



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.

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In this issue of the *Bulletin*, we cover a broad spectrum of issues that encompass the life cycle of a company – from analysis, to growth, to exit.

Every company needs to analyze and act on opportunities and risks in order to be successful. Associate Michael Klozotsky shares some information on an upcoming teleseminar that will give you insights on opportunities in the municipal collections market. Michael Binko, the CEO of affiliated company, Kaulkin Information Systems, has some advice on how to mitigate the risks associated with the new Supreme Court ruling on electronic discovery.

As your company grows, organizational changes need to take place to ensure that every employee still shares a common vision and everyone understands the role they must play. In this issue, our own COO, Stephanie Eidelman, shares her insights on managing organizational growth.

When it comes time to sell your business, how will potential buyers determine your company's value? The market for mergers and acquisitions continues to be very active in our industry, and there are some developing trends you should be aware of. In the March *Bulletin*, Associate Michael Lamm covered how the [management team impacts the value of a company](#). In this issue, Director Mark Russell takes a detailed look at the current

methodologies used to determine the value of a debt purchasing company.

Finally, I'd like to know what you think of our *Bulletin*. Are we covering topics that are of interest to you? Is our information useful? I'd appreciate any feedback you have, even if you prefer to remain anonymous. Please take a moment to answer a few quick questions at the end of this newsletter. You can respond back by email or fax.

As always, if you have questions on anything we cover in these *Bulletins*, or wish to discuss your company's challenges in private, please don't hesitate to call.

Mike Ginsberg
President & CEO



P.S. If you're selling debt portfolios on your own, visit

<http://www.insidearm.com/go/Classifieds>.

You can continue to manage the sale process yourself, save commissions, and still gain exposure to the vast world of potential buyers. Not only will we post your portfolio online on the most popular site in the industry, we also promote it in a weekly email newsletter sent to thousands of targeted contacts. I suggest you give it a try!

Is Your Legal House in Order?

Supreme Court eDiscovery Ruling Impacts Data Management Strategies for Businesses

By Michael Binko, APR
CEO and President,
Kaulkin Information Systems

In December of 2006, critical changes to the Federal Rules of Civil Procedure (FRCP) were turned into law when the

Supreme Court ruled that electronically stored information (ESI) must be made available to litigants in civil court proceedings.

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Is Your Legal House in Order? *(Continued)*

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At that moment, the landscape for future litigation/arbitration and the manner in which businesses of all sizes should handle data archives changed significantly.

The amendments to the FRCP, which are often collectively referred to as the “eDiscovery Ruling,” establish best-practices and processes related to ESI and point to the significance of ESI in the discovery process of civil proceedings. The eDiscovery Ruling goes on to identify various ways that information and archived data must be made available to counsel during discovery periods, and emphasizes how technologies can play a critical role in determining adherence to the rulings or legal liability.

In general, these requirements suggest that companies should do the following:

- Maintain an electronic inventory system to identify what and where electronic documents are stored
- Document your process/procedure for storage of electronic documents
- Keep an archive of electronic data for a reasonable amount of time in anticipation of potential litigation.

Broad Impact Across Industry Sectors

The eDiscovery Ruling has impact across all business sectors; however, it is particularly important for industries like ARM that are prone to litigation, consumer watch-dog groups, and regulatory scrutiny.

Many companies do not yet understand the ramifications. According to a recent survey¹, more than half of CIOs and information technology (IT) managers do not even realize they and their company could now be found guilty of “virtual shredding,” just as a by-product of the way they back-up or store information.

An IT team member can no longer simply re-use or record-over archived data on a regular basis. Instead, a formally-identified regimen of business rules, processes, workflow, and document management is now suggested for all companies. Information (documents, e-mails, IMs communications, etc.) now must be archived for a reasonable period of time and accessible to counsels on both sides of the table during discovery stages of litigation.

New Sheriff in Town

It is clear that the eDiscovery Ruling opens the door for adverse impact on companies that might be sued or

involved in legal situations. The good news is that the Supreme Court has also given fairly straight-forward guidelines as to how businesses can protect themselves and become less at-risk by “policing” their own database technologies, workflow/business process management techniques and various IT archiving strategies.

