MASTER

Safecard Services, Inc.

> You may think it's simple to get into a service business. If so, you're right. But making a go of it is an entirely different matter.
>
> How do you package and market a service? How do you control quality? What level of service is appropriate to provide customer satisfaction, and, at the same time, generate company profitability? How do you really measure profitability? How do you package a service to appeal to the financial community? How do you inspect a service? How do you achieve growth—through direct marketing, acquisition, joint venture, or other means? What level of expertise is necessary to be successful?

These reflections by one of the principals of SafeCard Services, Incorporated (SSI), Steven Halmos, give an indication of the complexities encountered in the creation and operation of a small service business. Steven and his brother, Peter, were looking back on their first complete year of operations (after four years in business) in an effort to assess their present position and to develop a viable course of action for the future.

Start-Up

In 1969 Peter Halmos, a graduating MBA from the University of Florida, was faced with the unpleasant prospect of finding a job. At the same time, Steven was completing undergraduate study at Georgia Tech and therefore faced the same unpleasant dilemma. While commiserating one evening in May 1969, the Halmos' decided that they had to go into business for themselves in order to avoid a structured working environment and to realize the financial success they desired.

After reading at length about the increasing proliferation of credit cards in this country, the Halmos' felt that a service designed to provide the credit cardholder with protection and convenience in the event of credit card loss or theft would have universal appeal—and would generate meaningful profits. At that time, individuals were liable for all unauthorized charges made on their credit cards until such time as the various credit card issuers had received written notification of the loss or theft. But where were cardholders to send such notification? How would they know their lost card numbers? How would they notify—via letter (very slow) or telephone (no proof) or telegram (fast with documented proof)? In any event, the process could be costly and time consuming.

In June 1969 SSI was formed to provide a credit card registration and notification service to individual and corporate subscribers. An individual could register any number of credit cards with the company for an annual fee of $7.50. In the event of the subsequent loss or theft of his credit cards, the subscriber could call the company's nationwide toll-free telephone line at any time, around-the-clock, to report the loss. SSI computers would then automatically report the loss to the various credit card companies.

In addition, the subscriber would receive other credit card services, including the free addition of new cards at any time, notification of a subscriber's change of address to all the credit card companies, and several other auxilliary services.

The growth of the credit card industry had been phenomenal. Since the founding of the credit card concept in 1950 by the Diners Club, the number of cards being carried by individual and corporate cardholders had rapidly increased. By 1970, some 275 million credit cards issued by oil companies, retail stores, banks, and travel institutions were in the hands of American consumers. Exhibit 1 indicates the distribution. Well over one million retail establishments in the United States honored credit cards, making it possible to purchase an unlimited variety of products and services via "plastic credit." Unauthorized credit card use had grown at an equally alarming rate. In 1970, some $150 million in unauthorized charges resulted from credit card loss or theft. Some 1.5 million credit cards were lost, stolen, or counterfeited in the United States in 1970, making this medium a prime target for organized crime. With coast to coast acceptance of credit cards, immediate notification of credit card loss or theft appeared to be vital to thwarting fraudulent use. Therefore, the potential market for SSI's credit card registry services seemed to be vast in size.

On a more conceptual level, the Halmos' were intrigued by the thought of providing the individual—not just the corporation—with the many conveniences of using a computer. They coined the phrase "personal computer timesharing" to describe this concept, of which the credit card registry service was the forerunner.

SSI was formed on a shoestring. From their roughly-defined concept was developed a detailed business plan—complete with "rosy" projections—to be used to attract initial financing. With the sacrifice of 40% of the equity, $5,500 was raised from a former college professor and another friend. The Halmos' were ready to commence operations.

Repulsed by the idea of doing extensive initial "market research," the brothers decided to commission a printer to produce brochures describing the credit card registry service and to begin selling. The initial marketing plan called for the mass distribution of post-paid return brochures through the mails, hand distribution, or various other vehicles. Based on the assumption that ". . . if just one in ten people receiving a brochure decides to subscribe" to the service, it was projected that the company would be profitable on internally generated cash flow within four months.

The economics of the service seemed attractive. Based on their projected response rate, the company would be an immediate success. Furthermore, two additional factors seemed to provide the greatest potential for profitability. First, the service to subscribers was renewable annually. Therefore, since the major costs of computer input were absorbed in the initial year of subscription, renewals seemed to offer a substantial source of revenue in subsequent years at little incremental cost to the company. Secondly, the company would have a large mailing list which could

Exhibit 1

SAFECARD SERVICES, INC.
Number of Credit Cards Outstanding in the United States in 1970

Institution	*Number of Cards (millions)*
Retail stores (department stores, etc.)	120
Oil Company	90
Banks (Bank Americard and Master Charge)	55
Auto Rentals	5
Travel and Entertainment (American Express, Diners Club, etc.)	5
Air Travel	1.8

Source: *Fortune Magazine*

ANNUAL VOLUME OF CREDIT CARD TRANSACTIONS:

