

PORTFOLIO RECOVERY ASSOCIATES INC

Form 10-Q

May 05, 2011

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**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, 2011.**

**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 incorporation or organization)*

*(I.R.S. Employer 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

*(Do not check if a 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.

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| Class                          | Outstanding as of May 2, 2011 |
|--------------------------------|-------------------------------|
| Common Stock, \$0.01 par value | 17,104,916                    |

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2011 and December 31, 2010**  
**(unaudited)**  
**(Amounts in thousands, except per share amounts)**

|  | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|--|---------------------------|----------------------------------|
| <b>Assets</b>  |                           |                                  |
| Cash and cash equivalents  | \$ 35,443                 | \$ 41,094                        |
| Finance receivables, net   | 866,992                   | 831,330                          |
| Accounts receivable, net   | 7,369                     | 8,932                            |
| Income taxes receivable  |                           | 2,363                            |
| Property and equipment, net  | 24,469                    | 24,270                           |
| Goodwill   | 61,678                    | 61,678                           |
| Intangible assets, net   | 17,215                    | 18,466                           |
| Other assets   | 6,933                     | 7,775                            |
| <br>   |                           |                                  |
| Total assets   | \$ 1,020,099              | \$ 995,908                       |
| <b>Liabilities and Stockholders Equity</b>   |                           |                                  |
| Liabilities:   |                           |                                  |
| Accounts payable   | \$ 7,498                  | \$ 3,227                         |
| Accrued expenses and other liabilities   | 2,620                     | 4,904                            |
| Income taxes payable   | 1,577                     |                                  |
| Accrued payroll and bonuses  | 6,300                     | 15,445                           |
| Net deferred tax liability   | 179,043                   | 164,971                          |
| Line of credit   | 290,000                   | 300,000                          |
| Long-term debt   | 2,098                     | 2,396                            |
| <br>   |                           |                                  |
| Total liabilities  | 489,136                   | 490,943                          |
| <br>   |                           |                                  |
| Commitments and contingencies (Note 12)  |                           |                                  |
| <br>   |                           |                                  |
| Redeemable noncontrolling interest   | 15,253                    | 14,449                           |
| <br>   |                           |                                  |
| Stockholders equity:   |                           |                                  |
| Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0   |                           |                                  |
| Common stock, par value \$0.01, authorized shares, 30,000, 17,099 issued and outstanding shares at March 31, 2011, and 17,064 issued and outstanding shares at December 31, 2010 | 171                       | 171                              |

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|  |              |            |
|--|--------------|------------|
| Additional paid-in capital                 | 165,611      | 163,538    |
| Retained earnings                          | 349,928      | 326,807    |
| Total stockholders' equity                 | 515,710      | 490,516    |
| Total liabilities and stockholders' equity | \$ 1,020,099 | \$ 995,908 |

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

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**CONSOLIDATED INCOME STATEMENTS**  
**For the three months ended March 31, 2011 and 2010**  
**(unaudited)**  
**(Amounts in thousands, except per share amounts)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Revenues:  |   |             |
| Income recognized on finance receivables, net                      | \$ 95,974                               | \$ 67,951   |
| Fee income   | 15,803                                  | 15,427      |
| <br>   |   |             |
| Total revenues   | 111,777                                 | 83,378      |
| <br>   |   |             |
| Operating expenses:  |   |             |
| Compensation and employee services                                 | 34,153                                  | 29,642      |
| Legal and agency fees and costs                                    | 17,726                                  | 13,338      |
| Outside fees and services  | 3,414                                   | 2,829       |
| Communications   | 6,313                                   | 5,058       |
| Rent and occupancy   | 1,398                                   | 1,252       |
| Depreciation and amortization                                      | 3,216                                   | 2,550       |
| Other operating expenses   | 2,852                                   | 2,274       |
| <br>   |   |             |
| Total operating expenses   | 69,072                                  | 56,943      |
| <br>   |   |             |
| Income from operations   | 42,705                                  | 26,435      |
| <br>   |   |             |
| Other income and (expense):  |   |             |
| Interest income  |   | 36          |
| Interest expense   | (2,867)                                 | (2,180)     |
| <br>   |   |             |
| Income before income taxes   | 39,838                                  | 24,291      |
| <br>   |   |             |
| Provision for income taxes   | 16,129                                  | 9,486       |
| <br>   |   |             |
| Net income   | \$ 23,709                               | \$ 14,805   |
| <br>   |   |             |
| Less net income attributable to redeemable noncontrolling interest | (588)                                   | (5)         |
| <br>   |   |             |
| Net income attributable to Portfolio Recovery Associates, Inc.     | \$ 23,121                               | \$ 14,800   |



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Net income per common share attributable to Portfolio Recovery Associates, Inc:

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 1.35 | \$ 0.91 |
| Diluted | \$ 1.34 | \$ 0.91 |

Weighted average number of shares outstanding:

|         |        |        |
|---------|--------|--------|
| Basic   | 17,092 | 16,191 |
| Diluted | 17,199 | 16,203 |

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

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**For the three months ended March 31, 2011**  
**(unaudited)**  
**(Amounts in thousands)**

|  | <b>Common Stock</b> |               | <b>Additional</b> | <b>Retained</b> | <b>Total</b>        |
|--|---------------------|---------------|-------------------|-----------------|---------------------|
|  | <b>Shares</b>       | <b>Amount</b> | <b>Paid-in</b>    | <b>Earnings</b> | <b>Stockholders</b> |
|  |                     |               | <b>Capital</b>    |                 | <b>Equity</b>       |
| Balance at December 31, 2010                                   | 17,064              | \$ 171        | \$ 163,538        | \$ 326,807      | \$ 490,516          |
| Net income attributable to Portfolio Recovery Associates, Inc. |                     |               |                   | 23,121          | 23,121              |
| Exercise of stock options and vesting of nonvested shares      | 35                  |               | 150               |                 | 150                 |
| Amortization of share-based compensation                       |                     |               | 2,614             |                 | 2,614               |
| Income tax benefit from share-based compensation               |                     |               | 294               |                 | 294                 |
| Adjustment of the noncontrolling interest measurement amount   |                     |               | (985)             |                 | (985)               |
| Balance at March 31, 2011                                      | 17,099              | \$ 171        | \$ 165,611        | \$ 349,928      | \$ 515,710          |

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

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2011 and 2010**  
**(unaudited)**  
**(Amounts in thousands)**

