

PORTFOLIO RECOVERY ASSOCIATES INC  
Form 10-Q  
May 08, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 75-3078675  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

120 Corporate Boulevard, Norfolk, Virginia 23502  
(Address of principal executive offices) (zip code)  
(888) 772-7326  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

|                                |                               |
|--------------------------------|-------------------------------|
| Class                          | Outstanding as of May 5, 2013 |
| Common Stock, \$0.01 par value | 16,904,120                    |



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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PORTFOLIO RECOVERY ASSOCIATES, INC.

## CONSOLIDATED BALANCE SHEETS

March 31, 2013 and December 31, 2012

(unaudited)

(Amounts in thousands, except per share amounts)

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Assets  |                   |                      |
| Cash and cash equivalents   | \$39,111          | \$32,687             |
| Finance receivables, net  | 1,169,747         | 1,078,951            |
| Accounts receivable, net  | 9,234             | 10,486               |
| Property and equipment, net   | 25,470            | 25,312               |
| Goodwill  | 106,912           | 109,488              |
| Intangible assets, net  | 18,550            | 20,364               |
| Other assets  | 13,715            | 11,668               |
| Total assets  | \$1,382,739       | \$1,288,956          |
| Liabilities and Equity  |                   |                      |
| Liabilities:  |                   |                      |
| Accounts payable  | \$12,590          | \$12,155             |
| Accrued expenses and other liabilities  | 20,283            | 18,953               |
| Income taxes payable  | 22,349            | 3,125                |
| Accrued payroll and bonuses   | 9,260             | 12,804               |
| Net deferred tax liability  | 185,772           | 185,277              |
| Line of credit  | 172,000           | 127,000              |
| Long-term debt  | 199,159           | 200,542              |
| Total liabilities   | 621,413           | 559,856              |
| Commitments and contingencies (Note 11)   |                   |                      |
| Redeemable noncontrolling interest  | 10,336            | 20,673               |
| Stockholders' equity:   |                   |                      |
| Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0  | —                 | —                    |
| Common stock, par value \$0.01, 60,000 authorized shares, 16,959 issued and outstanding shares at March 31, 2013, and 16,909 issued and outstanding shares at December 31, 2012 | 170               | 169                  |
| Additional paid-in capital  | 159,596           | 151,216              |
| Retained earnings   | 592,791           | 554,191              |
| Accumulated other comprehensive (loss)/income   | (1,567            | ) 2,851              |
| Total stockholders' equity  | 750,990           | 708,427              |
| Total liabilities and equity  | \$1,382,739       | \$1,288,956          |

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED INCOME STATEMENTS  
For the three months ended March 31, 2013 and 2012  
(unaudited)  
(Amounts in thousands, except per share amounts)

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2013                         | 2012      |
| Revenues:   |                              |           |
| Income recognized on finance receivables, net                                   | \$154,792                    | \$124,226 |
| Fee income  | 14,767                       | 15,920    |
| Total revenues  | 169,559                      | 140,146   |
| Operating expenses:   |                              |           |
| Compensation and employee services  | 44,997                       | 39,694    |
| Legal collection fees   | 10,529                       | 7,617     |
| Legal collection costs  | 20,501                       | 23,669    |
| Agent fees  | 1,609                        | 1,627     |
| Outside fees and services   | 7,447                        | 5,860     |
| Communications  | 8,961                        | 8,253     |
| Rent and occupancy  | 1,687                        | 1,611     |
| Depreciation and amortization   | 3,366                        | 3,656     |
| Other operating expenses  | 4,575                        | 3,738     |
| Total operating expenses  | 103,672                      | 95,725    |
| Income from operations  | 65,887                       | 44,421    |
| Other income and (expense):   |                              |           |
| Interest income   | —                            | 1         |
| Interest expense  | (2,689)                      | (2,653)   |
| Income before income taxes  | 63,198                       | 41,769    |
| Provision for income taxes  | 24,681                       | 16,580    |
| Net income  | \$38,517                     | \$25,189  |
| Adjustment for loss attributable to redeemable noncontrolling interest          | (83)                         | (273)     |
| Net income attributable to Portfolio Recovery Associates, Inc.                  | \$38,600                     | \$25,462  |
| Net income per common share attributable to Portfolio Recovery Associates, Inc: |                              |           |
| Basic   | \$2.28                       | \$1.48    |
| Diluted   | \$2.26                       | \$1.47    |
| Weighted average number of shares outstanding:                                  |                              |           |
| Basic   | 16,937                       | 17,196    |
| Diluted   | 17,091                       | 17,267    |

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2013 and 2012

(unaudited)

(Amounts in thousands)

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2013                         | 2012     |
| Net income   | \$38,517                     | \$25,189 |
| Other comprehensive (loss)/income:                                       |                              |          |
| Foreign currency translation adjustments                                 | (4,418                       | ) 1,347  |
| Total other comprehensive (loss)/income                                  | (4,418                       | ) 1,347  |
| Comprehensive income   | 34,099                       | 26,536   |
| Comprehensive loss attributable to noncontrolling interest               | (83                          | ) (273   |
| Comprehensive income attributable to Portfolio Recovery Associates, Inc. | \$34,182                     | \$26,809 |

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the three months ended March 31, 2013

(unaudited)

(Amounts in thousands)

|  | Common Stock |        | Additional | Retained   | Accumulated   | Total         |
|--|--------------|--------|------------|------------|---------------|---------------|
|  | Shares       | Amount | Paid-in    | Earnings   | Other         | Stockholders' |
|  |              |        | Capital    |            | Comprehensive | Equity        |
| Balance at December 31, 2012                                   | 16,909       | \$ 169 | \$ 151,216 | \$ 554,191 | \$ 2,851      | \$ 708,427    |
| Components of comprehensive income:                            |              |        |            |            |               |               |
| Net income attributable to Portfolio Recovery Associates, Inc. | —            | —      | —          | 38,600     | —             | 38,600        |
| Foreign currency translation adjustment                        | —            | —      | —          | —          | (4,418 )      | (4,418 )      |
| Vesting of nonvested shares                                    | 66           | 1      | (1 )       | —          | —             | —             |
| Repurchase and cancellation of common stock                    | (16 )        | —      | (1,912 )   | —          | —             | (1,912 )      |
| Amortization of share-based compensation                       | —            | —      | 2,986      | —          | —             | 2,986         |
| Income tax benefit from share-based compensation               | —            | —      | 2,207      | —          | —             | 2,207         |
| Employee stock relinquished for payment of taxes               | —            | —      | (4,002 )   | —          | —             | (4,002 )      |
| Purchase of noncontrolling interest                            | —            | —      | 9,162      | —          | —             | 9,162         |
| Adjustment of the noncontrolling interest measurement amount   | —            | —      | (60 )      | —          | —             | (60 )         |
| Balance at March 31, 2013                                      | 16,959       | \$ 170 | \$ 159,596 | \$ 592,791 | \$ (1,567 )   | \$ 750,990    |

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2013 and 2012

(unaudited)

(Amounts in thousands)

|   | Three Months Ended March 31, |            |   |
|---|------------------------------|------------|---|
|   | 2013                         | 2012       |   |
| Cash flows from operating activities:   |                              |            |   |
| Net income  | \$38,517                     | \$25,189   |   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |            |   |
| Amortization of share-based compensation  | 2,986                        | 2,347      |   |
| Depreciation and amortization   | 3,366                        | 3,656      |   |
| Deferred tax expense  | 529                          | 403        |   |
| Changes in operating assets and liabilities:                                      |                              |            |   |
| Other assets  | (2,070                       | ) 711      |   |
| Accounts receivable   | 1,149                        | 2,922      |   |
| Accounts payable  | 588                          | (3,687     | ) |
| Income taxes  | 19,088                       | 1,118      |   |
| Accrued expenses  | (2,503                       | ) (3,419   | ) |
| Accrued payroll and bonuses   | (3,537                       | ) (9,181   | ) |
| Net cash provided by operating activities   | 58,113                       | 20,059     |   |
| Cash flows from investing activities:   |                              |            |   |
| Purchases of property and equipment   | (2,466                       | ) (1,152   | ) |
| Acquisition of finance receivables, net of buybacks                               | (212,389                     | ) (108,176 | ) |
| Collections applied to principal on finance receivables                           | 120,671                      | 93,770     |   |
| Business acquisition, net of cash acquired  | —                            | (48,653    | ) |
| Net cash used in investing activities   | (94,184                      | ) (64,211  | ) |
| Cash flows from financing activities:   |                              |            |   |
| Income tax benefit from share-based compensation                                  | 2,207                        | 1,440      |   |
| Proceeds from line of credit  | 95,000                       | 95,000     |   |
| Principal payments on line of credit  | (50,000                      | ) (50,000  | ) |
| Repurchases of common stock   | (1,912                       | ) (2,081   | ) |
| Cash paid for purchase of portion of noncontrolling interest                      | (1,150                       | ) —        |   |
| Distributions paid to noncontrolling interest                                     | (51                          | ) —        |   |
| Principal payments on long-term debt  | (1,384                       | ) (310     | ) |
| Net cash provided by financing activities   | 42,710                       | 44,049     |   |
| Effect of exchange rate on cash   | (215                         | ) 1,474    |   |
| Net increase in cash and cash equivalents   | 6,424                        | 1,371      |   |
| Cash and cash equivalents, beginning of period                                    | 32,687                       | 26,697     |   |
| Cash and cash equivalents, end of period  | \$39,111                     | \$28,068   |   |
| Supplemental disclosure of cash flow information:                                 |                              |            |   |
| Cash paid for interest  | \$2,656                      | \$2,557    |   |
| Cash paid for income taxes  | 2,866                        | 12,497     |   |
| Noncash investing and financing activities:                                       |                              |            |   |
| Adjustment of the noncontrolling interest measurement amount                      | \$(60                        | ) \$(1,225 | ) |
| Distributions payable relating to noncontrolling interest                         | 2                            | —          |   |
| Purchase of noncontrolling interest   | 9,162                        | —          |   |
| Employee stock relinquished for payment of taxes                                  | (4,002                       | ) (2,066   | ) |

The accompanying notes are an integral part of these consolidated financial statements.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)**1. Organization and Business:**

Portfolio Recovery Associates, Inc., a Delaware corporation, and its subsidiaries (collectively, the “Company”) is a financial and business service company operating principally in the United States and the United Kingdom. Two call centers, one in the Philippines and one in Panama, operate under contract with the Company. The Company’s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis and provides class action claims settlement recovery services and related payment processing to corporate clients.

The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Under the guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 “Segment Reporting” (“ASC 280”), the Company has determined that it has several operating segments that meet the aggregation criteria of ASC 280, and therefore, it has one reportable segment, accounts receivable management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.

The following table shows the amount of revenue generated for the three months ended March 31, 2013 and 2012 and long-lived assets held at March 31, 2013 and 2012 by geographical location (amounts in thousands):

|                | As Of And For The<br>Three Months Ended March 31,<br>2013 |                      | As Of And For The<br>Three Months Ended March 31,<br>2012 |                      |
|----------------|---|----------------------|---|----------------------|
|                | Revenues  | Long-Lived<br>Assets | Revenues  | Long-Lived<br>Assets |
| United States  | \$166,929   | \$23,770             | \$135,508   | \$25,137             |
| United Kingdom | 2,630   | 1,700                | 4,638   | 1,232                |
| Total          | \$169,559   | \$25,470             | \$140,146   | \$26,369             |

Revenues are attributed to countries based on the location of the related operations. Long-lived assets consist of net property and equipment.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s consolidated balance sheet as of March 31, 2013, its consolidated income statements and statements of comprehensive income for the three months ended March 31, 2013 and 2012, its consolidated statement of changes in stockholders’ equity for the three months ended March 31, 2013, and its consolidated statements of cash flows for the three months ended March 31, 2013 and 2012. The consolidated income statements of the Company for the three months ended March 31, 2013 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2012 Annual Report on Form 10-K, filed on February 28, 2013.

**2. Finance Receivables, net:**

The Company accounts for its investment in finance receivables under the guidance of ASC Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”). The Company acquires portfolios of accounts that have experienced deterioration of credit quality between origination and the Company’s acquisition of

the accounts. The amount paid for a portfolio reflects the Company's determination that it is probable the Company will be unable to collect all amounts due according to an account's contractual terms. At acquisition, the Company reviews the accounts to determine whether there is evidence of deterioration of credit quality since origination, and if it is probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the Company then determines whether each such account is to be accounted for individually or whether such accounts will be assembled into pools based on common risk characteristics. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows (expected at acquisition) for each acquired portfolio based on the Company's proprietary models, and the Company subsequently aggregates portfolios of accounts into pools. The Company determines the excess of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

pool's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the pool's cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the remaining estimated life of the pool (accretable yield). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows, based on the Company's estimates derived from its proprietary collection models, not be recognized as an adjustment of revenue or expense or on the balance sheet.

Under ASC 310-30 static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which may include certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, payments applied to principal and loss provision. Once a static pool is established for a calendar quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30, utilizing the interest method, initially freezes the yield, estimated when the accounts are purchased, as the basis for subsequent impairment testing. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company's proprietary collection models. Income on finance receivables is accrued quarterly based on each static pool's effective yield. Significant increases in expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over a pool's remaining life. Any increase to the yield then becomes the new benchmark for impairment testing. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheets. Cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as principal amortization). Likewise, cash flows that are less than the interest accrual will accrete the carrying balance. Generally, the Company does not record accretion in the first six to twelve months of the life of the pool; accordingly, the Company utilizes either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the pool. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Additionally, the Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These cost recovery pools are not aggregated with other pools. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the pool, or until such time that the Company considers the collections to be probable and estimable and begins to recognize income based on the interest method as described above. At March 31, 2013 and 2012, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of \$12.3 million and \$0.8 million, respectively; at December 31, 2012, the amount was \$4.2 million. The Company establishes valuation allowances, if necessary, for acquired accounts subject to ASC 310-10. Valuation allowances are established only subsequent to acquisition of the accounts. At March 31, 2013 and 2012, the Company had a valuation allowance against its finance receivables of \$95.3 million and \$87.1 million, respectively; at December 31, 2012, the valuation allowance was \$93.1 million.

The Company implements the accounting for income recognized on finance receivables under ASC 310-30 as follows. The Company creates each accounting pool using its projections of estimated cash flows and expected economic life. The Company then computes the effective yield that fully amortizes the pool to the end of its expected economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, the Company balances those results to the data contained in its proprietary models to ensure accuracy, then reviews each pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), regularly re-forecasting future cash flows utilizing the Company's statistical models. The review

process is primarily performed by the Company's finance staff; however, the Company's operational and statistical staffs are also involved, providing updated statistical input and cash projections to the finance staff. If there is an increase in expected cash flows, the Company will recognize the effect of the increase prospectively through an increase in yield. If a valuation allowance had been previously recognized for that pool, the allowance is reversed before recording any prospective yield adjustments. If the over performance is considered more of an acceleration of cash flows (a timing difference), the Company will: a) adjust estimated future cash flows downward which effectively extends the amortization period to fall within a reasonable expectation of the pool's economic life, b) introduce some level of future cash adjustment as noted previously coupled with an increase in yield in order for the amortization period to fall within a reasonable expectation of the pool's economic life, or c) take no action at all if the amortization period falls within a reasonable expectation of the pool's expected economic life. To the extent there is underperformance, the Company will record an allowance if the underperformance is significant

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

and will also consider revising estimated future cash flows based on current period information, or take no action if the pool's amortization period is reasonable and falls within the currently projected economic life.

Changes in finance receivables, net for the three months ended March 31, 2013 and 2012 were as follows (amounts in thousands):

|  | Three Months Ended<br>March 31, 2013 | Three Months Ended<br>March 31, 2012 |
|--|--------------------------------------|--------------------------------------|
| Balance at beginning of period                       | \$1,078,951                          | \$926,734                            |
| Acquisitions of finance receivables, net of buybacks | 212,389                              | 112,093                              |
| Foreign currency translation adjustment              | (922)                                | ) 185                                |
| Cash collections                                     | (275,463)                            | ) (217,996)                          |
| Income recognized on finance receivables, net        | 154,792                              | 124,226                              |
| Cash collections applied to principal                | (120,671)                            | ) (93,770)                           |
| Balance at end of period                             | \$1,169,747                          | \$945,242                            |

At the time of acquisition, the life of each pool is generally estimated to be between 60 to 96 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. Based upon current projections, cash collections applied to principal on finance receivables as of March 31, 2013 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

|                |             |
|----------------|-------------|
| March 31, 2014 | \$392,143   |
| March 31, 2015 | 327,492     |
| March 31, 2016 | 249,805     |
| March 31, 2017 | 146,491     |
| March 31, 2018 | 53,816      |
|                | \$1,169,747 |

During the three months ended March 31, 2013 and 2012, the Company purchased approximately \$1.85 billion and \$1.46 billion, respectively, in face value of charged-off consumer receivables. At March 31, 2013, the estimated remaining collections ("ERC") on the receivables purchased in the three months ended March 31, 2013 and 2012, were \$378.0 million and \$151.9 million, respectively.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows. Changes in accretable yield for the three months ended March 31, 2013 and 2012 were as follows (amounts in thousands):

|   | Three Months Ended<br>March 31, 2013 | Three Months Ended<br>March 31, 2012 |
|---|--------------------------------------|--------------------------------------|
| Balance at beginning of period                      | \$ 1,239,674                         | \$ 1,026,614                         |
| Income recognized on finance receivables, net       | (154,792)                            | ) (124,226)                          |
| Additions   | 182,505                              | 99,552                               |
| Net reclassifications from nonaccretable difference | 53,764                               | 86,638                               |

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|   |              |   |              |
|---|--------------|---|--------------|
| Foreign currency translation adjustment | (4,007       | ) | 174          |
| Balance at end of period                | \$ 1,317,144 |   | \$ 1,088,752 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

A valuation allowance is recorded for significant decreases in expected cash flows or a change in the expected timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently on the overall profitability of purchased pools of defaulted consumer receivables would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relate to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company's collection staff. The following is a summary of activity within the Company's valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three months ended March 31, 2013 and 2012 (amounts in thousands):

|   | Three Months Ended March 31, 2013 |   |             |
|---|-----------------------------------|---|-------------|
|   | Core Portfolio <sup>(1)</sup>     | Purchased Bankruptcy Portfolio <sup>(2)</sup> | Total       |
| Valuation allowance - finance receivables:      |                                   |   |             |
| Beginning balance                               | \$74,500                          | \$ 18,623                                     | \$93,123    |
| Allowance charges                               | 300                               | 4,660   | 4,960       |
| Reversal of previous recorded allowance charges | (2,700                            | ) (87   | ) (2,787    |
| Net allowance charges                           | (2,400                            | ) 4,573                                       | 2,173       |
| Ending balance                                  | \$72,100                          | \$ 23,196                                     | \$95,296    |
| Finance receivables, net <sup>(3)</sup> :       | \$586,916                         | \$ 570,877                                    | \$1,157,793 |
|   |                                   |   |             |
|   | Three Months Ended March 31, 2012 |   |             |
|   | Core Portfolio <sup>(1)</sup>     | Purchased Bankruptcy Portfolio <sup>(2)</sup> | Total       |
| Valuation allowance - finance receivables:      |                                   |   |             |
| Beginning balance                               | \$76,580                          | \$ 9,991                                      | \$86,571    |
| Allowance charges                               | 1,350                             | 1,100   | 2,450       |
| Reversal of previous recorded allowance charges | (1,820                            | ) (136  | ) (1,956    |
| Net allowance charges                           | (470                              | ) 964   | 494         |
| Ending balance                                  | \$76,110                          | \$ 10,955                                     | \$87,065    |
| Finance receivables, net <sup>(3)</sup> :       | \$453,709                         | \$ 486,137                                    | \$939,846   |

(1) "Core" accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a bankrupt status upon purchase. These accounts are aggregated separately from purchased bankruptcy accounts.

