



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](mailto:hq@kaulkin.com).

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It was wonderful to meet so many old friends and new colleagues at the Debt Connection Symposium earlier this month in New York. Through numerous conversations and the many presentations at the conference, one theme kept emerging: the more things change, the more they stay the same.

Changes in the creditor markets have always had a trickle-down effect on our industry, and it looks like we're in another phase of change. In this issue of the *Bulletin*, we take a look at how some agencies are anticipating the impact of Bank of America's acquisition of LaSalle Bank Corp. In addition, Patrick Lunsford looks at the wave of executive changes that have happened recently among major debt buyers.

If you are anticipating a change of ownership of your agency, Michael Lamm shares some information on how to

manage client introductions during the due diligence process. Finally, if you are anticipating a change in your executive staff, our recruitment partner, Executive Alliance, offers tips for improving the hiring process in the current candidate-driven hiring market.

At least one thing will always remain the same. Our advisory team is available to discuss how current market changes might affect your business, and how we can help you succeed in your business goals. We look forward to speaking with you.

Mike Ginsberg  
President & CEO



**Collectors Keep an Eye on Bank Mergers**

By Elizabeth Carvlin  
Reporter, [insideARM.com](http://insideARM.com)

Though cooling from their frenzied peak of 10 years ago, bank mergers such as Bank of America Corp.'s plan to buy LaSalle Bank Corp. for \$21 billion have become a matter of routine, forcing the collections agencies that serve them to take mergers into account as a cost of doing business.

Bank of America announced it would buy LaSalle's parent, ABN AMRO North America Holding Co. in April. The deal has yet to close – as several European banks fight over the ultimate parent, Dutch bank ABN AMRO – but BofA has said it plans to close on the LaSalle deal

by the end of the year. BofA wants to boost its presence in Chicago, the third-largest banking market in the country.

A BofA spokesperson declined to comment on how it would deal with the collection of the bank's charged-off credit card accounts. Observers say it's too soon to know how Bank of America will treat its collections business, but collections professionals note that they've been through this before and have learned that they must prepare.

"Knowledge and experience is the only thing that makes you plan for it," said Tom Hyberger, Director of Operations

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Collectors Keep an Eye on Bank Mergers *(Continued)**(Continued from page 1)*

for Credit Bureau USA in Hammond, Indiana.

The winds of a bank merger are more likely to buffet a smaller agency, simply because agencies with a national presence are more likely to have stable, larger banks as clients, said Chris Cleusen, Vice President of Financial Services for I.C. Systems, a collector that works with the top 10 lenders in the country.

Still, mergers have added to the pricing pressure for larger vendors as well. Banks use the larger volume they have after an acquisition as leverage to win pricing concessions from their vendors, noted Cleusen. I.C. Systems takes that into account in its ongoing strategy to maintain its business and be efficient and competitive, he said.

“The business might be there to be worked, but worked under terms of the new entity,” Cleusen said, adding that for a company as large as I.C. Systems, the bright side is that mergers can mean new business.

At completion of the BofA/LaSalle merger, the combined banks will have a substantial amount of collections business. BofA’s card receivables totaled \$167.5 billion at the end of the second quarter. Its managed credit card charge-off rate was 4.88 percent in June, up from 3.39 percent for the same period in 2006. Thirty-day delinquencies came in at \$8.6 billion, while 90-day delinquencies were \$4.3 billion. LaSalle Bank Corp. had assets of \$118.3 billion. It did not return calls seeking comment on the bank’s credit card receivables.

Banks typically have an internal collection unit, along with several third-party agencies at various levels of collections (primes, mid-primes, seconds, etc.), and a process to sell accounts. When a merger occurs, the acquiring bank may decide it can work with fewer vendors or eliminate the

acquired bank’s vendors. In addition, most banks have stringent standards that could exclude some vendors from doing business with them, said Dennis Hammond, president of the Debt Marketplace, Inc.

Banks that merge must also decide whether to convert the newly-acquired data from one collection system to another, place the debt with a third party, or to sell it, noted Hammond, adding, “[the bank’s] cost could outstrip any return it might get on any downstream collection efforts.”

Hyberger noted that bank consolidation has been playing out in both small and large markets for the last decade, adding, “We’ve seen this before.”

For example, Credit Bureau lost a bank client in 2006 when it was purchased by another bank and the new entity decided to conduct its collections work in house, Hyberger said.

