



INTEGRA SYSTEMS INC.

BUSINESS: Integra Systems Inc., headquartered in Vancouver, British Columbia, is in its third year of operation. Integra is an industry leader in the development and marketing of sophisticated information/transaction processing terminal systems for the retail, health-care and financial industries.

MARKET POTENTIAL: While our primary market is North America with emphasis on the United States, we are interested in forming strategic global alliances with communications carriers and networks who will benefit from installing our products.

The market potential for Integra's products is substantial with the electronic funds transfer and transaction terminal market alone estimated at approximately \$200,000,000 and growing at a rate of 35% a year.

Potential customers include public utility carriers, health care claims processing organizations, large retailers, grocery store chains, convenience stores, network providers and third party processors, fast food chains, financial institutions, independent selling organizations, communications and banking consultants.

PRODUCTS: The Integra SofTerm ST2 is a sophisticated programmable transaction computer that will handle a variety of Point-of-Sale functions including credit and debit card transactions, cheque authorization, detailed activity reporting, and inventory management.

The ST4, which has a four line LCD display panel, is designed for use in more complex screen-oriented transaction processing applications involving a number of data resources and destinations. Its multi-tasking capabilities make it ideal for benefits and insurance claims processing as well as for electronic messaging, transportation, retail and banking applications. It can also be used for credit card draft capture applications, debit card purchases and Personal Computer-type applications. Both the ST2 and ST4 have local area networks and are fully compatible with all Integra SofTerm products and accessories.

The SofTerm family includes two terminals, the ST2 and the ST4 as well as peripheral accessories including Personal Identification Number (PIN) Pads, printers and scanners.

STOCK:

Traded:	Toronto and Vancouver Stock Exchanges - symbol ISI
	NASDAQ in the U.S. - symbol ISIIF
Shares Authorized:	20,000,000
Shares Issued and	
Outstanding:	8,132,001
Public Float:	Approx. 4,500,000 shares
Insiders' Holdings:	Approx. 3,600,000 shares
Recent Bid Price:	\$0.60 (C)
Trading Range:	\$0.50 (C) to \$2.90 (C) (since March 3, 1987)
Stockholders:	300 minimum
Market Makers:	Greentree Securities; Dillon Securities; Sherwood Securities; Troster Singer Corp.; Richardson Greenshields; Smith NewCourt/Carl Marks

1655 West 3rd Avenue, Vancouver, British Columbia, V6J 1K1, Canada
(604) 733-1322

FINANCIALS: All data in thousands except per share figures.

	9 Mos. Ended Dec. 31/88	12 Mos. Ended March 31/88
<u>Income Statement</u>		
Sales	\$5,843	\$4,250
Net income (loss)	(220)	(1,264)
Earnings (loss) per share	(0.03)	(0.16)
Averages shares outstanding	7,900	7,618
<u>Balance Sheet</u>		
<u>Assets</u>		
Current assets	\$2,376	\$3,216
Fixed assets	829	540
	<u>\$3,205</u>	<u>\$3,756</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities	\$ 1,079	\$1,433
Shareholders' equity	2,126	2,323
	<u>\$3,205</u>	<u>\$3,756</u>

MANAGEMENT: Ralph G. Scobie - President and C.E.O., Director, was a partner in a securities firm responsible for raising capital; also executive with Xerox Canada Inc.

Richard Strafehl - Executive Vice President Sales and Marketing, Director, founded Starnet (basis for Integra); was executive with Telecommunications Terminal Systems, Toronto.

Les V. Arduini, C.A. - Executive Vice President and CFO, Director, was financial executive with the Raymond Group of Companies, and a manager with Price Waterhouse.

Edward D. Ford, C.A. - Director, a senior partner in the public accounting firm of Ford Teleske & Company with extensive experience in venture financing for emergent companies.

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March 21, 1989



INTEGRA MARKET OVERVIEW

What business are we in?

The world is experiencing a phenomenon: the explosion of plastic cards! They range from credit cards with the now-familiar magnetic stripe, to sophisticated laser and micro-chip cards. Used in applications as simple as personal identification to sophisticated functions such as electronic payment, drug interaction, and consumer data collection, all of these cards need the ability to interact with one or more peripheral devices. Integra has addressed this need by introducing a new generation of sophisticated transaction processing terminals.

Our objective is to be an industry leader in the development and marketing of sophisticated information/transaction processing products for the retail, financial, and health-care (medical claims processing) industries.

What is the market potential for Integra's product?

Point of Sale and Electronic Payment Automation has the potential to emerge as one of North America's leading growth industries. In fact, a research report entitled "Electronic Banking" from The Freedonia Group, Inc. states that the strongest performance in the computer industry is forecasted for Point of Sale Terminals.

When Apple Computers introduced their first personal computer, the PC marketplace was in its infancy. Today, this market is a multi-billion dollar industry. Integra sees the transaction processing terminal marketplace as being at the same stage when Apple introduced their first personal computer, breaking new ground, and poised for explosive growth.

One of the biggest frustrations is to describe the massive size of this market. Currently Integra is concentrating its efforts in North America with an eye to forming strategic global alliances with communications carriers and networks. The transaction processing terminal market is currently a \$200,000,000 market and is growing at a rate of 35% a year.

Integra dominates the video marketplace through its terminal placements with Cevaxs Corporation, the largest wholesale video distributor in North America. "This market will grow by another 100,000 terminals by 1992" - Video News, October '88. Integra recently began work on two new pilot projects: one with PVS Video Services (a division of Jim Pattison Group); and the other with MovieTrack of Dallas, Texas for terminal installations in convenience stores throughout North America.

Integra perceives the video market as a maturing market, and feels the future for our products lies in three areas; health-care (medical claims processing), financial and retail.

Health-care (medical claims processing)

Perhaps the most exciting prospect for us lies in the medical claims/pharmacare markets as these two areas move towards electronic claims processing. Our government in British Columbia has legislated that within the next year all medical claims must be processed electronically. Many private insurance companies in the U.S. are currently looking at automating as well. Of the three billion health care claims submitted in 1988 in the U.S., only 5% are processed electronically.

This medical, pharmaceutical and insurance claims processing environment is a classic PC application. However, because of cost and functionality issues, there is tremendous interest in the Integra SofTerm because it provides the same capabilities as a PC but for a fraction of the cost. "For even the smallest drug chain, 'automation' has become the buzzword of the '80's. Two-thirds of them will be automated by the end of 1989" - EFT Today, October '88.

Doctors and druggists are tired of the time-consuming paper generated by health claims. They are eyeing the ease of electronic P.O.S.: "It is virtually an untapped market" - POS News, August '88. There are 450,000 doctor and dentist offices in the United States and 200,000 drug stores and pharmacies. A 10% share of this market alone would yield almost \$85,000,000 in revenue for Integra.

In November, 1988 Integra signed a substantial contract with HealthNet, a division of RX Plus which currently processes insurance claims for 6,200 of Canada's 6,980 pharmacies and 20 of its 33 insurance carriers. Integra is to supply 25,000 terminals to HealthNet, representing sales of approximately \$37 million over the next five years.

Integra has recieved a Letter of Intent from Advanced Card Sciences of Atlanta, Georgia, for the development and installation of a medical claims processing system in the south-eastern United States. As well, Integra is in negotiations with another large vendor and is talking with several health care insurance providers.

Financial/Retail

"I firmly believe that by the end of the next 10 years, every retail outlet in the country will have some type of point of sale terminal." (Jeff Meshinsky, EFT/POS Consultant, Washington, D.C.)

There are close to 5,000,000 retail outlets in Canada and the United States. Of the 4.1 million outlets in the United States alone, 1.2 million have credit authorization terminals. As retailers' needs become more sophisticated, each of these terminals needs to be replaced. Integra sees this as a very lucrative market over the next few years.

In addition, there is potential to put Integra's terminal in every home and office in North America for "home banking."

Integra has received a purchase order from the Bank of Montreal for the development of banking and payment applications and is negotiating with two other Canadian financial institutions. Negotiations are proceeding with the Philadelphia National Bank for terminals and we are talking to other large financial institutions in the U.S..

Personal Computer Replacement

An unrecognized market place, this one is very interesting for its immense potential and Integra's marketing approach is beginning to prove this out.

Integra's products pack the power of a personal computer along with printers and modems in a very compact package. By streamlining applications to fit the SofTerm, Integra will replace personal computer placements in certain areas, including:

- Home Banking
- Corporate Banking
- Medical Claims (already proven by Integra)
- Certain Retail Environments (proven in Video)
- Electronic Mail
- Data Collection Applications

In fact, Integra is currently developing interfaces which allow our devices to attach to personal computers. These interfaces are generating a strong interest from various personal computer manufacturers, including IBM, Apple, Tandy, ATT and Olivetti.

How do we sell?

In addition to our sales office in Orlando, Florida staffed by our Director of U.S. Operations and our Eastern Regional Sales Manager, we now have a sales office in Los Angeles staffed by our Western Regional Sales Manager. We have an agency agreement with a Toronto based company who has exclusive rights to sell our SofTerm terminal to the Canadian financial institutions. All offices report directly to the Executive Vice-President of Sales and Marketing in Vancouver who is also part of our direct sales force.

Integra believes it is critical to form strategic global alliances with communications carriers, networks and larger computer companies to help us sell into this vast market place.

We are working with large networks to finalize certification of our terminal. These networks are in a position to recommend terminals to their customers.

We have formed strategic partnerships to enhance our channels of distribution and have met with several major computer corporations who wish to offer their customers smaller, application-specific terminals such as Integra provides.

With Integra's almost complete penetration of the retail video marketplace, commitments from the Canadian banking industry and excellent in-roads into the lucrative benefits claims processing area, Integra is well-positioned for this industry's exciting future.

March 21, 1989

Integra's early sales performance impressive

ANALYST'S CHOICE David Dvorchik

Integra Systems Inc. develops and manufactures on-line data communications equipment that are state of the art and enjoy an estimated 25% to 40% cost-competitiveness in the marketplace. The Vancouver-based company has targeted the market with two distinct product lines for the electronic funds transfer at point of sale markets: transaction switches and processors, and custom and proprietary transaction terminals.

From a "standing start" in May 1986, Integra will have shipped \$4 million worth of products and generated a profit estimated at \$440,000 or seven cents a share for the period ending March 31, an impressive first-year performance. The company now has a firm order backlog of \$7 million, to which we estimate the addition of new orders totalling \$5 million to \$6 million during the coming year. This would suggest sales of \$12 million to \$13 million and an estimated profit of \$1.5

million or 24 cents a share for the period ending March 31, 1988.

Integra, formerly Kokanee Resources Ltd. and listed on the Vancouver Stock Exchange, is currently in the process of moving into a new manufacturing facility which will provide it with an efficient, cost-effective and high-volume-generating environment. The acquisition in February of Canysco Industries Ltd. provides Integra with broader engineering expertise and product availability in the area of factory automation systems and process control systems. These products address the market for upgrading and automating factory environments with very sophisticated, computer-based products. Management estimates the five-year sales potential from this area to be in the range of \$25 million and highly compatible with the products and technology within the transactional data communications systems.

Integra's senior management team encompass the necessary skills and depth in the areas of technology development, marketing, production and finance that are required and not often found in young, early growth stage organizations. Two highly experienced marketing professionals have recently been added to the mar-

agement team.

Integra is currently shipping a custom terminal product under an open-ended contract valued at between \$9 million and \$12 million, scheduled for completion in mid-1988. A number of additional contracts and custom projects are in various stages of marketing development, including a first contract for a process control system for Scott Paper Ltd. of Vancouver; a transaction switch that allows five remotely located non-compatible computers to intercommunicate, for TO Market, a food distribution company; and an automated teller network that links 175 automatic teller machines in three cities to 60 banks and financial institutions.

With sales volumes averaging \$1 million a month, volume purchase discounts for components and a new manufacturing facility, we anticipate the coming year to be very successful for Integra. Our estimate of earnings of 24 cents a share suggests a price-earnings valuation of 7.6 times on the March 1988 year-end. In our opinion the stock has an attractive risk-to-reward ratio, given its profit growth potential.

David Dvorchik is a vice-president with Royal Oak Securities, Toronto.

Integra Systems

The Switch is On

Four guys – two with Xerox backgrounds – are sitting around with their wives at the cottage, talking about launching a company that will manufacture and market high-tech products. They start by throwing in \$100 each.

Don't laugh – 18 months later and their Vancouver company, Integra Systems, is on the VSE with the help of Don Duguid and Don Sheldon through a reverse take-over of Sheldon's Kokanee Resources. It now has a Toronto marketing office and the company is grossing \$1 million a month.

Integra (ISI; Issued: 4.80 M; Mar 3 - 31 Range: \$1.80-\$2.45; Last: \$2.45) is a company specializing in providing products for on-line transaction-data processing – electronic funds transfer, factory and lab data-capture and the like.

Their final quarterly for fiscal '87, March 31, is expected to show total sales since May, 1986 of about \$4 million, a net of \$440,000 – a ratio of 11% – and a \$7 million order backlog.

Integra's corporate form, however, is a direct function of the four varied talents who launched it and who collectively own 58.17% of the 4.8 million shares outstanding:

- Ralph Scobie, the president and entrepreneur (13.79% of outstanding shares);
- Richard Strafeh, the marketer and vp of marketing (13.75%);
- Olav 'Ole' Jensen, the (electrical) engineer and vp research/engineering (14.77%); and,
- Leslie Arduini, the chartered accountant and vp finance (15.86%).

The four collectively owned most of Integra's predecessor, Starnet Technologies, whose shareholders were also paid four million shares, half of which are non-voting class 'A', each of which can convert to one common for each \$0.50 of cashflow. Other Starnet shareholders included companies owned by Scobie and Strafeh and a company called Systems Support Group, owned by Paddy Dornan and Larry Barnes.

By the way, Sheldon and his associate, H.A. Simons Consulting engineer Milan Mizihorak each have two-year options for shares: Sheldon for 95,000 at \$0.75 to September 1988 and Mizihorak for 50,000 at \$0.30 to July, 1988.

Two Lines In business with his own privately-held technology company – Canysco Industries – since leaving Epic Data (EKD) in 1980, Jensen was servicing the likes of B.C. Tel (BCT) research subsidiary Microtel, McDonald Dettwiler, Glenayre Electronics and Mobile Data International (MDB) when the cottage conference took

place. Integra, which intends to spend about \$895,000 in R&D in the 12 months ending this July, formally bought Canysco in mid-February.

engineering inventiveness

Jensen's engineering inventiveness put Integra into two distinct product lines:

- Transaction switches and processors; and,
- Transaction terminals, both custom and proprietary.

An engineering graduate of the University of Alberta, Jensen added a master's degree from the University of British Columbia's engineering faculty before devoting six years to Epic Data of Richmond, where he was, in turn, senior design engineer, project manager and manager of engineering.

In the transaction-switch field, Integra rapidly obtained two contracts, one is with the U.S.-based To Market food distribution chain and the other is with Universe EMI of Kansas City, an ATM bank network linking 175 terminals in three southern U.S. cities to 60 financial institutions.

Today's transaction terminals made by majors tend to be created as omnibus systems. Integra's strategy, instead, provides customers with a product tailored to their needs while being price competitive – the initial strategy was to sell the products at 15% to 20% discount over competitors.

A major project at an early stage was the development and manufacture of a proprietary point-of-sale terminal for Consolidated Video, an internationally-franchised convenience store chain just beginning to enter the video-rental field. It required close control as well as logistical information and back-up. Consolidated ordered 2,000 of the terminals in a \$2 million order for store-and-forward processing of its clients, 7-11 Stores and Mac's Milk operations in the U.S.

The company also recently landed a contract with Vancouver forest retailer Scott Paper (SPL), for a process-control system called PCM 1000. It allows computer operators to run a factory on a real-time basis. Scott earlier bought an automatic product-label generator from Integra.

Marketing vice-president Richard Strafeh has a marketing background spanning seven years with Xerox in positions ranging from product specialist and technical representative to marketing and product manager. He then spent four years as branch manager and new business

development officer for a national distributor of telecommunications-terminal systems.

Prior to co-founding Integra, Straehl was a partner in Oakwood Capital Corporation, a financial consulting service for entrepreneurs.

Integra's marketing strategy, set by Scobie, concentrates on landing customers with \$100,000 to \$1 million computer installations and which need on-line data communications. The company uses an upper-end IBM technique: a sophisticated sales force that concentrates on pitching senior management on potential products, then tries to move them to the Request-for-Proposal stage using Integra's specs as the basis. But the company, besides doing custom work, is also keeping watch for products it develops that can be sold on a volume basis.

Scobie says the greatest network and terminal opportunities lie with companies in far-flung areas, such as, "financial institutions, petroleum companies operating at the retail level, retail chains and convenience stores, airlines, hotels and car rentals, large franchises and shopping malls." The initial plans are to open regional sales offices next in Montreal, New York, Atlanta, Los Angeles and Dallas. **Tough Competition** But Integra is not alone in this field; the competition is formidable. Management recognizes it on two levels: the established multinationals, such as IBM and NCR, and middle-sized firms.

Scobie claims both groups, though, emphasize mainframe installations that perform the critical computing, data management and communications. In their view, he suggests, smaller computers are used only to off-load communications tasks. Integra, however, uses a system of several computers to provide modular growth and the ability to spread the components out to reduce computer costs.

a relatively strong financial position

Scobie's broad background is in administration, marketing and finance – with the Royal Bank – an investment dealer, Pemberton, and as an independent entrepreneur over seven years. He also devoted six years to the Xerox organization as major-accounts manager and manager, Western Canada marketing and consulting.

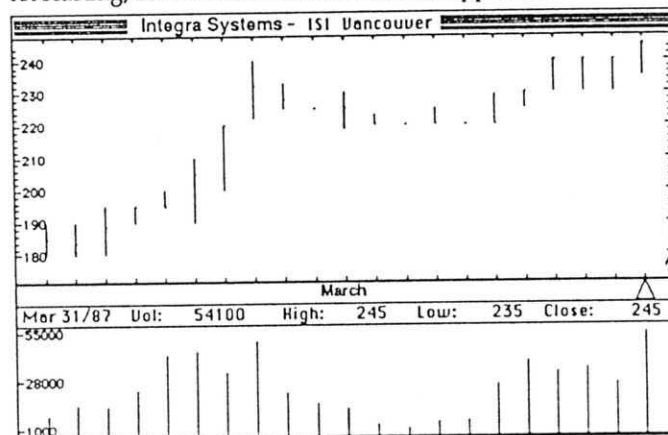
Integra is achieving a relatively strong financial position

for a company at such an early stage of development.

Leslie Arduini, a chartered accountant who is Integra's vice-president of finance and administration, has a responsibility covering corporate finance, sales administration, accounting and administrative services.

Prior to co-founding Integra, Arduini spent 11 years with Price Waterhouse, first as a generalist who covered all phases of general audit, financial and tax-return preparation, and later as manager of special services, where he acquired experience in computer-based accounting services, financial planning and business valuation.

In the following five years as vice president of the Raymond Group of Companies, he took part in an aggressive organization involved in management forecasting, investment and new business opportunities.



The aggressiveness continues. Integra's chief financial officer compiled pro-forma financial summaries that set strategic target sales of \$13 million and net of \$1.6 million (12.3%) this year, rising to \$46.7 million and net of \$3.8 million (8.1%) by 1990.

Toronto's Royal Oak Securities vice-president David Dvorchik (who is an Integra director, owns 16,000 shares of Integra and has a two-year option to buy another 200,000 at \$1.40 each) predicts sales of \$12 million to \$13 million, profits of \$1.5 million (a 12% ratio) and a P/E of 7.6 by the end of the next fiscal year.

Shareholder or not, those are brave goals. But can they be achieved with a management of friends? "I have learned one valuable lesson," says Scobie: "Don't listen to most well-intentioned advice; I have been repeatedly advised – inaccurately – never to go into business with friends."

VI

THE ELECTRONICS COMMUNICATOR

BC POS/EFT FIRM LOGS \$3.8M IN FIRST YEAR

An 18 month-old Vancouver firm has found a profitable niche for customized equipment in the point-of-sale/electronic funds transfer (POS/EFT) market. Integra Systems Inc closed its first fiscal year ended March 31/87 with pre-tax earnings of \$700,000 on revenues of about \$3.8 million, and expects sales to more than triple to \$12 million this year.

Integra president Richard Straehl said the company got off to a fast start last Fall with the receipt of a POS terminal order worth over \$10 million from Consolidated Video Systems, Vancouver. About 3,500 units have already been delivered under the open-ended, 18month contract. Its EFT front-end switching and processing system is currently being evaluated in a trial environment by Universal Money Centres, Kansas City. The pilot project is expected to result in an order for six units to route traffic between financial institutions.

Straehl said the company took a modular approach to product design enabling it to configure equipment to specific needs. Based on the Motorola 68000 chip, the POS terminals em-

ploy multi-processor architecture. The EFT offering is designed with VME-bus boards, and features a proprietary software package with integrated protocol conversion which supports high-speed, on-line communications.

Design work is overseen by v-p engineering and R&D Ole Jensen, whose engineering consulting firm, Canysco Systems, was absorbed by Integra at its inception. He was also formerly chief engineer at Epic Data. The other two Integra founders are chairman and CEO Ralph Scobie and v-p finance Les Arduini.

The firm went public on the VSE in Jan via a reverse takeover of Kokanee Resources, paving the way for over \$3 million in private placements. Straehl said the money is a "war chest" that will be used to fund its growth over the next few years.

It currently maintains direct sales offices in Vancouver and Toronto, and intends to open five regional US offices over the next 24 months. He said it will pursue orders in the \$5-\$10 million range.

Its staff of 34 is expected to grow to 50 by year-end. To pace the growth, it is seeking a 2,000 sq m facility with room for expansion. Operations are now located in a 900 sq m shop. Boards assembly is subcontracted to Eastern Cdn and Japanese firms.

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Canadian Trend Perspectives

INTEGRA SYSTEMS

ISI - TSE Recent Price (\$.)

Integra Systems is a smaller industrial listed on the Vancouver Stock Exchange which is showing promising growth potential, in only a year since formed, in support systems for electronic funds transfer networks. The ISI strategy is to concentrate on the specific requirements of customers rather than compete with the standard systems of larger manufacturers and provide an integrated solution with its supporting Transactor traffic controllers. Earnings for the March/87 fiscal year were \$357,000 or 12¢ a share on \$3.7 million in sales and current year sales in the \$8 million range on 12¢-15¢ a share earnings (shares outstanding increase to 7.5 million from 2.9 million) are reasonable. With an increasing number of potential contracts under discussion the outlook for strengthening growth appears quite favorable. The shares have tended to consolidate near the \$2 level to reflect realizeable near term earnings, but ISI does have potential for above average growth from a small base in a growing industry sector and deserves more recognition for this at such an early stage.

