

Financial Technology Monitor

Winter 2004

2003 Financial Technology Review

Update's Financial Technology Index turned in a stellar performance almost doubling the NASDAQ Composite return with an 84% gain in 2003. This compares to a 24% loss in 2002 when the broader indices struggled that same year with the S&P 500 off 23% and the NASDAQ off 32%. Clearly, the Financial Technology Companies that we track had a much improved year in terms of both stock price and fundamentals. With the NASDAQ vaulting to a 45% gain in 2003 and the S&P 500 up 22%, the equity markets clearly enjoyed their run after three years of losses. While it is not unusual to see disparities within the returns across the various sub-segments of Financial Technology, what was striking this year was the underperformance of the Transaction Processing companies. Historically, the Transaction Processors have led the group. With a 2003 increase of 37%, the Transaction Processing Index not only underperformed the composite Update Capital Financial Technology Index, but also underperformed the NASDAQ. The leading sub-segment in 2003 was the Liquidity Enablers with a 131% gain. Given the rise in the equity markets in the last half on 2003, this group of companies caught fire and delivered a very impressive rebound.

Financial Technology Industry News Briefs

- **Put Away Your Checkbook:**
On October 28, 2003, the Check 21 Act was signed into law. According to NCR, by 2005, 93% of US banks plan to implement check imaging technology. But, according to the Fed this might not be necessary, as they are predicting a 4.8% drop this year in paper checks with another 9% drop in 2004. Due to the drop, the Fed recently raised rates for its check processing service to cover its fixed processing expenses.
- **Fraud - All Too Common**
The Federal Trade Commission released a survey showing that a total of 4.6% of survey participants were victims of Identity Theft in the past year, which means approximately \$10 million Americans have fallen victim to some form of Identity Theft. Additionally, 4.7% of survey participants reported that they were victims of "New Accounts & Other Frauds" during the past 5 years. Gartner estimates that thieves have a 1 out of 700 chance of getting caught by federal authorities. Gartner further suggests that Banks and other financial services providers should conduct regular checks for identity fraud before issuing loans, reclassify late (over 180 days) loan payments as identity theft versus a loss, and most importantly invest in technology and solutions to prevent identity theft fraud.
- **IT Security Issues**
Viruses/worms, employee misconduct, denial-of-service attacks, loss of customer data, and amateur hackers are the top five reported problems in companies' information security practices, according to a recent Ernst & Young survey of 56 financial institutions in the US and Canada. From these threats, security has attained a higher profile within the industry. Information security has become a top priority reaching senior leadership positions within the organization, as well as to the board level. Additionally, there's also a growing consensus among financial institutions that company shareholders should hear about the status of information and physical security programs, with 60 percent in favor of such reporting. Inside the organization, the survey data suggests that information security personnel should increase their contact with managers. Only 35 percent of respondents currently meet "monthly or more often" with business unit leaders to understand their needs and objectives. Granted, trained budgets and resources certainly make it harder to stay secure. But for financial institutions, it's a cost of doing business, not a luxury item.

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2003 Financial Technology Review (Cont'd.)

Valuations in the Financial Technology sector meaningfully improved in 2003. The median forward P/E increased from 19.4x at the end of 2002 to 27.8x at December 31, 2003. This 43% expansion of the P/E multiple is clearly responsible for a significant portion of this year's 84% gain in the Udata Financial Technology Index. Interestingly, the revenue multiple increased only 13% to 2.6x from 2.3x in 2002. Clearly, the data suggests that while the Financial Technology universe has recovered and had an impressive 84% gain, the profitability margins of those companies in the Index has slightly weakened. It appears the market is back to placing a premium on growth and is willing to tolerate diluted profit margins in the pursuit of top line momentum. This held true in each sub-sector that we track with the exception of the Liquidity Providers. The Liquidity Providers maintained their P/E levels from a year ago, but doubled their revenue multiples suggesting tremendous profitability gains. Given that there was increased volume processed by the group, it is evident that there is still substantive price pressure restricting top line revenue growth.