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| Cash flows from operating activities:   |                           |             |
| Net income  | \$ 23,709                 | \$ 14,805   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |             |
| Amortization of share-based compensation  | 2,614                     | 880         |
| Depreciation and amortization   | 3,216                     | 2,550       |
| Deferred tax expense  | 14,072                    | 9,070       |
| Changes in operating assets and liabilities:                                      |                           |             |
| Other assets  | 842                       | (613)       |
| Accounts receivable   | 1,563                     | 417         |
| Accounts payable  | 4,271                     | 971         |
| Income taxes  | 3,940                     | 3,021       |
| Accrued expenses  | (1,762)                   | (242)       |
| Accrued payroll and bonuses   | (9,145)                   | (3,335)     |
| <br>  |                           |             |
| Net cash provided by operating activities   | 43,320                    | 27,524      |
| <br>  |                           |             |
| Cash flows from investing activities:   |                           |             |
| Purchases of property and equipment   | (2,163)                   | (1,706)     |
| Acquisition of finance receivables, net of buybacks                               | (106,405)                 | (100,266)   |
| Collections applied to principal on finance receivables                           | 70,743                    | 51,244      |
| Business acquisitions, net of cash acquired                                       |                           | (22,500)    |
| Contingent payment made for business acquisition                                  |                           | (100)       |
| <br>  |                           |             |
| Net cash used in investing activities   | (37,825)                  | (73,328)    |
| <br>  |                           |             |
| Cash flows from financing activities:   |                           |             |
| Proceeds from exercise of options   | 149                       |             |
| Income tax benefit from share-based compensation                                  | 294                       | 22          |
| Proceeds from line of credit  | 2,000                     | 70,500      |
| Principal payments on line of credit  | (12,000)                  | (93,500)    |
| Proceeds from stock offering, net of offering costs                               |                           | 71,688      |
| Distributions paid to noncontrolling interest                                     | (1,291)                   |             |
| Principal payments on long-term debt  | (298)                     | (165)       |
| <br>  |                           |             |
| Net cash (used in)/provided by financing activities                               | (11,146)                  | 48,545      |

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|  |           |           |
|--|-----------|-----------|
| Net (decrease)/increase in cash and cash equivalents         | (5,651)   | 2,741     |
| Cash and cash equivalents, beginning of year                 | 41,094    | 20,265    |
| Cash and cash equivalents, end of period                     | \$ 35,443 | \$ 23,006 |
| Supplemental disclosure of cash flow information:            |           |           |
| Cash paid for interest                                       | \$ 2,711  | \$ 2,151  |
| Cash paid for income taxes                                   | 15        | 61        |
| Noncash investing and financing activities:                  |           |           |
| Net unrealized change in fair value of derivative instrument | \$        | \$ (108)  |
| Distributions payable to noncontrolling interest             | 769       |           |
| Adjustment of the noncontrolling interest measurement amount | 985       |           |

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

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Organization and Business:**

Portfolio Recovery Associates, LLC ( PRA ) was formed on March 20, 1996. Portfolio Recovery Associates, Inc. ( PRA Inc ) was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering ( IPO ) of common stock. In connection with the IPO, all of the membership units and warrants of PRA were exchanged on a one to one basis for shares of a single class of common stock of PRA Inc and warrants to purchase shares of PRA Inc common stock, respectively. PRA Inc owns all outstanding membership units of PRA, PRA Holding I, LLC ( PRA Holding I ), PRA Holding II, LLC ( PRA Holding II ), PRA Holding III, LLC ( PRA Holding III ), PRA Receivables Management, LLC ( PRA Receivables Management ), PRA Location Services, LLC ( PLS ) (formerly referred to as IGS ), PRA Government Services, LLC (d/b/a RDS) ( RDS ) and MuniServices, LLC (d/b/a PRA Government Services) ( MuniServices ). On March 15, 2010, PRA Inc acquired 62% of the membership units of Claims Compensation Bureau, LLC ( CCB ). The business of PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the Company ) revolves around the detection, collection, and processing of both unpaid and normal-course receivables originally owed to credit grantors, governments, retailers and others. The Company s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These accounts are purchased from sellers of finance receivables and collected by a highly skilled staff whose purpose is to locate and contact customers and arrange payment or resolution of their debts. The Company, through its Litigation Department, collects accounts judicially, either by using its own attorneys or by contracting with independent attorneys throughout the country through whom the Company takes legal action to satisfy consumer debts. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis. Clients include entities in the financial services, auto, retail, utility, health care and government sectors. Services provided to these clients include obtaining location information for clients in support of their collection activities (known as skip tracing), and the management of both delinquent and non-delinquent receivables for government entities. In addition, through its CCB subsidiary, the Company provides class action claims settlement recovery services and related payment processing to its corporate clients.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, PRA Holding II, PRA Holding III, PRA Receivables Management, PLS, RDS, MuniServices and CCB. 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 receivables management, based on similarities among the operating units, including homogeneity of services, service delivery methods and use of technology.

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, 2011, its consolidated income statements for the three months ended March 31, 2011 and 2010, its consolidated statement of changes in stockholders equity for the three months ended March 31, 2011, and its consolidated statements of cash flows for the three months ended March 31, 2011 and 2010. The consolidated income statement of the Company for the three months ended March 31, 2011 may not be indicative of future results. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2010.

**2. Finance Receivables, net:**

The Company s principal business consists of the acquisition and collection of pools of accounts that have experienced deterioration of credit quality between origination and the Company s acquisition of the accounts. The

amount paid for any pool 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 portfolio both by account and aggregate pool to determine whether there is evidence of deterioration of credit quality

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

since origination and if it is probable that the Company will be unable to collect all amounts due according to the account's contractual terms. If both conditions exist, the Company 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 for each acquired portfolio and subsequently aggregates pools of accounts. The Company determines 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) based on the Company's proprietary acquisition models. 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 estimated remaining life of the pool (accretable yield).

The Company accounts for its investment in finance receivables under the guidance of FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). 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 includes 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 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. ASC 310-30, utilizing the interest method, initially freezes the yield estimated when the accounts are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the yield over a portfolio'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 shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheet. Income on finance receivables is accrued quarterly based on each static pool's effective yield. 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 finance receivable amortization). Likewise, cash flows that are less than the interest accrual will increase, or accrete, the carrying balance. The Company generally does not record accretion in the first six to twelve months of the estimated 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. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company's proprietary collection models. 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. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. 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 portfolios. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio, 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, 2011 and 2010, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of \$1.4 million and \$2.3 million, respectively.

