ISOs and MLSs, the only thing you can do is be honest, upfront and never falter from your core business principles. Lead by example and be consistent."**

- Michael Nardy

we will continue to pay premiums even as the cost of healthcare rises."

This program is unlike other areas in which EPI retains control. "The key benefit of our healthcare initiative is we are completely hands-off," he said. "We don't make you sign an exclusive agreement; we don't make our ISOs use our coverage and carrier.

"We let them choose the level of coverage and benefits they want, and we will cover as many people as they need; as long as they do 10 deals per covered individual."

Nardy has already come full circle before the age of 30. He has gone from "Little Businessman," to racquet stringer,

to almost M.D., and back to businessman. This entrepreneur is living proof that you don't have to be an industry veteran to be an industry leader.

He offers the following advice: "In an industry that is by its nature ... a sales-based profession, transient and often filled with stories of unfortunate experiences of ISOs and MLSs, the only thing you can do is be honest, upfront and never falter from your core business principles. Lead by example and be consistent."

Nardy plans to be part of the financial services industry for some time. "I love sales and I love this business; there is really nothing else I can see myself doing," he said. "I have no exit plans in sight and will continue what I am doing as long as I can. There's still a lot more I feel I can do to grow EPI and contribute to our industry." ■