

**HIGHLY CONFIDENTIAL  
OUTSIDE COUNSEL'S EYES ONLY**


MasterCard International  
Legal  
2000 Purchase Street  
Purchase, NY 10577-2509  
914 219-2000  
Internet Home Page  
<http://www.mastercard.com>

*MasterCard  
International*



January 22, 1996

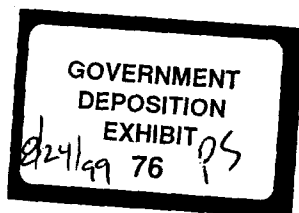
To: The U.S. Region Board of Directors of  
MasterCard International Incorporated

From: Noah J. Hanft   
Senior Vice President, Secretary to the U.S. Region Board

Attached are the minutes of the November 15, 1995 U.S. Region Board of Directors meeting along with a schedule of our meetings for 1996.

Also attached is a list of the directors nominated by the U.S. Region Board's Nominating Committee. Proxies and biographical information for all directors standing for election will be sent out in early February in anticipation of the March 20, 1996 Annual Meeting.

**P-0357**



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**Minutes of the Meeting of the  
U.S. Region Board of Directors of  
MasterCard International Incorporated  
Purchase, New York  
November 15, 1995**

A meeting of the U.S. Region Board of Directors (hereinafter referred to as the "Board") of MasterCard International Incorporated (hereinafter referred to as "MasterCard") was held, commencing at 8:00 A.M., local time, on Wednesday, November 15, 1995, at the MasterCard headquarters facility in Purchase, New York. The following members of the Board were present: Messrs. Cochran, Cooperman, Fairbank, Field, Freeman, Greenawalt, Hayunga, Heuer, Humann, Hunt, Jeffs, Lockhart, McGuinn, Saunders, Schauer, Schmitz, Tice, Wall, Walsh, and Weaver, thereby constituting a quorum. The following staff members participated in all or part of the meeting: Messrs. Abrams, Brennan, Gore, and Fredrick, Ms. Graff, Ms. Hackett, Messrs. Hanft, Hogan, Jacobs, McElhatton, Thom, Timko, Williams, and Ziegler. Mr. Jeffs, Chairman of the Board, chaired the meeting, and Mr. Hanft, Secretary of the Board, kept the Minutes thereof.

**Call to Order and Approval of Minutes**

Mr. Jeffs called the meeting to order and stated that the first matter to be addressed was the review and approval of the Minutes of the prior meeting of the Board. See Agenda Item 1. Upon motion duly made and seconded, the Minutes of the July 19, 1995 Board meeting were unanimously approved.

**President's Report**

Mr. Heuer summarized U.S. Region performance and key U.S. Region activities over the past nine months. See Agenda Item 2. He reported that U.S. dollar volume grew 19.6% over the first two quarters of 1995, while total credit product gross dollar volume grew 19.1%, due largely to gold card performance. He reported that the number of ATMs in the Cirrus system has grown to 101.3 thousand, and that the Maestro global on-line point of sale debit program increased total live cards to 13.1 million and the number of live terminals to 118.8 thousand over the first six months of 1995.

Mr. Heuer reported that the U.S. Travel Destination Program for developing Maestro acceptance in the U.S. was launched in August. He reported MasterCard has penetrated the warehouse club segment by gaining acceptance at BJ's Wholesale Club. He reported that, for the first nine months of 1995, net revenues exceeded

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expenses by \$27.8 million, and he stated the U.S. Region is on-target to meet its full-year financial performance objective of \$39.2 million pre-tax income.

Mr. Heuer reported that the region's advertising focus has been redirected to more effectively support the Gold MasterCard card acquisition initiatives being undertaken with key members. He also reported that new advertising will be rolled out in the first quarter of 1996.

Mr. Heuer requested that Mr. Lockhart update the Board regarding MasterCard's relationship with Europay International. Mr. Lockhart reported there was a meeting between ad hoc groups of directors representing the Global Board and Europay Board in October during which fundamental principles governing the relationship were discussed. He stated that a framework for a revised relationship between the associations had evolved from that meeting, and that the next step is to draft an agreement reflecting that framework. He reported that, under the new framework, European members would support MasterCard brands and abandon use of current Europay brands. He reported that European members would adhere to MasterCard licensing standards, i.e. the granting of non-exclusive country licenses to eligible entities which make the necessary business commitments as to their MasterCard programs. Mr. Lockhart reported on the steps that are required to finalize the new agreement, including approval by both the Global Board and Europay Board.