(2) "Purchased bankruptcy" accounts or portfolios refer to accounts or portfolios that are in bankruptcy status when purchased, and as such, are purchased as a pool of bankrupt accounts.

(3) At March 31, 2013, the MHH finance receivables balance was \$12.0 million against which there was no valuation allowance recorded; therefore it is not included in this roll-forward.

## 3. Line of Credit:

On December 19, 2012, the Company entered into a credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the "Credit Agreement"). Under the terms of the Credit Agreement, the credit facility includes an aggregate principal amount available of \$600.0 million (subject to the borrowing base and



applicable debt covenants) which consists of a \$200.0 million floating rate term loan that matures on December 19, 2017 and a \$400.0 million revolving credit facility that matures on December 19, 2017. The term and revolving loans accrue interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. The Company's revolving

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credit facility includes a \$20 million swingline loan sublimit, a \$20 million letter of credit sublimit and a \$20 million alternative currency equivalent sublimit. It also contains an accordion loan feature that allows the Company to request an increase of up to \$250.0 million in the amount available for borrowing under the revolving credit facility, whether from existing or new lenders, subject to terms of the Credit Agreement. No existing lender is obligated to increase its commitment. The Credit Agreement is secured by a first priority lien on substantially all of the Company's assets. The Credit Agreement contains restrictive covenants and events of default including the following:

- borrowings may not exceed 30% of the ERC of all its eligible asset pools plus 75% of its eligible accounts receivable;
- the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.0 to 1.0 as of the end of any fiscal quarter;
- consolidated tangible net worth (as defined in the Credit Agreement) must equal or exceed \$455,091,200 plus 50% of positive cumulative consolidated net income for each fiscal quarter beginning with the quarter ended December 31, 2012, plus 50% of the cumulative net proceeds of any equity offering;
- capital expenditures during any fiscal year cannot exceed \$30 million;
- cash dividends and distributions during any fiscal year cannot exceed \$20 million;
- stock repurchases during the term of the agreement cannot exceed \$250 million and cannot exceed \$100 million in a single fiscal year;
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$250 million;
- the Company must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused commitment fee of 0.375% per annum, payable quarterly in arrears. The Company's borrowings at March 31, 2013 consisted of \$148.0 million in 30-day Eurodollar rate loans and \$24.0 million in base rate loans with a weighted average interest rate of 2.74%. In addition, the Company had \$198.8 million outstanding on the term loan at March 31, 2013 with an annual interest rate as of March 31, 2013 of 2.70%. Refer to Note 4 "Long-Term Debt" for payment details related to the term loan.

The Company had \$370.8 million and \$327.0 million of borrowings outstanding on its credit facilities as of March 31, 2013 and December 31, 2012, respectively. These total borrowings include long-term debt as discussed in Note 4 "Long-Term Debt".

The Company was in compliance with all covenants of its credit facilities as of March 31, 2013 and December 31, 2012.

4. Long-Term Debt:

On December 19, 2012, the Company entered into the Credit Agreement. Under the terms of the Credit Agreement, the credit facility includes a \$200 million floating rate term loan that matures on December 19, 2017. The term loan accrues interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum. See Note 3 "Line of Credit" for additional details regarding interest rates and restrictive covenants. The term loan includes quarterly principal payments on the last day of each calendar quarter beginning March 31, 2013 and ending on the maturity date of December 19, 2017.

On December 15, 2010, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of approximately \$1.6 million. The loan is collateralized by the related computer software and equipment. The loan term is 3 years with a fixed rate of 3.69% with monthly installments, including interest, of \$46,108 beginning on January 15, 2011, and it matures on December 15, 2013.

The following principal payments are due on the Company's long-term debt as of March 31, 2013 for the twelve month periods ending (amounts in thousands):

|                |         |
|----------------|---------|
| March 31, 2014 | \$6,659 |
| March 31, 2015 | 11,250  |

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|                |           |
|----------------|-----------|
| March 31, 2016 | 16,250    |
| March 31, 2017 | 25,000    |
| March 31, 2018 | 140,000   |
| Total          | \$199,159 |

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## 5. Property and Equipment, net:

Property and equipment, at cost, consisted of the following as of the dates indicated (amounts in thousands):

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Software                                  | \$30,137          | \$29,467             |
| Computer equipment                        | 13,862            | 14,129               |
| Furniture and fixtures                    | 7,311             | 7,220                |
| Equipment                                 | 9,434             | 8,674                |
| Leasehold improvements                    | 7,323             | 7,231                |
| Building and improvements                 | 7,012             | 7,014                |
| Land                                      | 1,269             | 1,269                |
| Accumulated depreciation and amortization | (50,878           | ) (49,692            |
| Property and equipment, net               | \$25,470          | \$25,312             |

Depreciation and amortization expense relating to property and equipment for the three months ended March 31, 2013 and 2012, was \$2.2 million and \$2.2 million, respectively.

The Company, in accordance with the guidance of FASB ASC Topic 350-40 "Internal-Use Software" ("ASC 350-40"), capitalizes qualifying computer software costs incurred during the application development stage and amortizes them over their estimated useful life of three to seven years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company's policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software. Capitalizable personnel costs are limited to the time directly spent on such projects. As of March 31, 2013 and December 31, 2012, the Company incurred and capitalized approximately \$8.4 million and \$7.8 million, respectively, of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, at March 31, 2013 and December 31, 2012, approximately \$1.4 million and \$1.3 million, respectively, is for projects that were in the development stage and, therefore are a component of "Other Assets." Once the projects are completed, the costs are transferred to Software and amortized over their estimated useful life of three to seven years. Amortization expense for the three months ended March 31, 2013 and 2012, was approximately \$0.3 million and \$0.3 million, respectively. The remaining unamortized costs relating to internally developed software at March 31, 2013 and December 31, 2012 were approximately \$4.0 million and \$3.9 million, respectively.

## 6. Redeemable Noncontrolling Interest:

In accordance with ASC 810, the Company has consolidated all financial statement accounts of Claims Compensation Bureau, LLC ("CCB") in its consolidated balance sheets and its consolidated income statements. The redeemable noncontrolling interest amount is separately stated on the consolidated balance sheets and represents the 19% and 38% interest in CCB not owned by the Company at March 31, 2013 and December 31, 2012, respectively. In addition, net income/loss attributable to the noncontrolling interest is stated separately in the consolidated income statements. The Company has the right through February 28, 2015 to purchase the remaining 19% of CCB at certain multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"). In addition, beginning March 1, 2012 and ending February 28, 2015, the noncontrolling interest can require the Company to purchase up to one-third of its membership units in CCB per annual period at pre-defined multiples of EBITDA, subject to achievement of a minimum amount of trailing EBITDA. Beginning March 31, 2015 and ending February 28, 2018, the noncontrolling interest can require the Company to purchase all or any portion of its remaining membership units in CCB at pre-defined multiples of EBITDA, with no restrictions.

On February 1, 2013, the Company purchased one-half of the remaining interest in CCB for a purchase price of \$1.1 million. The purchase price was derived from the formula stipulated in the contractual agreement and was based on prior levels of EBITDA.

The maximum redemption value of the noncontrolling interest, as if it were currently redeemable by the holder of the put option under the terms of the put arrangement, was \$11.4 million at March 31, 2013.

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The following table represents the changes in the redeemable noncontrolling interest for the three months ended March 31, 2013 and 2012 (amounts in thousands):

|  | Three Months Ended<br>March 31, 2013 | Three Months Ended<br>March 31, 2012 |
|--|--------------------------------------|--------------------------------------|
| Balance at beginning of period                               | \$ 20,673                            | \$ 17,831                            |
| Net loss attributable to redeemable noncontrolling interest  | (83 )                                | (273 )                               |
| Distributions payable  | (2 )                                 | —                                    |
| Purchase of portion of noncontrolling interest               | (10,312 )                            | —                                    |
| Adjustment of the noncontrolling interest measurement amount | 60                                   | 1,225                                |
| Balance at end of period                                     | \$ 10,336                            | \$ 18,783                            |

In accordance with the limited liability company agreement of CCB, distributions due to the members of CCB are accrued each quarter and are payable as soon as reasonably possible subsequent to each quarter end.

## 7. Goodwill and Intangible Assets, net:

In connection with the Company's previous business acquisitions, the Company acquired certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. Pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2012, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2012, no impairment charges to goodwill or the other intangible assets were necessary as of the date of this review. The Company believes that nothing has occurred since the review was performed through March 31, 2013 that would indicate a triggering event and thereby necessitate further evaluation of goodwill or other intangible assets. Accordingly, there were no impairment losses during the three months ended March 31, 2013 and 2012. The Company expects to perform its next annual goodwill review during the fourth quarter of 2013. At March 31, 2013 and December 31, 2012, the carrying value of goodwill was \$106.9 million and \$109.5 million, respectively. The following table represents the changes in goodwill for the three months ended March 31, 2013 and 2012 (amounts in thousands):

|   | Three Months Ended<br>March 31, 2013 | Three Months Ended<br>March 31, 2012 |
|---|--------------------------------------|--------------------------------------|
| Balance at beginning of period          | \$ 109,488                           | \$ 61,678                            |
| Acquisition of MHH                      | —                                    | 34,270                               |
| Foreign currency translation adjustment | (2,576 )                             | 1,532                                |
| Balance at end of period                | \$ 106,912                           | \$ 97,480                            |

Intangible assets, excluding goodwill, consist of the following at March 31, 2013 and December 31, 2012 (amounts in thousands):

|                                   | March 31, 2013 |                             | December 31, 2012 |                             |
|-----------------------------------|----------------|-----------------------------|-------------------|-----------------------------|
|                                   | Gross Amount   | Accumulated<br>Amortization | Gross Amount      | Accumulated<br>Amortization |
| Client and customer relationships | \$40,046       | \$23,448                    | \$40,698          | \$22,516                    |
| Non-compete agreements            | 3,837          | 3,585                       | 3,880             | 3,581                       |
| Trademarks                        | 3,412          | 1,712                       | 3,477             | 1,594                       |
| Total                             | \$47,295       | \$28,745                    | \$48,055          | \$27,691                    |

Total intangible asset amortization expense for the three months ended March 31, 2013 and 2012 was \$1.2 million and \$1.5 million, respectively. The Company reviews these intangible assets for possible impairment upon the occurrence of a triggering event.



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## 8. Share-Based Compensation:

The Company has a stock option and nonvested share plan. The Company created the 2002 Stock Option Plan (the "Plan") on November 7, 2002. The Plan was amended in 2004 (the "Amended Plan") to enable the Company to issue nonvested shares of stock to its employees and directors. On March 19, 2010, the Company adopted the 2010 Stock Plan (the "2010 Stock Plan"), which was approved by its shareholders at the 2010 Annual Meeting. The 2010 Stock Plan is a further amendment to the Amended Plan, and contains, among other things, specific performance metrics with respect to performance-based stock awards. Up to 2,000,000 shares of common stock may be issued under the 2010 Stock Plan.

As of March 31, 2013, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive Program ("LTI")) is estimated to be \$5.7 million with a weighted average remaining life for all nonvested shares of 2.1 years (not including nonvested shares granted under the LTI program). As of March 31, 2013, there are no future compensation costs related to stock options and there are no remaining vested stock options to be exercised. Based upon historical data, the Company used an annual forfeiture rate of 14% for stock options and 15-40% for nonvested shares for most of the employee grants. Grants made to key employees and directors of the Company were assumed to have no forfeiture rates associated with them due to the historically low turnover among this group.

Total share-based compensation expense was \$3.0 million and \$2.3 million for the three months ended March 31, 2013, and 2012, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense (windfall tax benefits) recognized under the provisions of ASC 718 are credited to additional paid-in capital in the Company's Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was approximately \$4.0 million and \$2.7 million for the three months ended March 31, 2013 and 2012, respectively.

## Nonvested Shares

With the exception of the awards made pursuant to the LTI program and a few employee and director grants the nonvested shares vest ratably over three to five years and are expensed over their vesting period.

The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2011 through March 31, 2013 (share amounts in thousands):

|                   | Nonvested Shares<br>Outstanding | Weighted-Average<br>Price at Grant Date |
|-------------------|---------------------------------|---|
| December 31, 2011 | 81                              | \$59.31                                 |
| Granted           | 53                              | 65.99                                   |
| Vested            | (34                             | ) 59.36                                 |
| Cancelled         | (4                              | ) 69.92                                 |
| December 31, 2012 | 96                              | 62.52                                   |
| Granted           | 31                              | 104.54                                  |
| Vested            | (37                             | ) 56.90                                 |
| Cancelled         | (6                              | ) 65.40                                 |
| March 31, 2013    | 84                              | \$80.30                                 |

The total grant date fair value of shares vested during the three months ended March 31, 2013, and 2012, was \$2.1 million and \$1.2 million, respectively.



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## Long-Term Incentive Program

Pursuant to the Amended Plan, the Compensation Committee may grant time-vested and performance based nonvested shares. All shares granted under the LTI program were granted to key employees of the Company. The following summarizes all LTI share transactions from December 31, 2011 through March 31, 2013 (share amounts in thousands):

|                                    | Nonvested LTI<br>Shares<br>Outstanding | Weighted-Average<br>Price at Grant Date |
|------------------------------------|--|---|
| December 31, 2011                  | 183                                    | \$51.03                                 |
| Granted at target level            | 66                                     | 62.20                                   |
| Adjustments for actual performance | 40                                     | 54.01                                   |
| Vested                             | (118)                                  | ) 37.75                                 |
| Cancelled                          | (5)                                    | ) 67.66                                 |
| December 31, 2012                  | 166                                    | 65.14                                   |
| Granted at target level            | 41                                     | 103.77                                  |
| Adjustments for actual performance | 35                                     | 53.62                                   |
| Vested                             | (53)                                   | ) 48.71                                 |
| Cancelled                          | (1)                                    | ) 75.50                                 |
| March 31, 2013                     | 188                                    | \$75.53                                 |

The total grant date fair value of shares vested during the three months ended March 31, 2013, and 2012, was \$2.6 million and \$2.0 million, respectively.

At March 31, 2013, total future compensation costs, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately \$10.6 million. The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.5 years at March 31, 2013.

## 9. Income Taxes:

The Company follows the guidance of FASB ASC Topic 740 "Income Taxes" ("ASC 740") as it relates to the provision for income taxes and uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no unrecognized tax benefits at March 31, 2013 and 2012.

The Company was notified on June 21, 2007 that it was being examined by the Internal Revenue Service (IRS) for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years ended December 31, 2007, 2006 and 2005. The IRS has asserted that cost recovery for tax revenue recognition does not clearly reflect taxable income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. The Company believes it has sufficient support for the technical merits of its positions and that it is more likely than not they will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. The Company believes cost recovery to be an acceptable tax revenue recognition method for companies in the bad debt purchasing industry. For tax purposes, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any taxable income is recognized. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. On August 26, 2011, the IRS issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006, and 2005. On November 2, 2011, the Company filed a petition in the United States Tax Court. If the Company is unsuccessful in the United States Tax Court, it can appeal to the federal Circuit Court of Appeals. Payment of the assessed taxes and interest could have an adverse affect on the Company's financial condition, be material to the Company's results of operations, and possibly require additional financing from other

sources. In accordance with the Internal Revenue Code, underpayments of federal tax accrue interest, compounded daily, at the applicable federal short term rate plus three percentage points. An additional two percentage points applies to large corporate underpayments of \$100,000 or more to periods after the applicable date as defined in the Internal Revenue Code. The Company files taxes in multiple state jurisdictions; therefore, any underpayment of state tax will accrue interest in accordance with the respective state statute. On June 30, 2011, the Company was notified by the IRS that the audit period will be expanded to include the tax years ended December 31, 2009 and 2008.

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At March 31, 2013, the tax years subject to examination by the major taxing jurisdictions, including the IRS, are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination because of a net operating loss that originated in that year but was not fully utilized until the 2005 tax year. The examination periods for the 2007, 2006 and 2005 tax years were extended through December 31, 2011; however, because the IRS issued the Notice of Deficiency prior to December 31, 2011, the period for assessment is suspended until a decision of the Tax Court becomes final. The statute of limitations for the 2008, 2009 and 2010 tax years has been extended to September 26, 2014.

ASC 740 requires the recognition of interest if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. No interest or penalties were accrued or reversed in the three month periods ended March 31, 2013 or 2012.

## 10. Earnings per Share:

Basic earnings per share ("EPS") are computed by dividing net income available to common shareholders of Portfolio Recovery Associates, Inc. by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of nonvested share awards. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The dilutive effect of nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the vesting of nonvested shares would be used to purchase common shares at the average market price for the period. The assumed proceeds include the windfall tax benefit that would be received upon assumed exercise. The following tables provide reconciliation between the computation of basic EPS and diluted EPS for the three months ended March 31, 2013 and 2012 (amounts in thousands, except per share amounts):

|   | For the Three Months Ended March 31,                           |                                |        | 2012   |                                |        |
|---|--|--------------------------------|--------|--|--------------------------------|--------|
|   | 2013   |                                |        |  |                                |        |
|   | Net Income attributable to Portfolio Recovery Associates, Inc. | Weighted Average Common Shares | EPS    | Net Income attributable to Portfolio Recovery Associates, Inc. | Weighted Average Common Shares | EPS    |
| Basic EPS                                 | \$38,600   | 16,937                         | \$2.28 | \$25,462   | 17,196                         | \$1.48 |
| Dilutive effect of nonvested share awards |  | 154                            |        |  | 71                             |        |
| Diluted EPS                               | \$38,600   | 17,091                         | \$2.26 | \$25,462   | 17,267                         | \$1.47 |

There were no antidilutive options outstanding for the three months ended March 31, 2013 and 2012.