2.00	INTEGRA SYSTEMS
1.50	IS A PROMISING AN.
1.00	SMALL INDUSTRIAL
0.50	IN TRANSACTION
0.00	TERMINAL AND
	SUPPORTING SYSTEMS

Former Network Executive Joins New Equipment Vendor

Michael A. Strada, the former president of the statewide Honor network in Florida, has joined a Canadian company that designs, manufactures and markets transaction terminals and data communications equipment for retailers.

Strada has been named executive vice president for strategic planning and market development for Integra Systems Inc. in Vancouver. Strada, who served four years as president of the Florida Interchange Group, has opened Integra's first U.S. office in Maitland, FL, a suburb of Orlando. Before joining FIG, which operates the Honor System in Florida, Strada was vice president of Colorado National Bank of Denver.

Integra, which was organized in May through a complex series of mergers and acquisitions involving three corporations, has positioned itself as a manufacturer of customized data communications hardware, Strada said. Integra's initial projects have generated a line of transaction terminals, in-store controllers, and communications traffic controllers.

Integra's transaction terminal features multiple processors allowing customization for retailers. According to the company, the terminal can be used simply as a credit card authorization and draft capture terminal, but an optional link to a cash drawer lets the terminal serve as a cash register, complete with a price lookup feature.

Consolidated Video Services, which provides a videotape rental system for convenience stores, currently is using about 5,000 Integra terminals equipped with both a swipe reader for magnetic stripe cards and a bar code reader for merchandise codes, Strada said. Among other features, the terminal allows CVS to collect reports on sales in each store, identifying which movie titles are selling and which ones are not.

Integra also is marketing a communications traffic controller that was designed to link to a variety of different terminals and computers. Universal Money Centers in Kansas City is using Integra's hardware and software as a front-end processor and to drive ATMs.

Among other features, Integra's basic device has six communications ports. Each can be programmed to handle a different communications protocol and message format. By linking communications controllers, the system can handle up to 120 connections to host computers and up to 2,000 terminals.

Strada said the system might be used, for example, in a shopping mall to connect a variety of incompatible terminals for inventory control and price lookup, credit and debit card authorizations, check verification transactions, and ATM deposits, withdrawals and balance inquiries. The device also can perform stand-in processing of authorizations.

Finally, Integra recently added an in-store controller that can handle 30 or more terminals. The controller includes at least 16 communications ports, each of which can have up to six destination addresses for messages. The controller is designed to field messages from electronic cash registers as well as stand-alone payment terminals, and it simultaneously supports both dial and leased line communications.

Strada said a major supermarket chain, which he declined to identify, is studying Integra's in-store controller for debit card payment terminals. Integra's hardware and software will make the payment terminals emulate IBM terminals.

In his new post, Strada is responsible for Integra's strategic planning, including assessments of the marketplace and potential acquisitions for the company. Because the company is emphasizing customization of hardware and software, Strada also will handle consulting assignments, he said.

TECHNOTES

INTEGRA SYSTEMS - FROM ZERO TO FULL SCALE PRODUCTION IN 6 MONTHS

Within 6 months of their first contract Integra Systems Inc. was in full scale production and already making a profit. Integra was hatched in June of 1986 by four local Vancouver businessmen with the idea of forming an electronics company. Together the four of them, Ralph Scobie, Richard Strafehl, Ole Jensen, and Les Arduini, put together a framework for a company that would produce electronic point-of-sale terminals. Their first sales prospect was a company called Consolidated Video Systems, which, when business with IBM had proved not viable, had decided to build their own terminals. Integra jumped at the chance of building terminals for Consolidated Video even though this meant producing 20 working prototypes within 60 days to clinch the order for any subsequent machines. Within 59 days they had produced the machines from scratch. Production included not only hardware, but also the creation of all the software necessary to run a wide variety of applications. It was a mammoth task.

Just six weeks later Integra was in full production, producing 250 - 300 terminals per week. Most of these terminals were being placed in one of the more "hostile" environments of the computer habitat - that of the convenience store.

Terminals in convenience stores suffer not only bumps, and dumps, but also get used daily by many different people, most of whom have very little previous exposure to any type of computer device. The programs worked - successfully.

Because of the function of the point-of-sale terminals and their inherent communications capabilities, the natural progression for Integra Systems was to build a TransActor. The TransActor is a unique communications controller designed to allow a variety of terminals and computers, supplied from different manufacturers, to coexist. It also provides high-volume, low-cost, on-line communications. This unit is currently installed with a United States bank network.

Another simultaneous development was a process control system for Scott Paper Ltd. of Vancouver. The system consists of a transaction switch which allows five remotely located non-compatible computers to communicate with one another.

Another area of development has been the ESP terminal family. The ESP terminal offers a new concept in hardware and software architecture. It can grow from a simple credit/draft capture device to a fully integrated high performance point-of-sale terminal with cash drawer, scanner, and a variety of printers.

Integra now employs 42 people, and had sales in excess of \$9 million in their first nine months of operation. Projected sales are for \$20 million in their first full fiscal year of operation and for \$40 million in their third year of operation.

Integra has produced state of the art products at a fraction of the cost of its competitor's products. The software support for these products has amazed competitors in the electronics industry both in functionality and cost.

Details: Integra Systems Inc., 1574 W. 6th Ave., Vancouver, BC, V6J 1R2, Tel: (604)733-1322, Fax: (604)732-7284.

Partners tailor terminals to please

The four friends who pooled their talents to start Integra Systems found that a high-tech whole is indeed more than a sum of its parts.

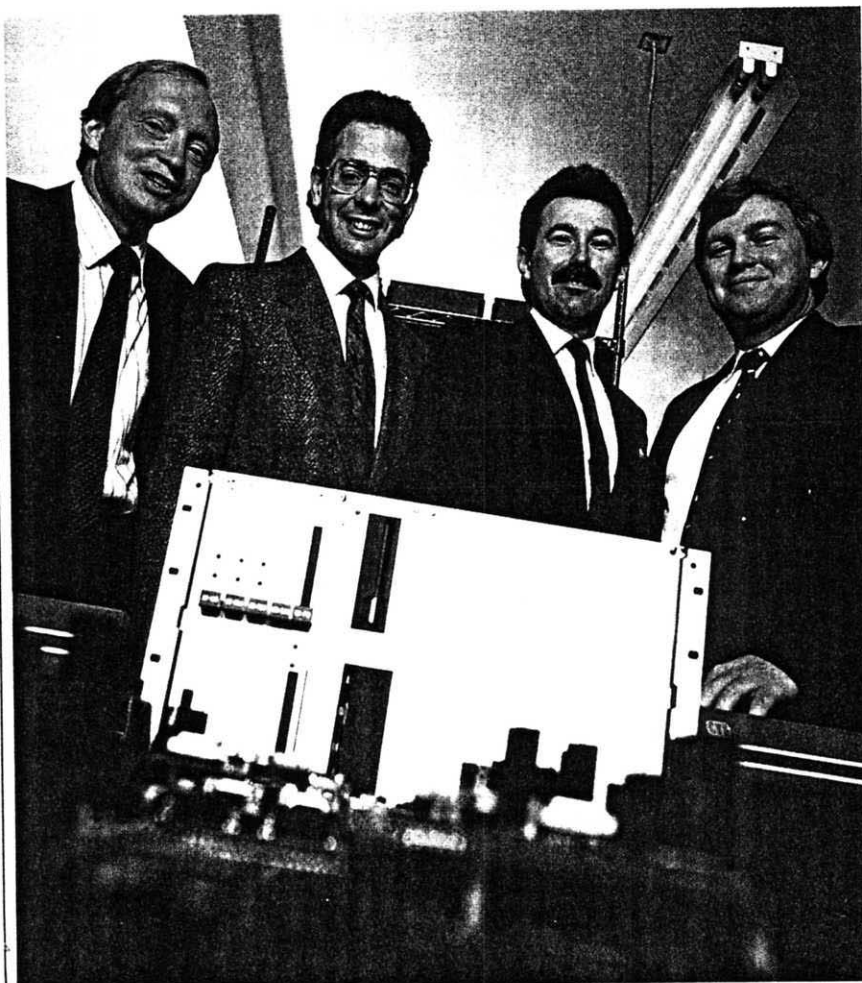
BY WILLIAM ANNETT

The scenario is not an unfamiliar one: one leisurely summer evening in July, 1986, while relaxing at a cottage in B.C., four friends toyed with the idea of leaving secure jobs and comfortable salaries to pool their resources and start a small business. Unlike many similar episodes, this one led to success.

While most transaction terminals offer the same capabilities to every purchaser, the four friends planned to provide customers with products tailored exactly to their needs, but at an affordable price. They decided that transactors — the communications devices enabling main computers and point-of-sale terminals to talk to each other — would be one product line. Smarter point-of-sale terminals, with the ability to perform a wide range of functions, would be another.

Says Leslie Arduini, one of the founders of Integra Systems Ltd.: "With all the computing horsepower out there and everyone producing point-of-sale terminals like automated teller machines with network functions such as the electronic transfer of funds, we saw a growing need for transactors — electronic switching devices that would allow different networks to communicate with each other without the creation of separate connections for each computer language." Although Integra did not pioneer the technology, its specialized approach meant that it did not face any serious competition.

After their night of brainstorming, Arduini, a former chartered accountant, and the three other co-founders of Integra — Ralph Scobie, 37, entrepre-



From left to right: Ole Jensen, Les Arduini, Richard Straehl and Ralph Scobie — in one year, the four friends turned their midsummer night's dream into a profitable high-tech company

neur; Richard Straehl, 33, marketing specialist; and Ole Jensen, 39, electrical engineer and inventor — committed a token \$100 apiece to their new compa-

ny to manufacture transactors for retail, banking and financial institutions. The partners knew that these customers would pay for technology that would allow their teller machines to accept cards from an unlimited number of banks. While they were at it, the partners also planned to manufacture "smarter" point-of-sale terminals to meet their customers' special needs.

Unlike electronic cash registers,

which operate on their own without interacting with larger computer systems, a point-of-sale terminal can be custom-engineered to update inventory records, authorize a credit card transaction and convey information to a central terminal or computer bank.

Optimistic that they could attract customers to both high-tech product lines, the entrepreneurs took the plunge and turned a midsummer night's dream into reality. In July, 1986, they incorporated Integra Systems through a reverse takeover of a formerly listed company on the Vancouver Stock Exchange (VSE). They initially raised \$300,000 through a private placement of shares, at 50¢ a share.

According to Chief Financial Officer Arduini, who has 11 years' experience with a major accounting firm, the partners pinned their hopes on friends and family to invest. "Although we didn't have any accounts, we knew we had more than just a good chance at gaining some," he says. After the VSE approved Integra's public status in January, 1987, the company raised an additional \$3 million, again through a private placement and word-of-mouth publicity. This time the shares fetched \$2.25 apiece.

"We knew it was a matter of time before we would land a contract," continues Arduini. Very little time, as it turned out. Just weeks later, the company obtained two contracts: one for 7,000 transaction terminals with Consolidated Video Systems (CVS), which rents video cassettes through convenience stores across North America, and another with the AIM automated banking network in the U.S. The Consolidated Video contract literally fell into the partners' laps when the Vancouver branch of IBM Canada Ltd., well aware of Jensen's reputation as a high-tech engineer in the computer industry, referred Consolidated to Integra.

"I can't say we conducted a masterful marketing campaign," says Richard Strafehl, Integra's President. Still, he adds, the product wasn't a big enough deal to interest giants like IBM. Marketing Integra Systems to the retail industry is Strafehl's job. After seven years with Xerox Corp., he spent four years marketing telecommunications terminals. In the first few months after

incorporation, Strafehl also marketed Integra Systems as a telecommunications consultancy. The company developed sophisticated, built-in electronic networks for "smart" buildings, like Vancouver's World Trade Centre and the Pan Pacific Hotel.

The CVS contract occupied nearly all of the partners' attention in the first months of operation. They hired more staff as they set up assembly operations to manufacture terminals.

"CVS needed to monitor inventory, control revenues and receivables and

installations that cost anywhere from \$100,000 to \$1 million.

Scobie, who has a background in administration, marketing and finance, says, "Included in our future market for electronic terminals are the trend-setting financial institutions, petroleum companies operating at the retail level, retail chains and convenience stores, airlines, hotels and car rentals, large franchises and shopping malls." The company maintains sales offices in Orlando, Fla., and Toronto, but it does its manufacturing in a 8,500-sq.-ft. leased warehouse outside Vancouver.

To maintain their leading edge in the marketplace, Scobie and Strafehl have created a niche for Integra that falls squarely between the two levels of competition in this field: the established multinationals and new startup operations who, says Strafehl, are actually emphasizing the same thing — main-frame installations that perform the critical computing while leaving smaller computers to do lighter tasks.

Integra's balance sheet for its first fiscal year-end on March 31, 1987, shows assets of \$2 million, of which \$1.1 million are cash and receivables. It has no debt. Arduini forecasts sales of \$12 million with a net income of \$900,000 for the current year, which will end in mid-1988. He predicts sales will soar to \$46.7 million by the end of the decade and will yield \$3.8 million net income by 1990. The company reinvests a minimum of 10% in R & D every year.

Integra is currently working on an even more sophisticated point-of-sale terminal and a transactor that can handle credit and debit cards so they'll be ready when the convenience-store market dries up. Strafehl predicts it could be as early as next year.

Integra's sound capitalization and wise positioning in the field of transaction processing and terminals has transformed the company from small startup to high-tech star. How do the principals feel about the future? "Continuing to compete is the key," says Scobie. "And we expect to do that by offering custom products in substantial markets." Meanwhile, he adds, his most valuable lesson in the past year-and-a-half has been to ignore that oft-repeated advice: "Never go into business with friends."

INTEGRA SYSTEMS LTD.

PRODUCT: TRANSACTION TERMINALS

1986 SALES: \$4 MILLION

SALES PER EMPLOYEE: \$97,560

EMPLOYEES: 41

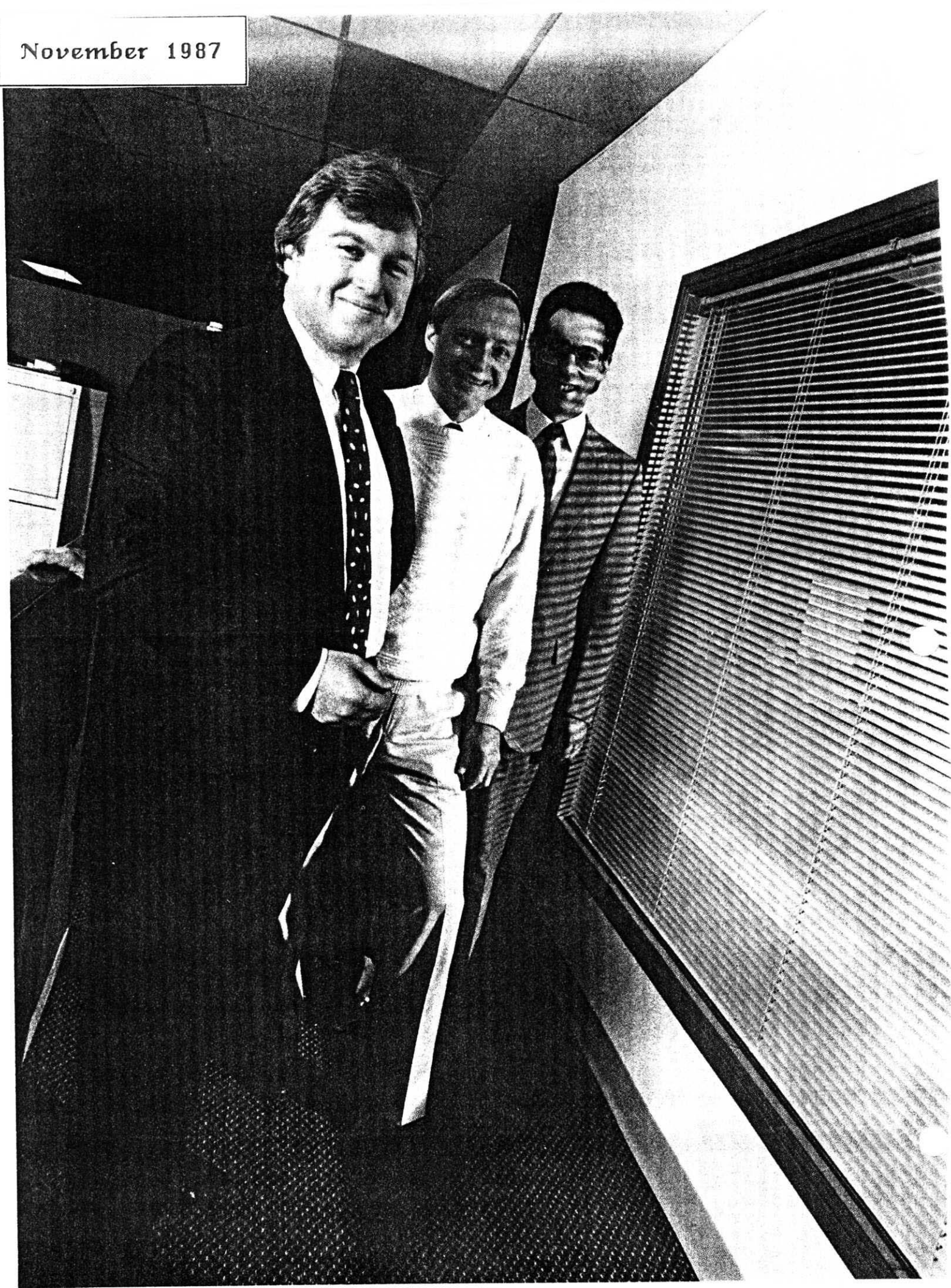
DEBT/EQUITY RATIO: 0

MAJOR CUSTOMERS: RETAIL
CONVENIENCE CHAINS

obtain detailed information on the popularity of certain cassettes, as well as track stolen credit cards," says Jensen, Integra's Chief Engineer. "We were able to customize the terminal and meet the client's requirements." As for competition from other companies, Jensen says the major computer companies cannot afford to devote time and money to customizing products for a handful of customers. "As for the small competitors," he says, "most are still building the experience and knowledge of market niches like this one."

Integra has now built 10,000 terminals for CVS. According to Jensen, it is the largest terminal network in North America. To build them, Integra eventually hired 39 employees. Manufacturing provides Integra with 100% of its revenues; it no longer provides a consulting service. Under Chairman Ralph Scobie, the company wants to find more customers for computer in-

November 1987



**This four-man, high-tech
company had a block-
buster year off one
product. Can they keep it up?**

ENCORE, ENCORE!

BY WILLIAM ANNETT

A balance sheet can be a sobering document. In May 1986, for example, what would soon become Integra Systems indicated cash on hand of \$27 and total assets of \$1,308. Not to worry. Ten months later, the company's assets were nudging \$2 million, over \$1 million of which was made up of cash, receivables and inventory. Better still, by March of this year, Integra, whose four enterprising founders had found a rich vein in the building and marketing of transaction terminals for convenience stores, was rocketing along with revenues of \$1 million a month.

This seemingly magic story is best explained by sliding down a little lower on the 1986 balance sheet to the \$400 figure opposite 'share capital.' Who ever heard of starting a company with \$400 equity? Stay tuned.

One balmy night in 1985, these four Vancouver buddies — Ralph Scobie, Richard Strafehl, Les Arduini and Ole Jensen — were sitting around with their wives at the cottage, snapping caps and anecdotes. Somebody mentioned that they should start a company to manufacture and market high-tech products.

There were pros and cons, but the upshot was that they decided to go for it — with a capital contribution of \$100 each thrown in the pot. That's where the \$400 item on the 1986 balance sheet comes from. Strange but true.

It wasn't quite that bizarre, nor as Cinderella as it sounds, because all four of them had been in, or close to, the electronics industry for some time. Jensen had been designing sophisticated hardware since leaving UBC with his Master's degree. In fact he had developed his own company, Canysco Industries, which had been servicing the likes of Microtel, McDonald Dettwiler, Glenayre and Mobile

From left: Ralph Scobie, Ole Jensen and Les Arduini make up three-quarters of the team that built Integra Systems, a company that did almost \$4 million in sales its first year out.

Data, all members of Vancouver's high-tech establishment. And both Strafehl and Scobie had had more than a nodding acquaintance with majors such as Xerox.

Jensen had been toying with an idea for a customized transaction terminal which could be marketed to large convenience store chains. And in a larger sense, the four future partners could see a large niche waiting for them in what could loosely be referred to as the Electronic Payment and Data Communications Systems Industry. Or sub-industry. Soon to be an industry.

So they took their \$400 out of the mortgage money and plunged — Scobie, the entrepreneur, became chairman; Strafehl, the marketing specialist, became president; and Arduini the accountant and Jensen the engineer were named executive vice-presidents. A total of four employees to begin with.

In a corporate sense, a whole series of things happened between the spring of 1986 and January 1987. They formed a company called Starnet, acquired Jensen's Canysco, and then as a means of going public, pulled a reverse takeover of a VSE-listed company known as Kokanee Resources. This was initiated in September 1986, but became official, along with the change of name to Integra Systems, in January 1987.

What happened to knock over the goal posts about halfway through 1986 was that they nailed an order for something like 7,000 of Jensen's terminals, and the hustle was on.

Just to review the talent: in exactly the fashion that any of the great forward lines in hockey history have meshed, the talents of Integra's front four are perfectly merged in this classy little organization. Their success grew out of that mix, a timely funding that kept Jensen at his drafting table, Scobie and Strafehl on airplanes and Arduini at his spreadsheet, and the right products to send them all to stardom.

Start with Jensen. It's easy to get carried away, but it was his engineering inventiveness not only to create transaction switches and processors and transaction terminals, but to perceive the importance of shooting at a target that was both beyond the ken of most small electronics companies and below the profitability range of the big organizations. This was the very tangible, but narrow, niche that was filled.

An engineering graduate from the University of Alberta, Jensen added a graduate degree from UBC's engineering faculty. By 1980, when he decided to test the professional water on his own, he had spent six years with Epic Data of Richmond, successively as senior design engineer, project manager and manager of engineering.

Largely through Jensen's engineering perception, the four partners very

promptly were able to secure two orders. First came the sale of 7,000 transaction terminals to Consolidated Video, a large distributor of home movies to convenience stores all over North America. The second contract was for Automatic Teller Machines for a banking network in the southern States. But it was the former contract that kept them burning the midnight oil for the following year.

