

Broadcasting live from the Pro Business Channel studios in Atlanta, Georgia, it's time for Capital Club Radio. Brought to you by Flock Specialty Finance, please welcome Chairman and CEO, Michael Flock.

00:42 Michael Flock: Thank you and good afternoon. Today we're delighted to have one of our own team, joining us Damon Edmondson. Damon is our Chief of Analytics, responsible for our underwriting of portfolios and our overall data strategy. He's had a very long, very colorful history in the debt buying and collections industry, and is known for his strong opinions, belief in discipline and process improvement, and using data to tell stories. Prior to joining me here at FLOCK, Damon worked for Eltman, Eltman, & Cooper in New York, a debt buying firm. He did acquisitions and predicting the behavior on judgment accounts. Prior to that, he was at OSI for 11 years in the portfolio purchasing division, and before joining the debt buying world, he worked at ValuJet Airlines. Damon is also a graduate of The Citadel, the military college of South Carolina, and graduated in only three years with a degree in history. He's married to Louisa, nicknamed Lulu, and has three sons, all of whom are Eagle Scouts. What an accomplishment, Damon, you should be very proud of those three boys.

01:56 Damon Edmondson: Very proud of everything they achieved.

01:58 MF: I'm sure you had something to do with that.

02:00 DE: Just a little bit of motivation.

02:03 MF: Now, speaking of motivation, and before we get into your career, I'd like to talk about kind of what's behind your motivation, and what was it like growing up as an only child? You told me a little bit about that in the past and... How did that affect your motivation? Tell me a little bit about that and how you grew up.

02:25 DE: Yes, I grew up, I was adopted, so I grew up as an only child in, really, in a fairly rural part of Georgia. There weren't many people around, we had... The nearest neighbor was about a half a mile away. The nearest neighbor beyond that was about a mile and a half away. So really, a lot of my interactions with other people growing up were in a more formalized setting, like at school or what have you. So really had to learn to entertain yourself a lot of times. The good news was, being out in the country, at least during that part of my life, you just go out in the woods, would take the dogs out and go out in the woods and go explore. And so, that was really neat, to learn self-confidence and self-reliance and being able to go out and take care of yourself by going out and exploring just in the woods as much as you wanted to.

03:10 MF: So being in nature, being reliant on yourself, did that attract you, then, to hunting and fishing and all those things, or...

03:19 DE: Well, my father was the first person in his family to go to college, even though they are fairly... Been in this country for many, many years. The Edmondson family actually landed in Maryland in 1641, but he was the first one ever to go to college. He was from Alabama, he went to the University of Georgia, so in his case, literally growing up in the '30s, the need to hunt was how you put protein on the table, and he passed a willingness to be self-reliant on to me as I grew up. My parents split up when I was fairly young though, before I was 10. And at that point, then we moved into some more urban areas, which was important, because that gave me a view of different

people and different segments of society, both people that were very rural and people that were very urban and people who had done well and people who weren't doing very well.

04:09 MF: So then one of your passions was nature, living outdoors, hunting, fishing, was that the connection with the Boy Scouts for you? Because I know that's a big interest of yours today.

04:20 DE: Yes, actually, it's funny. I was actually a Boy Scout in an urban troop that was not outdoors, but that was how those kids who didn't have much experience with nature got to go out into nature and learn some reliance and teamwork and working together. In Boy Scouts, they function on a thing called the patrol method, where the patrol of boys works together to solve whatever problems, whether it's feeding themselves, or having their tent set up, or whatever objective they're trying to accomplish for that particular outing. I did Boy Scouts for several years, and then I went off to military school when I was in seventh grade. So that, again, reinforced that connection to working with other people in different circumstances, I think was really important.

05:00 MF: So, who were your heroes growing up? Were they outdoorsmen, or athletes, or other Scouts, or what were...?

05:08 DE: I think it's... A lot of the heroes that I found, I found in books more than anything else, rather than current heroes of the time and, realizing I was born in 1972, heroes weren't exactly a common thing, really, in America, and I grew up in Atlanta, so that was a benefit. But if you think about the sports teams in Atlanta didn't exactly have a whole lot of heroes. The one that really I remember most was, I did get to meet Dale Murphy when I was fairly young. He's a very tall guy, and I was very small for my age, so I just, I can remember, visually, him just towering over little old me at six, looking at this giant guy who's like 6'2, 6'3, and how huge, just big he was. But he was always kind to everybody, so that was the neat thing. And it's funny, Michael, he owns a restaurant right over there, near our offices, so I've met him again as an adult, and that's kind of neat, this guy that I remember meeting when I was six or seven years old and gave me a ball that was signed, and a signed batting glove that he'd just gotten out of batting practice and gave to me. And then, here we are 30-some odd, 35 years later, and now I'm looking him eye-to-eye.

