



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.

At Kaulkin Ginsberg, we constantly strive to provide you with relevant and current information on the accounts receivable management industry. To help you stay on top of new developments, we have expanded our Bulletin from a quarterly to a monthly publication. As always, we welcome your feedback and suggestions at [hq@kaulkin.com](mailto:hq@kaulkin.com).

No matter how much the industry changes, one thing will remain constant. We will always be on hand to help you keep pace. If you have any questions

about the changes that are occurring in the industry, or how these changes might affect your business, do not hesitate to call me or a member of our Strategic Advisory Group. We look forward to speaking with you.

Sincerely,

Mike Ginsberg  
President & CEO



**Is Capital One Next? What Impact Will Its Sale Have On Collection Agencies?**

*By Mike Ginsberg*

In the wake of Bank of America's \$35 billion takeover of MBNA, only a few large companies remain whose main business is marketing and issuing credit cards. Washington Mutual Inc. already agreed to acquire credit card issuer Provident Financial Corp. in a \$6.45 billion deal. Will Capital One be taken over next? If the answer proves to be yes, it will have a dramatic impact on collection agencies.

I contend that it is only a matter of time before Capital One is acquired by a larger financial institution. It could take a couple of years, but it will inevitably happen. Capital One's 7.5% market share, focus on consumer accounts and proven marketing strategy are very attractive additions to larger US banks such as Wachovia, J.P. Morgan Chase and even Citi that are looking to beef up their consumer lending operations, as well as foreign banks such as HSBC

looking to expand their position in the US.

Yes, Capital One has been positioning itself to survive as a stand alone, diversifying into conventional banking, auto loans and even overseas consumer lending. Also, some naysayers will point out that a sizable portion of Capital One's business is in the subprime market, an area that is less attractive to some high profile banks because of its lower credit quality and higher risk of defaults. The odds are stacked against Capital One remaining as a stand-alone because larger institutions can offer even lower rates and easier credit terms, and in a competitive market with thinning margins, the strong will need to combine forces to prevail.

When a sale of Capital One is consummated – and it is really only a matter of time before it is – it will dramatically impact the debt collection

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Is Capital One Next? What Impact Will Its Sale Have On Collection Agencies? *(continued)**(Continued from Page 1)*

industry. We estimate that dozens of collection agencies service Capital One's various credit card products. For many of these agencies, Capital One comprises a large percentage of their fee income.

At this point, you probably think I am going to tell you that the sale of Capital One will result in a tremendous loss of business for its agency vendors. Typically, when a credit grantor is sold, the collection agencies that are servicing the selling entity lose business to the agencies that are servicing the buyer. However, nothing will be typical about the sale of Capital One.

I expect quite the opposite will happen; those agencies servicing Capital One at the time of its sale will actually receive more business. Consider that Capital One has honed its collection practices to a point where it is envied

by many larger financial institutions and has even been replicated by some. As a result, Capital One knows how to work with its collection agency vendors to maximize collection efforts. When acquisitions occur, the surviving entity strives to adopt best practices and in this case, Capital One's collection network should prevail. This will result in a windfall of new placements from the acquiring company to those agencies that have proven their capabilities to Capital One. In addition, by utilizing Capital One's marketing power and the buyer's ability to offer more competitive rates, the surviving entity's market share will increase. The result will be even more business to its collection agencies years after the deal is consummated.

So, if you are in good standing with Capital One, good news is coming your way.

What impact do you think a Capital One buyout will have on the industry? Do you agree with Mike Ginsberg? We'd like to hear your opinions. Email us at [editor@collectionindustry.com](mailto:editor@collectionindustry.com).

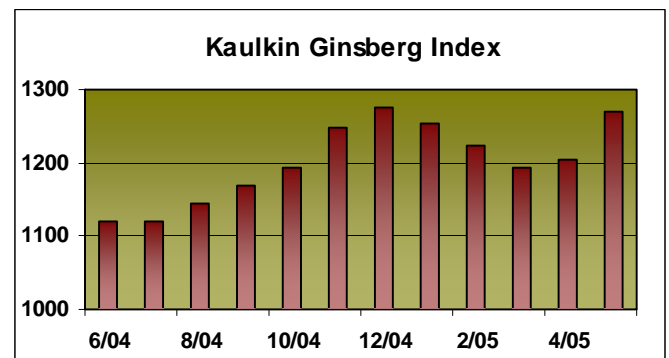
## Economic Climate Improving for ARM Industry

By Paul Legrady  
Director, Research Group

If you have been watching the Kaulkin Ginsberg Index (KGI) in recent months, you must have been encouraged by its impressive turnaround. If you are reading about the KGI for the first time, you may also be interested in its recent performance, since the Index reflects improving economic conditions for the ARM industry as a whole and perhaps for your company in particular.