Mr. Heuer reported a dramatic increase in the number of petitions for bankruptcy protection, and he asked Mr. Brennan to update the Board on MasterCard's response to this growing concern. Mr. Brennan reported that he has formed a task force to study the matter and consider whether MasterCard and its members should take action. Mr. Brennan stated he would report progress to the Board.

To complete his report, Mr. Heuer revisited the U.S. Region strategy initially formulated in the summer of 1993. He observed that the environmental work of the strategy is still very relevant. He stated that the strategic conclusions drawn in 1993 were still relevant, as it remains critical for MasterCard to maintain share, to continue its "value" leadership, to promote debit, to partner with key industry leaders, to expand acceptance, and to leverage new technology. Mr. Heuer indicated the strategy will be revisited periodically to assure that the association's objectives and plans continue to reflect the current environment.

#### Election of Nominating Committee and New Director

Mr. Jeffs requested that the Board approve a Nominating Committee to select candidates for the U.S. Region Board for election by members at the U.S. Region Annual Meeting to be held March 20, 1996. See Agenda Item 3-A. He reported that Messrs. Field, McGuinn and Saunders had agreed to serve on this committee. Upon

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motion duly made and seconded, Messrs. Field, McGuinn and Saunders were unanimously elected to serve on the Nominating Committee.

Mr. Jeffs then indicated that Mr. Pittard had informed MasterCard management of his decision to resign from the Board. He requested the Board accept Mr. Pittard's resignation and consider electing Mr. Paul Garcia to the Board. He reported that Mr. Garcia is assuming the position of Chairman of the Board and CEO of First Financial Bank. Upon motion duly made and seconded, the following resolution was unanimously approved.

RESOLUTION OF THE U.S. REGION BOARD OF DIRECTORS

RESOLVED, that, effective immediately, the resignation of Mr. Tarlton Pittard as a director be, and hereby is, accepted; and

RESOLVED FURTHER, that, effective immediately, Mr. Paul Garcia be, and hereby is, elected as a director of the U.S. Board of MasterCard International Incorporated, to hold such office until his successor has been duly elected and qualified or as otherwise provided in the U.S. Region Board rules.

U.S. Region Rules

Mr. Jeffs indicated that the next item of business was to consider the adoption of new U.S. Board rules. See Agenda Item 3.B. Mr. Hanft explained that the Global Board approved certain delegations of authority to the MasterCard regional boards. He reported that a new Chapter 15 of the rules portion of the MasterCard Bylaws and Rules manual had been approved and sets forth the delegation of authority to the regional boards. He stated that U.S. Region management had developed the proposed new U.S. Board rules in accordance with the Global Board delegation. Upon motion duly made, the following resolution was unanimously adopted and approved.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS

RESOLVED, that, the proposed U.S. Region rules, as set forth in Attachment A to Agenda Item 3.B, be, and hereby are, approved.

Proposed Membership and Licensing Actions

The Board was requested to approve the membership and licensing actions set forth in the Attachment to Agenda Item 3.C. Mr. Thom referred to the agenda items and offered to address any concerns directors might have. Upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

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RESOLUTION OF THE U.S. BOARD OF DIRECTORS

RESOLVED, that, the membership and licensing actions recommended in the Attachment to Agenda Item 3.C. be, and hereby are, approved.

Independent Enhancement Programs

Mr. Thom requested that the Board consider new rules and guidelines with respect to what have been termed Independent Enhancement Programs (hereinafter referred to as "IEPs") which would include the registration of these programs. See Agenda Item 3.D. He described IEPs as essentially proprietary card programs that bill consumers through their MasterCard card accounts. He reported that IEPs have been in existence for several years, and that the recommendations represent an initial effort to establish a framework through which MasterCard's relationship with IEPs would be governed. Mr. Thom cited several examples of IEPs including the restaurant discount programs that are the best known IEPs. Several directors expressed some concern that enabling IEPs to utilize the MasterCard system may result in some risk to MasterCard. It was the consensus of the Board that staff should undertake further analysis of IEPs, looking at how IEPs function today under current MasterCard rules and the potential risks and benefits to MasterCard from such programs. Staff agreed to do so and to report back to the Board.