06:21 MF: He's a little smaller than he was.

06:22 DE: He's not so much smaller, I think I've gotten a lot taller than I was at six.

06:25 MF: So, Damon, what drew you to The Citadel? Was that your first choice, or did you look at other schools?

06:34 DE: Well, my first choice, I actually was accepted into both the United States Military Academy at West Point, and to the United States Naval Academy in Annapolis, Maryland.

06:41 MF: Wow, that's outstanding. I didn't know that.

06:44 DE: Yes, I was... My nominees were... I was nominated by Sam Nunn and Newt Gingrich, in those cases. Unfortunately, I tested positive as color blind, so that's been its own little challenge throughout life, of... And I didn't actually know, I just didn't think I dressed myself very well, apparently. So, what I had to do, I wasn't good at color coordination for my clothing as a kid, but going to... Finding that out when I was being tested, that was really what I want to do for a living. I

wanted to be a pilot, I wanted to fly more than anything else in the world, and unfortunately, I lost the ability to go to either of those opportunities, because of my color blindness.

07:28 DE: Nonetheless, The Citadel, I'd applied to The Citadel as well, among several other schools. But The Citadel offered me a leadership scholarship. So, I got one of the, at the time, very few full scholarships that The Citadel offered, and so I took that opportunity because it was a great school, with a great opportunity. I knew people who had been there, I knew exactly what I was getting into by going there, and I thought that that would help me enhance the discipline that I'd picked up, up until that point in time, through my middle school and high school experiences.

08:00 MF: Enhance the discipline, so speak to us more about discipline.

08:03 DE: So, I had gone to a military school in Camden, South Carolina, for six years.

08:08 MF: In high school?

08:08 DE: In high school.

08:09 MF: Okay.

08:09 DE: And then went to The Citadel afterwards. And in both of those institutions, that's really where, I think, more than anything else, I started connecting with mentors. I was very fortunate that I had several very, very strong mentors when I was at those schools that were all retired or, generally speaking, either retired US Army, retired US Air Force, or retired US Navy. Majors and lieutenant colonels and colonels who had a lot of experience in leading other people throughout their lives and had been in a lot of different places and a lot of different experiences. It's one thing to talk to people who have... To talk about experience in leading people, and it's another thing to learn leadership from people who have had to do it in very, very stressful situations.

08:53 DE: Lieutenant Colonel Charles White was one of my first mentors. Colonel White had been a veteran of World World II, Korea and Vietnam, and then he was serving as the Commandant of Cadets for a military school in South Carolina. And so, it's those sorts of people who take you under their wing, and mentor you and help you to see that learning self-discipline, self-control, and thinking through things before you react emotionally to something, and always looking at the overall mission is of something that you're looking for. And I want to be very clear, just because you're making a non-emotional decision, doesn't mean you're not passionate about the rightness of your course. I think that passion for rightness of the decision is not the same thing as being emotional and making an emotional decision. It's like, I might like somebody a whole lot, but that doesn't mean I want to find a deal that doesn't make economic sense for both parties.

09:52 MF: But it's sort of unusual, I think, for a young kid to be attracted to discipline and structure. Usually, that comes later. What... Help me understand how...

10:04 DE: Yes, and I think I'd enhance that a little bit. You have to realize that I was a Boy Scout at 10. By the time I was approaching 12, I realized that my home life was a little challenging.

10:16 MF: Okay, maybe that was the need for more mentors too.

10:20 DE: Looking for a little... As I said, my parents had split up and it was...

10:23 MF: You were living with your mother.

10:24 DE: I was living with my mother, I was a latch-key kid, so that has challenges that go along with it. And I was looking for a better experience, and I knew what my future, that I wanted my future to be. So, in the back of a Boy's Life Magazine, which is the official magazine of Boy Scouts for the kids, I found an ad for a military school, and said "I want to go visit." And I went to my parents and said, "I want to go to military school."

10:49 MF: Military school.

10:49 DE: I was there for six years. For four of those, I was the only one there voluntarily. So [laughter] it's a very different experience.

10:57 MF: So, there were lots of other behavioral challenges.

