

\$1.3 Billion and Growing

An Interview with Alan S. Elkin, Chairman and
Chief Executive Officer, Active International, Pearl River, New York



Alan S. Elkin

EDITORS' NOTE Before founding Active International 21 years ago, Alan Elkin held several senior positions within the broadcasting industry, including senior vice president of sales for Katz Communications; general manager of Seltel, a firm selling commercial television time; and executive vice president of broadcast services for Media General. In addition, he has served as president of the Corporate Barter Council of the International Reciprocal Trade Association, and has sat on its board of directors for the past 12 years. In 1999, Elkin was inducted into the Barter Hall of Fame and was awarded the Entrepreneur of the Year award by Ernst & Young. A native of New York, Elkin received a B.A. from Brooklyn College.

COMPANY BRIEF An employee-owned company founded in 1984, Active International is the world's largest corporate-trading firm, with headquarters just north of Manhattan in Pearl River, New York, and offices in 17 countries in North and South America, Europe, Asia, and Australia. Through the issuance of a trade credit, which is its proprietary currency, the company enables clients to sell their under-performing assets – including excess inventories, real estate, capital equipment, and delinquent receivables – at a value higher than what the cash

market would yield. The trade credit is then used to offset the cash required to acquire media, goods, and services. The company reported gross trading volume of \$1.3 billion in 2004.

Active has grown its business in a number of ways over the past years, one of which has been through bringing on new products and service offerings. Are you pleased with the market's understanding of the breadth of services and products Active offers? How can you build upon the market's understanding of what Active can do?

I think that our awareness in the marketplace is progressing at probably a moderate pace. What the company needs to do is to build a more heightened awareness both in the domestic and international markets. Our company is growing and we have a global presence. Each year, as we increase the number of people in each of our offices, as we increase the number of offices, and as we take our public relations and advertising around the world, we will increase the market's awareness of our company.

Can you highlight some of Active's new services now? There seem to be so many new creative areas for the business.

Our company is 21 years old, and in those years, we have learned so much about our business. Our business has evolved from a time when we were a company that dealt solely in the asset classification of merchandise to today, when we have learned that an under-performing asset could be anything in any asset classification. We went into real estate and capital equipment, and from there, into receivables and bad debt. We are now developing a sports and entertainment division, and we are testing the concept of using trade credits to acquire entire companies. So we keep on learning about our business, and as we learn about our business, we find new opportunities.

Do you expect that the concept of using trade credits to purchase companies will take off?

Yes I do. I think by offering trade credits and aligning ourselves with the business of the company that we acquire, we will enable them to accelerate their growth through the use of our client base. We'll look for acquisitions of a nature that align with our needs. It is just a wonderful opportunity for both parties.

In selling your services, are you generally dealing with C-level executives from your prospective client companies?

Our relationships need to be across the entire company that we're doing business with. We tend to deal with the CEO, CFO, COO, president, and marketing and brand executives. It's important that we truly get involved with all aspects of the company.

One of your new services is your corporate-trading cash-transaction program, which was launched earlier this year. What exactly is that program?

The cash program is an alternative for a client to receive cash as opposed to trade credits. We can acquire under-performing assets for cash instead of trade credits which gives the client immediate liquidity for their problematic assets. Capital assets such as real estate, equipment, planes, etc. require many of our clients to get cash to pay off liens and encumbrances. We have agreements with several financial partners which help us develop these programs for our clients.

Your real estate division has also been a source of organic growth for Active. Are you optimistic for the continued growth of that division?

Our real estate business, which we started approximately three years ago, is beginning to grow and gain traction. When we entered into the real estate business, we saw it as both a domestic and international business, because the multinational companies that we do business with have real estate all over the world. So we started the division with a global view, and that's what's happening right now. We're doing real estate transactions in Mexico, Argentina, Canada, France, Eng-

land, and obviously, the United States.

Will there be a day when your international business rivals your U.S. business in size and scope?

I have to tell you something: I think that the international division is going to be larger than the U.S. operation. We haven't even touched India or China, and those countries are just awesome in size. The amount of business that we could do in India and China combined could probably outdo the United States, not counting Australia, Europe, and South America. We have great hopes for South America. Our business in Brazil, Argentina, Chile, and Mexico is growing.



Is it important for you to establish offices in each geographical location where Active endeavors to explore business opportunities?

I'm convinced that you must have boots on the ground. We must be able to issue a trade credit anywhere in the world, acquire an under-performing asset anywhere in the world, sell that under-performing asset anywhere in the world, and retire trade credits anywhere in the world. To do that, we must have our own people on the ground – people who thoroughly understand our business and are sensitive to our clients' needs.

How does technology factor into the way Active services its clients?

Technology is Active's competitive edge in the marketplace, and it always will be. We must bring as much information and knowledge as possible to our executives all over the world, and we must have access to a client-information database in order to serve our clients better. Furthermore, we must be able to help our clients electronically reconcile trade credits – on both sides of the equation. So technology is a significant aspect of our business, and it always will be.

Is there a particular industry

that Active focuses its marketing and sales efforts on?

