



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](mailto:hq@kaulkin.com).

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For nearly 15 years, our firm has specialized in the Accounts Receivable Management (ARM) Industry. We have watched the industry grow in sophistication, size, and importance to the point where now it is generating an unprecedented level of interest from Wall Street, financial institutions and corporations worldwide, and the mainstream press.

I was recently asked to forecast where our industry is headed next at the ACA of Texas's Annual Conference & Expo. There is one trend in particular that I felt was worth noting here. As we predicted, favorable economic and market conditions have been driving a record level of mergers and acquisitions in the industry. We expect this to continue into the foreseeable future. As a result, we're seeing a convergence of ARM services with broader Customer Relationship Management (CRM) and Business Process Outsourcing (BPO) capabilities. This convergence is forming a new type of service provider that is larger and more globally focused, and capable of offering creditors a more comprehensive suite of services at reduced costs, including ARM. Smaller, independent collection agencies and receivables management companies that service national and international

creditors will be expected to provide similar services at the same or lower rates in order to retain their existing contracts and compete for new business.

We feel strongly that there will always be opportunities for smaller agencies, especially those that have special expertise in collecting a specific type of paper, servicing debt that is resistant to economies of scale, or serving creditors that are too small to draw the interest of these larger competitors.

You can download my entire presentation "The Future of the Industry" at [www.kaulkin.com/advisory/presentations.cfm](http://www.kaulkin.com/advisory/presentations.cfm). If you would like to discuss your opportunities in today's market, please contact any member of our Strategic Advisory Group. We'd be happy to speak to you.

Sincerely,

Mike Ginsberg  
President & CEO



**What's With All the Mergers and Acquisitions?**

*By Brian Greenberg  
Managing Director,  
Strategic Advisory Group*

This is one of the most dynamic M & A periods the ARM industry has ever seen, with over \$1.1 billion changing hands in the third quarter alone. This activity includes some very well-

respected ARM companies. The owners of Risk Management Alternatives, Collect America, Worldwide Asset Management, and Receivable Management Services are among the hundreds of collection agencies, debt buyers and collection law firms divesting companies. All of this activity might lead one to wonder, "Do they know something I don't?"

*(Continued on next page)*

**What's With All the Mergers and Acquisitions? (Continued)***(Continued from page 1)***Why Are They Selling?**

It's a perfectly appropriate question. What did they know and why did it lead them to a sale decision? While we cannot always share the thoughts of executives at these companies due to confidentiality concerns, we can assess the factors that typically drive a decision to sell so you can compare them to your own circumstances.

Timing is critical to most anything we do. As it relates to selling a business at maximum value, the market and company conditions should be optimal, and in concert with shareholder circumstances. Here's what we know:

**Lenders are lending on attractive terms.**

Lenders are providing capital on more attractive terms than they have in years, enabling buyers to price and structure deals more aggressively which, in turn, makes selling much more appealing for owners.

**Capital Gains taxes and interest rates are still low.**

The Capital Gains tax is still a low 15%. It's just plain cheaper to sell a business now than it may be in a few years. Taxes are a critical element in selling a business, just as they are in operating a business. Similarly, interest rates are relatively low as well, but rising. Many owners will take advantage of these factors to maximize their net proceeds from a sale while the window is still open.

**ARM market is growing and attractive to investors.**

A \$15 billion market, the ARM industry is growing and shows plenty of promise for the future. This, and the fact that many collection agencies are highly profitable, has caught the attention of some very deep pockets.

**Buyers are competing for good companies.**

The market is extremely active and, last year, broke records set during the peak of the mid-late 1990s. Given all of this M & A activity, it has created an even louder buzz among buyers. With more buyers in the market, and therefore more competition to acquire good companies, owners are receiving substantially higher prices and better terms.

**Globalization and off-shoring are driving the interest.**

These trends are driving many strategic acquisitions today. The intent is typically to achieve geographic diversification or expansion, to capitalize on lower labor costs, or to satisfy a current or prospective client. As an example, India-based ICICI OneSource acquired Buffalo-based agency Account Solutions Group in 2004 and we expect that others will soon follow.

**Private equity capital abounds.**

Having made it through years of a difficult lending environment and too few opportunities, private equity firms are eager to invest the \$200 billion that they have at the ready. Many have already invested in the ARM industry and all of these firms are constantly searching for their next investment.