10:58 DE: Yes, there's a lot of people at military school that are not there by choice. I was actually there by choice, so yes. I was a little bit of an odd duck from that standpoint.

11:06 MF: So you were in the middle of a lot of wild guys.

11:09 DE: Yes.

11:09 MF: Lot of wild guys, with no discipline, and they were there for...

11:12 DE: And they were there to learn discipline.

11:14 MF: Right. And when was it that you had the dream to be a pilot? Was that around that same time, or...

11:19 DE: I kind of grew up wanting that, and I think that's one thing that...

11:21 MF: Why? Just the dream of flying and...

11:24 DE: Well, I guess it's the dream of flying, the enjoyment of flying, but I think maybe... What helps you understand that is that my family was all in the airlines. My dad worked for Eastern Airlines; my mom worked for Delta; my stepmother, my stepfather; my stepmother worked for Eastern; my stepfather worked for Delta, when they came in the picture several years later. My stepbrother flew for ASA; my stepsister had worked at Delta at one point in time; my stepbrother's wife worked at Continental Airlines. I mean, it's... I one time sat down and added up, and there's something like 200 years of airline experience, we're all connected. So, I grew up going with my dad at night, my dad worked the night shift for Eastern, I would go out to Eastern Airlines at night and go to work with my dad at the airport. And so, here's this little eight, 10-year-old kid running around, learning about how airlines work. So that's what I did as a kid, and so I wanted to be a pilot as a result. I figure, if I'm going to do that job...

12:21 MF: Might as well be a pilot.

12:22 DE: Might as well be a pilot.

12:24 MF: And so, you... When you graduated from The Citadel, you went straight to ValuJet?

12:27 DE: I actually spent a year at Georgia State University learning that I didn't want to be a lawyer. I did do a year of law school, learning that... I did well, I just realized it wasn't my thing. But as I was in between the first year and second year, I got a call to come see if I'd be interested in taking a job at ValuJet. So I went to work at ValuJet, and the joke used to be at the airline, it's like, "There's no way that he's not going to work here because he's got jet fuel in his blood," because everybody had been in the airlines, they knew I was going to end up working there.

12:56 MF: Right. So, your first position there was...

13:00 DE: I was brought in and tasked with hiring a bunch of teenagers to, I was 21 years old, to escort the unaccompanied minors. So, when kids are flying by themselves, from one part of the country to another, usually to go visit grandparents, or go visit a non-custodial parent, or returning home, they'll fly on an airline, and they fly by themselves sometimes. And sometimes, that means they have to make a connecting flight. And so what ValuJet saw the wisdom of, which no one else had really done before, was, if these kids are going to be in the airport for a couple of hours, let's create a group of people who are a little bit older, just a few years older, who will be like, I don't want to say babysitters. We called them Critter Sitters, because the ValuJet logo was the "critter." So they would, these teenagers would escort these kids from one flight to the next, and make sure they got on the next flight.

13:54 DE: And so, I was responsible for building that program from the start, hiring the people on or recruiting them, mentoring them, setting their schedules and working with them. That was my first summer... That was my first job... My first job out of college.

14:08 MF: And I think you told me once that ValuJet, you did get into some of their systems in working with process and... Can you comment on that? Because I'm trying to see your connection with analytics.

14:21 DE: So, I'd done a really good job that first summer, and I was going to stay on and keep doing other things. So what they did was, they also noticed that I was good at tracking lots of numbers, like where people need to be from point A to point B. So they moved me to a position called Passenger Services Coordinator, which is, if you've ever been on an airline and you've been connecting, and somebody somewhere is making a decision as to whether or not you're going to make the connecting flight. Do we hold the airplane for you or not? So, when Michael Flock is flying...

14:49 MF: That was... Excuse me, that was manual then?

14:50 DE: Yes.

14:51 MF: Or was it automated?

14:52 DE: Well, it's not quite automated. You get all the information from a computer, but you still

have to look at what the downstream effects are. So I would see that this plane... That if we hold the plane for Michael, who's flying from Boston to Atlanta going to Dallas, but he's late because the Boston to Atlanta flight is late, if I hold the Dallas flight, yes, that gets Michael Flock on the plane. There's five people who are just like Michael also on that plane, so there's six of them. So should I hold the Dallas flight? Well, maybe. The problem is, if I hold the Dallas flight, it's going to be the late getting to Dallas, which means it's going to be late coming back, which means now there's 40 people coming from Dallas going to different places that are going to be late. You hold their planes, the next round there's 350 people who are delayed. And so, knowing how to make those decisions, and sometimes it's a painful decision to say, "I'm not going to hold a plane, because if I hold it, it's going to mess up everybody for the rest of the day."