## 11. Commitments and Contingencies:

## Employment Agreements:

The Company has employment agreements, most of which expire on December 31, 2014, with all of its executive officers and with several members of its senior management group. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. At March 31, 2013, the estimated future compensation under these agreements is approximately \$11.3 million. The agreements also contain confidentiality and non-compete provisions.

## Leases:

The Company is party to various operating leases with respect to its facilities and equipment. The future minimum lease payments at March 31, 2013 is approximately \$23.6 million.

Forward Flow Agreements:

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at March 31, 2013 is approximately \$283.8 million.

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Redeemable Noncontrolling Interest:

In connection with the Company's acquisition of 62% of the membership units of CCB on March 15, 2010, the Company acquired the right through February 28, 2015 to purchase, at a predetermined price, the remaining 38% of the membership units of CCB not held by the Company. In February 2013, the Company exercised its right to acquire one-half of the noncontrolling interest resulting in ownership of 81% of the membership units as of March 31, 2013. Also, the owners of the noncontrolling interest can require the Company to purchase their respective interest during the period beginning on March 1, 2012 and ending on February 28, 2018 at pre-defined multiples of EBITDA, subject to achievement of a minimum amount of trailing EBITDA. While the actual amount or timing of any future payment related to the remaining 19% of outstanding interest is unknown at this time, the maximum amount of consideration to be paid for that interest is \$11.4 million.

Contingent Purchase Price:

The NCM acquisition includes an earn-out provision whereby the sellers are able to earn additional cash consideration for achieving certain cash collection thresholds over a five year period. The maximum amount of earn-out during the period is \$15.0 million. As of March 31, 2013, the Company has recorded a present fair value amount for this liability of \$7.3 million.

Finance Receivables:

Certain agreements for the purchase of finance receivables portfolios contain provisions that may, in limited circumstances, require the Company to refund a portion or all of the collections subsequently received by the Company on particular accounts. The potential refunds as of the balance sheet date are not considered to be significant.

Litigation:

The Company is from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against customers and is occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against the Company in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. Additionally, the Company receives subpoenas and other requests for information from regulators or governmental authorities who are investigating the Company's debt collection activities. The Company makes every effort to respond appropriately to such requests.

The Company accrues for potential liability arising from legal proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. This determination is based upon currently available information for those proceedings in which the Company is involved, taking into account the Company's best estimate of such losses for those cases for which such estimates can be made. The Company's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the number of unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the related uncertainty of the potential outcomes of these proceedings. In making determinations of the likely outcome of pending litigation, the Company considers many factors, including, but not limited to, the nature of the claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative mechanisms, the matter's current status and the damages sought or demands made. Accordingly, the Company's estimate will change from time to time, and actual losses could be more than the current estimate. Subject to the inherent uncertainties involved in such proceedings, the Company believes, based upon its current knowledge and after consultation with counsel, that the legal proceedings currently pending against it, including those that fall outside of the Company's routine legal proceedings, should not, either individually or in the aggregate, have a material adverse impact on the Company's financial condition. However, it is possible in light of the uncertainties involved in such proceedings or due to unexpected future developments, that an unfavorable resolution of a legal

proceeding or claim could occur which may be material to the Company's financial condition, results of operations, or cash flows for a particular period.

Excluding the matters described below and other putative class action suits which the Company believes are not material, the high end of the range of potential litigation losses in excess of the amount accrued is estimated by management to be less than \$1,000,000 as of March 31, 2013. Notwithstanding our attempt to estimate a range of possible losses in excess of the amount accrued based on current information, actual future losses may exceed both the Company's accrual and the range of potential litigation losses disclosed above.

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In certain legal proceedings, the Company may have recourse to insurance or third party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. Loss estimates and accruals for potential liability related to legal proceedings are exclusive of potential recoveries, if any, under the Company's insurance policies or third party indemnities. The Company has not recorded any potential recoveries under the Company's insurance policies or third party indemnities.

The matters described below fall outside of the normal parameters of the Company's routine legal proceedings.

Telephone Consumer Protection Act Litigation

The Company has been named as defendant in a number of putative class action cases, each alleging that the Company violated the Telephone Consumer Protection Act by calling consumers' cellular telephones without their prior express consent. On December 21, 2011, the United States Judicial Panel on Multi-District Litigation entered an order transferring these matters into one consolidated proceeding in the United States District Court for the Southern District of California. On November 14, 2012, the putative class plaintiffs filed their amended consolidated complaint in the matter, now styled as *In re Portfolio Recovery Associates, LLC Telephone Consumer Protection Act Litigation*, case No. 11-md-02295 (the "MDL action"). The Company has filed a motion to dismiss the amended consolidated complaint.

On October 12, 2012, the United States Court of Appeals for the Ninth Circuit, affirmed the decision of the United States District Court for the Southern District of California in the matter of *Meyer v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-01008, which imposed a preliminary injunction prohibiting the Company from using its Avaya Proactive Contact Dialer to place calls to cellular telephones with California area codes that were obtained through skip-tracing. On December 28, 2012, the United States Court of Appeals for the Ninth Circuit denied the Company's petition seeking a rehearing en banc. Thereafter, the Company filed a Petition for Writ of Certiorari with the United States Supreme Court on March 28, 2013. The Supreme Court has yet to decide whether or not it will review this matter. Meyer is one of the cases included in the MDL action listed above. Both Meyer and the MDL action are ongoing and no final determination on the merits in either has been made.

Internal Revenue Service Audit

The U.S. Internal Revenue Service (the "IRS") examined the Company's tax returns for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years ended December 31, 2007, 2006 and 2005. The IRS has asserted that cost recovery for tax revenue recognition does not clearly reflect taxable income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. The Company believes it has sufficient support for the technical merits of its positions and that it is more likely than not these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. On August 26, 2011, the IRS issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006, and 2005. The Company subsequently filed a petition in the United States Tax Court to which the IRS responded on January 12, 2012. If the Company is unsuccessful in the United States Tax Court, it can appeal to the federal Circuit Court of Appeals. Refer to Note 9 "Income Taxes" for additional information.

12. Fair Value Measurements and Disclosures:

In accordance with the disclosure requirements of FASB ASC Topic 825, "Financial Instruments" ("ASC 825"), the table below summarizes fair value estimates for the Company's financial instruments. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company. The carrying amounts in the table are recorded in the consolidated balance sheet at March 31, 2013 and December 31, 2012, under the indicated captions (amounts in thousands):





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|                           | March 31, 2013  |                      | December 31, 2012 |                      |
|---------------------------|-----------------|----------------------|-------------------|----------------------|
|                           | Carrying Amount | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Financial assets:         |                 |                      |                   |                      |
| Cash and cash equivalents | \$39,111        | \$39,111             | \$32,687          | \$32,687             |
| Finance receivables, net  | 1,169,747       | 1,825,476            | 1,078,951         | 1,776,049            |
| Financial liabilities:    |                 |                      |                   |                      |
| Line of credit            | \$172,000       | \$172,000            | \$127,000         | \$127,000            |
| Long-term debt            | 199,159         | 199,159              | 200,542           | 200,542              |

As of March 31, 2013, and December 31, 2012, the Company did not account for any financial assets or financial liabilities at fair value. As defined by FASB ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also requires the consideration of differing levels of inputs in the determination of fair values. Those levels of input are summarized as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than level 1 quoted prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value and quoted prices for identical assets can be found in active markets. Accordingly, the Company estimates the fair value of cash and cash equivalents using level 1 inputs.

Finance receivables, net: The Company records purchased receivables at cost, which represents a significant discount from the contractual receivable balances due. The Company computed the estimated fair value of these receivables using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company's fair value estimates use level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

Line of credit: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses level 2 inputs for its fair value estimates.

Long-term debt: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses level 2 inputs for its fair value estimates.

## 13. Stockholders' Equity:

On February 2, 2012, the Board of Directors of the Company authorized a share repurchase program of up to \$100 million of the Company's outstanding shares of common stock on the open market. During the first quarter of 2013, the Company repurchased and retired 16,200 shares at an average price of \$118.03 (including acquisition costs). At March 31, 2013, the maximum remaining purchase price for share repurchases under the plan is approximately \$75.4 million.

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14. Recent Accounting Pronouncements:

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" to amend the accounting guidance on intangible asset impairment testing. The ASU permits entities to perform an optional qualitative assessment for determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company adopted ASU 2012-02 in the first quarter of 2013 which had no material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income, by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. The Company adopted ASU 2013-02 in the first quarter of 2013 which had no material impact on its consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted and prior periods should not be adjusted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Statements Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:  
This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements, including statements regarding overall trends, gross margin trends, operating cost trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The risks, uncertainties and assumptions referred to above may include the following:

- a prolonged economic recovery or a deterioration in the economic or inflationary environment in the United States or the European Union, particularly the United Kingdom, including the interest rate environment, may have an adverse effect on our collections, results of operations, revenue and stock price or on the stability of the financial system as a whole;
- changes in the credit or capital markets, which affect our ability to borrow money or raise capital;
- our ability to purchase defaulted consumer receivables at appropriate prices;
- our ability to replace our defaulted consumer receivables with additional receivables portfolios;
  - our ability to obtain accurate and authentic account documents relating to accounts that we acquire and the possibility that documents that we provide could contain errors;
- our ability to successfully acquire receivables of new asset types;
- our ability to collect sufficient amounts on our defaulted consumer receivables;
  - changes in tax laws regarding earnings of our subsidiaries located outside of the United States;
- changes in bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;
- changes in state or federal laws or the administrative practices of various bankruptcy courts, which may impact our ability to collect on our defaulted receivables;
- our ability to collect and enforce our finance receivables may be limited under federal and state laws;
- our ability to employ and retain qualified employees, especially collection personnel, and our senior management team;
- our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;
- the degree, nature, and resources of our competition;
- the possibility that we could incur goodwill or other intangible asset impairment charges;
- our ability to retain existing clients and obtain new clients for our fee-for-service businesses;
- our ability to comply with existing and new regulations of the collection industry, the failure of which could result in penalties, fines, litigation, damage to our reputation or the suspension or termination of our ability to conduct our business;
- changes in governmental laws and regulations which could increase our costs and liabilities or impact our operations;
- the possibility that new business acquisitions prove unsuccessful or strain or divert our resources;
- our ability to maintain, renegotiate or replace our credit facility;
- our ability to satisfy the restrictive covenants in our debt agreements;
- our ability to manage risks associated with our international operations;
- the possibility that compliance with foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions;
- the imposition of additional taxes on us;
- changes in interest or exchange rates, which could reduce our net income, and the possibility that future hedging strategies may not be successful, which could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations;

the possibility that we could incur significant allowance charges on our finance receivables;  
our loss contingency accruals may not be adequate to cover actual losses;  
our ability to manage growth successfully;  
the possibility that we could incur business or technology disruptions or cyber incidents, or not adapt to technological advances;  
the possibility that we or our industry could experience negative publicity or reputational attacks; and  
the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC").  
You should assume that the information appearing in this quarterly report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

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For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the following “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as the discussion of “Business” and “Risk Factors” described in our 2012 Annual Report on Form 10-K, filed on February 28, 2013.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. Except as required by law, we assume no obligation to publicly update or revise our forward-looking statements after the date of this report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

### Definitions

We use the following terminology throughout this document:

• “Allowance charges” refers to a reduction in income recognized on finance receivables on pools of finance receivables whose cash collection estimates are not received or projected to not be received.

• “Amortization rate” refers to cash collections applied to principal on finance receivables as a percentage of total cash collections.

• “Buybacks” refers to purchase price refunded by the seller due to the return of non-compliant accounts.

• “Cash collections” refers to collections on our owned portfolios.

• “Cash receipts” refers to collections on our owned portfolios plus fee income.

• “Core” accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a bankrupt status upon purchase. These accounts are aggregated separately from purchased bankruptcy accounts. Unless otherwise noted, Core accounts do not include the accounts we purchase in the United Kingdom.

• “EBITDA” refers to earnings before interest, taxes, depreciation and amortization.

• “Estimated remaining collections” or “ERC” refers to the sum of all future projected cash collections on our owned portfolios.

• “Fee income” refers to revenues generated from our fee-for-service businesses.

• “Income recognized on finance receivables” refers to income derived from our owned debt portfolios.

• “Income recognized on finance receivables, net” refers to income derived from our owned debt portfolios and is shown net of allowance charges.

• “Net finance receivable balance” is recorded on our balance sheet and refers to the purchase price less principal amortization and net allowance charges.

• “Principal amortization” refers to cash collections applied to principal on finance receivables.

• “Purchase price” refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less buybacks.

• “Purchase price multiple” refers to the total estimated collections on owned debt portfolios divided by purchase price.

• “Purchased bankruptcy” accounts or portfolios refer to accounts or portfolios that are in bankruptcy when we purchase them and as such are purchased as a pool of bankrupt accounts.

• “Total estimated collections” refers to the actual cash collections, including cash sales, plus estimated remaining collections.

### Overview

The Company is a financial and business services company. Our primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. We also service receivables on behalf of clients on either a commission or transaction-fee basis and provide class action claims settlement recovery services and related payment processing to corporate clients.

The Company is headquartered in Norfolk, Virginia, and employs approximately 3,250 team members. The Company's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "PRAA."

Earnings Summary

During the first quarter of 2013, net income attributable to the Company was \$38.6 million, or \$2.26 per diluted share, compared with \$25.5 million, or \$1.47 per diluted share, in the first quarter of 2012. Total revenue was \$169.6 million in the first quarter of 2013, up 21.1% from the same quarter one year earlier. Revenues in the recently completed quarter consisted of \$154.8 million in income recognized on finance receivables, net of allowance charges, and \$14.8 million in fee income. Income recognized

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on finance receivables, net of allowance charges, increased \$30.6 million, or 24.6%, over the same period in 2012, primarily as a result of a significant increase in cash collections. Cash collections were \$275.5 million in the first quarter of 2013, up 26.4% or \$57.5 million as compared to the first quarter of 2012. During the quarter, \$2.2 million in net allowance charges were incurred, compared with \$0.5 million in the comparable quarter of 2012. Our performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of account scoring analytics as it relates to both legal and non-legal collection channels. Additionally, we have continued to develop our internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action and to collect these accounts more efficiently and profitably.

Fee income decreased to \$14.8 million in the first quarter of 2013 from \$15.9 million in the first quarter of 2012 primarily due to lower fee income generated by MHH in the first quarter of 2013, as well as decreases in revenue generated by our PRA Government Services (“PGS”) business and PRA Location Services (“PLS”) business. This was partially offset by higher fee income generated in the first quarter of 2013 by CCB and our Bankruptcy Services business when compared to the prior year period.

A summary of how our income was generated during the three months ended March 31, 2013 and 2012 is as follows:

| (\$ in thousands)                   | For the Three Months Ended |           |
|-------------------------------------|----------------------------|-----------|
|                                     | March 31,                  |           |
|                                     | 2013                       | 2012      |
| Cash collections                    | \$275,463                  | \$217,996 |
| Amortization of finance receivables | (118,498                   | ) (93,276 |
| Net allowance charges               | (2,173                     | ) (494    |
| Finance receivable income           | 154,792                    | 124,226   |
| Fee income                          | 14,767                     | 15,920    |
| Total revenue                       | \$169,559                  | \$140,146 |

Operating expenses were \$103.7 million in the first quarter of 2013, up 8.3% over the first quarter of 2012, due primarily to increases in compensation expense, legal collection fees and outside fees and services. Compensation expense increased primarily as a result of larger staff sizes. Compensation and employee services expenses increased as total employees grew 7.8% to 3,250 as of March 31, 2013, from 3,014 as of March 31, 2012. Legal collection fees increased from \$7.6 million in the first quarter of 2012 to \$10.5 million in the first quarter of 2013, an increase of \$2.9 million or 38.2%. This increase was the result of an increase in cash collections from outside attorneys from \$34.9 million in the three months ended March 31, 2012 to \$47.9 million for the three months ended March 31, 2013, an increase of \$13.0 million or 37.2%. Outside fees and services increased primarily as a result of corporate legal related expenses as well as increases in other outside fees and services.

#### Results of Operations

The results of operations include the financial results of the Company and all of our subsidiaries, all of which are in the receivables management business. Under the guidance of the FASB ASC Topic 280 “Segment Reporting” (“ASC 280”), we have determined that we have several operating segments that meet the aggregation criteria of ASC 280, and therefore, we have one reportable segment, accounts receivables management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.



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The following table sets forth certain operating data as a percentage of total revenues for the periods indicated:

|  | For the Three Months<br>Ended March 31, |         |  |    |
|--|---|---------|--|----|
|  | 2013                                    | 2012    |  |    |
| Revenues:  |   |         |  |    |
| Income recognized on finance receivables, net                          | 91.3                                    | % 88.6  |  | %  |
| Fee income   | 8.7                                     | % 11.4  |  | %  |
| Total revenues   | 100.0                                   | % 100.0 |  | %  |
| Operating expenses:  |   |         |  |    |
| Compensation and employee services                                     | 26.5                                    | % 28.3  |  | %  |
| Legal collection fees  | 6.2                                     | % 5.4   |  | %  |
| Legal collection costs   | 12.1                                    | % 16.9  |  | %  |
| Agent fees   | 0.9                                     | % 1.2   |  | %  |
| Outside fees and services  | 4.4                                     | % 4.2   |  | %  |
| Communication expenses   | 5.3                                     | % 5.9   |  | %  |
| Rent and occupancy   | 1.0                                     | % 1.1   |  | %  |
| Depreciation and amortization  | 2.0                                     | % 2.6   |  | %  |
| Other operating expenses   | 2.7                                     | % 2.7   |  | %  |
| Total operating expenses   | 61.1                                    | % 68.3  |  | %  |
| Income from operations   | 38.9                                    | % 31.7  |  | %  |
| Other income and (expense):  |   |         |  |    |
| Interest income  | —                                       | % —     |  | %  |
| Interest expense   | (1.6)                                   | )% (1.9 |  | )% |
| Income before income taxes   | 37.3                                    | % 29.8  |  | %  |
| Provision for income taxes   | 14.6                                    | % 11.8  |  | %  |
| Net income   | 22.7                                    | % 18.0  |  | %  |
| Adjustment for loss attributable to redeemable noncontrolling interest | —                                       | % (0.2  |  | )% |
| Net income attributable to Portfolio Recovery Associates, Inc.         | 22.8                                    | % 18.2  |  | %  |

Three Months Ended March 31, 2013 Compared To Three Months Ended March 31, 2012

## Revenues

Total revenues were \$169.6 million for the three months ended March 31, 2013, an increase of \$29.5 million, or 21.1%, compared to total revenues of \$140.1 million for the three months ended March 31, 2012.

## Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$154.8 million for the three months ended March 31, 2013, an increase of \$30.6 million, or 24.6%, compared to income recognized on finance receivables, net of \$124.2 million for the three months ended March 31, 2012. The increase was primarily due to an increase in cash collections on our finance receivables to \$275.5 million for the three months ended March 31, 2013, from \$218.0 million for the three months ended March 31, 2012, an increase of \$57.5 million or 26.4%. Our finance receivables amortization rate, including net allowance charges, was 43.8% for the three months ended March 31, 2013 compared to 43.0% for the three months ended March 31, 2012. During the three months ended March 31, 2013, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$1.85 billion at a cost of \$214.9 million. During the three months ended March 31, 2012, excluding the initial investment in the MHH portfolio, we acquired defaulted consumer receivable portfolios with an aggregate face value of \$1.46 billion at a cost of \$111.4 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time

frames, we intend to target a similar internal rate of return,

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after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period's buying.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances recognized under FASB ASC Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"), which requires that a valuation allowance be recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended March 31, 2013, we recorded net allowance charges of \$2.2 million, of which \$4.6 million related to purchased bankruptcy portfolios primarily purchased in 2007 and 2008, offset by reversals of \$2.4 million related to Core portfolios primarily purchased in 2005 and 2008. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

### Fee Income

Fee income decreased to \$14.8 million in the first quarter of 2013 from \$15.9 million in the first quarter of 2012 primarily due to lower fee income generated by MHH in the first quarter of 2013, as well as decreases in revenue generated by our PGS business and PLS business. This was partially offset by higher fee income generated in the first quarter of 2013 by CCB and our Bankruptcy Services business when compared to the prior year period.

### Operating Expenses

Total operating expenses were \$103.7 million for the three months ended March 31, 2013, an increase of \$8.0 million or 8.4% compared to total operating expenses of \$95.7 million for the three months ended March 31, 2012. Total operating expenses were 35.7% of cash receipts for the three months ended March 31, 2013 compared to 40.9% for the same period in 2012.

### Compensation and Employee Services

Compensation and employee services expenses were \$45.0 million for the three months ended March 31, 2013, an increase of \$5.3 million, or 13.4%, compared to compensation and employee services expenses of \$39.7 million for the three months ended March 31, 2012. Compensation expense increased primarily as a result of larger staff sizes. Compensation and employee services expenses increased as total employees grew 7.8% to 3,250 as of March 31, 2013, from 3,014 as of March 31, 2012. Compensation and employee services expenses as a percentage of cash receipts decreased to 15.5% for the three months ended March 31, 2013, from 17.0% of cash receipts for the same period in 2012.

### Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party attorney network. Legal collection fees were \$10.5 million for the three months ended March 31, 2013, an increase of \$2.9 million, or 38.2%, compared to legal collection fees of \$7.6 million for the three months ended March 31, 2012. This increase was the result of an increase in cash collections from outside attorneys from \$34.9 million in the three months ended March 31, 2012 to \$47.9 million for the three months ended March 31, 2013, an increase of \$13.0 million or 37.2%. Legal collection fees for the three months ended March 31, 2013 were 3.6% of cash receipts, compared to 3.3% for the three months ended March 31, 2012.

### Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$20.5 million for the three months ended March 31, 2013, a decrease of \$3.2 million, or 13.5%, compared to legal collection costs of \$23.7 million for the three months ended March 31, 2012. During the first quarter of 2012, as a result of the refinement of our internal scoring

methodology that expanded our account selections for legal action, we expanded the accounts brought into the legal collection process which resulted in significant initial expenses, which may continue to drive additional future cash collections and revenue. These legal collection costs represent 7.1% and 10.1% of cash receipts for the three month periods ended March 31, 2013 and 2012, respectively.

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Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were \$1.6 million for both the three months ended March 31, 2013 and 2012.

Outside Fees and Services

Outside fees and services expenses were \$7.4 million for the three months ended March 31, 2013, an increase of \$1.5 million or 25.4% compared to outside fees and services expenses of \$5.9 million for the three months ended March 31, 2012. Of the \$1.5 million increase, \$0.9 million of the increase was attributable to an increase in legal reserve accruals and corporate legal expenses and the remaining \$0.6 million increase was mainly attributable to other outside fees and services.

Communication Expenses

Communication expenses were \$9.0 million for the three months ended March 31, 2013, an increase of \$0.7 million, or 8.4%, compared to communications expenses of \$8.3 million for the three months ended March 31, 2012. The increase was primarily due to additional postage expense resulting from an increase in special collection letter campaigns. The remaining increase was attributable to higher telephone expenses. Expenses related to customer mailings were responsible for 85.7% or \$0.6 million of this increase, while the remaining 14.3% or \$0.1 million was attributable to increases in telephone related charges.

Rent and Occupancy

Rent and occupancy expenses were \$1.7 million for the three months ended March 31, 2013, an increase of \$0.1 million, or 6.3%, compared to rent and occupancy expenses of \$1.6 million for the three months ended March 31, 2012.

Depreciation and Amortization

Depreciation and amortization expenses were \$3.4 million for the three months ended March 31, 2013, a decrease of \$0.3 million or 8.1% compared to depreciation and amortization expenses of \$3.7 million for the three months ended March 31, 2012. The decrease was primarily due to decreased amortization expense relating to our intangible assets.

Other Operating Expenses

Other operating expenses were \$4.6 million for the three months ended March 31, 2013, an increase of \$0.9 million or 24.3% compared to other operating expenses of \$3.7 million for the three months ended March 31, 2012. Of the \$0.9 million increase, \$0.2 million was due to an increase in the provision for doubtful accounts and \$0.1 million was related to insurance costs. None of the remaining \$0.6 million increase was attributable to any significant identifiable items.

Interest Income

Interest income was \$0 and \$1,000 for the three months ended March 31, 2013 and 2012, respectively.

Interest Expense

Interest expense was \$2.7 million for both the three months ended March 31, 2013 and 2012.

Provision for Income Taxes

Provision for income taxes was \$24.7 million for the three months ended March 31, 2013, an increase of \$8.1 million, or 48.8%, compared to provision for income taxes of \$16.6 million for the three months ended March 31, 2012. The increase is primarily due to an increase of 51.3% in income before taxes for the three months ended March 31, 2013, compared to the same period in 2012, offset by a decrease in the effective tax rate to 39.1% for the three months ended March 31, 2013, compared to an effective tax rate of 39.7% for the same period in 2012. The decrease in the effective tax rate is primarily attributable to the tax benefits created by our international operations.

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Below are certain key financial data and ratios for the periods indicated:

## FINANCIAL HIGHLIGHTS

|   | As of and for the Three Months Ended |            |        |    |
|---|--------------------------------------|------------|--------|----|
|   | March 31,                            |            | %      |    |
|   | 2013                                 | 2012       | Change |    |
| <b>EARNINGS (in thousands)</b>  |                                      |            |        |    |
| Income recognized on finance receivables, net                         | \$ 154,792                           | \$ 124,226 | 25     | %  |
| Fee income  | 14,767                               | 15,920     | (7)    | )% |
| Total revenues  | 169,559                              | 140,146    | 21     | %  |
| Operating expenses  | 103,672                              | 95,725     | 8      | %  |
| Income from operations  | 65,887                               | 44,421     | 48     | %  |
| Net interest expense  | 2,689                                | 2,652      | 1      | %  |
| Net income  | 38,517                               | 25,189     | 53     | %  |
| Net income attributable to Portfolio Recovery Associates, Inc.        | 38,600                               | 25,462     | 52     | %  |
| <b>PERIOD-END BALANCES (in thousands)</b>                             |                                      |            |        |    |
| Cash and cash equivalents   | \$ 39,111                            | \$ 28,068  | 39     | %  |
| Finance receivables, net  | 1,167,747                            | 945,242    | 24     | %  |
| Goodwill and intangible assets, net                                   | 125,462                              | 124,659    | 1      | %  |
| Total assets  | 1,382,739                            | 1,142,026  | 21     | %  |
| Line of credit and long-term debt                                     | 371,159                              | 265,936    | 40     | %  |
| Total liabilities   | 621,413                              | 502,531    | 24     | %  |
| Total equity  | 750,990                              | 620,712    | 21     | %  |
| <b>FINANCE RECEIVABLE COLLECTIONS (dollars in thousands)</b>          |                                      |            |        |    |
| Cash collections  | \$ 275,463                           | \$ 217,996 | 26     | %  |
| Principal amortization without allowance charges                      | 118,498                              | 93,276     | 27     | %  |
| Principal amortization with allowance charges                         | 120,671                              | 93,770     | 29     | %  |
| Principal amortization w/ allowance charges as % of cash collections: |                                      |            |        |    |
| Including fully amortized pools                                       | 43.8                                 | % 43.0     | % 2    | %  |
| Excluding fully amortized pools                                       | 45.2                                 | % 44.8     | % 1    | %  |
| <b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>       |                                      |            |        |    |
| Balance at period-end   | \$ 95,296                            | \$ 87,065  | 9      | %  |
| Allowance charge  | 2,173                                | 494        | 340    | %  |
| Allowance charge to period-end net finance receivables                | 0.19                                 | % 0.05     | % 256  | %  |
| Allowance charge to net finance receivable income                     | 1.40                                 | % 0.40     | % 253  | %  |
| Allowance charge to cash collections                                  | 0.79                                 | % 0.23     | % 248  | %  |
| <b>PURCHASES OF FINANCE RECEIVABLES (dollars in thousands)</b>        |                                      |            |        |    |
| Purchase price - core   | \$ 126,951                           | \$ 52,104  | 144    | %  |
| Face value - core   | 1,398,960                            | 972,268    | 44     | %  |
| Purchase price - bankruptcy   | 86,595                               | 56,892     | 52     | %  |
| Face value - bankruptcy   | 436,508                              | 368,447    | 18     | %  |
| Purchase price - UK   | 1,387                                | 2,421      | (43)   | )% |

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|                              |           |           |      |    |
|------------------------------|-----------|-----------|------|----|
| Face value - UK              | 18,570    | 115,351   | (84) | )% |
| Purchase price - total       | 214,933   | 111,417   | 93   | %  |
| Face value - total           | 1,854,038 | 1,456,066 | 27   | %  |
| Number of portfolios - total | 91        | 91        | —    | %  |

ESTIMATED REMAINING COLLECTIONS (in thousands)

|  |             |             |    |   |
|--|-------------|-------------|----|---|
| Estimated remaining collections - core       | \$1,562,383 | \$1,236,712 | 26 | % |
| Estimated remaining collections - bankruptcy | 924,520     | 796,161     | 16 | % |
| Estimated remaining collections - total      | 2,486,903   | 2,032,873   | 22 | % |

SHARE DATA (share amounts in thousands)

|   |          |         |      |    |
|---|----------|---------|------|----|
| Net income per common share - diluted                                   | \$2.26   | \$1.47  | 54   | %  |
| Weighted average number of shares outstanding - diluted                 | 17,091   | 17,267  | (1)  | )% |
| Shares repurchased  | 16       | 31      | (47) | )% |
| Average price paid per share repurchased (including acquisitions costs) | \$118.03 | \$68.02 | 74   | %  |
| Closing market price  | \$126.92 | \$71.72 | 77   | %  |

RATIOS AND OTHER DATA (dollars in thousands)

|   |           |           |       |    |
|---|-----------|-----------|-------|----|
| Return on average equity (1)                  | 21.1      | %16.7     | %26   | %  |
| Return on revenue (2)                         | 22.7      | %18.0     | %26   | %  |
| Operating margin (3)                          | 38.9      | %31.7     | %23   | %  |
| Operating expense to cash receipts (4)        | 35.7      | %40.9     | %(13) | )% |
| Debt to equity (5)                            | 49.4      | %42.8     | %15   | %  |
| Number of collectors                          | 2,159     | 1,934     | 12    | %  |
| Number of full-time equivalent employees      | 3,250     | 3,014     | 8     | %  |
| Cash receipts (4)                             | \$290,231 | \$233,916 | 24    | %  |
| Line of credit - unused portion at period end | 228,000   | 142,500   | 60    | %  |

(1) Calculated as annualized net income divided by average equity for the period

(2) Calculated as net income divided by total revenues

(3) Calculated as income from operations divided by total revenues

(4) "Cash receipts" is defined as cash collections plus fee income

(5) For purposes of this ratio, "debt" equals the line of credit balance plus long-term debt

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## FINANCIAL HIGHLIGHTS

|   | As of and for the Quarter Ended |             |             |            |            |   |
|---|---------------------------------|-------------|-------------|------------|------------|---|
|   | March 31,                       | December    | September   | June 30,   | March 31,  |   |
|   | 2013                            | 31,<br>2012 | 30,<br>2012 | 2012       | 2012       |   |
| <b>EARNINGS (in thousands)</b>  |                                 |             |             |            |            |   |
| Income recognized on finance receivables, net                         | \$ 154,792                      | \$ 138,068  | \$ 135,754  | \$ 132,587 | \$ 124,226 |   |
| Fee income  | 14,767                          | 16,183      | 14,765      | 15,298     | 15,920     |   |
| Total revenues  | 169,559                         | 154,251     | 150,519     | 147,885    | 140,146    |   |
| Operating expenses  | 103,672                         | 94,262      | 93,461      | 93,289     | 95,725     |   |
| Income from operations  | 65,887                          | 59,989      | 57,058      | 54,596     | 44,421     |   |
| Net interest expense  | 2,689                           | 1,816       | 2,189       | 2,374      | 2,652      |   |
| Net income  | 38,517                          | 35,732      | 33,127      | 32,051     | 25,189     |   |
| Net income attributable to Portfolio Recovery Associates, Inc.        | 38,600                          | 35,802      | 33,314      | 32,015     | 25,462     |   |
| <b>PERIOD-END BALANCES (in thousands)</b>                             |                                 |             |             |            |            |   |
| Cash and cash equivalents   | \$ 39,111                       | \$ 32,687   | \$ 31,488   | \$ 42,621  | \$ 28,068  |   |
| Finance receivables, net  | 1,167,747                       | 1,078,951   | 973,594     | 966,508    | 945,242    |   |
| Goodwill and intangible assets, net                                   | 125,462                         | 129,852     | 121,623     | 121,748    | 124,659    |   |
| Total assets  | 1,382,739                       | 1,288,956   | 1,169,698   | 1,173,738  | 1,142,026  |   |
| Line of credit and long-term debt                                     | 371,159                         | 327,542     | 250,675     | 292,850    | 265,936    |   |
| Total liabilities   | 621,413                         | 559,856     | 479,211     | 520,911    | 502,531    |   |
| Total equity  | 750,990                         | 708,427     | 670,489     | 633,446    | 620,712    |   |
| <b>FINANCE RECEIVABLE COLLECTIONS</b>                                 |                                 |             |             |            |            |   |
| (dollars in thousands)  |                                 |             |             |            |            |   |
| Cash collections  | \$ 275,463                      | \$ 229,211  | \$ 229,053  | \$ 232,425 | \$ 217,996 |   |
| Principal amortization without allowance charges                      | 118,498                         | 88,851      | 91,736      | 97,634     | 93,276     |   |
| Principal amortization with allowance charges                         | 120,671                         | 91,142      | 93,299      | 99,838     | 93,770     |   |
| Principal amortization w/ allowance charges as % of cash collections: |                                 |             |             |            |            |   |
| Including fully amortized pools                                       | 43.8                            | % 39.8      | % 40.7      | % 43.0     | % 43.0     | % |
| Excluding fully amortized pools                                       | 45.2                            | % 40.9      | % 42.0      | % 44.4     | % 44.8     | % |
| <b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>       |                                 |             |             |            |            |   |
| Balance at period-end   | \$ 95,296                       | \$ 93,123   | \$ 90,832   | \$ 89,269  | \$ 87,065  |   |
| Allowance charge  | 2,173                           | 2,291       | 1,563       | 2,204      | 494        |   |
| Allowance charge to period-end net finance receivables                | 0.19                            | % 0.21      | % 0.16      | % 0.23     | % 0.05     | % |
| Allowance charge to net finance receivable income                     | 1.40                            | % 1.66      | % 1.15      | % 1.66     | % 0.40     | % |
| Allowance charge to cash collections                                  | 0.79                            | % 1.00      | % 0.68      | % 0.95     | % 0.23     | % |
| <b>PURCHASES OF FINANCE RECEIVABLES</b>                               |                                 |             |             |            |            |   |
| (dollars in thousands)  |                                 |             |             |            |            |   |



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|                              |           |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Purchase price - core        | \$126,951 | \$85,476  | \$52,703  | \$69,512  | \$52,104  |
| Face value - core            | 1,398,960 | 901,512   | 674,135   | 1,033,331 | 972,268   |
| Purchase price - bankruptcy  | 86,595    | 111,001   | 41,277    | 53,460    | 56,892    |
| Face value - bankruptcy      | 436,508   | 946,927   | 341,359   | 448,244   | 368,447   |
| Purchase price - UK          | 1,387     | 2,631     | 8,981     | 2,087     | 2,421     |
| Face value - UK              | 18,570    | 59,953    | 248,667   | 44,779    | 115,351   |
| Purchase price - total       | 214,933   | 199,108   | 102,961   | 125,059   | 111,417   |
| Face value - total           | 1,854,038 | 1,908,392 | 1,264,161 | 1,526,354 | 1,456,066 |
| Number of portfolios - total | 91        | 104       | 107       | 114       | 91        |

ESTIMATED REMAINING COLLECTIONS

(in thousands)

|  |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| Estimated remaining collections - core       | \$1,562,383 | \$1,410,053 | \$1,346,562 | \$1,315,809 | \$1,236,712 |
| Estimated remaining collections - bankruptcy | 924,520     | 905,136     | 791,018     | 802,353     | 796,161     |
| Estimated remaining collections - total      | 2,486,903   | 2,315,189   | 2,137,580   | 2,118,162   | 2,032,873   |