**The US dollar is relatively weak.**

This makes acquisitions or investments in US companies much more attractive to overseas investors, while affording US owners the opportunity to liquidate all or some of their business assets.

**When Should You Sell?**

After you assess the above market factors, consider two more important aspects of timing:

**When your company is performing well.**

This is clearly a big factor in any decision to sell and in the ultimate valuation of the transaction. Discussing the factors that affect valuation is an article unto itself, but I have two simple thoughts to share:

- Sell when things are going great; and,
- Sell when the future is visible and promising.

**When you're ready.**

And then, let's talk about you. Do you want to spend more time with children or grandchildren, or perhaps spend more time on the golf course? Do issues exist in your business that you are not motivated to solve with your own capital? Do you feel like you've taken the business as far as you and your management team can? Do you just need to sell, whether for health, happiness, or other reasons? Sometimes these personal circumstances are all that matters.

Regardless of all of the other factors, when people want or need to sell, they often do. And sometimes the temptation to receive a large payday from the proceeds of a sale is just too great to resist.

We've all heard the notion of trying to "time the market" and, indeed, maximizing value in a sale does relate to timing. With today's lucrative market dynamics, if you're contemplating a sale or divestiture, the timing could be just right for you.

Call Brian at 301.907.0840 x108 or email him at [brian@kaulkin.com](mailto:brian@kaulkin.com) to confidentially discuss your options in today's market.



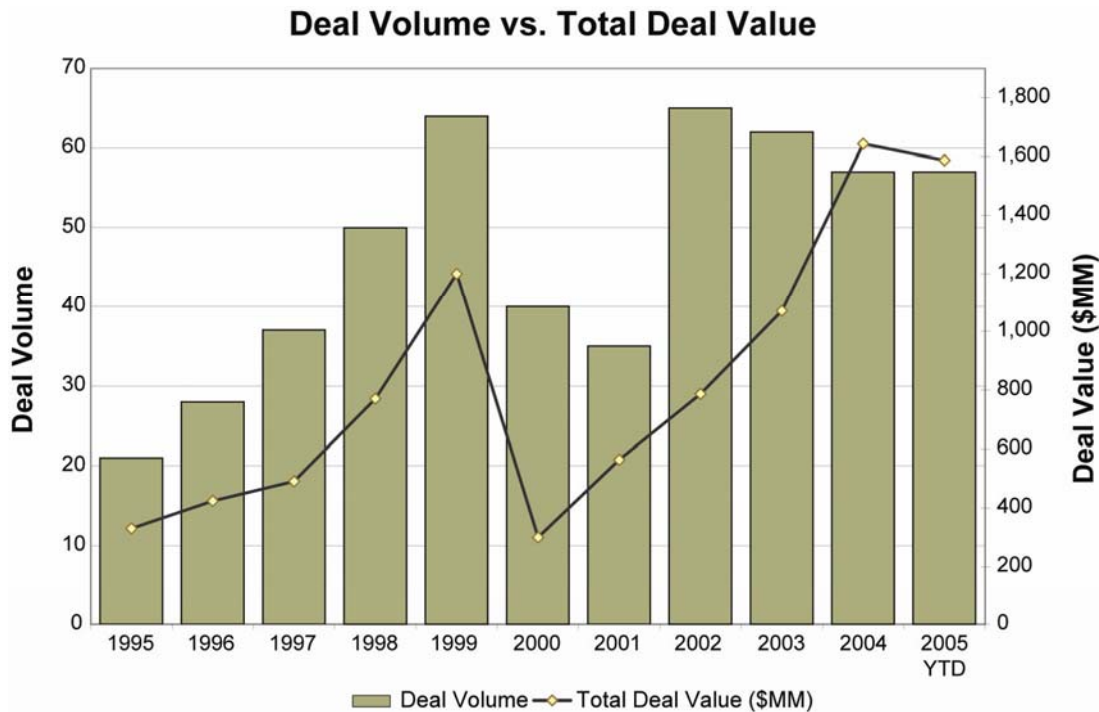
## Accounts Receivable Management (ARM) Q3 2005 M&amp;A And Public Market Wrap Up