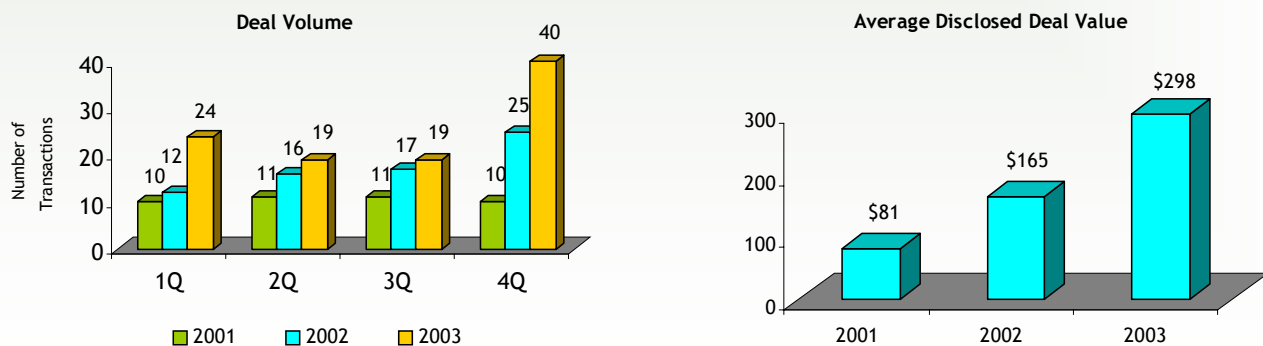
The Capital Markets activity in the Financial Technology sector was still relatively anemic in 2003. There were two IPOs; iPayment and Open Solutions. Together they raised \$165 million and were both very well received, pricing above the range for Open Solutions and trading up over 111% for iPayment at year end. The sector also saw \$1.1 billion in follow-on offering volume, with five deals involving three issuers. It appears as though 2004 is poised to see much improved activity in the Capital Markets with quite a bit of chatter in the markets about planned IPO filings and several companies looking to capitalize on already strong stock prices as they seek capital and/or liquidity for some shareholder groups.

M&A activity has continued to accelerate in the sector with 102 transactions announced or closed in the markets we track in 2003. Forty transactions disclosed the deal value, which aggregated to almost \$12 billion. The First Data/Concord EFS announced deal represented over half of the total disclosed value. Excluding the First Data/Concord deal, the average disclosed deal size was \$133 million which is slightly lower than in 2002. However, we saw 46% more transactions in 2003 than in 2002 and continue to believe that the pace of consolidation will continue to accelerate. 45% of the deals were done by buyers who made more than one acquisition in 2003, furthering the argument that financial institutions are seeking broader product offerings from their larger vendors. In addition to the robust M&A environment in 2003, we saw over \$600 million in venture capital/private equity invested into the sector. 2003 appears to have marked a return to renewed optimism in the Financial Technology sector. Investors, customers and company management are all taking steps to ensure their continued success and ability to prosper from appropriate strategic investments in the Financial Technology marketplace.

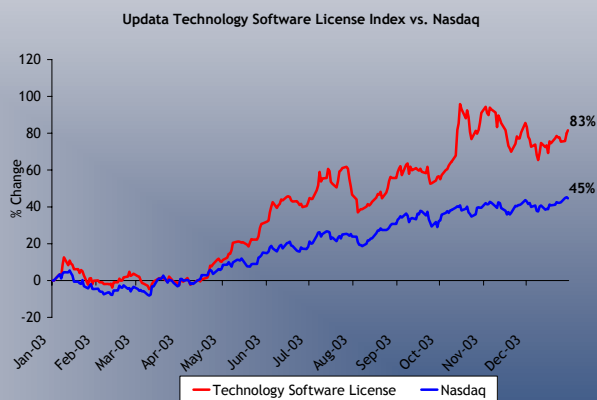
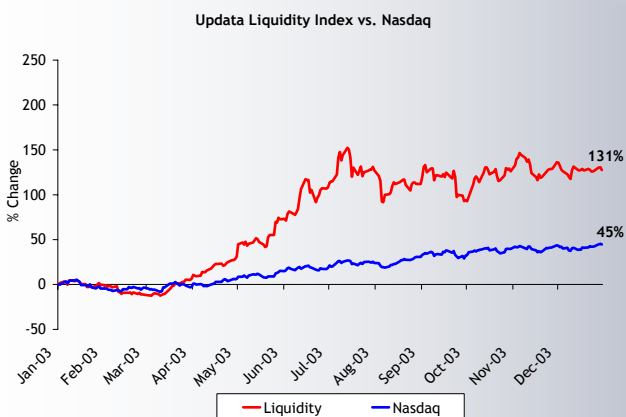
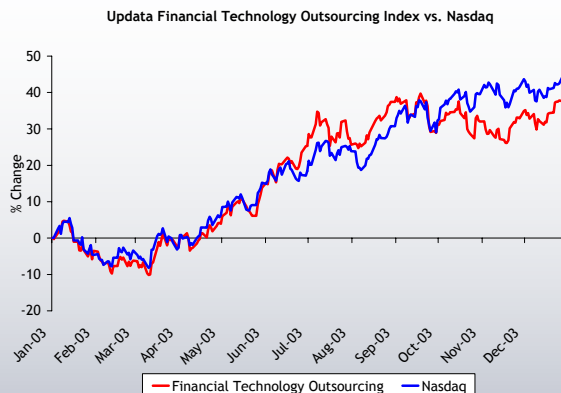
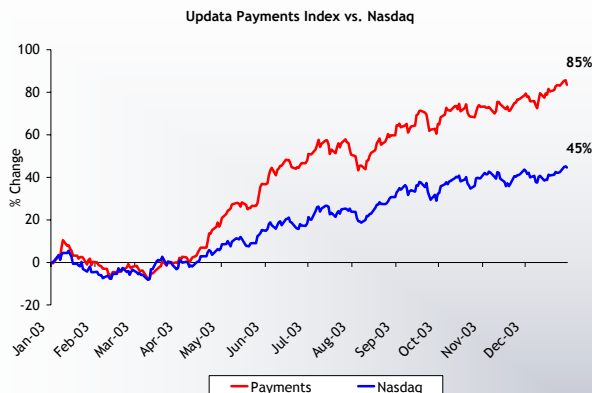
2004 Outlook