15:45 MF: I can't imagine the days before artificial intelligence, how those kinds of equations can be done quickly and manually. Because it wasn't computerized, this was all in your head, or how did you do it?

16:01 DE: It's largely in your head. The good news is, is that when I know the flight from Boston to Atlanta was late, I have about two hours to make a decision for that Atlanta to Dallas flight because it's going to take two hours for the Boston plane to get to Atlanta. So I have two hours to figure out what I'm going to do. So you have time, you just don't have a lot of time.

16:23 MF: And you really could affect the flight times and the departure times of all these...

16:29 DE: You make a decision whether... I would make a decision and go to my boss and make a recommendation, do we hold or not hold, and then look at what the... And the important thing is always thinking about the downstream effects, even that last flight of the night has a downstream effect.

16:43 MF: This was in the '90s, then?

16:44 DE: Yes.

16:45 MF: So the '90s. Okay. So you were getting real-time information.

16:49 DE: In '94 to '97 I worked there.

16:51 MF: Everything was now online.

16:53 DE: Right. It was... We had computer systems that tracked everything.

16:58 MF: So fast forward then, from ValuJet to debt buying and... Is that when you made the transition to OSI?

17:07 DE: Well, I first got promoted out of that position up to work on the floor, to work more in direct customer contact. That came after one particularly rough night when an outside city had sent a bunch of connecting passengers, about 40 of them, onto Atlanta when we told them not to. We'd said, "Listen, there won't be a plane for them to go because we're not going to hold the planes, they are running over an hour late." And I didn't have any hotel rooms, that was another one of my side projects was, if people did get stuck, I'd help them find a place to stay for the night, and there were

no hotel rooms to be found.

17:39 MF: Oh boy, I could have used you a week ago up in New York when I got stuck in a snow storm. [chuckle]

17:45 DE: I know, that's why, when I heard that you had gotten stuck in that snow storm and gotten diverted to Hartford, of all places, I said, "Boy, I know exactly what's going on with Michael." And then you couldn't find a hotel room close by. So anyway, the customer service supervisors on duty that night had all gone home, they just left and now there's 40-some-odd people upstairs yelling and screaming. And the poor gate agents are 18, 19 years old, I was maybe 22. So, it's not like I was an old man, but they were up there. And you could hear, as I talked to them, I could hear the breakdowns trying to come through in their voices, like, "I can't deal with this, I'm going to quit and walk off." And I turned to my boss, I said, "Somebody's got to go up there, the passengers are yelling and they're demanding a manager," and he looked at me and said, "I'm not going." Nobody wanted to go up into the fire. And I just... I didn't think that was right, that you should leave somebody hanging like that. So I went up.

18:44 DE: And I went up and I pulled the gate agents aside and said, "I'm going to give you guys the power to help me solve this problem. You're going to take all the people that aren't yelling and help them. You're going to tell me the 10 people that are yelling the most, I'll take them off to the side, just follow my lead." And I stood up on the counter at the gate and said, "Listen to me," like Moses, yelling across the crowd [chuckle] "Listen to me!"

19:11 DE: "We will... There's no hotel rooms, but I will take care of you." I got them re-booked on flights, I ordered pizza from Pizza Hut, I had somebody go off the airport grounds to get the pizza from the Pizza Hut that was right there by the airport, and I went down on the airplanes with some of the gate agents and pulled up the beverage carts off the planes, stole the Cokes. [chuckle] I gave them to all these people. Pulled up pillows and blankets, and I stayed there with them all night. The key thing is, I had no authority to do anything that I was doing whatsoever. I honestly figured I was going to get fired the next day, because I was spending money that I wasn't supposed to be spending. But I got called over and told that I'd done a... I'd demonstrated a lot of personal initiative, which is what I was trained to do, and the next thing I knew, within about a month or so, I was promoted to supervisor's position.

19:57 DE: I helped out a couple of major crisis points at the airline, and then they moved me over after doing well in those other crises, I got moved over to the corporate offices where I was doing revenue management and setting airline ticket prices. So, if you play with a ticket price the right way and change the number of seats at one price versus another, we can make the airplane more profitable. Makes a lot of money for the airline, and I was making \$24,000 a year doing that. That was not enough to support a wife who was home on bed rest with our first child. I'd met my wife, Lulu, while I was at the airline, so it just... It wasn't going to work, so I needed to make more money. So, I answered an ad, of all places, out of the Atlanta Journal-Constitution. I actually looked at want ads. Paper want ads, if you remember those, when those actually helped you find jobs, and applied, and went in and interviewed at OSI. And when I went in to interview for OSI, they said...