**ARM Industry sets new record in 3<sup>rd</sup> quarter**  
**28 Transactions; \$1.14 Billion in Value**  
*2005 is on pace to exceed last year's record-breaking results*

Contrary to the first half of the year, the third quarter exploded with deal activity, ringing up a new quarter and year-to-date record in the ARM industry. Compared to last year's third quarter results, deal volume and deal value increased 47% and 66%, respectively, in 3Q 2005. 2005 results through the third quarter show \$1.58 billion in deal value, only slightly less than last year's record-breaking \$1.64 billion total. According to Mark Russell, Senior Associate with Kaulkin Ginsberg Company, "The ARM market continues to generate strong interest from financial, strategic and industry buyers. Based on our knowledge of pending deal activity, we believe that 2005 has a very strong chance of exceeding last year's results."

This robust level of ARM deal activity is predominantly being driven by the strong growth and return-on-investment

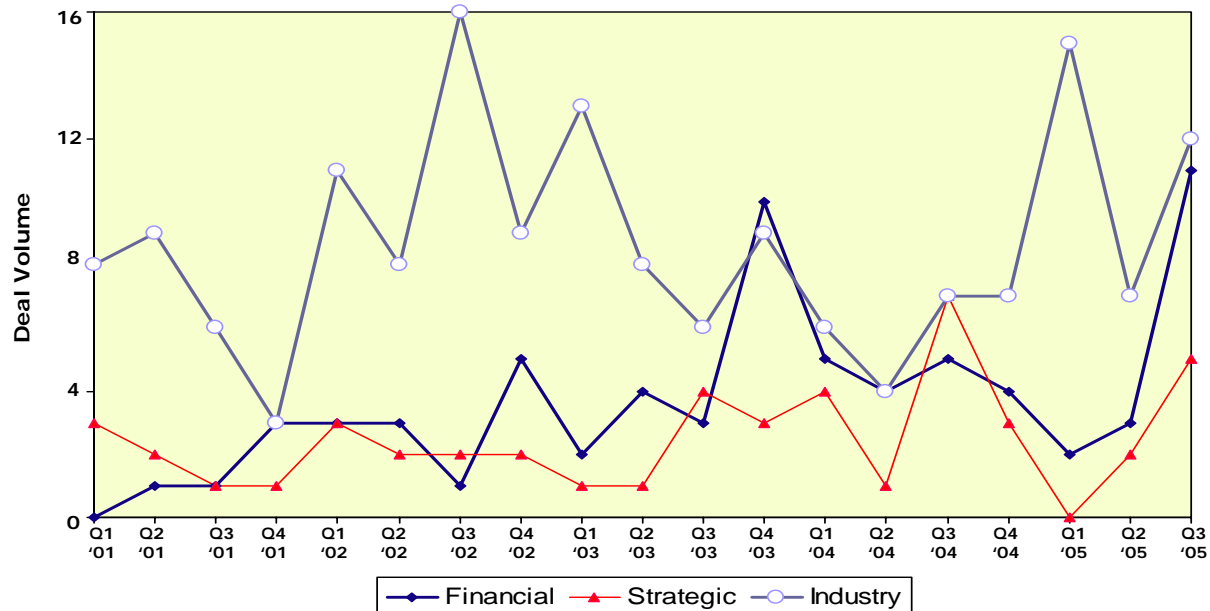
opportunities that buyers are anticipating in the debt collection and debt purchasing industries. "Increased placement volumes from government entities and credit issuers, including the pending IRS contract, combined with the existence of fast growing domestic and international debt purchasing markets, has inspired many investors and buyers to focus their attention on the ARM industry," says Russell. "Once you add access to cheap debt to finance transactions, it is not surprising that the ARM industry continues to generate record-breaking deal value results. If any of these trends start to decline, deal activity will likely decrease as well. Based on our assessment of the lending markets and buyer interests, we expect ARM deal activity to remain strong well into 2006, and possibly beyond."



Note: Data as of 10-04-05. Transactions include all corporate events that involve a sale of equity: mergers and acquisitions, IPO and secondary offerings, joint venture and strategic partnerships, minority investments, etc.