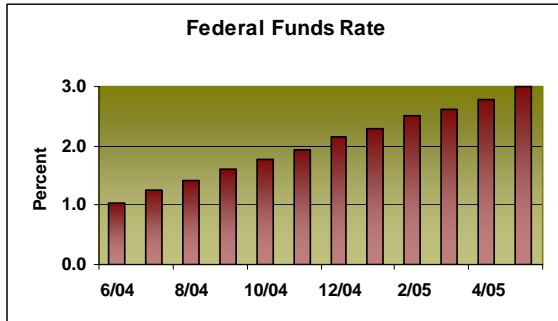
Kaulkin Ginsberg introduced the KGI to owners, managers, investors and observers of the ARM industry in our spring Bulletin. As a composite of the economic trends that most directly impact the industry, the KGI allows its observers to quickly assess how economic conditions are impacting their companies. Over the past few months, responses to the KGI have been encouraging, as creditors, collection agencies and others have been interested in its performance.

The most recent results of the Index are likely to generate similar feedback. The KGI increased a robust 5.4% in May to 1270.2, nearing its high of 1276.4, which was set in December 2004. The KGI is also up 9.7% year over year. These results reflected the second straight month of increases for the Index, which had decreased consistently throughout the spring of 2005.

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Economic Climate Improving for ARM Industry *(continued)**(Continued from Page 2)*

While seven macroeconomic factors contribute equally to the KGI, the Index's turnaround can be best explained in terms of two variables.

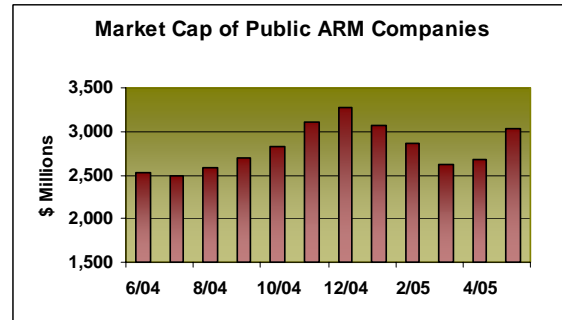
**Federal Funds Rate**

The federal funds rate increased from 2.63% in March to 3.0% in May as the Federal Reserve twice raised interest rates in an effort to decrease the likelihood of inflation. In fact, the federal funds rate is now at its highest point since September 2001. Higher interest rates push the KGI up because they create more demand for the services of ARM companies, particularly those collecting adjustable rate obligations.

**Market Cap of Public ARM Companies**

While the share prices of specific ARM companies do not reflect broadly on the entire ARM industry, the total market capitalization of all of these companies is a useful

measurement of the market's perception of the industry. The total market capitalization of these companies increased 12.9% from \$2.69 billion in April to \$3.0 billion in May. The KGI followed in turn.



Does the KGI reflect your own impressions of business conditions? I welcome your thoughts and feedback. Please feel free to reach me at 301-907-0840 ext. 104 or [plegrady@kaulkin.com](mailto:plegrady@kaulkin.com).

*The KGI is a product of Kaulkin Ginsberg's Research Group, which provides the ARM industry with custom research services and industry-specific publications, including the newly released edition of the Kaulkin Report. For more information, visit [www.kaulkin.com/research](http://www.kaulkin.com/research).*

Monitor the KGI at:

[www.kaulkin.com/research/kgi.cfm](http://www.kaulkin.com/research/kgi.cfm)

## Upcoming Events &amp; Staff News

We'll be participating in several industry conferences this fall and would welcome the chance to meet you. To schedule a confidential meeting, please email [hq@kaulkin.com](mailto:hq@kaulkin.com). For a listing of collection industry shows and conferences, please visit the Industry Events section on [CollectionIndustry.com](http://CollectionIndustry.com)™.