The Company establishes valuation allowances, if necessary, for acquired accounts subject to ASC 310-30 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). Valuation allowances are established only subsequent to

acquisition of the accounts. At March 31, 2011 and 2010, the Company had a valuation allowance against its finance receivables of \$80,447,000 and \$58,125,000, respectively.

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



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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

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 using the interest method. 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 accounting pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), sometimes re-forecasting future cash flows utilizing the Company's statistical models. The review process is primarily performed by the Company's finance staff; additionally, the Company's operational and statistical staffs may also be involved. To the extent there is overperformance, the Company will either increase the yield or release the allowance and consider increasing future cash projections, if persuasive evidence indicates that the overperformance is considered to be a significant betterment. If the overperformance is considered more of an acceleration of cash flows (a timing difference), the Company will adjust estimated future cash flows downward, which effectively extends the amortization period, or take no action at all if the amortization period is reasonable and falls within the pool's expected economic life. In either case, the yield may or may not be increased due to the time value of money (accelerated cash collections). To the extent there is underperformance, the Company 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.

The Company capitalizes certain fees paid to third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. The balance of the unamortized capitalized fees at March 31, 2011 and 2010 was \$3,206,705 and \$3,122,600, respectively. During the three months ended March 31, 2011 and 2010, the Company capitalized \$255,778 and \$161,621, respectively, of these direct acquisition fees. During the three months ended March 31, 2011 and 2010, the Company amortized \$344,588 and \$270,947, respectively, of these direct acquisition fees.

The agreements to purchase the aforementioned receivables include general representations and warranties from the sellers covering account holder death or bankruptcy and accounts settled or disputed prior to sale. The representation and warranty period permitting the return of these accounts from the Company to the seller is typically 90 to 180 days. Any funds received from the seller of finance receivables as a return of purchase price are referred to as buybacks. Buyback funds are applied against the finance receivable balance received and are not included in the Company's cash collections from operations. In some cases, the seller will replace the returned accounts with new accounts in lieu of returning the purchase price. In that case, the old account is removed from the pool and the new account is added.

Changes in finance receivables, net for the three months ended March 31, 2011 and 2010 were as follows (amounts in thousands):

|  | <b>Three Months<br/>Ended<br/>March 31, 2011</b> | <b>Three Months<br/>Ended<br/>March 31, 2010</b> |
|--|--|--|
| Balance at beginning of period                       | \$ 831,330                                       | \$ 693,462                                       |
| Acquisitions of finance receivables, net of buybacks | 106,405  | 100,266  |
| Cash collections                                     | (166,717)  | (119,195)  |
| Income recognized on finance receivables, net        | 95,974   | 67,951   |
| Cash collections applied to principal                | (70,743)   | (51,244)   |

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|                          |    |         |    |         |
|--------------------------|----|---------|----|---------|
| Balance at end of period | \$ | 866,992 | \$ | 742,484 |
|--------------------------|----|---------|----|---------|

At the time of acquisition, the life of each pool is generally estimated to be between 72 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, 2011 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

|                |            |
|----------------|------------|
| March 31, 2012 | \$ 234,860 |
| March 31, 2013 | 246,877    |
| March 31, 2014 | 214,753    |
| March 31, 2015 | 133,718    |
| March 31, 2016 | 34,849     |
| March 31, 2017 | 1,935      |
|                | \$ 866,992 |

During the three months ended March 31, 2011 and 2010, the Company purchased approximately \$1.49 billion and \$1.89 billion, respectively, in face value of finance receivables. At March 31, 2011, the estimated remaining collections ( ERC ) on the receivables purchased in the three months ended March 31, 2011 and 2010 were \$211.2 million and \$169.3 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 to be earned by the Company based on its proprietary buying models. Reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. 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, 2011 and 2010 were as follows (amounts in thousands):

|   | <b>Three Months<br/>Ended<br/>March 31, 2011</b> | <b>Three Months<br/>Ended<br/>March 31, 2010</b> |
|---|--|--|
| Balance at beginning of period                  | \$ 892,188                                       | \$ 721,984                                       |
| Income recognized on finance receivables, net   | (95,974)   | (67,951)   |
| Additions                                       | 109,502  | 122,510  |
| Reclassifications from nonaccretable difference | 20,562   | 17,102   |
| Balance at end of period                        | \$ 926,278                                       | \$ 793,645                                       |

ASC 310-30 requires that a valuation allowance be recorded for significant decreases in expected cash flows or change in 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 to 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 relates 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, 2011 and 2010 (amounts in thousands):

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|   |                          | <b>Three Months Ended<br/>March 31, 2011</b> |         |            |
|---|--------------------------|--|---------|------------|
|   | Core<br>Portfolio<br>(1) | Purchased<br>Bankruptcy<br>Portfolio (2)     |         | Total      |
| Valuation allowance finance receivables:        |                          |  |         |            |
| Beginning balance                               | \$ 70,030                | \$   | 6,377   | \$ 76,407  |
| Allowance charges                               | 2,850                    |  | 2,450   | 5,300      |
| Reversal of previous recorded allowance charges | (1,050)                  |  | (210)   | (1,260)    |
| Net allowance charge                            | 1,800                    |  | 2,240   | 4,040      |
| Ending balance                                  | \$ 71,830                | \$   | 8,617   | \$ 80,447  |
| Finance receivables, net:                       | \$ 428,091               | \$   | 438,901 | \$ 866,992 |

|   |                          | <b>Three Months Ended<br/>March 31, 2010</b> |         |            |
|---|--------------------------|--|---------|------------|
|   | Core<br>Portfolio<br>(1) | Purchased<br>Bankruptcy<br>Portfolio (2)     |         | Total      |
| Valuation allowance finance receivables:        |                          |  |         |            |
| Beginning balance                               | \$ 47,580                | \$   | 3,675   | \$ 51,255  |
| Allowance charges                               | 5,525                    |  | 1,350   | 6,875      |
| Reversal of previous recorded allowance charges |                          |  | (5)     | (5)        |
| Net allowance charge                            | 5,525                    |  | 1,345   | 6,870      |
| Ending balance                                  | \$ 53,105                | \$   | 5,020   | \$ 58,125  |
| Finance receivables, net:                       | \$ 398,453               | \$   | 344,031 | \$ 742,484 |

(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. Accounts Receivable, net:**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and its customers' financial condition, the amount of receivables in dispute, the current receivables aging, and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The balance of the allowance for doubtful accounts at March 31, 2011 and December 31, 2010 was \$2.8 million and \$2.5 million, respectively. The Company does not have any off balance sheet credit exposure related to its customers.

