



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.

In last month's *Bulletin*, we mentioned the front page cover story on the collection industry published in the *Washington Post*, "As Debt Collectors Multiply, So Do Consumer Complaints" (July 28).

The author interviewed me extensively for the article. I wanted to make sure she had a balanced account of an industry that is often maligned by the mainstream press. Unfortunately, reporters know the angle that will get the most attention, and in this case, it was the CAMCO abuses that took center stage.

I couldn't let that go unchallenged, so I submitted a response to the article that was published as a Letter to the Editor on August 13. To view this response on the Post's web site, please visit www.washingtonpost.com/wp-dyn/content/article/2005/08/12/AR2005081201451.html.

Thanks to many of you who shared your comments with us about the Post article. We received more responses on this story than any previous story, and most were

very well thought out and well written. You can read them online at www.collectionindustry.com/agencyNews/0805/post_responses.cfm, or click on the link to the discussion forum to post your own response.

As the industry continues to mature and grow, it becomes even more critical to be aware of and respond to public sentiment. As we witnessed after the major accounting scandals recently, bad press often translates into additional and sometimes excessive legislation. When we see opportunities to set the record straight about our industry, we'll continue to speak up!

Sincerely,

Mike Ginsberg
President & CEO



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Kaulkin Ginsberg Index Reaches All-Time High

*By Paul Legrady
Director, Research Group*

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, has reached an all-time high of 1303.1.

Since its inception in January 2000, the Index has added more than 30% to its original value for the first time. In the past twelve months alone, the KGI has increased 16.4%.

It has been at least five and a half years since overall economic conditions were friendlier to collection agencies, debt buyers and collections law firms. This suggests that 2005 could be an excellent year for many companies in this industry.

In recent months, one or two of the Index's variables were mainly responsible for the upward movement of the KGI.

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Kaulkin Ginsberg Index Reaches All-Time High (Continued)

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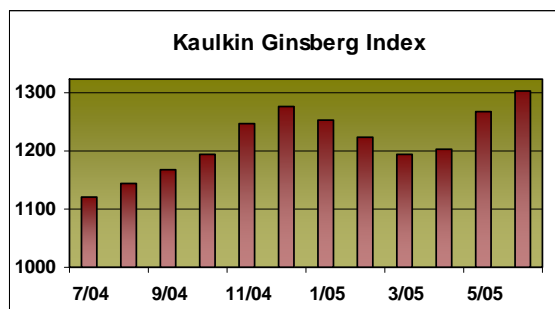
The KGI's most recent increases can be attributed to all seven of its variables. Not one of these variables placed downward pressure on the Index in June 2005, the month for which the most recent economic information is available.

Variable	June 2005 *	Variable Change *	Effect on KGI *
Unemployment Rate	5.0%	3.4%	Up
Federal Funds Rate	3.04%	1.3%	Up
Charge-off Rate	0.54%	0%	None
Outstanding Consumer Credit	\$2.146T	0.9%	Up
Total Market Cap of ARM Stocks	\$3.2B	5.4%	Up
Bankruptcy Filings	401,149	0%	None
Consumer Price Index	194.5	0.1%	Up

*See "How is the KGI Calculated,"
www.kaulkin.com/research/kgi/calculate.cfm

The KGI is a product of Kaulkin Ginsberg's Research Group, which provides industry-specific publications and custom research services to the ARM industry. The Research Group recently published the 6th Edition of *The Kaulkin Report*, the authoritative reference on the ARM industry.

For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi or call Paul Legrady, Director of Kaulkin Ginsberg's Research Group, at 301-907-0840 ext. 104.



What Does The Sale Of A Business Really Mean To A Middle-Market Owner?

By David H. Lavine, CPA
 Director, Strategic Advisory Group

For most middle-market business owners, the potential sale of their company is the most significant business event they will ever encounter. Needless to say, it can be an incredibly stressful process. Of course, there's the emotional aspect of transferring ownership of what is probably a long-term psychological and financial investment. For most business owners, there's also uncertainty about the valuation that their company will achieve. As survivors of the experience can readily attest, proper preparation greatly facilitates the process and reduces the anxiety.