Our business transcends industry lines. Leaving behind the view that merchandise is the only kind of under-performing asset has opened a tremendous amount of opportunities for us. We see opportunities in under-performing assets that companies do not see. We're able to monetize under-performing assets on a global basis.

Is there resistance on the part of the companies you approach with your business model, because they think of Active's services as too far outside the norm for conducting business?

I don't think the word is "resistance" anymore. Now that advertising agencies have entered into our space, a more significant awareness of the business has been created. In my opinion, educating the clients on the benefits of a corporate-trade transaction is all-important. We need to show them that we are a specialty financial company, and we sit on the same side of the desk as them.

We want a transaction to benefit the client, because if it doesn't, it shouldn't occur at all. So I think our industry has assumed a position where it isn't being

Even while managing and leading the other aspects of the business, do you still find time to make client contact?

I'm beginning to believe that in the 21st century, CEOs of any company – particularly service companies – have to go out on the firing line and sell their companies. They need to be able to lead from the front, not from the back. My involvement with prospects and with clients has grown to be more than it ever was before. I want to understand my clients' businesses. I want to meet them and learn how we can better service them. I want to ask them, "How can we do better tomorrow than we did today?" I think all great CEOs must do that.

Looking back to 1984 when you and Arthur Wagner founded Active International, did you imagine in those early days that the business would have grown in such exponential terms? And do you take time to step back and appreciate its successes?

I'm humbled by what has happened, and I never, in my life, dreamed this company would become as large as it is or as global as it is. It's overwhelming to look back, so I try not to. I try to look forward and say, "How can we do better today than we did yesterday? How can we build off this platform? How can our people take us to the next level?" Today, this company is more about its people than it is about me or about Arthur. It's about the vision, the imagination, and the drive of our people, and what they can do for us.

With so many growth opportunities available to Active, what have you identified as the company's key priorities and challenges?

It comes back to the people and the talent. It comes back to us being able to improve on the way we do business, to be able to communicate better with our clients, to better understand how to better serve our clients, and to grow our business. On the international side, the challenging part is culture – being able to understand different cultures and adapt our business to different environments.

After 20-odd years, you seem as excited about the business as ever. Do you ever think about slowing down?

I wake up in the morning very anxious to get to work. I enjoy what I do, and I enjoy the people I work with. I enjoy doing different things on a day-by-day basis. I don't know if I'll retire. I may slow down a little bit, but I just enjoy what I do and I so very much enjoy being around people. ●

2005 Ad Age Ranking

RECMA'S PARENT COMPANY RANKING
BY WORLDWIDE BILLINGS FROM MEDIA SPECIALISTS
(\$ in Billions)

| RANK | | WORLDWIDE BILLINGS | | | | |
|------|------|---------------------------|------------------|---------|---------|----------|
| 2004 | 2003 | Media Specialist Parent | Headquarters | 2004* | 2003* | % Change |
| 1 | 2 | WPP Group | London | \$48.06 | \$33.79 | 42.2 |
| 2 | 1 | Publicis Groupe | Paris | 34.64 | 34.40 | 0.7 |
| 3 | 3 | Interpublic Group of Cos. | New York | 27.87 | 29.39 | (5.6) |
| 4 | 4 | Omnicom Group | New York | 25.23 | 24.26 | 4.0 |
| 5 | 5 | Aegis Group | London | 20.36 | 19.64 | 3.7 |
| 6 | 7 | Havas | Suresnes, France | 8.78 | 8.63 | 1.7 |
| 7 | 9 | Active International | New York | 1.11 | 0.86 | 29.1 |
| 8 | 8 | Horizon Media | New York | 1.00 | 0.99 | 1.0 |
| 9 | 10 | R.J. Palmer | New York | 0.61 | 0.59 | 3.4 |
| 10 | N/A | J.L. Media | New Jersey | 0.50 | N/A | N/A |

* As of December 31st

ACTIVE INTERNATIONAL

resisted. We just need to educate people.

Is it challenging to manage the rapid growth of Active's business?

People are significant to any business, especially a service business. In order to be able to manage growth, you have to be able to train and educate your people and that takes time. It doesn't happen overnight. So we have to be able to find the right people, train the right people, and set them out to do what they have to do to gain experience.

Serving Clients' Interests

An Interview with Arthur Wagner, President and Cofounder, Active International, Pearl River, New York



Arthur Wagner

EDITORS' NOTE Prior to founding Active with partner Alan Elkin, Arthur Wagner served in senior sales and management positions at several broadcast companies, including Seltel, Inc., and Kaiser Broadcasting, which later became part of Katz Media Group. He is a director and former president of the International Reciprocal Trade Association's Corporate Barter Council, having previously served as that body's vice president and treasurer.

What is your outlook for Active's growth over the coming years? Where will the growth come from?

I'm very optimistic that the growth will continue. In fact, after 21 years, I think we're only at the tip of the iceberg. We've hardly tapped our four asset classifications, and we're now becoming a major player in real estate and debt. We're finding all sorts of solutions for our clients' asset challenges, and more importantly, we're continuing to develop new ways for our clients to utilize their trade credits far beyond media placement.