We believe that the Financial Technology sector in 2004 will continue the trend of increasing capital markets activity coupled with at least \$1 billion in private equity investments and an active M&A environment. More importantly, we believe there will be increasing IT spend by large financial institutions as the year progresses, with both software and outsourcing models benefiting from the enhanced environment. Large technology vendors will continue their pursuit of broader product suites and extended customer sets. We believe the key themes in 2004 will include exuberance around Check 21, a drive toward effective business intelligence suites with actionable predictive analytics, the development of a more integrated and complete payments solution (paper, card, electronic, etc.), a final wave of consolidation around electronic trading, and finally, real revenue momentum and acceptance by the carriers for insurance application vendors should begin to materialize.

In summary, 2003 began what we expect to be an attractive period of growth and profitability in the Financial Technology sector for the next 24-36 months. We continue to believe that the Financial Technology sector offers unique investment opportunities whether they be through early stage venture investing, mature buyouts or strategic acquisitions.



Update Various Financial Technology Composites: LTM Price Performance



Technology Outsourcing index includes BSG, DGIN, DST, FISV, TREE, SEIC, STT, SDS, ADP, FIC, JH, ORCC
 Technology Software License index includes SVNX, ADVS, BARZ, CORI, JKHY, INTD, INTU, JH, SONE, SCAI
 Liquidity index includes ESPD, ITG, INET, NITE, NYEX, TRAD, CME
 Payments index includes ADS, ACRT, EPAY, CEY, CKFR, CEFT, EFDS, FDC, GPN, NAP, TSS, TSAI, TTPA, FNDD, ORCC, INTD

Financial Technology Company News Briefs

DEERFIELD BEACH, FL, Feb. 5 - **Mosaic Software**, the global transaction processing solutions provider, announced that Chicago-based First American Bank had chosen Mosaic's industry-leading Postilion software to provide ATM driving, as well as transaction switching and routing for their network of ATMs. First American Bank, well known in the marketplace for its philosophy that "the needs of the customers come first" and for their innovative approach to continually providing new products and services, will install Postilion software to handle all aspects of ATM transaction processing and management. Currently, First American Bank processes in excess of 1 million transactions per month on approximately 275 ATMs from various ATM manufacturers.

WAYNE, PA, Feb. 4 - **GHR Systems, Inc.**, one of the nation's leading providers of loan origination and processing technology, announced today that American Mortgage Express Corp. is deploying both GHR's entelligent® Originator retail solution and GHR's Wholesale Origination Website. In addition, American Mortgage Express has committed to incorporating a complete integration of technology services from GHR. American Mortgage Express originates over \$1.5 billion in mortgage loans annually and has adopted an aggressive growth strategy that demands a variety of technology services to meet their immediate needs. The plan calls for implementing new technology in order to reduce operational costs, while continuing to increase internal loan processing and closing efficiencies.