20:52 MF: Right here in Atlanta?

20:53 DE: Right here in Atlanta, over by Spaghetti Junction. I was... They asked me, did I know

this, that I know that, and then they said, "We have a problem, we don't know how to track the cost of how much it cost to actually work anything." And...

21:07 MF: Work anything, meaning collect?

21:09 DE: Right. So, they would buy... They had, let's say, 200 portfolios, but they... And they're from all different originators, age, statuses, but they didn't know how much it actually cost to work any individual portfolio. They knew how much money an office was making, but they didn't know if there were segments of that office that were profitable or not. So, what I did was I thought for a minute, and I remember in the interview talking to Bryan Faliero and Celia Sellers-Gordon, who was the head of the accounting group, and Brian was the head of the portfolio services group.

21:39 DE: And I said, "Well, this is how I'd solve that problem," and I talked about allocating specific FTE, which they already had, but coding them so that you could then have a number that you could aggregate back up and answer the question. By coding information at the lowest level of detail, at the most detailed level, you could just aggregate numbers back up and then slice and dice it any way you wanted to. And you see them look, and they looked at each other, and they looked at me, and then looked at each other and said, "That would work. Could you do that?" And I said, "Sure." So that's how I got started in the portfolio buying business was, I came over to build their first cost tracking system that they had.

22:14 MF: And that was for servicing, service and buying?

22:16 DE: For servicing and buying, yes. For the stuff that had been... For purchase portfolios, how much it cost to work anything. From there, it moved over to, "Well, if you know how much it costs, and you know how much it liquidates, then you know how much you should pay for it." And that's how I ended up becoming... Getting involved in buying the portfolios.

22:34 MF: Right. Did you... Did you try to make a profit on the servicing, then? Or was your goal just to look at the overall return of the portfolio, not worry about the specific cost centers of a portfolio?

22:47 DE: We wanted to make sure any given office was profitable. You didn't want an office to be losing money, but we weren't trying to make money on the servicing of our own inventory. So that's a really key thing, and I guess maybe that's one of things that kind of affects me in my later stages of my career. I want to make sure that the investment itself is profitable. You don't want to lose money working it and make it up on the investment, because that doesn't really help anybody, but you don't want to be damaging the investment by paying too much to serve as the inventory.

23:20 MF: So, you take pride in being a good problem solver. So how does that history of problem solving, whether it was ValuJet and trying to time optimally the departures and arrivals of planes, and also now trying to understand how to pay the right price for a portfolio, how does that relate to the process you've developed with us over time to underwrite a portfolio? I think you've got eight steps that you speak about. How was the relationship? How does that evolve?

23:54 DE: Right, and I think that's important. We definitely have a framework that you operate in, which is, first, does it work in our normal, standard framework? Whatever that is. Meaning, our normal terms or what have you, does the deal that we're looking at... You build a framework and a

process, a defined process of steps, and as you know, we've done some webinars on that, we just hosted one recently that talked about the stages of evaluating a portfolio. The key thing, I think, is that as you go through those steps, that you respect the process, and whatever the answer is, is whatever the answer is. Once you know whether the answer works or doesn't work in your standard format, then you can move on to, is there anything different that we can do that could make something work, if it doesn't work under your normal mechanism.

24:42 DE: But I think that's one of the challenges that a lot of people have is, you get into a point where you're so desperate to do something, to make something happen, that you start lying to yourself, and that doesn't help anybody. That doesn't help you, if you lie to yourself about what the facts are. I think that's one of the biggest things that I think I have a respect for is, it's not that it's good or bad, it's just a fact. What you do with that factor are two very, is what comes next, that's the art of things. But the science is simply knowing the return is X, and if X is not high enough, accept that number, then move on to whether or not you need to modify things to get X to be a little higher.

25:19 MF: Right, but there are some variables in all these equations that, it's never black and white, and some of these variables have ranges, right?

25:28 DE: Right. And that's where you have confidence levels.

25:28 MF: Different levels for different balance sizes and different ages of accounts, and maybe different FICO scores for different accounts, so...

