



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.

Contents

Kaulkin Ginsberg Index Down Due To Rise In Bankruptcy Filings 1

Industry "Convergence" Yielding Impressive Results 2

Expert RoundTable: Technology Purchases 3

Tips For Your Disaster Recovery Plan 3

Upcoming Events & Staff News 4

About Kaulkin Ginsberg 4

Agencies have a proud history of commitment to the communities they serve. Collectors deal with people undergoing financial hardships every single day, and in the wake of Hurricanes Katrina and Rita, many of you came forward immediately, looking for a way to reach out to colleagues and others affected in the region.

To that end, we created a forum on CollectionIndustry.com for sharing information. Agencies affected by the storms can post notices to employees and to the industry at-large; and agencies who wish to hire displaced collection professionals or offer assistance can provide their information.

We thank the companies that have already been so generous to offer jobs and aid to victims of this disaster. If you

have any information to share, please contact us at: editor@collectionindustry.com.

To learn more, please visit our special page for updates: <http://www.collectionindustry.com/katrina/>

It's a start, but we can and *will* do more. Together we can absolutely make a difference for people in dire need of help.

Sincerely,

Mike Ginsberg
President & CEO



Kaulkin Ginsberg Index Down Due To Rise In Bankruptcy Filings

*By Paul Legrady
Director, Research Group*

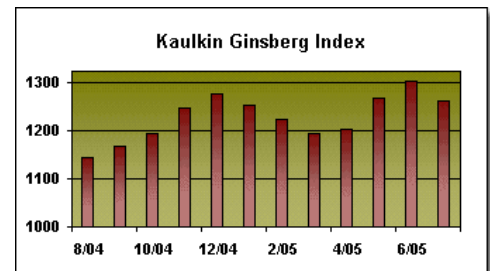
The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, is down 3% from its all-time high of 1263.5. This decline was caused by the dramatic increase in the number of bankruptcy filings, as well as a more moderate drop in charge-off rates.

Despite the KGI's monthly decline, the index remains up 12.7% year over year.

While a record number of bankruptcy filings will place some pressure on ARM companies moving forward, this is not the beginning of a trend. Most of these filings were made in time to beat the October deadline of the new federal

bankruptcy laws, which, as a whole, are friendlier to the ARM industry.

KGI's run-up in the spring of 2005 was caused by upward performance among all seven of KGI's contributing variables. In July 2005, the period for which the most recent economic information is available, the Charge-off Rate and the number of Bankruptcy Filings both placed downward pressure on the Index. *(Continued on next page)*



Kaulkin Ginsberg Index Down Due To Rise In Bankruptcy Filings *(Continued)**(Continued from page 1)*

KGI is a product of Kaulkin Ginsberg's Research Group, which provides industry-specific publications and custom research services to the ARM industry. For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi.cfm or call Paul Legrady, Director of Kaulkin Ginsberg's Research Group, at 301-907-0840 ext. 104.

Variable	July 2005*	Variable Change*	Effect on KGI*
Unemployment Rate	4.9%	3.3%	Up
Federal Funds Rate	3.26%	7.2%	Up
Charge-off Rate	0.49%	-9.3%	Down
Outstanding Consumer Credit	\$2.157T	0.5%	Up
Total Market Cap of ARM Stocks	\$3.3B	1.0%	Up
Bankruptcy Filings	497,333	-43%	Down
Consumer Price Index	195.4	0.5%	Up

* See "How is the KGI Calculated,"

www.kaulkin.com/research/kgi/calculate.cfm

Industry "Convergence" Yielding Impressive Results

By Mike Ginsberg
President & CEO

Over the past decade, Kaulkin Ginsberg has been forecasting and participating in what we've called the convergence of the accounts receivable management (ARM), customer relations management (CRM), and business process outsourcing (BPO) industries. As early as the mid-1990s, we forecasted overlapping growth among these three industries, both through organic initiatives and by acquisitions.

