



The Kaulkin Ginsberg **Bulletin** is sent each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable insight, access, and information. Each issue contains actionable content designed to assist you in making strategic business decisions.

We hope you enjoy this issue. Comments are always welcome at hq@kaulkin.com.

Contents

M&A Activity in the ARM Industry on Course to Shatter Previous Record Levels	1
Benchmarking, Anyone?	2
The Battle Over the IRS	3
Ask the Recruiter	4
KGI Decreases Slightly from All-Time High	5
Upcoming Events	6
About Kaulkin Ginsberg	6

In [last month's issue](#) of the *Bulletin*, we took a close look at how private equity was once again actively investing in the ARM industry. The results have been, in fact, quite dramatic. Our second-quarter M&A Wrap Up report reveals that the value of deals announced and closed so far this year has already exceeded the total deal value from all of 2005 by *\$1.8 billion dollars* – and keep in mind, 2005 was an all-time high! Read on for more highlights from our quarterly report.

Also in this issue, [CollectionIndustry.com](#) Editor Patrick Lunsford discusses the latest on pending legislation which will substantially impact the government collections market. As the hiring wars heat up, Gary Zelamsky, founding partner of Executive Alliance, weighs in

on commonly asked questions from candidates and employers. Our Research Group Director Paul Legrady has conducted a series of benchmarking studies and he shares some preliminary information on this research.

As we continue to monitor the marketplace on all fronts, we are always available to answer any specific questions or concerns you have; just give us a call.

Sincerely,

Mike Ginsberg
President & CEO



M&A Activity in the ARM Industry on Course to Shatter Previous Record Levels

By Mark Russell
Director, Strategic Advisory Group

2006 has the potential to be more than just another record year, but a bellwether year for M&A in ARM. The value of all completed and pending transactions so far this year is estimated at **\$3.5 billion**. By comparison, the deal value in all of 2005 was \$1.7 billion – and that was an all-time record-breaking year!

The recent announcement by Michael Barrist to purchase NCO Group (NASDAQ: NCOG) with One Equity Partners represents the largest deal in industry history – valued at over \$1 billion. Add to that the announcement from West Corporation (NASDAQ: WSTC), owner of West Asset Management, of a \$4.1 billion recapitalization by private equity firms Thomas H. Lee Partners and Quadrangle Group, and you have the makings of a record-shattering year for

ARM M&A. Both of these deals are expected to close by year end.

Private equity is fueling the skyrocketing M&A activity in ARM, and it's not just in these two major U.S. transactions. Other recent transactions include UK-based Cabot Financial's sale to Nikko Principal Investments for roughly \$478 million, and the sale of Baycorp Advantage's Australia-based collection division, Baycorp Advantage Collection Services, to Australia-based private equity firm Allco Equity Partners and Deutsche Bank Capital Partners, for \$74 million.

Why is this happening? ARM firms represent real value to investors. Earnings for well-run companies in this market are relatively high compared with other industries. It is also a growth industry, as businesses continue to outsource or sell their debt, and

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M&A Activity in the ARM Industry on Course to Shatter Previous Record Levels *(continued)**(Continued from page 1)*

consumer, commercial and government debt levels continue to rise. All of these trends are converging on a marketplace with lots of available financial capital that needs to be put to work in the form of investments.

To keep you informed on the current M&A market, we produce a quarterly report on the industry. In it, we analyze what's going on and why, and what to expect moving forward. For a free copy by email (in PDF Format), just send a note to Nancy Fleming at nfleming@kaulkin.com.



Mark Russell manages M&A transactions for Kaulkin Ginsberg as Director of the Strategic Advisory Group. Mark can be reached at 301-907-0840 ext. 120 or at hq@kaulkin.com.

Stay on top of M&A transactions with Kaulkin Ginsberg's M&A Wrap-Up Reports!

- Details on noteworthy transactions for the quarter
- Listing of announced transactions
- Analysis of M&A trends & outlook for the future.



The Q206 Report is now available. To receive a complimentary copy in PDF format, please email your request to nfleming@kaulkin.com!

Benchmarking, Anyone?

By Paul Legrady
Director, Research Group

The ARM industry is highly fragmented and comprised almost entirely of private companies, making it almost impossible to obtain strategic information to determine how your agency's operations compare to others in the field. Throughout its history, Kaulkin Ginsberg has conducted benchmarking studies to address this problem. Just in the past year, we completed two benchmarking projects that you may find helpful:

Manager-Level Compensation Packages of Collection Agencies benchmarked the salaries, commissions, benefits, and perks of executive- and manager-level positions of companies in the industry. We found, for example, that "Directors of Operations" at collection agencies were paid an average salary of \$111,000 and an average total compensation of \$187,814. Participating companies that contributed compensation information to the study received analysis and descriptions of how their compensation packages of 18 positions compared to those of industry peers.

