



The **Kaulkin Ginsberg Bulletin** is published monthly. Our mission is to provide valuable content that owners and executives of accounts receivable management and related businesses find informative and helpful in their efforts to analyze, grow, and/or exit their companies. We hope you enjoy this issue. Comments are always welcome at hq@kaulkin.com.

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The rapid growth of the debt purchasing sector certainly captured the attention of industry insiders, financial investors, and the media in 2005. However, other than what's available through the public companies, there is still very little reliable data to support your business decisions in this market. Paul Legrady, Director of our Research Group, began conducting original research six months ago. In this issue, he shares some preliminary information about his report, which will be available in late January.

Looking ahead, what does the future hold for our industry? For nearly 15 years, we have witnessed its dramatic evolution,

and change will surely continue. Read on to learn my thoughts – and feel free to share yours at hq@kaulkin.com.

Happy, healthy holidays and I wish you all the best for 2006!

Sincerely,

Mike Ginsberg
President & CEO



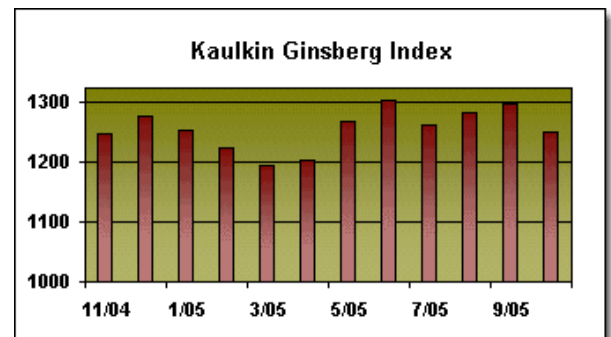
Economic Volatility Pushes ARM Index Down from Historic High

In one of the most volatile months in the 6-year history of the Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry fell 3.7% to 1250.7. The KGI is down 4% from its June 2005 high of 1303.1 but remains up 4.8% year over year.

A number of macroeconomic factors placed downward pressure on the Index. The total market capitalization of publicly traded ARM stocks fell from \$3.4 to \$3.0 billion. The number of bankruptcy filings increased from 497,000 in the second quarter of 2005 to 542,000 in the third quarter of 2005 – the highest number ever recorded for bankruptcy filings by the Administrative Office of the U.S. Courts. In addition, outstanding consumer credit decreased by \$7.2 billion during October, the steepest decline ever reported by the Federal Reserve.

Had the KGI been comprised of only six economic factors, this would have been its worst month ever, however, increases in the charge-off rate held the Index up during an otherwise challenging economic period for the industry.

Given the amount of debt available to purchase or collect, increases in chargeoff rates cause the KGI to increase as well. See the chart on the next page to see how the KGI's seven macroeconomic variables affected the Index.



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Economic Volatility Pushes ARM Index Down from Historic High (continued)*(Continued from page 1)*

Variable	October 2005*	Variable Change*	Effect on KGI*
Unemployment Rate	5.0%	0%	-
Federal Funds Rate	3.78%	4.4%	Up
Charge-off Rate	0.59%	20.4%	Up
Outstanding Consumer Credit	\$2.156T	-0.2%	Down
Total Market Cap of ARM Stocks	\$3.0B	-10.3%	Down
Bankruptcy Filings	542,002	-35.1%	Down
Consumer Price Index	199.2	0.2%	Up

* See "How is the KGI Calculated,"
www.kaulkin.com/research/kgi/calculate.cfm

The KGI is a product of Kaulkin Ginsberg's Research Group, which provides industry-specific publications and custom research services to the ARM industry. For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi.cfm or call Paul Legrady, Director of Kaulkin Ginsberg's Research Group, at 301-907-0840 ext. 104.

The Future of Collections

By Mike Ginsberg
 President & CEO

The debt collection industry has evolved from a cottage industry of small, local "Mom & Pop" businesses used mostly as a last resort by credit grantors, into a large, sophisticated, global, and multi-faceted industry that has become a necessity in today's credit-friendly economy.

At the Annual Conference of the Texas ACA, I was asked to ponder what the changing landscape has in store for the debt collection industry in the years to come. Here are some predictions:

Pricing

Contingency agencies will undoubtedly continue to experience downward pricing pressure due to greater competition for contracts, as well as the emerging preference of larger creditors and debt buyers to outsource larger contracts to fewer agencies. Agencies with demonstrated expertise collecting specific types of debt, and those servicing markets segments that are less affected by off-shoring and debt sales, will best weather changes in pricing.

Technology Advancements

As the collection industry has grown, so have the many vendors supporting the industry with specialized products and services. This is particularly true in the case of technology vendors such as collection software providers, payment processing services, voice communications technologies, credit reporting agencies, portfolio scoring tools, document imaging systems, and skip-tracing services.

