Swipe Meister

SERVICES: Low rates propel growth at pay processor Elite Merchant Solutions.

By JOEL RUSSELL *Staff Reporter*

A lucky accident and some curiosity got **Justin Milmeister** into the credit card-processing business.

Milmeister was working as a commercial real estate broker in 2001 when he toured an Inland Empire shopping center as part of his due diligence for a deal.

FASTEST GROWING PRIVATE COMPANIES

No. 9

After eating lunch at a restaurant on the property, he learned he couldn't pay with a credit card because the swipe machine hadn't worked for three days. He listened to the restaurateur's list of complaints, mostly about bad service.

"A light bulb went off in my head," he recalled. "It seemed like an interesting problem, so I did some follow-up research."

Milmeister talked to other merchants and learned that the poor service was often linked to fly-by-night companies. So, in 2002, Milmeister founded **Elite Merchant Solutions** to offer better credit card processing services to restaurants and other retailers.

In the last two years, Elite's revenue has grown 143 percent to $10 million, vaulting the company to No. 9 on the Business Journal's list of fastest growing private companies.

The processing of a credit card transaction is nearly instantaneous but complex.

When a waitress, store clerk or customer swipes a card, the data goes first to a processor such as Elite, which routes the signal to the appropriate card company, such as **Visa Inc.** or **American Express Co.** The card's network then forwards data to the bank that issued the card. The bank verifies credit is available, authorizes the payment and transfers money to the merchant's bank account. A message authorizing the payment travels back along the same route it came.

Processors are closest to merchants in the sequence, so they handle any problems or questions. In return, they receive a tiny fraction of each transaction as revenue, paid by the banks.

So how has Elite distinguished itself from its rivals?

Milmeister claims most competitors depend largely on freelance agents and automated phone menus to deal with customers. Elite has in-house staff, with 63 employees at its Van Nuys headquarters and offices in North Hollywood; Grand Rapids, Mich.; and Lenexa, Kan.

What's more, the company has expanded by adding a partner for each new office, leaving the company free of debt. The partner puts up half the money to fund the new office, which is organized as a franchise.

"Employees are much more expensive but it pays in the long run because of the type of merchant you can acquire as clients," he said. "We target businesses with large volume transactions and that have several years in business."

Volume discounts

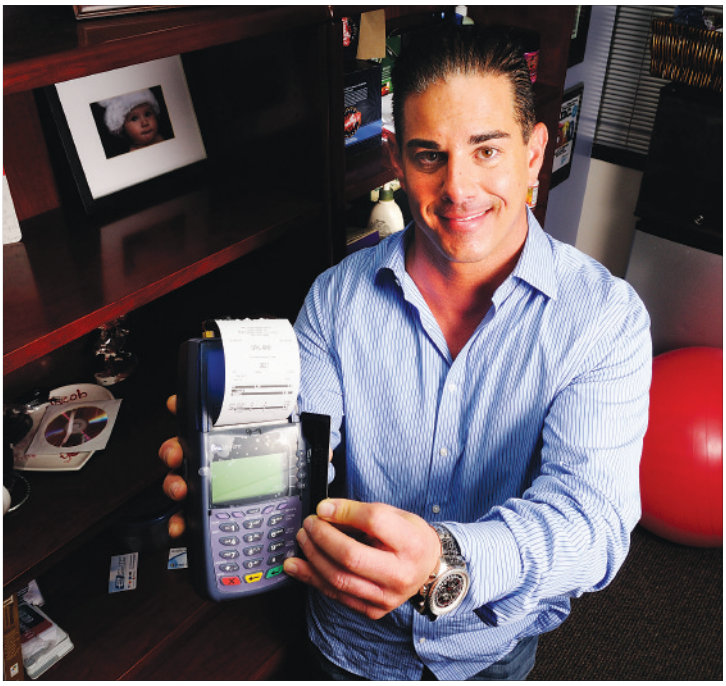
The company's clients number about 10,000 and the annual volume of its transactions exceed $4 billion annually.

The large volume of transactions that Elite generates for the credit card payment networks allows it to negotiate lower rates than many competitors, Milmeister said. But it makes up for it with high volume and loyal customers.

"We work off lower margins than the competition," said Milmeister, who declined to give specific numbers for his margins, calling it confidential trade information.

Michelle Albert, owner of **Formia**, an accounting service in Beverly Hills that specializes in bookkeeping for restaurants, has referred many of her clients to Elite, including **Drago's** in Beverly Hills, because of its low rates and service record.

"Restaurants are not a 9-to-5 business," she said. "If something goes wrong with the machine at midnight, they need a person to call. Elite has always had good service."