Another popular study was **Operational Ratios**, which reviewed important functional metrics of mid-sized collection agencies, defining averages for closely-watched measurements such as Company Revenues per Employee,

Right Party Contacts per Connects, and Accounts Litigated to Total Accounts. This research is protected by confidentiality agreement, so only the companies that contributed information to the study have access to its results. However, we have been told that some companies incorporated the benchmarks defined in this study into their strategic plans.

If you are a company owner or manager hoping to benchmark your own company's performance against companies in the industry, please let me know. To protect confidentiality, no company will be able to see the specific data supplied by any other firm participating in these studies. You will receive a comparison of your firm's metrics against the average data points of all comparable firms.

Kaulkin Ginsberg's unique role in the ARM industry allows us to provide advice, expertise, and information such as this while protecting client confidentiality.

As Director of the Research Group, Paul oversees custom research projects and publications focusing on the ARM industry. For more information, see www.kaulkin.com/research or contact Paul at 301-907-0840 ext. 104.



The Battle Over the IRS



By Patrick Lunsford
Editor, CollectionIndustry.com

A Long Battle Over Our Little Industry

Legislators in the U.S. Senate will decide soon on the fate of the IRS initiative to use private collection agencies to go after delinquent taxes. A new version of a Treasury appropriations bill has cleared a Senate committee late last week and is set for debate on the Senate floor. This latest version does fund the IRS private debt collection initiative, unlike a similar bill that made it through the House.

As the IRS has moved closer to implementation of the program, the arguments against the plan have grown increasingly fevered and emotional. When the plan is mentioned in national media, the objections always find their way into the discussion. Missed in most articles on the topic is the main argument for using private collectors to help the IRS collect past-due taxes.

Sealing the Tax Gap

The federal tax gap is money owed by corporations and individuals under current tax laws that is going uncollected. The money is not coming into the IRS either due to a failure to pay — including actual tax evasion — or a failure to collect on the part of the Internal Revenue Service (IRS). The IRS recently reported, after a three-year study, that the net tax gap for 2001 was \$290 billion. So somewhere out in America, businesses and individuals owe the IRS \$290 billion, and for whatever reason, the government can't get to it.

IRS Commissioner Mark Everson recognized this problem when he came into his job in May of 2003. In fact, in his first appearance of his tenure, before a House committee on May 13, 2003, Everson argued for a proposal that would allow the IRS to use private collection agencies. "We must use all, repeat, all, available tools at our disposal to collect these taxes," Everson said in his testimony.

Pressure to close the tax gap is coming from all sides. Less than two weeks ago, on July 13, the Senate Finance Committee's two top officials demanded to see a plan from the Treasury Department and the IRS on the issue of closing the tax gap. They insisted that the plan be available by September 30 of this year. The ranking Democrat on the committee, Max Baucus (MT), said that the IRS "is just too timid" when it comes to cracking down on noncompliant taxpayers and needs to be more vigorous in eliminating the gap.

It is widely believed that private collection agencies can help close the tax gap by going after older, smaller outstanding tax bills that are known to exist, freeing up

IRS enforcement agents to tackle more complicated cases of evasion and sheltering.

ACA International has cited the tax gap as one of the most tangible reasons private collection agencies need to be involved in IRS debt. Also, members of Congress that support the private collection initiative have made reference to the tax gap. Even the IRS's Taxpayer Advocate, Nina Olson — who has previously stated her opposition to the plan — acknowledges the need to reduce the tax gap.

The three firms selected to participate in the first phase of the program — The CBE Group, Linebarger Goggan Blair & Sampson, and Pioneer Credit — will initially be focused on only \$7.7 billion in back taxes. As the program ramps up over the years, it is anticipated that the number will grow and that the program will have a measurable impact on the tax gap.

Opposition Remains

The primary opponent of the IRS initiative is the National Treasury Employees' Union (NTEU). The NTEU has been very vocal in opposing the measure, citing everything from taxpayer data concerns to safeguards against "harassing and intimidating tactics" used by collection agencies. This debate led to the publishing of a cartoon painting the entire collection industry as law-breaking goons who have little concern for confidential consumer data (the cartoon can still be viewed at <http://www.nteuirswatch.org/>).