1967	*1972*
$1 Billion	$10 Billion

Type of Credit Card Used by Annual Family Income

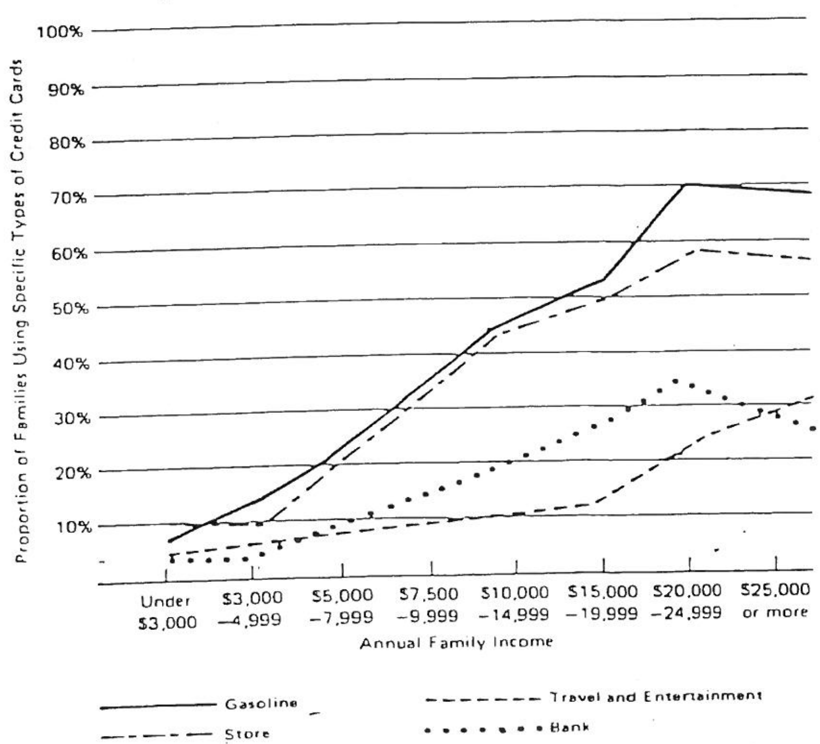

Exhibit 2

SAFECARD SERVICES INCORPORATED

SAMPLE

Name Last First Middle

Address City State Zip

Home Phone Bus. Phone Occupation

SAFECARD IMPORTANT: List all credit cards and charge accounts which are billed in your name even if used by other members of your family. List cards billed to other family members on the next page.

BANK CARDS	BANK NAME	CITY/STATE	CARD NUMBER
MASTER CHARGE			
BANKAMERICARD			

DEPARTMENT STORES	CITY/STATE	CARD NUMBER
SEARS		
PENNEY'S		

TRAVEL & ENTERTAINMENT	CARD NUMBER	RESTAURANT CARDS	CARD NUMBER
AMERICAN EXPRESS			
DINERS CLUB			
CARTE BLANCHE			
GETAWAY			

OIL COMPANY CARDS	CARD NUMBER	AIRLINE AND CAR RENTAL	CARD NUMBER
		HERTZ	
		AVIS	

OTHER CARDS	CARD NUMBER

MY SIGNATURE (sign here) ______________________ authorizes SafeCard Services, Inc. act on my behalf and that of my family for the purpose of notification concerning loss or theft of documents, charge accounts, and credit cards and any forms, letters or additional data that must be prepared to provide replacement. As a convenience to avoid lapse of registration, you may charge my designated credit card for each succeeding enrollment year.

FOR OFFICE USE ONLY

prove to be a valuable resource for mailing list rentals, merchandising of additional services, and the like.

Since the company was then headquartered in a linen closet in the Halmos' apartment in Atlanta, the entire $5,500 went into printing. Armed with thousands of brochures, the Halmos' set out to blanket the country with SafeCard. Being summertime, school teachers on vacation were hired at $1 per hour (plus all the beer they could drink) to place brochures on auto windshields in shopping center parking lots, to distribute them at office buildings, and to stuff envelopes for mailings. The response: a handful of returns, many with obscenities written inside.

Obviously, SSI was again without money. In the interim, Peter had taken a job with the Bank of New York and was living with his parents in New York City. Through the bank, Peter met Richard Smith, a Harvard MBA and for several years an executive with the advertising firm of Young & Rubicam. Mr. Smith, intrigued by the SSI concept, therefore provided an additional infusion of capital as well as valuable creative expertise for SSI mailings.

Again mailings were sent out, this time to a list of corporate presidents and college alumni. The brothers even hand signed the letters in the hopes of increasing response, and hand folded and stuffed envelopes. Again, minimal response.

By this time they were desperate. They couldn't understand why the response wasn't pouring in. Reflecting on this initial period, Peter remarked:

> The business was simple to enter—we just printed brochures and installed a phone. But, not only were we naive in our initial marketing efforts, we fell in love with our numbers. After repeatedly talking about the company's potential in our attempts to raise money, we actually came to believe our own projections. In fact, we did such a sales job, one of our stockholders predicted that SSI would become the largest user of computers in the U.S., second only to the Federal Government.

After an obviously discouraging beginning with intermittent small infusions of capital by investors (for more equity), the Halmos' again needed money. Still convinced of the viability of the SSI concept, they began scouring New York. Through a finder of questionable reputation, they secured a letter of intent from an underwriter[1] who promised to sell—on a best efforts basis—100,000 shares of SSI stock at $4. So, after convincing their attorney, Jack Fineberg, to handle the registration on an equity plus deferred payment basis, SSI filed the offering with the SEC on May 13, 1970.