25:39 DE: So you factor that in, though. Guess what I'm saying is, is that if something is... If the number is that it will liquidate, let's say 12 cents, over a five-year period, you probably shouldn't be paying eight cents to buy that, no matter what the product is. If it's going to liquidate 12 and you know it's going to cost you 30 cents to collect it, those two numbers together tell you how much you should pay for something, and there's not really a whole lot of debate about that. There's no way to debate that. It's a formula. Now, once you know that, then you can... And once you can accept that fact, then you can talk about, now, is there anything else that we can move, of the dozen levers that we might have? Are there any other levers that we can pull that allow us to change from standard terms that we may have?

26:27 DE: But if our standard term is a 90% advance rate at a pref of Y, with a back-end servicing, with a back-end... If all those variables are together, don't let you do a deal, you have to accept that answer, then you can move on to, but is there anything else that we can play around in these levers to get you to a different return?

26:48 MF: So, can you ever collect your way out of a portfolio if you pay too much?

26:53 DE: It's very hard to do that if you've overpaid. If you've overpaid a little bit, you can sometimes make up the ground over time. But if you've... We've looked at some situations where people have overpaid by 30 and 40%, and it doesn't matter how long you're going to collect on that, the time value of money alone affects things. And not only that, but time value of money doesn't just, isn't just about the proper use or effective use of capital over some period of time. The other problem is, is that the longer something's outstanding, the more risk it becomes, because you look at economic dislocations at a macro level that you may not be predicting for.

27:29 DE: If you're looking at... We've been in this country on a fairly long, sometimes somewhat anemic but, fairly long extended growth period, for about seven years now. If you think that you're going to continue that growth for another seven years, you're probably making a fairly aggressive assumption. So, if you've overpaid for something when times were good, it's kind of hard to see how you're going to collect your way out of it, should there be a recession in a year and a half to two years or three years. You just never make up the ground.

28:01 DE: So you have to be very careful when you buy, and make sure you're not overpaying purely for the sake of, let's try to feed the beast. That was always a big problem at OSI, there was a lot of aggressive pricing sometimes because we had actual staff on hand that we wanted to make sure we were bringing enough collections in to feed the beast and make sure all those collectors had something to do.

28:21 MF: But sometimes firms have collections just as a collection agency, so they're not necessarily dependent upon debt buying. Do you think that business model is better, where you're not 100% a debt buyer, but you also have a contingent collection business on the side?

28:35 DE: I think either one can work. If you're a pure debt buyer with a fairly small shop of collectors, and then you outsource the remaining inventory, I think that works fine. I think if you're a collection shop with a lot of collectors and a lot of clients, and you're supplementing that with lots of different... With lots of different projects and some debt buying, I think that model works. I think where you run into trouble is if you're a debt buyer with a lot of collectors and a lot of staff and an unwillingness to reduce staff as economic conditions warrant. You can talk yourself into overpaying for portfolios to try and feed the beast or to grow market share, and that's not necessarily productive or a good long-term decision for your company.

29:18 MF: Were there ever any moments, Damon, where you feared that you would fail, but maybe you paid too much for a deal or you're not doing enough deals? And were there moments that you thought, "Oh gosh, I'm not going to make the budget," or "We've overpaid for this." Or, "We've got to... "

29:37 DE: Yes, I've always been a lot more concerned about, not so much making a deployment target as making sure that we're making the profit targets. So, I can have a budget of \$40 million of a year, just say if that was my spend budget, but if I could do the same profit level by only spending \$20, well, definitely you should do that. That would be better. But I could easily spend the \$40, but then lose money on half the inventory and that would be a bad decision.

30:07 DE: There are always... Everyone's got horror stories out of their time where they bought something that, "Oh my God, why did we buy that?" We... I can remember in particular, not so much things... The one that stands out to me is, years ago, we were buying a Bally's Total Fitness product. If you guys remember Bally's, the health club provider. And it was a flow, been buying it since 1993, before I got there, so they've been buying it forever. And it was like clockwork, it came in on this day of the month, you funded it by the 10th, you get the file on the fifth, typically, you fund it by the 10th and every single month, and it was a half a million dollars a month, every month, no matter what.

30:49 DE: You could even say we might have gone to sleep a little bit on that, in terms of paying attention. We weren't paying close enough attention and the product changed. It came along a month

and we just noticed collections are down. And I noticed collections were down over a three-month period. Why are collections down? And so, we're talking to the operations people actually going, the first answer was, go talk to people in the field. Go talk to the grunts out there, in there doing the collections. What are you noticing? It's harder paper, they're just not willing to pay, and it's hard to collect on them because there's so many of them there, West Coast. And I'm like, "West Coast? What do you mean, West Coast?"