While NTEU's opposition to the program should be taken very seriously, there has been no comment made in mainstream media regarding their true motivation for blocking private agencies from collecting IRS debt. Put simply, the NTEU exists to protect Treasury employees. One of the agencies that falls under the union's scope is the IRS. The NTEU is just trying to protect their dues-payers' jobs and their pay. Nowhere is this more apparent than on the NTEU main web site. On the front page, there is a section dedicated to updating members on the status of their 2007 civilian government employee pay raise.

Since an argument that amounts to "protect and create more federal jobs" is not exactly a strong selling point in the current federal budgetary landscape, the NTEU has resorted to lambasting all debt collectors and throwing a dark light on the entire industry. They have also used an assumption that consumer data would somehow be less safe in the hands of private vendors. Despite the volume of recent revelations on the shortcomings of government

(Continued on page 4)

The Battle Over the IRS *(Continued)*

(Continued from page 3)

data security, the NTEU continues to bang the drum of consumer vulnerability. While the NTEU won some battles along the way, it now appears that the program stands a good chance at going forward as planned. Currently, there is one Senator, Byron Dorgan - (D-ND), who has threatened to derail the effort by inserting language into the Senate appropriations bill that would block the funding of the program. This is what happened with the House's version of the bill. Right now, Dorgan has said he is searching for votes on the Senate floor to justify the provision.

The battle over private collectors working on behalf of the IRS has raged for more than three years now. Regardless of the outcome, the collection industry should be proud of

the debate and some of the positive light that has been shone on collectors. With the mainstream media beating collectors senseless in its pages and on its air, the industry has picked up valuable allies in the process, including the President, the Senate Finance Committee and the majority of Congress (well, the majority of Congress in non-election years, anyway). Also, the tireless efforts of ACA International and the individual companies that bid on the contract – and their lobbyists – have shown elected officials that this industry is professional, conscientious on consumer data, and above all, fair when dealing with consumers.

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Ask the Recruiter



By Gary Zelamsky
Founding Partner, Executive Alliance

As recruiters, we receive questions daily from hiring managers about how to search for candidates, handle relocation packages, format resumes, and everything related to recruiting. Here are some questions that were recently asked, along with our suggestions:

Candidate questions

Functional vs. chronological resume

Q: I have had some unfortunate experiences that have resulted in a lot of job changes. Can I prepare a “functional” resume that focuses on my skill sets, and leave out either some employers or dates of employment?

A: There is some difference of opinion on this but most recruiters will tell you that you should prepare a standard chronological resume that lists most recent job first and includes dates of employment. The reason is that with a functional resume, it appears that you are hiding something.

I have found that it is much better to present a chronological resume and be prepared to provide logical reasons for the job changes. It's not the worst thing in the world to have had a boss that you didn't get along with. Downsizings are not necessarily negative; it happens to the best of us. So your best bet is to be honest and have a good story to tell about what you accomplished and what you will do to become the star performer in your next job.

That being said, if you are a seasoned candidate and you don't want to advertise your age, there is no reason to include early job history. It is acceptable to provide job

history for let's say the past 20 years. Most employers won't spend too much time inquiring about anything before that.

Relocation Expenses

Q: I anticipate getting a job offer that requires relocation. What should I ask for in a relocation package and when should I ask about it?

A: Generally speaking, the higher level the position, the more a company is willing to invest in relocation. For supervisory and entry-level management positions, some companies will not fund any relocation, although most hiring managers realize that they should cover at least the minimal relocation costs. Many times this will be a cash stipend, just like a signing bonus, so that the company doesn't have to deal with reviewing and reimbursing several invoices.

For VP positions and above, the candidate will usually be able to get full reimbursement of actual moving costs. Larger companies are more likely to pay real estate closing costs and mortgage points. For C-level positions, even smaller companies may have to come up with a significant relocation package if they want to attract the best candidates.

As to when to ask about relocation, this is a compensation question that is best raised after an offer is made. As a candidate your mission is to have the company attracted to you while you are assessing whether this is your employer of choice. To borrow from JFK, ask not what your company can do for you, ask what you can do for

(Continued on page 5)

Ask the Recruiter (*Continued*)*(Continued from page 4)*

your company. Only after the employer is convinced that you are their knight in shining armor should you inquire about relocation packages.

When to resign

Q: I was just offered a great position, but the offer is subject to a background check. I know my background is clean, so that won't be an issue in my employment. Should I resign from my current job now, so I can start this new job as soon as possible?