Integra's ESP Terminal sits on the counter of your favorite local convenience store, a fully integrated high-performance point-of-sale system, with cash drawer, scanner, a variety of printers plus communications capability. As a point of sale control, it is directly linked with the video company's network.

"This network, incidentally," says Jensen, "is now 10,000 strong, and the largest terminal network in North America."

Lest this be construed as a "gee-whiz" story, it should be emphasized that there are still negatives in the Integra system. They haven't that much money, as yet. But it beats \$400.

Les Arduini, the partner who looks after the money is a chartered accountant whose background includes 11 years with a Big 8 accounting firm in all phases of audit, financial and tax preparation. Then, for five years prior to co-founding Integra, he was vice-president of a management consultancy and a venture capital group. But he's not that great as a financial forecaster. He predicted in their first year out, following an exhaustive examination of the market potential and their likely revenue, that Integra would yard in about \$3 million. Actually, it grossed \$4 million.

In actual fact, the first fiscal year-end was measured over the 10-month period ended March 31, 1987, during which the company had total revenue of \$3.8 million, a gross profit of \$1.5 million, and net income after tax of \$359,000, or 12 cents a share. The stock currently sells at about \$2.40, or 20 times earnings.

Meanwhile, Arduini has prepared financial summaries with strategic targets of \$12 million for the current year (to the

end of March 1988), rising to \$46.7 million by the end of the decade two years after. Those projections include net earnings figures of \$2 million next year and about double that by 1990. With estimates like that, he doesn't have to be on the low side.

But to Steve Semeniuk, research director at Odium Brown in Vancouver, most junior industrials are high-risk because of their one-product disposition. However, that type of concern hasn't been much reflected in investors' buying patterns of these types of stocks in recent years. Semeniuk has a thesis that, perhaps because of our long-term apprehension over penny mining stocks, there has been an unrealistic overvaluation of the recent non-resource VSE issues, which deal with everything from gospel cassettes to growing mushrooms.

"It's my opinion," says Semeniuk, "that the aggregate of the junior gold mining listings would offer less risk than this recent collection of non-resource issues."

The concern about Integra is whether it can produce an encore to its currently hot transaction terminal. Or was that a brilliant home run which may be followed by a series of singles or perhaps strikeouts?

The Integra founders are well aware of such a problem and say they took early steps to avoid such a trap.

As marketing chief and president, Strafehl was acutely aware of the potential one-product fallacy, regardless of the pizzazz of any single product.

"While you might consider internationally franchised convenience stores as almost inexhaustible as a market," says Strafehl, "we anticipated, at our rate of penetration, that this market would begin to lose its lustre by the latter half of 1988 at the latest. So we accelerated our R & D program to ready two options when that occurs: a highly sophisticated point-of-sale device, and a Transactor, which combines the handling of credit cards and debit cards."

Strafehl is no marketing novice in this industry. His background includes seven

years with the Xerox organization in roles ranging from product specialist to marketing manager. Subsequently he spent four years as a branch manager for a national distributor of telecommunications terminal systems, followed by a partnership in a financial consulting service for entrepreneurs. In Integra's formative stages Strafehl developed technical and marketing solutions in "smart building" scenarios, such as Vancouver's World Trade Centre/Pan Pacific Hotel.

Nor is Integra a one-man show in any single department. Such is the overlapping of the four principals' talents that close integration and support is always available, unusual in such a small group of players. Ralph Scobie, for example, teams closely with Strafehl in the marketing function.

"Our long-range business plan," says Scobie, "following the establishment of an early product and revenue base, has always been to develop a more varied potential customer group with computer installations ranging from \$100,000 to \$1 million and having requirements for on-line data communications. It's been our

perception that the greatest network and terminal opportunities, proportionately, lie with companies of that size in geographically dispersed locations."

He sees Integra's defined future market as including financial institutions, petroleum companies operating at the retail level, retail chains, airlines, hotels, car rentals and shopping malls.

As at the beginning, Integra recognizes two levels of competition — the large multinationals, such as IBM and NCR, and the relatively new start-up operations. In transaction switching and processing, both of these groups emphasize main-frame installations which perform the critical computing, data management and communications, while smaller computers are utilized to off-load communications functions.

"In sharp contrast," says Scobie, "we utilize a multi-processor architecture which provides for modular growth and the ability to distribute components geographically to reduce communications costs."

Scobie's background is also marketing-biased, with financial overtones. Before devoting six years to Xerox as manager

for Western Canada, he spent several years in a major bank, as an investment dealer, and as an independent entrepreneur.

The outlook? Integra hit the TSE in August, and the partners are extremely enthusiastic.

"As an example," says Scobie, "the systems integration industry is in its infancy, and we're convinced that the product integrity we've proven — especially in customized products — will make it possible for us to grow not only rapidly but soundly. Our terminal, for instance, can be as unique as the individual user, capable of being tailored from a simple credit draft-capture device to a full integrated high performance point-of-sale system."

But in the long run, says Scobie, the key will be in Integra's ability to compete. "We expect to do that successfully simply by offering custom products in substantial markets."

While he accepts that deceptive oversimplification, Scobie says he has rejected another bit of homespun advice over the past year and a half: "Never go into business with friends." ■

POS NEWS

NEWSLETTER OF RETAIL ELECTRONIC PAYMENTS

January 1988

VOL. 4, NO. 1

Integra: A Starring Role In Video Rentals

In the world of POS, Mike Strada was probably one of the highest profile executives. Chief of Florida's Honor EFT network, Strada presided over one of the first widescale direct debit projects in the U.S. and weathered a pricing incentive plan that almost killed the program. Since he left last spring, a lot of people have been wondering what happened to him.

In fact, Strada landed with a company on the opposite side of the continent from Florida and north of the border. He is Executive Vice President and Director of U.S. Operations of Vancouver-based Integra Systems Inc., a young terminal manufacturing company that supplies terminals to Cevaxs Corp., operators of convenience store movie rental programs. And Integra expects him to use his high-profile POS image to bring customers to his new company. "We have very high expectations of Michael Strada," says Ralph G. Scobie, Chairman, Chief Executive and a founder of Integra. "We want him to open doors for us."

As a one-year-old company, Integra may need some doors opened. Although the company expects sales of up to \$7 million (U.S.) this year, more than double last year's \$3.1 million, with a pre-tax profit of \$1.4 million, it is coming into an extremely crowded and competitive field. It has its

terminal sale to Cevaxs to its credit, but beyond that the company is virtually unknown in a market that includes at least 18 other vendors selling terminals to a highly fragmented banker and retailer market.

Flexibility. Integra now faces the challenge of building on its Cevaxs success. It plans to carve out a niche selling high-powered, flexible terminals with great applications abilities, just as it has done for Cevaxs. It will unveil a standard product at the EFT Association's annual Expo this spring. The device will cost \$500 to \$1,500 and come standard with 256K memory and possibly multiple processors, so a number of jobs can be performed simultaneously. "We think it's important to get flexibility built into the terminals," says Richard E. Strafehl, Executive Vice President. "Until now, the only way a retailer could get flexibility was by changing terminals or adding terminals."

Scobie notes that the biggest POS market is the U.S. and that is where Integra has set its sights. The company says Strada is an indication of its eagerness to crack the U.S. market, where it plans to open three sales offices. "I have the title I have because we wanted no misunderstanding about our commitment to the U.S. market," Strada says. ■

January 1988

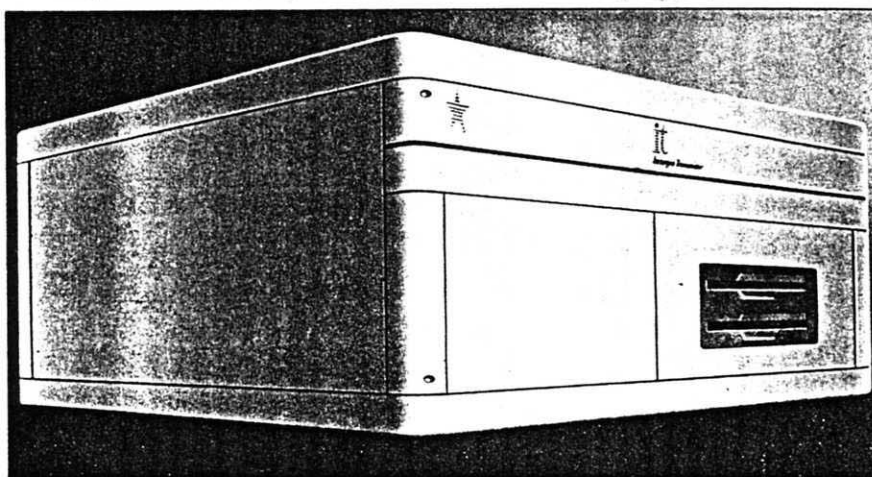
SPECIAL INTERNATIONAL BANKING EDITION

COMPUTERS in BANKING

JANUARY 1988
\$5.00

The Computer And Automation Magazine

Management



Integra Systems quietly debuted its Transactor IT, a communications switching system that allows debit and credit cards to be used for either ATM or POS funds transfers.

Integra Systems Inc.—who didn't have a booth at the show—gave, as sales and marketing vice president Richard Strafeh1 put it, "a quiet introduction" of its new communications transaction switching system. Called the Transactor IT, the switch allows both debit and credit cards to be used to activate instant electronic funds transfers from either ATMs or retail POS terminals. Banks, said Strafeh1, can expand their transaction data communications systems without expanding their mainframes. A retailer can use Transactor IT to process transactions from POS terminals, routing each credit or debit card transaction to the host computer of the issuing bank. Instant credit authorization is then followed by electronic funds transfer. The device can also operate as a communications front-end to one or more larger host processors simultaneously and can supply transaction accounting. Also designed around the Motorola 68000, each Transactor IT can interface a network of 2,400 terminals to any brand of mainframe.

New ProductsNEW COMMUNICATIONS TRANSACTION SWITCHING SYSTEM
PROVIDES USE OF CREDIT/DEBIT CARDS AT POINT OF SALE

With an increasing amount of EFT activity taking place at the point of sale (POS), one Canadian firm has introduced a transaction switching system that provides the capability for both credit and debit cards to be used at automated teller machines (ATMs) and retail check-out counters.

Integra Systems Inc., based in Vancouver, B.C., is offering financial institutions and retailers "Transactor IT," a multi-processor, fully integrated transaction switching facility providing low-cost, on-line communications.

The system is capable of transmitting transaction data between POS terminals and host computers using any protocol or message format while running on the same telephone line--significantly reducing communications costs for the user, Mike Strada, Integra's executive vice president and director of U.S. operations, told EFT REPORT.

With the Transaction IT controlling the transaction data communications process, both debit and credit cards can be used to activate an instant electronic funds transfer at the point of sale.

"Basically," noted Richard Strafehl, president of Integra, "we're bringing the convenience and responsiveness of the automated teller machine network to the retail establishment.

"For example," he continued, "a retailer can use a Transactor IT to process the transactions from his POS terminals, routing each credit or debit card transaction to the host computer of the issuing bank. Instant credit authorization would then be followed by instantaneous electronic funds transfer in exactly the same fashion that automated teller machines function today."

...INTEGRA OFFICIAL SEES TREND TOWARD MALL POS; PRODUCT CAN DRIVE THOSE ATMs

Strada sees the Integra product as controlling the EFT/POS networks of all retailers including supermarkets, convenience stores, specialty shops and restaurants.

The system can process a variety of EFT/POS transactions including credit and debit authorizations, deposits and withdrawals, payments and transfers, check verification and guarantees.

"We see a lot more activity at the point of sale than in the past," Strada observed, particularly with the heralded advent of the Entree debit card.

"This year with the Entree card and debit activity there will be a movement to bring all stores on-line," he noted. "There will be a demand for [POS] in 1988."

Interestingly enough, the Integra executive vice president foresees a trend toward "mall POS," he said. That is--a movement toward bringing all stores in a shopping mall on-line. "Our [system] controller can drive all of them," Strada added.

Strada noted that some shopping malls are offering their own mall card--one card that can be used in any terminal in the mall. Toward that end, the Transactor IT can handle negative file processing for mall POS, he said.

In fact, Integra officials see the Transactor IT as having multiple uses, Strada noted. The system could work as a front-end device to drive terminals or ATMs or as a mall controller for POS functions.

It also provides control of circuits and networks providing status reports on the condition of all network elements. The product also supplies users with accounting and information reporting on transaction, terminal, host, line and network for statistical and performance accounting.

"Our philosophy is to customize the software for the specific customer," Strada noted.

What gives the Transactor IT its powerful flexibility is its multi-processor architecture and modular software which comprises the Communications Controller segment (CCS) and the System Administrator Segment (SAS).

The Communications Controller modules support 6 communication lines. Each line, in turn, supports up to 20 terminals. The combination hardware/software enables each communication line to be programmed according to the user's needs.

...SAS PERFORMS TRANSACTION PROCESSING SERVICE

Each communications controller contains a Motorola 68000-series micro-processor. The system also supports disc and tape drives, console displays, printers and an IEEE 802 Local Area Network interface capable of linking multiple Transactor ITs.

The CCS also contains a series of processes that enables each communication port to operate independently from the network. That independent function interfaces with various terminals and computers. The so-called interprocess communication is designed to maximize concurrent operations.

The SAS also provides system management functions and performs transaction-specific processing.

Some of the Transactor IT function capabilities include determining automatic terminal status and failure detection with alarms; data capture and retrieval; error control with automatic retransmission; store and forward switching; system and network supervisory control; time and date stamping; formatting as well as a broad range of modem support.

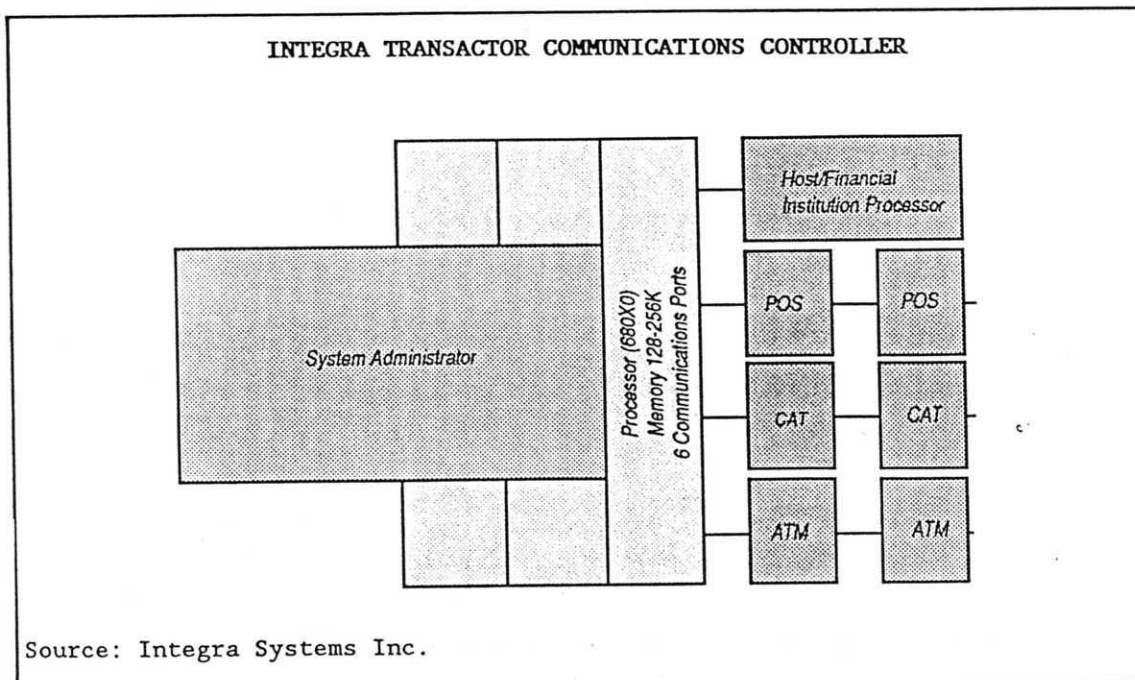
...PRICE OF SYSTEM VARIES ACCORDING TO CLIENT NEEDS

The Integra system could carry a price tag as low as \$2,000 or as high as \$100,000--depending on a client's needs, Strada told us.

Integra already has one client--Cevax, a Canadian firm that provides terminals for EFT processing for convenience stores--that has installed 7 Integra systems, Strada noted.

Cevax is using its 7 Integra systems as regional devices driving 10,000 terminals currently on-line, he explained.

Universal Money Centers in Kansas City also has had 2 Integra systems on-line for about a year. (Integra Systems Inc., Suite 100-2250 Lucien Way, Maitland, FL 32751, 305/660-0084.)



Integra debuts POS/host system

by Suzanne Wintrob
Computing Canada

Financial institutions and retailers can now communicate transaction data between point of sale (POS) terminals and host computers, irrespective of their equipment suppliers, the protocols or message formats.

The Transactor It, introduced recently by Vancouver-based Integra Systems Inc., is a data communications transaction switch-

ing system that allows the use of both debit and credit cards to activate an instant electronic funds transfer (EFT) from the point of sale.

"Basically we're bringing the convenience and responsiveness of the automated teller machine (ATM) network to the retail establishment," says Richard Strafehl, president of Integra.

"For example, a retailer can use a Transactor It to process the transactions from his POS termi-

nals, routing each credit or debit card transaction to the host computer of the issuing bank. Instant credit authorization would then be followed by instantaneous electronic funds transfer in exactly the same fashion that automated teller machines function today."

Users can select the EFT/POS terminals, networks and mainframes they want to interconnect. Integra provides the Transactor Its, the associated software and

the integration services necessary to implement the system.

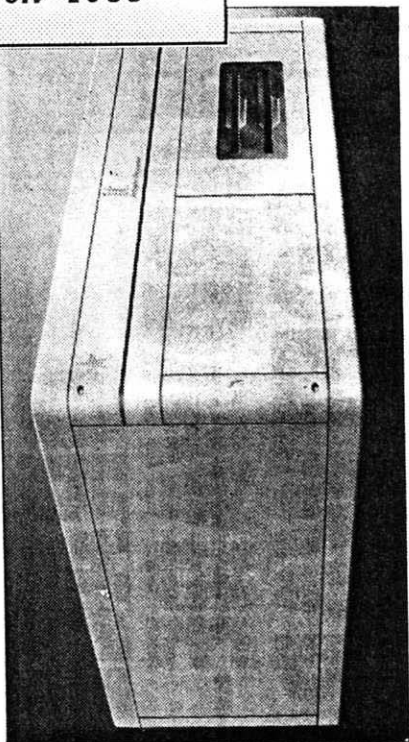
Any combination of terminal and host manufacturers can be used, and communications protocols and message formats are individually specifiable by the user on a line-by-line basis.

EFT/POS transactions

The Transactor It processes all kinds of EFT/POS transactions, including credit and debit authorizations, deposits and withdrawals, payments and transfers, cheque verification and guarantees.

It provides complete control of terminals, circuits and networks, with status reporting on the condition of all network elements. It can also supply complete accounting and information reporting on transaction, terminal, host, line and network for statistical and performance accounting.

In addition, the system can operate as a communications front end to one or more larger host processors simultaneously, and can supply complete transaction accounting.



The Transactor It, a data communications transaction switching system from Integra Systems Inc., allows use of debit and credit cards to activate an EFT from POS.

System is expandable

The user's system is expandable through the addition of more Transactor Its as necessary rather than through the addition of more mainframe computing power.

According to Brian Smyth, marketing support manager at Integra's Toronto office, the system is being used in a small financial institution in the U.S. It is widely used, though, by the Cevax Corp., which operates the video cassette rentals located in convenience stores. The system reads bar codes that are on the video and the membership card, speeding up the process of signing out a movie.

Waiting in the wings

As far as Canada goes, Smyth says that Integra is "waiting in the wings with other vendors" because the POS aspect of the Canadian marketplace is not taking off very quickly.

He adds that there are one or two similar products on the market, but "we're filling a niche that was previously not there."

The Transactor It is currently available. Depending on configuration, price of the system ranges from \$10,000 to \$100,000.

FROM START-UP TO \$16 MILLION ANNUAL SALES IN ONLY THREE YEARS

A key development contract, and subsequent production order, for a point-of-sale transaction terminal for retail video rental franchises set the business direction for Integra Systems Inc, Vancouver. Consolidated Video Systems, also of Vancouver, placed a quick-turnaround order for 20 prototypes in July/86, and advanced some cash to help finance the work. Since acceptance, Integra has shipped about 10,000 units, most of which have gone to CVS franchises in the US.

The four founding partners set up the company in May/86 to build "devices that would create and communicate transaction information", explained Richard Strafehl, v-p marketing & sales. It initially functioned as an engineering consulting firm, until the CVS order, and another with the AIM automated banking network in the US, rocketed the fledgling enterprise in the fast lane.

Entrepreneur Ralph Scobie is president, Strafehl manages marketing, Les Arduini handles finance, and Ole Jensen is in charge of engineering. They each contributed \$100 to start the company, and built it on cash flow, commercial credit, private investments, and equity financing after Integra went public on the VSE in Jan/87.

One product/one customer

The company is trying to break out of its dependence on one primary product sold to a single major customer. It has just begun to market a generic version of the terminal based on the NEC V25 16-bit processor and equipped with a 300/1200 baud modem, magnetic stripe reader, and featuring a fully integrated LAN. Brand-named *Softterm*, it's aimed at the banking, retail, health and medical markets, says Strafehl, or any application that involves "card activated" transactions. He says the company is about to close an OEM agreement for 15,000 units.

Integra brings in the shell, displays and keyboards for the transaction terminals from Far East suppliers. The company stuffs circuit boards, assembles and tests the units, and loads software, in-house. Current facilities, totalling 1,000 sq m in two locations, should be able to accommodate anticipated volumes of the next year.

Taking EFT to the retailer

Central to its transaction network strategy, Integra offers a high-performance, fully integrated transaction switching node, the *Transactor it*. The basic design is adapted to specific requirements to tie various terminals together with local or remote host mainframes. In a typical application, the *Transactor it* is capable of transmitting transaction data between POS terminals and host computers using any protocol or message format while running on the same telephone line.

Integra is attempting to take the benefits of the automated teller machine network to retailers with the *Transactor*. It can be used to process transactions from several POS terminals and route individual credit or debit card transactions to the host computer of the issuing bank. Cevax, a firm that provides EFT terminals for convenience stores in Canada, has seven systems networking 10,000 terminals. A US firm has two systems operating in a similar application.