These resulting tasks for CEOs/CIOs and IT teams may seem like a grim cloud of Big Brother scrutiny; however technology solutions such as Software-as-a-Services (SaaS) offer eDiscovery support at affordable costs and with significantly more flexibility than traditional enterprise software – particularly for small-to-medium enterprises (SMEs).

These technologies allow companies finding themselves on the outside looking in to quickly catch up; nonetheless, great care should be taken in planning and implementation. The devil truly is in the details and challenges will continue to be squarely placed on SMEs to plan and police properly.

Cost is Not the Issue – Team Approach is Critical

New technology platforms such as SaaS, ASP, and outsourced solution services, make IT costs no longer the critical factor in enterprise process management, and should not be a limiting factor for eDiscovery compliance. Instead, the fundamental aspect of preparation, planning, and implementation for eDiscovery – just as with most other business challenges – is teamwork.

Executive, legal, operations, IT, and possibly even board members all need to be active in mapping out the strategies and ensuring the proper rollout of best-practices. Many companies who begin to look at their operations for eDiscovery quickly realize that many areas of their business would experience significant productivity gains through better data management, workflow and business process management.

So, while the effort to address eDiscovery is not minimal, the task affords an opportunity to take a step back and look at your business from a broader perspective.

Mike Binko is President and CEO of Kaulkin Information Systems, provider of secure, affordable document management and workflow systems. Mike can be reached at mbinko@kaulkin.com, or at 301-907-0840 ext. 115.

¹ Annual Socha-Gelbmann Electronic Discovery Survey

Industry Experts to Discuss the Market for Municipal Receivables

By Michael Klozotsky, Associate

Given the fact that municipal governments in the United States are owed approximately \$40 billion in delinquent receivables, the market for ARM companies to assist these entities in collecting their debts is both geographically and financially immense.

Last month, Kaulkin Ginsberg published an executive brief, [Facing the Budget Crunch: Creative Strategies for Municipal Collections](#)^{*}, which reviews how communities – from large cities like San Francisco, Ca., to small towns like Wilton, Ct. – are now employing third-party agencies and law firms to improve their collection programs. For example:

- Parking violations represent a significant amount of revenue for the city of Chicago – \$161.3 million in total in 2005. To improve return on these fees, the city now uses an agency to collect a portion of its overdue parking fines.
- Communities, such as Dallas, Texas; San Leandro, California; and several towns in Augusta County, Virginia, are using collection agencies to help collect overdue library fees.
- San Francisco utilizes collection law firms to settle outstanding restitution and other unpaid court judgments, resulting in millions of dollars in revenue.

While many technology vendors, collection law firms, and contingency agencies are already providing ARM services to cities and towns across the country, many opportunities exist for penetration into this expanding market.

If you are looking to enter the market for municipal collections, or you are already involved in the sector, I am pleased to invite you to attend a [Municipal Collections Teleseminar](#) to be held Thursday, May 17, at 1 p.m. ET. This teleseminar will provide valuable “real-world”

insights into the current state of municipal receivables management.

Panelists for the teleseminar will include Patrick Scott, East Coast Director of Client Services for MuniServices Company, headquartered in Fresno, California. MuniServices has partnered with more than 260 cities throughout the United States to enhance and manage their municipal revenues. We will also be joined by Michael Vallandingham, a Partner with Linebarger Goggan Blair & Sampson, LLP. Linebarger Goggan, which sponsored both Kaulkin’s municipal executive brief and this teleseminar, has more than 30 years experience assisting government clients in collecting their receivables through more than three dozen offices across the country. In addition, Renee Linnabary, Senior Vice President of AllianceOne, will share her company’s expertise related to municipal collections. AllianceOne has served the government and court sector of the ARM industry since the early 1980s and has a client base of more than 500 courts and government entities. MuniServices, Linebarger Goggan, and AllianceOne will each be joined by a representative from one of the municipal governments they service.

In the face of budgetary shortfalls and reductions in federal funding over more than two decades, U.S. cities are tasked with finding new approaches to recovering the bad debt – from past due taxes, library fines, parking tickets, etc. – that is owed to them. The growing demand for municipal collections represents a clear opportunity for ARM firms interested in serving these types of clients.

Michael Klozotsky conducts custom research projects and writes publications focusing on the accounts receivable management industry. Contact Michael at mklozotsky@kaulkin.com or call 301-907-0840 ext. 123.