For large public and private transactions (for purposes of this article, values in excess of \$100 million), there are multiple information sources available on completed transactions. For smaller, closely-held private enterprises however, these data sources do not readily exist. As such, prospective middle-market sellers often operate under assumptions that can be harmful. The involvement of a veteran, qualified advisory team can help mitigate these issues and greatly facilitate the process.

When should you sell your business?

A moderately aged owner might wish to "smell the roses," spend time with family, travel, etc. An owner of a more advanced age might be well advised, in the absence of a succession plan (family or otherwise), to make his or her personal estate liquid. Just as likely, there may be a

strategic rationale to sell one's business (market developments, competition, etc). Of course, alternatives also exist to remain involved with a business post-sale and are often highly attractive. The potential reasons to sell are varied, and highly dependent upon the owner's circumstance.

Having an exit strategy allows you to be ready when the time is right. It's an excellent idea to plan for the inevitable transfer of ownership, regardless of how imminent or potentially far off that sale might be.

How can you enhance your company's value?

We have witnessed in multiple client engagements the benefit (and conversely, the detriment) of thorough early preparation for a sale of a closely-held business. Proper planning, and the appropriate actions that such planning dictates, clearly enhance not only the sale-ability of a business but the attractiveness of the transaction price and terms.

Providing for a sound infrastructure (management, technology, account base, etc.) will strengthen the core enterprise's marketability. Engaging a strategic advisor to properly and methodically advise on when to commence a sale process has been demonstrated to greatly enhance the transaction value and the certainty of closing. And also quite important, the ability of an owner to methodically evaluate and consider the potential transaction issues is of

What Does The Sale Of A Business Really Mean To A Middle-Market Owner? (Continued)

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considerable aid in not only maximizing value but reducing the stress of the transfer.

Is a valuation necessary in planning for a sale, or is it just an accounting exercise?

While any CPA salivates at the thought of an accounting "exercise," a valuation provides valuable insight into many aspects of a business operation. When performed in a proper fashion, a meaningful review of the corporate opportunities, risk factors, marketing efforts, competitiveness, management team, and various other strategic and operational components, are all performed and analyzed. When combined with the analysis of the operating results, as well as market conditions, these factors assist the valuator in determining the appropriate capitalization rate to apply to the corporate earnings base. In order to enter the market at the right time, with

the goal of maximizing deal value and terms, this kind of analysis is essential.

These three topics represent a small sample of key areas we often encounter. There are a multitude of additional issues that potential sellers face. The earliest possible consultation with a strategic advisor will ensure that you will fully benefit from your business' value.

David Lavine is the leading valuation expert in the credit and collection industry. He provides business valuation and advisory services to select clients, with 16 years of public accounting practice in syndications, valuations, due diligence and litigation consulting, merger and acquisitions, transactional planning and auditing of middle market entities. For more information about valuation services from Kaulkin Ginsberg, contact us at hq@kaulkin.com.

High Level Of M&A Activity

By Mark Russell

Senior Associate, Strategic Advisory Group

Favorable economic conditions in the ARM industry mean more merger and acquisition activity for collection agencies and debt buyers. Kaulkin Ginsberg has advised on several transactions in the past month that are indicative of this fast-paced activity.

Why is the market hot?

More Debt: We're in a sweet spot of growing consumer, commercial and government debt aligned with high employment and a strong economy.

More Clients: Many credit grantors and debt buyers are outsourcing their collection function so they can focus on their core competencies. In addition, there has been a growth in clients from new markets, such as the fast-growing government sector.

In early August, we announced the acquisition of Alatax, Inc., a privately held company that specializes in government receivables management, by Portfolio Recovery Associates, Inc. (NASDAQ:PRAA) a publicly-traded debt purchasing company. PRA was especially interested in entrée into government collections. Alatax currently serves local government clients in the state of Alabama, Tennessee and Georgia, and the merger will enable expansion beyond these states.