A: No. You should wait until all contingencies are removed before you resign from your current position. As a recruiter I would normally do everything possible to speed the hiring process. However, it is not in your best interest to resign until you have an unqualified offer. While chances are that the background check will go smoothly, there are lots of reasons for delays or even withdrawal of the offer. A final offer can get delayed due to a slow response on a background check, a transcription mistake on a date or social security number or any number of other bureaucratic errors. Also, while you may think that nothing can go wrong, candidates have lost job offers due to bad references, seemingly minor incorrect data on a resume or transgressions that took place so long ago that the candidate forgot about it. It is best to wait the extra week until you get the "all clear," then you can safely resign from your current position.

Employer Question**Compensation Packages**

Q: I would like to hire a collection manager who is currently earning a base of \$50,000 plus a small bonus. Our bonus plan is much more generous. Is it OK if I offer the candidate \$45,000 because the candidate will have the opportunity to hit \$80,000 total on a W-2?

A: Sorry, but I think you'll need to spring for at least \$50,000 on the base. We humans tend to be risk-averse. The value that the candidate places on the guaranteed base is a lot greater than the value placed on the bonus, and sometimes for good reason. I hear this all the time from salespeople who say they aren't earning optimal commissions because the operations folks aren't performing well. Some employees don't see eye-to-eye with their employer regarding what goals need to be achieved in order to get the full bonus. And then there are companies that adjust a commission plan (usually downward) because they think the employee is earning too much money.

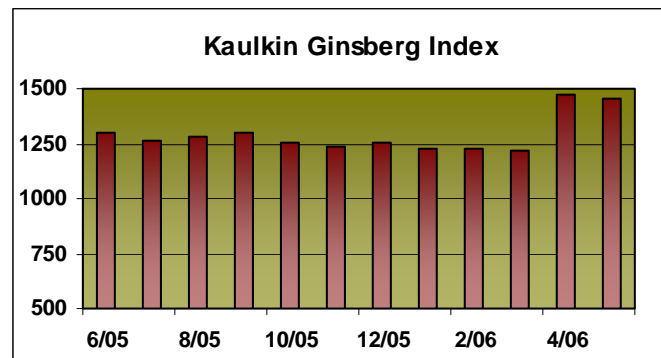
I'm trying not to take sides here, but you really need to at least match what the candidate is currently earning. There is always the chance that a salesperson will move for a lower offer, but that is a rare event.

Gary Zelamsky is a principal at Executive Alliance, a strategic partner of Kaulkin Ginsberg, and a leading national recruitment firm that specializes in the debt collection and accounts receivable management industry. Contact Gary at hq@kaulkin.com.

KGI Decreases Slightly from All-Time High

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, decreased 1% from its record high to 1458.6. The index's movement can be attributed to a slight decrease in the national unemployment rate and a slight reduction in the total market capitalization of public ARM companies. The KGI remains up 14.8% year over year.

With the exception of some volatility in the public markets, the Index preformed well across the board, keeping the KGI close to its historical high. This suggests that the ARM industry as a whole continues to enjoy favorable economic conditions.



For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi.

Upcoming Events

Meet us at these upcoming shows! To schedule a confidential meeting, please email hq@kaulkin.com.

CDS Tiger 2006 User Conference & Training

August 22-25 – Las Vegas, NV

Research Group Director Paul Legrady will be giving the keynote presentation at this conference on the state and future of the industry.

Debt Connection Symposium and Expo 2006

September 6-8 – Hollywood, CA

Dennis and Judy Hammond have joined forces to bring you an innovative new conference, with a special focus on networking – bringing together clients, agencies, attorneys, and industry vendors. Mike Ginsberg will be kicking off the program by presenting the keynote on the State of the Industry. Later in the program, he will also be presenting a special session on “selling your agency in today’s market.” For more information on the conference, please visit www.dcs2006.com.

Minnesota ACA Annual Meeting

September 14-16 – Duluth, MN

Director Mark Russell will be presenting “The Future of the Industry” at this year’s annual fall conference.

Northeast Debt Collection Expo & Convention

September 17-19 – Hershey, PA

The annual convention of the New York, New Jersey, and Pennsylvania ACA units will take place at Hershey Lodge. On the 18th, Paul Legrady will present an overview of today’s debt buying market, including original research from our *Global Debt Buying Report*.

Coming Soon to a Mailbox Near You!

CollectionIndustry.com is sending out a fall calendar to help you plan for upcoming industry events.



About Kaulkin Ginsberg



We've been helping collection industry executives with advice, expertise, and information to make well-

informed decisions for 15 years. We offer a full array of advisory services to support you through almost every stage of your company's lifecycle, from operational assessments, to executive-level recruiting, to custom industry research, to company valuation, to buying or selling a business. 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™. Kaulkin Information Systems creates secure and affordable document and business process management technology (www.KIStrack.com). Read more about Kaulkin Ginsberg at www.kaulkin.com.

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