The *Transactor* technology is also used to collect data stored in the CVS and similar terminals. CVS batch processes information for franchise billing as well as market analysis.

Sales in the second year of operations are expected to be about \$7.5 million, and \$16 million is forecast for the year ending March 31/89. The company currently employs 52 people and invests as much as 15% of sales in product development. Integra maintains sales offices in Toronto and Maitland, FL.

THE ELECTRONICS COMMUNICATOR

April 1988

B4 MONDAY, APRIL 25, 1988

REPORT ON BUSINESS

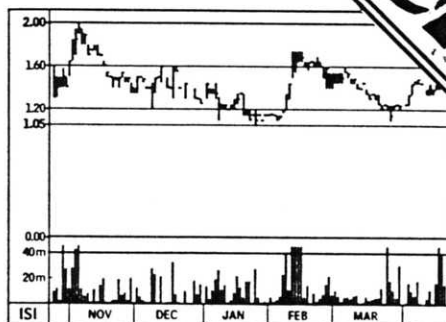
Integra

Integra Systems Inc. of Vancouver has received a contract to supply up to 6,500 of its point-of-sale terminals to Alliance Systems Inc. of Santa Monica, Calif. The contract, which is to be completed by May, 1989, is valued at up to \$6-million. Integra plans to begin shipping an initial 250 terminals a month in June.

April 1988

TORONTO Stockwatch

Integra Systems Inc
Shares issued: 7,613,435



News Release . . . Contract to supply \$6 million in terminals; projected 1989 sales of \$15 million

Mr Don Meyers reports:

The company has been contracted to supply up to 6500 of their new multi-function point-of-sale terminals, SofTerm. This contract, potentially worth over \$6 million in sales, has prompted management to project sales of \$15 million for fiscal 1989, ending March 31 1989.

Integra has been contracted by Alliance Systems Inc of Santa Monica, California to provide this application-specific terminal that will handle debt, credit, rental and sales transactions, cheque authorizations, detailed activity reporting, and inventory management, together with local area networking capabilities. Integra will commence shipping at a rate of 250 terminals per month in June this year, volume of shipments will increase on a monthly basis until 6500 units are delivered by May 31 1989.

Alliance is successfully marketing a new card for use in the retail entertainment industry, Integra's terminal will support this new card as well as the other major credit cards. Integra joins BellSouth Advanced Network Inc, First National Bank of Omaha, Pozitek Financial Services Inc and others as suppliers of equipment and services to support the Alliance program.

The potential \$6 million in sales from this contract, added to the \$5.5 million sales backlog carried over from the March 1988 year end, will push Integra's sales toward the \$15 million in sales.

Integra has filed with the SEC for a listing on the Nasdaq system which is expected shortly.

Friday April 22 1988
\$1.75

EFT REPORT, May 2, 1988

Page 8

Point-of-Sale

CARD PROVIDER FOR VIDEO RENTAL INDUSTRY CONTRACTS WITH TERMINAL SUPPLIER TO OFFER POS SERVICES

A new card provider for the retail entertainment industry has signed a multimillion-dollar contract with a terminal marketer to provide transaction processing services at the point of sale in 3,000 stores nationwide.

California-based Alliance Systems Corp. is scheduled to make available its Alliance Systems software package--as well as Integra Systems Inc.'s SofTerm transaction processing terminals--at the point of sale in retail stores--including convenience and video specialty stores--by mid-June, Ray Piper, president of Alliance Corp., told EFT REPORT during an exclusive interview.

The Alliance software package--2 years in development--will enable holders of Alliance's new proprietary transaction cards--the Alliance Gold and Diamond cards--to use the cards in leasing videos at the point of sale.

Alliance card transaction fees are paid by the customer as part of the card service. Gold card transaction fees are 15 cents each while Diamond card transaction fees are incorporated into the introductory \$20 annual fee.

Using either the Alliance Gold or Diamond cards, a customer also can secure up to \$1,500 in theft warranty protection without leaving a deposit. The Gold card features a check guarantee service. The Diamond card offers a full-charge capability including check guarantee and electronic check services.

With the electronic check-writing feature of the Diamond card, a customer--for a nominal charge--can conduct a transaction that is similar to the kind of transaction conducted at an automated teller machine.

Furthermore, the electronic check feature--which is processed through the automated clearing house (ACH)--enables a customer to receive the same float time on the transaction as he or she would when paying with a paper check. The First National Bank of Omaha settles the ACH transactions for Alliance.

...INTEGRA TERMINALS ORDERED FOR IN-STORE REPORTING FUNCTION

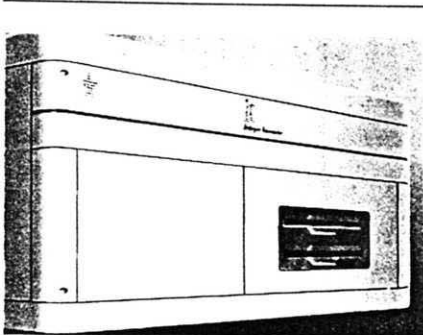
Alliance Corp. is composed of a group of firms that joined their services to provide transactional processing services to the video rental industry. Organizations in the Alliance family include BellSouth Advanced Networks Inc., First National Bank of Omaha and San Diego-based Pozitek Financial Services Inc. Alliance also processes MasterCard and Visa card transactions as well as the firm's proprietary cards--as well as doing funds transfer and electronic data capture.

"We sell a full composite financial services package, in addition to processing services," Piper explained.

Alliance officials signed a \$6 million contract with British Columbia-based Integra Systems Inc. for some 6,500 Integra SofTerm transaction terminals to be used in conjunction with Alliance software at the point of sale.

SofTerm, introduced at last month's EFTA Expo in Washington, D.C., is an application-specific terminal that will handle debit and credit card transactions, check authorization, detailed activity reporting, inventory management and local area networking capabilities.

Alliance held off the major POS roll-out for 3 months so as to have the Integra terminals, Piper said. Alliance officials particularly wanted the Integra terminal's capability for in-store reporting. (Alliance Corp., 3350 Ocean Park Blvd. Suite 106, Santa Monica, CA 90405, 800/346-0927; Integra Systems Inc., 1574 West Sixth Ave. Vancouver, BC V6J 1R2, 604/733-1322.)



Transactor IT's multiprocessor architecture and modular software allow each communication line to be programmed according to need.

System adds flexibility to transaction networks

Financial institutions and retailers can now communicate transaction data between point of sale (POS) terminals and host computers, irrespective of their equipment suppliers, the protocols or message formats, by means of a communications transaction switching system called the Transactor IT, from Integra Systems, Inc., Vancouver.

"Banks can now expand their transaction data communications systems without expanding their mainframes," says Richard Strafehl, president. "Transactor IT also provides the capability for any specified credit/debit card to be used at an automated teller machine or check-out counter. Retailers can now have electronic funds transfer (EFT) right at their POS terminals."

Transactor IT is a multi-processor, fully integrated transaction switching facility. Users can select the EFT/POS terminals, networks and mainframes they want to interconnect; Integra provides the associated software and the integration services necessary to implement the system. Any combination of terminal and host manufacturers can be used, and communications protocols and message formats are individually specifiable by the user on a line-by-line basis.

Transactor IT processes all kinds of

EFT/POS transactions, including credit and debit authorizations, deposits and withdrawals, payments and transfers, check verification and guarantees. It provides complete control of terminals, circuits and networks, with status reporting on the condition of all network elements. It can also supply complete accounting and information reporting on transaction, terminal, host, line and network.

Reader Service Card Number 420

DIGITAL UPDATE
WHAT'S NEW

EFT/POS Terminal Features Built-In Local Area Network

VANCOUVER, BC—An EFT/POS terminal from Integra Systems, Inc. features an integrated local area network (LAN), which allows terminals to share a common database and communications.

This ability allows one SofTerm terminal to have the equivalent memory capacity of all the terminals in the LAN combined. The result is the ability to share a substantial database among terminals on the LAN. Each SofTerm memory is expandable to 896K.

Controllers not required

Richard Strafehl, executive vice president of sales and marketing, explains "Conventional terminal networks, particularly in multi-lane check-out environments, require communications controllers to concentrate transaction communications and provide centralized database services. SofTerm, however, provides concentration and distributes the retail database among all terminals, allowing any terminal to search all others for the required transaction information."

Built-in LAN can lower communication costs through the sharing and concentration of transaction data and can carry inventory data, price information, and rental return transactions without the need for a more expensive host or communication controllers. SofTerm can also provide electronic mail (E-mail) service and tools including sales trend analysis.

The SofTerm terminal can be programmed to meet the needs of the individual retail or banking application. SofTerm features multi-tasking architecture supported by a 16-bit microprocessor built into each terminal.

Programs can be prepared in C language and downloaded to each SofTerm. The terminal features a completely "soft" keyboard in which each of the 32 keys can be programmed to perform any desired function. In addition, the terminal incorporates a two-line, 80-character dot matrix printer which can be programmed with prompts and also reprogrammed if the terminal's functions change or increase.

Peripherals available

A terminal can be individually configured with barcode scanner, PIN pad, magnetic stripe reader, printer, or peripherals in any combination to meet site-specific needs. SofTerm, with the SofTerm PIN Pad, incorporates security features including tamper protection, DES encryption, and multiple key management schemes.

Prices start at \$300 for a basic terminal. Integra Systems, Inc., 1574 West 6th Avenue, Vancouver, BC, Canada V6J 1R2, (604) 733-1322.

POS NEWS

Hardware News

Behind The Trend Toward Brainier POS Terminals

When Wegmans Food Markets Inc. last month ordered some 1,000 POS terminals from ICOT Corp., it was big news. Wegmans had been working on an electronic POS system for a year, and the order was one of the largest yet for grocery POS. What tended to get lost in the shuffle, though, was a quieter piece of news with implications for all retail segments and for direct debit: Those terminals come equipped with fully 256K of usable, or random-access, memory—far more capacity than was available even a year ago.

That's a lot of power for a little box. There are full-blown personal computers on the market with little more memory. Yet, 256K is only the beginning. Terminal manufacturers are now fast unveiling, or gearing up to introduce, new terminals with capacities approaching 1,000K, or one megabyte. "The sky is the limit," says Michael A. Strada, executive vice president and director of U.S. operations for Integra Systems Inc., a Canadian terminal vendor.

EFT Computers

A measure of how fast the memory explosion is unfolding is that such power was unheard of until this year. The trend is now moving apace as vendors compete to outdo each other in functionality and, thus, power for applications. Indeed, only 18 months ago, nearly all terminals on the market hit their limit at 32K, the bare minimum needed for electronic draft capture. A year ago, 128K was top of the line. Now, it's 512K and up.

The boxes are now coming out with so much capacity that they are relatively indistinguishable from PCs in functionality. Wegmans will use its ICOT PinStripe devices as in-lane POS terminals, but will also use a PinStripe in each store to act as a controller, driving each device. Such new capability has already changed industry perceptions of POS devices. "We call them terminals, but they're really computers," says Tuck Newport, vice president of business development at VeriFone Inc., the industry leader with about 36% of the market. Integra even considered calling its new terminal "an EFT PC," recalls Strada. The company settled on SofTerm instead.

In some cases, retailers start out with terminals that may contain the same low-

level memory as was available two or three years ago. But now, with so-called expandable memory, they can upgrade their boxes as rapidly as they like to accommodate new nonpayment functions, such as time and attendance, cash management, price lookup, or inventory control.

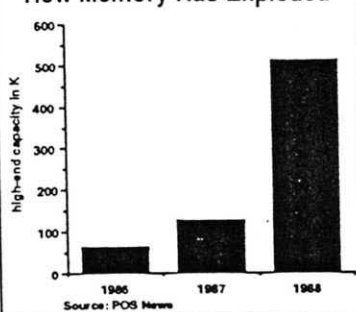
Terminals capable of expandable memory can be beefed up simply by installing more integrated circuit chips. Some vendors now offer to do this in the field, installing chips in the merchant's store. This ease of upgrade is a very recent breakthrough and relies on a new type of terminal with a new feature: chip modules that can simply be plugged into the device. "Until a year and a half ago, terminals with more than 32K were just not available," notes E. Barry Huffstetter, regional sales manager at ICOT. "There was no easy way to add memory." Now the popularity of memory expansion is such that the installed base of expandable terminals, now about 5% of all POS terminals in the United States, should climb to 25% by 1991, estimates Huffstetter.

Vendors even see increasing demand for the new high-end devices already packing 512K or more of power. Merchants, they explain, are turning to POS terminals for all manner of store functions previously handled manually or on PCs. This reliance on POS devices for payment and nonpayment functions alike marks a dramatic shift from the days when retailers seemed primarily concerned with getting the cheapest box they could find.

Now merchants are starting to focus their cost concerns instead on the prices of PCs compared to POS terminals. With the new availability of PC power in a compact POS box, many of them are budgeting for high-powered terminals instead of PCs. VeriFone's Newport, for instance, contrasts the list price of the Zon II XPe, the company's brand-new high-end product, with a PC configured for electronic payment. The Zon runs between \$500 and \$1,000, depending on quantity, and comes with anywhere from 128K to 512K. The PC, equipped with software, card reader, and PIN pad, will cost about \$3,000.

Yet, the POS terminal handles a raft of nonpayment functions at each register, including price lookup, time and attendance, and daily sales breakdowns.

How Memory Has Exploded



"We've got over 200 custom applications we've written for our customers," says Newport. "More sophisticated merchants are driven toward taking full advantage of the terminal."

But even less sophisticated merchants may already be waking up to the new world of muscular terminals. The reason? Third-party network companies, which wire up stores to their banks or processors and have begun pushing beefed-up terminals to go with services on their networks. Observes Newport: "They're out there looking for ways to differentiate (themselves). The more retail automation they can offer, the more likely they'll keep or gain customers."

Pricey Chips

These networks often operate as value-added resellers for the terminal manufacturers, designing systems to suit merchant customers as well as terminals. Not only are they seeking to set themselves apart with ever-increasing menus of retail functions, there are simply more of them, making the competitive pressure to deploy high-memory terminals even more intense. "There were not that many processors in the game in '84," says Robert J.J. Gaudio, president of Omron Business Systems Inc., which claims 15% of the terminal market. "Now there's a constant addition of features."

As a result of this new competitive energy among the networks, the terminal manufacturers are suddenly doing more business with them and less with banks. VeriFone, for example, estimates half of its shipments now go to banks, down from 75% two years ago. The difference has been made up by the networks. By con-

trast, says Newport, "Banks are not in the business of systems design. Their focus has been on credit card draft capture and debit." But retailers, and as a result their vendors, are now interested in much more functionality on the terminal. Says Omron's Gaudio, "We've come a long way from capturing data on the card."

All this added memory, however, doesn't come cheap. Chip prices are up as a result of a shortage created by Japanese observance of voluntary import restrictions. The price for 8K static-memory chips had drifted down to the \$2.50 to \$3 range, but three months ago the shortage shot the price up threefold. Buyers of 8K chips are now flooding the market for 32K chips, causing a premium of about 20% in the spot market over the contract price of \$9 to \$10. Though most vendors expect the shortage to clear up later this year and the historical downward price trend to resume, chips are now a critical component of terminal costs. Vendors can't afford not to pass on the cost of memory, with a healthy markup. Notes Newport: "When terminals were 32K, memory accounted for less than 10% (of price). Now, at 512K, it's no longer trivial. It's the kind of thing that could wipe out a chunk of profit if it's not priced to reflect cost."

Complexity Concern

Still, most vendors don't expect the new significance of memory cost to dampen demand for the powerful new high-end devices. "Functionality is more important now," insists Integra's Strada.

What manufacturers will have to guard against, though, is complicating the devices as they add more functions. With sky-high turnover in many segments of retailing, merchants can't afford to spend a lot of time retraining cashiers. ICOT's Huffstetter warns against overcomplication, invoking the machine whose capability POS terminals are now approaching: "A PC is a complex device to use. As you add more memory on POS devices, they become more difficult to use."

If the manufacturers can overcome that restraint, the push into ever higher reaches of memory could help pry open new opportunities for direct debit, such as department stores, which have resisted debit in part because of hardware costs. Some vendors think their new terminals will appeal to these merchants because of the machines' powerful capabilities. "We're finally going to crack these segments," says Strada. "They all said (debit) wasn't cost-effective. With more functionality, maybe it'll be cost-effective. POS

Vendor Spotlight

Debit Gets Closer To A Starring Role In Movie Rental

It all started when a motion-picture and TV producer wanted to help a client in the auto-parts business create video versions of automotive instruction sheets for consumers. Now, a few years and some \$2 million later, Ray Piper, the producer, is about to bring direct debit and draft capture to the videocassette rental business in a big way.

Alliance Systems Inc.—the Santa Monica, Calif.-based company that resulted from that beginning in auto-parts tapes—expects to deploy 4,600 terminals in 2,200 locations by year's end. That's probably a conservative projection. It already has 2,000 locations signed up for its system, and has ordered some 6,500 POS terminals from Integra Systems Inc., the Canadian company that also produces terminals for Cevax Corp., the tape jobber that took over Southland Corp.'s movie business. The terminals will accept Visa and MasterCard as well as identification cards issued by Alliance. The Alliance cards will also be used to charge or debit rentals, with debit transactions being settled through the automated clearing house system.

The first Alliance installations are being made early this month in a Dominicks Finer Foods supermarket in the Chicago area, as well as in a Safeway store in the San Francisco area and in a site in Texas. Piper, president and chairman of Alliance, expects to have 250 terminals out by mid-July. Most of the outlets signed so far are video specialty stores, grocery stores, and electronics dealers.

This appears to be just the beginning for what is already the biggest effort yet to bring electronic payment—including direct debit—to the movie-rental business. "We think Alliance over the long run is

going to take a lot more than 6,500 terminals," says Michael A. Strada, executive vice president and director of U.S. operations for Integra, which is supplying Alliance with its newly introduced SofTerm machine.

Alliance—which is a joint venture by Bell South Advanced Networks Inc., First National Bank of Omaha, and Pozitek Financial Services Inc.—will issue two types of card, Gold and Diamond. The cards will be required to rent a movie at a participating outlet and will carry PINs. The Gold card, issued immediately, will provide I.D. and serve as a debit and check-guarantee card, with debit items entered into the ACH by First National of Omaha. The Diamond card, scheduled for introduction in October, duplicates the Gold card and also serves as a credit card.

Diamond Push

One attraction of the program for retailers: The Diamond card will carry a 0.98% discount fee, well below the 3% to 5% typically charged on MasterCard and Visa. With an average tape-rental ticket of \$6.50, "the problem with existing credit cards is the discount rate," notes Alliance's Piper. "We're being pushed to bring the Diamond card out. Once Diamond card acceptance is there, stores may not accept MasterCard and Visa for video rental." But even the two bank cards look attractive on Alliance's draft-capture program, which uses Pozitek as a third-party processor. The company's highest discount rate on MasterCard and Visa will be 1.98%.

Alliance's revenue will stem from retailers in the form of discount fees, and charges for terminals and a reporting service. But the company will also collect cardholder fees. Cardholders will pay \$6.95 a year for the Gold card, plus 15 cents per transaction; Diamond card carriers will pay a \$20 annual fee, with no transaction charges. Of the 14.8 million active members reported by the 2,000 stores Alliance has signed, Piper expects to convert at least 60% to the Gold card. That would work out to 8.9 million cards. He further expects at least half of those cardholders to upgrade to the Diamond card after October.

Merchants can lease or buy the Integra terminals, which come equipped with printer, PIN pad, bar-code wand, and 128K of memory. For a single unit, the lease rate is \$50 per month on a two-year term; the purchase price, \$1,495. "It goes

Vending Machine Vs. Terminal

While Alliance Systems Inc. gears up for its 2,200-store rollout, the makers of card-accepting videocassette vending machines are out to prove their approach is better. There are more than 1,000 of these machines operating in the United States, and "five years from now it'll all be done by machine," predicts Barry Shore, president of Video Vendor Inc.

The reason? According to the vending machine partisans, the Alliance and Cevax Corp. approach fails to automate returns and inventory control. Shore, who once managed a chain of 63 video stores, says unreliable clerks are the bane of the business. His machines read bar codes on tapes to record their return. "There's so much management to be done in a movie store, but with my machine the clerk does nothing," he says. Companies like Alliance, he adds, are in for a rude awakening. Says he: "They're going into a business they know nothing about." **POS**

down 18% to 20% in quantity," says Piper. In addition, Alliance charges a flat \$75 per month for transaction reports.

Now Alliance is pulling out the stops, targeting the 25,000 video specialty shops as well as the estimated 75,000 other stores where movies are rented as a sideline. To reach convenience stores, it's working with some of the 584 so-called rack jobbers that use C-store space to rent their movies. Alliance's market is expanding fast: The number of locations renting movies has ballooned from about 30,000 in 1985 to nearly 100,000.

Debit Deliberations

It does not plan to accept bank-issued debit cards until a single, national card is introduced. "We've positioned this whole thing to enter that (kind of program)," explains Piper. "We've found that national utilization and standardization is the most important issue subconsciously in the consumer's mind. He wants a MasterCard and Visa type of card."

For this reason, Alliance particularly likes the ACH's national reach, which includes some 17,000 banks. For Piper, that's sufficient debit capability for now. He is more concerned with impressing the movie-rental business with the Alliance program. He's already impressed companies like Integra. "Over the next couple of years, they'll be very successful," predicts a confident Strada. That's a solid benediction for a company that started out thinking only about instructional tapes for auto-parts stores. **POS**

June 1988

Canadian Datasystems

MANAGEMENT MEMO

TERMINALS A HIT IN VIDEO OUTLETS

Integra Systems Inc., Vancouver, is developing a strong presence in convenience store video outlets. Alliance Systems, Santa Monica, CA, has contracted Integra to deliver up to 6,500 programmable, application-specific SofTerm terminals to support the credit card Alliance has developed for the retail entertainment industry; and Cevaxs Corp., a large video cassette movie supplier, has put in a \$5 million order for the design and delivery of a network of terminals for Cevaxs' video outlets in 7-Eleven stores across the US. Integra has installed more than 10,000 SofTerm units throughout North America.

New vending machine can cook french fries in 45 seconds, firm says

This machine makes french fries in 45 seconds.

The Fry Machine, a new vending equipment, will be introduced in North America later this year, says its manufacturer, **Sedona Industries Ltd.**

The Vancouver-based company has announced plans for commercial production of The Fry Machine after completing an initial public offering that raised \$3 million. Its common shares began trading on the Toronto Stock Exchange on Tuesday.