The registration period, which was expected to take a matter of a few months, dragged into a year and a half of struggle for survival. During this period, the market changed dramatically with critical new legislation governing the credit card industry. The most striking legislation reduced an individual's liability on unauthorized credit card use to a maximum of $50 per card under certain conditions. The SEC, already disliking the SSI deal, took this opportunity to hold up the offering. Since the legis-

[1] This firm was subsequently expelled from the NASD and the principals indicted for a variety of felonies. Therefore, two additional firms, R. D. Viscount & Co. and Magnus Securities Corp., agreed to handle the offering.

lation was under the jurisdiction of two other governmental agencies, there were further delays.

The costs became enormous. In addition to legal and accounting fees, the printing expenses were substantial. The SEC required five amendments to the preliminary prospectus, each of which cost at least $5,000 in printing alone.

Steven reflected on the problems involved in packaging SSI to appeal to the financial community and to investors in a public offering:

> We had no cash to speak of, no fixed assets except a typewriter, no inventory—basically nothing. All we had was a room of leased space, a toll-free line which cost $400/month), a few filing cabinets containing our small list of customers, and a rather simple computer program. The only way to make this kind of service business appealing to the investor is to sell the concept. That's all you've really got.
>
> Even the "due diligence" requirements were a problem. Our lawyers, accountants, and underwriters were required to show due diligence in investigating our operations. But what can really be seen in a small service operation? Fortunately, Control Data Corporation leased us a small conference room in their data center for $100 per month. When Control Data subsequently partially abandoned the facility, we "expanded" our space to encompass a suite of furnished vacant offices. When underwriters came to inspect the company's service operations, they were astounded. After entering this huge computer complex and seeing the glass-enclosed computers in operation, they were favorably impressed and were more inclined to proceed.

After 18 months of registration, SSI became effective with the SEC. During the period, however, several things occurred. First, money was obviously scarce. Not only were payables "extended," but it was a difficult matter just to keep the telephones in operation. Also during this period, Steven Halmos completed his first year at Harvard Business School, spending a great deal of time away from the Boston area. Furthermore, the Halmos' constantly feared that the SEC might call the company's toll-free line at any time in an effort to claim that no services were actually being provided. In this way, they could stop the public offering. Therefore, the Halmos' had an extension of the toll-free line installed in their apartment and personally attended the line 24 hours a day, 7 days a week, holidays included. When not in the office, one of the brothers was "baby-sitting" at home with the line, since they felt that a service, being an intangible, was much more vulnerable to harassment by the SEC.

Looking back on the entire process of raising money, Peter stated:

> Everything that could go wrong went wrong. After five amendments and several trips to Washington, the SEC had enough and let us out. But not before requiring an unprecedented statement regarding risk on the cover of our prospectus (see Exhibit 3). The offering itself took two months. The underwriters had trouble with blue sky regulations in several states, thus causing additional problems in placing the stock. It was unbelievable.

Exhibit 3

150,000 Shares
SAFECARD SERVICES, INCORPORATED
COMMON STOCK ($.01 par value)

THESE SECURITIES ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. THE PURCHASE OF THE SECURITIES OFFERED HEREBY SHOULD BE CONSIDERED ONLY BY PERSONS WHO CAN AFFORD TO SUSTAIN A TOTAL LOSS.

Prior to this offering there has been no market for the common stock of the Company. The initial offering price has been determined by agreement between the Company and the Underwriters.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public (1)	*Underwriter's Discount, Commissions and Expenses (2) (3) (5)*	*Proceeds to Company (1) (4)*
Per Share	$3.00	Max. $.43 Min. $.43	$2.57 $2.57
Total: Maximum of 150,000 shs.	$450,000	$64,000	$386,000
Minimum of 90,000 shs.	$270,000	$38,800	$231,200

(1) The Common Stock is being offered by the Underwriters on a best effort basis providing for the sale of a minimum of 90,000 shares and a maximum of 150,000 shares. All funds collected from subscribers will be held in a bank escrow account with American Bank and Trust Company, New York, N.Y. and will be promptly refunded, without interest or deduction, in the event that a minimum of 90,000 shares are not sold within sixty days of the date of this Prospectus, or within thirty additional days if so agreed between the Company and the Underwriters (see "Underwriting"). In the event of sale by the Underwriters of less than the maximum number of shares offered hereby, the amount of warrants to be sold to the Underwriters will be proportionately reduced.

(2) Includes $45,000 ($.30 per share) cash commission $18,000 ($.12 per share) cash for expenses for the Underwriters and their counsel, of which $1,500 has been advanced by the Company to counsel for the Underwriters for which they need not account, and a $1,000 ($.01 per share) cash finder's fee, paid in advance to the finder, Richmond Lisle-Cannon.

(3) Assuming the minimum number of shares is sold, the expense would include $27,000 ($.30 per share) cash commission and $10,800 ($.12 per share) cash for expenses of the Underwriters and their counsel, for which they need not account, and a finder's fee of $1,000 ($.01 per share).

(4) Does not include, additional filing, printing, legal, accounting and miscellaneous expenses of approximately $35,200 ($.23 per share if the maximum number of shares is sold and $.39 per share if the minimum number of shares is sold).

(5) Does not include substantial additional compensation to be received by the Underwriters (see below).

