

5/8/96 SMG Meeting

Premium Card Product -  
- Must it go to board? <sup>1</sup>  
- which board?  
pol.

American Express Discussion

REDACTED

P-0292

black/white

HEL: Proposed less b/w approach... maybe w/ clever rules

RNC: Amex lacks scale + fees to build business + expand acceptance

Take it further... our pricing is same for Amex as well  
need holistic view

Ueli's: Merchants are brand indifferent... they won't volume

Kush: Why not embrace to fill in our product gaps like  
Corporate Card.

~~HEL:~~

JT: would be ruthless. why give them a life line?

Hogan: Crappy PR reality is what you'll get  
won't get portfolio, conversions  
would be brutal/ruthless

GOVERNMENT  
DEPOSITION  
EXHIBIT  
809

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ASH: Soft stand vis a vis Amex will render us SOL  
on credit...

Amex has money, position... Amex looking for a  
handful of investors. More at risk than just  
credit card

CDT: Natwest considering issuing Amex - have leveraged  
USA/MC for share of wallet to fullest  
extent

~~REDACTED~~  
REDACTED

HEL: This is a global problem - not a regional issue

WIS: Not a good thing for Mastercard  
How could we be ruthless to Amex... handle the way  
Microsoft would. Be a strong competitor

HEL: Could HEL issue a rule/restriction on an interim basis  
until board meets

ASH: Dinover doing well; good product initiatives

REDACTED

HEL: Don't want to legitimize this  
MC might don't believe its in best interest  
will seek board's ultimate decision and advise accordingly.

0811

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①

\* - ,

REDACTED

Hel: For purposes of preparing Exec. Co analysis - consider  
not having a binary set of rules. Maybe there's  
 a business opportunity there

Amex - #1 topic on June SMG meeting

Topic #1 - Summary of Planning Session

	Target	Staff/Trunks	Regional
GDV	\$645 B	\$611 B	
Rev.	\$994 MM	<del>942</del> 942 MM	942 MM
Exp	\$928 MM	* 880 MM	911 MM
	<u>\$66 MM</u> 6.6%	<u>\$62 MM</u> 6.6%	<u>31</u> <u>32</u>

\* very soft  
 best guesses  
 strategic investments (\$31 MM gap - \$60.70 MM gap)

(5)

<u>Revenue</u>	<u>97 P</u>	
ATP	107.8	→ 114
Canada	23.4	
Europe	45.0	Current Target = 6.6%
LAC	63.5	
MEA	17.3	
US	577.6	
GM	63.1	
Other	29.8	
	<hr/>	
	941.4	

people need to be real clear:

- HEL: 1) need to zero base costs — marketing expenses  
 2) need to be real creative about generating new revenue

RAL: Any possibility of profit sharing if a region exceeds target?

HEL: Hoped it was going forward...

WIS: Departmental ~~standards~~ budgets must comply w/ guidelines at a minimum

①

MCS: all planning coordinators have a  
 very detailed schedule  
 June 5-7 = BPIM

~~REF IS~~

Now → July: business plan efforts should be  
 underway.

Business plans due in 1st week of July.

SMG discuss of budgets + plans on September 10

RNC: MCCR — issuing region gets revenue.....  
 Needs to be a fee sharing arrangement —  
 Acquiring / issuing sharing.....  
 Direct aming costs / allocating revenue

FC: Supported + summarized the gist of  
 the AGO discussions

WIS: \$20MM advertising strategy fund ~~expenditure~~ expenditure...

AJH: U.S. members are sensitized to funding flow...  
 from a strategy fund perspective ... \$20MM  
 is a give back from a U.S. perspective

HEL: LA/C ; U.S. ; GDA = supply  
 AIP ; Europe = uses

①

HEL: Alan under promise on revenues. Concerns  
 1) Concerned about lowballing expenditures  
 2) Strategy funds is this ~~the~~ plethora of  
~~missing~~ projects

ASH: Trying to position that there was a return  
 to region from Strategy fund. Not  
 going to ask for same level in 1997

WIS: Strategy fund - must have returns...  
 smt agreed. Shouldn't be ~~do~~ doing  
 things specially... should follow  
 process. 15% ROE commitment

HEL: Held accountable for transgressing  
 the process. Getting hide ~~around~~  
 regarding our own process.  
 How do we achieve objective -  
 of not putting undue ~~the~~ pressure  
 on ASH

ASH: Thought this was a strategic fund request...  
 Can't keep U.S. books straight w/ company books.  
 Don't want to have to "sell" a decrease  
 in U.S. advertising when you're  
 increasing revenues.