**4. Line of Credit:**

On December 20, 2010, 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 \$407.5 million which

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consists of a \$50 million fixed rate loan that matures on May 4, 2012, which was transferred from the Company's then existing credit agreement, and a \$357.5 million revolving credit facility that matures on December 20, 2014. The revolving credit facility will be automatically increased by \$50 million upon the maturity and repayment of the fixed rate loan. The fixed rate loan bears interest at a rate of 6.8% per annum, payable monthly in arrears. The revolving loans accrue interest, at the option of the Company, at either the base rate plus 1.75% per annum or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.75% per annum. 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. The Company's revolving credit facility includes a \$20 million swingline loan sublimit and a \$20 million letter of credit sublimit. It also contains an accordion loan feature that allows the Company to request an increase of up to \$142.5 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 \$309,452,000 plus 50% of positive consolidated net income for each fiscal quarter beginning December 31, 2010, plus 50% of the net proceeds of any equity offering;

capital expenditures during any fiscal year cannot exceed \$20 million;

cash dividends and distributions during any fiscal year cannot exceed \$20 million;

stock repurchases during the term of the agreement cannot exceed \$100 million;

permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$100 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.

At March 31, 2011, the Company's borrowings under its revolving credit facility consisted of 30-day Eurodollar rate loans and base rate loans with a weighted average annual interest rate equal to 3.10%.

The Company had \$290.0 million and \$300.0 million of borrowings outstanding on its credit facility as of March 31, 2011 and December 31, 2010, respectively, of which \$50 million represented borrowing under the non-revolving fixed rate loan at both dates.

The Company was in compliance with all covenants of its credit facility as of March 31, 2011 and December 31, 2010.





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**5. Long-Term Debt:**

On February 6, 2009, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of \$2,036,114. The loan is collateralized by the related computer software and equipment. The loan is a three year loan with a fixed rate of 4.78% with monthly installments, including interest, of \$60,823 beginning on March 31, 2009, and it matures on February 28, 2012.

On December 15, 2010, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of \$1,569,016. The loan is collateralized by the related computer software and equipment. The loan is a three year loan 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.

**6. Property and Equipment, net:**

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

|   | <b>March<br/>31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|---|-------------------------------|----------------------------------|
| Software                                  | \$ 22,234                     | \$ 21,014                        |
| Computer equipment                        | 11,096                        | 10,697                           |
| Furniture and fixtures                    | 6,164                         | 6,147                            |
| Equipment                                 | 7,559                         | 7,498                            |
| Leasehold improvements                    | 5,041                         | 4,574                            |
| Building and improvements                 | 6,045                         | 6,045                            |
| Land                                      | 992                           | 992                              |
| Accumulated depreciation and amortization | (34,662)                      | (32,697)                         |
| Property and equipment, net               | \$ 24,469                     | \$ 24,270                        |

Depreciation and amortization expense, relating to property and equipment, for the three months ended March 31, 2011 and 2010 was \$1,966,009 and \$1,712,304, 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, 2011, the Company has incurred and capitalized \$4,469,520 of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, \$652,266 is for projects that are in the development stage and, therefore are a component of Other Assets. Once the projects are completed, the costs will be transferred to Software and amortized over their estimated useful life of three to seven years. Amortization expense for the three months ended March 31, 2011 and 2010 was \$157,069 and \$59,532, respectively. The remaining unamortized costs relating to internally developed software at March 31, 2011 and 2010 were \$2,986,366 and \$961,804, respectively.

**7. Redeemable Noncontrolling Interest:**

In accordance with ASC 810, the Company has consolidated all financial statement accounts of CCB in its consolidated balance sheets as of March 31, 2011 and December 31, 2010, and its consolidated income statements for the three months ended March 31, 2011 and for the period from March 15, 2010 through March 31, 2010. The

redeemable noncontrolling interest amount is separately stated on the consolidated balance sheets and represents the

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38% interest in CCB not owned by the Company. In addition, net income attributable to the noncontrolling interest is stated separately in the consolidated income statements for the three months ended March 31, 2011 and for the period from March 15, 2010 through March 31, 2010.

The Company applies the provisions of FASB ASC Topic 480-10-S99 Distinguishing Liabilities from Equity ( ASC 480-10-S99 ), which provides guidance on the accounting for equity securities that are subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. The noncontrolling interest put arrangement is accounted for under ASC 480-10-S99, as redemption under the put arrangement is outside the control of the Company. As such, the redeemable noncontrolling interest is recorded outside of permanent equity. The Company measures the redeemable noncontrolling interest at the greater of its ASC 480-10-S99 measurement amount (estimated redemption value of the put option embedded in the noncontrolling interest) or its measurement amount under the guidance of ASC 810. The ASC 810 measurement amount includes adjustments for the noncontrolling interest's pro-rata share of earnings, losses and distributions, pursuant to the limited liability company agreement of CCB. Adjustments to the measurement amount are recorded to stockholders' equity. The Company used a present value calculation to estimate the redemption value of the put option as of the reporting date. As such, for the period ended March 31, 2011, the Company increased the redeemable noncontrolling interest by \$985,000 with a corresponding reduction of stockholders' equity. If material, the Company adjusts the numerator of earnings per share calculations for the current period change in the excess of the noncontrolling interest's ASC 480-10-S99 measurement amount over the greater of its ASC 810 measurement amount or the estimated fair value of the noncontrolling interest. Although the noncontrolling interest was redeemable by the Company as of the reporting date, it was not yet redeemable by the holder of the put option. The estimated 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 \$22,800,000 as of March 31, 2011.

The following table represents the changes in the redeemable noncontrolling interest for the period from March 15, 2010 (the acquisition date) to March 31, 2011 (amounts in thousands):

|   |           |
|---|-----------|
| Acquisition date fair value of redeemable noncontrolling interest | \$ 15,323 |
| Net income attributable to redeemable noncontrolling interest     | 417       |
| Distributions paid  | (1,291)   |
| <br>  |           |
| Redeemable noncontrolling interest at December 31, 2010           | 14,449    |
| Net income attributable to redeemable noncontrolling interest     | 588       |
| Distributions payable   | (769)     |
| Adjustment of the noncontrolling interest measurement amount      | 985       |
| <br>  |           |
| Redeemable noncontrolling interest at March 31, 2011              | \$ 15,253 |

In accordance with the limited liability company agreement of CCB, distributions due to the members of the LLC are accrued each quarter and are payable as soon as reasonably possible subsequent to each quarter end. As such, the distribution payable at December 31, 2010 to the non-controlling interest of \$1,291,000 was paid in the first quarter of 2011.