This offering Involves:

(a) Special risks concerning the Company. For information concerning such risks see "Introductory Statement—Speculative Nature of This Offering," page 3.

Exhibit 3 (continued)

(b) Immediate substantial dilution of the book value of the stock from the public offering price. For information concerning such dilution see "Introductory Statement—Dilution," page 5.

(c) Significant additional underwriting compensation through the issuance to the Underwriters of warrants entitling them to purchase up to 15,000 shares of Common Stock (proportionately reduced if all the shares are sold and only in the event that the minimum offering of 90,000 shares are sold) for a period of four years commencing one year after the effective date of this offering at prices ranging from $3.30 per share to $4.20 per share; the right of first refusal on future offerings; and indemnification (see "Underwriting" page 18).

(d) Very substantial potential profit to the promoters of the Company who purchased 186,286 shares of the Common Stock of the Company at $.01 to $.075 per share; Company counsel who purchased 6,500 shares at $.01 per share; and other persons who purchased 33,214 shares at $.01 to $1.75 per share. For information concerning the potential profits to the promoters and such other persons, see "Introductory Statement—Speculative Nature of this Offering," page 3, "Organization and Business—Organization," page 6, and "Transactions with Management," page 17.

GRAYBAR SECURITIES, INC.
720 Fifth Avenue
New York, New York 10019

MAGNUS SECURITIES CORPORATION
1984 Chain Bridge Road
McLean, Virginia 22101

The date of this Prospectus is September 28, 1971

On September 28, 1971, SSI received some $300,000 from the proceeds of the public offering. Now the service had to be sold.

Marketing

During this period, the brothers began rethinking the marketing concept of the company. They realized that the key to profitability was volume. Therefore, their marketing efforts should be directed toward achieving high volume in a short period of time, given their existing financial constraints. After careful consideration, they decided that cooperative mailings with credit card issuers offered the most attractive means of mass distribution with the least cash requirement. Knowing that credit card issuers (i.e., department stores, bank cards, oil companies, travel cards, etc.) mailed regular monthly statements to their cardholders, the brothers felt that the insertion of an SSI brochure in these billings would be of no incremental cost to the credit card issuer. SSI would print the brochures at its expense, the credit card issuer would insert the brochure in its monthly statements, and the two parties would share the revenues. In addition to the cash savings in postage costs, the brothers felt that the implicit third party endorsement of the service obtained from enclosures in the credit card issuers' billings would certainly increase consumer response to SSI's service.

From the credit card issuer's standpoint, the concept would seem attractive. The credit card registry service seemed compatible with credit card issuer operations. Most importantly, the SSI mailings offered the credit card issuer a means of generating revenues, and perhaps customer good will, at no cost whatever.

The timing was right since credit card issuers throughout the country were losing a great deal of money. The issuers' 33% share of gross revenues from an SSI mailing would go straight to the bottom line. In addition, the service would provide the issuer with immediate notification of all lost or stolen credit cards. What could they lose?

From SSI's viewpoint, the concept of cooperative mailings with credit card issuers required a much smaller cash investment than initiating their own mailings. When SSI initiated its own mailings, the direct costs (minimum) would include the following, assuming reasonable volume:

Brochure	$ 15 per 1000 pieces
Cover Letter	15 per 1000 pieces
Reply	10 per 1000 pieces
Cost of Mailing List	30 per 1000 pieces
Envelope	10 per 1000 pieces
Postage (Bulk Rate)	50 per 1000 pieces
Inserting	15 per 1000 pieces
Creative Work	10 per 1000 pieces
	$155 per 1000 pieces of mail minimum

This figure represents the minimum material costs associated with a direct mail program. On the other hand, cooperative mailings with credit card issuers would require only the printing costs of the SSI brochures, although 33% of gross revenues must be sacrificed to the credit card issuer as compensation.

There appeared to be two additional benefits to cooperative mailings. First, the third party endorsement of the credit card issuer in whose billings the SSI brochure was inserted was seen to be an important factor in eliciting consumer response. Whether the brochure displayed the credit card issuer's name or not, the Halmos' felt that the endorsement would increase response. Secondly, by allowing the cardholder to charge the SSI service on his credit card, thus not requiring the enclosure of cash, the brothers felt that they could enhance the saleability of the service as an "impulse item."

To make the package more attractive to the credit card issuer, the Customer Good Will Program was developed. Under this arrangement, XYZ Department Store, for example, could tell its credit cardholders that their XYZ card had been registered free of charge with SSI. If a cardholder lost his XYZ card, he simply called SSI, which in turn notified XYZ. If the cardholder wished to register all additional credit cards in his wallet, he could so for $7.50 per year.

The Halmos' felt that this program would provide a valuable inducement for credit card issuers to do an SSI mailing. However, they were uncertain of the operational costs associated with providing this free service to a large proportion of a group of cardholders. It seemed impossible to estimate costs, since there was no means of estimating what proportion of individuals would actually make use of this free service in the event of credit card loss.