**The executive brief requires registration on insideARM.com (free).*

The Organizational Challenges of Growth

By Stephanie Eidelman, COO

Many entrepreneurs running small growing companies find themselves at some point suddenly fielding a series of complaints from frustrated or angry employees. These unexpected conflicts might be viewed as a major distraction, but they are not the sorts of issues that will go away on their own – they are symptoms of “growing pains.”

Some of this dissent is a natural result of growth. When there were five or ten people in the company, everyone could be involved in key decisions. But when the company grows to 20, 50, or 100 people, it’s just impractical. Thus,

some of the original employees who used to sit at the “strategic table” may no longer be senior enough to do so. Sheer size of the team has forced a reconfiguration of the table, and this tends to leave out loyal, long-time, enthusiastic – yet inexperienced – team members. The restructuring cannot be avoided, but making an effort to reach out to loyal employees can alleviate their disappointment.

Another example of growing pains is the emergence of a lack of clarity around getting things done. When everyone sat in the same room, it was easy to discuss who was going
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The Organizational Challenges of Growth *(Continued)*

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to do what. Everyone wore many hats, and things got accomplished through sheer force of will and known common goals. As a visionary for your company, you may not want to stop and take time to think about issues like process. But in the absence of such thought, balls will absolutely begin to drop, customers will be disappointed, and morale will suffer.

By nature, entrepreneurs are externally focused – their success has come from acquiring customers, partnerships or market information. It's also common for entrepreneurs to expect that each employee shares their vision, and is as committed as they are to the success of the company. When this commitment is taken for granted, little attention is paid to setting internal expectations. Employees become more and more unclear about where the company is headed, how decisions are being made, and who is responsible for getting things done. In the absence of such direction, people will develop their own expectations and ground rules – and they don't tell you about these expectations until you have violated them. Then, you'll have the unhappy revelation that people are bitter, feel unappreciated, are threatening to leave, and

worst of all are beginning to under-perform or disappoint your customers.

As a company evolves, people need regular redefinition of their roles, of the roles of others, and of how they make an important contribution to the success of the company. Additionally, the mission and core strategy of the company must be constantly clarified and reinforced. This is the only way to ensure that everyone is focused on doing the right things at the right time. Ask your employees to tell you what they would say if asked about the mission of the company. Do they all say basically the same thing? You may be surprised to learn that the answers vary significantly, with some employees articulating a vision you discarded eight months ago.

Stephanie oversees all operations for Kaulkin Ginsberg. She has more than twenty years of experience in operations management and consulting, both for start-ups and large established firms. She can be reached at 301.907.0840 ext. 109 or stephanie@kaulkin.com.



How Debt Purchasing Companies are Being Valued in Today's Market

By Mark Russell, Director

There has been a lot of press in the past few years about M&A transactions involving debt purchasing companies. Since buyers – and owners of these companies for that matter – remain highly interested in exploring merger and acquisition discussions, many have questions about how buyers are determining fair market value. Although there are no absolutes, there are some generally accepted methodologies being employed in the valuation of debt purchasing companies.

While most buyers agree that contingency collection agencies should be valued as a multiple of adjusted or normalized EBITDA (The Earnings Before Interest, Taxes, Depreciation and Amortization amount adjusted for owner expenses that will not exist post-transaction), more and more buyers of debt purchasing companies are utilizing a different measurement in addition to a multiple of adjusted EBITDA to determine value. This other measurement determines the value of the purchased portfolios under management – what we refer to as the “base value” of the debt purchasing company – and then applies a premium, if warranted, to this base value that takes into account the existence of certain tangible and intangible factors, including:

- The existence of additional established and recurring revenue streams (e.g., contingency collections)

- The liquidation capability of the servicing platform or servicing strategy
- The company's future growth potential
- The growth opportunities within the company's market specializations
- Management's pricing and sourcing expertise and existing business relationships

Buyers will calculate the base value by 1) applying a multiple to the average gross monthly cash flows generated during the most recent twelve month period; 2) calculating the net present value of the portfolio's future expected cash flows under its existing liquidation strategy (also referred to as the discounted cash flow analysis); and, 3) assessing the resale value of the portfolio in the market.