More Services: Agencies are leveraging their collection infrastructures to enhance their performance and profitability, offering additional services like early stage

collections, debt purchasing, and related services like customer relationship management (CRM) and business process outsourcing (BPO).

More Buyers: All of this positive growth has attracted the attention of a wide variety of buyers. Industry players like NCO are looking to acquire companies to increase market share and accelerate growth. This month, NCO and Risk Management Alternatives, Inc. (RMA), a leading agency, announced a definitive agreement whereby NCO will acquire substantially all of the operating assets of RMA including the existing multi-billion dollar debt portfolio for \$118.8 million in cash.

Strategic buyers with related servicing capabilities such as large CRM and BPO companies also see an opportunity to get a piece of the action through acquisition. West Corp, Sallie Mae and Convergys have all made recent acquisitions into the ARM space.

Financial investors are showing increased interest in ARM. Companies like GTCR, Parthenon Capital and Harvest Partners have been active in the recent past. This week, we announced the sale of a minority stake in Resurgence Financial, LLC, a leading purchaser and collector of defaulted credit card accounts in the state of Illinois, to a private equity investor. It is interesting to note that in this case, the value of Resurgence was based on the company performing as a going concern rather than assessed solely on the value of the portfolios under management, and was derived using factors including a fair market multiple of adjusted earnings. We believe this may be a future trend for debt purchasing companies with a sustainable business model and growth plan in place.

Job Growth Anticipated In Collection Industry

As reflected in the Kaulkin Ginsberg Index, US economic conditions are very favorable to the collection industry and they are likely to remain so for some time. The Bureau of Labor Statistics (BLS) reports that the US economy is poised for a sustained recovery period, which will result in a projected increase of 17.3 million jobs from now to 2012. According to the BLS, the collection industry is expected to have a faster than average job growth rate during this period.

All this adds up to the likelihood that you may be hiring soon! To find experienced talent in our industry, recruiters will tell you to "go niche" when posting jobs online.

The Job Exchange on CollectionIndustry.com is the most visited online job board in the credit and collection industry. We've recently made some improvements to the site that will make your search faster and easier. Check it out; it's a resource for you to find the perfect candidate or the perfect next-step in your career!

If you are looking to fill senior-level positions, Kaulkin Ginsberg has partnered with Executive Alliance, the leading recruiting firm in the industry. Deeply connected, they can help speed up your time to hire and give you access to top quality talent. To discuss your strategic hiring needs, contact Michael Lamm at hq@kaulkin.com or 301-907-0840 x119.

Upcoming Events & Staff News

We'll be participating in several industry conferences this fall and would welcome the chance to meet you. Here are two shows coming up next month:

[Collection & Recovery Solutions 2005](#)

September 7-9, 2005 - Las Vegas, NV

This event has been expanded to include more agencies this year. Mike Ginsberg and Brian Greenberg will be moderating the 3rd Annual Executive RoundTable discussion, open to all attending agencies, debt buyers and attorneys. Let us know if you'll be attending. Mary Bittle Koenick will also be available in the expo hall to demonstrate HubFile, our online document management system.

[California Association of Collectors 88th Annual Convention & Expo](#)

September 19-22, 2005 - Indian Wells, CA

Mark Russell will be kicking off the proceedings with the keynote, "The State of the Collection Industry" on Tuesday the 20th. Then on Wednesday, Paul Legrady will be presenting "What's Working in Technology for the Collection Industry." Both Mark and Paul will be on hand throughout the conference to discuss your interests.

To schedule a confidential meeting at either of these events, please email hq@kaulkin.com. For a complete listing of collection industry shows and conferences, please visit the Industry Events section on CollectionIndustry.com™.

Staff News

Congratulations to our COO, Stephanie Eidleman, who gave birth to twins! Samantha and Remy were born on August 8th. Mother and babies are doing fine.

Do you have news to share?

Has your agency received special recognition in your community? Are you expanding your offices? 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. Through our SAGE program (Strategic Analysis, Growth and Exit), 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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