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### ARM Deal Activity by Buyer Type



**Financial Buyers**– investment firms that acquire a portion or all of an ARM company that will serve as their platform into the ARM industry

**Strategic Buyers** – Companies that do not currently provide ARM services and acquire an ARM company to serve as their platform into the industry

**Industry Buyers** – Companies or individuals that are already in the ARM industry and acquire an ARM company

### 3Q M&A HIGHLIGHTS

#### Debt Collection Industry

Deal activity involving companies that provide contingency collection and related ARM services increased significantly in 3Q, with 20 transactions completed totaling roughly \$600 million in deal value. Almost all of these transactions were completed by industry buyers and financially backed management teams. While most of the transactions involved agencies generating less than \$10 million in revenues, 2 of the largest U.S. contingency collection agencies were also acquired in the third quarter: Risk Management Alternatives (RMA) and Receivables Management Services (RMS).

NCO Group (NASDAQ: NCOG) completed the acquisition of Risk Management Alternatives (RMA) in September for \$118.8 million in cash plus the assumption of certain liabilities. RMA, which was among the most active collection agency acquirers in the late 1990's and entered the debt purchase market with its acquisition of Equifax's

US debt collection operation, became one of the top 5 ARM companies in the US. In order to complete this transaction with NCO, RMA filed for and was issued protection under Chapter 11 of the Bankruptcy Code.

Another noteworthy transaction occurred in September when Citigroup's (NYSE:C) Venture Capital International Fund (CVCI) announced the acquisition of RMS, the largest commercial collection and accounts receivable management agency in North America. Terms of this transaction have not been disclosed. In addition to being a strong financial partner, CVCI brings to its portfolio companies significant knowledge and experience in leveraging offshore markets to maximize value.

Additionally, Encore Capital Group (NASDAQ:ECPG) and Portfolio Recovery Associates (NASDAQ:PRAA) acquired receivables management companies that offer complimentary service offerings in attractive niche markets. Encore Capital's \$22 million acquisition of

## Accounts Receivable Management (ARM) Q3 2005 M&amp;A And Public Market Wrap Up (Continued)

Ascension Capital Group helped Encore to expand its capabilities in the bankruptcy services market, and PRA's \$17.5 million purchase of Alatax, Inc. established a market leading platform in the fast growing government services market.

### Debt Purchasing Industry

Generating only 8 transactions, the debt purchasing industry rang up well over \$500 million in deal value in 3Q. Industry and financial buyers led the charge, with Aktiv Kapital (Oslo: AIK.OL) and NCO Group (NASDAQ:NCOG) each completing an acquisition in September, and KRG Capital and a confidential private equity firm each acquiring equity stakes in debt purchasing companies in August.

Aktiv Kapital, one of the largest debt purchasing companies in the world and a recognized leader in the European market, established a foothold in North America through the acquisition of Portfolio Management Group (PMG), a leading Canadian debt purchasing and receivables management company. Terms of this transaction were not disclosed. In addition to being recognized as one of the largest and most established debt buyers in Canada, PMG has a strong and fast-

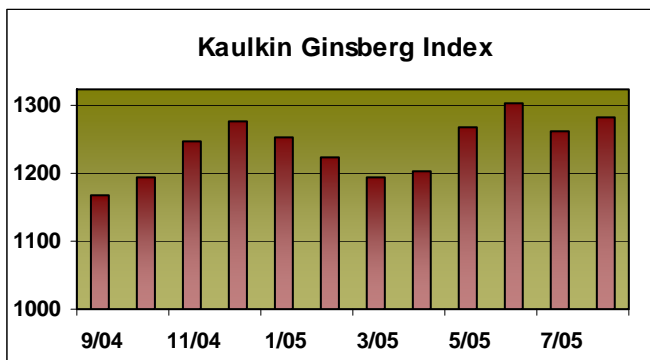
growing contingency collection and near-shore servicing operation that currently supports both Canadian and U.S. based clients.

NCO Group also expanded its debt purchasing focus by acquiring a debt purchasing company specialized in the medical and utility sectors for \$84 million. The name of the company was not disclosed.

KRG Capital, a private equity firm with \$1.5 billion under management, recapitalized Collect America, one of the largest U.S. debt purchasing companies. Terms of the deal were not disclosed. Predominantly focused on the U.S. bankcard/credit card market, Collect America also purchases debt in other niche markets and is well positioned through its relationship with KRG to expand both organically and via acquisitions.

