



The Kaulkin Ginsberg *Bulletin* is published quarterly. 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 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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**Government Collections Roundtable ...in a hot market, the experts speak out**

I am pleased to inform you that our latest expert roundtable, a candid discussion among 5 distinguished leaders in the field of government collections, has been posted on [www.CollectionIndustry.com](http://www.CollectionIndustry.com). To access it, please visit: <http://www.collectionindustry.com/leaders/panels/government.cfm> (requires free registration).

Government collections currently ranks as one of the fastest growing segments of the US Accounts Receivable Management (ARM) industry and yet it is also among the least understood. This roundtable is a "must read" for executives who are currently servicing government agencies, expanding into the sector, seeking to purchase government debt, or positioning to land their piece of the highly anticipated IRS contract.

We assembled a panel of government experts including Gary Hopkins, the Director of the Collections Group of the Office of Federal Student Aid in the Department of Education; Kennon Walthall, President & CEO of AlaTax/RDS; Mike Vallandingham, Partner and

National Marketing Director for Linebarger Goggan Blair & Sampson, LLP; David Glezerman, Bursar at Temple University; and Harley Duncan, Executive Director of the Federation of Tax Administrators. Mark Russell and Michael Lamm from our firm moderated this panel. Special thanks to our panelists for sharing their insight with us.

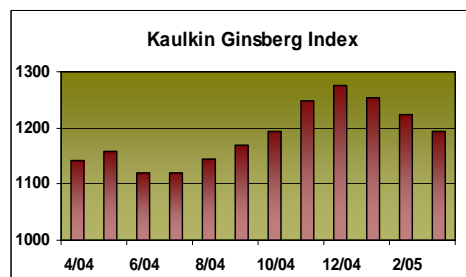
Our roundtable discussions are designed to bring together the most authoritative figures on an important and timely topic for a candid conversation to shed light on the issues and provide valuable insights. Our past expert roundtables covered topics such as near-shore/off shore collection outsourcing, training and debt purchasing. If you have a suggestion for the next roundtable discussion, please let us know by sending an email to [hq@kaulkin.com](mailto:hq@kaulkin.com). Please include your name, company and contact info along with your suggestion.

Sincerely,

Mike Ginsberg  
President & CEO



**Introducing the Kaulkin Ginsberg Index**



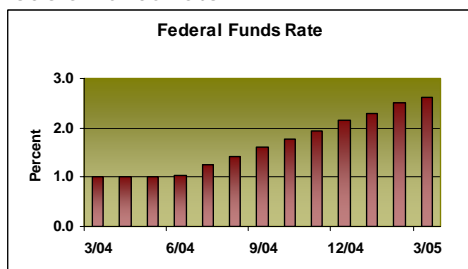
Kaulkin Ginsberg introduced the Kaulkin Ginsberg Index (KGI) this month to owners, managers, investors and observers of the ARM industry. As a composite of the economic trends that most directly impact the industry, the KGI allows its observers to quickly assess how economic conditions are impacting their companies.

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## Introducing the Kaulkin Ginsberg Index (continued from front page)

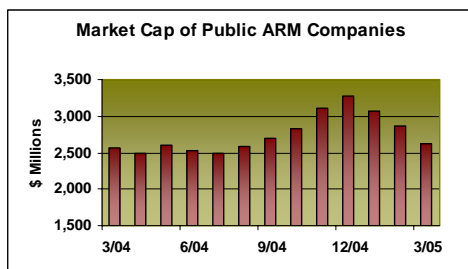
By Paul Legrady

Recent developments with the KGI tell two different stories for the 12 months ending March 2004. The KGI has been decreasing since hitting its peak in December 2004. In March 2005, the KGI declined 2.4% to 1194.1. However, the KGI increased 4.0% since March 2004, when it registered 1147.8. The KGI and its movement over this period are best explained by the seven economic variables that contribute equally to the index.

