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Attorneys at Law

Get the Law Firm Advantage to Debt Recovery

CREDITOR, COLLECTION & BUSINESS NEWS

Winter 2009

Inside this issue:

Wave of Bad Debt Swamps Companies

The U.S. is entering a period likely to feature the most corporate-debt defaults, by dollar amount, in history. By various estimates, U.S. companies are poised to default on $450 billion to $500 billion of corporate bonds and bank loans over the next two years.

In percentage terms, the projections from the three main credit-rating agencies for defaults on high-yield bonds approach levels last seen in 1933, according to an 87-year default-rate history compiled by Moody's Investors Service. The agencies expect default rates on these non-investment-grade bonds to triple to about 14% or higher this year, from around 4.5% last year.

The coming default wave is another source of trouble for the global financial system, which already is grappling with hundreds of billions of dollars in defaulted mortgages, credit-card debt, student loans and other consumer debt. Corporate defaults threaten to hurt banks, pension funds and private-equity funds, which in recent years gobbled up high-yield corporate debt and pieces of bank loans.

The defaults will likely be spread across many industries. At the moment, debt-rating agencies are singling out media, entertainment, casino and hotel companies, car makers and retailers as the most distressed sectors. Standard & Poor's Corp. estimates that nearly 90% of 263 rated media and entertainment companies -- a group that also includes hotels and casinos -- are at risk for default, based on their speculative-grade credit ratings.

S&P estimates high-yield-bond default rates will hit 13.9% this year, but could go as high as 18.5% if the downturn is worse than expected. Moody's predicts a default rate around 16.4% this year. The default rates in recent downturns were 11.9% in 1991 and 10.4% in 2002, according to S&P. Such rates peaked at around 15% in 1930, according to Moody's. In 2007, when credit flowed freely, the default rate dipped below 1%, an all-time low.

At present, nearly two of every three nonfinancial companies have below-investment-grade ratings, says Diana Vazza, a managing director and head of fixed-income research at S&P. That compares with 50% during the last downturn earlier this decade, and one in three during the recession of the early 1990s. "This is the most toxic mix of U.S. corporate ratings we've seen," she says.

This year, as of Feb. 6, 21 U.S. companies have defaulted on $43.1 billion of high-yield bond and bank debt, according to S&P. That is greater than the dollar value of defaults in 2006 and 2007 combined, and it's more than 25% of the $157 billion of high-yield-loan and bond defaults in all of last year.

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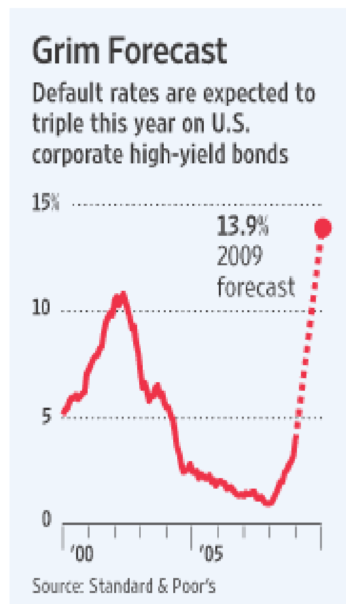

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Collecting Money in Today's Environment: *Don't Delay Get the Law Firm Advantage*

Most companies have witnessed firsthand the signs of a slowing economy. The recessional impact might begin with sluggish sales and/or evident reductions in customer orders. However the real indicator will rear its ugly head in the A/R department. Credit and collections managers will quickly take notice of slowing, late or negligent customer payments.

Late payment can result in debt recovery problems. Smaller companies, in particular, are continuously struggling to find ways to come up with enough cash to stay alive. Businesses are dependent on their cash flows but are faced with the dilemma - how to collect money quickly without alienating the company's lifeline - their customers?

Plan of Action
Whether it's a personal phone call, friendly reminder, a visit to the office or a combination of these, decide what will work best for you as well as your customer. Is your customer tech-savvy and constantly by a computer? Try email. Do you have a cordial relationship with this person? Opt for a personal phone call. Is the company within close driving distance? Swing by for a quick visit. It is crucial to act swiftly and remain steadfast in your efforts.