We estimate that eventually 50 percent of our business will come from our international division. The United States is still a great country to do business in, and because we're headquartered there, it's our number-one market. But the world is bigger and we're not limited by geography. We're looking for new business all

over the world – from China to Europe.

Is it difficult to communicate to the marketplace that Active is providing services in new areas?

We're applying energy toward marketing the company, through advertising, public relations, and other efforts. That said, and even though we're the global leader in the corporate-trading space, I still think we're one of the best-kept secrets in certain areas of the business community. If every company recognized the economic benefits of doing business with us, I think our business would just explode. Years ago, the barter business was a book trick for accounting. It no longer is. It's a question of cost reduction, real savings, and real profits. There are no accounting tricks with our process. True gains and cost reductions are achieved by using our services. Companies really don't need a serious problem to come to us.

You're saying that you provide a financial solution.

Absolutely. I'm providing cost reduction on purchasing to offset the loss on the sale of an asset that no longer carries its book value. It's my job to make people comfortable that we do things as capably and professionally as possible, and we need to let them know, if they are using trade credits for media placements, for instance, that they are getting the same media, at the same price, while utilizing a derivative-based trading process that reduces costs.

The long and the short of it is that you don't need a true problem to want to reduce your costs and make extra profit. If you were motivated to use our services because of a loss, so be it, but you don't need a loss to want to reduce costs and increase profits. Any business should always want to do that.

Do you think people understand the value of corporate trading, particularly given that history of dodgy accounting you mentioned?

It's a double-edged sword. All of my customers have come to the realization that our services have value, because they have seen them at work. We showed them that they didn't have to fear barter, as they had to in the past. They saw that we kept

our word and that we had integrity. Now, what about all those companies we haven't serviced? I think there are still many, many companies that have fears or concerns about corporate trading because of the things they have heard about or things they have experienced first hand. Some people think trade is in violation of Sarbanes-Oxley, for instance, but it's nothing of the sort. It's a tool that, if used properly and accounted for according to standards, saves you money. Auditors don't have to be concerned when we do business with our customers.

You've been personally involved in establishing a code of ethics for the corporate-trading industry. Why was it so important for you to have that level of involvement?

I think it's the primary reason that Active is where it is today. We have always promised to utilize the trade credit that we issue, and promised to deliver a dollar-per-trade-credit value. We don't try to entice companies to do business with us if they would have challenges using their trade credits, even though other disreputable companies might have done so. So we recognized that the industry needed integrity. If companies don't want to do business with me or my competitors, it's because they think we might act in an irresponsible way, and issue them trade credits we know they are unlikely to realize any benefit from. So we all got together to create a code of ethics and demonstrate to the market that we are responsible members of the corporate community. That's what Active stands for, and that's why each year, we do more business and satisfy more clients. We have kept our promise.

Is client interaction an important part of your role with Active?

It's my life. I try to be out there as much I can, because I want to impart my knowledge and techniques to my sales executives while I can. So I like to visit clients with them. I do it for the love of the business, and because it excites me. My people are young and they keep me young. Traveling with them and going after business with them is so exciting, rewarding, and enriching for me. ●

Creativity Without Limits

An Interview with Richard E. Vendig, Executive Vice President, Chief Financial & Administrative Officer, and Secretary, Active International, Pearl River, New York



Richard E. Vendig

EDITORS' NOTE Richard Vendig has served as chief financial and administrative officer at Katz Media Group, Inc., as well as finance director – international at Grey Advertising. He is a former audit partner with Ernst & Young. Vendig joined Active International in December 1998.

What are your key functions within the Active organization?

As the senior financial executive, I am involved in structuring transactions, making investments, facilitating transactions with clients, and virtually anything that has a financial aspect to it, particularly as we go into areas that we haven't operated in before. In addition, I advise the management team in financial matters and I make myself available to clients and vendors to support and facilitate our business goals.

How challenging is it to operate in those new areas you mentioned?

Corporate trade is a very flexible tool for our clients and vendors, and its purpose is to create economic value for them. When you consider the 66 different advertising categories and realize that a strategy involving corporate trade can operate in each area as well as non-media areas, you begin to understand how corporate trade can create value across all businesses. So once we understand what the client or vendor wants to achieve, our only limita-

tion is our own creativity and our ability to match our creativity with the practicality of the situation. So there is no real formula for working in new areas. There's no limit to what we can do, as long as it makes economic sense and it achieves the economic objectives of the partners. It's a good thing.

Real estate is a growing source of business for Active. Will it continue to be so?

Real estate is an interesting aspect of our business. It represents a substantial under-performing asset for many companies. We've seen a significant increase in the number of real estate transactions we've been involved in, simply because of the imbalance that exists in the economy between supply and demand.

If a client asked you how he or she would financially benefit from exchanging a real estate asset for trade credits, what answer would you give?