MasterCard Privacy Position

Ms. Graff requested that the Board approve the U.S. Region privacy position statement set forth in Agenda Item 3.E. She reported that staff had reworked the privacy principles shared with the Board at its July, 1995 meeting in order to address concerns raised by a number of directors. She stated the privacy position is unlikely to spur restrictive privacy legislation, and would enable MasterCard, as part of its brand management role, to be on record with a point of view clearly communicating that the brand is synonymous with, or at least supportive of, the responsible management of consumer information. Some directors expressed the viewpoint that it is both appropriate and important for the association to exhibit leadership in matters such as consumer privacy and that the position may have to be strengthened over time. After discussion, upon motion duly made and seconded, the following resolution was unanimously approved.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS

RESOLVED, that, the U.S. Region Board endorses the privacy position statement set forth in the attachment to Agenda Item 3.E and authorizes staff to communicate the privacy position statement as staff deems appropriate.

1996 U.S. Region Business and Financial Plan

Mr. Heuer requested the Board approve the 1996 U.S. Region Business and Financial Plan. See Agenda Item 3.F. He reported that, each year, the Board is asked to review and approve a business plan and budget prepared by management. He reported that the 1996 plan focuses primarily on the areas of consumer credit products, debit products, and commercial card products. Mr. Heuer then detailed 1996 initiatives planned for each of the three priority areas. Regarding consumer credit products, he reported that MasterCard intends to increase brand competitiveness, elevate brand image, and build consumer awareness. Regarding debit products, he reported that the 1996 plan stresses consumer awareness and acceptance excellence. As to commercial card products, Mr. Heuer reported that MasterCard will increasingly focus on niche segments and enhance its management of new member implementations. He reported that the 1996 plan also focuses on MasterBanking, dual payment option cards, incentive cards, and support for chip pilot programs.

Mr. Heuer then presented the proposed U.S. Region 1996 budget, which he stated reflects planned revenue growth of 16% on the basis of credit card gross dollar volume growth of 18.2%. He reported regional direct expenses are planned to increase 13% over the current 1995 forecast, while operating expenses are planned to decline 6%, reflecting a stable headcount, tightened expense controls, and reduced occupancy expenses. He reported that advertising and marketing expenses are targeted to increase 16% and 24% respectively, with a substantial amount of the increases going to support sponsorship activity.

The Board discussed the assumptions built into the proposed 1996 budget, including gross dollar volume growth, a cessation of co-branding incentives, and contributions towards enhanced brand awareness in Europe. The Board also discussed pre-tax income objectives and the importance of net worth for strategic, contingency, and risk related reasons. Mr. Lockhart noted that MasterCard needs to become more tax efficient, and that the issue is being addressed. Following the discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE U.S. REGION BOARD OF DIRECTORS

RESOLVED, that, the 1996 Business and Financial Plan, as set forth in Agenda Item 3.F, be, and hereby is, approved.

Co-Branding Incentive Payments

Mr. Heuer requested that the Board consider a proposal to ~~discontinue~~ the MasterCard practice of paying co-branding financial incentives as of year-end 1995. See Agenda Item 3.G. He reported that MasterCard initiated co-branding financial incentives in

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1994 in response to competitive pressures, but has consistently taken the position that it is inappropriate to provide incentives to select members using funds contributed by all members. He reported that the demand for incentive payments has dramatically increased, and he stated that, if such payments were discontinued, the funds could be utilized for programs and services benefiting all members. He advised the Board that staff had assessed member sentiment in order to ascertain whether it was believed MasterCard should continue to pay incentives and that the results of this effort indicated that most members did not support this practice.

At this point Mr. McGuinn joined the meeting.

Several directors expressed the concern that MasterCard would be competitively disadvantaged by eliminating co-branding incentive payments. Other directors observed that the cost of incentives will likely continue to escalate and MasterCard could not afford to continue the practice of paying these incentives. One director suggested that MasterCard provide incentives only to programs in critical or developing markets. After further discussion, upon motion duly made and seconded, the following resolutions were approved by a vote of 17 in favor and three opposed, those being Messrs. Schauer, Wall and Walsh.