Credit Bureau had to push to find new customers to make up for the lost business. “You put the pressure on your sales department to find a new outlet and bring in a new revenue stream,” Hyberger said.

BofA will be making these decisions slowly, as it did when it closed on the purchase of MBNA Corp. for \$34.2 billion in 2006. That acquisition left BofA as the largest credit card issuer in the United States as measured by balances, the company reported at the time. “It’s not going to be an overnight thing,” Hammond said, adding that such decisions can take between 12 and 18 months.

*Elizabeth Carvlin is a freelance business reporter based in the Midwest. She can be reached at [editor@insidearm.com](mailto:editor@insidearm.com).*

## Success Factors in a Company Sale: Managing Client Introductions During Due Diligence

By Michael Lamm,  
Associate, Kaulkin Ginsberg

Put yourself in the shoes of a buyer – you are about to purchase a collection agency that has performance-based contingency contracts that are cancellable within 30 days.

Wouldn’t you want to talk to the key clients before you purchase the agency?

Buyers will typically require discussions or meetings with all clients whom they deem to be significant (20% or more in revenues, or multiple at this level) before consummating a transaction. They do this in order to understand the following:

- Clients’ perspective on seller’s performance
- Client-level management changes on the horizon

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Success Factors in a Company Sale: Managing Client Introductions During Due Diligence (*Continued*)*(Continued from page 2)*

- Contingency fee rate changes
- Expectations of future placement volumes
- Pending or future operational requirements to maintain client business (SAS 70, near-shore/off-shore capability, etc.)
- Opportunities for new business or service offerings

Don't be alarmed by this requirement. Meetings with clients typically occur as one of – if not the – last items of the due diligence process. Due diligence begins after the buyer and seller have executed a non-binding letter of intent, which details the purchase price and terms of a transaction, and ends at a closing when a definitive purchase agreement is executed and funds change hands. In other words, the seller should already know that the buyer is satisfied with the results of the rest of due diligence before making client introductions. An experienced advisor will push for this clarification up front and strive to minimize business risk.

It is also fairly common in the letter of intent for a buyer and seller to agree to the timeline and protocol for the client discussions. This enables the seller to have some control over that part of the process and helps to limit the liability of such discussions taking place in the event that a transaction does not occur.

### **Scripting client interaction is critical**

Toward the end of the due diligence process, the buyer and seller should determine which clients to approach, what information the buyer needs to obtain from each client, and what message they wish to convey to the clients regarding their relationship going forward. Once this is understood, the next step is to agree upon the script and agenda for each client discussion, and who will deliver the message.

In many instances, agency owners and their sales people have both personal and working relationships with their key client representatives that span years, and the fact that they are selling may come as a shock to the clients. This is why many owners prefer to introduce their clients to buyers face-to-face as opposed to over the phone. Instead of saying the agency is being sold, sometimes an owner will characterize the acquirer as a financial partner who is going to help facilitate the growth of the agency, or they will describe the pending transaction as a merger which is

going to increase its services and overall capability. This will typically alleviate any concerns the client may have with regard to the seller's commitment to servicing them going forward.

The buyer may require that the seller not participate in the client discussions. This is not unusual, but does necessitate that both the seller and buyer are in complete agreement about the agenda for each client discussion.

### **Client interaction can be the catalyst to close a deal**

We advised on a recent transaction where, toward the tail end of due diligence, the selling agency's CEO was planning to accompany the executives from the buyer to meet certain key clients and describe the merger of the two entities. In this particular deal, getting the key client meetings scheduled was a logistical nightmare, as clients were located across the U.S. and it was difficult to accommodate vacation schedules. The seller was concerned that this would delay the closing, so we made sure all outstanding issues were addressed quickly, in advance of the meetings, and used the extra time to develop well-planned agendas. When the meetings finally took place with the key clients, they viewed the merger as a huge positive, as the combined company would be able to offer additional services beyond collections. The positive momentum from the client meetings was a spark both sides needed to move the deal quickly to a successful closing.

### **Confirm all “deal breaker” issues are resolved before client interaction**

Once the client discussions take place, you have essentially let the cat out of the bag. Therefore, it is critical to have a line of sight to the execution of the definitive purchase agreement and funding of the transaction. If there are still “deal breaker” issues in front of you, consider pushing back client interaction until everything has been fully addressed, so that a deal will be consummated by the date originally set forth in the letter of intent.