31:27 DE: It just seems like there's a lot of West Coast accounts, which was affecting the times and when we had people scheduled. Well, it turned out that, without any prior notice, Bally's had taken a file that was 20% California, and suddenly it went up to 58% California, materially changing the content of the paper, materially changing how we worked it. We didn't have enough people working later at night, so they weren't calling the West Coast at the time that the West Coast people were there. If, instead, you're trying to call East Coast time, you're not catching people on the West Coast, you just didn't have the staffing right, or the inventory right.

31:58 DE: And I think the biggest... One of my... The regret would be that we should have caught that the month it happened.

32:04 MF: So the geographic location had a material effect on the liquidation value, because of the collection process...

32:12 DE: Absolutely.

32:12 MF: It was not being handled properly.

32:14 DE: Yes, absolutely. There's a lot of things that you really have to know about the debt buying industry and there's... We could go on for hours, honestly, but we're not going to, [chuckle] but we could go on for hours to talk about all the different things that you have to think about. And it's just one of those things that comes out of experience. You can't just be a numbers cruncher to do what I do. You have to both be able to crunch numbers, but you have to have that experience, and I've got 21 years of experience of doing this now. It really does add up to know all the little nuances and things to catch that build up over the years.

32:47 MF: So that one portfolio then, is an example of how it wasn't, in a way, a failure, but that taught you something about the importance of geography in underwriting.

32:55 DE: And it also taught me to pay attention, [chuckle] as much as anything else.

32:58 MF: Were there any other examples of transactions that failed that you learned a lot from, and are there any common denominators here? Obviously experience, and most people think what you do is clinical, and it's just number crunching, but obviously, operational performance, experience, is crucial to that intuition, which also affects decision-making and conclusions.

33:21 DE: I'm not going to be terribly specific. I'm going to be specific enough to where you'll know what I'm talking about. You remember we financed a client a few years ago with a product up in, that was out of a bank out of the northeast. It was a very large transaction, and we had noticed in the data, some things that were unusual, like some fairly high balances. We asked some fairly specific questions. We wanted to make sure that, we knew that this debt buyer client did not have

experience in doing mortgages or mortgage deficiencies. It clearly looked like some accounts on there were mortgage deficiencies, given the balances that were at stake and the initial loan amounts that were at stake. And the client, I think, got deal fever. That, I've got to do deals, I can't let this go, I've got to do this, and pushed and said, and I don't know whether they failed to go back and check, or whether they deliberately overlooked it, or what have you, but nonetheless, they told us that they weren't mortgages and we accepted that.

34:16 DE: We should have dug a little deeper, and we would found out that there were a lot of mortgages in the file, and they performed materially different than the credit card inventory, and the auto loans that made up the rest of the inventory. That was a very tough portfolio, it was looking like we were going to take some losses on that. Fortunately, we used our legal structures to enforce all of our rights, for going seeing senior-junior, or what have you. And the client refinanced us out, and we refinanced out at a profit, if you recall.

34:45 MF: Yes, yes.

34:46 DE: But that was a lesson learned, that... So, you need to stick to your guns and have the courage of your convictions to hold true. That if you see something that doesn't look right, it probably isn't right, and you need to dig a little deeper.

34:57 MF: Find out what each segment of the portfolio is, and why, and how they perform versus other segments.

35:04 DE: Absolutely.

35:06 MF: So, Damon, as we wrap this up today, let's try to connect the dots in your life. We love to do this with our guests, because there frequently are interesting connections between a person's personal life and their passion and their professional life and in their careers. In your life, we see patterns of problem-solving, technology, data analysis, along with the drive to help others grow. You were a Boy Scout, you now spend a lot of time with Boy Scouts in your spare time. Boy Scouts have principles, process and disciplines. Are there any parallels in building process and discipline with the Scouts that might apply also to your business life, and creating structure, process for underwriting and investing, or is this too much of a stretch?

35:53 DE: It's not too much of a stretch, actually, Michael. I think it's that you can bring a lot of things together there. The history of where I went to college. The Citadel has probably the most stringent honor code in the country. "A cadet does not lie, cheat, steal, nor tolerate those who do." Michael, you've heard my reaction when I believe somebody is lying, cheating, or stealing [chuckle] with regards to, with anything. I don't handle it very well, I get very angry about that. And I think that having that level of discipline, self-discipline, and integrity is really important. It makes us honest brokers when we talk to our clients, I think that's really important.