With their financing, the Halmos' initiated a marketing program designed to interest credit card issuers in a cooperative mailing program. Letters were mailed to credit card issuers throughout the country and were followed up with telephone calls and extended travel to major cities. Although several mailings with banks and retailers were negotiated, two critical problems were encountered:

First, the size of the company and its lack of a "track record" made it difficult to establish credibility. Even if a credit card issuer thought favorably of SSI's concept, it was usually skeptical about the size of the firm, its financial position, and its ability to perform. The fact that SSI sold services rather than tangible products severely compounded this problem. For instance, if a credit card issuer sells a cardholder a product, the quality of which is readily ascertainable, the transaction is complete upon delivery of the product. On the other hand, when a credit card issuer sells a cardholder SSI's service, the transaction is not complete until some time in the distant future, at least one year.

Credit cardholders are the credit card issuer's most vital asset. If SSI's were to go out of business, who would have liability for performance of the service? Even if SSI remained viable, would its level of service be satisfactory? Generally speaking, would there be any deterioration in cardholder goodwill? These questions consistently arose in discussions with credit card issuers.

Further compounding this credibility problem was the deteriorating reputation of the credit card registry service in the credit card industry. During the time of SSI's existence, many credit card registry firms entered the business throughout the country. Obviously, commencing operations was easy. Unfortunately, however, the marketing difficulties and operational complexities forced most of these firms to quickly close their doors, thus causing their subscribers a loss. These events became well known in the credit card industry. In fact, an article in *Time Magazine* regarding the credit card industry reported:

> .... credit card notification services, organizations that feed all of a holder's card numbers into a computer and notify the proper companies as soon as a loss is reported, are dying out. Just a year ago, there were at least 40; today the FTC knows of only four.
>
> *Time*, September 13, 1971

In conjunction with these credibility problems, it became apparent that additional inducement was needed to make an SSI mailing economically attractive enough to a credit card issuer to justify taking the risks. Assuming a mailing of 200,000 pieces, the response at 1% would be 2,000 subscribers. At $7.50 each, total revenues would equal $15,000. Considering a credit card issuer's 33% share in revenues, he could expect $5,000 from an SSI mailing. While this figure went straight to the bottom line, it became apparent that it was insufficient.

In order to make the SSI mailings more attractive financially, both to credit card issuers and to SSI itself, the Halmos' developed a package of five compatible services with a price of $19 per year (see Exhibit 4 for details on these services). In addition to making the mailings more financially sound, the new package served to expand the concept of "personal computer timesharing." Included in the new package were the original credit card registry service, a computerized reminder service, an important document registry, a medical data registry, and a luggage registry.

Exhibit 4

SAFECARD SERVICES, INC.

Credit Card Registry Package

The SafeCard credit card registry package serves as a valuable customer service, an effective card loss notification system, and a mechanism for generating meaningful revenues.

Using any telephone in the Continental United States, our subscribers have immediate toll-free access to our computer. We are at their service 24 hours a day, every day of the year.

Utilizing our toll-free WATS lines, a subscriber may report to us the loss of his credit cards. Immediately, we will notify via Western Union all credit card issuers he has registered with us.

And, in the event his credit cards are fraudulently used, the service includes a 100% Guarantee that he will not have to pay as much as one cent on these unauthorized charges.

It's as simple as that!

Included in the package are:

- Credit card registration and notification
- 100% Guarantee of non-responsibility
- Unlimited addition of new cards
- Change of address service
- Around-the-clock service
- Toll-free WATS line
- SafeCard Kit:
  - Credit card stickers
  - WATS telephone stickers
  - Wallet card
  - Personalized key tag
- Family coverage

MEDI-GARD

Personal Medical Data Registry

Medi-Gard is a personal medical records registry service, designed to place an individual's vital medical information as near as any telephone, at any time.

Any individual that travels—and most Americans do—should register his medical information with Medi-Gard..........blood type..........allergies..........diseases......... prescription medications............name of personal physician............past illnesses ....*all* medical information that would be of use to a doctor in case of an emergency involving the individual.

How It Works

A subscriber completes a comprehensive medical questionnaire. This information is fed into our computer for confidential around the clock storage. He then receives a personalized plastic ID card and "dog tag" imprinted with his name, our toll-free WATS number, and that medical information which is most vital in emergencies (blood type, diseases, etc.). If a subscriber is not able to tell his medical story after an accident or sudden illness, this card and tag could save his life.

In the event of an accident or illness no matter where he is—and, unfortunately these things happen—a subscriber's vital medical information is available to the attending physician via our nationwide WATS line at any time of the day or night. Accessing our computer, we will provide whatever medical information is necessary. And, we will contact the sub-

Exhibit 4 (continued)

scriber's personal home-town physician and put him in touch with the attending physician, wherever he may be.

Medi-Gard cannot guarantee that accidents and illnesses will not happen—unfortunately, that's impossible. But, Medi-Gard *does* guarantee that treatment for accidents will not be delayed or improperly given due to the lack of vital medical information.

It's as simple—and as essential—as that!

COMPU-MINDER

Personal Memory/Reminder Service

Compu-Minder is a computerized personal memory/reminder service, designed to remind individuals of important days and events.

.... birthdays .... anniversary .... dental appointments .... social engagements .... jury duty .... board meetings .... *any* important day or event that might be forgotten.

How it Works

All dates and events of any importance to a subscriber are fed into our computer. Then, approximately one week prior to each date, he is reminded via our computer-generated REMO forms.

It is as simple as that!