**8. Goodwill and Intangible Assets, net:**

In connection with the Company's business acquisitions, the Company purchased certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. In accordance FASB ASC Topic 350 Intangibles-Goodwill and Other ( ASC 350 ), the Company is amortizing its intangible assets over their estimated useful lives.

The combined original weighted average amortization period is 8.1 years. The Company reviews these assets at least annually for impairment. Total amortization expense was \$1,250,181 and \$838,064 for the three months ended March 31, 2011, and 2010 respectively. In addition, pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2010, the Company underwent its

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annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2010, 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, 2011 that would indicate a triggering event and thereby necessitate an impairment charge to goodwill or the other intangible assets. The Company expects to perform its next annual goodwill review during the fourth quarter of 2011. At March 31, 2011 and December 31, 2010, the carrying value of goodwill was \$61.7 million.

**9. 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. The Amended Plan was approved by the Company's shareholders at its Annual Meeting on May 12, 2004. On March 19, 2010, the Company adopted a 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. The 2010 Stock Plan expires on November 7, 2012.

The Company follows the provisions of FASB ASC Topic 718 Compensation-Stock Compensation ( ASC 718 ). As of March 31, 2011, 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 \$4.3 million with a weighted average remaining life for all nonvested shares of 2.5 years (not including nonvested shares granted under the LTI Programs). As of March 31, 2011, 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 \$2,614,201 and \$879,880 for the three months ended March 31, 2011, and 2010, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized under the provisions of ASC 718 (windfall tax benefits) 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 \$968,636 and \$123,787 for the three months ended March 31, 2011 and 2010, respectively.

***Stock Options***

All options issued under the Amended Plan vest ratably over five years. Granted options expire seven years from the applicable grant date. Options granted to a single person cannot exceed 200,000 in a single year. All of the stock options which have been granted under the Amended Plan were granted to employees of the Company, except for 40,000 which were granted to non-employee directors. The Company granted no options during the three months ended March 31, 2011 and 2010. The total intrinsic value of options exercised during the three months ended March 31, 2011 and 2010 was approximately \$224,000 and \$0, respectively. At March 31, 2011, 895,000 options had been granted under the Amended Plan, all of which have been either cancelled, expired or exercised. There were no antidilutive options outstanding for the three months ended March 31, 2011 and 2010, respectively.

The following summarizes all option related transactions from December 31, 2009 through March 31, 2011 (amounts in thousands, except per share amounts):

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|                   | Options<br>Outstanding | Weighted-Average<br>Exercise Price<br>Per<br>Share | Weighted-Average<br>Fair Value Per<br>Share |
|-------------------|------------------------|--|---|
| December 31, 2009 | 7                      | \$ 29.41   | \$ 2.70                                     |
| Exercised         | (2)                    | 28.45  | 2.92  |
| December 31, 2010 | 5                      | 29.79  | 2.62  |
| Exercised         | (5)                    | 29.79  | 2.62  |
| March 31, 2011    |                        | \$   | \$  |

The Company utilizes the Black-Scholes option pricing model to calculate the value of the stock options when granted. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

**Nonvested Shares**

With the exception of the awards made pursuant to the LTI Program and a few employee and director grants, the terms of the nonvested share awards are similar to those of the stock option awards, wherein the nonvested shares vest ratably over five years and are expensed over their vesting period.

The following summarizes all nonvested share transactions (excluding shares granted under the LTI Programs) from December 31, 2009 through March 31, 2011 (amounts in thousands, except per share amounts):

|                   | Nonvested<br>Shares<br>Outstanding | Weighted-Average<br>Price<br>at Grant Date |
|-------------------|------------------------------------|--|
| December 31, 2009 | 81                                 | \$ 40.24                                   |
| Granted           | 57                                 | 53.06                                      |
| Vested            | (37)                               | 41.46                                      |
| Cancelled         | (10)                               | 39.61                                      |
| December 31, 2010 | 91                                 | 47.89                                      |
| Granted           | 38                                 | 75.81                                      |
| Vested            | (30)                               | 57.40                                      |
| Cancelled         | (2)                                | 41.81                                      |
| March 31, 2011    | 97                                 | \$ 56.04                                   |

The total grant date fair value of shares vested during the three months ended March 31, 2011 and 2010 was \$1,723,152 and \$323,568, respectively.

**Long-Term Incentive Programs**

Pursuant to the Amended Plan, on January 20, 2009, January 14, 2010 and January 14, 2011, the Compensation Committee approved the grant of 108,720, 53,656 and 73,914 performance and market based nonvested shares,

respectively. All shares granted under the LTI Programs were granted to key employees of the Company. The 2009 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon diluted earnings per share ( EPS ) totals for 2009, the return on owners equity for the three year period beginning on January 1, 2009 and ending December 31, 2011, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the

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financial goals are not met. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2009. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome. The EPS component of the 2009 plan was not achieved and therefore no compensation expense was recognized relative to this component. The 2010 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon diluted EPS totals for 2010, the return on owners' equity for the three year period beginning on January 1, 2010 and ending December 31, 2012, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the financial goals are not met. The EPS component of the 2010 plan was achieved at 190% and these shares will vest at 50% on both December 31, 2011 and December 31, 2012. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2010. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome. The 2011 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon the Company's earnings before interest, taxes, depreciation and amortization ( EBITDA ) for 2011, the return on owners' equity for the three year period beginning on January 1, 2011 and ending December 31, 2013, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the financial goals are not met. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2011. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome. At March 31, 2011, total future compensation costs, assuming the current estimated levels are achieved, related to nonvested share awards granted under the 2009, 2010 and 2011 LTI Programs are estimated to be approximately \$8.5 million. The Company assumed a 7.5% forfeiture rate for this grant and the remaining shares have a weighted average life of 1.8 years at March 31, 2011.