#### RESOLUTIONS OF THE U.S. BOARD OF DIRECTORS

RESOLVED, that, staff be, and hereby is, directed to discontinue the practice of providing co-branding incentives to encourage the selection of MasterCard for new co-branding programs, except that bona-fide written commitments providing for co-branding incentives made prior to December 31, 1995 will be honored.

RESOLVED FURTHER, that, staff be, and hereby is, authorized to communicate the Board's directive to the membership in the manner staff deems appropriate.

#### Chip Card Strategy Update and Recommendations

The next matter for consideration was an update regarding MasterCard's chip card mission and objectives by Mr. Verdi, and a request that the Board approve recommendations set forth in Agenda Item 3.H regarding an investment in SmartCash. Mr. Verdi discussed MasterCard's chip card mission approved by the Global Board in 1994, as well as the 10 overall objectives of the MasterCard chip team set forth in the Agenda. He discussed the development of chip card and the status of various stored-value efforts currently underway. He reported there is uncertainty as to which chip card products or schemes may succeed, and described options with respect to scheme participation.

Mr. Verdi then described the current status of the EPS/SmartCash venture. He summarized the key elements of the venture and proposed that MasterCard participate in the venture, provided certain conditions are met. Messrs. Hayunga and Wall disclosed potential conflicts with regard to the SmartCash venture and indicated they would abstain from any action taken. Mr. Lockhart commented on the potential of the venture and stated his belief that MasterCard would be prudent to selectively invest in stored-value schemes that have a potential for success as long as they are open to broad member participation.

After further discussion, the proposed resolution was amended to reflect that Board authorization for MasterCard to invest in the SmartCash venture be subject to the conditions set forth in Agenda Item 3.H. Upon motion duly made and seconded, the following resolution was unanimously approved and adopted with Messrs. Hayunga and Wall abstaining.

RESOLUTION OF THE U.S. REGION BOARD OF DIRECTORS

RESOLVED, that, staff be, and hereby is, authorized to invest up to \$5 million in the EPS SmartCash venture, subject to successful completion of due diligence, negotiation of a definitive agreement consistent with the conditions set forth in Agenda Item 3.H, and sufficient "critical mass" participation by other Class A investors.

MasterBanking Strategy

Mr. Fredrick reviewed significant developments in MasterCard's MasterBanking service. See Agenda Item 4.A. Mr. Fredrick reported that MasterCard seeks to enable all U.S. members to offer deposit customers unparalleled remote access to their deposits. He reported that MasterBanking currently offers bill payment capability, and that a short-term MasterCard objective is to add financial transaction capability and e-mail service in a device-independent manner.

Mr. Fredrick reported that in order to achieve its short-term objective, MasterCard needed to sever its relationship with Checkfree, Inc. He reported that MasterCard has formed an alliance with Servantis Systems, Inc., a worldwide leader in the development of remote bank financial application software and services. He stated that Servantis software can be highly customized and is sold only through banks. He reported that MasterCard has entered into a five year preferred processor contract with Servantis, and that the agreement includes a six month exclusivity provision, very high performance and service standards, and tiered commission structure for MasterCard based on sales.

Mr. Fredrick responded to questions concerning the terms for severing its relationship with Checkfree. He also described MasterCard's relationship with Meca, a company



that has developed a personal financial software package called "Managing Your Money."

To conclude, Mr. Fredrick stated that, with its Servantis relationship in place, MasterCard is now able to offer its members a competitive, flexible and marketable remote banking and bill payment product that uses existing MasterCard infrastructure and that represents a value-added proposition to members and cardholders. He stated that MasterCard's role will be to manage the relationship with Servantis on behalf of members, assuring that a high quality of service is delivered to consumers and to possible turnkey consumer marketing programs to members offering remote banking and bill payment services.

#### MasterCard Systems Strategy

Mr. McElhatton provided an update on the status and activities of the MasterCard strategic plan for systems, including activities currently underway and the system enhancement strategy. See Agenda Item 4.B. He reported on recent efforts relating to the replacement of the stand-in, authorization, and clearing and settlement systems. He also described actions being undertaken to improve MasterCard's software release controls and other enhancements to existing systems. Mr. McElhatton reported that key objectives of the systems enhancement strategy include sharper focus on business requirements, minimizing member disruption, leveraging technology to satisfy business requirements, and ensuring timely delivery. He noted that significant progress has been made to date and that the strategy is being implemented in a timely fashion while minimizing member disruption.