**Federal Funds Rate**

Higher interest rates translate into more demand for the services of companies in the ARM industry, particularly be-

cause adjustable rate obligations increase with interest rates. As a result, the KGI rises when the federal funds rate increases, as it did during this period from 1.0% to 2.63%.

**Market Capitalization of Public ARM Companies**

Changes in the total market capitalization of publicly traded ARM companies broadly reflect the market's ex-

pectations about the industry's future financial performance. Increases in this figure therefore make the index rise. Since December 2005, this variable has fallen considerably from \$3.3 billion to \$2.6 billion, and the KGI followed in turn. In fact, the recent downward movement of the KGI is attributable mostly to this variable.

**Unemployment**

Improvements in employment levels generally lead to more demand for debt and better ability on the part of debtors to satisfy existing obligations. As a result, the KGI rises when unemployment falls, as it did slightly over the 12 months ending March 2005, from 5.7% to 5.2%.

**Chargeoff Rates**

Commercial banks disclose the charge-off rates for all loans and leases as a percentage of their total debt outstanding. When this charge-off rate increases, creditors have more need for ARM services and the KGI rises as a result. Between March 2004 and March 2005, this charge-off rate declined slightly from 0.7% to 0.5%, causing the KGI to decrease.

**Consumer Credit Outstanding**

Increases in the amount of outstanding consumer credit lead to more opportunities for contingency agencies and more portfolios available for purchase by debt buyers. As a result, increases in the amount of outstanding consumer credit cause the Index to rise, as it did slightly during this period from \$2.04 trillion to \$2.13 trillion.

**Bankruptcy Filings**

Increases in the number of bankruptcy filings present more challenges for ARM companies since fewer people are forced to pay their debts. Slight decreases in the number of bankruptcy filings from 407,572 in 1Q04 to 371,688 in 1Q05 caused the KGI to increase.

**Consumer Price Index**

When products become more expensive, consumers are more likely to assume debt and demand for ARM services increases. Increases in the CPI therefore cause the Index to rise, as it did moderately during this period, increasing from 187.4 to 193.3.

**Upshot for the ARM Industry**

By reflecting all seven of these economic variables, the KGI allows industry owners and managers to keep an eye on the economic conditions that most directly affect their companies. Watch the KGI over time to see how closely it matches your own impression of business conditions.

Monitor the KGI at:

[www.kaulkin.com/research/kgi.cfm](http://www.kaulkin.com/research/kgi.cfm)

*The Kaulkin Ginsberg Index is a product of Kaulkin Ginsberg's Research Group, which provides the ARM industry with custom research services and industry-specific publications, including the newly released edition of the Kaulkin Report. For more information, visit [www.kaulkin.com/research](http://www.kaulkin.com/research) or contact Paul Legrady at 301-907-0840 ext. 104.*

