KAULKIN GINSBERG
ADVICE | EXPERTISE | INFORMATION

# THE KAULKIN GINSBERG BULLETIN

OCTOBER 2007

**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.

## Contents



October is a busy month for industry trade shows and I was fortunate to participate in two events this month: the ACA Texas held in San Antonio and SourceMedia's Card Collections conference in Phoenix.

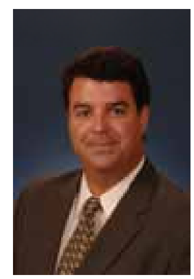
At both events, there was very little traffic in the expo areas and very few credit grantors in attendance. Big surprise. I shared my observations in my blog on insideARM.com and it struck a chord with many readers. One former issuer said he felt like he had a target on his back at these shows. Many readers from agencies voiced their frustration at the expense of participating and the diminishing return on investment. What is your experience? Do you think the conference model needs to change? If so, how? Feel free to weigh in and agree or disagree. I welcome a free exchange of ideas and information – on this and on other subjects.

On another note, I'm happy to announce a new Analyst Group for Kaulkin Media. Our team of industry analysts will cover ARM within specific vertical markets, and Michael Klozotsky, who was instrumental in researching the 7th edition of *The Kaulkin Report*, is our analyst focused on the healthcare industry. In this edition of the *Bulletin*, we include excerpts from his upcoming report on how state regulations are impacting healthcare ARM.

Mergers and acquisitions in our industry are still going strong. We have not yet seen the effects of the recent credit crunch, and there are still plenty of interested buyers and sellers. Read on for analysis from Associate Michael Lamm, and an economic perspective (with a Red Sox twist) from Director Paul Legrady.

Finally, a housekeeping note. Kaulkin Ginsberg is moving to new expanded offices on October 26. Please update your records with our new address:
401 North Washington Street, Suite 450, Rockville, MD 20850.

Mike Ginsberg
President & CEO



## 2007 M&A Activity in the Debt Collection Industry Remains Robust

By Michael Lamm
Associate, Kaulkin Ginsberg

*Year To Date Total Deal Value exceeds $2 Billion - On Pace With Recent Years*

Merger and acquisition activity in the accounts receivable management industry maintained a fast pace through the third quarter of 2007. The total deal value year-to-date is at $2.12 billion, representing 41 completed deals – that's consistent with high levels of deal activity over the last few years.

The recent liquidity crisis in the debt markets has not made any significant impact on deals in the ARM industry. There have been fewer deals this year, but they represent larger transactions, as strategic buyers are competing with financial buyers for smart investments.

Significant deals in the third quarter include the acquisition of AllianceOne – with 2006 revenues of over US $115 million – by Teleperformance, enabling the global BPO firm to gain a foothold in the U.S. ARM market (Kaulkin Ginsberg served as advisor to Teleperformance on the transaction).

Firstsource Solutions, Inc., based in

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## 2007 M&A Activity in the Debt Collection Industry Remains Robust *(Continued)*

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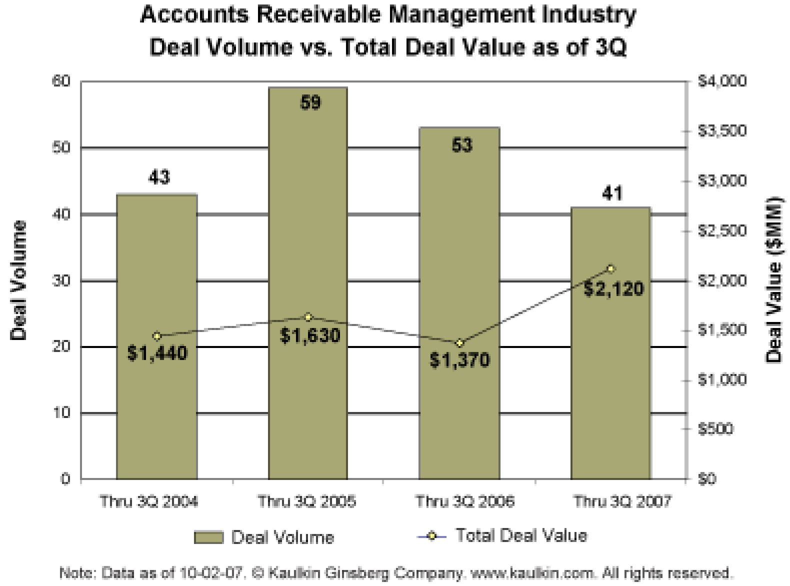


Mumbai, India announced it was acquiring MedAssist Holding, Inc. of Kentucky for US $330 million in late August. The acquisition will provide Firstsource with an entry into the provider segment of the U.S. healthcare ARM industry.