- **September 7-9, 2005** - Las Vegas, NV  
[Collection & Recovery Solutions 2005](#)
- **September 19-22, 2005** - Indian Wells, CA  
[CAC's 88th Annual Convention & Expo](#)
- **October 10-12, 2005** - San Antonio, TX  
[ACA of Texas Annual Conference & Exposition](#)
- **November 16-18, 2005** - Las Vegas, NV  
[Collection Advisor Technology Expo](#)

**Staff News**

Kaulkin Ginsberg is pleased to welcome sales veteran Patrick Jeanty to our team. He joins the company with more than 10 years experience in media sales. His primary focus will be on serving clients for Kaulkin Media, including [CollectionIndustry.com](http://CollectionIndustry.com).

**Do you have news to share?**

Has your agency received special recognition in your community? Are you expanding your offices? [CollectionIndustry.com](http://CollectionIndustry.com) publishes Credit & Collection Daily™ and Agency News, providing information from agencies all over the country and the world. Send your news items to [editor@collectionindustry.com](mailto:editor@collectionindustry.com) -- and be sure to register on [CollectionIndustry.com](http://CollectionIndustry.com) to subscribe -- it's free!

Accounts Receivable Management (ARM) Q2 2005 M&A and Public Market Wrap Up

Review of Q2 2005 Results and Trends

- Consistent Deal Activity Compared to Q2 2004
- Public ARM Companies' Performance Improves
- Strategic and Financial Buyers Continue To Be Aggressive

M&A activity in the ARM industry improved in Q2 2005 with 9 deals completed totaling over \$300 million in total deal value. By comparison, Q2 2004 generated 9 deals but only \$200 million in total deal value.

2005 is shaping up to be another busy year for deal activity in the ARM sector, with strategic and financial buyers continuing to seek out M&A opportunities. While aggregate total deal value in the first half of 2005 was significantly less than last year's record-breaking pace, the second half of 2005 has the potential to produce as much if not more than the same period in 2004.

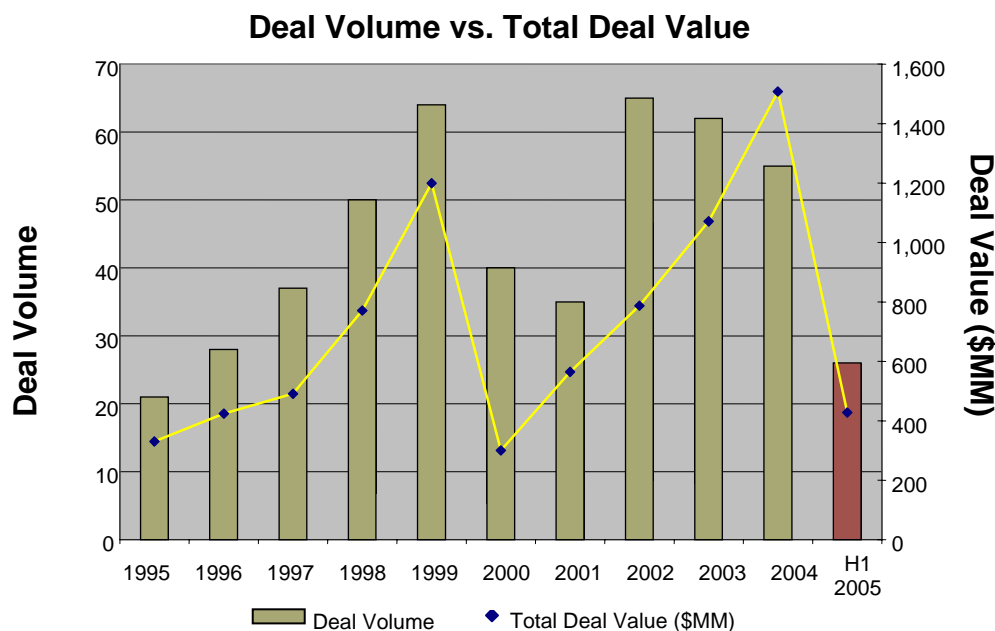
Q2 2005 confirmed that financial buyers are still motivated to find acquisition opportunities in the ARM sector, with two leading private equity firms, GTCR and Alchemy Partners, announcing platform investments in the second half of the quarter. GTCR acquired a majority stake in Zenta Technologies, an ARM and business process outsourcing (BPO) company, through its portfolio company H-Cube. Alchemy Partners, based in London, UK, acquired a majority stake in Wescot Credit Services, a leading UK based debt purchasing and collection agency.