SHARE DATA (share amounts in thousands)

|   |          |          |          |         |         |
|---|----------|----------|----------|---------|---------|
| Net income per common share - diluted                                   | \$2.26   | \$2.10   | \$1.96   | \$1.87  | \$1.47  |
| Weighted average number of shares outstanding - diluted                 | 17,091   | 17,072   | 17,022   | 17,133  | 17,267  |
| Shares repurchased  | 16       | —        | —        | 301     | 31      |
| Average price paid per share repurchased (including acquisitions costs) | \$118.03 | \$93.02  | \$—      | \$68.62 | \$68.02 |
| Closing market price  | \$126.92 | \$106.86 | \$104.43 | \$91.26 | \$71.72 |

RATIOS AND OTHER DATA (dollars in thousands)

|   |         |         |         |         |         |   |
|---|---------|---------|---------|---------|---------|---|
| Return on average equity (1)                  | 21.1    | %20.6   | %20.3   | %20.3   | %16.7   | % |
| Return on revenue (2)                         | 22.7    | %23.2   | %22.0   | %21.7   | %18.0   | % |
| Operating margin (3)                          | 38.9    | %38.9   | %37.9   | %36.9   | %31.7   | % |
| Operating expense to cash receipts (4)        | 35.7    | %38.4   | %38.3   | %37.7   | %40.9   | % |
| Debt to equity (5)                            | 49.4    | %46.2   | %37.4   | %46.3   | %42.8   | % |
| Number of collectors                          | 2,159   | 2,153   | 1,992   | 1,952   | 1,934   |   |
| Number of full-time equivalent employees      | 3,250   | 3,221   | 3,103   | 3,032   | 3,014   |   |
| Cash receipts (4)                             | 290,231 | 245,394 | 243,818 | 247,723 | 233,916 |   |
| Line of credit - unused portion at period end | 228,000 | 273,000 | 214,450 | 166,450 | 142,500 |   |

(1) Calculated as annualized net income divided by average equity for the period

(2) Calculated as net income divided by total revenues

(3) Calculated as income from operations divided by total revenues

(4) "Cash receipts" is defined as cash collections plus fee income

(5) For purposes of this ratio, "debt" equals the line of credit balance plus long-term debt

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Supplemental Performance Data

Domestic Finance Receivables Portfolio Performance:

The following tables show certain data related to our domestic finance receivables portfolio. These tables describe the purchase price, actual cash collections and future estimates of cash collections, income recognized on finance receivables (gross and net of allowance charges), principal amortization, allowance charges, net finance receivable balances and related multiples. Further, these tables disclose our entire domestic portfolio, as well as its subsets: the portfolio of purchased bankrupt accounts and our Core portfolio. The accounts represented in the purchased bankruptcy tables are those portfolios of accounts that were bankrupt at the time of purchase. This contrasts with accounts that file for bankruptcy after we purchase them, which continue to be tracked in their corresponding Core portfolio. Our United Kingdom portfolio is not significant and is therefore not included in these tables.

Core customers sometimes file for bankruptcy protection subsequent to our purchase of the related Core portfolio. When this occurs, we adjust our collection practices accordingly to comply with bankruptcy procedures; however, for accounting purposes, these accounts remain in the related Core portfolio. Conversely, bankrupt accounts may be dismissed voluntarily or involuntarily subsequent to our purchase of the related bankrupt portfolio. Dismissal occurs when the terms of the bankruptcy are not met by the petitioner. When this occurs, we are typically free to pursue collection outside of bankruptcy procedures; however, for accounting purposes, these accounts remain in the related bankruptcy pool.

The purchase price multiples (the ratio of total estimated collections to purchase price) from 2005 through 2013 described in the tables below are lower than multiples in previous years. For the purchase years 2005-2008, this trend is primarily, but not entirely, related to increased pricing competition. When competition increases and/or supply decreases, pricing often becomes negatively impacted relative to expected collections, and yields tend to trend lower. The opposite tends to occur when competition decreases and/or supply increases. The multiples associated with the purchase years 2009-2012 are additionally the result of pricing displacements that occurred as a result of the economic downturn.

To the extent that lower purchase price multiples are the ultimate result of more competitive pricing and lower yields, this will generally lead to higher amortization rates (payments applied to principal as a percentage of cash collections), lower operating margins and ultimately lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to increase. It is important to consider, however, that to the extent we can improve our collection operations by collecting additional cash from a discrete quantity and quality of accounts, and/or by collecting cash at a lower cost structure, we can positively impact the collection to purchase price multiples and operating margins. We continue to make significant enhancements to our analytical abilities, management personnel and capabilities, all with the intent to collect more cash at lower cost.

Additionally, however, the processes we employ to initially book newly acquired pools of accounts and forecast future estimated collections for any given portfolio of accounts has evolved over the years due to a number of factors including economic conditions. Our revenue recognition under ASC 310-30 is driven by estimates of the ultimate magnitude of estimated lifetime collections as well as the timing of those collections. We have progressed towards booking new portfolio purchases using a higher confidence level for both estimated collection amounts and timing. Subsequent to the initial booking, as we gain collection experience and comfort with a pool of accounts, we continuously update ERC. These processes, along with the aforementioned operational enhancements, have tended to cause the ratio of collections, including ERC, to purchase price for any given year of buying to gradually increase over time. As a result, our estimate of lifetime collections to purchase price has generally, but not always, shown relatively steady increases as pools have aged. Thus, all factors being equal in terms of pricing, one would typically tend to see a higher collection to purchase price ratio from a pool of accounts that was six years from purchase than say a pool that was just two years from purchase.

Table of ContentsDomestic Portfolio Data – Life-to-Date  
Entire Portfolio

| (\$ in thousands) | Purchase Period | Purchase Price | Inception through March 31, 2013        |  |                        |                   | As of March 31, 2013                         |                                 |                                 |                             | Total Estimated Collections to Purchase Price |
|-------------------|-----------------|----------------|---|--|------------------------|-------------------|--|---------------------------------|---------------------------------|-----------------------------|---|
|                   |                 |                | Actual Cash Collections Including Sales | Income Recognized on Finance Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables Net | Net Finance Receivables Balance | Estimated Remaining Collections | Total Estimated Collections |   |
| 1996              | \$3,080         | \$10,189       | \$7,066                                 | \$3,123                                  | \$—                    | \$7,066           | \$—  | \$39                            | \$10,228                        | 332 %                       |   |
| 1997              | 7,685           | 25,447         | 17,342                                  | 8,105                                    | —                      | 17,342            | —  | 122                             | 25,569                          | 333 %                       |   |
| 1998              | 11,089          | 37,224         | 26,238                                  | 10,986                                   | —                      | 26,238            | —  | 376                             | 37,600                          | 339 %                       |   |
| 1999              | 18,898          | 69,012         | 49,837                                  | 19,175                                   | —                      | 49,837            | —  | 914                             | 69,926                          | 370 %                       |   |
| 2000              | 25,020          | 115,739        | 90,543                                  | 25,196                                   | —                      | 90,543            | —  | 2,446                           | 118,185                         | 472 %                       |   |
| 2001              | 33,481          | 174,230        | 139,878                                 | 34,352                                   | —                      | 139,878           | —  | 3,910                           | 178,140                         | 532 %                       |   |
| 2002              | 42,325          | 196,092        | 153,767                                 | 42,325                                   | —                      | 153,767           | —  | 6,301                           | 202,393                         | 478 %                       |   |
| 2003              | 61,448          | 261,489        | 200,041                                 | 61,448                                   | —                      | 200,041           | —  | 11,229                          | 272,718                         | 444 %                       |   |
| 2004              | 59,176          | 195,148        | 137,171                                 | 57,977                                   | 1,200                  | 135,971           | —  | 10,875                          | 206,023                         | 348 %                       |   |
| 2005              | 143,168         | 304,195        | 181,346                                 | 122,849                                  | 12,851                 | 168,495           | 7,470  | 12,860                          | 317,055                         | 221 %                       |   |
| 2006              | 107,673         | 202,392        | 124,848                                 | 77,544                                   | 22,465                 | 102,383           | 7,665  | 13,496                          | 215,888                         | 201 %                       |   |
| 2007              | 258,397         | 458,569        | 251,396                                 | 207,173                                  | 23,835                 | 227,561           | 27,384                                       | 50,668                          | 509,237                         | 197 %                       |   |
| 2008              | 275,157         | 444,740        | 248,746                                 | 195,994                                  | 34,945                 | 213,801           | 44,184                                       | 76,396                          | 521,136                         | 189 %                       |   |
| 2009              | 281,443         | 638,313        | 419,717                                 | 218,596                                  | —                      | 419,717           | 62,846                                       | 221,889                         | 860,202                         | 306 %                       |   |
| 2010              | 358,122         | 594,480        | 357,718                                 | 236,762                                  | —                      | 357,718           | 121,384                                      | 374,157                         | 968,637                         | 270 %                       |   |
| 2011              | 394,145         | 380,981        | 213,724                                 | 167,257                                  | —                      | 213,724           | 226,888                                      | 519,963                         | 900,944                         | 229 %                       |   |
| 2012              | 515,690         | 144,715        | 79,460                                  | 65,255                                   | —                      | 79,460            | 450,434                                      | 790,651                         | 935,366                         | 181 %                       |   |
| 2013              | 213,740         | 10,656         | 6,465                                   | 4,191                                    | \$—                    | 6,465             | 209,537                                      | 375,873                         | 386,529                         | 181 %                       |   |
| Total             | \$2,809,737     | \$4,263,611    | \$2,705,303                             | \$1,558,308                              | \$95,296               | \$2,610,007       | \$1,157,792                                  | \$2,472,165                     | \$6,735,776                     | 240 %                       |   |

## Purchased Bankruptcy Portfolio

| (\$ in thousands) | Purchase Period | Purchase Price | Inception through March 31, 2013        |  |                        |                   | As of March 31, 2013                         |                                 |                                 |                             | Total Estimated Collections to Purchase Price |
|-------------------|-----------------|----------------|---|--|------------------------|-------------------|--|---------------------------------|---------------------------------|-----------------------------|---|
|                   |                 |                | Actual Cash Collections Including Sales | Income Recognized on Finance Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables Net | Net Finance Receivables Balance | Estimated Remaining Collections | Total Estimated Collections |   |
| 1996-2003         | \$—             | \$—            | \$—                                     | \$—                                      | \$—                    | \$—               | \$—  | \$—                             | \$—                             | — %                         |   |
| 2004              | 7,468           | 14,422         | 8,154                                   | 6,268                                    | 1,200                  | 6,954             | —  | 75                              | 14,497                          | 194 %                       |   |
| 2005              | 29,301          | 43,524         | 14,731                                  | 28,793                                   | 456                    | 14,275            | 53   | 107                             | 43,631                          | 149 %                       |   |
| 2006              | 17,630          | 31,280         | 14,603                                  | 16,677                                   | 850                    | 13,753            | 103  | 343                             | 31,623                          | 179 %                       |   |
| 2007              | 78,544          | 103,337        | 35,263                                  | 68,074                                   | 10,040                 | 25,223            | 430  | 1,661                           | 104,998                         | 134 %                       |   |
| 2008              | 108,604         | 157,158        | 70,041                                  | 87,117                                   | 10,650                 | 59,391            | 10,837                                       | 13,629                          | 170,787                         | 157 %                       |   |
| 2009              | 156,050         | 332,950        | 214,469                                 | 118,481                                  | —                      | 214,469           | 37,568                                       | 115,340                         | 448,290                         | 287 %                       |   |
| 2010              | 209,215         | 299,758        | 167,603                                 | 132,155                                  | —                      | 167,603           | 77,060                                       | 186,902                         | 486,660                         | 233 %                       |   |
| 2011              | 182,133         | 100,400        | 47,046                                  | 53,354                                   | —                      | 47,046            | 128,778                                      | 190,359                         | 290,759                         | 160 %                       |   |
| 2012              | 256,209         | 42,118         | 19,225                                  | 22,893                                   | —                      | 19,225            | 233,316                                      | 303,317                         | 345,435                         | 135 %                       |   |
| 2013              | 86,595          | 5,842          | 1,979                                   | 3,863                                    | —                      | 1,979             | 82,732                                       | 112,787                         | 118,629                         | 137 %                       |   |
| Total             | \$1,131,749     | \$1,130,789    | \$593,114                               | \$537,675                                | \$23,196               | \$569,918         | \$570,877                                    | \$924,520                       | \$2,055,309                     | 182 %                       |   |



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## Core Portfolio

| Purchase<br>Period | Purchase<br>Price | Inception through March 31, 2013                    |   |                           |                      | As of March 31, 2013                                     |                                      |                                       |                                   | Total Estimated<br>Collections<br>to<br>Purchase<br>Price |
|--------------------|-------------------|---|---|---------------------------|----------------------|--|--------------------------------------|---------------------------------------|-----------------------------------|---|
|                    |                   | Actual<br>Cash<br>Collections<br>Including<br>Sales | Income<br>Recognized<br>on Finance<br>Cash<br>Receivables | Principal<br>Amortization | Allowance<br>Charges | Income<br>Recognized<br>on Finance<br>Receivables<br>Net | Net Finance<br>Receivable<br>Balance | Estimated<br>Remaining<br>Collections | Total<br>Estimated<br>Collections |   |
| 1996               | \$3,080           | \$10,189  | \$7,066   | \$3,123                   | \$—                  | \$7,066  | \$—                                  | \$39                                  | \$10,228                          | 332 %   |
| 1997               | 7,685             | 25,447  | 17,342  | 8,105                     | —                    | 17,342   | —                                    | 122                                   | 25,569                            | 333 %   |
| 1998               | 11,089            | 37,224  | 26,238  | 10,986                    | —                    | 26,238   | —                                    | 376                                   | 37,600                            | 339 %   |
| 1999               | 18,898            | 69,012  | 49,837  | 19,175                    | —                    | 49,837   | —                                    | 914                                   | 69,926                            | 370 %   |
| 2000               | 25,020            | 115,739   | 90,543  | 25,196                    | —                    | 90,543   | —                                    | 2,446                                 | 118,185                           | 472 %   |
| 2001               | 33,481            | 174,230   | 139,878   | 34,352                    | —                    | 139,878  | —                                    | 3,910                                 | 178,140                           | 532 %   |
| 2002               | 42,325            | 196,092   | 153,767   | 42,325                    | —                    | 153,767  | —                                    | 6,301                                 | 202,393                           | 478 %   |
| 2003               | 61,448            | 261,489   | 200,041   | 61,448                    | —                    | 200,041  | —                                    | 11,229                                | 272,718                           | 444 %   |
| 2004               | 51,708            | 180,726   | 129,017   | 51,709                    | —                    | 129,017  | —                                    | 10,800                                | 191,526                           | 370 %   |
| 2005               | 113,867           | 260,671   | 166,615   | 94,056                    | 12,395               | 154,220  | 7,417                                | 12,753                                | 273,424                           | 240 %   |
| 2006               | 90,043            | 171,112   | 110,245   | 60,867                    | 21,615               | 88,630   | 7,562                                | 13,153                                | 184,265                           | 205 %   |
| 2007               | 179,853           | 355,232   | 216,133   | 139,099                   | 13,795               | 202,338  | 26,954                               | 49,007                                | 404,239                           | 225 %   |
| 2008               | 166,553           | 287,582   | 178,705   | 108,877                   | 24,295               | 154,410  | 33,347                               | 62,767                                | 350,349                           | 210 %   |
| 2009               | 125,393           | 305,363   | 205,248   | 100,115                   | —                    | 205,248  | 25,278                               | 106,549                               | 411,912                           | 328 %   |
| 2010               | 148,907           | 294,722   | 190,115   | 104,607                   | —                    | 190,115  | 44,324                               | 187,255                               | 481,977                           | 324 %   |
| 2011               | 212,012           | 280,581   | 166,678   | 113,903                   | —                    | 166,678  | 98,110                               | 329,604                               | 610,185                           | 288 %   |
| 2012               | 259,481           | 102,597   | 60,235  | 42,362                    | —                    | 60,235   | 217,118                              | 487,334                               | 589,931                           | 227 %   |
| 2013               | 127,145           | 4,814   | 4,486   | 328                       | —                    | 4,486  | 126,805                              | 263,086                               | 267,900                           | 211 %   |
| Total              | \$1,677,988       | \$3,132,822   | \$2,112,189   | \$1,020,633               | \$72,100             | \$2,040,089  | \$586,915                            | \$1,547,645                           | \$4,680,467                       | 279 %   |

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## Domestic Portfolio Data – Current Quarter