As familiar products have been updated and new products have been developed, narrow areas of the ARM industry have been made more efficient. As the collection industry continues to see greater competition and the downward pricing pressure that results from this competition, cost control will become more and more central to profitability in the industry. Technology tools that bring structure and efficiency to the collection process will realize many of these savings.

Debt Purchasing

A number of contingency collection agencies have already made their first purchases of debt portfolios in recent years, driving up both the prices of debt portfolios and the size of the debt buying market. As the popularity of debt buying grows, the willingness of creditors to sell debt portfolios will increase as well.

With banks and other large financial institutions receiving significant up-front cash flow by selling receivables at high prices to large, well-established and reputable firms, the case for other creditor grantors in the medical, telecommunications, utility, and commercial markets selling their debt is getting stronger.

Collection Law Firms

The growing inclination of creditors to use legal collection channels bodes well for the continued growth of collection law firms. The growth of debt buying also suggests that collections through legal channels will continue, since debt buyers have demonstrated a willingness to contract the collection of later-stage debts to collection law firms. Some established collection law firms have developed sizable debt purchasing operations on their own. These trends suggest that the most challenging collection matters will increasingly be handled through the legal system, and the market of collection law firms will continue to grow as a result.

Confluence

Customer relationship management (CRM) and business process outsourcing (BPO) companies will provide more debt collection and accounts receivable management (ARM) services, requiring collection agencies to alter their competitive strategies in order to compete effectively with these new entrants.

Mergers & Acquisitions

The rise of interest on the part of strategic acquirers and private equity firms, along with the renewed interest among industry buyers such as NCO Group, suggest that the number of mergers and acquisitions in the industry is

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The Future of Collections *(continued)*

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likely to increase. Recent trends suggest mid-size agencies that are profitable, growing, well-managed and niche-focused are going to continue to be desirable targets at premium valuations.

Off-shoring

As other business services markets have globalized in recent years, so too has the collection industry grown onto the worldwide stage. More and more credit card processors and telecommunications companies are experimenting with moving first- and third-party collections to India, the Philippines and near-shore locations such as Canada and the Caribbean. As a result, most of the largest U.S. collection agencies have developed, partnered with, or acquired offshore capabilities, particularly in the servicing of first party debt. In fact, some now have up to a quarter of their collectors located in countries other than the U.S.

Growing Prominence

One thing is certain: the collection industry will become an even more essential part of the credit economy. Those agency executives who accept that the landscape is changing and develop ways to remain competitive will prevail. Those who believe that they have the luxury of time will find out quickly that time is, quite frankly, running out.

Mike Ginsberg is President & CEO of Kaulkin Ginsberg, where he spearheads all of the firm's strategic advisory services. Mike has been a keynote speaker at numerous association meetings and conventions. He also serves as an expert witness and sits on the advisory boards of several industry associations and publications. Mike can be reached at (301) 907-0840 or at hq@kaulkin.com.

Employee Screening Survey Results



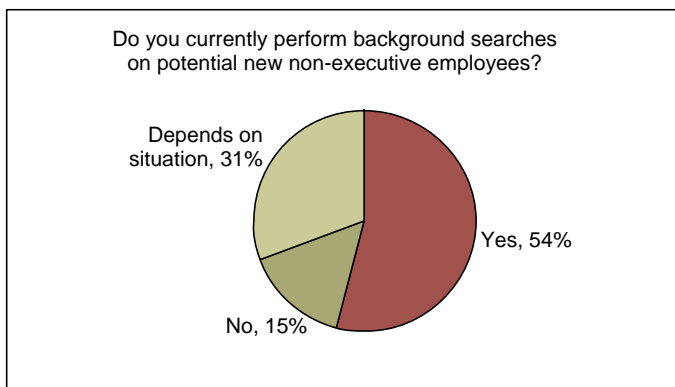
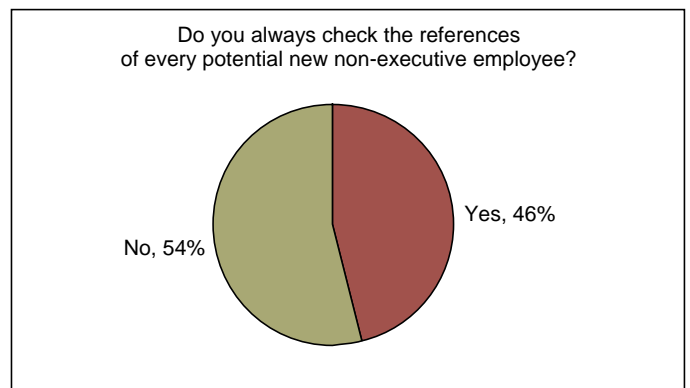
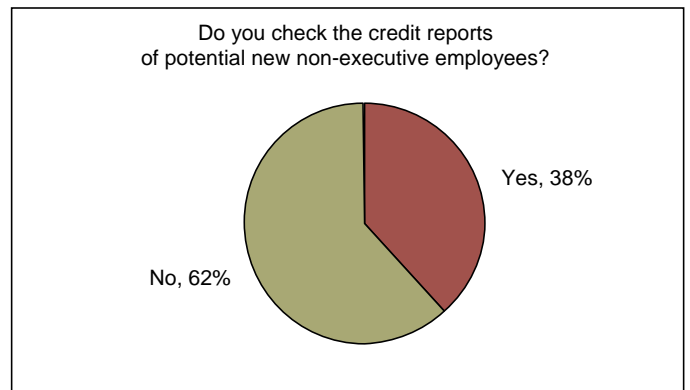
*Written and Compiled by Patrick Lunsford
Editor, CollectionIndustry.com*