NEW YORK, NY, Jan. 26 - **BISYS**, a leading provider of business process outsourcing solutions for the financial services sector, today announced its enhanced package of independent and comprehensive legal, regulatory, and compliance services that help its mutual fund and hedge fund management clients develop and maintain efficient, effective compliance infrastructures.

HUNTINGTON BEACH, CA, Jan. 22 - **CashEdge, Inc.**, a provider of secure Online Money Movement and Advanced Account Aggregation platforms, and StatementOne, the industry leader in enterprise financial data consolidation and performance reporting, have partnered with Cambridge Investment Research, Inc. to provide Cambridge Rep/Advisors with a combined data aggregation and consolidation solution. The announcement was made today at FPA's Broker-Dealer Conference. The integrated solution will enable Cambridge Investment Research to deliver an enhanced level of service to its advisors based on comprehensive client data. "Cambridge Investment Research is the first independent broker-dealer to offer the combination of enterprise data consolidation with data aggregation to provide comprehensive data coverage to every client," said Jim Guy, Chief Marketing Officer of Cambridge Investment Research.

NATICK, MA, Jan. 20 – **edocs Inc.**, a provider of customer self-service and e-billing software solutions, today announced new quarterly volume milestones on its market leading software platform. In the quarter ending December 31, 2003, edocs' customers presented over 70 million consumer e-bills and processed almost \$900 million in consumer e-payments via edocs' software. The new milestones illustrate the continued growth in consumer adoption of e-billing and e-payment and reinforce consumers' strong preference to view their e-bills and manage their online accounts directly at biller web sites instead of at bank and other bill consolidation sites.

PRINCETON, NJ, Jan. 5 - **Princeton eCom Corp.**, a leading provider of integrated payment solutions and **Corillian Corp.** (NASDAQ: CORI), the top provider of online banking solutions to leading financial institutions, today announced that they have three customers utilizing Real-Time Digital Scanline via the Corillian 3.0 Voyager Platform. Princeton eCom's Real-Time Digital Scanline allows payee information to be validated (and corrected) in real time. When consumers add a payee, Real-Time Digital Scanline is able to detect potential erroneous information and alert customers to the potential error. Consumers can then take corrective action, resulting in a significant reduction of exception items. This leads to financial institution cost savings since customer service inquiries are reduced and more payments can be processed electronically. Corresponding customer satisfaction and retention benefits are achieved by the improved payment accuracy and timely processing of payments.

DALLAS, TX, Jan. 20 - **Carreker Corporation** (Nasdaq: CANI), a leading provider of technology and consulting solutions for the financial services industry, today announced that John H. Tyler will lead sales operations for the company's Global Payments Technology (GPT) division. Tyler brings nearly 20 years experience in sales, marketing, and general management including senior positions at Diebold, where he spent 14 years, most recently as vice president Software and Services.

PORTSMOUTH, NH, Jan. 20 - **Bottomline Technologies** (Nasdaq: EPAY), a leading technology provider of corporate electronic banking solutions, announced that its customer, RBC Global Services, won the Best Web Tools Subcustodian category in the GSCS Benchmarks 2003 Awards as well as High Commendation in the 2003 Euromoney Technology Awards. RBC's Viewfinder® web portal was built using Bottomline's WebSeries eBanking platform.

ATLANTA, GA, Jan. 14 - **CheckFree Corporation** (Nasdaq: CKFR) and Unisys Corporation (NYSE: UIS) today announced an agreement to certify CheckFree's PEP+ reACH solution for users of Unisys Remittance Processing Solution (RPS) desiring to implement an ARC Check Conversion. By implementing an Accounts Receivable check conversion solution built upon CheckFree's PEP+ reACH, customers of Unisys RPS system will have a comprehensive check conversion solution. The basis for this solution is built on the concept that certain processes are remittance processing in nature while recognizing that once checks are converted, the payments are processed as Automated Clearing House (ACH) items and are best managed within ACH processes and systems.

CALABASAS, CA, Dec. 18 - **Digital Insight Corp.** (Nasdaq: DGIN), a leading online banking provider, today announced that Celent Communications named Digital Insight's AXIS® Internet Banking 4.0 as the top choice among 11 vendors evaluated for serving the online banking needs of financial institutions from de novo size to \$20 billion in assets. Vendors were rated on an "A" to "C" scale. Factors considered in determining ratings included: self-service features, customer support features and financial viability. Digital Insight was the only vendor in its category to receive an "A grade." According to Celent, Digital Insight "is the Wunderkind of the ASP model." Digital Insight was specifically recognized for the many product customization options it offers.

