



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](mailto:hq@kaulkin.com).

**Contents**

Private Equity Restructuring the ARM Industry	1
Public Companies Going Private...Is This A Trend?	2
Drop in Bankruptcy Filings Sends KGI to All-Time High	3
Publicly Held U.S. Collection Agency Stocks	4
Upcoming Events	4
About Kaulkin Ginsberg	4

When similar events happen at the same time, it's tempting to think they might be somehow related. In our industry, three major firms announced ownership restructuring plans – all within 30 days of one another. Is this a trend?

In this issue of the *Bulletin*, we take a look at the recent announcements made by NCO Group, West Corporation, and Encore Capital Group. Research Group Director Paul Legrady looks at the story from private equity's perspective, while Strategic Advisory Group Director Mark Russell takes a closer look at the motivations for each company. Although they are all looking to go

private, their reasons for doing so are, in fact, very different.

Time will tell us how these events will impact the industry. We are in constant contact with the financial community and will keep you informed of any developments. Of course if you have specific questions of concerns, please feel free to give us a call. We'd be happy to speak with you in confidence.

Sincerely,

Mike Ginsberg  
President & CEO



**Private Equity Restructuring the ARM Industry**

By Paul Legrady  
Director, Research Group

Private equity firms have made May an extraordinary month for the accounts receivable management (ARM) industry.

Private equity is taking the industry's largest company, NCO Group (Nasdaq: NCOG), private. On May 16, CEO Mike Barrist offered to acquire the \$1.1 billion company with private equity and debt financing from One Equity Partners and Morgan Stanley. The deal, valued at roughly \$1 billion, would be the largest in industry history.

Another significant industry player, West Corp. (Nasdaq: WSTC), is going private with private equity funding as well. A group of investors, led by buyout shops Thomas H. Lee Partners and Quadrangle Group, have offered to acquire the company for \$4.1 billion. The deal would include West's receivables management subsidiary, West Asset Management, which has

grown to \$216 million in annual revenues.

These deals follow other sizable transactions in the industry that took place earlier in 2006, including Cabot Financial's sale to Nikko Principal Investments, the recapitalization of Hilco Receivables, Brazos Partners' investment in Collins Financial Services, and American Capital's transaction with Financial Asset Management Systems.

What's going on here?

Receivables management, long considered an industry comprised of "mom and pop" shops, has evolved into an industry that benefits in many ways from economies of scale. The industry has also been fueled by steady increases in the amount of consumer debt and abetted by the development of specialized technologies and man-

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## Private Equity Restructuring the ARM Industry (Continued)

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agement systems. As a result, more and more companies are realizing growth in this industry – the kind of growth that attracts private equity investors.

In sum, many of the investment opportunities offered by the ARM industry are those most valued by private equity investors – large clients, evidence of profitable growth, scalable platforms, and, above all, proven management teams. Recent news shows that private equity is restructuring the industry as a result.

*As Director of the Research Group, Paul oversees custom research projects and publications focusing on the ARM industry. Recent research publications include the Kaulkin Report, 6th Edition, the authoritative overview of the ARM industry, and the Global Debt Buying Report, which analyzes one of the industry's fastest growing segments. For more information, see [www.kaulkin.com/research/publications](http://www.kaulkin.com/research/publications) or contact Paul at 301-907-0840 ext. 104.*



## Public Companies Going Private...Is This A Trend?

*By Mark Russell*

*Director, Strategic Advisory Group*

It seems like only yesterday that companies, particularly debt buyers, were lining up to file for an IPO. And why not, especially when Portfolio Recovery Associates (NASDAQ: PRAA) and Asset Acceptance Corp. (NASDAQ: AACC) enjoyed such strong increases in share price shortly after their IPOs?

Based on announcements made during the past few weeks, it appears that these interests may have changed. In mid-May, we read about Mike Barrist's offer to buy NCO Group (NASDAQ: NCOG). Two weeks later, we learned that West Corporation (NASDAQ: WSTC), owner of West Asset Management, approved an offer from two private equity firms – Thomas H. Lee Partners and Quadrangle Group – to recapitalize the company. Then in early June, Encore Capital Group (NASDAQ: ECPG) announced its intention to explore strategic alternatives that could result in a sale of the company.

