From: Barrett, Paul S <[redacted]>
Sent: Tuesday, October 2, 2012 5:22 PM
To: 'Epstein, Jeffrey (jeevacation@gmail.com)'
Cc: Giuffrida, David J; Ens, Amanda
Subject: To Do -
Attachments: ipayment OW init.pdf

Jeffrey

=span style="font-size:11.0pt;font-family:"Calibri","san=-serif";color:#1F497D">For Haze, we have $5MM in the JPM High Yield B=nd Fund. The SEC yield on that fund has come down to 5.60%. I think =e should sell $1.5MM of that position and:

<=p>

- Buy $1MM of the Kindr=d Healthcare bond from yesterday (ytm 8.25%)

=p class="MsoListParagraph" style="text-indent:-.25in;mso-list:l3 lev=l1 lfo7">-=nbsp; <=span>Buy $500K of the iPayment 10=2E25% 2018 (yield 12.70%)

Let me know</=>

Paul=o:p>

</=>

· =nbsp; iPayment, Inc. provides financial transaction processi=g services. The company's payment processing services enable merchants=to accept credit cards, debit cards, checks, and gift cards as forms=of payment for swipe transactions as well as card-not-present transactions=that are conducted over the internet or phone. The Company offers credit=and debit card-based payment processing services, including, card authoriz=tion, data capture, settlement, merchant accounting, risk management= fraud detection, merchant assistance, support, and charge-back services=2E iPayment serves merchants throughout the United States.

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· =0D The company focuses on =mall businesses, which results in a higher failure rate, but acquiring new=customers remains a priority and their business is very scalable

=span style="font-size:11.0pt;font-family:"Courier New"">o =hey have 190,000 customers (130,000 of which are considered very active) o No single merchant accounts for >1% of their revenues=

<=pan style="font-size:11.0pt;font-family:"Courier New"">o H=gh margin business

o High barriers to entry in this market th=t should offer some protection against competition

=0D

o=nbsp; For the fir=t half of 2012, the company processed 169.1M transactions for a total ch=rge volume of $11.3B.

* &n=sp; i=ayment derives close to 90% of its revenues from the merchant discount fee=it charges to its customers for services. The fee is based on the size o= the transaction and is typically 2.8% for a credit card transacti=n, with some variation related to merchant type, card type, and in-person =ersus internet transaction.

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<=pan style="font-size:11.0pt;font-family:Symbol">· = Chairman/CEO owns 100% of the company – we like this =s he thus has a large vested interest to see the business succeed

· &n=sp; 7.0x leverage (th=s is fairly high – so the bonds are CCC+ and around a 12.7% yield)=o:p>

We believe iPayment's bonds offer very attractive =elative value, with the iPayment, Inc. 10.25% notes due 2018 offering = yield of ~12.7%.

Given industry trends, the compa=y's competitive positioning, and these yields, we recommend these bonds=2E

&=bsp;

IPM= 10.25% 05/15/18

* <=span>Cusip 46262EAE5

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· =nbsp; Senior Unsecured<=:p>

* &nb=p; Rating: B3/CCC+

o This is their only bond (the others are =ay in Kind notes due Nov 2018)

=Please see the JPM Research attached

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iPayment: Attractive Business with Strong Relative Value; Init=ating with Overweight

We are initiating coverage of iPayment with an Overweight rating. The c=mpany is a leading merchant acquirer serving small businesses and ha= benefitted from increasing electronic payments by consumers. iPayment h=s generated higher margins given the challenging nature of the small busin=ss space. While attrition has been a concern, the company generally uses=excess cash flow to make acquisitions and maintain its portfolio.<=:p>

Targets small businesses. iPayment's custome= base consists of small merchants, which typically pay higher transaction=0D fees than large merchants due to greater business risk, lower volume=, and difficulty in identifying them. Thus, iPayment can generate better=margins by collecting the higher fees, while still receiving lower process=ng costs by aggregating small merchant transactions to receive large= volume discounts from their primary payment processor, First Data.=/o:p>

A=quisitive focus. iPayment has typically used exc=ss cash flow to make acquisitions to grow its portfolio and mitigate =attrition, which can be meaningful given the higher failure rate in the sm=ll business market. We believe they have been successful with their acqu=sition strategy, having completed numerous transactions in recent years.=o:p>

Unconventional ownership. Carl Grimstad, iPay=ent's Chairman and CEO, and his affiliations own all of iPayment Holding=. However, he also has a vested interest in ensuring the success o= the business and is likely to carefully consider how his potential action= may impact the company and his stake.

Regulatory impact. Since the implementation of the Durbin legislation in Octobe= 2011, margins for processors and merchant acquirers have benefitted=from lower interchange fee expenses. However, as they continue to pass t=e savings onto more merchants, merchant discount fees will continue to dec=ine, closing the gap between the top-line and lower interchange expenses=2E

Industry competition. There are a number o= companies looking to get into the payments business using new technology=0D including digital wallets, near field communications, and mobile car= readers. However, we believe there will be little in the way of change =or merchant acquirers such as iPayment in the medium term.

Bottom line. We expect iPayment to contin=e to maintain its top line and generate healthy margins with total l=verage levels of ~7.2x. Although the ownership structure is unconventi=nal, we believe the company has a good management team, focused on control=ing attrition and growing the portfolio with acquisitions. iPayment's =0A bonds offer very attractive relative value, with the iPayment, Inc. 1=.25% notes due 2018 offering a yield of 13.34% and the iPayment Holdin=s 15% PIK notes due 2018 offering a yield of 20.91%. Given industry tr=nds, the company's competitive positioning, and these yields, we r=commend that investors buy iPayment bonds.

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