\PHOTO BY THOMAS WASPER

In the Cards: Justin Milmeister, owner of Elite Merchant Solutions, at his office.

One challenge Elite has faced in the last three years is implementation of the Payment Card Industry Security Standards, a new technology to combat hacking or stealing of credit card data. When many of Elite's customers found their swipe devices were non-compliant with PCI standards, Elite responded by replacing the machines at its expense and then training customers in new procedures to ensure compliance.

A larger challenge to Elite's business model comes from the constant shrinkage of its already thin profit margins. Because of its low barriers to entry, processing is flooded with part-timers and companies in other industries – including phone system vendors, software companies and even food-service distributors – that offer card processing as a secondary product line.

"The margins have gone down as the competition has gone way up," Milmeister said. "You always need to do better than the competition because it's just too easy to switch processors."

Contracts in the processing industry can run up to three years, but many accounts are month-to-month.

Standing out

Adam Pflaumer, chief executive at **Electronic Payment Consulting**, a Temecula consultancy, said the big challenge facing Elite is finding a way to differentiate themselves from the crowd of competitors.

"They are really providing a commodity," Pflaumer said. "There are thousands of processors, all subject to the same costs. Merchants are becoming more sophisticated and knowledgeable, and that explains the margin compression."

Milmeister said he's dealing with the challenge by expanding his services. For example, Elite plans to offer a text message marketing service in early 2013. The idea is that while a waiter is swiping a card, he would ask diners if they would like to receive discounts on their phone. Over time restaurants build up a phone number database that Elite will manage.

Despite the challenges, Milmeister thinks credit-card processing has one major advantage over commercial real estate: recurring revenue.

"In real estate, you are only as good as last deal," he said. "After every sale you start from zero again. In this business, as long as you service a merchant, they'll keep paying you."

Investors Reward Amgen After it Passes Trials

BIOTECH: Biotech giant's stock reaches historic high after positive news.

By KELLY GOFF *Staff Reporter*

Shares of **Amgen Inc.** have been on a steady uptick all year, and are trading at near-record levels as news of positive clinical trials, investment deals and financial performance stream out of the company.

The Thousand Oaks biotech has seen its stock post a 36 percent gain this year, and is trading at the highest levels since 1984. Shares closed Nov. 7 at $85.34. (See page 52.)

The strong performance follows a third quarter earnings report last month n which the company beat analysts' estimate with income of $1.1 billion, or $1.67 a share. The company also announced it had bought back 10 million shares at a cost of $800 million during the quarter.

Additionally, Amgen said it will pay a 36-cent a share dividend. Once a growth stock, it just started paying dividends last year.

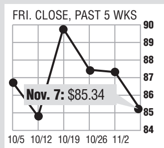
"They're at a stage now where they are expected to pay these dividends and start buybacks," said **Brent Reincke**, a partner at law firm **Musick, Peeler & Garrett LLP** in Westlake Village and a co-founder of the BioTech Alliance, a trade group that encourages development of the pharma industry along the 101 corridor.

Amgen also has a good crop of drugs in the development pipeline. Its most promising drug is AMG 145 which reduces cholesterol in patients who have experienced negative side effects from statin drugs such as **Pfizer Inc.**'s Lipitor.

"It's still premature to tell you when it might be on the market, but we're evaluating our Phase II results and we should be starting our Phase III trials early next year," said Amgen spokeswoman **Ashleigh Koss**.

Amgen Inc. (Nasdaq: AMGN)

Thousand Oaks	
CEO: Robert Bradway	
Employees: 17,500	
Market Cap: $65.5 billion	
P/E: 15	
EPS: $5.57	



Source: Yahoo Finance

A cholesterol drug would be a huge boost for the company given that its blockbuster anemia drugs Aranesp and Epogen will face competition from generic versions in 2015. The two drugs together are expected to generate $4 billion in revenue for Amgen this year. However, rival drug makers, including Pfizer, are also competing to be the first to market with similar cholesterol medications.

Amgen announced a surprise decision earlier this month when it partnered with venture capital firm **Kleiner Perkins Caufield & Byers** to create Westlake Village-based **Atara Biotherapeutics**, which will have licenses to six Amgen products for development. Financial terms of the deal were not disclosed, but Amgen will have a minority equity interest in the new company.

Reincke said this puts Amgen in a smart position for the future.

"A fair number of other large biopharma firms have done similar deals," he said. "It pushes off some of that research and risk onto the new company, but Amgen can still benefit if it's a success."

Koss at Amgen declined to discuss the Atara deal.