## Entire Portfolio

| Purchase Period | Purchase Price | Quarter Ended March 31, 2013            |  |                        |                   |   | As of March 31, 2013             |                                 |                             |   |   |
|-----------------|----------------|---|--|------------------------|-------------------|---|----------------------------------|---------------------------------|-----------------------------|---|---|
|                 |                | Actual Cash Collections Including Sales | Income Recognized on Finance Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables, Net | Net Finance Receivables, Balance | Estimated Remaining Collections | Total Estimated Collections | Total Estimated Collections to Purchase Price |   |
| 1996            | \$3,080        | \$6                                     | \$6                                      | \$—                    | \$—               | \$6   | \$—                              | \$39                            | \$10,228                    | 332   | % |
| 1997            | 7,685          | 24                                      | 24                                       | —                      | —                 | 24  | —                                | 122                             | 25,569                      | 333   | % |
| 1998            | 11,089         | 46                                      | 46                                       | —                      | —                 | 46  | —                                | 376                             | 37,600                      | 339   | % |
| 1999            | 18,898         | 140                                     | 140                                      | —                      | —                 | 140   | —                                | 914                             | 69,926                      | 370   | % |
| 2000            | 25,020         | 423                                     | 423                                      | —                      | —                 | 423   | —                                | 2,446                           | 118,185                     | 472   | % |
| 2001            | 33,481         | 662                                     | 662                                      | —                      | —                 | 662   | —                                | 3,910                           | 178,140                     | 532   | % |
| 2002            | 42,325         | 1,048                                   | 1,048                                    | —                      | —                 | 1,048   | —                                | 6,301                           | 202,393                     | 478   | % |
| 2003            | 61,448         | 1,615                                   | 1,615                                    | —                      | —                 | 1,615   | —                                | 11,229                          | 272,718                     | 444   | % |
| 2004            | 59,176         | 1,394                                   | 1,394                                    | —                      | —                 | 1,394   | —                                | 10,875                          | 206,023                     | 348   | % |
| 2005            | 143,168        | 3,009                                   | 1,344                                    | 1,665                  | (837)             | 2,181   | 7,470                            | 12,860                          | 317,055                     | 221   | % |
| 2006            | 107,673        | 2,676                                   | 1,122                                    | 1,554                  | (50)              | 1,172   | 7,665                            | 13,496                          | 215,887                     | 201   | % |
| 2007            | 258,397        | 9,207                                   | 4,239                                    | 4,968                  | 960               | 3,279   | 27,384                           | 50,668                          | 509,239                     | 197   | % |
| 2008            | 275,157        | 14,002                                  | 5,180                                    | 8,822                  | 2,100             | 3,080   | 44,184                           | 76,396                          | 521,136                     | 189   | % |
| 2009            | 281,443        | 39,176                                  | 28,575                                   | 10,601                 | —                 | 28,575  | 62,846                           | 221,889                         | 860,202                     | 306   | % |
| 2010            | 358,122        | 54,972                                  | 38,801                                   | 16,171                 | —                 | 38,801  | 121,384                          | 374,157                         | 968,637                     | 270   | % |
| 2011            | 394,145        | 62,951                                  | 34,405                                   | 28,546                 | —                 | 34,405  | 226,888                          | 519,963                         | 900,943                     | 229   | % |
| 2012            | 515,690        | 70,426                                  | 31,476                                   | 38,950                 | —                 | 31,476  | 450,434                          | 790,651                         | 935,365                     | 181   | % |
| 2013            | 213,740        | 10,656                                  | 6,465                                    | 4,191                  | —                 | 6,465   | 209,537                          | 375,873                         | 386,529                     | 181   | % |
| Total           | \$2,809,737    | \$272,433                               | \$156,965                                | \$115,468              | \$2,173           | \$154,792                                     | \$1,157,792                      | \$2,472,165                     | \$6,735,775                 | 240   | % |

## Purchased Bankruptcy Portfolio

| Purchase Period | Purchase Price | Quarter Ended March 31, 2013            |  |                        |                   |   | As of March 31, 2013             |                                 |                             |   |   |
|-----------------|----------------|---|--|------------------------|-------------------|---|----------------------------------|---------------------------------|-----------------------------|---|---|
|                 |                | Actual Cash Collections Including Sales | Income Recognized on Finance Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables, Net | Net Finance Receivables, Balance | Estimated Remaining Collections | Total Estimated Collections | Total Estimated Collections to Purchase Price |   |
| 1996-2003       | \$—            | \$—                                     | \$—                                      | \$—                    | \$—               | \$—   | \$—                              | \$—                             | \$—                         | —   | % |
| 2004            | 7,468          | 20                                      | 20                                       | —                      | —                 | 20  | —                                | 75                              | 14,497                      | 194   | % |
| 2005            | 29,301         | 52                                      | 12                                       | 40                     | (37)              | 49  | 53                               | 107                             | 43,631                      | 149   | % |
| 2006            | 17,630         | 134                                     | 78                                       | 56                     | (50)              | 128   | 103                              | 343                             | 31,623                      | 179   | % |
| 2007            | 78,544         | 412                                     | 72                                       | 340                    | 760               | (688)   | 430                              | 1,661                           | 104,998                     | 134   | % |
| 2008            | 108,604        | 4,620                                   | 871                                      | 3,749                  | 3,900             | (3,029)                                       | 10,837                           | 13,629                          | 170,787                     | 157   | % |
| 2009            | 156,050        | 23,867                                  | 17,349                                   | 6,518                  | —                 | 17,349  | 37,568                           | 115,340                         | 448,290                     | 287   | % |
| 2010            | 209,215        | 30,753                                  | 20,528                                   | 10,225                 | —                 | 20,528  | 77,060                           | 186,902                         | 486,660                     | 233   | % |
| 2011            | 182,133        | 18,803                                  | 7,580                                    | 11,223                 | —                 | 7,580   | 128,778                          | 190,359                         | 290,759                     | 160   | % |
| 2012            | 256,209        | 24,730                                  | 8,708                                    | 16,022                 | —                 | 8,708   | 233,316                          | 303,317                         | 345,435                     | 135   | % |
| 2013            | 86,595         | 5,842                                   | 1,979                                    | 3,863                  | —                 | 1,979   | 82,732                           | 112,787                         | 118,629                     | 137   | % |
| Total           | \$1,131,749    | \$109,233                               | \$57,197                                 | \$52,036               | \$4,573           | \$52,624                                      | \$570,877                        | \$924,520                       | \$2,055,309                 | 182   | % |



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## Core Portfolio

| Purchase<br>Period | Purchase<br>Price | Quarter Ended March 31, 2013                        |   |                           |                      | As of March 31, 2013                                     |                                       |                                       |                                   | Total Estimated<br>Collections<br>to<br>Purchase Price |   |
|--------------------|-------------------|---|---|---------------------------|----------------------|--|---------------------------------------|---------------------------------------|-----------------------------------|--|---|
|                    |                   | Actual<br>Cash<br>Collections<br>Including<br>Sales | Income<br>Recognized<br>on<br>Cash<br>Receivables | Principal<br>Amortization | Allowance<br>Charges | Income<br>Recognized<br>on Finance<br>Receivables<br>Net | Net Finance<br>Receivables<br>Balance | Estimated<br>Remaining<br>Collections | Total<br>Estimated<br>Collections |  |   |
| 1996               | \$3,080           | \$6   | \$6   | \$—                       | \$—                  | \$6  | \$—                                   | \$39                                  | \$10,228                          | 332  | % |
| 1997               | 7,685             | 24  | 24  | —                         | —                    | 24   | —                                     | 122                                   | 25,569                            | 333  | % |
| 1998               | 11,089            | 46  | 46  | —                         | —                    | 46   | —                                     | 376                                   | 37,600                            | 339  | % |
| 1999               | 18,898            | 140   | 140   | —                         | —                    | 140  | —                                     | 914                                   | 69,926                            | 370  | % |
| 2000               | 25,020            | 423   | 423   | —                         | —                    | 423  | —                                     | 2,446                                 | 118,185                           | 472  | % |
| 2001               | 33,481            | 662   | 662   | —                         | —                    | 662  | —                                     | 3,910                                 | 178,140                           | 532  | % |
| 2002               | 42,325            | 1,048   | 1,048   | —                         | —                    | 1,048  | —                                     | 6,301                                 | 202,393                           | 478  | % |
| 2003               | 61,448            | 1,615   | 1,615   | —                         | —                    | 1,615  | —                                     | 11,229                                | 272,718                           | 444  | % |
| 2004               | 51,708            | 1,374   | 1,374   | —                         | —                    | 1,374  | —                                     | 10,800                                | 191,526                           | 370  | % |
| 2005               | 113,867           | 2,957   | 1,332   | 1,625                     | (800)                | 2,132  | 7,417                                 | 12,753                                | 273,424                           | 240  | % |
| 2006               | 90,043            | 2,542   | 1,044   | 1,498                     | —                    | 1,044  | 7,562                                 | 13,153                                | 184,264                           | 205  | % |
| 2007               | 179,853           | 8,795   | 4,167   | 4,628                     | 200                  | 3,967  | 26,954                                | 49,007                                | 404,241                           | 225  | % |
| 2008               | 166,553           | 9,382   | 4,309   | 5,073                     | (1,800)              | 6,109  | 33,347                                | 62,767                                | 350,349                           | 210  | % |
| 2009               | 125,393           | 15,309  | 11,226  | 4,083                     | —                    | 11,226   | 25,278                                | 106,549                               | 411,912                           | 328  | % |
| 2010               | 148,907           | 24,219  | 18,273  | 5,946                     | —                    | 18,273   | 44,324                                | 187,255                               | 481,977                           | 324  | % |
| 2011               | 212,012           | 44,148  | 26,825  | 17,323                    | —                    | 26,825   | 98,110                                | 329,604                               | 610,184                           | 288  | % |
| 2012               | 259,481           | 45,696  | 22,768  | 22,928                    | —                    | 22,768   | 217,118                               | 487,334                               | 589,930                           | 227  | % |
| 2013               | 127,145           | 4,814   | 4,486   | 328                       | —                    | 4,486  | 126,805                               | 263,086                               | 267,900                           | 211  | % |
| Total              | \$1,677,988       | \$163,200   | \$99,768  | \$63,432                  | \$(2,400)            | \$102,168  | \$586,915                             | \$1,547,645                           | \$4,680,466                       | 279  | % |

The following graph shows the purchase price of our domestic portfolios by year and includes the acquisition amount for the three months ended March 31, 2013. The purchase price number represents the cash paid to the seller, plus certain capitalized costs, less buybacks.

As shown in the above chart, the composition of our domestic purchased portfolios has shifted in favor of bankrupt accounts in recent years. We began buying bankrupt accounts during 2004 and slowly increased the volume of accounts we acquired through 2006 as we tested our models, refined our processes and validated our operating assumptions. After observing a high level of modeling confidence in our early purchases, we began increasing our level of purchases more dramatically commencing in 2007.



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Our ability to profitably purchase and liquidate pools of bankrupt accounts provides diversity to our distressed asset acquisition business. Although we generally buy bankrupt portfolios from many of the same consumer lenders from whom we acquire Core customer portfolios, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of portfolios purchased in the bankrupt and Core markets may differ over time. We have found periods when bankrupt accounts were more profitable and other times when Core accounts were more profitable. From 2004 through 2008, our bankruptcy buying fluctuated between 13% and 39% of our total portfolio purchasing in those years. In 2009, for the first time in our history, bankruptcy purchasing exceeded that of our Core buying, finishing at 55% of total portfolio purchasing for the year and during 2010 this percentage increased to 59%. This occurred as severe dislocations in the financial markets, coupled with legislative uncertainty, caused pricing in the bankruptcy market to decline substantially, thereby driving our strategy to make advantageous bankruptcy portfolio acquisitions during this period. For 2011 and 2012, bankruptcy buying represented 48% and 50%, respectively, of our total domestic portfolio purchasing. In the first quarter of 2013, bankruptcy buying represented 41% of our total domestic portfolio purchasing.

In order to collect our Core portfolios, we generally need to employ relatively higher amounts of labor and incur additional collection costs to generate each dollar of cash collections as compared with bankruptcy portfolios. In order to achieve acceptable levels of net return on investment (after direct expenses), we are generally targeting a total cash collections to purchase price multiple in the 2.0-3.0x range. On the other hand, bankrupt accounts generate the majority of cash collections through the efforts of the U.S. bankruptcy courts. In this process, cash is remitted to our Company with no corresponding cost other than the cost of filing claims at the time of purchase and general administrative costs for monitoring the progress of each account through the bankruptcy process. As a result, overall collection costs are much lower for us when liquidating a pool of bankrupt accounts as compared to a pool of Core accounts, but conversely the price we pay for bankrupt accounts is generally higher than Core accounts. We generally target similar returns on investment (measured after direct expenses) for bankrupt and Core portfolios at any given point in the market cycles. However, because of the lower related collection costs, we can pay more for bankrupt portfolios, which causes the estimated total cash collections to purchase price multiples of bankrupt pools generally to be in the 1.2-2.0x range. In summary, compared to a pool of Core accounts, to the extent both pools had identical targeted returns on investment (measured after direct expenses), the bankrupt pool would be expected to generate less revenue, a lower yield, less direct expenses, similar operating income, and a higher operating margin.

In addition, collections on younger, newly filed bankrupt accounts tend to be of a lower magnitude in the earlier months when compared to Core charge-off accounts. This lower level of early period collections is due to the fact that we primarily purchase portfolios of accounts that represent unsecured claims in bankruptcy, and these unsecured claims are scheduled to begin paying out after payment of the secured and priority claims. As a result of the administrative processes regarding payout priorities within the court-administered bankruptcy plans, unsecured creditors do not generally begin receiving meaningful collections on unsecured claims until 12 to 18 months after the bankruptcy filing date. Therefore, to the extent that we purchase portfolios with more recent bankruptcy filing dates, as we did to a significant extent commencing in 2009, we would expect to experience a delay in cash collections compared with Core charged-off portfolios.

We utilize a long-term approach to collecting our owned portfolios of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased portfolios of finance receivables years after they are originally acquired. As a result, we have in the past been able to temporarily reduce our level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.



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The following tables, which exclude any proceeds from cash sales of finance receivables, demonstrate our ability to realize significant multi-year cash collection streams on our domestic portfolios.

## Cash Collections By Year, By Year of Purchase – Entire Domestic Portfolio

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |           |           |           |           |           |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      |           |             |       |
| 1996               | \$3,080           | \$9,204                | \$210     | \$237     | \$102     | \$83      | \$78      | \$68      | \$100     | \$39      | \$6       | \$10,127    |       |
| 1997               | 7,685             | 21,943                 | 860       | 597       | 437       | 346       | 215       | 216       | 187       | 112       | 24        | 24,937      |       |
| 1998               | 11,089            | 31,078                 | 1,811     | 1,415     | 882       | 616       | 397       | 382       | 332       | 241       | 46        | 37,200      |       |
| 1999               | 18,898            | 52,846                 | 4,352     | 3,032     | 2,243     | 1,533     | 1,328     | 1,139     | 997       | 709       | 140       | 68,319      |       |
| 2000               | 25,020            | 76,596                 | 10,924    | 8,067     | 5,202     | 3,604     | 3,198     | 2,782     | 2,554     | 1,927     | 423       | 115,277     |       |
| 2001               | 33,481            | 96,599                 | 22,639    | 16,048    | 10,011    | 6,164     | 5,299     | 4,422     | 3,791     | 3,104     | 662       | 168,739     |       |
| 2002               | 42,325            | 87,073                 | 32,497    | 24,729    | 16,527    | 9,772     | 7,444     | 6,375     | 5,844     | 4,768     | 1,048     | 196,077     |       |
| 2003               | 61,448            | 74,014                 | 52,640    | 43,728    | 30,695    | 18,818    | 13,135    | 10,422    | 8,945     | 7,477     | 1,615     | 261,489     |       |
| 2004               | 59,176            | 18,019                 | 46,475    | 40,424    | 30,750    | 19,339    | 13,677    | 9,944     | 8,522     | 6,604     | 1,394     | 195,148     |       |
| 2005               | 143,168           | —                      | 18,968    | 75,145    | 69,862    | 49,576    | 33,366    | 23,733    | 17,234    | 13,302    | 3,009     | 304,195     |       |
| 2006               | 107,673           | —                      | —         | 22,971    | 53,192    | 40,560    | 29,749    | 22,494    | 18,190    | 12,560    | 2,676     | 202,392     |       |
| 2007               | 258,397           | —                      | —         | —         | 42,263    | 115,011   | 94,805    | 83,059    | 67,088    | 47,136    | 9,207     | 458,569     |       |
| 2008               | 275,157           | —                      | —         | —         | —         | 61,277    | 107,974   | 100,337   | 89,344    | 71,806    | 14,002    | 444,740     |       |
| 2009               | 281,443           | —                      | —         | —         | —         | —         | 57,338    | 177,407   | 187,119   | 177,273   | 39,176    | 638,313     |       |
| 2010               | 358,122           | —                      | —         | —         | —         | —         | —         | 86,562    | 218,053   | 234,893   | 54,972    | 594,480     |       |
| 2011               | 394,145           | —                      | —         | —         | —         | —         | —         | —         | 77,190    | 240,840   | 62,951    | 380,981     |       |
| 2012               | 515,690           | —                      | —         | —         | —         | —         | —         | —         | —         | 74,289    | 70,426    | 144,715     |       |
| YTD<br>2013        | 213,740           | —                      | —         | —         | —         | —         | —         | —         | —         | —         | 10,656    | 10,656      |       |
| Total              | \$2,809,737       | \$467,372              | \$191,376 | \$236,393 | \$262,166 | \$326,699 | \$368,003 | \$529,342 | \$705,490 | \$897,080 | \$272,433 | \$4,256,    |       |

## Cash Collections By Year, By Year of Purchase – Purchased Bankruptcy Portfolio

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |         |          |          |          |          |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|---------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005    | 2006     | 2007     | 2008     | 2009     | 2010      | 2011      | 2012      |           |             |       |
| 2004               | \$7,468           | 743                    | 4,554   | 3,956    | 2,777    | 1,455    | 496      | 164       | 149       | 108       | 20        | \$14,422    |       |
| 2005               | 29,301            | —                      | 3,777   | 15,500   | 11,934   | 6,845    | 3,318    | 1,382     | 466       | 250       | 52        | 43,524      |       |
| 2006               | 17,630            | —                      | —       | 5,608    | 9,455    | 6,522    | 4,398    | 2,972     | 1,526     | 665       | 134       | 31,280      |       |
| 2007               | 78,544            | —                      | —       | —        | 2,850    | 27,972   | 25,630   | 22,829    | 16,093    | 7,551     | 412       | 103,337     |       |
| 2008               | 108,604           | —                      | —       | —        | —        | 14,024   | 35,894   | 37,974    | 35,690    | 28,956    | 4,620     | 157,158     |       |
| 2009               | 156,050           | —                      | —       | —        | —        | —        | 16,635   | 81,780    | 102,780   | 107,888   | 23,867    | 332,950     |       |
| 2010               | 209,215           | —                      | —       | —        | —        | —        | —        | 39,486    | 104,499   | 125,020   | 30,753    | 299,758     |       |
| 2011               | 182,133           | —                      | —       | —        | —        | —        | —        | —         | 15,218    | 66,379    | 18,803    | 100,400     |       |
| 2012               | 256,209           | —                      | —       | —        | —        | —        | —        | —         | —         | 17,388    | 24,730    | 42,118      |       |
| YTD<br>2013        | 86,595            | —                      | —       | —        | —        | —        | —        | —         | —         | —         | 5,842     | 5,842       |       |
| Total              | \$1,131,749       | \$743                  | \$8,331 | \$25,064 | \$27,016 | \$56,818 | \$86,371 | \$186,587 | \$276,421 | \$354,205 | \$109,233 | \$1,130,789 |       |



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## Cash Collections By Year, By Year of Purchase – Core Portfolio