Colin Campbell, Sedona's president, said the first commercial orders will roll off the company's assembly lines in Minneapolis in late October. Plans call for sales of about 40,000 machines over the next five years.

"There are an estimated 400,000 vending machine locations in the U.S. alone and our target is to have 10 per cent of these with anticipated sales of 40,000 Fry Machines," Campbell said in announcing the company's plans.

The Fry Machine was invented by **Donald White** of Delta, B.C., now a director and officer of the company, Campbell said. It has been under development for 10 years and more than \$1.5 million has been spent on research and development.

Using a rehydrated potato mix, the machine "produces freshly cooked french fries with all the trimmings in approximately 45 seconds," Campbell said.

The exclusive potato mix is supplied by **Future Fries Vending Corp.**, and marketing is handled by **The Fry Machine Vending Corp.** Both companies are subsidiaries of Sedona.

Campbell said Sedona's products are aimed at the vending machine market which last year generated more than \$15 billion in business in North America.

Business prospects

New business arrangements expand prospects for some companies:

□ **Smart-Tec Systems Inc.** of Toronto has received the Cana-

BUSINESS By Oscar Rojo

dian distribution and marketing rights to a point-of-sale terminal, **SofTerm**, under a contract with **Integra Systems Inc.**

The contract also allows for certain marketing rights in the United States.

Integra, based in Vancouver, said its SofTerm terminal handles debit and credit card transactions, cheque authorization, detailed activity reporting and inventory management. The terminal also has capabilities for local area networking.

□ **Hale Resources Ltd.** of Los Angeles has signed a letter of intent to effect a merger with **Creative Kids**, a Canadian distributor of children's educational toys.

Creative Kids distributes toys across Canada through more than 400 educational toy consultants, Hale says. For the year ended Jan. 31, 1988, sales totaled more than \$2 million.

□ **Clay-Mill Technical Systems Inc.** of Windsor, Ont., has received four separate orders to build specialty equipment that highlights the company's robotic systems in precision, heavy payload assembly processes. In all, the orders total \$2.5 million.

Dare Pearce, president, said among the contracts is one awarded by the U.S. subsidiary of a large Japanese firm to build heavy-duty conveying systems.

Didn't quit, chief says

W.L. Ruffo says he didn't resign or retire as president and chief executive of **Pen Ben Oilfield Services Ltd.**, contrary to an announcement of its chairman, **G.R. Dawson**.

"I did not resign as company president and CEO nor did I elect to take an early retirement commencing July 1, 1988," Ruffo said in a statement. "In fact, my services as president and CEO were terminated by the board of directors."

EFT Report®

NEWSLETTER OF ELECTRONIC FUNDS TRANSFER

July 11, 1988
Washington, D.C.
Vol. 11, No. 14

Phillips Publishing, Inc.
Actionable Information for the 80's 8

International

CANADIAN TERMINAL PROVIDER MAY FIND THERE'S NO PLACE LIKE HOME

Recognizing the growing interest in electronic funds transfer at the point of sale (EFT/POS) within its own borders, a Canadian supplier of EFT/POS terminals has signed a fellow Canadian firm to handle the "home front" distribution and marketing of its newest terminal offering.

Integra Systems Inc., a 3-year old Vancouver firm that provides financial data communications equipment for the retail and banking industries, has entrusted Toronto-based Smart-Tec Systems Inc. with the Canadian distribution and marketing rights to Integra's SofTerm point-of-sale terminal.

SofTerm, introduced in April at the Electronic Funds Transfer Association (EFTA) Expo in Washington, D.C., is an application-specific terminal that will handle debit and credit card transactions, check authorization, detailed activity reporting, inventory management, and local area networking capabilities.

"We are pleased that such a reputable and successful marketer has accepted our product," noted Integra President Ralph G. Scobie, in announcing the Integra/Smart-Tec agreement. "Smart-Tec's President and Founder, Ian Cumming, was formerly senior vice president, sales and marketing and founder of International Verifact Inc. His contacts with financial institutions and retailers are without equal in Canada and the U.S., particularly with those industries requiring expertise in retail credit card verification, electronic draft capture, debit and smart cards."

The contract between the 2 firms also allows for some marketing rights in the United States.

Canadian market 'heating up'

The contract between Integra Systems and Smart-Tec Systems represents Integra's desire to beef up domestic marketing of its product line. "Most of the marketing efforts up to this time have been focused in the United States," Roslyn Stanley, Integra marketing manager, told EFT REPORT in a recent telephone interview.

Integra's U.S. presence is spearheaded by Executive Vice President and Director of U.S. Operations Mike Strada, former head of Florida's Honor ATM network.

"It's not to say we haven't been marketing in Canada," Stanley explained. "The market in Canada is not as mature for EFT/POS."

But Stanley is quick to point out the potential that exists for EFT/POS equipment in Canada. "We're very, very interested in developing strategic markets in the Canadian marketplace--it's heating up very rapidly," she told us.

In the meantime, Integra also is looking for strategic partnerships, similar to the Integra/Smart-Tec accord, to drive Integra's marketing efforts in the United States. "We want to make a major move in the Canadian marketplace, but we will continue to market very heavily in the United States," Stanley noted.

Impressive 3-year forecast

For their part, Smart-Tec Systems officials are quite optimistic about their newfound role in the marketing of Integra's SofTerm. "We expect the Integra hardware and software systems to gain a significant share of the North American POS equipment market, because of demonstrated product performance," noted Smart-Tec Systems' President Ian Cumming. More than 10,000 Integra POS terminals currently are installed in convenience store video outlets throughout North America. (Integra Systems Inc., 1574 West 6th Ave., Vancouver, British Columbia, Canada V6J 1R2, 604/733-1332.)

50 cents minimum outside Lower Mainland

WEDNESDAY, JULY 13, 1988

35 CENTS

The Vancouver Sun

Customized terminals roll out

By DAVID SMITH
Sun Business Reporter

Ralph Scobie scissored through the blue ribbon, hoisted the brand new terminal from the assembly line and said: "See what you can do with half a million dollars and 20 engineers."

It was the debut Tuesday of SoftTerm, a customized point-of-sale terminal, developed and manufactured by Integra Systems Inc., a small Vancouver high technology company headed by Scobie.

The terminals are used in retail stores to handle electronic funds transfers and point of sale transactions such as debit, credit, rental and sales and cheque verification.

The terminals can be integrated with existing terminals or mainframes and can be programmed to handle individual services.

The first terminal off the line at Integra's plant at 1574 West 6th was presented to Ray Piper, president of Alliance Systems Inc., of Santa Monica, Calif., which has a \$6-million US contract with Integra to buy 6,500 terminals, barcode scanners and printers.

"This is only for the first year," Piper said. "We expect to double our order next year."

The Integra product will be combined with Alliance software at the point of sale.

SoftTerm marks a departure for Integra, which was

essentially a one-customer manufacturer since it was founded two years ago. The customer was Cevax Corp., a Vancouver-based major supplier of video programs to North American convenience stores.

"Cevax was a super customer," Scobie said. "They accounted for about 90 per cent of our business two years ago, about 80 per cent last year and they'll account for about 30 to 40 per cent this year."

Integra was started by four Vancouver businessmen in May 1986, said one of the founders, Richard Straehl, Integra's executive vice-president of sales and marketing.

The other founders include Scobie, Les Arduini and Ole Jensen, formerly of Epic Data in Richmond.

The following month, Straehl said, they signed their first deal with Cevax, which led to Integra supplying Cevax with up to 11,000 terminals.

In the past two years, he added, the company has also grown in space (from 240 square metres to 2,100 square metres) and numbers (from a staff of four to 57).

In addition to the Vancouver plant, Integra also has offices in Toronto and in Maitland, Fla.

The company predicted sales of \$3 million in 1986. Sales this fiscal year are projected at \$15 million.

Listed on the Toronto and Vancouver stock exchanges, Integra was trading at \$1.45 per share Tuesday.



ON LINE: Ray Piper, left, and Ralph Scobie

IAN SMITH

VANCOUVER'S BUSINESS REPORT

VOL. 2, NO. 10 AUGUST, 1988

POS TERMINALS HEAD FOR CALIFORNIA

Vancouver-based **Integra Systems Corp.** (Ralph Scobie president and CEO, 733-1322, fax 732-7284) has just started production of its new point-of-sale terminal, SofTerm.

It's the next step in its \$6 million deal to provide 6,500 of these terminals to California-based **Alliance Systems Corp.** Integra got a big leg up when it signed a recent \$5 million deal with **Cevaxs Corp.**, the Vancouver-based video cassette movie suppliers, to put together a large terminal network to process its movie rentals and electronic funds transfer (EFT) transactions. Integra was formed in 1986 with four employees. Today it has 57 employees, and has sold \$13 million in products since it started. The company recently signed a contract with Toronto-based **Smart-Tec Systems Inc.** (Ian Cumming, president) for Canadian distribution and marketing rights to SofTerm.

Communications

Circle no. 127

Integra Systems lands \$6m contract

by Jacqueline Brown
Special to Computing Canada

VANCOUVER — Vancouver's Integra Systems Inc. has signed a \$6 million contract with Alliance Systems Inc. of Santa Monica, Calif. for delivery of up to 6,500 of its new, SoftTerm transaction processing terminals.

Integra designs and manufactures custom networks for automated-funds-transfer, transaction processing and point-of-sale transaction processing.

The company announced the agreement at a press conference complete with helium balloons and roughly 50 representatives from business, industry and government. The guest of note in a sea of blue suits was MLA Grace McCarthy (Vancouver-Little Mountain) who recently resigned as the B.C. Minister of Economic

Development after a dispute with the Premier's office. McCarthy praised Integra's performance and congratulated the company for "daring to dream big dreams."

Integra President Ralph Scobie was also beaming, and said the deal with Alliance means the company is well on its way to meeting projected sales of \$15 million by the end of March, 1989. Recalling the challenging development of SoftTerm — a new, full range generic product — Scobie thanked investors and especially suppliers, for their support and patience, noting how on more than one occasion suppliers "pulled their hair out when we couldn't pay on time."

Also on hand was Alliance President Ray Piper, who said his company is looking forward to "a long, and profitable relationship" with Integra. Piper said Alliance had long been searching

for the right product and was "surprised to find the kind of service we wanted was in Vancouver."

The SoftTerm terminal will support a new card being marketed by Alliance for the retail entertainment industry. At present Integra is shipping 250 terminals per month, although that volume is expected to go up until completion of delivery in June, 1989.

The compact, SoftTerm terminal is an advanced, programmable and application specific terminal for debit and credit card transactions, cheque authorizations, detailed activity reporting and inventory management. It also has local area network capabilities. Each terminal can be configured to bar code scanners, magnetic strip readers, printers and other peripherals and includes security features such as

PIN (personal identification number) tamper protection.

The development of the terminal, which began this past February, marks a turning point for the company, which also recently signed an agreement with Toronto based Smart-Tec systems for the Canadian distribution and marketing rights to SoftTerm. The new product is expected to help Integra grab a significant share of the North American POS equipment market.

Now in its third year of operations, Integra started out with just \$400 in share capital in 1986. Sales were sparked by an order midway through the year for

7,000 customized transaction terminals for large convenience stores. By its March 1987 year end, Integra had roughly \$3.8 million in revenue. Sales were up again in 1988, with a backlog of \$5.5 million carried over from the year end.

Other major clients include Cevax in the United States, which agreed in April to pay \$5 million for the design and delivery of a large terminal network for video cassette movie rental and EFT transactions. The network will be implemented in 7-Eleven convenience stores in the U.S.

THE ELECTRONICS COMMUNICATOR

INTEGRA NABS US\$6M ORDER FOR NEW POS TRANSACTION TERMINAL

Integra Systems Inc has established credibility in the US market and shed its one-customer image with the signing of a US\$6 million contract with Alliance Systems Inc, Santa Monica, CA. The order pushes backlog to \$11.5 million and puts Integra well on the way to achieving its \$15 million sales objective in fiscal/89.

Its mercurial growth (sales were \$4.2 million in the year ended March/88) has to date been propelled by one principal customer, Cervax Corp (formerly Consolidated Video Systems, see EC, April 14/88). Not to belittle the importance of that business, the Alliance deal makes the Vancouver-based concern a much more plausible candidate to pursue sizable agreements with other clients.

Integra will furnish 6,500 of its *SoftTerm* terminals, barcode scanners and printers, with deliveries running through May/89. They'll be combined with Alliance software to form the POS component of X.25 communications networks provided by US-based Bell South Advanced Network. Follow-on work is anticipated.

Negotiations are underway for another order valued at up to \$10 million. Integra marketing manager Roslyn Stanley said it should be wrapped up by month-end.

A key distribution agreement with Smart-Tec Systems Inc, Toronto, ON, has better posi-

Vol 19, No 19

September 8, 1988

In This Issue

- Curran resigns as president of TRIO
- BC Microelectronics Society dissolved
- Mtl firm launches submersible radios
- Corporate Update: H-P (Canada) Ltd

tioned Integra for the central Cdn market. Smart-Tec is captained by Ian Cumming, founder and former v-p, sales and marketing, of Integra's biggest Cdn competitor, International Verifact Inc.

To meet its commitments, Integra's moving its 60 employees to a new 23,000 sq ft facility. Stanley said they're "bursting the seams of the present location".

TARGA REBUILDING WITH NEW PORTFOLIO OF RUGGED CMOS RAM DRIVES

Targa Electronics Systems Inc, Ottawa, is addressing the market for rugged, non-volatile data storage systems with renewed vigour. The company went through a fallow period when demand for bubble memory devices dried up, but it now appears to be gaining momentum with a new portfolio of CMOS RAM systems.

Targa developed its first CMOS RAM device four years ago under a custom design contract. It began offering the technology as a line

(Continued on page 2)

Canadian Firm to Market Inexpensive Card-Reading Device

By JEFFREY KUTLER

INTEGRA Systems Inc., a Canadian manufacturer of specialized point-of-sale terminals, introduced its latest innovation last week: A small card-reading device that accommodates personal identification numbers and costs less than \$400.

Because the terminal both reads the magnetic stripes on plastic cards and allows customers to enter their personal codes, "the terminal provides the same level of security as an automated teller machine," Integra said in its product announcement.

Most other point-of-sale terminals do not deliver these capabilities in a single, hand-held package — as Integra's will. Shipments are supposed to begin after Jan. 1.

The compact size, the PIN-security feature, and the price essentially make up the sales pitch.

As a "secure" terminal, it will allow credit and debit cardholders to complete transactions without the help of tellers or salesclerks.

"This new product represents the next era of transaction-processing technology at the customer level," said Richard Straehl, Integra's executive vice president for sales and marketing. "It has all the security and flexibility that financial institutions require, while providing a new level of service and convenience for banking and retail customers."

Self-service retail transactions, or others that require minimal involvement by financial institution or store personnel, are Integra's niche. Since the company was organized in Vancouver in 1986, it has installed more than 13,000 point-of-sale terminals, most of them in convenience stores and videotape sales and rental outlets.

Buyers have included Cevax Corp., which uses Integra products in videocassette rental systems it supplies to 7-Eleven stores in the U.S., and Lucky Stores Inc., a supermarket chain based in Dublin, Calif.

Began with TransActor

Integra is gradually adding to a family of products that began with TransActor, a communications controller that allows many terminal types to be integrated on a single network, and the ESP terminal, which has a flexible architecture that can be customized to a user's requirements.

Last April, Integra introduced SoftTerm, a programmable, 32-key point-of-sale terminal that can share information with other terminals linked together in local area networks.

"A video rental transaction is a good example of the value of the distributed data base feature," Mr. Straehl said when SoftTerm was released. "If a customer returns a video to a different terminal from the one that rented it, the terminal can search all other terminals in the system for the transaction."

Stores can use Integra terminals for anything from simple credit card and check authorization to electronic mail, merchandise control, and other retailing functions. Capabilities can be added as a store grows.

Designed for Stripe-Reading Slot

The new, hand-held terminal, which is unnamed, is designed to allow cards to be inserted in a stripe-reading slot. The terminal then prompts the cardholder through the steps necessary to complete the transaction.

Typically, the writing of a customer's signature on a sales draft will not be one of those steps. Integra's compact

terminal will be suitable for video rental stores, fast-food restaurants, and other high-traffic retail outlets that would prefer to avoid taking time to produce the customary card-related paperwork.

The Visa and MasterCard associations have identified such cash-oriented, fast-service locations as the next frontier for credit card transactions and are encouraging banks to find ways to speed up the authorization process and waive the signature requirement.

Visa U.S.A. is testing acceptance of credit cards in Arby's restaurants in Arizona. Authorization files, containing the numbers of "hot cards" that are not to be accepted, are transmitted to Arby's via the unused portion of the signal of a local television station.

Integra said its new terminal incorporates data encryption, which makes it difficult for the information it transmits or receives to be tampered with

by an unauthorized party.

"Customers can use the device for even the most security-sensitive operations, such as initial personal identification-number selection and verification," Integra said in its product description.

The terminal is also designated as "stand-alone," meaning it does not require additional hardware to connect to a central computer. It is plug-compatible with most personal-computer-based teller terminals and electronic cash registers using a standard RS-232 connector, which is used throughout the data processing industry.

In its first fiscal quarter, which ended June 30, Integra reported \$1.2 million in net income on just under \$4.5 million in revenue. The company is well on the way to doubling its annual revenue, which totaled \$8 million in the fiscal year that ended March 31. ■

New Products

**INTEGRA SYSTEMS LAUNCHES
NEW HAND-HELD TERMINAL**

Integra Systems Inc. has introduced a new transaction processing terminal that integrates a personal identification number (PIN) pad and a magnetic stripe reader into a single hand-held device.

With the security of an automated teller machine (ATM) made possible with encryption technology, the hand-held terminal allows cardholders to perform standard banking operations, such as crediting and debiting accounts as well as funds transfers.

To generate a transaction, the cardholder inserts his credit or ATM (debit) card into the card reader and enters his PIN, for verification. The process eliminates the need for tellers or sales clerks.

It also eliminates signatures, from the customer, and unnecessary paperwork.

The Integra does not require any additional terminal hardware; it functions by itself.

Terminal is compatible with micro-based teller systems

The company boasts that the transaction processing terminal is plug compatible with most PC-based teller terminals and electronic cash registers, through an industry standard RS-232 connector.

The terminal is due to arrive Jan. 1, 1989, at which time it will be available to financial institutions and will retail for less than \$400.

"This new product represents the next era of electronic transaction processing technology at the customer level," said Richard Strafehl, executive vice president, sales and marketing of Integra.

"It has all the security and flexibility the financial institutions require, while providing a new level of service and convenience for banking and retail customers," he noted. (Richard Strafehl, Integra Systems Inc., 604/733-1322).

TECHNICALS

October 1988

VOL. 5, NO. 5

NEWSLETTER OF RETAIL ELECTRONIC PAYMENTS

Quick Hits

A Baby Bell In POS

BellSouth, one of the seven Baby Bells, is getting into the high-end POS terminal business with an agreement announced last month. The deal calls for BellSouth Advanced Networks to distribute terminals manufactured by Integra Systems Inc., a Canadian terminal vendor. BellSouth had already covered the low end of the market by agreeing to distribute terminals for National Business Systems Inc.

Integra's terminals list for \$580 to \$1,400, depending on options like amount of memory. With the deal, Integra can take advantage of BellSouth's 1,400 sales representatives, who will sell the terminals when calling on retailer

clients. "We gain a major distribution network," says Michael A. Strada, executive vice president and director of U.S. operations for Integra. "This will open a lot of doors we didn't even know needed to be opened."

POS NEWS

November 1988

NEWSLETTER OF RETAIL ELECTRONIC PAYMENTS

Vol. 5, No. 6

International

Canada's Rx For Perking Up POS

Canada is poised to plunge headfirst into electronic prescription-claims processing, a business that just began to get red-hot in the United States earlier this year. And with that plunge, the country is also taking its first big dive into direct-debit POS, which up to now has only been piloted by a handful of institutions and isn't slated for a national rollout until 1990 (see box on page 5).

According to informed sources, a Sudbury, Ontario-based health-care claims processor called Rx Plus is expected to announce Nov. 23 a project that will deploy at least 25,000 POS terminals over five years in pharmacies across Canada. The project is expected to start off in January or February with a test in about 100 drugstores, with one terminal per store. The terminals will come from Integra Systems Inc., a vendor based in Vancouver, B.C. The Rx Plus project is the manufacturer's biggest order to date. Neither Integra nor Rx Plus will comment on the program.

The sheer size of the proposed network, called Healthnet, is impressive even by U.S. standards. There are about 10,000 terminals installed in U.S. drugstores for transmitting insurance claims on prescriptions back to insurance companies or third-party processors like Pharmaceutical Card Systems Inc. and National Data Corp. By Canadian standards, the planned program is even more striking. Virtually all claims-processing is paper-based, with druggists mailing forms in and waiting weeks for reimbursement.

But, because these same terminals will accept MasterCard and Visa and will be configured for debit cards, the boost the new program will give Canadian POS is expected to be immense. "This is probably the biggest thing ever to happen to Canadian POS," says one source close to the project. "It'll certainly be one of the vehicles that brings POS into Canada in a big way."

Since the principals in the proposed network are keeping mum until their announcement, not all details are yet known. But it's clear the terminals are not being deployed only for electronic claims processing. The terminal Integra is supplying is its SofTerm, one of the

most powerful of high-end POS devices. It will come with fully 256K of memory, making it capable of PC-like functionality, as well as a four-line display screen. There's a reason for all that intelligence. Rx Plus is apparently spinning off the electronic processing venture into a separate company that will seek business beyond claims processing, including possibly payroll processing and other functions requiring significant programming and data entry. "If you can take a network and throw enough transactions down it, you can justify the network," says an informed source. "That's why that terminal was chosen."

Such thinking would be characteristic of Rx Plus's management, say sources that know the company. The major force at Rx Plus is entrepreneur Robert A. Morel, who founded the company and is its sole shareholder. With a payroll of about 100, Rx Plus already processes mostly paper-based claims for 6,200 of Canada's 6,980 pharmacies and for 20 of its 33 insurance carriers. Numbers like these have apparently already made an impression on Morel's competitors. "His track record is as a big thinker, a big-picture guy," says Robert W. Field, executive vice president of Pharmaceutical Card Systems. "They've got broader plans than just pharmaceuticals."