Whether it is real estate, capital goods, troubled receivables, or merchandise, it is all about creating value that otherwise would not be possible. Our markets operate on a basis of supply and demand. Oftentimes, imbalances exist or are created by an excess of supply and that has a tendency to drive values down. This downward pressure on value may be further heightened by, in the case of real estate, such factors as location, general market conditions like unemployment, or local market economic conditions, and so on. Corporate trade is a flexible tool for restoring or creating value by purchasing the asset not at current fair market value, but rather at a value which is a multiple of current fair market value in a trade credit. The trade credit is then used by the seller in lieu of cash creating a cash savings to purchase goods and services pursuant to the seller's specification and commercial terms. In this manner, value is created through future cash savings as the trade credit is utilized. Since the trade credit is a multiple of what could otherwise be received in cash for a cash sale of the property, the corporate trade

transaction creates more value than would otherwise be possible.

How does Active use technology to service its clients?

Technology is very much a part of the way we operate. Our financial systems are run on a PeopleSoft platform. We manage, account for, and keep track of the trade credits that we issue and retire through that platform, and we use specialty technology products to serve us in fulfilling our media commitments with clients.

How has recent legislation, such as Sarbanes-Oxley, impacted the way Active operates and CFOs view corporate trading as a viable tool for improving their companies' bottom lines?

In terms of Active's corporate governance, we operate in a similar way to a public company, with a board of eight outside directors, and two inside directors, an audit committee, a compensation committee, and a corporate governance committee. They represent a major resource for our company, in making sure that our corporate governance is appropriate and that our business is guided by appropriate strategies and principles. Today's CFOs are much more operationally oriented. In terms of our clients and vendors, Sarbanes has certainly defined controls that need to be in place. Corporate trade is consistent with maximizing shareholder value, which is what Sarbanes is attempting to preserve.

On what, in your opinion, is Active's operating strategy based?

I believe our operating strategy is somewhat self-fulfilling. The more business we do, the more credible we become. To date, we have saved our clients over \$1.5 billion. The more trade credits and value we deliver to our clients and vendors, the more sought after our services become. So, as I look to the future, Active's objective is to create an increased demand for corporate trade based on our employing the best people, providing the highest quality of service, and having a vision of growth for the future. ●

International Growth

An Interview with Fredrick Fuest, President,
International Division, Active International, Pearl River, New York



Fredrick Fuest

EDITORS' NOTE Before assuming his current post, Fredrick Fuest served as chief operating officer (1998 to 2005), executive vice president of Active's international operations (1996 to 1998), and as senior vice president of the same division (1995 to 1996). Prior to joining Active, Fuest was with the pharmaceutical giant Hoffman-La Roche for 25 years, where he served as chairman and CEO of Roche Professional Services and president and CEO of the Roche subsidiary Medi-Physiscs. Fuest earned a B.A. in physics from Drew University and an M.S. in environmental science from Rutgers University.

In which areas of the globe does Active predict the most growth?

We predict that Active's international division will, in the not-too-distant future, rival the U.S. division in size due to the strength of the EU and Asian economies. It's challenging dealing with a fragmented market, and we have to attack it on several different fronts, because we work very often on a country-by-country basis. That said, the area of greatest opportunity is Europe. I'm looking to unify Europe by moving trade credits across geographical boundaries. We can easily service any of our clients across all of Europe. Our inventory-remarketing group also has a strong operations network in Europe. To sum it up, the worldwide potential of this

division is tremendous and will be an area of great growth for Active over the coming years. We are very well positioned for that.

What about the Asian market? Are trade services in demand there?

Well, certainly in Japan, even though we face some cultural challenges with our business model there. China and Korea may not be ready for us yet, as our industry is generally better accepted in more commercially developed countries, but we have a significant, established presence in Australia. Business looks positive for us there.

How close is the coordination, region to region, among Active's international offices?

One of my goals as president of the international division is to sponsor a high level of communication across all of the international offices and with the head office. We continue to take actions to enhance and improve upon it, so that all of our offices know of each others' prospects, inventories, and other media services. That communication helps us move credits from one place to the other.

Is it important to present one corporate message worldwide?

Our business model, while it may sound complex, is elegantly simple and that message has to resonate consistently throughout the world. We also make it our global charge to support our clients by providing them with trade credits they can use. That's how they get value from our services. So we have to retire credits on the front end to get the leverage for our back-end services. And that has to be done on a consistent and standard platform. Having said that, we are aware of the cultural nuances of each of our markets. So we need to be flexible and tailor our approach with what's acceptable in commerce and in business in each of our countries. Our marketing and promotions may vary slightly, but the transactions are always conducted on a common, consistent platform.

Do executives in these international markets have an adequate understanding of Active's services?

Getting that message through may be our greatest challenge. It takes some time for many of our clients to grasp the

concept of what we do and the tremendous value it can bring to them. Of course, that's where the skill of our sales and our marketing organization lies. We have taken fairly aggressive marketing approaches in a couple of markets, but the one-on-one contact with prospective clients is what is necessary to develop their understanding of what we do.

Which specific industries benefit most from Active's services?

Theoretically, we can service any industry. However, the nature of certain industries allows them to more effectively retire trade credits, and therefore reap more benefits from our services. On the front end, consumer product companies, either manufacturers or retailers in the fashion, electronics, computer, and food and beverage industries, are easy fits for us, because their inventory has shorter shelf lives, and they are more apt to have excess inventory for trading. Generally speaking, they are also well suited to doing business with Active if they advertise. While we provide a wide array of business services to utilize trade credits, advertising and media still represent the major means by which we retire trade credits.