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |           |           |           |           |           |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      |           |             |       |
| 1996               | \$3,080           | \$9,204                | \$210     | \$237     | \$102     | \$83      | \$78      | \$68      | \$100     | \$39      | \$6       | \$10,127    |       |
| 1997               | 7,685             | 21,943                 | 860       | 597       | 437       | 346       | 215       | 216       | 187       | 112       | 24        | 24,937      |       |
| 1998               | 11,089            | 31,078                 | 1,811     | 1,415     | 882       | 616       | 397       | 382       | 332       | 241       | 46        | 37,200      |       |
| 1999               | 18,898            | 52,846                 | 4,352     | 3,032     | 2,243     | 1,533     | 1,328     | 1,139     | 997       | 709       | 140       | 68,319      |       |
| 2000               | 25,020            | 76,596                 | 10,924    | 8,067     | 5,202     | 3,604     | 3,198     | 2,782     | 2,554     | 1,927     | 423       | 115,277     |       |
| 2001               | 33,481            | 96,599                 | 22,639    | 16,048    | 10,011    | 6,164     | 5,299     | 4,422     | 3,791     | 3,104     | 662       | 168,739     |       |
| 2002               | 42,325            | 87,073                 | 32,497    | 24,729    | 16,527    | 9,772     | 7,444     | 6,375     | 5,844     | 4,768     | 1,048     | 196,077     |       |
| 2003               | 61,448            | 74,014                 | 52,640    | 43,728    | 30,695    | 18,818    | 13,135    | 10,422    | 8,945     | 7,477     | 1,615     | 261,489     |       |
| 2004               | 51,708            | 17,276                 | 41,921    | 36,468    | 27,973    | 17,884    | 13,181    | 9,780     | 8,373     | 6,496     | 1,374     | 180,726     |       |
| 2005               | 113,867           | —                      | 15,191    | 59,645    | 57,928    | 42,731    | 30,048    | 22,351    | 16,768    | 13,052    | 2,957     | 260,671     |       |
| 2006               | 90,043            | —                      | —         | 17,363    | 43,737    | 34,038    | 25,351    | 19,522    | 16,664    | 11,895    | 2,542     | 171,112     |       |
| 2007               | 179,853           | —                      | —         | —         | 39,413    | 87,039    | 69,175    | 60,230    | 50,995    | 39,585    | 8,795     | 355,232     |       |
| 2008               | 166,553           | —                      | —         | —         | —         | 47,253    | 72,080    | 62,363    | 53,654    | 42,850    | 9,382     | 287,582     |       |
| 2009               | 125,393           | —                      | —         | —         | —         | —         | 40,703    | 95,627    | 84,339    | 69,385    | 15,309    | 305,363     |       |
| 2010               | 148,907           | —                      | —         | —         | —         | —         | —         | 47,076    | 113,554   | 109,873   | 24,219    | 294,722     |       |
| 2011               | 212,012           | —                      | —         | —         | —         | —         | —         | —         | 61,972    | 174,461   | 44,148    | 280,581     |       |
| 2012               | 259,481           | —                      | —         | —         | —         | —         | —         | —         | —         | 56,901    | 45,696    | 102,597     |       |
| YTD<br>2013        | 127,145           | —                      | —         | —         | —         | —         | —         | —         | —         | —         | 4,814     | 4,814       |       |
| Total              | \$1,677,988       | \$466,629              | \$183,045 | \$211,329 | \$235,150 | \$269,881 | \$281,632 | \$342,755 | \$429,069 | \$542,875 | \$163,200 | \$3,125,000 |       |

When we acquire a new pool of finance receivables, our estimates typically result in a 60-96 month projection of cash collections, depending on the type of finance receivables acquired. The following chart shows our historical cash collections (including cash sales of finance receivables) in relation to the aggregate of the total estimated collection projections made at the time of each respective pool purchase, adjusted for buybacks, for the last ten years.

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Primarily as a result of the downturn in the economy, the decline in the availability of consumer credit, our efforts to help customers establish reasonable payment plans, and improvements in our collections capabilities which have allowed us to profitably collect on accounts with lower balances or lower quality, the average payment size has decreased over the past several years. However, due to improved scoring and segmentation, together with enhanced productivity, we have been able to realize increased amounts of cash collections by generating enough incremental payments to overcome the decrease in payment size. The decreasing average payment size trend moderated during 2012 and the first three months of 2013.

The following chart illustrates the excess of our cash collections on our owned portfolios over income recognized on finance receivables on a quarterly basis. The difference between cash collections and income recognized on finance receivables is referred to as payments applied to principal. It is also referred to as amortization of purchase price. This amortization is the portion of cash collections that is used to recover the cost of the portfolio investment represented on the balance sheet.

(1) Includes cash collections on finance receivables only and excludes cash proceeds from sales of defaulted consumer receivables.

## Seasonality

Collections tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year, due to customer payment patterns in connection with seasonal employment trends, income tax refunds and holiday spending habits. Historically, our growth has partially offset the impact of this seasonality.

The following table displays our quarterly cash collections by source, for the periods indicated.

## Cash Collection

| Source (\$ in thousands)             | Q12013    | Q42012    | Q32012    | Q22012    | Q12012    | Q42011    | Q32011    | Q22011    |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Call Center and Other Collections    | \$89,037  | \$72,624  | \$72,394  | \$73,582  | \$79,805  | \$61,227  | \$63,967  | \$64,566  |
| External Legal Collections           | 47,910    | 41,521    | 39,913    | 41,464    | 34,852    | 26,316    | 27,245    | 27,329    |
| Internal Legal Collections           | 29,283    | 23,968    | 25,650    | 25,361    | 23,345    | 17,615    | 16,444    | 16,007    |
| Bankruptcy Court Trustee Collections | 109,233   | 91,098    | 91,095    | 92,018    | 79,994    | 75,166    | 74,512    | 68,379    |
| Total Cash Collections               | \$275,463 | \$229,211 | \$229,052 | \$232,425 | \$217,996 | \$180,324 | \$182,168 | \$176,281 |

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## Rollforward of Net Finance Receivables

The following table shows the changes in finance receivables, net, including the amounts paid to acquire new portfolios (amounts in thousands).

|   | Three Months Ended<br>March 31, 2013 | Three Months Ended<br>March 31, 2012 |
|---|--------------------------------------|--------------------------------------|
| Balance at beginning of year  | \$1,078,951                          | \$926,734                            |
| Acquisitions of finance receivables <sup>(1)</sup>                          | 212,389                              | 112,093                              |
| Foreign currency translation adjustment                                     | (922                                 | ) 185                                |
| Cash collections applied to principal on finance receivables <sup>(2)</sup> | (120,671                             | ) (93,770                            |
| Balance at end of year  | \$1,169,747                          | \$945,242                            |
| Estimated Remaining Collections   | \$2,486,903                          | \$2,032,873                          |

(1) Acquisitions of finance receivables is net of buybacks and includes certain capitalized acquisition related costs.

(2) Cash collections applied to principal (also referred to as amortization) on finance receivables consists of cash collections less income recognized on finance receivables, net of allowance charges.

## Portfolios by Type and Geography (Domestic Portfolio Only)

The following table categorizes our life to date portfolio purchases as of March 31, 2013, into the major asset types represented (amounts in thousands):

| Account Type               | No. of Accounts | %   | Life to Date<br>Purchased<br>Face Value <sup>(1)</sup> | %   | Original Purchase<br>Price <sup>(2)</sup> | %   |
|----------------------------|-----------------|-----|--|-----|---|-----|
| Major Credit Cards         | 17,815          | 56  | \$50,378,631   | 70  | \$2,015,177                               | 70  |
| Consumer Finance           | 6,175           | 19  | 7,446,648  | 10  | 135,795                                   | 5   |
| Private Label Credit Cards | 7,060           | 23  | 9,730,256  | 14  | 635,100                                   | 22  |
| Auto Deficiency            | 651             | 2   | 4,594,236  | 6   | 86,600                                    | 3   |
| Total:                     | 31,701          | 100 | 72,149,771   | 100 | 2,872,672                                 | 100 |

(1) Life to Date Purchased Face Value represents the original face amount purchased from sellers and has not been reduced by any adjustments including payments and buybacks.

(2) Original Purchase Price represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables.

The following table summarizes our life to date portfolio purchases as of March 31, 2013, into the delinquency categories represented (amounts in thousands).

| Account Type | No. of Accounts | %   | Life to Date<br>Purchased<br>Face Value <sup>(1)</sup> | %   | Original Purchase<br>Price <sup>(2)</sup> | %   |
|--------------|-----------------|-----|--|-----|---|-----|
| Fresh        | 2,603           | 8   | \$6,558,066  | 9   | \$658,165                                 | 23  |
| Primary      | 4,714           | 15  | 8,825,206  | 12  | 468,115                                   | 16  |
| Secondary    | 5,683           | 18  | 8,661,377  | 12  | 345,182                                   | 12  |
| Tertiary     | 4,049           | 13  | 5,455,392  | 8   | 76,829                                    | 3   |
| BK Trustees  | 4,465           | 14  | 20,119,380   | 28  | 1,182,080                                 | 41  |
| Other        | 10,187          | 32  | 22,530,350   | 31  | 142,301                                   | 5   |
| Total:       | 31,701          | 100 | 72,149,771   | 100 | 2,872,672                                 | 100 |

(1) Life to Date Purchased Face Value represents the original face amount purchased from sellers and has not been reduced by any adjustments including payments and buybacks.

(2) Original Purchase Price represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables.

We also review the geographic distribution of accounts within a portfolio because we have found that state specific laws and rules can have an effect on the collectability of accounts located there. In addition, economic factors and bankruptcy trends vary regionally and are factored into our maximum purchase price equation.



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The following table summarizes our life to date portfolio purchases as of March 31, 2013, by geographic location (amounts in thousands):

| Geographic Distribution | No. of Accounts |     | Life to Date Purchased    |     | Original Purchase    |     |
|-------------------------|-----------------|-----|---------------------------|-----|----------------------|-----|
|                         |                 | %   | Face Value <sup>(1)</sup> | %   | Price <sup>(2)</sup> | %   |
| California              | 3,360           | 11  | % \$ 9,499,719            | 13  | % \$ 369,174         | 13  |
| Texas                   | 4,563           | 14  | 7,979,201                 | 11  | 250,096              | 9   |
| Florida                 | 2,505           | 8   | 6,827,064                 | 9   | 259,070              | 9   |
| New York                | 1,790           | 6   | 4,238,925                 | 6   | 149,781              | 5   |
| Ohio                    | 1,521           | 5   | 2,710,452                 | 4   | 121,521              | 4   |
| Pennsylvania            | 1,130           | 4   | 2,632,299                 | 4   | 103,267              | 4   |
| North Carolina          | 1,139           | 4   | 2,545,318                 | 4   | 100,076              | 3   |
| Illinois                | 1,184           | 4   | 2,533,135                 | 4   | 112,343              | 4   |
| Georgia                 | 1,025           | 3   | 2,399,035                 | 3   | 114,981              | 4   |
| Michigan                | 838             | 3   | 1,947,256                 | 3   | 87,745               | 3   |
| New Jersey              | 725             | 2   | 1,939,185                 | 3   | 80,752               | 3   |
| Arizona                 | 565             | 2   | 1,551,391                 | 2   | 61,501               | 2   |
| Virginia                | 858             | 3   | 1,536,589                 | 2   | 67,327               | 2   |
| Tennessee               | 674             | 2   | 1,503,487                 | 2   | 68,021               | 2   |
| Massachusetts           | 538             | 2   | 1,321,884                 | 2   | 51,052               | 2   |
| Indiana                 | 571             | 2   | 1,281,603                 | 2   | 63,442               | 2   |
| Other <sup>(3)</sup>    | 8,715           | 25  | 19,703,228                | 26  | 812,523              | 29  |
| Total:                  | 31,701          | 100 | % 72,149,771              | 100 | % 2,872,672          | 100 |

(1) Life to Date Purchased Face Value represents the original face amount purchased from sellers and has not been reduced by any adjustments, including payments and buybacks.

(2) Original Purchase Price represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables.

(3) Each state included in "Other" represents less than 2% of the face value of total defaulted consumer receivables.

## Collections Productivity

The following tables display various collections productivity measures that we track. The tables below contain our collector productivity metrics as defined by calendar quarter.

## Quarterly Cash Collections per Collector Hour Paid (Domestic Portfolio Only)

|    | Core cash collections <sup>(1)</sup> |       |       |       |       |
|----|--------------------------------------|-------|-------|-------|-------|
|    | 2009                                 | 2010  | 2011  | 2012  | 2013  |
| Q1 | \$120                                | \$135 | \$162 | \$166 | \$186 |
| Q2 | \$114                                | \$127 | \$154 | \$169 | \$—   |
| Q3 | \$111                                | \$127 | \$152 | \$171 | \$—   |
| Q4 | \$109                                | \$129 | \$137 | \$150 | \$—   |

|    | Total cash collections <sup>(2)</sup> |       |       |       |       |
|----|---------------------------------------|-------|-------|-------|-------|
|    | 2009                                  | 2010  | 2011  | 2012  | 2013  |
| Q1 | \$147                                 | \$182 | \$241 | \$258 | \$298 |
| Q2 | \$143                                 | \$188 | \$243 | \$275 | \$—   |
| Q3 | \$144                                 | \$200 | \$249 | \$279 | \$—   |
| Q4 | \$148                                 | \$204 | \$228 | \$245 | \$—   |



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|    | Non-legal cash collections <sup>(3)</sup>                |       |       |       |       |
|----|--|-------|-------|-------|-------|
|    | 2009   | 2010  | 2011  | 2012  | 2013  |
| Q1 | \$118  | \$154 | \$204 | \$216 | \$244 |
| Q2 | \$116  | \$160 | \$205 | \$225 | \$—   |
| Q3 | \$119  | \$170 | \$212 | \$230 | \$—   |
| Q4 | \$123  | \$174 | \$194 | \$200 | \$—   |
|    | Non-legal/non-bankruptcy cash collections <sup>(4)</sup> |       |       |       |       |
|    | 2009   | 2010  | 2011  | 2012  | 2013  |
| Q1 | \$90   | \$106 | \$125 | \$125 | \$133 |
| Q2 | \$87   | \$100 | \$116 | \$120 | \$—   |
| Q3 | \$87   | \$97  | \$115 | \$122 | \$—   |
| Q4 | \$84   | \$98  | \$103 | \$105 | \$—   |

Represents total cash collections less purchased bankruptcy cash collections from trustee-administered accounts.

This metric includes cash collections from purchased bankruptcy accounts administered by the Core call center (1) collection floor as well as cash collections generated by our internal staff of legal collectors. This calculation does not include hours paid to our internal staff of legal collectors or to employees processing the bankruptcy-required notifications to trustees.

(2) Represents total cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to collectors (including those in training).

(3) Represents total cash collections less external legal cash collections. This metric includes internal legal collections and all bankruptcy collections and excludes any hours associated with either of those functions.

(4) Represents total cash collections less external legal cash collections and less purchased bankruptcy cash collections from trustee-administered accounts. This metric does not include any labor hours associated with the bankruptcy or legal (internal or external) functions but does include internally-driven cash collections from the internal legal channel.

### Liquidity and Capital Resources

Historically, our primary sources of cash have been cash flows from operations, bank borrowings and equity offerings. Cash has been used for acquisitions of finance receivables, corporate acquisitions, repurchase of our common stock, payment of cash dividends, repayments of bank borrowings, operating expenses, purchases of property and equipment and working capital to support our growth.

As of March 31, 2013, cash and cash equivalents totaled \$39.1 million, compared to \$32.7 million at December 31, 2012. Total debt outstanding on our \$600.0 million credit facility was \$370.8 million as of March 31, 2013, which represents availability of \$228.0 million.

We have in place forward flow commitments for the purchase of defaulted consumer receivables over the next 12 months of approximately \$283.8 million as of March 31, 2013. Additionally we may enter into new or renewed flow commitments in the next twelve months and close on spot transactions in addition to the aforementioned flow agreements. We believe that funds generated from operations and from cash collections on finance receivables, together with existing cash and available borrowings under our credit agreement will be sufficient to finance our operations, planned capital expenditures, the aforementioned forward flow commitments, and a material amount of additional portfolio purchasing in excess of the currently committed flow amounts during the next twelve months. We entered into the \$600.0 million secured credit facility referred to above, on December 19, 2012. Refer to the "Borrowings" section below for additional information on this facility.

We filed a \$150 million shelf registration during the third quarter of 2009. We issued \$75.5 million of equity securities under that registration statement during February 2010 in order to take advantage of market opportunities while retaining the ability to issue up to an additional \$74.5 million of equity or debt securities under the shelf

registration statement in the future. The outcome of any future transaction is subject to market conditions. With the acquisition of a controlling interest in CCB, we have the right to call (purchase) the noncontrolling interest through February 2015. In addition, the noncontrolling interest has the right to put the remainder of the shares to us beginning in March 2012 and ending February 2018. From March 2012 to February 2015, the put option is subject to a minimum amount of trailing

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EBITDA. As of March 31, 2013, the total maximum amount we would have to pay for the noncontrolling interest in CCB under any circumstances is \$11.4 million. In February 2013, we exercised our right to purchase half of the remaining noncontrolling interest for a purchase price of \$1.1 million.

We file domestic income tax returns using the cost recovery method for tax revenue recognition as it relates to our debt purchasing business. The Internal Revenue Service (“IRS”) has audited and issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006 and 2005. It has asserted that cost recovery for tax revenue recognition does not clearly reflect taxable income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. We have filed a petition in the United States Tax Court and believe we have sufficient support for the technical merits of our positions and that it is more-likely-than-not that they will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. If we are unsuccessful in the United States Tax Court, we can appeal to the federal Circuit Court of Appeals. If judicial appeals prove unsuccessful, we may ultimately be required to pay the related deferred taxes, any potential interest, and penalties, possibly requiring additional financing from other sources. In accordance with the Internal Revenue Code, underpayments of federal tax accrue interest, compounded daily, at the applicable federal short term rate plus three percentage points. An additional two percentage points applies to large corporate underpayments of \$100,000 or more to periods after the applicable date as defined in the Internal Revenue Code. Deferred taxes related to this item were \$190.2 million at March 31, 2013.

Cash generated from operations is dependent upon our ability to collect on our finance receivables. Many factors, including the economy and our ability to hire and retain qualified collectors and managers, are essential to our ability to generate cash flows. Fluctuations in these factors that cause a negative impact on our business could have a material impact on our future cash flows.

Our operating activities provided cash of \$58.1 million and \$20.1 million for the three months ended March 31, 2013 and 2012, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections and fee income received for the period. The increase was due in part to an increase in net income to \$38.5 million for the three months ended March 31, 2013, from \$25.2 million for the three months ended March 31, 2012. The remaining increase was mainly attributable to the timing of income tax payments.