Why are these public companies suddenly interested in being private? While going private provides certain benefits such as avoiding the expense and scrutiny of being a public entity, I believe these companies are pursuing this option for different reasons:

**NCO Group** - It's not every day that you see a CEO offer to buy his/her company at a 40% premium to the closing share price the day prior to the announcement. While industry analysts and experts differ in opinion on the merits of this offer, particularly the company's ability to support roughly \$1 billion in debt, it seems that everyone expects this offer to survive and not be trumped by an outside party. Personally, I applaud Mike Barrist and strongly believe that he and his management team have the ability to close this transaction. I also believe that going private is a positive for NCO Group. For starters, Mr. Barrist will have more control over the direction of the company and be supported by a financial partner that thinks in terms of years, not quarters. In addition, Mr. Barrist will have the luxury of running his company like

an entrepreneur once again (remember 10 years ago, when NCO was a private company?), and he will be able to take a longer-term view on how to increase shareholder value. I believe that these advantages, among others, are the motivating factors behind the offer, and the reasons why Mr. Barrist and his team will make this a successful transaction. The ultimate question is the exit strategy for the financial backers and management – while a strategic buyer may be plausible, my bet would be on an IPO two to three years later, perhaps in the U.S., or in an emerging offshore market like India.

**West Corporation** - Already recognized as a market leader among its CRM and BPO peers and supporting a share price that reflects this enviable position, why would the Board even consider a recapitalization at this time? Well, because Gary and Mary West, the founders of West Corporation and majority shareholders in the company, wish to liquidate their holdings. Since they own 56% of the outstanding shares, it would be potentially damaging to the share price to float this amount of stock into the public markets. Also, by recapitalizing the business, Gary and Mary West give Tom Barker and his team the opportunity to take advantage of all the benefits associated with being a private company while maximizing value for the other shareholders. In essence, it's a win-win for everyone.

**Encore Capital Group** - After experiencing almost a 50% decline in share price since the beginning of this year, it's no surprise that the Board is considering strategic alternatives. While having access to the public markets offers clear advantages for capital intensive companies like Encore, it can also provide unfortunate disadvantages for the shareholders if Wall Street isn't happy with the company's performance. This has been Encore's bane for quite sometime, and while I agree with the Chairman of the Board's [statement](#) regarding the existence of unrealized value, it remains to be seen how this value will be maximized – through a recapitalization similar to West

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Public Companies Going Private...Is This A Trend? (Continued)

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and NCO, or through an acquisition by another industry player. Either way, I believe this is the right decision for Encore and with the almost 15% increase in stock price since the announcement was made, investors seem to feel the same way.

For these three companies, going private offers certain benefits: the ability to hold a longer-term growth view for NCO Group, a way for majority shareholders to liquidate their holdings in West Corporation, and the opportunity for shareholders to access unrealized value in Encore Capital.

However, I believe that the timing of these announcements are mere coincidence and do not reflect a

trend unfolding within the ARM industry. Rather, I predict that companies will remain public as long as they are well received by the investors and are meeting quarterly expectations, while those that are financially struggling or not in favor with the public markets will consider strategic alternatives that may include privatizing the business.

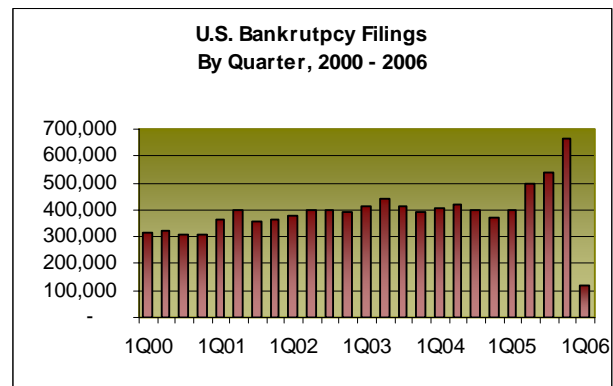
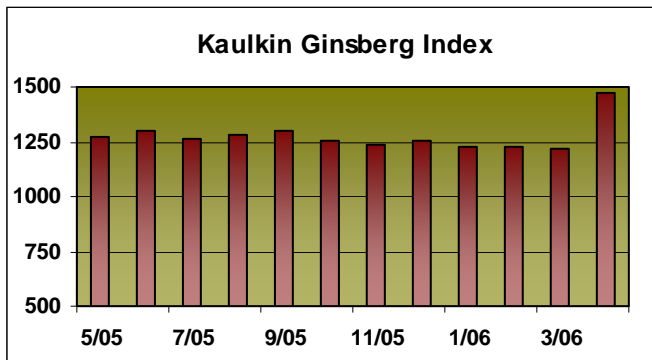
Overall, I believe these activities provide further evidence that the ARM industry supports attractive investment opportunities for investors and buyers alike.