Additionally, an unnamed private equity firm acquired a minority stake in Resurgence Financial, one of the largest debt purchasers in the State of Illinois. Resurgence follows a state-focused growth strategy, and is currently expanding into Wisconsin and California. With its new private equity partner, Resurgence is well-positioned to move forward with its growth strategy, which ultimately will result in the company maintaining a national presence.

### Economic Indicators – The Kaulkin Ginsberg Index

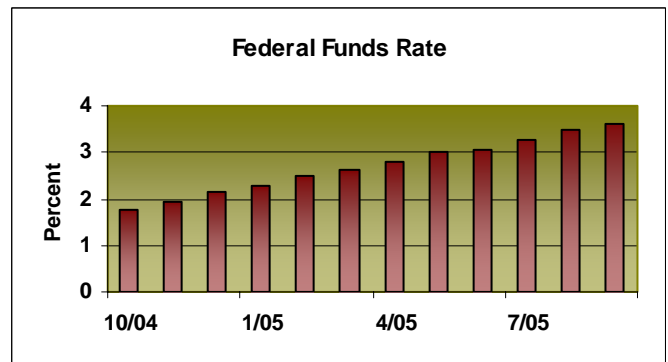


This robust period of M&A activity in the third quarter of 2005 took place against an equally robust economic backdrop for the industry as a whole. As the third quarter of 2005 set a record in deal activity, the Kaulkin Ginsberg Index, the leading indicator of economic conditions affecting the ARM industry, reached an historical high as well. Broad economic factors provided some foundation not only for the transactions that took place, but for business operations in the industry as well.

A closer look at two of the contributing variables to the KGI suggests how and why the Index has performed so well over the past year.

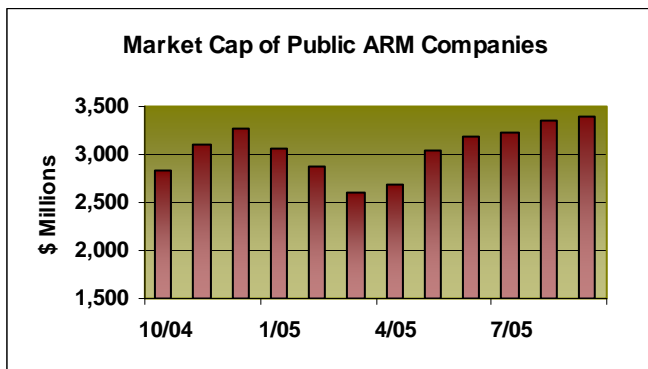
### Federal Funds Rate

The Federal Reserve's Board of Governors steadily increased the federal funds rate into the third quarter of 2005. Higher interest rates, determined in large part by the federal monetary policy, translate into more opportunities for the ARM industry, particularly because adjustable rate obligations increase along with these interest rates. As interest rates increase, contingency collection agencies can expect more account placements and debt buyers can expect to see more portfolios of delinquent debt available for purchase. The Fed's monetary policy over the past 12 months therefore had a positive effect not only on the KGI, but on the ARM industry more broadly.



Accounts Receivable Management (ARM) Q3 2005 M&A And Public Market Wrap Up *(Continued)***Market Capitalization of Public ARM Stocks**

The total market capitalization of publicly traded ARM companies also increased significantly in the third quarter, from \$2.8 billion at the end of June to \$3.4 billion at the end of September. Asset Acceptance (NASDAQ:AACC) and Asta Funding (NASDAQ:ASFI) had particularly good quarters, with their market caps rising 16% and 9% respectively during this period. While the stock performance of these public companies does not mirror the financial performance of the industry as a whole, the total market capitalization of publicly traded ARM companies does reflect the market's broad expectations of the industry's future performance. Recent gains suggest that these expectations are also quite positive.



We welcome you to monitor the monthly progress of the KGI at [www.kaulkin.com/research/kgi.cfm](http://www.kaulkin.com/research/kgi.cfm).

*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 Kaulkin Report. To learn more about the Research Group, please contact our Director of Research, Paul Legrady, at 301.907.0840 ext. 104, or [plegrady@kaulkin.com](mailto:plegrady@kaulkin.com)*

**Looking Forward**

Based on the current market trends and economic indicators, we project M&A and related deal activity in the debt collection and debt purchasing industries to remain highly active for the rest of 2005 and into 2006.