The multiple applied in the first option typically falls between 18 and 22 depending on a variety of factors including the quality and status of the accounts within the portfolio, but we have seen it go as low as 12 and as high as 24 - 25 in rare situations. For the discounted cash flow analysis, buyers will typically project out four to five years worth of future cash flows, strip out all expenses that are not necessary for liquidating the portfolios, then apply an annual discount rate to the net cash flows that can range between 15 percent and 25 percent depending on how secured the cash flows are and the buyer's investment criteria.

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How Debt Purchasing Companies are Being Valued in Today's Market (*Continued*)*(Continued from page 4)*

The type of accounts under management and how they liquidate will determine which calculation will have the most impact in determining the base value.

Once the base value is derived, the buyer will determine if a premium is warranted, and if so, apply a multiple to this base value. In the current market, the multiple has ranged from 1.25 to 2; a multiple of 1.5 or higher, however, has been assessed for debt purchasing companies that have one or more of the following characteristics:

- A specialization within a niche market that is poised for substantial growth (e.g., healthcare and commercial)
- A superior liquidation strategy that provides a competitive advantage in the marketplace (e.g., intensive litigation strategy)
- A blue chip management team committed to remaining post-transaction that includes the individuals with the debt purchasing expertise and client relationships.

Certain buyers, including many private equity firms, are still basing the value of debt purchasing companies as ongoing concerns on a multiple of adjusted EBITDA, but other buyers are assessing the base value of the debt purchasing company and applying a premium to it. One measurement of value is not necessarily better or worse than the other. What counts in a competitive M&A market is whether the buyer and seller can mutually agree upon value and the best way to structure the transaction to satisfy both parties.

If you have specific interest in understanding how your debt purchasing firm may be valued in today's market, please feel free to contact me directly.

Mark Russell manages M&A transactions for Kaulkin. To confidentially discuss your business interests, please contact Mark Russell at 301.907.0840, ext. 120, or by email at mark@kaulkin.com.



Upcoming Events

If you would like to receive Kaulkin Media's quarterly Calendar of Events by mail, please [send us an email](#) with your current mailing address.

To review a complete listing online, please visit www.insideARM.com/events.

We will be on hand at these upcoming shows and would like to meet you. To schedule a confidential discussion, please email hq@kaulkin.com.

[NARCA Spring Collection Conference](#)**May 9-11, Las Vegas, NV**

Director Paul Legrady is attending the annual spring show this year.

[Healthcare Financial Management Association's Annual National Institute](#)**June 23-27, 2007 - San Diego, CA**

Director Paul Legrady and Associate Michael Klozotsky will be on hand at this healthcare finance conference.

[DBA International Executive Retreat](#)**June 26-28, 2007 – Montréal, Canada**

If you are a DBA member planning on attending this member-only event, be sure to meet with Director Mark Russell, who will also be on hand at the conference.

About Kaulkin Ginsberg

We've been helping accounts receivable management (ARM) executives with advice, expertise, and information to make well-informed decisions for over 15 years. We offer a full array of strategic advisory services to support you through almost every stage of your company's lifecycle, from debt purchase and sales advice, 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 insideARM.comTM and *The ARM Insider*TM. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies (www.kistrack.com). 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.

What Do You Think?

Our goal in distributing the *Bulletin* is to provide you and other ARM professionals with valuable information to help you in your efforts to analyze, grow, and/or exit your business.

We'd like to know how we're doing in achieving this goal, and would be grateful if you could answer a few quick questions. Feel free to print and fax this form to us at 301-907-0840, or just send us an email with your comments.

TO: Anne Strong, Director of Marketing
FAX: 301-907-0808
EM: astrong@kaulkin.com

FROM: (Optional)

Your Name: _____

Company: _____

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How did you receive this copy of the *Bulletin*?

- Kaulkin Ginsberg sent it to me by email
- A colleague forwarded it to me
- Found it while on the Kaulkin Ginsberg website
- Found an article in an online search
- Other: _____

Is there a recent article you recall that was particularly useful?

In what format do you prefer to read it?

- I prefer to read it online
- I print out and read the PDF
- Varies

Are there any topics you'd like to see us cover?

How often do you read the *Bulletin*?

- Every Month
- Occasionally
- Never

Would you like us to continue sending out the *Bulletin*?

- Yes
- No
- No opinion

Thank You!