- **Utilize Email** - When an account is past due, send an electronic invoice in addition to a hard copy. In any business, time is money and this delivery method will speed up the process. In lieu of collection letters, opt for email to ensure that your message reaches the intended recipient promptly.
- **Get Personal** - Simple yet effective, a phone call or visit with a customer may be just the trick to get the ball rolling. Make sure to tell them how much you value their patronage and support.
- **Persistence is Key** - Whether it's weekly or even daily, timely and persistent communication will pay off. Get an early start - contacting customers within a few days of an invoice being past due.
- **Establish Multiple Contacts** - By nurturing multiple relationships at a company, you build trust. This may be an important factor when it comes time for the company to pay its bills Additionally, you benefit from having several people to contact should your main liaison not respond.

Excuses, Excuses
When put in an uncomfortable situation, a customer might offer one of many excuses from time to time (see sidebar). Your best defense is to prep a list of responses based on the excuse. If the customer claims to have never received the invoice, have a copy of it handy so that you dictate the date, amount and invoice number. If they claim to have not received a shipment/item, have tracking information available. If the "check is in the mail," ask for the check number, dollar amount and date mailed. Should the check arrives for a lesser dollar amount, contact the customer and set up a payment schedule for the remaining balance.

Be Flexible
To better meet the financial needs of your customer, consider offering a wider array of payment options such as credit card, wire transfer or electronic checking transfer from the bank. If money is a big problem, try to work out a payment plan that both you and your customer find satisfactory.

Get Tough
If necessary, begin to withhold service from customers who are late on payments. Whether it means delaying shipments, losing the privilege of after-hours/emergency service or refusing new projects, you will show your customers that you are serious and will not be taken advantage.

Ask for Help
When you have exhausted all attempts, it is time to hire a specialist. Don't delay and get the law firm advantage to debt recovery. A legal collection firm offers significant advantages to debt recovery - combining the effectiveness of a collection agency with the power of the law. When you employ the services of a dedicated collection law firm, you send a very clear message to your clients - you mean business. The law firm advantage is critical in today's environment - fusing call center communication and technology with the force and authority of a law firm.

Source: *Wall Street Journal*

Top 10 Excuses Businesses Use for Not Paying Invoices

In today's tight credit environment it is even more important than usual to stay on top of late-paying customers. More and more purchasers are looking for opportunities to extend payment terms, and for some this can mean finding excuses either to pay late or not at all. Some of the classic or more common excuses for not paying invoices include:

1. We haven't received the invoice
2. Our terms are (30, 60 or 90) days
3. We don't have a payment run until next month
4. There are no check signatories available
5. The check is in the mail/the invoice has already been paid
6. The goods were never delivered or the order was cancelled
7. The goods/services were faulty or not as described
8. The balance is incorrect and we are awaiting a credit note
9. The goods have not been sold/the buyer has not paid for the goods yet - need sale proceeds to be able to pay
10. The debtor is insolvent

Unemployment Rate Spikes Again

The fury of the recession intensified in January, as the nation's unemployment rate jumped to 7.6% and nonfarm payrolls fell by the largest amount in 34 years, the Labor Department reported Friday.

January marked the largest payroll loss since December 1974, according to a survey of workplaces. Payrolls fell by 597,000 in November.

In the past three months, payrolls have fallen at a 5.1% annual rate, a pace exceeded only once in past 50 years.

"Job losses were large and widespread across the major industry sectors," said Keith Hall, head of the Bureau of Labor Statistics. Manufacturing was particularly weak, experiencing its largest decline in 26 years.

About 3.6 million jobs have been lost since the recession began just over a year ago, representing about 2.6% of employment. About half of the jobs disappeared in the three months.

Source: MarketWatch

Wave of Bad Debt - Continued

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It is estimated that about $450 billion in corporate debt will default by the end of 2010.