The Compu-Minder package serves as a unique and popular customer service. Any important events of which *you* wish to remind your customers may be automatically included. And, the package will generate meaningful revenues.

DOCU-GARD

Important Document Registry

Docu-Gard puts all vital information regarding a subscriber's important documents and personal property as near as any telephone.

Any document of value to an individual or family—stock certificates, bonds, insurance policies, etc.—may be registered by number with Docu-Gard. Personal property—automobiles, cameras, watches, etc.—may also be registered. Special stickers are then provided for attachment to these items as a warning to potential thieves that they have been registered.

Then, at any time of the day or night, this information is available to a subscriber via any telephone in the Continental United States. One toll-free call on our WATS line sets our computer to work. The vital information is available immediately.

Docu-Gard .... for peace of mind. It is designed as protection against the aggravation and potential cost of trying to replace lost, stolen, or destroyed vital information .... and fast. In case of emergency, Docu-Gard's computer is available ONLY TO A SUBSCRIBER .... as near as any telephone, any day or night.

LUGGAGE-GARD

Worldwide Luggage Registry

Every year, thousands of dollars in luggage containing valuables of every description are lost or stolen from airports, hotels, and terminals across the country.

Luggage-Gard is designed for both businessmen and vacationers as protection against the potential cost, aggravation, and inconvenience of losing luggage.

Exhibit 4 (continued)

Our special Luggage Protection Kit provides a means of positive identification of a subscriber's luggage, and includes:

- Special permanent labels for attachment to all bags
- WATS number telephone stickers
- Emergency wallet card
- Personalized key tag

In the event of the loss of a subscriber's luggage, our tracing system is ready to swing into action .... 24 hours a day, every day of the year. The subscriber simply calls us toll-free from any telephone, and tells us what happened. He gives us his name, special number, and departure date or itinerary if he is continuing on a trip. And, if he wishes, a reward for the finder. We'll take it from there. When found, we will route his valuables to him by whatever means are necessary.

And, a crook will have a hard time explaining what he is doing with specially marked luggage!

The new package rounded out the product line. The concept of five services in a single package was unique. It offered the credit card issuer more attractive financial compensation in a mailing. It provided the ultimate consumer with a greater variety of services. And, most importantly, it offered to provide SSI with greater revenues without greater mailing costs.

The new package, described by the company as "five new friends to help you simplify the business of living," was met with great interest. However, the credibility problem still existed. In addition, the competition for the limited space available in credit card issuer mailings had grown to be intense. Competition came from mail order concerns, manufacturers, retailers, and a host of other marketing organizations who had come to appreciate the effectiveness of these cooperative credit card issuer mailings. What's more, the competition proved to be very sophisticated in the mail order field—an industry of seasoned professionals.

Growth During First Year as a Public Company

At the time of the company's public offering in November 1971, SSI had approximately 5,000 subscribers to its credit card registry service. One year later, this number had grown to a total of approximately 50,000 subscribers. This growth was attributable both to successful mailing programs and to acquisition.

Most of the company's mailing programs had been a success. Exhibit 5 represents a partial list of firms with which SSI has had cooperative mailings. Of these, Trans World Airlines and E. J. Korvettes were among the most vital on-going relationships of the company.

To meet fixed costs and operate at a profitable level, the Halmos' determined that a sizeable customer base was a necessity. They knew that none of the firms in the business had such a base and that SSI was the only firm in the business with any cash. Therefore, the brothers contacted every known competitor regarding the possibility of consolidation. Although many letters were returned "addressee un-

Exhibit 5

SAFECARD SERVICES, INC.
A Partial Listing of Credit Card Issuers with
Whom the Company Has Had Cooperative Mailings

Several Master Charge banks
Several Bank Americard mailings
Trans World Airlines
Pan American World Airways
E. J. Korvettes
Peck and Peck Stores
Tenneco Oil Company
May Department Stores
K-Mart Stores
GEX Stores
NAC Charge Plan
Hecht Company—Baltimore
Bullock's Department Stores
May—Cohens
Bellex Super Stores
Hecht Company—Washington
Renberg's Department Stores
TraveLodge International Hotels
Eastern Airlines

known" due to the bankruptcy of many firms, this effort ultimately resulted in the acquisition of two of the major firms in the business. Important Data Registry Corporation (IDR) of Philadelphia was a subsidiary of a firm active in other areas of the credit card industry. The other firm, Hot Line Charge Card Services, Inc. of New York, had been a leader in the field and had achieved a certain level of prominence throughout the U.S. The acquisitions had proven to be quite successful, but not without difficulties. In fact, certain material omissions regarding Hot Lines resulted in an $8 million legal action.

Peter regards the acquisition of a service business as a particularly difficult matter:

> When considering the acquisition of a service business, what are you really buying? In our case, we only wanted the assets—their rosters of subscribers to the credit card registry service. But evaluating these lists is extremely difficult. If they claim to have 10,000 subscribers, how do you know they really aren't just names out of a telephone directory? In placing a value on the list, it was difficult to estimate what percentage of the subscribers would renew their service next year since we had no feel for the level of service to which those subscribers were accustomed. In general, it was impossible to place a cash value on this kind of service business.
>
> The key to our acquisitions was structuring. We structured payment in such a way as to pay a negotiated amount for each subscriber who subsequently re-

news his service, plus a small cash consideration in advance. The result: a risk-free deal for us. In essence, however, you must structure the acquisition in this way since you really don't know what you are buying. Unfortunately, the original Hot Line owners took a $500,000 loss.

