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# Memorandum

Date December 18, 1996  
City New York  
Office CCSG

Subject DEBIT CARD  
To Distribution  
From Phillip J. Riese

*Judy, H. I do not believe we can maintain our current discount rate on debit. We probably would be very close to Bank Cards but at a small premium. If the economics don't work we shouldn't do it. Have we thought about a bank partner? I believe we will need a debit product long term. We are already disadvantaged in some international mkt's.  
Dave*

A number of teams have been exploring Debit Card options in the US. Some months ago, we commissioned Judy Hoffstien to bring together these teams, and their knowledge bases, and present a proposal for Debit Card in the US to Senior Management. Yesterday, Judy, Adam Rothschild and others presented an excellent analysis of the market and the opportunity, representing the work of many people from Business Units around the organization.

The analysis showed

- There is a large and growing market for Debit Cards in the US.
- Debit Card transactions will form a significant proportion of the transactions at point of sale and therefore will have impact on our relevance to SE's, particularly those in industries where small transaction sizes, cash or check transactions dominate.
- Customers view banks as the most logical and appropriate provider of debit cards. Unfortunately, more and more of the debit cards provided by banks are now branded Visa or Mastercard.
- Debit cards can be profitable provided that discount/interchange rates remain relatively high. The ability to maintain these rates is being challenged by recent suits from Walmart, The Limited and others.
- American Express could enter this market and would be successful under three conditions
  1. Discount rates for Debit Cards remained high – above the present bankcard discount rates -- over time.
  2. We provided value added that the competitors, including banks could not match.
  3. We targeted mainly our customers, and found a compelling way to get them to modify existing behaviors.
- Entering the debit card market would mean that we would have to reprioritize other activities we presently have planned.

**Based on this, my decision is that we will not pursue the Debit Card initiative in the US any further:**

- Customers are satisfied with the present offerings of debit cards and see banks as superior providers to American Express.

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- We are disadvantaged versus the banks from a cost perspective. It is unlikely that there is any way we could attain best in class costs.
- Given the above, our disadvantage would be exacerbated by any value offers we would make.
- While we may be able to enter the market with satisfactory economics due to our premium discount rate, it is unlikely that this will be sustained over time. Even if the product is profitable for some years, it will become unprofitable and we will have to withdraw from the market.
- Even assuming these assumptions are only partially correct, the most optimistic analysis suggests from a risk - return perspective, this initiative would not replace other initiatives on our priority list.

As we develop the network strategy further, we may provide a Debit Card through other financial institutions. This would overcome some of the concerns above -- it would be offered by a bank; it would therefore work with bank costs; offered by a bank, it would not need additional value added; Assuming that the discount/interchange rates came down to bankcard levels, the bank would not be cost disadvantaged, and would receive the benefit of our Brand.

This was an outstanding effort by many people. Once again, my thanks to all of them.

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