Because many corporate defaults turn into bankruptcies or other cutbacks, there is certain to be a spillover effect on U.S. unemployment, which is already at a 16-year high. Over the past three months, 1.77 million jobs have been shed. With credit still tight, more bankrupt companies might have trouble raising money to restructure, forcing them to liquidate. That's what consumer-electronics retail chain Circuit City did; it employed 35,000 before announcing last month it was shutting its doors for good.

Fitch Ratings estimates the biggest prior year for high-yield bond defaults, in dollar terms, was 2002, when $109.8 billion defaulted. In 2008, high-yield bond defaults topped $66.6 billion, up from $9 billion for 2006 and 2007 combined.

Source: Wall Street Journal

Bankruptcy Timeline

Hard times have fallen on several well-known U.S. corporations. Here is a rundown of some of the largest Chapter 11bankruptcy filings in recent months:

Oct. 31	VeraSun Energy Corp.- ethanol manufacturer
Nov. 10	Circuit City – electronics chain
Dec. 1	Pilgrims Pride – poultry producer
Dec. 8	Chicago Tribune – newspaper chain
Jan. 7	LyondellBasell Industries - chemical and environmental-services firm
Jan. 14	Nortel Networks Corp.- technology company
Jan. 26	Smurfit-Stone Container Corp. - container company
Feb. 3	Spectrum Brands Inc. - consumer-products company
Feb. 11	Muzak Holdings LLC – producer of background music
Pliant – packing company	
Feb. 12	Aleris International - aluminum products producer
	Midway Games Inc. – home video game entertainment developer
	Charter Communications- 4th largest cable TV company

The Credit Policy – A Vital Tool for Business

There has never been a better time for a business to review and update its current credit policy. The potential impact of not having a well-documented and strictly-enforced credit policy can quickly compound during recessive economic times. It is a proven fact that companies who do not adhere to their credit policies show a significantly higher level of bad debt write-offs. Other negative repercussions include high levels of balance sheet reserves for doubtful accounts/bad debt and aging receivables or high DSO.

During a recession, many companies tend to ease up on their credit policies to encourage sales in a bleak economy. While this might increase business, it will not necessarily increase revenue and could lead to future problems if the accounts become past due. Policies that are unwritten, unclear or too lenient give customers the impression that there are no consequences for being late or missing a payment or two.

Now more than ever, it is crucial to tighten up your credit policy and implement it effectively. Credit policies are fundamental tools that a company can utilize to keep existing customers, get paid and most importantly, stay in business. This detailed and concise document should outline the procedures and actions that will take place should a problem arise and a customer fail to pay. A credit policy should be well thought out, thorough and easily understood by all parties.

The task of creating or revising your company's credit policy should not be taken lightly. It is in the best interest of your business to have a credit professional or legal collection firm evaluate your policy for any loopholes or language that could be misconstrued. It's also beneficial to involve both your credit personnel and sales team in the process. This collaborative effort will give both groups an opportunity to voice concerns and will ensure that all parties are familiar with the policy.

A solid credit policy will encourage cash flow, protect your bottom line and better prepare your business for these unstable economic times.

Source: *Become the Squeaky Wheel* – Michelle Dunn; *Get P.A.I.D. - A Guide to Getting Paid Faster* – Robert S. Bernstein, Esq.

The Value of a Credit Policy ...

Successful business owners recognize the importance of a properly implemented credit policy. The benefits include:

- Increase profits & revenues
- Decrease costs
- Improve operational efficiency
- Increase collections
- Minimize risk
- Less bad debt
- High quality paying customers
- Efficient handling and control of A/R

"The only man who sticks closer to you in adversity than a friend is a creditor.

~ Author Unknown

Say *Hello* to Ironside ...

Meet the newest member of our team - Ironside the bulldog. Her name is inspired by the USS Constitution, the naval fighting ship whose mighty oak walls could not be penetrated by cannonballs. Characteristically, English bulldogs are known to be loyal, resolute, attentive and extremely protective of their owners. These are the exact attributes we at Saldutti, LLC pride ourselves on – the same attributes which let us achieve fast and effective debt recovery for our valued clients. We felt an instant connection with Ironside and all that she represents and are proud to have her as our icon.

While collection agencies may be all ***bark***, our law firm will take a ***bite***.

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