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## Debt Purchasers Shake Up Top-Level Personnel for Growth

By Patrick Lunsford  
Editor, insideARM.com

Over the course of only eight days in July, four major debt purchasers/collectors announced senior executive management changes.

It all started when Asset Acceptance Capital Corp. (NASDAQ: AACC) announced on July 23 that they were creating a chief operations officer position and filling it with Rion Needs. Needs, a 22-year veteran of financial services giant American Express, was brought in to “maximize operational efficiencies,” according to a press release issued by the company. Needs himself commented that he was encouraged by “opportunities for growth” at Asset Acceptance.

Just two days later, fellow publicly-traded debt buyer Portfolio Recovery Associates (NASDAQ: PRAA) said that it had also created a new position and staffed it with an investment banking professional. Kent McCammon was tapped to fill the new role of senior vice president, strategy and business development. PRA was fairly upfront regarding McCammon’s new role: he is charged with developing “a strategic approach to growth, including merger and acquisition activity.”

The following week, on July 30, OSI announced that debt purchasing veteran Stacey Schacter had been named as the new president of portfolio operations at OSI Portfolio Services, the ARM giant’s debt purchasing arm. Also referencing corporate growth, OSI CEO Kevin Keleghan said in the announcement that the move was coming at a “significant time of growth for the company.” Schacter later told insideARM.com that OSI was indeed looking to grow its Portfolio Services unit and that big purchases were in the firm’s immediate future.

On the last day of July, venerable debt purchasing mainstay Collins Financial Services announced it was appointing Robert DiGennaro as the new CEO. Collins’ founder and former CEO Walt Collins will remain as chairman. DiGennaro is also a product of big-name financial services, most recently GE Money and GE Card Services, and previously with HSBC and Citibank units. Once again, growth was cited in the official announcement on the hiring.

Were all of these moves – and their timing – coincidental? Maybe not, according to Schacter.

In an interview with insideARM.com in late August, Schacter specifically referenced some of the other moves in discussing his own. “There is a lot of change in the industry right now,” said Schacter.

But more than that, he provided some insight as to where stakeholders’ heads may be. “I think you may see some consolidation in the industry as the credit environment becomes challenging on the collection side,” Schacter commented.

It certainly seems that he may be on to something. After all, PRA did hire someone to oversee “merger and acquisition activity,” among other things. It’s the very beginning of a very complicated consumer credit environment, and at the very least, it seems that some debt purchasing industry leaders are keeping their options open and beefing up talent.

*Patrick manages all content for insideARM.com. Contact him with your news and comments at [editor@insidearm.com](mailto:editor@insidearm.com), or call 301-907-0840 ext. 113.*



## Four Tips for Successful Recruiting in a Candidate-Driven Market

By Karyn Zweback  
Account Executive, Executive Alliance

It is a candidate-driven market today, where competition is high and there are more positions available than there are candidates to fill them. In this environment, being prepared for the hiring process is critical. Outlined below is some important information to help you succeed in selecting the best and brightest talent for your company.

### 1) Let the candidate talk

Recruiters advise that the candidate should do 80 percent of the talking in an interview. A fatal error is having the interviewer carry too much of the conversation. An

experienced interviewer is comfortable with moments of silence and actually allows a candidate to elaborate on their answers. This provides the interviewer the opportunity to learn more about the candidate.

### 2) Be organized and ready to act

In our experience, one major reason a company loses out on a great candidate is a disorganized interviewing and offer-making process. Before placing an ad, using a recruiting firm, or hiring through an internal referral, companies should clearly define who will be involved in

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Four Tips for Successful Recruiting in a Candidate Driven Market *(Continued)**(Continued from page 4)*

the interviewing process, what skill sets they are looking to identify, how the decision to hire will be reached, and finally, what approvals will be needed to extend an offer. If your competition has a streamlined, clearly-defined interviewing and offer process and yours lacks this efficiency, you might see your new star employee land with the competition.