It's also important to note that Active's business has expanded into a variety of product classes. We not only deal with excess inventory, but we deal with real estate, bad debt, receivables, and capital equipment. Today we can deal with service companies or companies that are further up the manufacturing line – not just the consumer products manufacturers themselves.

What keeps you interested in and excited about Active's business?

We're able to provide services that can really improve the health of a company, over the short and long term. So that excites me, in addition to the varied nature of products that we deal with. This is not a cookie-cutter business. Transactions are designed and implemented to specific businesses and clients. The variety and the benefits we can provide to our clients are what attracted me to the business in the first place, and that's what keeps me excited about it now. ●

A Global Vendor

An Interview with Barry M. Green, Executive Vice President,
Sales and Marketing, Active International, Pearl River, New York



Barry M. Green

EDITORS' NOTE Prior to joining Active International, Barry Green served as assistant managing director of Deerfield Communications, a corporate-trading company based in New York. He was previously vice president of field operations for the American Consulting Corporation, where he led field-marketing operations for the Gatorade division of Quaker Oats. Green holds a B.S. in industrial psychology from George Washington University.

What is your outlook for Active's growth over the next few years?

We're extraordinarily optimistic for a variety of reasons. First and foremost, we provide our customers with value, and we have a reputation for doing so in the marketplace. That reputation allows us to get in the door with chief marketing officers and chief financial officers at prospective client companies. Once they see how our services can benefit them, there is nothing like seeing their enthusiasm for our business. So that is a huge source of sales for our company – our already satisfied customers.

We're also trying to involve entire client organizations in our transactions. We want to infiltrate companies on many fronts, issuing them trade credits for media, for freight, for printing services, and so on, that they can use on a global basis. In that way, we'll become a global vendor for that company and grow our business

with our existing clients. Winning new customers is time consuming, expensive, and more difficult than expanding on current customers' use of our services, which we find quite satisfying and stimulating for our business.

What kind of relationships has Active built with the pharmaceutical companies?

We're not allowed by law to buy pharmaceuticals as under-performing assets, but because pharmaceutical companies have become some of the largest advertisers in the U.S. over the last few years, they have a need for our services. So we work with several of them, purchasing advertising space for them, against trade credits from their real estate, over-the-counter products, and other corporate assets. Last year, we placed over \$350 million in magazine advertising, and I would venture to say that a significant portion of that was on behalf of the pharmaceutical industry.

Will Active achieve the same level of growth overseas as it has stateside?

Oftentimes, we enter a new geographical market because an existing client has needs there. But on the whole, our entry into new markets depends on the market itself. Some of our international markets are beginning to flourish financially, while others, for cultural and other reasons, have been a bit slower in coming around.

That said, we have a tremendous advantage over our competitors when it comes to international expansion, because we have head offices in many of the local markets and we can move trade credits to other parts of the world – wherever our clients' needs or opportunities exist.

Why is real estate such an important part of Active's current service portfolio?

Giving our customers the ultimate amount of flexibility for retiring their trade credits is the key to our growth. As great as certain trade-credit categories are, everything has its limitations and is subject to market changes. So that's why real estate is important to our business going forward.

What are Active's biggest challenges and priorities going forward?

The biggest challenge doesn't change;

it's helping people to understand our business. Those who understand that we take the inefficiency out of their markets take advantage of it, and they use our program in an aggressive and efficient way. And because some companies remain skeptical, we need to educate them, and then ask them to take a leap of faith and use our services on a large scale.

How do Active's marketing efforts factor into that client-education process?

Someone once said, "An educated consumer is our best customer." That is a critical component in our selling process. Our marketing efforts focus on – and our success depends on – building awareness and credibility in the marketplace. In addition to our collateral and our Web site, which was recently redesigned with enough timely content to invite in-depth viewing and participation, we endeavor to take a thought-leadership position in the marketplace through published bylined articles, surveys, interviews, and the like. We participate in more than 70 trade shows and conferences each year as well, speaking about corporate trade and the value it provides.

How do you market the company to your prospective employees?

Active has programs with business schools and a mentoring program, which have been very successful in attracting and developing talent. People see our business as very exciting and entrepreneurial.

Do you still find time to work one-on-one with clients?

It's a lot easier to manage 50 clients than it is to manage 500, but ultimately, my responsibility is to make sure that, when a seasoned salesperson manages an account, the client has the same experience as if I were doing it myself. I always have to remain in contact with those people. I think the majority of our client base feels they have great access to Active's upper management, while getting great service from the vice president of sales that they deal with. And our turnover rate is so low that our clients gain a sense of stability and confidence in our company. ●

\$1 Billion in Advertising

An Interview with Alan Brown, Executive Vice President,
Worldwide Media, Active International, Pearl River, New York



Alan Brown

EDITORS' NOTE A 22-year veteran of the corporate-trading industry, Alan Brown has served in a variety of positions throughout the sector, including senior vice president and director of media at Admerex. With a B.A. in English from the State University of New York at New Paltz, Brown joined Active International in 1988 and assumed his current post in 1994.