**10. 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 both March 31, 2011 and 2010.

The Company was notified on June 21, 2007 that it was being examined by the Internal Revenue Service 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. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. 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 for these tax positions. If the Company is unsuccessful in its appeal it can either not pay the assessment and file a petition in Tax Court or pay the assessed tax and interest and file a refund suit in US District Court. If the Company was unsuccessful after taking either of these two actions, it would be required to pay the related deferred taxes and any potential interest, possibly requiring additional financing from other sources. On April 6, 2011, the Company was notified verbally by the IRS that the audit period will be expanded to include the tax years ended December 31, 2009 and 2008.



At March 31, 2011, the tax years subject to examination by the major taxing jurisdictions, including the Internal Revenue Service, are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination

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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 are extended through December 31, 2011.

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 first three months of 2011 or 2010.

**11. Earnings per Share:**

Basic EPS are computed by dividing net income available to common shareholders of PRA 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 stock options and 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 stock options and nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options and 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 a reconciliation between the computation of basic EPS and diluted EPS for the three months ended March 31, 2011 and 2010 (amounts in thousands, except per share amounts):

|   | <b>For the three months ended March 31,</b>   |   |         |   | <b>2010</b>                             |         |
|---|---|---|---------|---|---|---------|
|   | <b>2011</b>   |   |         |   |   |         |
|   | Net<br>Income<br>attributable<br>to<br>Portfolio<br>Recovery<br>Associates,<br>Inc. | Weighted<br>Average<br>Common<br>Shares | EPS     | Net<br>Income<br>attributable<br>to<br>Portfolio<br>Recovery<br>Associates,<br>Inc. | Weighted<br>Average<br>Common<br>Shares | EPS     |
| Basic EPS   | \$ 23,121   | 17,092                                  | \$ 1.35 | \$ 14,800   | 16,191                                  | \$ 0.91 |
| Dilutive effect of stock<br>options and nonvested<br>share awards |   | 107                                     |         |   | 12                                      |         |
| Diluted EPS   | \$ 23,121   | 17,199                                  | \$ 1.34 | \$ 14,800   | 16,203                                  | \$ 0.91 |

There were no antidilutive options outstanding for the three months ended March 31, 2011 and 2010.

**12. Commitments and Contingencies:***Employment Agreements:*

The Company has employment agreements, most of which expire on December 31, 2011, 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. Future compensation under these agreements is approximately \$10.0 million. The agreements also contain confidentiality and non-compete provisions.

*Leases:*

The Company is party to various operating and capital leases with respect to its facilities and equipment. For further discussion of these leases please refer to the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as filed for the year ended December 31, 2010.

*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, 2011 is approximately \$148.9 million.

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

*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 to purchase the remaining 38% of the membership units of CCB not held by the Company at a predetermined price within the next four years. Also, Class Action Holdings, Inc. (formerly known as Claims Compensation Bureau, Inc.), the holder of such remaining 38% interest in CCB, can require the Company to purchase its interest during the period beginning on March 1, 2012 and ending on February 28, 2018. While the actual amount or timing of any future payment is unknown at this time, the maximum amount of consideration to be paid for such 38% interest is \$22.8 million.

*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 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 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. While it is not expected that these or any other legal proceedings or claims in which the Company is involved will, either individually or in the aggregate, have a material adverse impact on the Company's results of operations, liquidity or financial condition, it is possible that, due to unexpected future developments, an unfavorable resolution of a legal proceeding or claim could occur which may be material to the Company's results of operations for a particular period. The matters described below fall outside of the normal parameters of the Company's routine legal proceedings.

The Attorney General for the State of Missouri filed a purported enforcement action against PRA in 2009 that seeks relief for Missouri customers that have allegedly been injured as a result of certain collection practices of PRA. PRA has vehemently denied any wrongdoing herein and in 2010, the complaint was dismissed with prejudice. In April 2011, the Missouri Court of Appeals Eastern District affirmed the prior dismissal. The State of Missouri has since asked the appellate court for a rehearing on the matter, or alternatively to have the matter transferred to the Missouri Supreme Court. Based on the foregoing, it is not possible at this time to estimate the possible loss, if any.

The Company has recently been named as defendant in the following five putative class action cases, each of which alleges that the Company violated the Telephone Consumer Protection Act ( TCPA ) by calling consumers cellular phones without their prior express consent: *Allen v. Portfolio Recovery Associates, Inc.*, Case No. 10-cv-2658, instituted in the United States District Court for the Southern District of California on December 23, 2010; *Meyer v. Portfolio Recovery Associates, LLC*, Case No. 37-2011-00083047, instituted in the Superior Court of California, San Diego County on January 3, 2011; *Frydman v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-524, instituted in the United States District Court for the Northern District of Illinois on January 31, 2011; *Bartlett v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-0624, instituted in the United States District Court for the Northern District of Georgia on March 1, 2011; and *Harvey v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-00582, instituted in the United States District Court for the Middle District of Florida on April 8, 2011. Each of the complaints seeks monetary damages under the TCPA, injunctive relief and other relief, including attorney fees. Two of these actions, *Allen* and *Frydman* purport to have been brought on behalf of a national class of plaintiffs. The Company has filed a Motion to Dismiss *Frydman*, which is currently pending, and the complaint in *Allen* has not yet been served on the Company. The Company intends to vigorously defend against the allegations in each of these cases. It is not possible at this time to estimate the possible loss, if any.

**13. Fair Value Measurements and Disclosures:***Disclosures about Fair Value of Financial Instruments:*

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

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Company. The carrying amounts in the table are recorded in the consolidated balance sheet under the indicated captions (amounts in thousands):

|                           | <b>March 31, 2011</b>      |                                 | <b>December 31, 2010</b>   |                                 |
|---------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
|                           | <b>Carrying<br/>Amount</b> | <b>Estimated Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Estimated Fair<br/>Value</b> |
| Financial assets:         |                            |                                 |                            |                                 |
| Cash and cash equivalents | \$ 35,443                  | \$ 35,443                       | \$ 41,094                  | \$ 41,094                       |
| Finance receivables, net  | 866,992                    | 1,183,779                       | 831,330                    | 1,126,340                       |
| Financial liabilities:    |                            |                                 |                            |                                 |
| Line of credit            | \$ 290,000                 | \$ 290,000                      | \$ 300,000                 | \$ 300,000                      |
| Long-term debt            | 2,098                      | 2,098                           | 2,396                      | 2,396                           |
|                           |                            | 19                              |                            |                                 |

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**PORTFOLIO RECOVERY ASSOCIATES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)**

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.