36:32 DE: People know that we're going to tell them the truth, they know that we're going to look out for their interests as much as our own, and that we have a larger view of things, and I think that's important. I think that leads over to the Boy Scouts. I strongly believe that the nature of boys in this country is in trouble. I think that they face some very, very great challenges nowadays that a lot of people don't appreciate. Suicide is now the second leading cause of death among 14-25-year-olds and most people don't realize that.

37:02 MF: Why?

37:03 DE: I think that society is getting more disconnected. I think that's a challenge. You used to say, when I was growing up, when you were growing up, when many people were growing up, that you'd go over to see somebody, or you go hang out at their house, or what have you, you'd hang out at school. And now, you go by the school and everyone is... It's not face-to-face interactions, it's all digital, it's all typing on the computer or playing a game. And I think that lack of connection is causing problems. I think the internet is also setting some fairly unrealistic expectations for youth of all kinds, and I think the impact of that is that it's leading to a challenge for them in terms of their feelings about their own self-worth. Helping people find a way to find their own value and maximize themselves to their highest level of achievement, whatever it is possible for them, is one of the reasons why I do what I do in Boy Scouts. I think America is in trouble.

38:06 DE: I think, regardless of where you stand on the political spectrum, left or right or center or what have you, I think that there's a recognition that the society doesn't feel as connected to each other and that there's a lack of civility in discourse. And if we don't train the next generation to be able to work together in a direct, experiential way, we'll never find a way to be able to solve the problems that are facing us. So... But if we can do that with the kids today, with these young men that are the ages 11-17, and help them find ways to lead others, to work with each other, to learn their own self-discipline, to do projects that give back to the community, which is the nature of the Eagle Scout project. To learn to be trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, and reverent...

38:54 MF: Wow, that's a lot.

38:54 DE: If you can teach them that difference, these young people, whether it's boys or girls... And I now volunteer with a venturing crew, which is boys and girls. If you can teach them this, it makes a difference. And some of that comes from, eight years ago, I started a Boy Scout Troop. We picked a number, in that case Troop 226, and now Venturing Crew 226, and that's from Proverbs 22:6, which is, "Bring up a boy in the way he should go and he will follow it all the days of his life." And I can't think of any better metaphor for what we're trying to do, in my non-work world, is to make a difference. If you can bring the young people up in the way they need to go, to find a path that gives them a sense of honor and integrity, a sense of mission, and a sense of self-confidence through taking on challenges and overcoming them, that that brings them up in the way they should go, and if that's true, then they'll follow it all the days of their life. And if that's the case, then we've got a lot of hope for this country as a result.

39:58 MF: Wow, that's powerful stuff, Damon. Well, thank you very much this afternoon for your time. You spoke about... One last question, then we'll let you go, about the Honor Code for Scouts and then the values and you just sort of summarized it here. If you were going to write a code of conduct for FLOCK's Underwriting and Analytics and what we're trying to accomplish in our company, more than a transaction, what would you say?

40:25 DE: I think that "more than a transaction", Michael, really does encompass a lot of it, but it's how we explain it. Recognizing that FLOCK could just be a transaction, we could just charge you a loan that's a set return, and I don't really care whether you work it out, as long as you can pay me, but that's not our nature. That's not who we are, that's not who I am, and that's not who you are. Our

focus, by being more than a transaction, is really focused on how we can help you to be the best company you can be. We'd love you to stay a client forever, but if we do our jobs right, we're going to help you grow and we're going to help you eventually grow to where you're so solid that things are going really well for you.

41:08 DE: From our perspective, we really want our clients to do well, because if our clients do well, then we do well. It's kind of like, I believe it was Ben Franklin who said something like, "It's doing well by doing good," is one of the aphorisms that came out of some of his early writings. And I think if you think about FLOCK that way, that's really what we're doing, we're trying to make sure that we do well. Don't misunderstand me, our first duty is to our shareholders. But we see that duty to our shareholders materializing by helping our clients maximize their returns, and we take a little piece of that.

41:39 MF: Yes. And we do that with your structure, your discipline, your process and the analytics. So I couldn't have said it any better, Damon. Thank you very much for your time this afternoon.

41:49 DE: Thank you, Michael.

41:50 MF: Damon Edmondson, Chief of Analytics at FLOCK Specialty Finance. Thank you.

41:53 DE: Thank you.

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