Our investing activities used cash of \$94.2 million and \$64.2 million during the three months ended March 31, 2013 and 2012, respectively. Cash provided by investing activities is primarily driven by cash collections applied to principal on finance receivables. Cash used in investing activities is primarily driven by acquisitions of defaulted consumer receivables, purchases of property and equipment and business acquisitions. The majority of the increase was due to an increase in acquisitions of finance receivables, which increased from \$108.2 million for the three months ended March 31, 2012 to \$212.4 million for the three months ended March 31, 2013, partially offset by an increase in collections applied to principal on finance receivables from \$93.8 million for the three months ended March 31, 2012 to \$120.7 million for the three months ended March 31, 2013. In addition, cash of \$48.7 million was used on business acquisitions during the three months ended March 31, 2012 compared to \$0 in three months ended March 31, 2013.

Our financing activities provided cash of \$42.7 million and \$44.0 million during the three months ended March 31, 2013 and 2012, respectively. Cash is primarily provided by draws on our line of credit. Cash used in financing activities is primarily driven by principal payments on our line of credit, principal payments on long-term debt and repurchases of our common stock.

Cash paid for interest was \$2.7 million and \$2.6 million for the three months ended March 31, 2013 and 2012, respectively. Interest was paid on our line of credit and long-term debt. Cash paid for income taxes was \$2.9 million and \$12.5 million for the three months ended March 31, 2013 and 2012, respectively. The decrease in the taxes paid for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, is the result of the timing and amount of estimated taxes paid during the respective tax year.

**Borrowings**

On December 19, 2012, we entered into a credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the “Credit Agreement”). Under the terms of the Credit Agreement, the credit facility includes an aggregate principal amount available of \$600.0 million (subject to the borrowing base and

applicable debt covenants) which consists of a \$200.0 million floating rate term loan that matures on December 19, 2017 and a \$400.0 million revolving credit facility that matures on December 19, 2017. The term and revolving loans accrue interest, at our option, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. Interest is payable on base rate loans quarterly in arrears and on Eurodollar loans in arrears on the last day of each interest period or, if such interest period exceeds three months, every three months. Our revolving credit facility includes a \$20.0 million swingline loan sublimit, a \$20.0 million letter of credit sublimit and a \$20.0 million alternative currency equivalent sublimit. It also contains an accordion loan feature that allows us to request an increase of up to \$250.0 million in the amount available for borrowing under the revolving credit facility, whether from existing

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or new lenders, subject to terms of the Credit Agreement. No existing lender is obligated to increase its commitment. The Credit Agreement is secured by a first priority lien on substantially all of our assets. The Credit Agreement contains restrictive covenants and events of default including the following:

- borrowings may not exceed 30% of the ERC of all our eligible asset pools plus 75% of our eligible accounts receivable;
- the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.0 to 1.0 as of the end of any fiscal quarter;
- consolidated tangible net worth (as defined in the Credit Agreement) must equal or exceed \$455,091,200 plus 50% of positive cumulative consolidated net income for each fiscal quarter beginning with the quarter ended December 31, 2012, plus 50% of the cumulative net proceeds of any equity offering;
- capital expenditures during any fiscal year cannot exceed \$30 million;
- cash dividends and distributions during any fiscal year cannot exceed \$20 million;
- stock repurchases during the term of the agreement cannot exceed \$250 million and cannot exceed \$100 million in a single fiscal year;
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$250 million;
- we must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused commitment fee of 0.375% per annum, payable quarterly in arrears. Our borrowings at March 31, 2013 consisted of \$148.0 million in 30-day Eurodollar rate loans and \$24.0 million in base rate loans with a weighted average interest rate of 2.74%. In addition, we had \$198.8 million outstanding on the term loan at March 31, 2013 with an annual interest rate of 2.70%.

We had \$370.8 million and \$327.0 million of borrowings outstanding on our credit facility as of March 31, 2013 and December 31, 2012, respectively.

We were in compliance with all covenants of our credit facilities as of March 31, 2013 and December 31, 2012.

Undistributed Earnings of Foreign Subsidiaries

We intend to use remaining accumulated and future undistributed earnings of foreign subsidiaries to expand operations outside the United States; therefore, such undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States. Accordingly, no provision for U.S. federal and state income tax has been provided thereon. If management intentions change and eligible undistributed earnings of foreign subsidiaries are repatriated, taxes would be accrued and paid on such earnings.

Stockholders' Equity

Stockholders' equity was \$751.0 at March 31, 2013 and \$708.4 million at December 31, 2012. The increase was primarily attributable to \$38.6 million in net income attributable to PRA during the first three months of 2013.

Contractual Obligations

Our contractual obligations as of March 31, 2013 were as follows (amounts in thousands):

| Contractual Obligations                            | Payments due by period |                  |             |             |                   |
|--|------------------------|------------------|-------------|-------------|-------------------|
|  | Total                  | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Operating Leases                                   | \$23,638               | \$5,637          | \$10,116    | \$5,958     | \$1,927           |
| Line of Credit <sup>(1)</sup>                      | 203,244                | 5,855            | 12,088      | 185,301     | —                 |
| Long-term Debt <sup>(2)</sup>                      | 226,088                | 12,118           | 38,817      | 175,153     | —                 |
| Purchase Commitments <sup>(3)</sup> <sup>(4)</sup> | 313,911                | 310,905          | 2,628       | 378         | —                 |
| Employment Agreements                              | 11,282                 | 8,269            | 3,013       | —           | —                 |
| Total  | \$778,163              | \$342,784        | \$66,662    | \$366,790   | \$1,927           |





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- This amount includes principal, estimated interest and unused line fees due on the line of credit and assumes that
- (1) the balance on the line of credit remains constant from the March 31, 2013 balance of \$172.0 million and the balance is paid in full at its respective maturity in December 2017.
  - (2) This amount also includes estimated interest on our long-term borrowings under our credit facility.
  - (3) This amount includes the maximum remaining amount to be purchased under forward flow contracts for the purchase of charged-off consumer debt in the amount of approximately \$283.8 million.
  - (4) This amount includes the maximum remaining purchase price of \$11.4 million which is the maximum amount that could be paid to acquire the noncontrolling interest of CCB.

### Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined by Regulation S-K 303(a)(4) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act").

### Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" to amend the accounting guidance on intangible asset impairment testing. The ASU permits entities to perform an optional qualitative assessment for determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. We adopted ASU 2012-02 in the first quarter of 2013 which had no material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income, by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. We adopted ASU 2013-02 in the first quarter of 2013 which had no material impact on our consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted and prior periods should not be adjusted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

### Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements. Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets, and liabilities.

Three of these policies are considered to be critical because they are important to the portrayal of our financial condition and results, and because they require management to make judgments and estimates that are difficult, subjective, and complex regarding matters that are inherently uncertain.

We base our estimates on historical experience, current trends and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ significantly from actual results, the impact on our consolidated financial statements may be material.

Management has reviewed these critical accounting policies with the Company's Audit Committee.



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## Revenue Recognition

## Finance Receivables:

We account for our investment in finance receivables under the guidance of ASC 310-30. We acquire portfolios of accounts that have experienced deterioration of credit quality between origination and our acquisition of the accounts. The amount paid for a portfolio reflects our determination that it is probable we will be unable to collect all amounts due according to an account's contractual terms. At acquisition, we review the accounts to determine whether there is evidence of deterioration of credit quality since origination, and if it is probable that we will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, we then determine whether each such account is to be accounted for individually or whether such accounts will be assembled into pools based on common risk characteristics. We consider expected prepayments and estimate the amount and timing of undiscounted expected principal, interest and other cash flows (expected at acquisition) for each acquired portfolio based on our proprietary models, and then subsequently aggregate portfolios of accounts into pools. We determine the excess of the pool's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the pool's cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the remaining estimated life of the pool (accretable yield). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows, based on our estimates derived from our proprietary collection models, not be recognized as an adjustment of revenue or expense or on the balance sheet.

Under ASC 310-30 static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which may include certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, payments applied to principal and loss provision. Once a static pool is established for a calendar quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30, utilizing the interest method, initially freezes the yield, estimated when the accounts are purchased, as the basis for subsequent impairment testing. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using our proprietary collection models. Income on finance receivables is accrued quarterly based on each static pool's effective yield. Significant increases in expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over a pool's remaining life. Any increase to the yield then becomes the new benchmark for impairment testing. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheets. Quarterly cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as principal amortization). Likewise, cash flows that are less than the interest accrual will accrete the carrying balance. Generally, we do not record accretion in the first six to twelve months of the estimated life of the pool; accordingly, we utilize either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Under the cost recovery method, no revenue is recognized until we have fully collected the cost of the pool. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Additionally, we use the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These cost recovery pools are not aggregated with other pools. Under the cost recovery method, no revenue is recognized until we have fully collected the cost of the pool, or until such time that we consider the collections to be probable and estimable and begin to recognize income based on the interest method as described above.

We establish valuation allowances, if necessary, for acquired accounts subject to ASC 310-10. Valuation allowances are established only subsequent to acquisition of the accounts.

We implement the accounting for income recognized on finance receivables under ASC 310-30 as follows. We create each accounting pool using our projections of estimated cash flows and expected economic life. We then compute the

effective yield that fully amortizes the pool to the end of its expected economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, we balance those results to the data contained in our proprietary models to ensure accuracy, then review each pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), regularly re-forecasting future cash flows utilizing our statistical models. The review process is primarily performed by our finance staff; however, our operational and statistical staff is also involved, providing updated statistical input and cash projections to the finance staff. If there is an increase in expected cash flows, we will recognize the effect of the increase prospectively through an increase in yield. If a valuation allowance had been previously recognized for that pool, the allowance is reversed before recording any prospective yield adjustments. If the over performance is considered more of an acceleration of cash flows (a timing difference), we will: a) adjust estimated future cash flows downward which effectively extends the amortization period to fall within a reasonable expectation of the pool's economic life, b) introduce some level of future cash adjustment as

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noted previously coupled with an increase in yield in order for the amortization period to fall within a reasonable expectation of the pool's economic life, or c) take no action at all if the amortization period falls within a reasonable expectation of the pool's expected economic life. To the extent there is underperformance, we will record an allowance if the underperformance is significant and will also consider revising estimated future cash flows based on current period information, or take no action if the pool's amortization period is reasonable and falls within the currently projected economic life.

**Fee Income:**

We utilize the provisions of ASC Topic 605-45, "Principal Agent Considerations" ("ASC 605-45") to account for fee income revenue. ASC 605-45 requires an analysis to be completed to determine if certain revenues should be reported gross or reported net of their related operating expense. This analysis includes an assessment of who retains inventory/credit risk, controls vendor selection, establishes pricing and remains the primary obligor on the transaction. Each of these factors was considered to determine the correct method of recognizing revenue.

Our skip tracing subsidiary utilizes both gross and net reporting under ASC 605-45. We generate revenue by working an account and successfully locating a customer for our client. An "investigative fee" is received for these services. In addition, we incur "agent expenses" where we hire a third-party collector to effectuate repossession. In many cases we have an arrangement with our client which allows us to bill the client for these fees. We have determined these fees to be gross revenue based on the criteria in ASC 605-45 and they are recorded as such in the line item "Fee income," because we are primarily liable to the third party collector. There is a corresponding expense in "Agent fees" for these pass-through items. We also incur fees to release liens on the repossessed collateral. These lien-release fees and related reimbursement of these fees are netted in the line "Agent fees."

Our government processing and collection business' primary source of income is derived from servicing taxing authorities in several different ways: processing all of their tax payments and tax forms, collecting delinquent taxes, identifying taxes that are not being paid and auditing tax payments. The processing and collection pieces are standard commission based billings or fee-for-service transactions. When an audit is conducted, there are two components. The first component is a billing for the hours incurred to conduct the audit. This billing is marked up from the actual costs incurred. The gross billing is a component of the line item "Fee income" and the expense is included in the line item "Compensation and employee services." The second component is expenses incurred while conducting the audit. Most jurisdictions will reimburse us for direct expenses incurred for the audit including such items as travel and meals. The billed amounts are included in the line item "Fee income" and the expense component is included in its appropriate expense category, generally, "Other operating expenses."

Our claims administration and payment processing business utilizes net reporting under ASC 605-45. We generate revenue by filing claims with the class action claims administrator on behalf of our clients and receiving the related settlement payment. Under SEC Staff Accounting Bulletin 104, we have determined that our fee is not earned until we have received the settlement funds. When a payment is received from the claims administrator for settlement of a lawsuit, the fee is recorded on a net basis as revenue and included in the line item "Fee income." The balance of the received amounts is recorded as a liability and included in the line item "Accounts payable."

Our United Kingdom subsidiary generates revenue from both purchased finance receivables which is accounted for as described above and finance receivables serviced on a contingent fee basis. These serviced portfolios are owned by our clients and placed under a contingent fee commission arrangement. Our subsidiary is paid to collect funds from the client's debtors and earns a commission generally expressed as a percentage of the gross collections amount. The "Fee income" line of our income statement reflects the contingent fee amount earned, and not the gross collection amount.

**Valuation of Acquired Intangibles and Goodwill**

In accordance with ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350"), we amortize intangible assets over their estimated useful lives. Goodwill, pursuant to ASC 350, is not amortized but rather is reviewed for impairment annually or earlier if indicators of potential impairment exist. The review of goodwill for potential impairment is highly subjective and requires that: (1) goodwill is allocated to various reporting units of our business to which it relates; and (2) we estimate the fair value of those reporting units to which the goodwill relates and then determine the book value of those reporting units. During the review, we also consider qualitative factors that may have an impact

on the final assessment regarding potential impairment. If the estimated fair value of reporting units with allocated goodwill is determined to be less than their book value, we are required to estimate the fair value of all identifiable assets and liabilities of those reporting units in a manner similar to a purchase price allocation for an acquired business. This requires independent valuation of certain unrecognized assets. Once this process is complete, the amount of goodwill impairment, if any, can be determined.

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## Income Taxes

We follow the guidance of FASB ASC Topic 740 “Income Taxes” (“ASC 740”) as it relates to the provision for income taxes and uncertainty in income taxes. Accordingly, we record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The evaluation of a tax position in accordance with the guidance is a two-step process. The first step is recognition: the enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

We utilize the cost recovery method of income recognition for tax purposes. We believe cost recovery to be an acceptable method for companies in the bad debt purchasing industry. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

In the event that all or part of the deferred tax assets are determined not to be realizable in the future, a valuation allowance would be established and charged to earnings in the period such determination is made. If we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in a positive adjustment to earnings or a decrease in goodwill in the period such determination is made. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position.

## Item 3. Quantitative and Qualitative Disclosure About Market Risk

## Interest Rate Risk

We are subject to interest rate risk from outstanding borrowings on our variable rate credit facility. We assess this interest rate risk by estimating the increase in interest expense that would occur due to an increase in short-term interest rates. The average borrowings on our variable rate credit facility were \$359.6 million and \$214.6 million for the three months ended March 31, 2013 and 2012, respectively. Assuming a 200 basis point increase in interest rates, for example, interest expense would have increased by \$1.8 million and \$1.1 million for the three months ended March 31, 2013 and 2012, respectively, resulting in a decrease in income before income taxes of 2.8% and 2.6%, respectively. As of March 31, 2013 and December 31, 2012, we had \$370.8 million and \$265.0 million, respectively, of variable rate debt outstanding on our credit facility. We did not have any other variable rate debt outstanding as of March 31, 2013. We had no interest rate hedging programs in place for the three months ended March 31, 2013 and 2012. Significant increases in future interest rates on our variable rate credit facility could lead to a material decrease in future earnings assuming all other factors remained constant.

## Currency Exchange Risk

We are subject to currency exchange risk from our UK subsidiary. It conducts business in the Pound Sterling, but we report our financial results in U.S. dollars. Significant fluctuations in exchange rates between the U.S. dollar and the Pound Sterling may adversely affect our net income. We may or may not implement a hedging program related to currency exchange rate fluctuation. In the first quarter of 2013 and 2012, MHH revenues were 1.6% and 3.3% of consolidated revenues, respectively. We had no currency exchange risk hedging programs in place for the three months ended March 31, 2013 or 2012.



Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial and Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, controls may become inadequate because of changes in conditions and the degree of compliance with the policies or procedures may deteriorate. We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial and Administrative Officer have concluded that, as of March 31, 2013, our disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting.** There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of our business. We initiate lawsuits against customers and are occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against us in which they allege that we have violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against us.

No legal proceedings were commenced during the period covered by this report that the Company believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations and cash flows. Refer to Note 11 "Commitments and Contingencies" of our Consolidated Financial Statements for material developments with respect to legal proceedings previously disclosed with respect to prior periods.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors listed under Part I, Item 1A of our 2012 Annual Report on Form 10-K filed on February 28, 2013, together with all other information included or incorporated in our reports filed with the SEC. Any such risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In such event, our business, financial condition, results of operations or prospects could be materially adversely affected. If that occurs, the market price of our common stock could fall, and you could lose all or part of your investment.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Share Repurchase Program

On February 2, 2012, the Company's board of directors authorized a share repurchase program to purchase up to \$100,000,000 of the Company's outstanding shares of common stock on the open market. The following table provides information about the Company's common stock purchased during the first quarter of 2013.

| Month Ended       | Total Number of Shares Purchased | Average Price Paid per Share | Maximum Remaining Purchase Price for Share Repurchases Under the Plan |
|-------------------|----------------------------------|------------------------------|---|
| February 28, 2013 | 8,600                            | \$117.10                     | \$76,257,886  |
| March 31, 2013    | 7,600                            | 119.08                       | 75,352,887  |
| Total             | 16,200                           | \$118.03                     | \$75,352,887  |

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

|         |   |
|---------|---|
| 31.1    | Section 302 Certifications of Chief Executive Officer.  |
| 31.2    | Section 302 Certifications of Chief Financial and Administrative Officer.                             |
| 32.1    | Section 906 Certifications of Chief Executive Officer and Chief Financial and Administrative Officer. |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PORTFOLIO RECOVERY ASSOCIATES, INC.  
(Registrant)

Date: May 8, 2013

By: /s/ Steven D. Fredrickson  
Steven D. Fredrickson  
Chief Executive Officer, President and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: May 8, 2013

By: /s/ Kevin P. Stevenson  
Kevin P. Stevenson  
Chief Financial and Administrative  
Officer, Executive Vice President,  
Treasurer and Assistant Secretary  
(Principal Financial and Accounting  
Officer)