ATLANTA, GA, Dec. 16 - **Alogent Corp.**, a provider of payment transaction processing solutions for global financial institutions, remittance and payment processors, announced the opening of its 10,000 square-foot Check 21 Solution Center at its headquarters in Alpharetta, Georgia. This facility allows financial institutions to view and participate in image-enabled enterprise solution demonstrations and evaluations related to the Check Clearing for the 21st Century Act (Check 21). Financial institutions now can see for themselves how Alogent's paper-to-image transition solutions, including "Straight Through Check Processing™" and inter-bank image and data exchange, can benefit their organization.

BETHESDA, MD, Dec. 15 - Capital Markets data and software company **Bigdough** has launched the most specific and individualized intelligence available in any public capital markets database. Featuring in-depth preferences, information needs, and photos of buy-side investment industry professionals, Scouting Reports™ add a new layer of highly valuable insight to the already award-winning Bigdough customer relationship management platform.

HOUSTON, TX, Dec. 10 - **DataCert, Inc.**, the leading provider of electronic invoicing and legal spend management solutions, today announced it has submitted its recommendations for additions and changes to the proposed electronic invoicing standard in Europe. The European consortium, the Legal IT Innovators Group (LITIG), asked DataCert to assist in its refinement of the U.S. standard to meet global needs and demand. In response, DataCert has issued its own change recommendations and is working to help convene the LEDES Oversight Committee (LOC) to review and approve modifications to LEDES. LITIG continues to solicit feedback on the proposed standard from legal technology experts worldwide. U.S contributors can respond directly to LITIG's recommendations and see DataCert's additions at www.ledes.org until January 15th, 2004.

CALABASAS, CA, Nov. 6 - **Digital Insight Corp.** (Nasdaq: DGIN), a leading online banking provider, today announced that BankServ has been named as the company's preferred partner for wire transfer processing. The new partnership combines Digital Insight's front-end AXIS® Cash Management solution with BankServ's back-office wire transfer technology. Digital Insight and BankServ will develop a real-time interface between their products enabling a complete end-to-end wire processing solution. The solution will facilitate a greater number of transactions with enhanced reporting and data exchange and will also provide a comprehensive customer experience for Digital Insight clients and their business customers.

PORTSMOUTH, NH, Nov. 6 - **Bottomline Technologies** (Nasdaq: EPAY), a leading global provider of Financial Resource Management (FRM) solutions, today announced the availability of the latest version of its payments software solution, PayBase 7.0. In addition to US check and NACHA-compliant electronic payment types, the system now supports over 35 foreign draft types as well as BACSTEL-IP. BACS Limited is the UK's automated electronic payments clearing house. BACS-IP is a new Internet initiative that replaces the older BACSTEL service. Over 40,000 companies connect to the BACS network for managing credits, debits and reporting UK electronic payments. Bottomline Technologies is one of the first vendors to receive the BACSTEL-IP accreditation.

BROOKFIELD, WI, Nov. 5 - **Source Technologies, LLC** has integrated the Secure Seal(TM) - a check fraud detection solution developed by Fiserv, Inc. (NASDAQ:FISV) and Enseal Systems Ltd. - into its range of secure laser printing solutions. Secure Seal is an encoded logo or other unobtrusive symbol that forms the heart of Positive PayPLUS with Secure Seal, a check fraud detection solution launched last year by Fiserv and Enseal Systems. Positive PayPLUS with Secure Seal also forms a key component of the Fiserv FraudGuard suite, a variety of integrated solutions designed to enable banks and corporations to significantly reduce check fraud.

Upcoming Financial Technology Events

March 4, 2004:	SIA Anti-Money Laundering Conference, New York, NY
March 7 - 9, 2004:	9 th Annual Best Practices in Retail Financial Services Symposium, Naples, FL
March 14 - 17, 2004:	National Technology in Mortgage Banking Conference & Expo, Phoenix, AZ
March 22 - 24, 2004:	Payments 2004, Seattle, WA
March 24 - 26, 2004:	ABA / Forward Financial Bank Technology Convention, Orlando, FL
April 15, 2004:	WS&T Data Management Conference, New York, NY
April 20, 2004:	SIM Americas Summit, Washington, DC
April 20 - 22, 2004:	2004 ETA Annual Meeting & Expo, Las Vegas, NV
April 26 - 29, 2004:	14 th Annual CardTech / SecurTech Conference and Exhibition, Washington, DC
May 18 - 20, 2004:	BAI's TransPay 2004, Las Vegas, NV