HEL: Make that fund the U.S. book as strategy fund

1st Quarter Review

~~1st q~~

Actual Results - ahead of plan due to sale of MAPP (MAPP expenses), timing on marketing

Issues -

- 1) PSA Project \$18.2mm
- 2) EAT Marketing Agent 10.0
- 3) PR 3.0
- 4) Mindex?
- 5) Brand building Program
- 6) Consumer research
- 7) 2 employee meetings 1.0
- 8) Neural network 1.3

Triple check. accrued last year. balance sheet items that had have to be funded from the balance sheet

Need an accrual policy - this illustrates it -- so people accrue the same way

HEC: Should show a positive variance of \$10mm vs. Budget



WIS: Reducing cancellation clauses for ongoing service contracts. ~~For projects~~

----- REDACTED -----

FC: MCCR → unearned income (deferred liability)  
\$15mm = collected + unspent

No year lag.....

Expect \$55mm of MCCR in 1996

YE 18.4 includes unused 1995 fees  
(\$14mm)  
(~~11.4mm~~)

Total good news story for A/P  
on revenue

~~SWK:~~

HEL: CA/MET/E → Believes there's \$10mm

KAC: Brazil is a big move....  
Will win or lose in next 8 months  
Have asked staff to review budgets in CAK

AJH: U.S. incentives could range from  
\$38 to 48mm  
incentives = debit not credit.

~~etc.~~

HM: GOA revenue going solidly

JWR: Forecast @ <sup>21.0</sup> ~~21.0~~ MM net tax vs. \$54MM budget  
~~21.0~~ as of April. How do we  
 get this back?

ASH: \$20-22MM short of budget (\$32MM)

HEL: what to do?

ASH: Not real comfortable w/ projects...  
~~people~~ people are overly conservative  
 w/ forecasts.

GHM: Why not offset some MAPP gain - leaves 12MM gap

FC: 10 & 12 solved by over-accrual of Europe

HEL: what's our target operating margin for 1986

MLS: 4.6% operating margin ( $\pm$  \$40MM)

FC: Important to hit targets

- capital adequacy
- launching rigorous (3) year effort
- shouldn't be done (w/pt review) as a reaction

①

Tom: Real issue ~~is~~ we will  
need to accelerate  
the development  
of our core systems  
redevelopment effort

GM: We did a rigorous budgeting process -  
would hate to go through  
an unnecessary witch hunt  
people need to be held accountable

JVT: need to find additional  
sources of funding

CAT: EMC - have seen an endless # of  
unplanned business cases already  
this year that are pre-committed.

~~EC~~

AK: Can we get more revenue out of A/P &  
Europe

PC: A/P tough

HEC: Can we find \$15 to 20 mm from  
purchased services this year?

RNC: What about over budget  
heads requiring M&L sign off

Change to  
our convictions

No doesn't  
mean no

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Collective guilt hides a lot of sin

ESH: ~~What's~~ What's guilty?

ASH: - Should meet plan - end of story  
 - spend a lot of time managing #'s + finances and we're in the middle of a share war

- need a framework

- U.S. variance (Chase incentive, + advertising spend)

- no flexibility

RM: Purchased services over \$300mm...

~~FF~~ We don't have to pull back too much to save money

~~HE~~ HEL: would expect to find \$15-20mm in purchased services

LNC: How can we feeling that not everyone is pulling their own weight ... people - why put them through this if everyone doesn't + do this w/ some discipline

LNC: will put group through some scrubbing process as (2) years ago... will see what we find...

- Jem: - we aren't disciplined  
 - people who don't meet budgets shouldn't get ~~budget~~ bonus  
 - Forecasts are a license to kill - ~~license~~  
 license to increase budgets

WJS - #'s don't show commitments that have been through April

Ha - people blow run rate in last months of year + pre-accrue to inflate next year's budget

- ① we should meet plan \$54mm
- ② Purchased Services should we review?  
\$300mm
- ③ Take everyone back to the <sup>budget</sup> forecast + hold accountable

WJS - Hold people to budgets?

HEC: Proposal

- ① Facts unacceptable... b.o. must manage to original budgets for the remainder of the year

Cost sides unacceptable - manage to for last (3) quarters of the year

Must live w/ FY budget

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ANC: what if they don't? what if they don't deliver?

WIS: will directly offset compensation...  
must take a hard look ~~to~~ at  
financial responsibility of  
the individuals

HEL: FCSTs unacceptable  
will adhere to 1996 budgets  
not ready to address forecast <sup>issues</sup> now  
not ready to address ~~costs~~ <sup>penalty</sup> for not coming in on budget

Just: This is a dynamic business - need to have flexibility to  
address opportunities  
WIS: High degrees of embedded  
revenue. Revenue we don't have  
to work too hard to get.

Just: \$16MM in A/P - tied to revenue (MCCR) - must do  
adv.  
P&L neutral item

HEL: will take the \$20MM as his own bet. HEL's problem.  
to make + meet budgets

HEL: If he says "we're in trouble"

Global board / Exec Legend

Exec.