Accounts Receivable Management (ARM) Q1 2005 M&A and Public Market Wrap Up

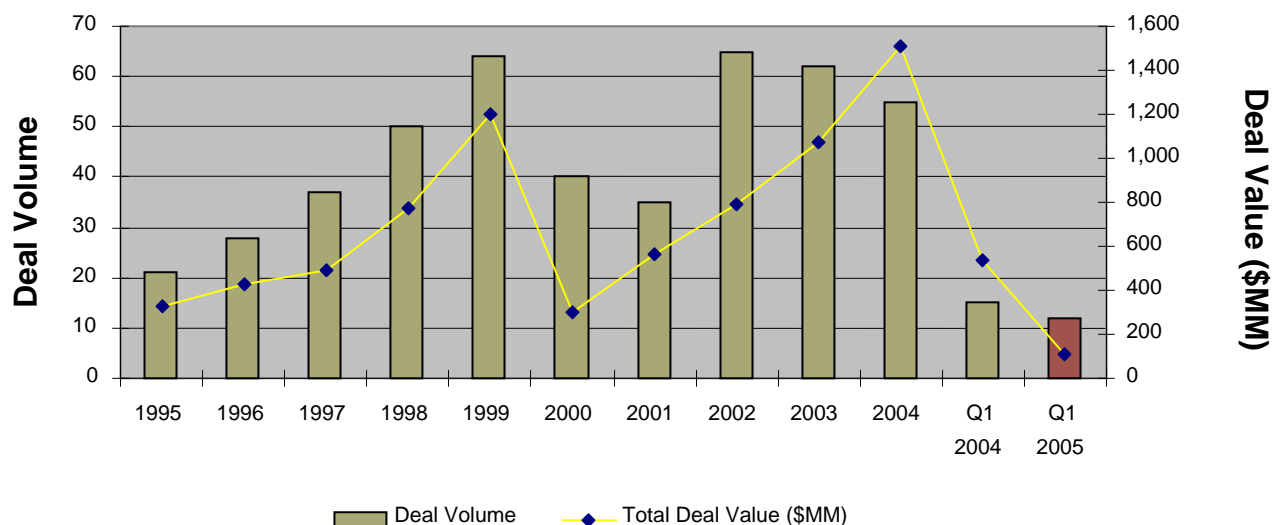
Review of Q1 2005 Results and Trends

- Moderate deal activity compared to Q1 2004
- Share Prices Decline for Most Public ARM Companies
- Debt buyers focused on niche markets continue to generate premium value and buyer interest
- M&A Preferred Exit and Growth Strategy for ARM Companies

in comparison to Q1 2004, which generated \$535 million in deal value in 15 transactions. According to Mark Russell, Senior Associate at Kaulkin Ginsberg, "Deal value and volume fluctuate on a quarter-by-quarter basis even in a hot M&A market. The results of Q1 are not indicative of current deal activity or buyer interest in the ARM industry. Based on what we know is happening in the marketplace, we believe 2005 is going to be another blockbuster M&A year."

M&A activity in the ARM industry got off to a slow start in 2005, with only 12 transactions totaling roughly \$100 million in deal value occurring in Q1. These numbers pale

Deal Volume vs. Total Deal Value



**Note:** Data as of 5-19-05. Transactions incorporate all corporate events that involve a sale or transfer of equity: mergers and acquisitions, IPO's and secondary offerings, joint ventures, and strategic partnerships, minority investments, etc.  
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As predicted back in 2004, the primary area of deal activity this year is the debt-purchasing sector. According to Russell, "The combination of too many players chasing too few portfolios and a hot M&A market is motivating firms of all sizes to consider M&A as part of their business strategy. Add to this the challenges of being a publicly traded company and you have the makings of a very

exciting M&A market." Russell believes that 2005 deal activity will be predominantly comprised of large, privately owned debt purchasing firms seeking alternative exit strategies to going public, and by larger companies like Asta Funding (NASDAQ: ASFI) and Portfolio Recovery Associates (NASDAQ:PRAA) acquiring smaller players niche service offerings and markets.

**Other M&A Trends in 2005**

The government sector is another key area for ARM M&A activity in 2005. The government sector is one of the fastest growing markets in the debt collection industry. According to the annual report by U.S. Department of Treasury's Financial Management Service, private collection agencies under contract with the government collected \$610 million in debts in 2004, 12% more than in 2003.

"With the highly anticipated IRS contract coming out later this year, which is expected to be the largest outsourcing contract in the history of the contingency debt collection industry, and the increasing number of opportunities for collection agencies within the local, state and federal government markets, agencies that are well positioned to receive these contracts will be highly sought after by strategic and financial buyers", says Russell.

There is also a large appetite for companies in every sector of the ARM industry with the following characteristics:

- Strong management teams
- Consistent top and bottom line growth
- Blue chip clients
- Substantial growth opportunities

According to Russell, "Companies with these attributes will always be sought after by financial and strategic buyers seeking to establish a platform in the ARM industry. In 2004, the primary drivers of deal activity were strategic and financial buyers like Sallie Mae, Convergys, West Corporation and Parthenon Capital, all of whom acquired companies with these specific traits. We are seeing similar interest in 2005."

**Also of Interest:** A transcript of our most recent panel discussion on the government sector is available on CollectionIndustry.com at <http://www.collectionindustry.com/leaders/panels/government.cfm> (requires free registration).