Operations

The Halmos' expressed a vital concern for operations and considered this a crucial factor to profitability. For example, prior to acquiring Important Data Registry and Hot Line, these firms had in excess of 35 operational employees. The Halmos' now serviced these two operations plus SSI's own subscriber list with fewer than ten operational employees, most on a part-time basis.

A major question that had to be constantly evaluated was: What level of service must be provided in order to foster customer satisfaction and, at the same time, yield company profitability? With the average SSI account being less than $10 per year, this service level question had great significance. For instance, the cost of fulfilling a single customer request of some kind could easily constitute 5% of the annual revenues generated by that customer. That is, when considering labor, postage, materials, etc., these costs in relation to only $10 in annual fees would be substantial. But, if customer requests were ignored, the renewal rate would suffer. This trade-off was one that had to be reckoned with on a continual basis.

Ms. Madelaine Cloutier, head of SSI's operation, commented on this situation:

> Our customers drive us crazy. Since we have a nationwide toll-free line for subscriber use, they use it for every imaginable purpose. In addition, we receive thousands of pieces of mail from subscribers requesting materials, adding new information to their files, questioning our billing, etc. The more personally we handle this correspondence, the better is our renewal rate, at least to a degree. But, just how far can we go and still make money?

This service level question was of even greater significance to SSI due to its dependence on cooperative mailings with credit card issuers. For instance, if for any reason a subscriber became upset with his SSI service, his complaints would not only be directed toward SSI, but probably also to the credit card issuer through whom he originally subscribed. A series of complaints from customers to a particular credit card issuer could jeopardize SSI's on-going relationship with this credit card issuer.

Steven discussed the problem of service level:

> When dealing with thousands of individuals, mistakes are bound to happen. It's inevitable. But the unhappiness of a single subscriber can have greater significance than simply the loss of a subscriber. You don't like this to happen, but you can afford to lose a customer occasionally. In our situation, however, the unhappiness of a subscriber can get back to a credit card issuer. If this happens too often, our relationship with the issuer is jeopardized. It's a delicate situation.

The degree of computerization also represented a serious question. The Halmos' felt initially that as much as possible should be handled by computer. However, there appeared to be many functions which were best handled manually. For this reason, the entire billing and renewal system was computerized while the major portion of the day-to-day servicing was handled manually.

The acquisitions made by the company also caused operational problems. One of the acquired companies made no use of a computer, but maintained information on microfilm. The other utilized a highly sophisticated computer system which was totally unreliable. Therefore, the operations had to be consolidated into a single operation compatible to all.

A major question arose as to which name should be continued. The Halmos' felt that the renewal rates must be maintained at all costs. They further felt that subscribers to a service build a certain degree of loyalty to that service. Therefore, despite the higher costs associated with running parallel operations, they decided to maintain the operations under the three different names. This presented operational problems.

The operations at SSI seemed to run from crisis to crisis. Dealing with a multitude of small transactions made the measurement of labor productivity very difficult. The measurement of quality was even more difficult. As a matter of fact, even after four years in business, the Halmos' had no handle on the actual cost per subscriber per year. They were painfully aware of their problem, but were unsure of any effective means of monitoring the productivity and quality of operations and of establishing costs. Peter commented on this issue:

> You have to constantly keep the economics of the business in mind. If you try to build in too much sophistication, you can quickly let things get out of hand. But, we seem to be on the right track, since we are operating profitably now, and our renewal rate is in excess of 80% per year.

The Future

Steven was optimistic regarding the viability of their services:

> The economics are there. On a mailing with a credit card issuer, we just hope to break even on first year costs, though we usually do better than that. The costs are front-loaded, in that we incur heavy costs at the time of initial subscription due to computer input, materials, mailing, and labor costs. Since the services generate a high renewal rate at little additional cost, the profitability in subsequent years is very attractive. In fact, profits of 50% on revenues from renewals are certainly possible.

At the end of 1972, SSI had some 50,000 subscribers to its various services. Since many subscribed only to the credit card registry service, the average annual fee per subscriber was $8. However, while the company had grown substantially since the public offering in 1971, the future posed several questions.

The credit card issuer mailings had become more difficult. While the company enjoyed a good reputation, the market required more credibility. The credit card is-

Exhibit 6

SAFECARD SERVICES, INCORPORATED
Balance Sheet, October 31, 1972

ASSETS	
Current assets:	
Cash—includes certificate of deposit; $25,000—1972	$33,264
Accounts receivable	10,353
Miscellaneous receivables	400
Prepaid expenses	11,385
Total current assets	55,402
Property and equipment—at cost:	4,074
Less: Accumulated depreciation	328
	3,746
Deferred costs—net of accu: .lated amortization	
Program development costs	8,624
Start-up costs	18,085
Marketing costs	19,177
Cost of customer lists acquired	110,069
Covenant not to compete	4,292
Organization costs	513
	160,760
Investment in Valcometrix Corporation	40,179
Security deposits	1,309
	$261,396
LIABILITIES	
Current liabilities:	
Accounts payable	$ 36,346
Accrued expenses and taxes	13,822
Notes payable—stockholders	—
Loan payable—stockholders	1,200
Total current liabilities	51,368
Accrued officers' salaries	14,800
SHAREHOLDERS' EQUITY	
Common stock, $.01 par value, authorized 1,000,000 shares; issued and outstanding 317,400	3,174
Additional paid-in capital	209,646
Deficit	(17,592)
	195,228
	$261,396