What does Active's worldwide media division do?

My group has to deliver on the promise made by the overall Active International organization that we will obtain media for a lower cost than our clients could have if they purchased it on their own with cash. Media represents about 85 percent of all of the trade credits that Active retires. We do that by buying our clients' under-performing assets with trade credits, and then we use their trade credits on a dollar-by-dollar basis – as if it were cash – to procure for them services that they would normally purchase for cash. We have deal structures with the media community that allow us to do that. It's not magic, and it's not because we're smarter or better negotiators. We actually do what agencies never do: we invest our own capital to make deals with broadcasters and publishers. We offer those companies cash, goods, or services that can help them run their business, and they offer us

a discount relative to the marketplace on media placements. Now, while we create discounts based on those investments, our clients don't pay a discounted rate, but they are able to pay in part using their trade credits issued by Active.

Are both broadcasters and publishers well aware of Active's services?

Absolutely. We are extremely material to the broadcasting and publishing industries. We are investing and spending over \$1 billion in advertising on behalf of our clients. Active has forged our relations with media companies by bringing a unique value proposition to the table. We have become a financial resource to them. We are able to react to their needs for capital, goods, and services, and receive in exchange future advertising time and space at a discount relative to the marketplace. We add further value by bringing them advertisers who are funding their media through a trading program. We also do not discount media to our clients, but rather pass along the value of our transactions by accepting partial payment in goods and services. This way, the value of our media partner's product is protected in the marketplace.

How do you determine what companies would make good clients?

Our first criteria for new business is that a company has an advertising budget, because our greatest capability as an organization is our ability to acquire advertising. Then it's best if they have some kind of under-performing asset that we could sell off at any price. Those assets fall into many categories, from toys to automobiles to pharmaceuticals to real estate to hotel-room nights.

When it comes to pitching new business, we're often going through the finance door, or at least ending up there. At the end of the day, we're able to, at full wholesale value, buy inventory from companies that they can't sell themselves at its intended value, but we pay with trade credits. Our value proposition is that our clients can use those credits to pay for portions of services that keep their businesses running.

Do you predict significant

growth for Active's worldwide media division on a global basis?

Yes, absolutely. The methods, the techniques, and the kinds of deal structures that we use domestically have all been implemented internationally. In the U.K., we deal with ITV, meaning they are holders of Active credits that we have used to purchase media from them. France Television, the sales entity for three different networks, holds Active credits, as does Televisa in Mexico, a network that we provide with programming in exchange for media time and other services. We have business in Canada and Australia, as well.

How do you determine what type of media placement – broadcast, print, or otherwise – is best suited to each of your clients?

The media we place for our clients is mostly directed by our clients and their agency. We deliver their plans 100 percent to goal using their established costs. In doing so, the value they receive from using their credits is clearly understood. We also have the benefit, by having a large client base, of being able to project our needs and investing accordingly. Agencies never invest their own capital, they spend their clients' money only when the client is ready to do so. Active can address the financial needs of the media community swiftly and decisively.

What will be your key priorities for Active's worldwide media division in the years ahead?

Ultimately, when we issue credits, there has to be a way for our clients to use their credits. Some smaller clients may just use their credits for hotel rooms and airfares, but when we close a \$30 million deal with a television network, we can't count on them using all of those credits for travel. For stations and media providers, media is not their biggest spend, but programming and content is. So those are areas that we have to be involved in to bring value to those clients. If we could deliver content to them at a price they would normally purchase it for, but offer them the ability to pay part in cash and part with trade credits, we could open the doors to larger-sized transactions. ●

Managing Risk

An Interview with Sharon P. Marshall, Esq.,
General Counsel, Active International, Pearl River, New York



Sharon P. Marshall

EDITORS' NOTE Sharon Marshall joined Active International in 1993 as associate general counsel and was promoted to general counsel in July 2002. Prior to joining Active, she served as corporate counsel for the DSN Companies, and before that as an associate at the law firm of Epstein, Becker & Green. Marshall received a B.A. from Clark University, an M.S.W. from Wurzweiler School of Social Work, and a J.D. from Benjamin N. Cardozo School of Law.

Could you give a brief overview of your role and responsibilities at Active?

As general counsel, I oversee the legal operations of the company on a worldwide basis. I am responsible for insuring that we assess and manage risk, and my department negotiates and finalizes the transactions in all of the areas in which Active does business, including our standard trade agreements with clients, our media purchase agreements with vendors, strategic alliances, printing agreements, confidentiality agreements, and finder's agreements. The legal department allocates its time on an as-needed basis depending upon the various transactions presented by our business people from time to time. We take care of all of the legal matters for the company around the world, and we interface with outside

counsel in various countries to insure that we are doing business in compliance with the laws of the local jurisdiction.

How does Active's legal department act as an enhanced service provider, as you described?

The legal department assists each of our offices to understand alternative deal structures and the impact of local law on our transactions, and to identify potential risk and find acceptable ways to manage that risk, in order to bring a deal to successful conclusion.

As Active's business has expanded into real estate, capital equipment, and so on, has your job as general counsel evolved?