**Q1 2005 Noteworthy Transactions****Asta Funding (NASDAQ: ASFI) Acquired Option Card (March)**

Asta Funding's acquisition of Denver-based debt buyer Option Card for \$13.5 million sparked a lot of discussions surrounding the challenges facing large debt purchasing companies. Purchased mainly for its portfolio, this transaction represents an example of how large debt buyers are reacting to the growing challenges of finding attractive portfolios to purchase in today's market. We believe this deal to be indicative of things to come in the debt purchasing industry over the next 12-18 months.

For more details, please visit:

<http://www.collectionindustry.com/item/15534>

**Aktiv Kapital (OBX:AIK.OL) Acquired Treym Consulting and Services (January)**

Aktiv Kapital, one of the largest debt buyers in Europe, who recently brought on a new CEO, Rolf Stub acquired Treym Consulting and Services, a small contingency collection agency in Spain. Aktiv will focus on the expansion of Treym's operations as well as its intention to acquire portfolios of consumer loans in Spain.

For more details, please visit:

<http://www.collectionindustry.com/item/15148>

**Encore Capital Group (NASDAQ:ECPG) Announced Secondary Offering (January)**

Encore announced a public offering of 3,084,574 shares of common stock at a price of \$20.00 per share. Because all of the shares included in this offering are being sold by existing Encore Capital Group, Inc. stockholders, the Company will not receive any of the proceeds of the offering. For more details, please visit:

<http://www.collectionindustry.com/item/15136>

Encore also recently announced a changing of the guard, promoting two executives to the CEO and CFO positions. We are anxious to see how this will improve Encore's financial performance and public market perception.

Please refer to page 5 of the report to review a complete list of announced ARM transactions in Q1 2005.

**Public Market Activity**

U.S. ARM public companies have mostly experienced a decline in share price in 2005, primarily due to concerns over the increased level of competition in the debt purchasing sector, escalating portfolio prices, executive turnover and revenue recognition issues. However, companies that specialize in niche markets (e.g., First City Financial) are still gaining a lot of attention, and demand, from the public markets.

The chart to the right shows the changes in share price for the publicly traded ARM companies in 2005 year-to-date\*.

Public Company	Stock Symbol	% Price Increase/Decrease YTD 2005
First City Financial	FCFC	27%
Asset Acceptance	AACC	8%
Asta Funding	ASFI	(1%)
Portfolio Recovery Associates	PRAA	(5%)
NCO Group	NCOG	(23%)
Encore Capital Group	ECPG	(35%)

\*These figures are as of 5/27/2005.

**Announced ARM Transactions (Q1 2005)<sup>(1)</sup>**

Month	Buyer	Industry	Seller	Industry
January	Equiant Financial Services, Subsidiary of EMCC	Receivables Management	Sage Systems	Receivables Management
January	LMHH Partners	Receivables Management	Veritech Financial Services	Receivables Management
January	Aktiv Kapital (OSLO: AIK.OL)	Debt Purchaser	Treym Consulting and Services	Receivables Management
January	Public Market	N/A	Encore Capital Group (NASDAQ: ECPG) (2)	Debt Purchaser
February	Asta Funding (NASDAQ: ASFI)	Debt Purchaser	Option Card, LLC	Debt Purchaser
February	Credit Bureau of York	Receivables Management	Credit Plus Group	Receivables Management
March	Carma Financial Services (TSX: CFS)	Receivables Management	Synergex Group	CRM/BPO
March	Hall & Associates, P.C.	Debt Collection Law Firm	Cabrera & Associates, P.C.	Debt Collection Law Firm

- (1) Accounts Receivable Management (ARM) incorporates all companies that provide debt collection, debt purchasing, billing, credit reporting, skip tracing, and related services that supports these various industries. In addition, there were 4 unannounced transactions in Q1 2005.
- (2) Encore Capital Group (NASDAQ: ECPG) announced a secondary offering.