Recent Financial Technology Private/Venture Capital Financing

Date	Company	Description	Amount Raised (Mil.)	Investors
Feb-04	Searchspace	A provider of financial risk management software.	\$15.0	3i (Lead) and Montagu Private Equity.
Feb-04	Information Mosaic	A global provider of advanced middle and back office solutions for the securities services industry.	\$6.5	SEB Strategic Investments
Jan-04	ITC Financial Services	A provider of stored value cards for electronic payments	\$54.0	Bessemer Venture Partners, Noro-Moseley Partners, Ballast Point Ventures and The Burton Partnerships.
Jan-04	First Equity Card Corp	Provider of business credit cards to small businesses.	\$6.5	Mellon Ventures (Lead), Venture Capital Fund of New England, WWC Capital.
Jan-04	OptionsXpress	An online brokerage for stock and equity options investors.	\$90.0	Summit Partners
Jan-04	Soleil Securities	Provider of high-quality, ideologically independent research to institutional clients.	\$2.5	Tysiar
Jan-04	E4X	A leading provider of currency management and conversion services for online merchants.	\$14.0	Adams Street Partners (Lead), Venture Strategy Group, On-Line Ventures and existing investors, Pitango Venture Capital and Delta Ventures.
Dec-03	Proficient Systems	A leading provider of e-business technology solutions that enable enterprises to increase sales and customer satisfaction in a variety of industries: banking, insurance, investments, technology and retail.	\$5.0	Fuqua Ventures, GIMV, Individuals, Kinetic Ventures, Labrador Ventures.
Dec-03	Capco	A services and technology solutions provider exclusively focused on forming the future of finance.	\$15.0	Thomas Weisel Partners (Lead), Edgewater Private Equity, GIMV, Hewlett-Packard, LJH Private Capital.
Dec-03	GlobalView Software	The leading provider of data management solutions for global energy markets.	\$5.5	Conning Capital Partners, Dodi Ventures and Prosperitas Investment Partners.

Financial Technology M&A Activity

(\$ in Millions)

Date Closed	Seller	Buyer	Deal Value	Revenue	Mult of Revenue
Pending	Sanchez Computer Associates	Fidelity National Financial	\$177.2	\$98.3	1.8x
Pending	Liquidity Direct Technology	Chicago Mercantile Exchange	NA	NA	NA
Pending	FAME Information Services	SunGard Data Systems	NA	NA	NA
Pending	Concord EFS	First Data	\$6,748.3	\$2,174.4	3.1x
Pending	CCBN	Thomson Corp	NA	NA	NA
Feb-04	Aurum Technology	Fidelity National Financial	\$305.0	\$193.0	1.6x
Jan-04	Investment Advisory Network	SS&C Technologies	\$3.0	NA	NA
Jan-04	RegEd, Inc	Fiserv	NA	\$9.0	NA
Jan-04	Uhlemeyer Services, Inc.	Bisys Group	NA	NA	NA
Jan-04	Augend Technologies	FutureTrade	NA	NA	NA
Jan-04	Western Payments Alliance	The Clearing House	NA	NA	NA
Jan-04	Symtec Solutions	BankServ	NA	NA	NA
Jan-04	Iverson Financial Systems	Capco	NA	NA	NA
Jan-04	WhiteLight's Basel II Solution	SunGard Data Systems	NA	NA	NA
Jan-04	Bidwell & Company	Ameritrade Holding Corporation	NA	NA	NA
Jan-04	London Clearing House	Clearnet	ND	\$300.8	NA
Dec-03	Transcom Payment Services	Merchant e-Solutions, Inc	NA	NA	NA
Dec-03	MedPay Corporation	Fiserv	NA	\$200.0	NA
Dec-03	American Payment Systems*	CheckFree Corporation	\$110.0	\$40.0	2.8x
Dec-03	Fixed Income Desk of Mellon Securities	Bonds Direct Securities	NA	NA	NA
Dec-03	Amicorp Fund Services	SS&C Technologies	NA	NA	NA
Dec-03	Financial Technologies	NetBank	\$17.0	\$30.8	0.6x
Dec-03	Onrain	Fidesic Corp	NA	NA	NA
Dec-03	Customized Database Systems	Fidelity National	NA	NA	NA

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