I think that the expansion of our business has given the legal department the opportunity to grow professionally, to be creative, and to find new ways to get things done. Our CEO, Alan Elkin, actively supports us when we come up with new ideas and concepts. Alan looks at us as a partner in getting deals done. So that's very positive.

What precisely are your risk-assessment duties?

They are a spin-off of what I just described: We need to make sure that whatever Active agrees to do – whether buying a product or providing a service – can be done. We assess the risks of potential liability and litigation. So, for instance, if we are going to buy a product that we feel has inherent risk, because somebody could potentially be harmed by it, we are going to try to set up safeguards, such as liability insurance or indemnification, for the transaction. We also identify any risks for our management so they can make an informed decision as to whether they are willing to assume risk under certain circumstances. So our department helps the rest of the company understand what its potential exposure is.

What legal aspects of Active's business have changed with the growth of its real estate division?

Real estate is becoming a more important asset than it has ever been before, but it has always been important to Active. Some of the largest transactions that I have

worked on have been real estate related, both purchases and leases. Real estate has always had tremendous potential. In the past, we were less willing to take title to real estate, but today we are. Today, we are truly a full-service real estate business. We're taking title to properties, managing them, and selling them, and we're looking to take on leaseholds as well. We've become more proactive and willing to become more of a real estate business than a company that merely flips its assets.

Real estate deals tend to involve a trade agreement, which documents the client's purchase of media, goods, and/or services through Active and a purchase-and-sale agreement, which documents the real property purchase. We work with outside real estate counsel to understand how the particular laws of the jurisdiction in which the real property is located impacts legal issues, such as environmental, title, and tax matters that arise in the purchase and sale of real estate, and how they impact ownership and value of the property.

Do you spend a lot of time with Active's clients?

For the most part, we tend to become involved as the deal is getting ready to go to contract. With respect to working with Active's clients, our salespeople do such a good job of interfacing with them that, by the time our department is ready to paper the deal, our clients have already fully understood the benefits our company can provide. However, in talking to their attorneys, we face a different challenge. Often, they haven't heard of corporate trade and don't know what it involves. So that's where we play a very significant role. We have to be very professional, explain the way in which our company operates, and make sure that our company can fulfill the obligations spelled out in our contracts. We do our due diligence and make sure that we can deliver on anything the client wants to incorporate into the contract before the agreement is finalized. That's perhaps our most important responsibility. We want to leave the negotiating table with a contract and a transaction that everyone is going to be able to work with. ●

Delivering Global Value

An Interview with David Gallaher, Senior Vice President,
International Operations, Active International, Pearl River, New York



David Gallaher

EDITORS' NOTE After graduating from Rutgers University with a B.S. in chemistry, Dave Gallaher spent 25 years with the pharmaceutical giant Hoffman La Roche, serving in numerous executive capacities. He then joined Active International and assumed his current post in 1997.

Are you optimistic for Active's international growth? What geographies will it stem from?

I certainly think our international potential is comparable to what has already been achieved in the U.S., even though the business overseas is relatively young. However, at the growth rates we've achieved, one can envision growth of that magnitude because the business is out there, as are the under-performing assets and our ability to deliver value with trade credits.

We're primarily focused on the tremendous growth potential available to us in Europe and Latin America. And even though we have business on the Pacific Rim, we are not heavily engaged in any commerce in India or China. We are developing relationships there, but they will take a bit longer to achieve the success that we're already experiencing in Europe and in Latin America.

What methods does Active employ while educating potential clients in international markets?

The business is relatively new in the international markets, but we're doing a lot to educate our potential clients on our value proposition. We have found that our most effective approach is to secure in-person meetings with key executives. Since our method of delivering bottom-line results is novel and superior to more traditional approaches to the management of assets, including inventory, capital equipment, real estate, and receivables, it is important that we are able to explain our program clearly, and to answer the typical questions that naturally arise.

How have Active's services changed or evolved?

They have broadened quite a bit. We are doing more and more business beyond our core media fulfillment capacity. In fact about 20 to 25 percent of our business is in areas beyond media fulfillment, chiefly in printing point-of-sale displays, travel, packaging, and freight. Areas such as these will be critical growth for our international business, and we are investing in those opportunities to further improve fulfillment values for our clients.

Consumer products seem the most obvious clients for Active. But what other industries can you service?

Since Active has broadened both its capabilities in the management of various asset classes, such as real estate and receivables, and its fulfillment capabilities, adding capacities such as printing, packaging, point-of-sale materials, travel, and freight, we are now working in additional major industry segments, like banking and insurance, for example. Active is at its most nimble as a financial solution to companies with under-performing assets, regardless of what that asset is. So we're really showing our client base that we can be broader in terms of what solutions we can offer their bottom lines.

Is real estate becoming a more important piece of Active's international business?

Yes. Because of the scale of some multinational companies' real estate asset issues, we have several transactions in the pipeline that are truly global and that call upon Active's power to provide services in

multiple geographic markets. In terms of real estate asset transactions, only Active can bring a global solution to a global company, and that allows us to take a great leap forward in our business with multinational clients.

