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The Most Powerful Name in Corporate News

Merchant Processing Services Specializing in Petroleum Industry

Cory Gray- *CEO*

Digital Financial Group (DFG) provides superior merchant processing services including all forms of electronic payment processing. While we service merchants from all industries, we are one of the few merchant processing groups that has a "petroleum-centric" division, which is fully versed in handling the many intricacies of this particular industry. We also service several high-end hotel chains and many restaurant and retail establishments. We have partnered with some of the leading companies such as Chase Paymentech, Total Systems and First Data. In addition, DFG is an authorized reseller of vSecure Processing and is the exclusive provider of the CellSwipe Network.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

CEOCFO: ***Mr. Gray, what is Digital Financial Group?***
Mr. Gray: We are a technology company that focuses on the payment space. We provide merchant servicing and merchant processing as an adjunct to some of the technology services that we offer as processing services for all types of merchants. Part of that processing is not just payments, we also offer new technologies such as inventory control, tokenization and electronic invoicing just to name a few. We are also on the leading edge of technology for cyber security, PCI and process improvement all centered on security.

CEOCFO: ***Is there a typical customer for you?***
Mr. Gray: I would not say typical. We have everything from mom and pop merchants to large national retail chains. We have a strong footprint in the T&E industry. We also have a strong presence in the petroleum industry, so we do a great deal of pay at the pump processing for merchants. If I were to say that we put an emphasis anywhere, it would be on mobile merchants. We process for many mobile merchants and we are actually quite proud of the fact that we have been in the mobile space for almost 11 years, which is much longer than most companies you see like Square or some of the other mobile processors advertising out there. We have been doing mobile processing successfully for 11 years, which gives us a great deal of experience in this space.

CEOCFO: ***Does history count today? Do people care?***
Mr. Gray: Honestly, I would not say that it counts per se, but it helps. It helps us because we can try to make sure people understand that in our industry and in the technology industry, there are many fly-by-night companies out there but we have been doing this for a long time and intend to continue doing it for years to come. For us our history instills in our employees and agents that we do know what we are doing relative to technology and relative to mobile. Much of this business can tend to be flash and splash and without our history in this business, we would not be able to give our sales people, our agents or our employees a sense that experience does matter. It may not matter to the merchant all of the time, but it gives our employees and agents a sense of confidence when they are out in the market selling our products and services.

CEOCFO: ***How do you stand out?***
Mr. Gray: For us, we try to stand out by our excellent service and the value of our relationships with our customers. It is kind of a cliché but it really does mean something. We really try to get to know our customers. We have an excellent record of accomplishment as far as customer service and as far as our customers knowing who we are. We do not outsource our help desk services overseas. We have a great deal of mobile contact and we have the ability to provide physical assistance in 45 out of the 48 continental United States. We have many areas where, if you have a problem, we can get somebody out to help you. That is something that is missing in this industry today. When many of the local and regional banks started getting out of this industry 20 years ago, this gap occurred and began to force merchants to deal with someone they do not know and in most cases do not trust. Most are forced to deal with an 800 number only. When you call Digital Financial Group with a question or a concern, we can assist you with more of a personal touch than most merchants are accustomed to. As for technology, we feel we are at the top of our game. We have some very easy and

simple technology that we use. I think many people forget that in our industry most clients are over buying technology. I liken it to the analogy that it is like someone going out and buying a dump truck, but they are not in the dump truck business. They buy the dump truck just in case they need a dump truck. Merchants tend to buy more technology than they need. Digital Financial Group is different. We use our expertise to help understand what their real needs are and only sell them what they need versus wasting money on something that will not bring true value to them. We are not trying to sell them our solution because we can; we are trying to sell them the solution that best fits exactly what their need is.

CEOCFO: ***When you are speaking with a potential new client, is there an aha moment when they understand the difference or does that really come when they are working with you?***
Mr. Gray: I think the AHA moment actually comes when a merchant begins to work with us because while many other processors approach them every day, we are truly different. Unfortunately, our industry sometimes does not have the best reputation so I think many times when you are talking to merchants at the beginning they are leery. They are shaking your hand with their right hand but they have their left hand on their wallet. There is always a level of concern. This is where the history we spoke of comes in. I continue to remind merchants that we have been around for more than 11 years. Most of our management team has been in our industry 20 - 25 plus years. I have been in the industry almost 30 years. This enables us to let a customer know right at our first point of contact that we have a reputable pedigree. We let them know who we are and demonstrate that we are not some fly-by-night company. We have been around for a long time and have seen many changes in the industry but we have continued to thrive and protect our merchants through it all. We continue to demonstrate integrity and are able to meet the changing needs of our merchant base and continuously bring value to them. For me, it is about getting the merchant to recognize we are different and to give us the opportunity to prove that to them. Once we get past that, we start having meaningful conversations. We can bring the right people in and start to help them with their technology and payment solutions. Again, we are not always walking into a customer or potential client with what we want to sell them. We are trying to be consultative with them and determine what their pain points are, what processes they need and what they are missing right now. We want to help streamline their process and help them find the success in their model.