The business case for this convergence is straightforward: companies in all three of these industries are people-intensive, cash flow-oriented and technology-based. For example, a call center built for inbound customer care could utilize its excess capacity for first-party collections. The addition of these services could grow the top line while producing significant cost savings, particularly when companies had operations offshore. We concluded that the risk of broadening corporate expertise in this manner would be much lower than the returns on investment that were likely to follow.

We have advised on a number of transactions that demonstrate this convergence. 2004 was a particularly busy year, with a number of high-profile strategic acquisitions that exemplify this trend.

In August of 2004, West Corp. (NASDAQ:WSTC) acquired Worldwide Asset Management, one of the largest U.S. debt buyers. The following May, Convergys (NASDAQ:CVG) acquired Encore Receivable Management, a collector of both pre- and post-chargeoff debt. Vertex Customer Management, a call center subsidiary of United Kingdom-based United Utilities (NYSE:UU), also acquired First Revenue Assurance in that month.

While it's still too early to predict final results, conversations with company officials and a review of public filings suggest that these transactions are doing quite well.

West has experienced impressive growth in its receivables management operations. Receivables management revenues increased from \$12 million in 2002 to a projected \$208 million in 2005. Between the first six months of 2004 and the first six months of 2005, these revenues also increased dramatically from \$21 million to \$109 million, suggesting that West is on its way to hitting its targets in 2005.

Receivables management is also contributing an increasing share to the top line at Convergys. Revenues within the company's financial services sector, which includes receivables management services, increased from \$131.2 million in 2003 to a \$197.5 million in 2004. Financial services clients in Convergys' Customer Management Group contributed more than half of the group's 88% increase in revenues between the first quarter of 2004 and the first quarter of 2005.

United Utilities' Vertex Customer Management subsidiary has also benefited from the company's substantial growth of the receivables management industry. The company's acquisition of First Revenue Assurance expanded its presence into North America while providing a platform for additional growth. Since the acquisition, receivables management has contributed to Vertex's emergence as the third largest business process outsourcer in the United Kingdom.

These successful acquisitions and integrations of independent ARM companies lead us to conclude that more convergence among the ARM, CRM and BPO industries will take place moving forward. As time goes on, we forecast that elements of receivables management, customer care, and business process outsourcing will become largely indistinguishable, and related activities will not be easily categorized as part of one industry or another, given the parties involved and the overlapping nature of services being provided to creditors.

Expert RoundTable: Technology Purchases

By Patrick Lunsford
Editor, CollectionIndustry.com

Our Expert RoundTable on collection technologies brought together owners and managers of large and mid-sized agencies to discuss how they use technology in their operations. The discussion revealed that to successfully upgrade to new technology, one must focus as much on how the purchase is made as on what actually gets bought. Successful purchases generally follow a five-part process that involves planning, budgeting, executing, implementing, and measuring return on investment (ROI).

Planning

- Let your long-term business strategy define your technology needs: what solution will enable execution of that strategy?
- Choose technology vendors who will be good long-term business partners.
- Understand the timing of technology purchases:
 - Days or weeks: web-based technologies
 - 2 - 4 months: collection technologies that require some infrastructure, such as predictive dialers
 - 1 - 2 Years: enterprise systems & software

Budgeting

- Transaction-oriented technologies such as skiptracing and payment processing tend to be treated as ongoing operational expenses.
- Enterprise systems generally involve capital expenditures and are depreciated over time.
- Technology investments can comprise up to 80 percent of a company's capital expenditure budget and amount to 4 or 5 percent of revenue annually.
- Maintenance on technology amounts to roughly 2 percent of annual revenues.

Executing

- Create investment committees to review and evaluate opportunities.
- Set benchmarks for technology investments, such as only reviewing those that will lead to 5-10 times ROI.
- Integration is critical for higher ROI – new technologies should meld with existing systems.
- Negotiate beyond price: vendors have demonstrated a great deal of flexibility on terms other than price, including service levels and training hours.
- Negotiate for mutual benefit: keep in mind that your vendor will be a long-term partner.

Implementing

- Successful implementation goes beyond installing hardware and software – it requires managing business processes.
- Take the opportunity to reevaluate the business processes that you are currently using.
- Use internal training teams to promote use of the new systems and to promote consistency on the collection floor.

