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**From:** Barrett, Paul S [REDACTED]  
**Sent:** Monday, October 22, 2012 1:36 PM  
**To:** Epstein, Jeffrey (jeevacation@gmail.com)  
**Cc:** Giuffrida, David J; Schaffer, Susannah  
**Subject:** To Do - HY BOND IDEAs: EarthLink and Headwaters

Jeffrey

= think we should buy \$1MM each of the following bonds:</=>

=p class="MsoListParagraph" style="text-indent:-.25in;mso-list:l1 lev=l1 lfo5">1=2E &nb=p; EarthLink 8=2E875% 2019 ytw 7.94%

2. Headwaters 7.625% 2019 ytw 6.70% = fits into our housing recovery theme

We have \$18MM in cash right now.

=0D

Let me know.

Paul

=p class="MsoNormal">

EL=K 8.875 05/15/19

<=pan style="font-size:11.0pt;font-family:"Calibri","sans-serif"">Issuer: = &=bsp; EARTHLINK INC

Ticker:&nbs=; &=bsp; &nb=p; ELNK

=0A

Ratings: &n=sp; = &n=sp; B2/B-

Ranking: =nbsp; &nb=p; Senior Unsecured</=pan>

Coupon: 8.875%

Maturity: 05/15/19

Call Schedule: 05/15/15 @ \$104.438

05/15/16 @ \$102.219

05/15/17 @ \$100

Price: \$103.50

YTW: 7.94% (05/15/17 @ 100.00)

YTM: 8.17% (UST 702bps)

OAS Mod Duration: 3.2E82

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Issue Size: 300mm

Min Denom: 2k x 1k

Cusip: 270321AC6

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#### Company Background

EarthLink, Inc. provides IT, network and communication services to individual and business consumers. The Company provides customers with managed IT services including cloud computing, data centers, virtualization, security, applications and support services. EarthLink also offers nationwide data and voice IP services.

#### Key Points

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- Strong credit metrics

o 2.2x Gross leverage / 1.3x net leverage

§ Peers are 3-4x levered

o 400mm in liquidity (260mm of which is in cash)

o Good free cash flow

<= class="MsolistParagraph" style="margin-left:1.5in;text-indent:-.2in;mso-list:l2 level3 lfo2"> \* \*\*\*\*\*LTM FCF of 81mm

=0D

- &n=sp; Relative Value

o JPM Single B High Yield Index: 6.31% - pick up=163bps

=0Ao =![endif]>JPM Telecommunications High Yield Index: 5.68% &=8211; pick up 226bps

- &nbs=; Good debt covenants

o EarthLink cannot raise debt if leverage =xceeds 3.75x

<=pan style="font-size:11.0pt;font-family:"Calibri","sans=serif"">- &nbs=; Declining consu=er side (specifically dial-up) is being addressed through pursuits of full=IT solutions on the business side

o </=pan>This may cause higher leverage =n the future but as mentioned above there is a limitation to leverage righ= now based on covenants

- &=bsp; Key ca=alyst for upside on these bonds: Refinancing of 10.5 ITC Deltacom notes=0D

o ITC Deltacom subsidiary represents ~31% of consolidated EBI=DA and 36% of total assets

o </=pan>Right now, they cannot guarantee the 8=2E875 senior notes until its existing secured debt (ELNK 10.5 16) is ref=anced

o DB expects the call to happen in April 2013 as it seems th=y could refinance significantly cheaper

<=>Risks: Greater than expected=decline in EBITDA from One Communications or the dial-up business, a= well as integration risk associated from future M&A deals we believe =he company may be pursuing.

Call Schedule: &nb=p; =04/01/2015 @ \$103.813

=span style="font-size:11.0pt;font-family:"Calibri","san=-serif""> =nbsp; &nb=p; = 04/01/2=16 @ \$101.906

&n=sp; = &=bsp; 04/01/2017 @ \$1=0.000

P=ice: &nbs=; =nbsp; \$103.5=

YTW:&nbs=; &=bsp; &nb=p; 6.70 % (0=/01/2017 @ 100.00)

YTM: = &=bsp; &nbs=; 6.94% (UST + 583bps)

OAS Mod Duration: &n=sp; 3.86 =0A

Issue =ize: &nbs=; &=bsp; 400mm

Min Denom:      &n=sp;      2k x=1k

Cusip:      &nb=p;      =      42210PA=5

&n=sp;

Comp=ny Background

Headwaters Incorporated is a manufacturer of building products=for new residential, residential remodeling, and commercial construc=ion. Headwaters' portfolio of light building products includes

architectura= stone; resin-based exterior siding accessories, such as shutters, mountin= blocks and gable vents; concrete block and brick; and other building prod=cts.

Key Points

-      &nb=p;      Th=ee business segments: Light building Products (~51% of revenues), Heavy Co=struction Materials (47% of revenues), and Energy Technology (2% of revenu=s)

=0D o      % revenue based on Last Twelve Months=/o:p>

-      =0D Good credit metrics

o80mm in li=uidity of which 30mm is cash

o = DB estimates 30mm FCF =ext year

=0D o      Only other debt they have are subordinate conver=ible bonds

§      ~54mm due in 2014 and ~49mm due in 2016<=p>

- =      Good play on our housing recovery theme</=:p>

-      Relative value<=p>

o      JPM Sin=le B High Yield Index: 6.31% - pick up 39bps

o      JPM Ho=sing High Yield Index: 5.63% – pick up 107bps

=u>Risks: Declines in new residential and nonresidential construc=ion spending. Also, raw material price changes and the ability to =ass those along could affect earnings. Finally an adverse ruling by the =PA classifying coal ash as a hazardous waste could result in concrete make=s choosing to use less or no coal ash in their ready-mixed concrete, which=would adversely affect HW's heavy construction materials segme=t.

Sourc=: www.headwaters.com <http://www.headwaters.com>

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