**Predictions for the Rest of 2005**

Despite the moderate deal activity in Q1 2005, we anticipate 2005 to be another active M&A year. Interest will continue in both the U.S. and international markets, particularly involving large, well-managed debt purchasing and collection agencies that show consistent revenue and profit growth. With regard to contingency debt collection agencies, we expect continued interest in companies that focus on growing markets like government, student loans and healthcare.

Large strategic buyers that offer an offshore solution and financial buyers seeking platform companies will continue to drive M&A activity.

If you have any questions about the information presented in this report or wish to discuss your M&A interests, please contact Mark Russell at 301-907-0840 ext. 120, or by email at [mark@kaulkin.com](mailto:mark@kaulkin.com).

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## Avoid Getting Bitten by ASPs

By Mary Bittle Koenick

### Benefits of ASPs

Application Services, sometimes referred to as “software-as-a-service” (SAAS) or “on-demand” services, offer many critical advantages to purchasing software off the shelf. With an Application Service Provider (ASP), you access the software through an Internet connection and pay a service fee. Since the service provider houses the software, it’s not necessary to divert internal resources; the entire process of system upgrades, testing and implementation happens without your having to worry about it. Another major advantage to ASPs is that your capacity is immediately expandable. If you need to increase your storage space or call volume, it can be done quickly, without the need to purchase additional hardware. In fact, in most cases the use of an ASP alleviates the need to purchase any new hardware at all.

The ASP may also be able to provide solutions or tools that you may not have been aware of. The use of an ASP is like reaping the benefits of being in a user group. The product you are paying for is the result of your vendor’s extensive experience in solving similar problems for other clients.

### What to consider

Conducting your customary due diligence in vetting potential vendors is as important in selecting an ASP as it is with any other service provider. Basic issues to address include:

#### Vendor fit

- Does the tool provide the solutions you need? How customizable is the system?
- What is covered in the service level agreement?

- Do you have a good culture fit with the vendor? Will you be able to work together?

#### Customer support

- What is the typical response time to technical issues?
- What are the hours of operation for the help desk/technical support? Is there an emergency after-hours contact available?
- What training is available for the new system?

#### Data security

- Who has access to the servers and what is their level of security clearance?
- What security systems do they have in place?
- How is the data backed up? How often and where is this backup data stored?

#### Physical plant

- How secure is the physical environment where the servers reside?
- What primary and redundant systems do they have for electricity, Internet connectivity, and the servers themselves?
- What is their disaster recovery plan?

The pressure on profit margins within the industry is driving the adoption of technology, and collection technologies are rapidly moving toward ASP models. Services currently available through ASPs include collection software, payment processing, voice broadcasting, predictive dialers and document imaging & retrieval.

If you’d like more information on the ASP technologies we offer through Kaulkin Partners, please give me a call at 301-907-0840 ext. 115.

## Upcoming Events & Staff News

We’ll be at the ACA International’s 66th Annual Convention & Expo, July 20-23 in Washington, D.C. and would welcome the chance to meet you. To schedule a confidential meeting, please email [hq@kaulkin.com](mailto:hq@kaulkin.com). The convention is just down the street from our offices, so if you want insider’s tips on things to do and great places to eat in Washington, be sure to drop by our pavilion booth, #807.

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

### Staff News

There must be something in the water at Kaulkin Ginsberg, as two of our staffers are pregnant – and they’re both

expecting twins! Congratulations to Hope Cantarilho and Stephanie Eidelman.

We are also pleased to welcome Dustin Kim to our Advisory team as a new analyst. Dustin joins us after completing his degree from Babson College.

### Do you have news to share?

Has your agency received special recognition in your community? Are you expanding your offices? [CollectionIndustry.com](http://CollectionIndustry.com) publishes Credit & Collection Daily™ and Agency News, providing information from agencies all over the country and the world. Send your news items to [editor@collectionindustry.com](mailto:editor@collectionindustry.com) -- and be sure to register on [CollectionIndustry.com](http://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 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](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) and we will respond promptly.