After Q2 ended, NCO Group (NASDAQ: NCOG) announced its plans to acquire the assets of Risk Management Alternatives (RMA), one of the largest privately-held contingency and debt purchasing companies in the U.S., for \$118.8 million under Sections 363 and 365 of the bankruptcy code. RMA's service platform gives NCO the opportunity to expand its infrastructure to better service its growing client base. In addition to the service platform, NCO will also acquire one of the largest debt portfolios under management in the U.S. market. This is a meaningful step in confirming NCO as a dominant player in the debt purchasing market.

Days later, GE International Services (GECIS), an India based BPO company, announced its acquisition of Creditek Corporation, a leader in ARM, revenue cycle management and order-to-cash cycle outsourcing, based in Parsippany, NJ.

More details on NCO Group, GECIS and other Q3 announced transactions will be detailed in the Q3 2005 M&A Wrap Up.

For more details on Q2 2005 noteworthy transactions, refer to the following page.



**Note:** Data as of 07-19-05. Transactions incorporate all corporate events that involve a sale or transfer of equity: mergers and acquisitions, IPO's and secondary offerings, joint ventures, strategic partnerships, minority investments, etc.

**2Q 2005 Noteworthy Transactions****H-Cube, LLC, a GTCR portfolio company, Acquired Zenta Technologies (May)**

H-Cube LLC, a GTCR portfolio company through which GTCR has committed up to \$100 million of equity, has acquired a majority interest in Zenta, an ARM and BPO provider with a significant portion of its operations in India. Priya Hiranandani, the founder of Zenta, will continue to serve as Chief Executive Officer. Henry Hortenstine, former Executive Vice President at Affiliated Computers Services, Inc., a Fortune 500 global company and a pioneer in the business process outsourcing industry, will become executive chairman of Zenta. The combination of GTCR's equity and Mr. Hortenstine's experience will enable Zenta to continue its growth and expansion into new markets.

For more details, please visit

<http://www.collectionindustry.com/item/16135/1/H-cube>

**Alchemy Partners Acquired Wescot Credit Services (June)**

Alchemy Partners, a leading private equity fund in the UK, acquired a majority stake in one of the largest UK based ARM companies. Wescot was established in 1970 and initially operated as a contingency collection business. The company transformed in the 1990's into a full service ARM company with the creation of its debt purchasing division.

For more details, please visit

<http://www.alchemypartners.com/>

Please see below to review a complete list of announced ARM transactions in 2Q 2005.

**Public Market Activity**

Despite concerns over the increasing level of competition in the debt purchasing sector, escalating portfolio prices, executive turnover and revenue recognition issues, share prices and EV/LTM EBITDA are improving for most of the public ARM companies, confirming that investors still recognize substantial value in this industry.\*

**Asset Acceptance (NASDAQ: AACC) Announces Pricing of Secondary Offering (April)**

This is the second offering in the ARM industry this year. Asset Acceptance priced the secondary public offering of 5,000,000 shares of its common stock at \$18.89 per share. All 5,000,000 of the shares are being offered by selling stockholders.

For more details, please visit

<http://www.collectionindustry.com/item/15883/1/secondary>

| Public Company                | Stock Symbol | EV/LTM EBITDA | % Share Price Increase/ (Decrease) YTD 2005 |
|-------------------------------|--------------|---------------|---|
| First City Financial          | FCFC         | 10.9x         | 17%   |
| Asset Acceptance              | AACC         | 10.0x         | 12%   |
| Asta Funding                  | ASFI         | 9.4x          | 1%  |
| Portfolio Recovery Associates | PRAA         | 11.8x         | 6%  |
| NCO Group                     | NCOG         | 6.4x          | (9%)  |
| Encore Capital Group          | ECPG         | 5.5x          | (26%)                                       |

\* Data provided by Stephens, Inc. as of 07/25/2005.