- 1) Mondex as a strategic matter in Exec. Committee
- 2) ~~the commitment~~ Strategic Matter -  
Canada non-duality agreement

Global

- 1) Richard will do LA/C update -  
no write-ups from others - to be  
handled under Pres. Report
- 2) 1 page write-up

Note: Mentation on Mondex U.S.  
write-up on next  
info item to LA/C board

To  
 (U.S. board)  
 U.S. Resolution re: Mondex USA  
 subject to

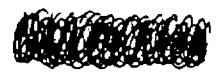
Need int'l interchange  
 Review w/SMC ??  
 6/4 or 6/5

also '86  
 6/4 or 6/5

Send copy to  
EPI agreement  
to Ed Hogan

Europe

- Current situation is very tender & very confused
- Williams causing problems
- Mondex causing angst
- Next week - Richard has call a mtg of European members of MC board to draw up a list of grievances
- will take agreement forward in June. will get MC board approval with timeframe for EPI to get on board - at end of mid - we proceed
- Dr. Richardville helping us... German's want to know our perspective on all the things Ken's been saying - and want to square our tariffs
- This is all about national people trying to protect their jobs



RBC → Sir/Bella since board info item	phone # for Dr O'Connor to Ed Hogan Dr. Kevin O'Connor where
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- Fleet & Foot
- to effort something

(17)

## Product Development

### Product Development Process

RMC: How do we deal w/  
Member-specific product  
development efforts

RB: Front end of review process = quick screen

FC: What about country-specific initiatives?  
would still need to go through  
process

HEC: ~~Regions~~ Regions need to take product development  
& RMC seriously. Need to be  
Repointed. LA/C and A/P particularly

Need to convince Member relations / Regions / Users  
that this is not bureaucratic

ASH: Past philosophical problems. Working well.  
There is agreement

~~Case notes~~ Lawa / Chris - Region Head Reports  
LA/C only

Budget units  
to Gene.

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Index

Sponder → livestock tagging

Mass → loyalty

This is a make or buy decision - This is  
a cost and time comparison... analysis  
of features vs. cost vs. time

- Cost
- Time
- Functionality

Call Terri

Stored value  
Mass  
Sponder

Do not institutionalize  
global folders  
structure. Isolate  
sheet + stored value.

Proposed Corporation

- ① A for-profit Corp. located in the U.K.
- ② MCI owns 51%
- ③ MCI manages MXI
- ④ IPR:
  - MXI has exclusive license for stored value
  - MXI owns MaaS
  - MXI has non-exclusive ~~the~~ license for spendex

Sticking Point - Putting another stored value product on a MaaS chip

All members have access to MaaS. We've drawn this line in the sand. Some members more equal than others (i.e., global founders)

{ Stored value only }

Fair, open, non-discriminatory manner  
right to use the product

Levels of Acrimony

Issue  
(1) only MaaS stored value on MaaS

- 1) MCI has rights for unclaimed territories
- 2) EPI will obtain rights for Europe from MCI
- 3) MCI will commit to the Munders fees as its only chip-based technology platform
- 4) MCI will commit to store value products as its only SV product (brand Prod)
- 5) Founders will establish munder operations in their territories

MCI -

- 1) MCI pay \$ 11.5 million over 2 years to Natwest
- 2) EPI pay \$ 40 MM over 5 years
- 3) MCI pay between \$ 15 and \$ 40 million over 5 years

all payments to <sup>(Natwest)</sup> ~~to~~ not its members

Branding - should be neutral across both associations

Must exercise diligence. If no compromise of  
- lines in sand - will take to gene board for decision

Cheap + Cheerful solution

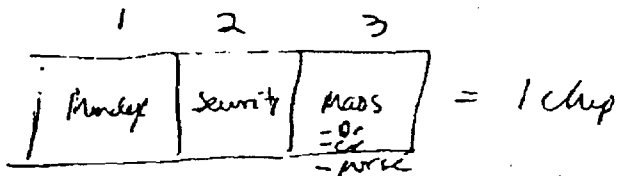
ITEL: BMO wants us to make sure that we keep our options open

REDACTED

*[Handwritten scribbles]*

HEL: Test of success w/ Mindex is can we make money & save money. This is the basis for our houses. best deal vs. "profit" opportunity

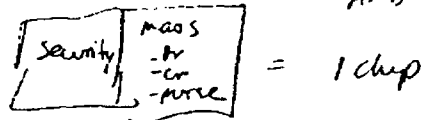
~~Asset~~  
Just because we're studying doesn't mean we'll buy... Trying to keep us in the game



OR



AND



} 2  
Separate  
chips

HEC: Have we thought thru

funding for counterfeit + risk

+ MXI's obligation. Need to

think this through from our side +  
funder + MXI standpoint

GTM: Concerned about need for communications  
plan. At one side we're saying we're  
an open system but Mondex USA  
is hardly open. US a well use this  
against us.

More than stored value → it's chip technology  
need to get word out

brand value transaction

bring item back in June w/ financial analysis

TEAM

- ① would go for a TEAM register every year
- ② Pres. ~~TEAM~~ TEAM Award based on TEAM
- ③ trying to figure out how to  
reinvigorate TEAM

7

(2)

(1) Attrition rates were 50% of what consultants calculated. We had 19% attrition.