#### Electronic Commerce

Mr. Hogan provided the Board with an update on the development of a standard for ensuring secure transactions via electronic commerce. See Agenda Item 4.C. He reported that MasterCard and Visa had agreed to work together to produce a universal, open standard, but that Visa had subsequently announced that, in conjunction with Microsoft, it would own and publish a specification called STT to secure payment of electronic commerce transactions. Mr. Hogan discussed MasterCard's reasons for not wanting to participate in the STT initiative, and reported that Visa had recently expressed interest in renewing discussions with MasterCard with regard to agreement on an open, shared standard. He stated that a meeting with Visa was scheduled for the following day, and that MasterCard management remains committed to an open standard. Mr. Hogan also offered preliminary thoughts on how to implement security standards for electronic commerce.

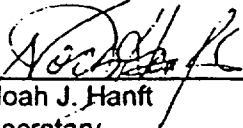
U.S. Region Board of Directors  
MasterCard International Incorporated  
Purchase, New York  
November 15, 1995

**HIGHLY CONFIDENTIAL**  
**OUTSIDE COUNSEL'S EYES ONLY**

Minutes  
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Closing Remarks and Adjournment

Mr. Heuer noted that this meeting was the last for Messrs. Freeman, Hayunga, and Jeffs, and he thanked each of them for their counsel and other contributions. Mr. Jeffs then asked whether there was any other business to come before the meeting. There being none, upon motion duly made and seconded, the meeting was adjourned.

  
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Noah J. Hanft  
Secretary

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**1996  
U.S. Region Board of Directors  
Meeting Schedule**



**HIGHLY CONFIDENTIAL  
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**Wednesday, March 20, 1996**

**MasterCard Office**

**Purchase, New York**

**7:30 AM - 8:00 AM**

**U.S. Region Annual Meeting (attendance not required)**

**8:00 AM - 12 Noon**

**U.S. Region Board of Directors Meeting**

**Friday, June 28, 1996**

**The Berkeley**

**London, England**

**Wednesday, November 13, 1996**

**(Tentative Location)**

**Hyatt Regency Resort & Spa**

**Kauai, Hawaii**

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**1996 U.S. Board Nominations**

**HIGHLY CONFIDENTIAL  
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**Barbara J. Brady-Smith\***  
Executive Vice President  
Wells Fargo

**John R. Cochran**  
Senior Vice Chairman  
MBNA America Bank, N.A.

**Edwin M. Cooperman**  
Executive Vice President  
Travelers Group

**Richard D. Fairbank**  
Chairman and Chief Executive Officer  
Capital One Financial Corporation

**Richard D. Field**  
Senior Executive Vice President  
Bank of New York

**Paul R. Garcia**  
President  
First Financial Bank

**Richard A. Greenawalt**  
President and Chief Executive Officer  
Colonial National Bank USA

**Richard C. Hartnack**  
Vice Chairman  
Union Bank

**Phillip Humann**  
President  
SunTrust Banks Inc.

**David K. Hunt**  
President and Chief Executive Officer  
AT&T Universal Card Services Corp.

**Thomas P. Johnson\***  
Executive Vice President  
Boatmen's Bancshares, Inc.

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\* New Nominees

**HIGHLY CONFIDENTIAL  
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*Malcolm S. McDonald\**  
President and Chief Operating Officer  
Signet Banking Corporation

*Martin G. McGuinn*  
Vice Chairman  
Mellon Bank

*Shailesh J. Mehta\**  
President and Chief Operating Officer  
Providian Corporation

*Maribeth S. Rahe\**  
Vice Chair of the Board  
Harris Bank

*Joseph W. Saunders*  
President and Chief Executive Officer  
Household Credit Services, Inc.

*Michael D. Schauer*  
Vice President and General Manager  
GE Capital

*Michael J. Schmitz*  
Senior Executive Vice President  
Firststar Bank Milwaukee, N.A.

*William E. Siart*  
Chairman and Chief Executive Officer  
First Interstate Bancorp

*Stephen E. Wall*  
Executive Vice President  
KeyCorp

*Charles R. Walsh*  
Executive Vice President and Group Executive  
Chemical Bank

*Mark H. Wright\**  
President and Chief Executive Officer  
USAA Federal Savings Bank

*Ronald N. Zebeck\**  
President  
Fingerhut Financial Services Corporation

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\* New Nominees