Exhibit 7

SAFECARD SERVICES, INC.
Statement of Operations and Deficit for the Year
Ended October 31, 1972

Revenues:	
Subscription income	$130,557
Interest income	2,414
Total revenues	132,971
Cost and expenses:	
Cost of services	59,173
Selling, general and administrative expenses	77,324
Amortization and depreciation (not included above)	17,970
	154,467
Loss before extraordinary item and provision for state and local income taxes	(21,496)
State and local income taxes	(650)
Loss before extraordinary item	(22,146)
Extraordinary item—gain on sale of investment	4,554
Net loss and deficit	$(17,592)
Per share:	
Net loss per share before extraordinary gain	(.07)
Extraordinary gain	.01
Net loss per share	(.06)

suers had grown to realize the great value of their cardholder lists and their monthly billing mailings. Therefore, the competition for space in these mailings had become intense. The competition furthermore consisted of seasoned professionals with established working relationships. In addition, the problems of establishing the credibility of a service company existed.

However, SSI had developed working relationships with Trans World Airlines, E. J. Korvettes, and contracts had been negotiated with TraveLodge Hotels and Eastern Airlines for large mailings. The economics of these mailings were attractive, although the volume was certainly limited. It was estimated that the response required to break even on mailing costs was approximately .25%. Since actual mailing response ranged from .4% to 1.2%, these mailings appeared to be profitable.

As a means of directly controlling the volume of SSI mailings, the Halmos' wondered whether they should consider the alternative of circumventing credit card issuer mailings and initiating direct mail campaigns of their own. This form of marketing appeared to be viable, but would certainly require a great deal more financing. Considering the costs of between $150 and $200 per 1,000 pieces of mail (indicated earlier), substantial volume would require the commitment of a great deal of cash. In addition, direct mail programs would require extensive testing, mailing list selection, and design work while lacking the third part endorsement considered so valuable. The Halmos' were unsure as to whether they should take such a high risk course of action, considering the company's present position. However, initiating direct mail programs of its own would allow SSI to grow as rapidly as its financing would tolerate.

A third alternative would involve the introduction of an experienced partner to handle the marketing function. Negotiations had recently been initiated with a large insurance company interested in promoting the SSI concept as "aggravation insurance." This firm had the financial, creative, and marketing expertise to sell the SSI services in large volume.

But this alternative would not be without its costs. The insurance company had indicated its willingness to take on the marketing responsibility, but required the option to purchase 51% control of SSI. This relationship would be based on volume. If the insurance company succeeded in securing 100,000 new SSI sub-

Exhibit 8

SAFECARD SERVICES, INC.
Excerpt from Prospectus

PRINCIPAL STOCKHOLDERS

The following table sets forth as of August 31, 1971, the Common Stock owned by each person whose ownership of record and beneficially is more than 10% of the Common Stock of the Company, and the holdings of the officers and directors as a group. Each of the following named stockholders may be deemed promoters of the Company.

Name and Address	*Title of Class*	*Type of Ownership*	*Amount Owned*	*Percent of Class*	*Percent of Class after Offering (1)(2)*
Peter A. Halmos 520 E. 72nd Street New York, N.Y. President, Treasurer and Director	Common	Record and Beneficially	93,286	42.1	25.1
Steven J. Halmos Harvard Business School, Chase Hall C-41 Boston, Mass. Vice-President, Secretary and Director	Common	Record and Beneficially	45,000	20.3	12.1
All officers and directors as a group	Common	Record and Beneficially	172,286	77.7	46.3

(1) Assuming sale of 150,000 shares of Common Stock.
(2) Does not include Common Stock issued on exercise of warrants.

scribers during the ensuing two years, it would then be issued warrants to purchase new shares representing 51% ownership of SSI at $1 per share.

A fourth alternative existed. During this period, the company had formed a joint venture (owned 50/50 by the parties) with the United States Banknote Corporation in New York which added another possible dimension to SSI operations. The new company, Valcometrix Corp., was established to complete development and begin marketing of a family of technologies for the credit card industry. These technologies, valued by U.S. Banknote at $300,000, included a point-of-sale terminal for credit card authorization, a device for capturing an individual's "voiceprint," a counterfeit-proof credit card, and other related products. Of greatest apparent significance, however, was the unique development of FM radio data transmission for communication with the point-of-sale terminals. Realizing that major firms including IBM and National Cash Register had entered the credit authorization field, the Halmos' were reluctant to make a major commitment to this area.

The Halmos' were uncertain as to which course of action should be taken. While the first year as a public company resulted in a small loss (see Exhibits 6, 7, and 8 for financial information), SSI was now operating profitably. But marketing still presented a problem. They had recently developed two new services, one of which had proven to be very successful in an initial direct mail test. With some $50,000 in cash and a positive cash flow, they felt the company was financially sound for the foreseeable future. However, they felt that a decision as to the long-term growth of the firm should be made soon.