Also in August, Mann Bracken, Eskanos & Adler, and Wolpoff & Abramson merged their non-legal operations to form Axiant. This merger allows the law firms to remain intact, but share centralized core business processes – enabling best practices sharing, scalability, and world class analytics across most of the fifty states (Kaulkin Ginsberg served as advisor to Wolpoff & Abramson in the transaction).

In mid-September, Sherman Financial Corp's management team paid $518.8 million for 37 percent of the equity to Radian Group LLC ($278 million for roughly 21 percent) and MGIC ($240.8 million for about 16 percent). This transaction provided these two shareholders with a partial liquidity event and allowed management to acquire a controlling stake in the company. Management now owns 54 percent of the company, and MGIC and Radian have retained 24.2 percent and 21.8 percent ownership stakes, respectively.

It's too soon to know if the summer's credit crunch and the subsequent half-point in a key lending rate in September will impact M&A, or debtors' ability to pay. However, our knowledge of pending transactions in the market and the number of interested buyers out there suggests that we should continue to experience a robust level of deal activity into 2008.

*Michael Lamm manages M&A transactions and valuations for Kaulkin Ginsberg. Michael can be reached at 301-907-0840 ext. 119 or at* [mlamm@kaulkin.com](mailto:mlamm@kaulkin.com).

## Economic Conditions and the ARM Industry: Baseball in October

By Paul Legrady,
Director, Kaulkin Ginsberg

As a strategic advisor to the accounts receivable management industry, I am struck by the daily news and economic information that impacts our industry. As a baseball enthusiast and fan of the Boston Red Sox, the daily news seems equally frequent, and, of late, equally mixed.

The economy, collections, and the Red Sox – a reasonable analogy? Give me a minute or two, and then you make the call.

The U.S. economy is the largest and most dynamic in the world. We have not had a year of negative economic growth since 1991. In fact, gross domestic product has averaged from $8.1 trillion in 1997 to $13.8 trillion at the end of the second quarter of 2007. Outstanding consumer credit, the raw material of the ARM industry, continues to grow steadily. Americans held $2.5 trillion of consumer credit in the middle of 2007. Since economic growth generally takes place on credit, and since consumers contribute 70 percent to U.S. economic output, the American economy remains the envy of the world.

The Boston Red Sox, at least as I write this article, had the best record in baseball. It has been so since early April. They are among the league leaders in pitching earned run average, fielding percentage, and batting average. Based on these statistics, the Red Sox would seem the envy of Major League Baseball.

Despite its strength, recent U.S. economic growth shows signs of duress, and questions about a forthcoming recession continue. September's biggest economic news was the decision of the Federal Reserve to decrease the federal funds rate, from 5.25 to 4.75 percent. This was the first change in the prime rate since June 2006 and the first decrease in the lending rate since the spring of 2004 (the start of the Red Sox World Series year, I might add). And although the public markets responded enthusiastically to

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## Economic Conditions and the ARM Industry: Baseball in October

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the Fed's decision, the root causes for that decision continue to trouble economists and business owners alike.

Mortgage foreclosures are rising rapidly, adjustable rate mortgages are resetting in record numbers, and, although unemployment remains low, earnings reports from creditors in the third quarter suggest increasing financial strain on the American consumer – the same American consumer that contributes 70 percent of U.S. economic output. A poll of economists by the Wall Street Journal in September suggested a 36 percent probability of recession in the next 12 months – the highest ever in survey's history.

A recession would certainly negatively impact the ARM industry. During this time, placements generally increase as collectability generally decreases. Without question, these trends impact the financial performance of ARM companies. Since companies have more difficulty selling when financial performance wanes, a recession would negatively impact the market for mergers and acquisition in the ARM industry as well.

Despite their strengths, the Red Sox performance during the playoffs was similarly mixed. Poor World Series performance by the Red Sox would certainly have more limited effects than an economic recession. But, given the team's success early in the year and its second-half meltdown last year, a repeat performance could renew references to "The Curse," still popular among Yankee fans.