**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.

**Line of credit:** The carrying amount approximates fair value, as the interest rates approximate the rate currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers.

**Long-term debt:** The carrying amount approximates fair value, as the interest rates approximate the rate currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers.

As of March 31, 2011, and December 31, 2010, the Company did not account for any financial assets or financial liabilities at fair value.

**14. Recent Accounting Pronouncements:**

In December 2010, the FASB issued ASU 2010-28, Intangibles-Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A). ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors, including the examples provided in ASC paragraph 350-20-35-30, in determining whether an interim goodwill impairment test between annual test dates is necessary. ASU 2010-28 allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-28 on January 1, 2011 which had no material effect 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:

deterioration in the economic or inflationary environment in the United States, including the interest rate environment, that 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;

our ability to purchase defaulted consumer receivables at appropriate prices and to replace our defaulted consumer receivables with additional receivables portfolios;

our ability to obtain account documents relating to accounts that we acquire and the possibility that account documents that we obtain could contain errors;

our ability to successfully acquire receivables of new asset types or implement a new pricing structure;

changes in the business practices of credit originators in terms of selling defaulted consumer receivables;

changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables;

changes in or interpretation of tax laws or adverse results of tax audits;

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;

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;

changes in the credit or capital markets, which affect our ability to borrow money or raise capital;

the degree and nature of our competition;

our ability to retain existing clients and obtain new clients for our fee-for-service businesses;

our ability to obtain necessary account documents from sellers of defaulted consumer receivables, which could negatively impact our collections;

our ability to comply with regulations of the collection industry;

our ability to successfully operate and/or integrate new business acquisitions;



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our ability to maintain, renegotiate or replace our credit facility;

our ability to satisfy the restrictive covenants in our debt agreements;

the imposition of additional taxes on us;

the possibility that we could incur significant valuation allowance charges;

our ability to manage growth successfully;

the possibility that we could incur business or technology disruptions, or not adapt to technological advances;

the possibility that we or our industry could experience negative publicity or reputational attacks;

the sufficiency of our funds generated from operations, existing cash and available borrowings to finance our current operations; 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.

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 2010 Annual Report on Form 10-K, filed on February 25, 2011.

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. We have 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.

**Overview**

Portfolio Recovery Associates is a specialized financial and business services company. We are a leading company in the business of purchasing and collecting defaulted consumer receivables. Those finance receivables fall into two general categories: bankruptcy portfolios and charged-off core portfolios. Revenue for this part of our business consists of cash collections received less amounts applied to principal on the Company's owned finance receivables.

Through our subsidiaries, we provide a broad range of fee-based business services. Those services include collateral location services to credit originators through our PRA Location Services subsidiary; revenue administration, discovery, and compliance services to governmental entities through our Government Services subsidiaries; and class action claims recovery services through our CCB subsidiary.

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Portfolio Recovery Associates is headquartered in Norfolk, Virginia, and employs approximately 2,500 team members. The shares of Portfolio Recovery Associates are traded on the NASDAQ Global Select Market under the symbol PRAA.

*Earnings Summary*

During the first quarter of 2011, net income attributable to Portfolio Recovery Associates, Inc. was \$23.1 million, or \$1.34 per diluted share, compared with \$14.8 million, or \$0.91 per diluted share, in the first quarter of 2010. Total revenue was \$111.8 million in the first quarter of 2011, up 34.1% from the same quarter one year earlier. Revenue in the recently completed quarter consisted of \$96.0 million in income recognized on finance receivables, net of allowance charges, and \$15.8 million in fee income. Income recognized on finance receivables, net of allowance charges, increased \$28.0 million, or 41.2%, over the same period in 2010, primarily as a result of a significant increase in cash collections. Cash collections were \$166.7 million in the first quarter of 2011, up 39.9% over \$119.2 million in the first quarter of 2010. During the quarter, the Company recorded \$4.0 million in net allowance charges, compared with \$6.9 million in the comparable quarter of 2010. The Company's performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of automated dialer technology and account scoring analytics. Additionally, the Company has continued to develop its internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action.

Fee income increased from \$15.4 million in the first quarter of 2010 to \$15.8 million in the first quarter of 2011 as a result of additional fee income generated by CCB, in which we acquired a majority interest on March 15, 2010. CCB provides class action claim processing services to businesses. Excluding the fee income attributable to CCB, fee income in the first quarter of 2011 declined over the first quarter of 2010, due primarily to the adverse impact of the economic slowdown on general business growth and governmental tax revenues.

Operating expenses were \$69.1 million in the first quarter of 2011, up 21% over the first quarter of 2010, due primarily to increased compensation expense and legal and agency fees and costs. Compensation expense increased primarily as a result of larger staff sizes. Legal and agency fees and costs increased from \$13.3 million in the first quarter of 2010 to \$17.7 million in the first quarter of 2011. This increase was the result of several factors, including growth in the size of our owned debt portfolios, expansion of our internal legal collection resources, and refinement of our internal scoring methodology that expanded our account selections for legal action.

**Results of Operations**

The results of operations include the financial results of Portfolio Recovery Associates, Inc. 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, 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:

|  | <b>For the Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                                     | <b>2010</b> |
| Revenues:  |   |             |
| Income recognized on finance receivables, net                      | 85.9%   | 81.5%       |
| Fee income   | 14.1%   | 18.5%       |
| <br>   |   |             |
| Total revenues   | 100.0%  | 100.0%      |
| Operating expenses:  |   |             |
| Compensation and employee services                                 | 30.6%   | 35.6%       |
| Legal and agency fees and costs                                    | 15.9%   | 16.0%       |
| Outside fees and services  | 3.1%  | 3.4%        |
| Communications   | 5.6%  | 6.1%        |
| Rent and occupancy   | 1.3%  | 1.5%        |
| Depreciation and amortization                                      | 2.9%  | 2.7%        |
| Other operating expenses   | 2.6%  | 3.1%        |
| <br>   |   |             |
| Total operating expenses   | 62.0%   | 68.4%       |
| <br>   |   |             |
| Income from operations   | 38.0%   | 31.6%       |
| Other income and (expense):  |   |             |
| Interest income  | 0.0%  | 0.0%        |
| Interest expense   | (2.6%)  | (2.6%)      |
| <br>   |   |             |
| Income before income taxes   | 35.4%   | 29.0%       |
| Provision for income taxes   | 14.4%   | 11.4%       |
| <br>   |   |             |
| Net income   | 21.0%   | 17.6%       |
| <br>   |   |             |
| Less net income attributable to redeemable noncontrolling interest | (0.5%)  | 0.0%        |
| <br>   |   |             |
| Net income attributable to Portfolio Recovery Associates, Inc.     | 20.5%   | 17.6%       |

We use the following terminology throughout our reports:

**Amortization** refers to cash collections applied to principal on finance receivables.

**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 only, exclusive of 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.