Is it difficult to attract the talented employees Active needs in foreign locations?

Our company and our business model tend to be quite attractive to people. But because our business model is unique, we have to do extensive training and development for the people we hire, because there are very few businesses like ours in the world. The development of our people is probably the most important thing to keep in mind, because our people are directly linked to our ability to execute transactions successfully in the marketplace.

In light of the global nature of Active's business, is it important that the corporate messaging be consistent worldwide?

Yes, it's critical, because we meet our audience – very often large, multinational companies – in almost every market. We have to be very consistent in terms of our value proposition and what we do to deliver that value. Active has met that challenge successfully and is more than ready to continually do so.

Are you still able to spend time, one on one, with your clients?

Geography makes that challenging. In a global business, it takes a long time to get to any one of the offices, but I have to be out there. At the end of the day, this is a people business, so it's my mission to be out there as much as possible.

In your opinion, what will be Active's key challenges or priorities in the coming years?

We have such great market potential, so we have to keep bringing the right people onto our team, and then train and develop them effectively. That's how we'll achieve our growth goals. We also have an opportunity to broaden our value-delivery capabilities and to make our value proposition even more attractive to a broader audience of clients. ●

Increasing Real Estate Values

An Interview with Mark Ordover, Senior Vice President
and Director, Worldwide Real Estate, Active International, Pearl River, New York



Mark Ordover

EDITORS' NOTE Before assuming his current position in 2004, Mark Ordover served as senior vice president of sales for Active International, which he joined in 1992 after holding an investment banking position with Bankers Trust. He received an M.B.A. from Columbia University's School of Business.

Can you provide a brief overview of Active's real estate services?

Active's real estate practice is similar to Active's other solutions, in that we endeavor to pay our clients significantly more value than they could otherwise get by selling surplus or distressed real estate into the cash marketplace. So it is our responsibility to develop a professional practice that has all the financial skills of evaluation and analysis of any real estate business and to provide them on a worldwide basis. We can discuss with our clients the current market value of their real estate and what it might be in the future under other circumstances, and we can tell them that they have an alternative to selling it for cash: They can sell it to us for a significantly higher value, in return for a commitment to purchase various goods and services through Active over a defined period of time.

Are you pleased with the market's awareness of Active's real estate offering and what programs are you

putting in place to expand that awareness?

This group was founded in April 2004, and we have focused on several marketing initiatives that are new and unique to our business. For instance, we started the Active Index, a research tool published quarterly to define the parameters of the surplus real estate market for today's corporate executives. Compiled from data submitted by up to 2,000 real estate brokers, the index will define for executives just how much surplus real estate there is in the market, what companies traditionally do with it, what are the highest values received for it based on the alternatives used, and what new and exciting methods are available to handle it. The second index was just launched in September.

Will growth come from both the U.S. and overseas markets for Active's real estate business?

I see clear growth in both pipelines. For us, Mexico and Canada, coupled with the U.S., should experience tremendous growth, because in all three markets, our ability to deliver media and other business services is unmatched in our industry. The next biggest target for growth will be Europe: with a primary initial focus on Britain, France, and Germany.

Do your clients come to Active knowing which real estate assets they want to turn in for trade credits, or do you help them make informed sales decisions? If the latter, what criteria do you use in the selection of those assets?

The answer is a little of both. Many of our clients have zeroed in on a particular problematic asset; therefore, our program makes sense for them as a means to ease them out of the problem. In other cases, we have reviewed, and are currently reviewing for our clients, their portfolio so that we help direct them to which assets we can create the highest return for. In some instances, in order to really help out with an asset that has little or no value, we need to couple it with another one, in order to get a high return for both assets.

Active just may be the biggest name in the corporate-trading arena,

but is it a competitive industry?

Well, most of the big media holding companies here in the U.S., like Omnicom and Interpublic, have gotten into this business by acquiring an outside agency or developing their own. So, while their organizations have tremendous clout and power, their barter arms are still very nascent in terms of both the human and financial capital behind the business. However, it is competitive, and it is growing in the U.S. In Europe, Mexico, and Canada, the biggest single opportunity we have is tying together our worldwide businesses into the \$1 billion-plus business that we have in the U.S. It would be very hard for another corporate-trading company to do that kind of business in those markets on their own, because a lot of the spending, commitments, and help for those markets is coming out of the U.S. for Active.

In pitching your services to prospective clients, are you normally working with the C suite?

We absolutely need to. The CFO of a large retailer, a \$60 billion company, is our sponsor for our business with them. One transaction that we have going in Europe is with a \$20 billion company, and the CEO, CFO, and worldwide procurement heads are all trying to help us define a project and a transaction that works for both us and them. So the more we work with those high-priced deals, the deeper our involvement with C-level executives needs to be, because our services will be more closely analyzed based on their economic merits.

The real estate side of Active's business is seemingly a people business, but what kind of role does technology play?

On the marketing front, we are able to use electronic data delivery and communications to sell our solutions, particularly in conjunction with our strategic partners, such as CB Richard Ellis and Grubb & Ellis. So we use technology to help grow our business. We've also redesigned our Web site and our Active Index to include more information for our brokers and investment partners. ●