So, is the glass half empty of half full? October baseball gives us all a chance to answer this question, as does the state of the economy during this period of mixed economic news.

*Paul provides advisory services for Kaulkin Ginsberg. Contact Paul at 301-907-0840 ext. 104, or at plegrady@kaulkin.com.*

## State Healthcare Reform and the Collection Industry

By Michael Klozotsky
Analyst, Kaulkin Media

Several states have recently enacted healthcare legislation that directly affects hospital creditors and the ARM industry.

Bills passed in three states – California, Nevada, and North Dakota – address hospitals' late payment and interest fees, charity care and discount payment policies, property liens, and governance under the federal Fair Debt Collection Practices Act (FDCPA). In almost all cases, new legislation that applies to hospital creditors also regulates collection agencies, debt buyers, and collection law firms, if existing state or federal laws do not already apply.

Of the three bills passed, Nevada AB 247 is perhaps the most invasive. It establishes a strict statute of limitations for collections, prohibits hospitals from assigning fees for contingency collections onto a debtor's account, and prohibits the transfer of a real property lien to a debt buyer following the sale of a healthcare portfolio. This will appreciably reduce inflows of cash to hospitals in the recovery of bad debt. According to the *Las Vegas Sun*, the amendments in AB 247 were driven, at least in part, by some Assembly members' notions that hospitals should be held accountable for "some of the alleged abuses after the debt is sold [*sic*] to a collection agency."

Under federal law, creditors are generally exempt from FDCPA, but states have the authority to require businesses that operate within their jurisdiction to comply with the federal law or – as is the case in many states – enact their own FDCPA legislation. Nevada's AB 247 and other recently enacted laws envelop healthcare creditors under federal FDCPA regulations.

These regulatory changes offer challenges, but also service opportunities for ARM companies. Hospital creditors unfamiliar with the particulars of the federal law may seek consulting services or outsource a greater segment of their delinquent receivables to ARM industry companies, as ARM firms have more wide-ranging FDCPA expertise.

*Excerpted from Michael Klozotsky's Whitepaper, "Curses or Cures: State Regulations, Hospital Creditors, and the ARM Industry," available soon to members of insideARM.com (requires free registration).*

*Michael Klozotsky covers accounts receivable management in the healthcare market for Kaulkin Media's analyst group. Contact Michael at mklozotsky@kaulkin.com or call 301-907-0840 ext. 123.*

## Upcoming Events

Our Calendar of Events is mailed out four times per year to help you plan for the coming months. If you aren't on our mailing list but would like to be, 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 attending these upcoming conferences. If you would like to meet with us in person, please email hq@kaulkin.com to schedule a confidential discussion.

**Collection Advisor TECH'07**
**November 7-9 –Las Vegas, NV**
Mike Binko, President and CEO of Kaulkin Information Systems will be accepting *Collection Advisor's* Top 100 Collection Technology Products award for our flagship application, KIS Track™. He'll also be around during the conference if you're interested in learning more about the technology.

**CAC's Healthcare Receivables Summit**
**November 8 – Burbank, CA**
Director Paul Legrady will be speaking on the state of ARM in the Healthcare market at this one-day program by the California Association of Collectors, designed to cover recent changes in state legislation. He'll also stay for the chapter dinner meeting later that evening to present "The Future of Collections." Paul will be available throughout the day for a confidential discussion.

**ACA Fall Forum**
**November 12-14 – Memphis, TN**
Associate Michael Lamm will be attending this conference and is available to meet you to discuss your interests in confidence.

## About Kaulkin Ginsberg

We've been providing ARM executives, owners, and investors with value-add advice, expertise, and information to make well-informed decisions for 16 years. We offer a full array of strategic advisory services to support you through almost every stage of your company's lifecycle, from strategic analysis, to growth and exit strategies – including M&A. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of industry information such as insideARM.com™ (formerly CollectionIndustry.com) and *The ARM Insider*™. 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.

## New Contact Information for Kaulkin Ginsberg


To support our growing firm, we are moving to new offices.

**Effective October 29, our new mailing address is:**

**401 North Washington Street, Suite 450**
**Rockville, MD 20850**

Main Telephone (unchanged): 301-907-0840
Main Fax (unchanged): 301-907-0808

Please make a note of it, thanks!