Every month in CollectionIndustry.com's *Jobs News* email newsletter, we conduct a different poll concerning employment practices in the credit and collection industry. This allows you to gauge how your programs compare to other employers and to learn current sentiments of job seekers. Past surveys have covered topics such as dealing with job offers, employee referral programs, and the effect of mergers on jobs.

This month, we asked employers about their employee screening practices. Results shown are based on 13 respondents at press time.

To participate in our current survey and view past survey results, please visit:

www.collectionindustry.com/jobs/poll_results/index.cfm.



New Research on the Debt Buying Market

By Paul Legrady
Director, Research Group

The holiday season leads all of us to reflect on our many blessings. We in Kaulkin Ginsberg's Research Group do not need to reflect for very long before identifying some of the people who have made our past year very special.

For the past six months, Kaulkin Ginsberg's Research Group has been doing some extensive, primary source research on the debt buying market, not just in the U.S., but around the world. This research has been conducted thanks to the generous sponsorship of LexisNexis.

In the U.S., we spoke with 30 Sector Experts, asking them about pricing, volumes, portfolio sizes, competition, globalization, and forecasts. These subjects have long been within a "black hole" of debt buying market data and we are grateful to the participants for sharing their knowledge.

These industry insiders, ranging from CEOs of public companies buying all types of debt to owner/operators of smaller private companies focusing on specific types of debt, gave us keen insights into the state of the market.

Interestingly, these insights were both positive and negative.

We also incorporated the observations of Country Experts in Australia, Belgium, Bulgaria, Canada, Estonia, France, Germany, Greece, Italy, New Zealand, Poland, Spain and the United Kingdom into this research. These debt buyers described nuances of the debt buying markets in their countries – which differ in many ways not only from the U.S. market, but from each other as well.

This month, we will publish a substantive research publication containing the insights of these Sector Experts and Country Experts. This research publication will be the first of its kind. Its exploration of the private debt buying markets and debt buying activities in other countries will provide strategic information that is not currently available anywhere else.

In the meantime, we are especially grateful in this holiday season to all of our research sources – as we are to you for your attention in this busy time of year.

Happy Holidays! I look forward to sharing more research with you in 2006.



Industry Events and Staff News

For a complete listing of upcoming industry conferences, please visit the Industry Events section on CollectionIndustry.com™. To schedule a confidential meeting at these events, please email hq@kaulkin.com.

[IACC 35th Annual Convention](#)

January 19- 21 -- Miami Beach, FL

This is a must-attend event for commercial collection industry leaders. Senior Analyst Michael Lamm will be attending this conference and will be available to meet with you.

[Debt Buyers' Association 9th Annual DBA Conference](#)

February 7-9, 2006 - Las Vegas, NV

This is the conference of the year for those who buy, sell, collect, or service charge-off debt. Mike Ginsberg and Mark Russell from the Strategic Advisory Group, and Paul Legrady from the Research Group, will be at the show.

NEW in September

Debt Connection Symposium and Expo 2006!

Dennis and Judy Hammond are joining forces to present a new concept in conferences - with a special focus on networking. Please save the dates, Wednesday, September 6, through Friday, September 8, as you won't want to miss this unique opportunity. For more information as it becomes available, please visit www.dcs2006.com.

Staff News

Kaulkin Ginsberg is pleased to welcome Nancy Fleming to our growing staff as our new Marketing Coordinator. Nancy comes to us with marketing experience at a Virginia law firm and from Micromedex, a division of Thomson.

About Kaulkin Ginsberg

Since 1989, Kaulkin Ginsberg has provided solutions to accounts receivable management and related business services companies. The Strategic Advisory Group provides merger, acquisition and valuation advice; operational consulting; and executive search services. The Research Group produces industry-specific publications and custom research products. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of industry information such as

CollectionIndustry.com™ and Credit & Collection Daily™, and Kaulkin Information Systems, provider of secure and affordable document and process management technology. Read more about Kaulkin Ginsberg at www.kaulkin.com.

What can we do for you?

To discuss your business needs in confidence, send an email to hq@kaulkin.com or call us at 301.907.0840.