Measuring ROI

Generally, technology purchases are evaluated the same as other investments. Financial metrics include:

- Revenue growth
- EBITDA growth
- Revenue per FTE
- Per-hour collections rate

The complete article also covers negotiating tips and trends in the use of technology in the industry. To read this and other Expert RoundTable discussions, please visit the Industry Leaders section of CollectionIndustry.com at: www.collectionindustry.com/leaders (scroll to bottom of page -- requires free registration).

Tips For Your Disaster Recovery Plan

By Mary Bittle Koenick
Director of Sales

If a fire or a flood destroyed your offices tomorrow, would your agency still be able to function? How quickly could you recover? To plan for such a contingency and to comply with growing regulatory and governance laws, many firms have developed their own disaster recovery plans. FEMA has a free guidebook for helping you build a contingency plan for your organization. It is online at:

<http://www.fema.gov/pdf/library/bizindst.pdf>.

A major requirement for both disaster preparedness and for regulatory compliance is the secure storage of critical data. If essential documents like UB92s, EOBs, tax forms, correspondence, promissory notes, and repayment agreements are permanently destroyed, losses can far exceed the physical damage of your facility.

FEMA recommends that you first determine the essential functions needed for keeping your business running, and then identify the information these functions require. Also consider documents you may need to produce for legal and regulatory compliance. This critical data should be

Tips For Your Disaster Recovery Plan (Continued)

(Continued from page 3)

backed up and stored in a secure, separate location from your offices. FEMA also recommends that you identify how you would retrieve this information if you needed to operate from a backup facility.

Application Service Providers (ASPs) can provide a simple, web-based system for electronically storing and retrieving critical company information. These providers operate on a fee-for-service structure, so you would not need to purchase and maintain new software and hardware. Since data is retrieved online, there would be minimal disruption of access if your facilities became unusable.

A side-benefit of using backup electronic storage of information is that it also goes a long way toward compliance with many corporate governance laws for

document storage. For example, the SEC requires companies to produce records at a moment's notice and to back up documents in an off-site location.

There are important issues to consider when evaluating an ASP solution, however. The vendor should be reputable and established. Their servers must be fast and 24/7 reliable. They must also reside in a highly-secure restricted-access environment, with redundant back-up systems in place.

HubFile™ is our online, document and business process management solution. It is easy to implement and offers a simple, cost-effective solution to disaster recovery, compliance, and other issues. If you would like to know more, please contact me at 301-907-0840 ext 115 or email mbkoenick@kaulkin.com.

Upcoming Events & Staff News

We'll be participating in two shows in October and would welcome the chance to meet you. To schedule a confidential meeting at either of these events, please email hq@kaulkin.com.

[ACA of Texas 2005 Annual Conference & Exposition](#)

October 10-12, 2005 – San Antonio, TX

Organizers have extended invitations for ACA members in adjoining states this year. Mike Ginsberg will be presenting "The Future of the Collection Industry" on Wednesday morning the 12th, and will be available throughout the conference to meet with you.

[The 14th Annual Credit Card Collections Conference](#)

October 16-18, 2005 – Orlando, FL

This conference will provide in-depth coverage and dynamic discussions surrounding the changes technology is bringing to our industry. Patrick Jeanty, Michael Lamm, Brian Greenberg, and Mike Ginsberg will be attending and would be happy to discuss your interests in person.

For a complete listing of collection industry shows and conferences, please visit the Industry Events section on CollectionIndustry.com™.

Staff News

You may hear a new voice on the telephone when you call Kaulkin Ginsberg. We're happy to welcome Mike Bevel as our new administrative assistant.

Congratulations to our office manager, Hope Cantarilho, who gave birth to twins! Cecelia and Sebastian were born on September 14th. Mother and babies are doing fine.

Do you have news to share?

CollectionIndustry.com publishes *Credit & Collection Daily*™ and *Agency News*. Both publications provide a way to share your news with other agencies from all over the country and the world. Send your news items to editor@collectionindustry.com – and be sure to register on CollectionIndustry.com to subscribe – it's free!

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 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.

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.

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