These plans apparently extend into electronic payment. Although it's not known whether Healthnet has yet signed on any insurance carriers, it has enlisted Toronto Dominion Bank, a major Canadian Visa bank, as well as an undisclosed MasterCard institution (bank-card duality doesn't exist in Canada as it does in the United States). This will allow the network to offer the major bank cards to pharmacies, with the terminals capturing transactions as they do prescription-claim data. On top of the credit cards, a smart card incorporating health and potentially other information is envisioned. Although this application is not expected until 1991 at the earliest and details have yet to be hammered out, chip cards seem to be firmly on the agenda. "They won't be part of the initial plan but it's not a wishy-washy thing where we'll wait and see what happens," says the source.

The network will also be well-positioned for the planned national rollout of direct-debit POS by Interac, the national ATM network controlled by Canada's largest banks. Integra's software is already being written to conform to Interac's specifications. Keypads for personal identification numbers won't be installed initially, but are expected by the time of Interac's scheduled spring 1990 rollout.

In health-care POS at least, Healthnet's chances for success seem favorable. Competing U.S. claims processors have been keeping an eye on Rx Plus, which processes about 30% of its volume from computer tapes and the rest on paper. Healthnet represents its first strides into on-line electronic processing. Now competitors worry that Rx Plus's dominant position in pharmacies means much of the market's potential has been tapped. Says PCS's Field: "We're concerned because we think there's advantages to being first in the market."

One reason for optimism about Healthnet is that Canada's system of socialized medicine unwittingly helps claims processors, since the bulk of claims need be sent to just one provider—the government. In the United States, processors must deal with dozens of insurance carriers, making for complicated and expensive systems work. "Socialized medicine in Canada lends itself nicely to streamlining," says Gary Coughlin, president of NDC Canada, an Rx Plus competitor and the Canadian arm of Atlanta-based NDC. "You have a wide diversity of endpoints but a concentration of where the payment is going to come from." Now the question is how well Rx Plus can exploit that advantage. **POS**

Integra Closes POS Deal

Integra Systems Inc., a fast-growing Canadian manufacturer of point-of-sale equipment, announced the largest contract in its three-year history: An exclusive, \$37 million deal to supply up to 25,000 terminals to HealthNet Systems Inc.

Integra will supply the SofTerm ST4, the newest addition to the SofTerm product line, for use in HealthNet's transaction-processing network serving Canadian pharmacies, hospitals, doctors, dentists, and opticians. The network instantly verifies eligibility for insurance as well as credit card payments.

"The ST4 is capable of providing personal-computerlike functionality in a standalone transaction terminal, said Richard Strafehl, executive vice president of Vancouver-based Integra. "Its advanced features and broad capabilities make it ideal for the more sophisticated applications such as HealthNet."

A division of Rx Plus, HealthNet currently processes insurance claims for 6,200 of Canada's 6,980 pharmacies and 20 of its 33 insurance carriers. HealthNet has enlisted Toronto Dominion Bank and the Canada Trust Co. to verify Visa and MasterCard transactions, respectively.



NEWS RELEASE

FOR IMMEDIATE RELEASE:
NOVEMBER 23, 1988

FOR MORE INFORMATION:
INTEGRA SYSTEMS INC.:
RICHARD STRAFEHL (604) 733-1322

INTEGRA SYSTEMS WINS MAJOR CONTRACT FOR NEW CANADIAN HEALTH CARE POS NETWORK

VANCOUVER - Integra Systems Inc. announced today that it has been awarded an exclusive contract to supply up to 25,000 advanced transaction terminals to the national HealthNet Point-of-Sale (POS) network. It is the largest single order in Integra's history and represents sales of approximately \$37 million.

Integra will supply the SofTerm ST4, the newest addition to the SofTerm family of POS terminals, beginning in the Company's fourth quarter.

The terminal systems will be deployed to health care providers such as doctors, pharmacies, dentists, hospitals, and opticians across Canada and will be used for electronic insurance claims processing and credit card-based transaction processing. The health care providers will benefit by having instant verification of claimant eligibility, quicker payment of insurance claims, vast reductions in paperwork, and an overall cost savings. All terminals are debit-ready in anticipation of the national rollout of Interac's debit network in 1990.

This comprehensive, real-time network which links health care providers is administered by HealthNet Systems Inc. HealthNet is a division of RX Plus, which currently processes insurance claims for 6,200 of Canada's 6,980 pharmacies and 20 of its 33 insurance carriers. HealthNet has enlisted the Toronto Dominion Bank and Canada Trust to verify VISA and MASTERCARD transactions, respectively.

The Integra SofTerm ST4 terminal was chosen over a number of competitive products because of its power and flexibility, according to Integra's Executive Vice-President, Sales & Marketing, Richard Straehl. "The ST4 is capable of providing PC-like functionality in a standalone transaction terminal. Its advanced features and broad capabilities make it ideal for the more sophisticated applications such as HealthNet," Straehl said.

Among the SofTerm ST4's advanced features are built-in local area network (LAN) capability which allows information and resources such as memory and communications facilities to be shared among several terminals within a location. Its enormous processing power and memory allows it to read multiple track magnetic stripes simultaneously and perform multi-tasking, or multiple applications at once. The ST4 also features an easy-to-read four line message display panel and powerful screen editing capabilities.

CANADA'S NATIONAL NEWSPAPER

The Globe and Mail

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COMPANY NEWS

Integra secures contract for HealthNet terminals

Integra Systems Inc. of Vancouver has won an exclusive contract to supply up to 25,000 advance transaction terminals to HealthNet Systems Inc.

The \$37-million contract is the largest single order in Integra's three-year history.

Integra shares yesterday closed at \$1.35 on the Toronto Stock Exchange, down 9 cents from Tuesday's close.

The Gazette, Montreal, Thursday, November 24, 1988

'Paperless' health claims are step closer to reality

Beginning next year, many Canadians may no longer have to fill out lengthy insurance forms after a visit to a pharmacy, doctor or dentist.

Instead, they'll be able to hand over an electronic card to a health professional and have payment of their claims processed and guaranteed almost instantly by computer.

A new "paperless" health claims system is being developed by a division of Sudbury-based Rx Plus, which currently processes insurance claims for 6,200 pharmacies and 20 insurance companies.

And two developments yesterday took the nation-wide system, the first of its kind in Canada, closer to implementation.

• The Rx division, called Healthnet Systems Inc., awarded an exclusive, \$37-million con-

tract to Vancouver-based Integra Systems Inc. to supply up to 25,000 special computer terminals for the network.

• The Toronto-Dominion Bank said its telecommunications network will carry transactions processed through the system, while Rx will issue the electronic cards.

The TD Bank said it's estimated that the computer network will process more than 10 million health claim transactions a year by 1991.

It added that the first terminals will be installed in offices of health care providers in early 1989.

Jeff Murdock, an official at terminal supplier Integra, said the network will reduce costs for insurance companies by eliminating masses of paperwork.

BUSINESS TODAY

SECTION D
★ Pages D1-D14

20 seconds to process your health claims

Nationwide paperless network will save time and costs, HealthNet says

A nationwide network is being launched for instant processing of health claims.

It's Canada's first real-time paperless system designed to save time and costs for health care providers and consumers, says HealthNet Systems Inc., the company behind the network.

"Transactions submitted in real-time will be processed and payment guaranteed within 20 seconds of submission by the health care provider," HealthNet said in announcing the system yesterday.

For consumers, there's no longer any need to complete claims forms, the company said. The system also eliminates any confusion over benefits coverage because an up-to-date record is maintained in the electronic system.

More than 10 million health claim transactions will be proc-

BUSINESS By Oscar Rojo

essed through the system annually by 1991, participants in the system estimate.

HealthNet said the processing system will link health care providers across the country, including, pharmacies, dental and doctors' offices, optical dispensaries and hospitals. About 25,000 communication devices, called point-of-capture terminals, will be installed in the first quarter of 1989.

For the first time, the HealthNet network links the banking and insurance industries in health claims processing.

The banking sector is led by the Toronto Dominion Bank and Canada Trust, which will handle Visa and Mastercard credit trans-

actions through the HealthNet terminals. The insurance industry is represented by the network's major client, Rx Plus, which now processes claims for 20 Canadian insurance companies.

HealthNet said Rx Plus expects to add 500,000 new cardholders in each of the next three years.

"These 1.5 million plus cardholders will represent by far the largest private health care claims processing operation in Canada," HealthNet said.

The network will also be made available to other organizations, including provincial and federal government health ministries, along with other Canadian insurance companies.

The computer terminals selected for the network are manufactured by Integra Systems Inc. of Vancouver. Integra said it will supply its SoftTerm ST4 terminals under a \$37 million contract.

Health claims made simple

By LEE-ANNE GOODMAN
Toronto Sun

Processing health claims will soon be as simple as pressing a button.

Toronto Dominion Bank yesterday joined HealthNet Systems to implement an electronic health claims system in Canadian pharmacies and health care institutions.

Integra Systems will supply 25,000 point-of-sale computer terminals worth \$37 million to the HealthNet network.

The new claims processing system will allow pharmacists, dentists and opticians to process customers' claims and have credit card payment guaranteed almost simultaneously.

"We're pleased to be part of a program that is at the leading edge of health care point-of-sale systems in North America," said TD's Doug Ellis.

"The system is the first of its kind in Canada and will result in both cost and time savings for health-care providers and consumers."

The system will verify claimant eligibility instantly, speed up payment of insurance claims and reduce paperwork.

Consumers will not have to fill out claims forms and the system will eliminate confusion over benefits coverage through an up-to-date computerized records system.

The first terminals will be installed in early 1989.

HealthNet estimates more than 10 million transactions will be processed through the system each year by 1991.

Four friends toast fulfilment of dream



Staff photo by Gerry Kahrman
Laurie Phelan checks circuit boards on Integra Systems assembly line.

By LORNE PARTON
Business Reporter

Just four years ago, there were four Vancouver guys sitting around a kitchen table, quaffing beer and brainstorming.

If any one of them had said, "You know, we go ahead with this idea, kick in 100 bucks each, and before 1988 is out, we'll land a \$37-million contract," they'd have cut off his supply of Blue.

Yet, improbable as it sounds, this is exactly what happened to Ralph Scobie, Richard Straehl, Ole Jensen and Les Arduini and their hi-tech company, Integra Systems Inc.

Straehl, now executive vice-president of a company that has assets of more than \$2 million and 64 employees, leaned back in his chair, gazed at the new snow on the North Shore mountains and predicted the company would have more than 100 employees in a year.

The new contract is to supply up to 25,000 advanced transaction terminals to the HealthNet point-of-sale network. Integra will supply its software SofTerm ST4 and its terminal, a locally designed and built masterpiece of miniaturization the size of a chocolate box, but as powerful as an IBM AT.

Using the apparatus is much easier than describing it. In essence, it will form a network that links health care providers such as doctors, pharmacies and hospitals and will be used for electronic insurance claims processing and credit card transactions.

HealthNet is part of RX Plus, which processes insurance claims for 6,200 of Canada's pharmacies and 20 of its 33 insurance carriers. It is also tied in to Toronto Dominion and Canada Trust for verification of VISA and Mastercard transactions.

Integra got its big push early on when it was approached by Consolidated Video

Systems, who wanted a point-of-sale terminal network for video rentals — you see them in virtually every convenience store now. Despite the early deadline — 45 days — the young company made it, and secured a \$7.5-million contract.

Straehl sums up the gizmo succinctly: "It cuts the effort down from 72 keystrokes to two." In the time since that first success, the company has done \$13 million in business, in what Straehl describes as the "high end" of the specialized transaction business, where it has 22 competitors.

"I once had an offer to go back east for a lot more money," says Straehl, "but I figured we could do things in Vancouver and I could work and still have that." And he gestures at the mountains.

"One of the biggest problems in this city is the shortage of people who are skilled at the level we require. We're fortunate whenever Cathay Pacific lands here with a load of people from Hong Kong. There's always someone aboard we can use."

"But our big advantage is that our competitors — most of them are in the States — don't know what we are doing, and yet U.S. companies looking for products are more likely to do business with us because we are focused on hi-tech."

Straehl gives a glimpse into the future: While magnetic strips are now big on bank cards, they are almost horse-and-buggy compared with "smart cards."

He displayed two: one has a chip built in that allows an enormous amount of information to be stored on it, the other is a credit-card-sized device that looks like a solar cell. This is a laser-programmable card capable of holding two million bytes of information, equivalent to one average-sized book.

"The beauty of all this," says Straehl, "is that you can encode perfect protection so that there can be no unauthorized access."

In other words, nobody (including Big Brother) can look over your shoulder.

INVESTOR'S GUIDE 2

SECTION 4

December 12, 1988 Pages 31-36

**Western Markets:
John Schreiner says
Integra Systems could be
a company to watch p. 36**



Integra sees winner in terminal systems

VANCOUVER — You wouldn't know it from the current share price, but three-year-old **Integra Systems Inc.** could be Vancouver's next hot little technology company.

Listed on Toronto and trading at around \$1.25, not far from the year's low of \$1.05, it makes point-of-sale transaction terminals and it has customers prepared to give it a testimonial.

For example, there is Chris Schwartz, president of **CEVAXS Corp.**, a private Vancouver company that claims to be the world's largest videocassette rental firm. In 1986, when CEVAXS was embarking on an aggressive program to install rental kiosks in convenience stores across North America, it gambled on Integra's technology.

"Their terminal has been integral to the success of our company," says Schwartz, who has now bought 10,000 terminals and expects to order more. "They won out in a competition with IBM, NCR and several small firms."

Then last month Integra landed what promises to be a larger contract for a new generation of transaction terminal. **HealthNet Systems Inc.**, a Toronto company aiming to become a national electronic processor of dental, pharmaceutical and other medical claims, named Integra as the exclusive supplier of terminals.

Integra will be installing the first terminals before next March. During the next several years, it expects HealthNet to order as many as 25,000 units worth \$37 million.

The timing and the actual number of terminals delivered will depend on how fast HealthNet is able to sell its service to health care offices across Canada. However, HealthNet has a major partner, the **Toronto Dominion Bank**, which allows HealthNet data to move through the bank's telecommunications network and processes credit card transactions from the terminals.

This partnership thus gives Integra exposure to the banking industry. Integra believes its microprocessor-based technology has applications not yet explored. "There are some exciting things coming," promises executive vice-president Richard E. Strahfel, one of the company's founders.

He and company president Ralph Scobie, along with two other entrepreneurs, decided to form the company early in 1986 after raising venture capital for others.

"We found ourselves making other people wealthy and then having to go in

WESTERN MARKETS

BY JOHN SCHREINER

and solve the problems after the businesses got started," Strahfel says.

The contract to make the CEVAX terminals (which read credit cards and log data on video rentals) gave Integra fast sales start. Sales were \$3.8 million in the year to March 31, 1987, \$4.9 million in the six months to Sept. 30, 1988. Scobie projects sales of more than \$12 million for the current fiscal year.

He also says the company has a "four-year backlog" of about \$60 million. The figure includes the coming sales of HealthNet, a contract to supply 6,500 terminals over 18 months to a California company and sales through Integra's newest distributor, **Bell South Advance Networks** of Atlanta, Ga.

Integra's bottom line has been even, however. The company earned \$359,250 (12¢ a share) in fiscal 1988, lost \$1.3 million (16¢) in fiscal 1987, and in the first six months of the current year netted \$406,745 (5¢ a share).

In last year's annual report, Scobie blamed the loss on delays in shipments for two large terminal orders — shipments not made until the first quarter of this year.

Analysts now are waiting for signs on how Integra will finance its growth and whether this will involve dilution of the company's 7.6 million shares. "They're fairly cash poor," cautions a Vancouver analyst.

Strahfel says 6.5 million of the shares are in friendly hands, but he also knows success could attract a takeover. "We try and work to position ourselves to make us attractive as an acquisition," he says.

MONTH
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THE NILSON REPORT™

ISSUE
441

SINCE 1969 THE INDUSTRY'S LEADING NEWS AND ADVISORY SERVICE FOR CREDIT/DEBIT-CARD EXECUTIVES



INTEGRA POS TERMINALS. Since 1985 Integra has installed over 13,000 terminals in convenience stores throughout North America for Cevax Corp. videotape rentals. The company's ST4 terminal has been chosen by HealthNet, Canada's on-line POS network for healthcare providers which has committed to buy up to 25,000 with peripherals over the next five years in a contract valued at \$31 million. They will accommodate Canada's national debit/POS system expected to debut in 1990. Price ranges from \$600 to \$1,100. Integra will introduce a new hand-held PC-based terminal in January, plug compatible with most PC-based teller terminals and electronic cash registers. It has a mag-stripe reader, prompts the user to enter the PIN, and will sell for less than \$400. Richard Strafehl heads Sales and Marketing in Vancouver, (604) 733-1322. In the U.S., Mike Strada is the contact in Maitland, Florida, (407) 660-0084. Prior issue: 428.

BC DISCOVERY

Exploring Science and Technology in British Columbia • January/February 1989

NEWS BRIEFS

Integra receives a record \$37 million order

Integra Systems was recently awarded the largest order in the Vancouver company's history. The \$37 million contract is to supply up to 25,000 advanced transaction terminals to the national HealthNet Point-of-Sale (POS) network.

The terminal system, called *softTerm ST4*, will be deployed to health care providers such as doctors, pharmacies, dentists, hospitals and opticians across Canada. They will use the system for electronic insurance claims processing and credit-card based transaction processing. Users will benefit by having instant verification of claimant eligibility, quicker payment of insurance claims, and vast reductions in paperwork. All terminals are debit-ready in anticipation of the national rollout of Interac's debit network in 1990.

The comprehensive system is administered by HealthNet, a division of RX Plus, which currently processes claims for 6,200 of Canada's 6,980 pharmacies and 20 of its 33 insurance carriers.

According to Integra's executive vice president sales and marketing Richard Strafehl, their terminal was chosen over its competitors because of its power and flexibility. Integra is a public company, listed on both the VSE and TSF.

CONTENTS

JANUARY
Volume 17
Number 1
1989

FEATURES

29 UP & COMERS

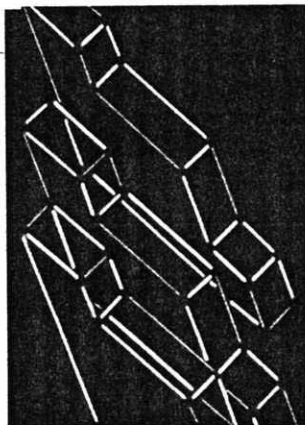
Ten of B.C.'s companies of the future.

by Brian Buchanan

Integra Systems

Integra's engineering head, Ole Jensen, describes his company's product line as "a personal computer at the check-out counter." Transactions terminals, communications systems and point-of-sale equipment for funds transfers—these devices count the beans and move them around. Inventory and banking systems demand fancier and more sophisticated equipment; Integra supplies it, in volume.

Begun four years ago by a foursome, the business flowered from a million dollar revenue start in its first six months, to \$4 million expansion in its first full year, to \$12 million in sales in its latest reporting period. Jensen looks at a \$100 million market and expects to get there fairly quickly. He suggests the company might sell about 100,000



machines next year. Integra's 60 person work force will grow in the face of such expansion. Most customers are in the U.S., where automation in banking proceeds quickly, and where market volumes rocket small Canadian companies into the sales stratosphere. Say, at 150 per cent per year growth rates. A breakthrough sale to Cevaxs Corp. really started the roll down south for Integra. Cevaxs operates U.S. convenience store movie rental programs. It has taken 11,000 machines so far.

The founders—Ralph Scobie, Les Arduini, Richard Straehl and Ole Jensen—came together socially, then commercially. One thing led to another over drinks and conversation, and Integra was conceived. A manufacturer needs management, finance, sales and engineering. Each founder had a predominant talent in one of these areas to throw into the ring of enterprise. They recognized the market gap opening up for terminals that can communicate with each other. They also saw that terminals could be made more intelligent and more specialized for each customer. While their technology wasn't new, their sense of how to adapt it effectively for the emerging market was. Their prescience supplied the usual capitalist rewards. Integra equity trades on the Vancouver, Toronto and NASDAQ exchanges.

Diversification is not yet

in the cards for this fledgling concern, but product improvement is. The company currently spends more than 10 per cent of sales on product research now. Their latest products are smaller and do more, more quickly.

Jensen has a few kind words for the business environment in the province. He lauds the Science Council of B.C. and Canada. He has a few warm things to say about the provincial government, too. But most of all he credits the electronics and manufacturing sectors in the province for making Integra's progress easier and faster. Integra can buy chips, plastic products and a wide variety of other components locally. That makes supply more sure and customer feedback easier. It's not Silicon Valley, but it's not Halifax, either.

Integra: making its way creating machines that count other people's money.

March 1989

TELECOMMUNICATIONS UPDATE

EFT TODAY

The Electronic Funds Transfer Magazine for Financial Retail Executives

March 1989



New Products

.....

Integra Systems Inc. has been awarded an exclusive contract, worth approximately \$37 million, to supply 25,000 advanced transaction terminals to the national HealthNet POS network. The SofTerm ST4, a new addition to the SofTerm family of POS terminals, includes a built-in local area network (LAN) capability. The terminals will be



deployed to health care providers for electronic insurance claims processing and credit card-based transaction processing. (Integra Systems Inc., 1655 West 3rd Avenue, Vancouver, B.C., V6J1K1, 604/733-1322, Richard Straehl, EFTA EXPO Booth #419-419A)

.....



NEWS RELEASE

FOR IMMEDIATE RELEASE:
MARCH 6, 1989

FOR MORE INFORMATION:
INTEGRA SYSTEMS INC.:
CHRIS WRIGHT (604) 685-0114
RALPH G. SCOBIE (604) 733-1322

INTEGRA IMPLEMENTS THREE NEW PILOT PROJECTS LEADING TO \$15 MILLION IN CONTRACTS

VANCOUVER, B.C. - Integra Systems Inc. announced today that it has been awarded \$1.5 million worth of pilot project contracts, which ultimately may yield the Company \$15 million in sales over the next 24 months. Additionally, the Company has received its first purchase order under the HealthNet-Toronto Dominion Bank contract worth \$2.25 million in sales over the next 6 to 12 months:

Integra has signed a purchase order with the Bank of Montreal for the development of banking and payment applications on our recently announced SofTerm 4. Two other pilot projects have been initiated: one with PVS Video Services (a division of Jim Pattison Group); and another with Movie Track of Dallas, Texas for terminal installations in convenience stores throughout North America. Upon the successful completion of these three pilots, Integra will deliver more than 10,000 terminals.

As announced on November 23, 1988, Integra has entered into a \$37 million contract to become the national supplier of terminals for healthcare transaction processing to HealthNet Systems Inc. Today the Company announced receiving its first purchase order for \$2.25 million worth of terminal equipment. The SofTerm ST4 product shipments are scheduled to begin May 15, 1989.