**Announced ARM Transactions (Q2 2005)<sup>(1)</sup>**

| Month | Buyer   | Industry               | Seller                          | Industry                   |
|-------|---|------------------------|---------------------------------|----------------------------|
| April | Public Market                                 | N/A                    | Asset Acceptance (NASDAQ: AACC) | Debt Purchaser             |
| May   | American Way Business Development (OTC: AWBV) | Investor Group         | Feingold & Feingold             | Debt Collection Law Firm   |
| May   | H-Cube (Portfolio company of GTCR)            | BPO                    | Zenta Technologies              | Receivables Management/BPO |
| June  | Alchemy Partners                              | Private Equity         | Westcot Credit Services         | Receivables Management     |
| June  | Australian Receivables                        | Receivables Management | RMG, Ltd                        | Receivables Management     |

(1) Accounts Receivable Management (ARM) incorporates all companies that provide debt collection, debt purchasing, billing, credit reporting, skip tracing, and related services that support these various industries. There were 4 unannounced transactions in Q2 2005

## Predictions for the Rest of 2005

Early announcements in Q3 2005 (e.g. NCO Group and GECIS) are clear indicators that deal activity in the ARM industry remains high. Looking to the second half of 2005 and beyond, Kaulkin Ginsberg expects to see continued interest in ARM companies with experienced management teams, consistent growth, blue chip clients, a national presence, a scalable platform and substantial growth opportunities.

If you have any questions about the information presented in this report or wish to discuss your M&A interests, please contact Mark Russell at 301-907-0840 ext. 120, or by email at [mark@kaulkin.com](mailto:mark@kaulkin.com).

## Debt Buying Industry Makes Front Page News

By Patrick Lunsford  
Editor, *CollectionIndustry.com*

*The Washington Post* has taken the debt purchasing community to task for "embarrassing calls at work, threats of jail and even violence (and) improper withdrawals from bank accounts" – in short, aggressive and illegal debt collection techniques. The story, entitled "As Debt Collectors Multiply, So Do Consumer Complaints" (July 28), appeared on the front page of the paper's print edition and is highlighted heavily on the Post's web site.

The article contends that the exponential increase in consumer complaints to the FTC so far this decade is due largely to overly zealous debt purchasers looking for quicker returns on their acquired paper. And while this premise is not necessarily inaccurate, the role that certain consumers play in the complaint increase is overlooked. But all in all, for a mainstream news article on the industry, the language is not terribly harsh and the treatment the industry receives is relatively fair, even considering industry stepchild CAMCO's prominent role in the article as an example of abuses.

You can read the article online at:

<http://www.washingtonpost.com/wp-dyn/content/article/2005/07/27/AR2005072702473.html>.

We would really like to get some feedback in this article from you. What is your feeling on this article? As usual, you can send any comments to [editor@collectionindustry.com](mailto:editor@collectionindustry.com).

There is also a new folder on the message board of [CollectionIndustry.com](http://CollectionIndustry.com) dedicated to discussions regarding industry news. Registered users can access this folder by visiting the [Discussion Forum](#), or by clicking on the new link above the headline of any of our news stories labeled [Discuss](#). Not registered yet? Sign up today – registration is free.

## About Kaulkin Ginsberg

Since 1989, Kaulkin Ginsberg has provided solutions to accounts receivable management and other business services industries. Through our SAGE program (Strategic Analysis, Growth and Exit), we work with owners and executives in their efforts to analyze, grow or exit their business. Services include merger, acquisition and valuation advice, research, growth and operational consulting as well as training and executive search services.

Kaulkin Media publishes *CollectionIndustry.com*™ and *Credit & Collection Daily*™, and is the most popular source of industry information. Kaulkin Partners brings the latest technology to creditors and collectors. Kaulkin Information Systems creates secure and affordable document imaging and retrieval technology for credit grantors, agencies and debt buying companies. Read more about Kaulkin Ginsberg at [www.kaulkin.com](http://www.kaulkin.com).

### What can we do for you?

To discuss your business needs in confidence, send an email to [hq@kaulkin.com](mailto:hq@kaulkin.com) or call us at 301.907.0840.

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