### 3) Know what candidates are looking for in a new company

In a competitive hiring environment, candidates may be fielding multiple offers. How your company is presented during an interview might be the determining factor in landing the candidate over your competition. Here are some criteria candidates weigh before making a decision:

- 1) Financial stability of your company
- 2) Geographical location
- 3) Working environment
- 4) Challenge
- 5) Reputation of the company
- 6) Chemistry of co-workers
- 7) Opportunity to learn & grow
- 8) Flexibility
- 9) Recognition
- 10) Excitement
- 11) Technology
- 12) Status
- 13) Work-Life balance

### 4) Have counter-offer counter measures in place

The competition for a coveted candidate might not just be coming from another new employer. It might be coming from their current place of employment. Companies do not want to part with a skilled employee and a valuable resource. During your interviewing process, find out what is motivating the candidate to consider making a move to greener pastures. It is important to listen to the candidates concerns about his current place of employment. This information will be critical in presenting your company and position as “the right position” for your potential new employee, and will be helpful in taking the appropriate counter measures if a counter-offer is made.

A company’s employees are its most valuable resource. The inability to hire superior candidates can hinder a company’s ability to grow and maintain performance. These shortcomings become even more glaring in a candidate-driven market. Any steps you can take to improve your hiring process will give you the competitive advantage you need in today’s marketplace.

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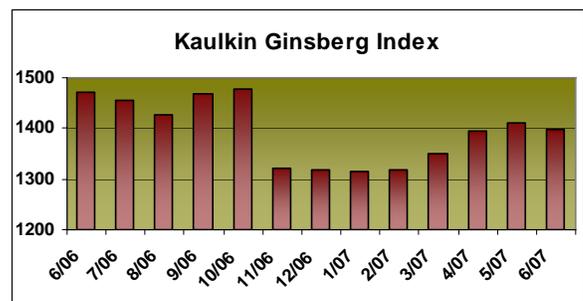
## Market Cap of ARM Companies Increases 14 Percent in 2Q 2007

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management industry (ARM), has increased 3.7 percent to 1399.3 during the second quarter of 2007. The Index’s steady increases in the first half of 2007 point toward greater opportunity for receivables management companies later in the year.

The KGI’s most notable change in the second quarter was the 14 percent increase in total Market Cap of the five ARM stocks included in the KGI. Generally speaking, positive gains in ARM companies’ stocks signal upbeat expectations for future financial performance across the industry.

The Market Cap data for ARM stocks in the second quarter of 2007 reflect higher revenue for four of the five ARM companies assessed by the KGI over results from the same quarter in the prior year. Second quarter 2007 cash collections were also up (as much as 20 percent) for all five companies over the same period in 2006, and are expected to remain strong following several large purchases of distressed debt portfolios by these firms

earlier in 2007. In contrast to these positive indicators, however, the rate of revenue growth remains sluggish for many ARM companies due to continually elevated prices for bad debt portfolios. Even in light of cooling stock prices for these five ARM companies early in the third quarter, rising consumer prices should drive consumer borrowing and continue to increase charge-off rates, both of which increase demand for ARM industry services.



*For more information about the KGI, see [www.kaulkin.com/research/kgi](http://www.kaulkin.com/research/kgi) or call Michael Klotzsky at 301-907-0840 ext. 123.*

## Upcoming Events

Our Calendar of Events for the Fourth Quarter is in the mail! We print and mail our calendar 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](http://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](mailto:hq@kaulkin.com) to schedule a confidential discussion.

### **Texas ACA Annual Convention**

**October 9-11 – San Antonio, TX**

Mike Ginsberg will be presenting the Wednesday morning keynote address, "An Insider's View of the Industry." He'll also be around during the conference to meet you.

### **16th Annual Card Collections Conference**

**October 14-16 – Phoenix, AZ**

Mike Ginsberg will be hosting the keynote panel discussion: "Hot Topics in Collections: Issuer & Agency Executive Roundtable" on Monday morning. He will also be at the helm of a panel discussion on "How M&A is Reshaping Accounts Receivable Management" on Tuesday morning. If you're interested in how M&A may impact *your* business, Mike will be available throughout the conference for a confidential discussion.

### **Medical-Dental-Hospital Business Associates 2007 Annual Meeting**

**October 17-19 – Colorado Springs, CO**

Director Paul Legrady will be speaking on "Trends in Healthcare Receivables Management," and he will also be available throughout the conference for further discussions.

## About Kaulkin Ginsberg

We've been providing ARM executives 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](http://insideARM.com)<sup>TM</sup> and *The*

*ARM Insider*<sup>TM</sup>. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies ([www.kistrack.com](http://www.kistrack.com)). 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.