Integra has received a letter of intent from Advanced Card Sciences of Atlanta, Georgia, for the development and installation of a medical claims processing system in the south-eastern United States. When negotiations are complete, Integra anticipates rolling out 2500 terminals to Advanced Card Sciences in the fall of 1989.

With Integra's almost complete penetration of the retail video marketplace, commitments from the Canadian banking industry and excellent in-roads into the lucrative benefits claims processing industry, Integra is well-positioned for the future.

Integra Systems Inc. is a leader in the provision of fully integrated systems for the transaction processing and electronic payments market. Integra supplies computerized point-of-sale system solutions to the retail, financial and health care industries in North America. Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.

A handwritten signature in dark ink, appearing to read "Ralph G. Scobie". The signature is fluid and cursive, with a large, sweeping initial "R" and a long, horizontal flourish extending to the right.

Ralph G. Scobie
President

TRANSACTIONS

Vol. 1, No. 3

CANADA'S EFT/POS JOURNAL

March 1989

WHAT'S NEW IN EFT/POS TECHNOLOGY **Integra Introduces Advanced POS Terminal**

Integra Systems Inc., Vancouver, B.C. has introduced a highly advanced point-of-sale (POS) terminal designed for use in more complex screen-oriented transaction processing applications involving a number of data resources and destinations.

The SofTerm ST4, features a four-line LCD display panel with enhanced screen editing capability, powerful processing and memory, as well as built-in local area network connectivity. It is fully compatible (software and hardware) with all Integra SofTerm products and accessories including PIN pads and printers.

"The SofTerm ST4 terminal positions us perfectly for the future's more advanced transaction applications," explained Richard Strafehl, executive vice-president, sales & marketing. "It's an ideal product for a number of complex environments including electronic messaging, benefits and insurance claims processing, transportation, retail and

banking applications - anywhere a PC might be used."

The powerful processing capability and 256K-896K memory allow the ST4 terminal to handle multi-track magnetic stripe cards and bar coded inputs simultaneously and perform multiple applications, eliminating the need for several different terminals doing different jobs.

An example of such an ap-

plication is HealthNet (Sudbury, Ont.), an insurance claims processing network, for which the SofTerm ST4 was selected. Consumers will be able to use this network and an insurance claims card to facilitate direct payment for insurable health care expenses. The terminal will also be used for credit card draft capture applications and eventually debit card purchases.

Omron Statement Printing ABM

The first ABM to be installed in Caledonia, Ont., was also the first machine in Canada that can print out detailed statements of customer's accounts.

The Omron terminal, unlike stand-alone statement printers that are normally located inside a financial institution's premises, can handle all the usual ABM activities, including a full statement printout of the customer's transactions to date.

Installed late in 1988 by

Hald-Nor Community Credit Union Ltd. of Caledonia, the Omron Model 0101 Fully Secure Through-the-Wall ABM was renamed through a contest where local residents could win \$500 and a colour television for submitting a winning name. As a result, the ABM is called the ComCUTeller (for Community Credit Union teller), according to credit union general manager Carolyn Shears. The facility has room to install a second unit at a later date.

The Financial Post

SECTION 4

March 20, 1989

STOCK EXCHANGES

SPECIAL REPORT

Two-pronged effort to polish image

VSE tightens up listings rules

By John Schreiner

Financial Post

VANCOUVER — **Integra Systems Inc.**, one of the most promising junior technology companies listed on the Vancouver Stock Exchange, is considering dropping the VSE.

Integra, a Vancouver maker of data transaction systems, also is listed on Toronto and NASDAQ in the U.S. One company official says Integra has been advised its identification with the VSE is detrimental to its image.

It's not news that the VSE has a reputation — especially after last year's Carter-Ward stock manipulation case where a Texas mutual fund was sold shares in VSE companies at inflated prices — that drives away some listings.

Now, the VSE is tackling that image on two fronts at least.

The Vancouver Sun

Investors bail out video king

By DAVID SMITH
Sun Business Reporter

Cevaxs Corp., a Vancouver company that in six short years became the largest supplier of rental video films in North America, has obtained \$18 million US in financing to deal with major nine-month losses.

The company also has a number of new strategies to move the company back into a profitable position, says Gary Suttle, who brought his retail merchandising talents to bear when named Cevaxs president four months ago.

The private company's recent third quarter report for the period ending Jan. 31 shows a net loss of \$95 million US, most of which is caused by a one-time major write-down (revaluation downward) of capital items.

Cevaxs' problems — and the ripple effect on another Vancouver company, Integra Systems Inc. — began with the \$50-million US acquisition of Dallas-based Southland Corp.'s "Moviequick" division, a move that doubled the number of convenience stores carrying Cevaxs' videos.

In the deal, Cevaxs would provide video rental service to 4,300 7-Eleven stores in North America.

Integration of the two companies proved complex and time-consuming, he added, and when it was completed, revenues from the Moviequick outlets were less than anticipated.

The low returns led to financial pressure on the company's line-of-

credit. The company's bank got nervous. The bank talked to the company. The company talked to its suppliers.

If Cevaxs caught a cold, it was Integra, a manufacturer of point-of-sale terminals and the major supplier of hardware to Cevaxs, that sneezed.

"It had a significant impact," says Ralph Scobie, president of Integra, when asked about Cevaxs' situation.

We had \$7.5-million worth of orders put on hold and then cancelled."

Those orders accounted for 55 per cent of Integra's sales in fiscal 1989. Integra had projected sales figures of \$15 million this year. Scobie now says the figure will be closer to \$7 million.

Staff has been pared down from 70-plus to 40 and the company is bracing to lose between \$300,000 and \$1 million in fiscal 1989. He predicts they should be making money by the first quarter of fiscal 1990.

Despite the problems with Cevaxs, Integra remains supportive of their first, and biggest customer. "They're re-trenching but they have a new perspective with Gary Suttle. I think he'll do it," Scobie said.

Integra, listed on the Toronto and Vancouver stock exchanges, has an agreement with an as-yet-unnamed Canadian bank to provide point-of-sale terminals at retail locations for debit and credit functions. Scobie said, and is preparing to announce a marketing agreement with Tandem Computers.

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AMP of CANADA Ltd.
(416) 475-6222

Electronics Times

April 11, 1989
Volume 4, Number 6

COMPANY NEWS

CONTRACTS

Vancouver-based **Integra Systems Inc.** has announced that it has been awarded an exclusive contract to supply up to 25,000 advanced transaction terminals to **HealthNet Systems Inc.**

HealthNet has established a national point-of-sale (POS) network for the processing of health care transactions. This contract represents approximately \$37 million, and is the largest single order in Integra's three year history, the company says.

Integra will supply the SofTerm ST4, the newest addition to the SofTerm family of POS terminals, beginning in the Company's fourth quarter.

The terminal systems will be deployed to health care providers such as pharmacies, doctors, dentists, hospitals, and opticians across Canada, and will be used for electronic insurance claims processing and credit card based transaction processing.

In addition, Integra announced that it has been awarded \$1.5 million worth of pilot project contracts, which it predicts may yield the company \$15 million in sales over the next 24 months. Additionally, the company has received its first purchase order under the HealthNet-Toronto Dominion Bank contract worth \$2.25 million in sales over the next six to 12 months.

Integra has also received a letter of intent from **Advanced Card Sciences** of Atlanta, GA, for the development and installation of a medical claims processing system in the southeastern U.S. When negotiations are complete, Integra anticipates rolling out 2,500 terminals to Advanced Card Sciences in the fall of 1989.

FINANCE

For the third quarter ending Dec. 31, 1988, **Integra Systems Inc.** of Vancouver reports sales of \$907,000 for the quarter and a loss per share of \$0.08.

On a year to date basis, sales are \$5.8 million with a loss per share of \$0.03. The company reports that expenditures were greater than anticipated as it compressed an extended R&D cycle into the quarter.

In the banking and retail area, Integra signed with a major Canadian bank for a debit card pilot project.

In its target arena of health claims processing, Integra signed a potential \$37 million-five year agreement with **HealthNet** and the TD bank system.

Finally, in the video rental market, the company signed an initial 225-terminal order with **Movie Track** in the U.S. and is planning an additional delivery of 2,300 by the end of the quarter of fiscal 1990.

Integra also completed a contract with a Western-based video rack jobber.



NEWS RELEASE

FOR IMMEDIATE RELEASE:
APRIL 6, 1989

FOR MORE INFORMATION:
INTEGRA SYSTEMS INC.:
Ralph G. Scobie (604) 733-1322
President & C.E.O., Integra Systems Inc.
Tim Casgrain (416) 671-3334
President, National Business Systems Inc.

INTEGRA SIGNS FINANCING AND DISTRIBUTION ARRANGEMENT WITH NATIONAL BUSINESS SYSTEMS

VANCOUVER, B.C. - Integra Systems Inc. announced today that it has entered into an agreement with National Business Systems Inc. (NBS) of Toronto. The agreement calls for NBS to lend Integra up to \$2 million, which will be secured by a debenture convertible into common shares of Integra. Terms of the debenture are to be approved by the Vancouver and Toronto Stock Exchanges.

Integra also announced that NBS has been appointed exclusive worldwide distribution of Integra's complete line of SofTerm EFT/POS terminals. Integra will continue to independently market its product manufactured for the video industry.

Ralph Scobie, President of Integra, commented that the "relationship between NBS and Integra will provide our shareholders with financial stability and will give Integra access to the World's second largest installed terminal base."

National Business Systems Inc., a public company whose shares trade on the Toronto Stock Exchange and NASDAQ, is a fully integrated international manufacturer and marketer of a complete line of sophisticated EFT/POS terminals.

Integra Systems Inc. is a leader in the provision of fully integrated systems for the transaction processing and electronic payments market. Integra supplies computerized point-of-sale system solutions to the retail, financial and health care industries in North America. Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.

Ralph G. Scobie
President & C.E.O



NEWS RELEASE

FOR IMMEDIATE RELEASE:
APRIL 13, 1989

FOR MORE INFORMATION:
INTEGRA SYSTEMS INC.:
Ralph G. Scobie (604) 733-1322
President & C.E.O., Integra Systems Inc.

INTEGRA'S LARGEST CUSTOMER SIGNS NEW **\$1.3 MILLION ORDER**

VANCOUVER, B.C. - Integra Systems Inc. announced today the signing of a \$1.3 million purchase order with CEVAXS CORPORATION for the installation of software and hardware enhancements to 3,300 previously supplied Point-of-Sale terminals.

Integra expects to begin receiving CEVAXS' terminals immediately and will commence shipments of the upgraded terminals at the rate of approximately 500 per week, starting in late May. Ralph Scobie, Integra's president, commented: "On April 1, 1989 we entered our fourth fiscal year and we are confident that our first quarter will return Integra to profitability. I am pleased that both of our companies can look forward to a successful year and a continued long-standing, successful work relationship."

CEVAXS CORPORATION, a Vancouver-based private company, is the leading supplier of video rental programs to the convenience store industry. The Company presently provides its specialty services under long term contracts to approximately 7,400 retail outlets across North America. Each outlet is equipped with point-of-sale hardware and software supplied by Integra.

Integra Systems Inc. is a leader in the provision of fully integrated systems for the transaction processing and electronic payments market. Integra supplies computerized point-of-sale system solutions to the retail, financial and health care industries in North America. Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.

Ralph G. Scobie
President & C.E.O

COMPUTING CANADA

THE NEWSPAPER FOR INFORMATION PROCESSING MANAGEMENT

Integra wins \$1.5M worth of projects

VANCOUVER - Integra Systems Inc. has won \$1.5 million worth of pilot projects, which could bring it \$15 million in sales during the next two years.

As well, the company has received its first purchase order under the HealthNet-Toronto Dominion Bank contract, a sale worth \$2.25 million during the next six to 12 months.

Recently, Integra signed a purchase order with the Bank of Montreal for the development of banking and payment applications on its just announced SoftTerm 4.

Two other pilot projects have been set in motion.

One is with PVS Video Services and the other with Movie Track of Dallas, for terminal installations in convenience stores throughout North America. Upon successful completion of these three pilots, Integra will deliver more than 10,000 terminals.

Additionally, Integra has received a letter of intent from Advanced Card Sciences of Atlanta for the development and installation of a medical claims processing system in the southeastern U.S. When negotiations are complete, Integra anticipates rolling out 2,500 terminals to Advanced Card Sciences this fall.

Financial Times

APRIL 17-APRIL 23, 1989 \$1.00

FINANCIAL TIMES OF CANADA

7

Trends

Buzz

When push comes to shove, NBS waits

BY ARTHUR JOHNSON
Contributing Editor



NOTHING GALLS Tim Casgrain more than wasting time and money. But for months now, Casgrain has been seething quietly while he watches thousands of dollars disappear quite needlessly every day at **National Business Systems Inc.**

Casgrain is chief executive of NBS but, in some respects, you'd hardly know it. For instance, he's powerless to do so much as set a date for the company's annual meeting. The reason for Casgrain's quite uncharacteristic impotence: the U.S. Securities and Exchange Commission. Casgrain's corporate masters, **Hees International Corp.**, want to reorganize troubled NBS, but the SEC is not exactly setting speed records in considering the proposed refinancing. Until shareholders can approve the scheme, under which Hees will inject \$20 million cash and creditors will swap another \$20 million of debt for equity, NBS must continue to make huge interest payments on its borrowings. "The SEC," says Casgrain, "is going through the material page by page." And if Casgrain doesn't like it — tough; as he correctly observes, "You don't push them. They push you."

The American regulators have already caused Casgrain some embarrassment. He's announced tentative dates for an annual meeting a couple of times since January, only to be forced to recant when permission was withheld by the SEC, which is involved because NBS shares trade on NASDAQ.

NEWS RELEASE

FOR IMMEDIATE RELEASE:

APRIL 28, 1989

FOR MORE INFORMATION:

INTEGRA SYSTEMS INC.:

Ralph G. Scobie (604) 733-1322
President & C.E.O., Integra Systems Inc.

STATUS REPORT

VANCOUVER, B.C. - Integra Systems Inc. today made public its current status as it relates to project development, corporate finance, and revenue expectations.

On November 23, 1988, Integra announced a potentially, \$37 million contract with HealthNet Systems Inc., for the supply of SofTerm ST4 terminal systems used for healthcare claims processing and credit card based transaction processing. Integra has received a purchase order under this contract for \$2.5 million worth of product and will begin shipments in mid-May.

Integra's pilot projects announced March 6, 1989, are proceeding well. The Company has installed SofTerm ST4 equipment in 100 Marathon Oil locations and in 50 Circle K convenience stores in the United States, and both companies have indicated the equipment is meeting and exceeding their requirements.

CEVAXS CORPORATION, Integra's largest customer with an installed terminal base of 7,400 units, has given Integra a \$1.3 million order to supply and install software and hardware enhancements to 3,300 previously supplied terminals. Ralph Scobie, Integra's president commented, "We are currently negotiating with CEVAXS to increase the size of the purchase order to \$1.75 million. This order combined with HealthNet, the pilot projects, and our sales backlog has poised Integra to project annual revenues in excess of \$7 million for fiscal 1990."

On April 6, 1989, Integra announced a financing and distribution arrangement with National Business Systems Inc. (NBS) of Toronto. The \$2 million financing is being advanced in stages and has been approved in principal by regulatory authorities. The \$2 million demand loan and accrued interest will be convertible into common shares of Integra at \$0.57 per share. "Our relationship with NBS is in its infancy. We are not only associated financially and through marketing, but our engineers have begun several joint developments of new products and product adaptations," Scobie explained.

Integra has trimmed its staff from 67 to 37 employees, and has lowered its break-even revenue level from \$7 million to \$4 million in sales.

Integra Systems Inc. is a leader in the provision of fully integrated systems for the transaction processing and electronic payments market. Integra supplies computerized point-of-sale system solutions to the retail, financial and health care industries in North America. Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.



Ralph G. Scobie
President & C.E.O.

■ **TECHNOLOGY UPDATE:** Intelligent power semiconductor devices interface readily to both microprocessors and to the sometimes very harsh conditions of the real world.

■ **WEST COAST REPORT:** Industry association hires high-profile executive director and starts strong lobby effort with major submission to provincial government.

MAY
1989



ELECTRONIC PRODUCTS AND TECHNOLOGY

Integra lands pilot projects with potential

Vancouver-based Integra Systems Inc. has been awarded \$1.5-million worth of pilot-project contracts, which ultimately may yield the company \$15-million in sales over the next 24 months.

Contracts are with the Bank of Montreal for the development of banking and payment applications, and one with PVS Video Services (a division of Jim Pattison Group) and another with Movie Track of Dallas for terminal installations in convenience stores throughout North America.

Upon the completion of these three pilots, Integra will deliver more than 10,000 terminals.

Integra recently entered into a \$37-million contract to become the national supplier of terminals for healthcare transaction processing to HealthNet Systems Inc. The company received its first purchase order for \$2.25-million worth of terminal equipment.

Integra has also received a letter of intent from Advanced Card Sciences of Atlanta for a medical-claims processing system in the south eastern U.S. Integra anticipates rolling out 2,500 terminals to Advanced Card Sciences in the fall of 1989.

In addition, the firm has been awarded an exclusive contract to supply up to 25,000 advance transaction terminals to HealthNet Systems Inc. for a national point-of-sale (POS) network for the processing of health-care transactions.

This contract represents approximately \$37-million, and is the largest single order in Integra's three year history.

The company recently introduced a highly advanced point-of-sale (POS) terminal for use in screen-oriented transaction-processing applications involving a number of data resources and destinations.

SofTerm ST4, includes a four-line LCD display panel with enhanced screen editing capability built-in processing and memory as well as built-in local area network (LAN) connectivity.

It is intended for complex environments, including electronic messaging, benefits and insurance claims processing, transportation, retail and banking applications, wherever a PC might be used.

Because it is capable of multi-tasking, it can accommodate several on-line services simultaneously. Consequently, users will not require multiple terminals as more services become available.

LAN capability ensures that resources such as memory, printers and communications services can be shared among several terminals in the same environment.

July 1989

Hees gets two seats on board of Integra

Financial Post

VANCOUVER — The turnaround specialists from Hees International Bancorp Inc. are taking a larger role in the affairs of Integra Systems Inc.

Integra, which makes terminals for processing credit card transactions at point-of-sale, announced yesterday that Tim Casgrain, president of Hees-controlled National Business Systems Inc., Toronto, and NBS Vice-President Thomas Davies have joined the Vancouver company's board. Casgrain also is a managing partner of Hees.

Their appointments, besides filling the vacancy left by the resignation earlier this year of Ole Jensen, a founder and former executive vice-president of Integra, give the Hees appointees two seats on the nine-member board.

Integra, a three-year-old Vancouver technology company, surprised its shareholders recently with a significant third-quarter loss (a deficit of \$688,500 on sales of \$907,000 in the quarter ending Dec. 31) after earlier announcing contracts said to be worth millions over several years.

In April, after the shares bottomed out at 26¢ (compared with a high for the year of \$1.50), Integra signed a \$2-million financing agreement with NBS, which also became the exclusive distributor of Integra's terminals.

NBS also is a supplier of point-of-sale terminals.

Management Profile

How Three Men and an Idea Became Integra Systems

On vacation, three Canadian would-be entrepreneurs got an idea to start a company. The result: A 3-year-old terminal manufacturer ready to take on the U.S. payment market.



Integra's Scobie (left), Arduini, and Straehl:
In the right place at the right time.

Campbell Studios

In the fall of 1985, three young men, vacationing with their families in the Pacific Northwest, were sitting around one afternoon flipping through back issues of *Venture* magazine. "We were reading about all these new enterprises," recalls Les Arduini, "and somebody said, 'Gee, we ought to be able to do something like this.'" The other two—Ralph Scobie and Ole Jensen—agreed.

With only a vague idea of what they wanted their company to do, the three formed what would become Integra Systems Inc. and took on a fourth partner, Richard Strafehl. After some debate, and the opportunity to bid on a contract in a business about which they knew very little, the partners settled on electronic payment devices as their product.

Only two years later, Integra landed a contract to provide Cevax Corp. with 2,000 payment terminals for a convenience-store movie rental program, stepping in to pick up a contract disclaimed by IBM Corp. to provide high-memory, powerful, but small, computers required to make the movie rental system profitable. As the first contract for Vancouver, B.C.-based Integra, it made a big splash in the POS pool. It also set Integra on the path toward becoming a major player in the highly competitive electronic payment terminal business.

During that 1985 vacation, the trio of new partners had decided that Scobie, a venture capitalist, would raise funding for the company; Jensen, an engineering consultant, would design a product; and Arduini, an accountant,

would plot the fiscal future. Strafehl, a partner in Scobie's venture capital firm, joined the company a short time later and is head of sales and marketing.

In less than four years from that first strategy session, Integra Systems has become a company with a reputation for sophisticated high-end terminals. Despite its small size (fewer than 13,000 terminals in place and total sales of \$7 million in 1988), Integra has some noteworthy strengths: among them, technological expertise as well as the corporate

In less than four years, Integra has become a company known for sophisticated high-end terminals.

organization and financing to support continuing R&D efforts.

What it has lacked until now has been the money to fund a marketing organization. Integra has proven it can deliver a reliable POS product for the retail, health care and banking industries. Now the company simply needs more customers. Integra expects that to change with a recent agreement with Toronto-based National Business Systems Inc., which claims the second largest installed terminal base in the world. National Business Systems' 10 U.S. sales offices will take on the marketing of Integra terminals, positioning Integra to break into the U.S. market.

From Integra's first contract with Cevax, the company has managed to maintain a high profile in a field with nearly 30 POS terminal manufacturers. After the Cevax deal, Integra attracted industry attention in 1987 by hiring well-known Michael A. Strada, former president of Florida's

Honor EFT network, as executive vice president and director of U.S. operations. Last year Integra gained more publicity when it unveiled a new product, the re-programmable SoftTerm payment terminal, and later in the year signed a major contract to develop drug-store terminals for a Canadian health care consortium. Its latest deal with NBS, announced in the spring, has intrigued industry observers who speculate Integra may be poised for fast growth.

Integra didn't intend initially to manufacture POS terminals. Rather, Jensen's idea was to produce a protocol converter that would allow host computers and POS terminals to communicate. But while the four partners were writing a business plan for the company they'd named Starnet, an opportunity to design a different product dropped into their laps. As an upstart company, Starnet bid on—and won—a \$7.5 million contract with Vancouver-based Cevax to supply 2,000 POS terminals for convenience-store movie rental programs.