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CEOCFO: ***What are some of the additional services you provide and do you see growth coming from these additional services?***
Mr. Gray: I think our data services are probably the biggest opportunity along those lines. You hear the buzzwords about "big data" or "data mining" and I think that is a real opportunity for merchants of all sizes to be able to do some target marketing with customers that have been in their shop before. Our gateway provides that and gives them the ability to do some targeted marketing with customers who have already processed with them. It is not just about payments anymore because payments are kind of a subset of all this. For us to focus on the ability to help our merchants grow their business and to realize the value that our technology can provide them is a real selling point. When a merchant realizes that the right technology – our technology – can help them to drive more business and increase their revenue then they truly see that we can bring more to the table than simply payment processing. We can help them to better understand their customers' spending habits and know what products or services to market to them. We have technology that can do this for our merchants and give them a laser focus into their customers and their customers' buying patterns. The old days of blast marketing are becoming a losing proposition. Target marketing and offering value with that marketing is the way merchants must go to leverage their marketing dollars. Because of this, I see significant growth for our company in this area. In addition to this, we also have a group that focuses on Search Engine Optimization (SEO) for our merchants. We are doing some great things with that and tying that back to helping merchants improve their websites. At the end of the day, we try to educate merchants all the time on the fact that people do not open up the Yellow Pages anymore. They go out on the Web; they put services in a little search bar and choose businesses that pop up there. We want to help them to the top of that list as much as we can to bring more business through their door.

CEOCFO: ***I noticed on your website that you offer capital. Is that something you offer directly or do you connect your customers with people who might be able to provide that?***
Mr. Gray: We actually utilize three different funding sources but we do not physically do the lending. Two of the companies we use actually provide Accounts Receivable lending. We also have a partnership with a group that does SBA lending. Depending on what type of lending merchants want, we will direct them to a product that suits their needs. For example, if they want to pay the loan back within a 12-month period, we encourage them to consider Accounts Receivable lending because it is a much quicker and easier solution and you get the money almost immediately. In some cases, they can have their money within three or four days. It is quick and relatively easy. Longer repayment periods generally will need to be an SBA product. Anybody who has done an SBA loan knows that there is some paperwork that is required and

it is a little more tedious to get it going but we are here to assist them through either process. To us, it is really about our customer's goals and what they are trying to accomplish. Most merchants just want to obtain operating capital that can get them through the next 90 or 120 days, especially restaurants and small retail shops. This additional funding helps them with purchasing inventory up front for the next season or to help lower food cost and different things like that. An SBA loan does not really fit for that type of lending but an Accounts Receivable loan can be the perfect solution.

CEOCFO: ***Would you tell us a little more about the compliance issues?***
Mr. Gray: Absolutely. For me, compliance is critical. We have been knee-deep in PCI the last couple of years. Unfortunately, I would not say it is going very well simply because it does not seem to be very well received by the merchants. It is a heavy lift for many merchants to get PCI compliant. To us, we are helping merchants get PCI compliant while making sure they understand the value of it and the requirement of it. When I say it is a "heavy lift" what I mean is that to become PCI compliant for some merchants, especially gas stations, it can be a rather daunting task. They may have to upgrade software, which can be time consuming and cost tens of thousands of dollars. I am not sure that the card associations have a true appreciation for all that can go into this for most merchants.

Education and assistance in PCI compliance has been an ongoing effort for us for the last 3-4 years. I feel like our team does a very good job of it. Many of our merchants are PCI compliant and while I would not want to give you a percentage, I can say it is a high number compared to the industry. We certainly believe that ultimately, EMV is a better way to go but, again, it is going to be a burdensome task on the merchants to comply.