Financial and strategic buyers will focus more attention on international collection agencies and debt purchasing companies that are recognized leaders in markets with strong growth potential. Companies with a focus in continental and Eastern Europe, Asia, and Central/South America, will be of particular interest over the next few years as these markets become more established.

Within the U.S. and Canadian markets, we anticipate an increase in deal activity involving industry buyers, particularly those seeking acquisition targets that will enable them to expand their servicing capabilities and enter attractive niche markets. We also expect to see additional M&A activity among the consolidators including both acquisitions and divestitures. Strategic and financial buyers will also continue to be active and focused on ARM companies that can serve as platforms in industry segments with strong growth potential – government, commercial, and healthcare companies will be particularly attractive over the next twelve months.

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## Agency News and Announcements

By Patrick Lunsford  
Editor, *CollectionIndustry.com*

In an industry often maligned by the mainstream press, we provide an opportunity for you to celebrate the successes and achievements of your agency and your staff. We believe this communication is vital – not just to keep you connected with the rest of the industry, but to connect you with creditors on our site looking for industry resources. Here are some recent accomplishments:

**FMS Inc.**, a privately held national receivables management company, has been accepted into the Oklahoma Quality Jobs Program. The state program provides financial incentives to employers that create "quality" jobs by locating or expanding in Oklahoma.

**Asset Management Outsourcing, Inc.** is expanding its existing call center operations in Phoenix, Milwaukee and Cleveland, TN. A new facility in Tennessee is scheduled to open in December 2005 and will be twice as large as its existing operation with capacity for 200 employees.

**Tate & Kirlin Associates** has been recognized as one of the fastest growing, privately held companies in the ten-county Philadelphia region. Tate & Kirlin Associates is a nationally licensed full service collection agency.

**RecoverCorp Inc.** has been ranked on *PROFIT* magazine's PROFIT HOT 50 – the listing of Canada's top emerging growth companies – for the second consecutive year.

**ACCESS Receivables Management** has been chosen by *Baltimore Smart CEO Magazine* for the second year in a row as one of the regions Top 50 fastest growing companies. Only twenty companies from 2004 made the list in 2005. The company will be honored at an awards ceremony to be held in Baltimore in December.

**ConServe**, a leading provider of accounts receivable management services headquartered in Fairport, NY, is celebrating its 20th anniversary. Founded in September 1985 by President Mark E. Davitt, ConServe has become an industry leader in diverse markets to include higher education, banking and finance, and other markets, with more than 400 clients and nearly 200 employees.

**American Collections Enterprise, Inc (ACEI)** is moving its corporate headquarters to a newly renovated 12,000 square foot call center in Alexandria, Virginia, which will house 60+ collectors.

### Do you have news to share?

Please email your news items and press releases to [editor@collectionindustry.com](mailto:editor@collectionindustry.com) – and be sure to register on [CollectionIndustry.com](http://CollectionIndustry.com) to subscribe – it's free!

## Upcoming Events

For a complete listing of collection industry shows and conferences, please visit the Industry Events section on [CollectionIndustry.com](http://CollectionIndustry.com)™.

### [Collection Advisor Technology Expo](#) November 17-18, 2005 – Las Vegas, NV

We'll be participating in this show and would welcome the chance to meet you.

If you are looking for simple solutions to document storage, remote access to information, or disaster preparedness planning, be sure to visit Mary Bittle Koenick at booth #220

in the exhibit hall to see a demonstration of KIS *Track*, our online document and process management system.

What methods do your colleagues use to select new technologies? On Friday the 18<sup>th</sup> at 2:30pm, Paul Legrady, Director of The Research Group, will sharing his insights based on interviews with industry executives in his presentation "Best Practices in Purchasing Technology."

To schedule a confidential meeting with Paul or Mary Bittle, please email [hq@kaulkin.com](mailto:hq@kaulkin.com).

## About Kaulkin Ginsberg

Since 1989, Kaulkin Ginsberg has provided solutions to accounts receivable management and other business services industries. 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. Kaulkin Media publishes [CollectionIndustry.com](http://CollectionIndustry.com)™ and *Credit & Collection Daily*™, and is the most popular source of industry information.

Kaulkin Information Systems creates secure and affordable document and process management 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.