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](mailto:hq@kaulkin.com).



Drop in Bankruptcy Filings Sends KGI to All-Time High

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the ARM industry, jumped an unprecedented 20.5% in April to 1472.7, surpassing its former all-time high of 1301.1, set in June 2005. This increase is the greatest monthly change in the six-year history of the KGI.



The Index's changes in April were caused by the following factors:

Variable	March 2006 *	Variable Change*	Effect on KGI *
Bankruptcy Filings	116,771	83 %	Up
Federal Funds Rate	4.79%	4.4 %	Up
Total Market Cap of ARM Stocks	\$3.22B	3.0 %	Up
Consumer Price Index	201.5	0.9 %	Up
Outstanding Consumer Credit	\$2.17T	0.4 %	Up
Unemployment Rate	4.7%	0.0 %	-
Charge-off Rate	0.42%	-19 %	Down

\* See "How is the KGI Calculated," [www.kaulkin.com/research/kgi/calculate.cfm](http://www.kaulkin.com/research/kgi/calculate.cfm)

The Index's increase was based mainly on the historic fall in the number of U.S. bankruptcy filings. In the first quarter of 2006, the number of filings fell from 667,431 to 116,771, reflecting the full impact of recently adopted federal bankruptcy legislation. For months, Kaulkin Ginsberg has been predicting a rise in the KGI due to reduced number of bankruptcy filings.

The new bankruptcy legislation is leading to fewer filings and requiring more debtors to satisfy their financial obligations. This is good news for receivables management companies and the creditors they serve.

The KGI is a product of Kaulkin Ginsberg's Research Group. For more information about the Kaulkin Ginsberg Index, see [www.kaulkin.com/research/kgi](http://www.kaulkin.com/research/kgi) or call Paul Legrady, Director of Kaulkin Ginsberg's Research Group, at 301-907-0840 ext. 104.

Publicly Held U.S. Collection Agency Stocks

Symbol	Open	Close	Net Change	% Change	Market Cap
AACC	17.03	17.44	+0.41	+2.41%	648.86M
ASFI	35.58	35.43	-0.15	-0.42%	482.59M
ECPG	10.63	10.83	+0.20	+1.72%	269.44M
FCFC	11.36	11.39	+0.03	+0.26%	128.80M
NCOG	26.06	26.02	-0.04	-0.23%	842.02M
PRAA	47.75	47.21	-0.54	-1.13%	750.40M

Figures are as of end of trading on 6/08/06  
 Companies Listed: Asset Acceptance Corp (AACC), Asta Funding (ASFI), Encore Capital Group (ECPG), FirstCity Financial Corp. (FCFC), NCO Group (NCOG), Porfolio Recovery Associates (PRAA)

You can monitor the performance of these stocks online at [www.collectionindustry.com/debtpurchasing](http://www.collectionindustry.com/debtpurchasing).

**Stay on top of industry developments!**

Now you can gain access to important and timely information about the Accounts Receivable Management industry by sector:

- [Credit Cards](#)
- [Healthcare](#)
- [Government](#)
- [Debt Purchasing](#)
- [Economic News](#)

If you're not yet a member, we invite you to register on [CollectionIndustry.com](http://CollectionIndustry.com). You can access the latest news, subscribe to our free daily e-newsletters, browse or post debt portfolios, and more – it's fast, easy, and it's free!

Upcoming Events

Meet us at these upcoming shows! To schedule a confidential meeting, please email [hq@kaulkin.com](mailto:hq@kaulkin.com).

**[ACA International's 67th Annual Convention & Exposition](#)**

**July 9-12, 2006 – San Diego, CA**

We will be attending this annual ACA event and will be available to meet with you during the conference.

**[CDS Tiger 2006 User Conference & Training](#)**

**August 22-25 – Las Vegas, NV**

Research Group Director Paul Legrady will be giving a special presentation at this annual user group conference.

**[Debt Connection Symposium and Expo 2006](#)**

**September 6-8 – Hollywood, CA**

This innovative new conference will focus on networking with 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 as it becomes available, please visit [www.dcs2006.com](http://www.dcs2006.com).

**[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*.

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 Information Systems, provider of secure and affordable document and process management technology ([www.KIStTrack.com](http://www.KIStTrack.com)). 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.