Movies and Diapers

What makes the contract with Cevax and Integra's subsequent success all the more intriguing is that the four youthful entrepreneurs had a wide range of experience between them when they incorporated Starnet, but none of it in electronic payment. Scobie and Strafehl had both worked for Xerox, in marketing and automation, respectively, and their venture capital business had found funding for projects as diverse as a full-length feature film and a disposable diaper factory. Arduini had a degree in zoology, and experience in accounting and investing, while Jensen's expertise was electronics engineering.

Consequently, it is not surpris-

Elizabeth Hopp-Peters is a freelance writer.

ing that Scobie, 39, considers his company's initial success with Cevaxs nothing short of phenomenal. "We landed the contract because we were good salesmen," Scobie explains. "We had no money, no materials or production facility, and no employees except the four of us and a secretary." The group hired Jensen's engineering consultants to design the terminal prototype while Scobie and Strafehl set about seeking capital: in several weeks, the group had raised \$500,000. They asked for credit from suppliers as well as early delivery, and assembled the terminals on the fourth floor of an office tower.

Right Place, Right Time

Scobie still finds it hard to believe Starnet was able to ship 2,000 terminals to Cevaxs in just a little more than two months. "We got the order September 22 and gave them the terminals by the end of November," he says.

Don Harvey, Cevaxs director of retail service, says the upstart Starnet won the \$7.5 million contract because the four partners were "very aggressive," and "in the right place at the right time," and also because IBM didn't want to bother developing a custom product for an initial order of only 2,000. Originally, Starnet had been hired as consultants for IBM, which wanted to repackage its PC Jr. to meet Cevaxs' needs. When it became apparent that the PC Jr. was going to be too cumbersome for a retail terminal, IBM told Scobie's group they were welcome to develop their own product for Cevaxs.

"They came up with what we needed—a box small enough to fit on a counter top, but robust

enough to live in the C-store environment," Harvey says. Starnet, which later became Integra, eventually sold 10,400 terminals to Cevaxs, which now uses the equipment in 7,300 locations. "We've been very pleased with the Integra hardware and software," Harvey says. "The malfunctions have been few considering the terminals are running 24 hours a day."

The fact that Starnet had never manufactured POS terminals before developing them for Cevaxs turned out to be advantageous. Because Starnet entered the market just when credit authorization terminals were no longer cutting-edge technology, the new company wasn't wedded to existing technology and didn't have to play catch-up to new technology. In fact, being able to start fresh put Starnet ahead of the competition. "At the time, there was a proliferation of companies who were still flogging low-end products," Arduini, 41, says. "We were competitive because we had no bias toward any particular technology when we entered the field."

"We were competitive because we had no bias toward any particular technology when we entered the field," Arduini says.

We weren't married to a box or a particular operation, and so, we were able to look at the industry with a fresh point of view."

In January 1987 the four Starnet partners acquired Kokanee Resources Ltd., a Canadian mineral exploration firm, which in turn bought out Starnet. Starnet

became a wholly owned subsidiary of Kokanee, which changed its name to Integra. By September, 1987, Starnet had been wound into Integra.

Three of the four founders—Scobie, Arduini and Strafehl—remain with the company today. Perhaps reflecting the friendship on which the company was founded, each of Integra's partners had an equal say in making corporate decisions for the first year and a half. But last year it became apparent that the company could no longer be run by executive committee. Scobie was voted president and chief executive officer while Strafehl became executive vice president of sales and marketing. Jensen was named executive vice president of engineering; Arduini, executive vice president and chief financial officer. Arduini explains, "Some one individual has to call the shots, even though at times it can be frustrating for the rest of us." Apparently the frustration was too great for Jensen, who resigned several months after Scobie became president.

One of these internal controversies revolved around whether Integra should produce low-end or high-end terminals. "Integra had the option of either entering the market high and migrating lower, or entering low and moving upward," says Strafehl, 36.

Scobie wanted to start low while Jensen wanted a high-end terminal. The SofTerm terminal originally was intended to be a low-end product with a 64K memory, according to Arduini, but the engineering department had different ideas and got carried away designing special features and options that required greater

memory capacity. The first phase of the SofTerm turned out to have 256K, while the current generation of the terminal is capable of 896K. "The engineering department was being mismanaged," explains Scobie, who started overseeing the department's day-to-day operations in February 1988. Jensen, who had been in charge of Integra engineering, resigned in November.

Another of Integra's early intentions that didn't work out involved the hiring of Michael Strada to develop a U.S. sales force for Integra. It was a coup for the 1-year-old company to hire the high-profile ex-chief of Florida's Honor EFT network, and Scobie at the time said he had high expectations that Strada would "open doors" for Integra. Strada had plans for new U.S. sales offices and staff, and Integra consequently opened offices in both Orlando and Los Angeles, but found its corporate budget wasn't big enough to support a growing sales force as well as R&D. "As a small company, you just can't do everything and do it well," Arduini says. The Orlando office will close this summer and Strada is leaving the company. No decision has been made as to the fate of the Los Angeles office.

Integra's primary strength has always been technology, and the marketing agreement with NBS came after Integra's management decided to focus its efforts on R&D and let someone else take care of sales. The agreement with NBS will allow Integra to get out of marketing, which can be expensive when targeted at an industry as fragmented as retail electronic payment. Furthermore, NBS will lend Integra \$2 million

by the end of this month, which will allow Integra to develop several new products, including PIN pads and a low-end SofTerm for draft capture and credit authorization. NBS also will become the international distributor of Integra's complete line of SofTerm payment terminals.

Instant Sales Network

While Integra will continue to independently market its terminals designed for the video industry, the company will have access to NBS sales avenues, including 10 sales representatives in North America. Both companies stand to gain from the agreement, according to Strafehl. "As a small company, we realized the need for a strategic partner," he says. "We can leverage NBS's distribution and service network." And NBS, which manufactures low-to-mid-range terminals, will be able

"We have great product reliability because we test and test and test," Scobie says.

to round out its product line with Integra's high-end terminals, says National Business Systems.

NBS, which is dropping the Taltek name and which is also recovering from a major scandal last year when its chairman was unable to account for \$10 million, could benefit from Integra's reputation. "We have great product reliability because we test and test and test," Scobie says. Although components are produced offshore, Integra does its own assembly for purposes of quality control.

It remains to be seen if any

residual of the NBS scandal last year has a negative impact on Integra, but Integra executives aren't worried. "NBS has really had a housecleaning," Scobie says. "We at Integra think we have the credibility and the drive to overcome any negative publicity."

Timothy Casgrain, NBS president, says his company likes the Integra SofTerm because of its reprogrammable features, and especially because of the terminals' applications in the health care industry. "The market for POS is evolving into a product with greater functionality," he says. Casgrain also says the agreement came about because NBS executives and Integra management saw eye-to-eye on many matters. "We were introduced to the Integra people and we liked them," Casgrain says. "There is a good compatibility of personalities."

The NBS loan is secured by a debenture convertible into common shares of Integra stock. NBS could trade the debentures in for one-third of Integra, and Scobie says one scenario is for Integra to become a division of NBS some day, as happened with Datatrol and DataCard Corp. This, he says, would be preferable to paying back the loan.

This year, Integra expects to be profitable, with sales roughly equal to the \$7 million in fiscal 1988. With the financial boost from NBS, Integra's break-even point has been lowered to \$4.5 million, Scobie says.

At present, Integra is developing a SofTerm for RX Plus and Toronto Dominion Bank as part of the HealthNet consortium that plans to place terminals in as many as 9,000 Canadian drugstores in the next several years.

Ten prototypes of the new 4-line, 160-character-display SofTerm were delivered in June, and this month a 50-terminal pilot is getting underway. HealthNet's SofTerms are multi-function—they can do claims processing, debit/credit payment, inventory control and price checks. "Wherever we can, we try to cram more applications onto our terminals, and as a result, our POS terminals function like PCs or ECRs," Strafehl says. Integra hopes to have 2,500 of the SofTerms deployed by HealthNet within the next year.

Integra terminals also will be used in a Canadian retail debit program scheduled for fall. An undisclosed bank will place 200 SofTerms in retail locations, and if the pilot is successful, could deploy another 50,000 within 10 years. "Debit is just starting in Canada," Scobie says.

But Integra also has set its sights on the U.S. market, where it is especially interested in electronic benefits payments, including the federal government's Food Stamp Program. In addition, a 60-day, 100-terminal pilot with Movie Track of Dallas recently ended, and the video vending company intends to order at least 500 Integra terminals for convenience-store movie rentals. Integra also has a letter of intent from Atlanta-based Advanced Card Sciences, which hopes to use as many as 2,500 SofTerms for medical claims processing in the Southeast.

In the future, Integra intends to diversify its product offering as well as continue manufacturing state-of-the-art terminals. "We plan to go upscale in terms of memory capacity and processing power," says Strafehl. "That's where the industry's going and we're inter-

ested in riding the front end of the wave. The bulk of POS terminals being sold today have between 32 and 64K of memory, while two years ago, they had around 8K. If memory capacity quadruples in the next two years, most terminals will have from 128K up to 896K, which is the range of our terminals." Strafehl likens the payment terminal evolution to what has already happened in the PC field. "Whatever happened to the Commodore 64?" he asks. "Five years ago, the standard configuration was 64K for a PC. Today, no one would think about buying one with less than 1 Megabyte."

According to Strafehl, Integra is also interested in developing terminals with as few components as possible. "The single chip

terminal is the ideal, however impossible," he says. Last year Integra engineers consolidated 15 circuits into one for their SofTerm, saving production costs and freeing up printed circuit board space for other options.

Because there are at least 28 other companies that manufacture POS terminals, there undoubtedly will be a shake out of manufacturers in the next few years. But Integra's history of technological innovation, along with its new marketing alliance with NBS, make the young company a likely candidate for survival in the crowded payment terminal field. "Allied with NBS, we plan to be among the four or five major companies that emerge in coming years," Scobie says. □



NEWS RELEASE

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FOR IMMEDIATE RELEASE:
JULY 24, 1989

VANCOUVER, B.C. - Integra Systems Inc. announced today several corporate developments related to its ongoing operations and strategy. At a Board of Directors meeting held in June, Integra's directors announced the appointment of Mr. Tim Casgrain and Mr. Thomas Davies to the Board. Both Mr. Casgrain and Mr. Davies are Officers of National Business Systems Inc. (NBS), of Toronto.

Mr. Casgrain is President and Chief Executive Officer of NBS, as well as a Managing Partner of Hees International Bancorp Inc. Mr. Davies is Vice President and Chief Financial Officer of NBS. He is a Chartered Accountant formerly with Peat Marwick. He will lend his financial planning expertise to Integra. Mr. Casgrain and Mr. Davies have been working closely with Integra to streamline operations and assist in the implementation of Integra's new marketing plan.

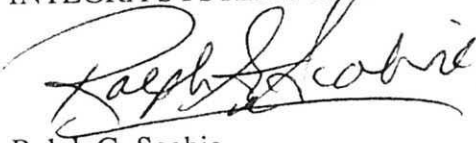
On April 8, 1989, Integra announced a distribution agreement and a \$2 million financing arrangement with NBS. NBS continues to advance funds to Integra in stages, and the operating relationship between the companies continues to mature. In the NBS interim report dated May 15, 1989, Mr. Casgrain commented, "NBS believes that the distribution arrangement with Integra gives NBS new point-of-sale products 12 to 18 months sooner than had the Company initiated its own development program for similar point-of-sale terminals."

Mr. Ralph Scobie, Integra's President, responded, "Integra and NBS have combined not only for finance and marketing reasons but also for engineering, manufacturing, and research and development of new products. NBS is the second largest supplier of point-of-sale systems in North America, and our alliance has strengthened both companies."

Integra has streamlined its operations to improve its cost structure, and is lowering its break-even level to \$4 million in sales. Integra continues to produce and deliver on its sales backlog in excess of \$5 million.

Integra Systems Inc. is a leader in the provision of fully integrated systems for the transaction processing and electronic payments market. Integra supplies computerized point-of-sale systems solutions to the retail, financial and health care industries in North America. Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.



Ralph G. Scobie
President & C.E.O.

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The Financial Post

Canada's National Business Newspaper

Tuesday, August 22, 1989 ••• 25¢

NBS uproots Vancouver division

Overhead at Integra research arm prompts move to Kitchener

By Anne Fletcher

Financial Post

VANCOUVER — National Business Systems Inc., unwillingly to watch \$1.95 million go down the drain, is taking over most of the assets of subsidiary Integra Systems Inc.

In a deal announced yesterday, Integra's Vancouver research department will be transferred to NBS's Kitchener, Ont. facility while the manufacturing arm will be merged with the Montreal operation.

"It would have been nice to leave Integra in Vancouver as a small satellite operation but the overhead was just too high," said Murray Small, vice-president of corporate development and

human resources for Mississauga, Ont.-based NBS.

Integra makes credit-card terminals, including those used in outlets of Cevax Corp., the largest supplier of rental video films in North America.

The unit reads the cards and logs and stores other transaction information.

Cevax, Integra's largest customer, canceled \$7.5 million in orders — nearly half of Integra's 1989 expected sales — after running into problems with a U.S. acquisition made last year.

As a bailout, Integra arranged a \$2-million financing from NBS last April. The \$1.95 million paid to the end of July was "basically used as cash flow," Small said.

"It really wasn't enough. It was just like a band-aid," he said. "The overhead costs were just escalating at a faster pace than they could keep up with."

By last month, NBS was faced with the choice of "keep funding or let them go bankrupt," Small said. NBS, reluctant to put in more money, chose a third alternative — the transfer of assets.

NBS has offered jobs to about 22 Integra employees who will be laid off.

"They have a very high-quality product," Small said. "It just didn't happen for them."

Integra lost \$2.26 million (28¢ a share) on sales of \$6.19 million for the year ended March 31, 1989. The company lost \$1.26 million (16¢) on sales of \$4.25 million in the previous year.

NEWS RELEASE

FOR IMMEDIATE RELEASE:

AUGUST 18, 1989

VANCOUVER, B.C. - Integra Systems Inc. (ISI) announced today several corporate developments related to its ongoing operating plan and relationship with National Business Systems Inc. (NBS).

In April 1989, NBS and ISI entered into a financing arrangement and distribution agreement whereby NBS would loan up to \$2 million to ISI and ISI would grant NBS exclusive distribution rights to its products. The loan would be subject to the satisfaction of NBS that ISI is progressing in a timely fashion with the development of its hardware and software for its new SofTerm products and with the development of an operating plan.

As of July 31, 1989, NBS has advanced \$1,950,000 to ISI. To date, ISI has not generated sufficient cash flow from operations, due to a delay in the development of SofTerm products and lower than forecasted sales. As a result, NBS is unwilling to advance additional investment funds to Integra. Consequently, ISI has developed an updated plan whereby it will substantially downsize its operations, including reductions in personnel and in overhead expenses. This further downsizing will commence immediately and will be substantially complete by September 30, 1989.

As part of this new operating plan, ISI intends to transfer to NBS all research and development, and manufacturing responsibility for the SofTerm product line to NBS. In an effort to facilitate this transfer as well as to generate sufficient cash flow over the next two months, ISI will sell to NBS all related inventory, spare parts, tools and dies.

The transfer of research and development, and manufacturing from ISI to NBS would require a change to the distribution agreement between NBS and ISI. NBS would forthwith pay a royalty to ISI on all sales of ISI products. Planned improvements and modifications to the products over the next two years would be performed through the provision by ISI for the royalty agreement to expire after two years. The royalty would be paid as a percentage of sales of ISI products.

In light of the potential conflict of interest and to ensure that the Board of Directors can reach its decisions in the best interest of ISI and normal arms-length negotiations may be held between NBS and ISI, Mr. Casgrain and Mr. Davies resigned as Directors of ISI prior to the Directors' Meeting held on August 9, 1989.

At the Directors' Meeting on August 9, 1989, the new operating plan and proposed transfer of research and development, and manufacturing with the related sale of inventories, spare parts, tools and dies was approved. The Board will also seek ratification of this plan at the Annual General Meeting on September 19, 1989. Also at this Directors' Meeting, Mr. David Dvorchik tendered his resignation from the Board.

On August 15, 1989, the Company released its audited financial statements for the year ended March 31, 1989. Due to a deficiency in net asset value, ISI expects to be suspended from the NASDAQ system in the near future.

Integra Systems Inc. common shares are listed on the Toronto and Vancouver Stock Exchanges under the symbol ISI and on the NASDAQ system in the United States under the symbol ISIIF.

INTEGRA SYSTEMS INC.

A handwritten signature in dark ink, appearing to read "Ralph G. Scobie", written over a horizontal line.

Ralph G. Scobie
President & C.E.O.

CANADA'S BUSINESS NEWSPAPER

REPORT ON BUSINESS

MONEY & MARKETS

Cash-poor Integra Systems winding down

BY GEOFFREY ROWAN
The Globe and Mail

Integra Systems Inc., after running into technical problems with its new point-of-sale terminal, has run out of money and will begin winding down its business, the company said yesterday.

"It's being wound down," said Integra president Ralph Scobie. "We now have 27 employees and eventually virtually all will be gone."

The news drove the price of Integra's stock down 5 cents to 20 cents on a Toronto Stock Exchange volume of 35,500 shares. Nine months ago the shares were trading at \$1.35.

Integra said the move is necessary because National Business Systems Inc. decided not to increase its \$1.95-million investment in the Vancouver company.

"It sounds like they're dismantling the whole thing," said Pierre Panet-Raymond, an analyst with the Toronto brokerage firm McDermid St. Lawrence Ltd. "They're selling all their technology, all their research and development and all their manufacturing. It sounds like a liquidation."

The company said its financing arrangement with NBS hinged on the timely and successful development of a new terminal product called Softerm. But Mr. Scobie said the company was not able to generate sufficient cash flow from operations because of technical problems encountered while developing the new terminal.

Mr. Panet-Raymond said Integra was hurt by a softening in the market for point-of-sale systems, the computer terminals that are used at checkout counters in retail establishments.

"The industry has been soft for the last couple of years," he said. "There has been some shakeout in the market. A number of competitors have gone the way of the dodo bird."

NBS agreed that the point-of-sale market is soft.

"It will be until they get together as a group to determine what they are going to do . . . in terms of industry standards," said NBS chief financial officer Tom Davies.

Mississauga-based NBS provided financing through July 31, 1989, that was secured by a debenture that is convertible into Integra shares. Mr. Davies declined comment when asked if NBS plans to convert its debenture.

When that financing was announced, in April, Integra said it had appointed NBS the exclusive distributor of a line of electronic-funds-transfer/point-of-sale terminals called Softerm.

Softerm was developed for the health-care industry and for debit card applications but Mr. Scobie said there were serious engineering problems in its development last fall.

While under development the company announced major contracts: one with Alliance Systems Inc. of Santa Monica, Calif., for 6,500 terminals; and one with HealthNet Systems Inc. for up to 25,000 terminals.

Since then the Alliance deal has been shelved but Mr. Scobie said the HealthNet deal is still moving forward, although he said he thought the 25,000-terminal figure was optimistic even when it was announced.

As part of yesterday's announcement Integra said it will transfer all research and development and manufacturing responsibility for its product line to NBS.

Integra will also sell to NBS all of its related inventory, spare parts, tools and dies.

NBS has agreed to pay Integra a royalty on the sale of Integra products. Mr. Scobie said the royalty will vary depending on the product and the size of the sale.

He said the downsizing will begin immediately and will be substantially complete by Sept. 30.

Ratification of the reorganization plan will be put before Integra's general annual meeting, which is scheduled for Sept. 19.

The plan was approved by the company's board of directors on Aug. 9. Prior to that meeting two directors resigned to avoid potential conflict of interest and at the meeting a third director resigned.

Integra also reported yesterday that because of a deficiency in its net asset value, the company's shares would be delisted from the North American Securities Dealers Automated Quotations system in the near future.

Integration

NBS REBOUNDS AND MAKES DEAL WITH INTEGRA

Not only has one of the largest terminal manufacturers in the industry, National Business Systems (NBS), overcome its negative publicity--due to past management involved in fraud and racketeering--but the company has staked out new territory with its recent "acquisition" of Integra Systems Inc.

Integra, a leading designer and manufacturer of POS systems for the credit card and EFT industries, will be merged into the POS division of NBS, said officials of both companies.

During a telephone interview with EFT REPORT, Murray Small, vice president of corporate development and human resources for NBS, said, "Integra has become closely aligned with NBS since both companies began working together earlier this year." He continued, "We quickly found that through Integra and its SofTerm POS product line, NBS could make a great leap forward in offering a newer, more sophisticated generation of intelligent POS terminals."

SofTerm is an EFT/POS transaction terminal, fully programmable with MIS functionality and an integrated LAN. For customer authentication, Integra manufactures 4 different types of PIN pads that are designed to integrate into the SofTerm System.

Another product, the Transactor IC, is an intelligent controller that concentrates multiple EFT/POS transactions over 1 or 2 lines and integrates multi-vendor hardware into a single system. It is a fully integrated transaction switching facility providing on-line communications and quick response.

Toronto, Ontario-based NBS began restructuring the company's operations after its financial problems, by looking to exit the transaction processing business with NBS Transaction Services, which included FundsNet and Bypass The System (EFTR, May 2, p. 3).

Tim Casgrain, president and CEO of NBS, appointed after the management fall-out, has spent the majority of his term cleaning house.

With that in mind, it seems NBS would eventually look to venture into new markets. When Integra expressed an interest for a marketer and distributor for its products, NBS was quite willing to cut a deal, as it believed that it was lacking in high-end terminal products.

Small told us that the 2 companies began working together 3 months ago. NBS decided to loan Integra \$2 million for the testing of its SofTerm product. "It's a wonderful product," said Small, "but they [Integra] couldn't get it to market." Essentially, he said, NBS is taking Integra's manufacturing and R&D and transferring it into its own manufacturing facilities. As far as the staff is concerned, Small said NBS has offered all 27 employees a place at its Vancouver-based residence. No acceptances have been finalized as of yet, but he said the response so far has been good.

Well along to recovery

NBS believes that it is well along on the road to recovery. Small said the company will continue its 12-year mission, which is to become a truncator of paper. "We see that the industry is ready to remove paper from the system, and get reimbursed," he said. Banks want to generate a profit from cash.

Small said the Canadian banks are starting to view the role of NBS a little bit differently. Typically, NBS leases or sells its terminals to the banks, which then lease or sell them to the retailers. The new approach will be to have NBS sell directly to the retailer. In this way, it will become a representative in the field, able to sell many different cards at once.

This should definitely please the retailer, as he will no longer have to deal with 20 different salespeople, but can obtain his system with one selling "pow-wow," namely NBS. In this way, NBS has truly become a systems integrator.