Because the card issuing banks and the associations seem to have a louder voice in the industry than the acquiring side of the business, these types of programs are often based on the needs of the issuing side and then forced upon the acquiring side of the business leaving us to help the merchant become compliant. This means we are often waiting for the associations and card issuers to tell us what to do. With that said, EMV is a good solution. I foresee one of the issues with EMV to be the fact that they are putting a great deal of the capital requirements and debt on the merchants. They are making merchants upgrade software, pay for new hardware, and in some cases both. Yet the industry must still rely heavily on a large number of issuing banks that have not even started issuing chip cards. EMV, as tight as it is, still seems to be further off than many people may think. I tell people all the time to look in their wallets and see how many cards they personally hold that have the chips in them. That will tell you if we really are ready to convert to this technology as an industry. I have five credit cards in my pocket and only two have chips in them. I believe that this will be a cumbersome and expensive task and while certainly much better from a secure data perspective, it does not fully address e-commerce merchants and card not present environments and more importantly, the merchants simply are not being incented to convert to EMV at this point. Rather it is more painful for them to do so. Many of us who have been in the industry for years remember when we all moved from paper to electronic drafts. The merchants received tremendous incentives in the form of lower rates to induce them to convert and when truly examined, it actually made their lives easier. No more reconciling and processing paper drafts, suddenly everything was electronic so the merchant did not have to take the drafts to the bank every day. Nevertheless, in order to progress things they were offered big financial incentives and the conversion happened. I am not seeing that right now with the move to EMV.I hope that this will change in the near future and the initiative can move forward.

CEOCFO: ***Your presence on the Inc. 5000 indicates that business is going well. How do you continue the trajectory?***
Mr. Gray: We continue this forward momentum through our continued effort to stay on the leading edge of technology and differentiating ourselves through our service, products and people. I feel very confident that our business will continue to thrive given the new opportunities that we have with our advanced technologies but we do expect to see slightly slower growth than in previous years simply because the economy has changed. While we continue to see a positive 5 year trend of growth in the number of accounts we have and the number of transactions we process, the overall volume is flattening out a bit. Most of this is because the average consumer is just spending less. Over the past few years, people have been required to tighten their budgets and so we see trends that indicate more of that to come. If you look at our average ticket in our portfolio and in the industry, the average ticket has gone down by approximately 35%.When people are struggling financially, it is normal to see this type of trending in our industry.

CEOCFO: ***Why is Digital Financial Group a company to watch?***
Mr. Gray: I think from our perspective, while we are certainly a small company in size we are a big company at the heart of it. We have many resources and we have many extremely talented people. What DFG has not done is leverage our position by going out and getting investors to invest in our company. This allows us to stay small but does not diminish our capacity to grow and stay ahead of the curve in technological advancements. We are not bogged down by bureaucracy or driven only by the bottom line. We can be nimble and quick. More importantly, all of our growth has been organic which is by design. We have steered away from the model that some of our competitors employ which is to purchase portfolios and borrow money against the company simply to get larger numbers. That is not what we are about. Our philosophy is that our growth will come from the success of our customers not simply by having a larger bank account. We want to grow

and build a legacy with our company and we want our company to be around in 20 or 30 years from now. So often in our industry, guys go out and leverage themselves, borrow money, bring investors in, and the next thing you know, the management team and owners are out of the business. That is not what is in our game plan. We intend to stick with what we have done for the last 11 years and focus on what the needs of our customers are and do all we can with our wealth of knowledge, experience and talent to meet those needs. That continues to be one of our core values, which has served us well to this point. We will continue to advance our technology and stay on the leading edge of the industry but we will do it organically and in a way that allows us to continue to establish our long roots and thrive. We are never going to be a big, huge processor and we are never going to have Super Bowl ads on TV that ultimately our customers would pay for. That is not what we are looking for; we are looking for good, sustainable growth and it shows. Our attrition numbers are excellent and our customers do not leave. Once we bring a customer on board, our attrition is far below what the industry is. I think this is a testament to the way we treat our employees and, in turn, the way our employees treat our customers.

BIO: Cory Gray, the CEO/President of Digital Financial Group has been in the payments industry for more than 25 years, starting his career with several multi-state regional banks and then moving on to work for Visa, U.S.A, Vital Processing Services and then Micros. Cory has an extensive breadth of knowledge in the payments industry and a great passion for the business. Mr. Gray has served on several industry advisory boards as well as written articles regarding merchant processing, and the issues that affect the industry today.

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