Income Recognized on Finance Receivables, Net refers to income derived from our owned debt portfolios and is shown net of valuation allowance charges.

Fee Income refers to revenues generated from our fee-for-service subsidiaries.

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.

***Three Months Ended March 31, 2011 Compared To Three Months Ended March 31, 2010***

**Revenues**

Total revenues were \$111.8 million for the three months ended March 31, 2011, an increase of \$28.4 million, or 34.1%, compared to total revenues of \$83.4 million for the three months ended March 31, 2010.

**Table of Contents***Income Recognized on Finance Receivables, net*

Income recognized on finance receivables, net was \$96.0 million for the three months ended March 31, 2011, an increase of \$28.0 million, or 41.2%, compared to income recognized on finance receivables, net of \$68.0 million for the three months ended March 31, 2010. The increase was primarily due to an increase in our cash collections on our finance receivables to \$166.7 million for the three months ended March 31, 2011, from \$119.2 million for the three months ended March 31, 2010, an increase of \$47.5 million or 39.8%. During the three months ended March 31, 2011, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$1.49 billion at a cost of \$107.9 million. During the three months ended March 31, 2010, we acquired defaulted consumer receivable portfolios with an aggregate face value of \$1.89 billion at a cost of \$102.6 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, 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, 2011, we recorded net allowance charges of \$4.0 million, of which \$1.8 million related to non-bankruptcy portfolios acquired from 2005 through 2008. The remaining \$2.2 million mainly related to bankruptcy portfolios acquired in 2007 and 2008. For the three months ended March 31, 2010, we recorded net allowance charges of \$6.9 million, the majority of which related to non-bankruptcy portfolios acquired from 2005 through 2007. 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 (which relates to the collection and movement of accounts on both our collection floor and external channels), as well as decreases in productivity related to turnover and tenure of our collection staff.

*Fee Income*

Fee income was \$15.8 million for the three months ended March 31, 2011, an increase of \$0.4 million, or 2.6%, compared to fee income of \$15.4 million for the three months ended March 31, 2010. Fee income increased primarily due to the additional fee income generated by CCB, in which we acquired a majority interest on March 15, 2010, offset by a decrease in revenue generated by our government services businesses and our PRA Location Services business as compared to the prior year period. Excluding the fee income attributable to CCB, fee income declined over the first quarter of 2010, due primarily to the adverse impact of the economic slowdown on general business growth and governmental tax revenues.

**Operating Expenses**

Total operating expenses were \$69.1 million for the three months ended March 31, 2011, an increase of \$12.2 million or 21.4% compared to total operating expenses of \$56.9 million for the three months ended March 31, 2010. Total operating expenses, including compensation and employee services expenses, were 37.8% of cash receipts for the three months ended March 31, 2011 compared to 42.3% for the same period in 2010.

**Table of Contents***Compensation and Employee Services*

Compensation and employee services expenses were \$34.2 million for the three months ended March 31, 2011, an increase of \$4.6 million, or 15.5%, compared to compensation and employee services expenses of \$29.6 million for the three months ended March 31, 2010. This increase is mainly due to an overall increase in our collection staff as well as the hiring of non-collection personnel. Compensation and employee services expenses increased as total employees grew 6.6% to 2,482 as of March 31, 2011, from 2,329 as of March 31, 2010. Compensation and employee services expenses as a percentage of cash receipts decreased to 18.7% for the three months ended March 31, 2011, from 22.0% of cash receipts for the same period in 2010.

*Legal and Agency Fees and Costs*

Legal and agency fees and costs were \$17.7 million for the three months ended March 31, 2011, an increase of \$4.4 million, or 33.1%, compared to legal and agency fees and costs of \$13.3 million for the three months ended March 31, 2010. Of the \$4.4 million increase, \$5.4 million was attributable to an increase in legal fees and costs resulting from accounts referred to both our in-house attorneys and outside independent contingent fee attorneys. This increase was largely due to the refinement of our internal scoring methodology that expanded our account selections for legal action. Growth in the size of our owned debt portfolios and expansion of our internal legal collection resources were also contributing factors. The increase in legal fees and costs was partially offset by a \$1.0 million decline in agency fees due primarily to reduced business activity associated with PRA Location Services. Total legal fees paid to independent contingent fee attorneys for the three months ended March 31, 2011 were 22.7% of external legal cash collections, compared to 22.3% for the three months ended March 31, 2010. These legal fees represent the contingent fees for the cash collections generated by our independent third party attorney network. Total legal costs paid to bring suit on our legal accounts totaled \$9.3 million for the three months ended March 31, 2011 and \$5.6 million for the three months ended March 31, 2010. These legal costs represent 22.8% and 19.5% of our total legal collections for the three month periods ended March 31, 2011 and 2010, respectively.

*Outside Fees and Services*

Outside fees and services expenses were \$3.4 million for the three months ended March 31, 2011, an increase of \$0.6 million or 21.4% compared to outside fees and services expenses of \$2.8 million for the three months ended March 31, 2010. The \$0.6 million increase was attributable to an increase in corporate legal expense and other outside fees and services.

*Communications*

Communications expenses were \$6.3 million for the three months ended March 31, 2011, an increase of \$1.2 million, or 23.5%, compared to communications expenses of \$5.1 million for the three months ended March 31, 2010. The increase was mainly due to a growth in mailings resulting from an increase in special letter campaigns. The remaining increase was attributable to higher telephone expenses driven by a greater number of finance receivables to work, as well as a significant expansion of our dialer capacity and a resulting increase in the number of calls generated by the dialer. Mailings were responsible for 83.3% or \$1.0 million of this increase, while the remaining 16.7% or \$0.2 million was attributable to increased call volumes.

*Rent and Occupancy*

Rent and occupancy expenses were \$1.4 million for the three months ended March 31, 2011, an increase of \$0.1 million, or 7.7%, compared to rent and occupancy expenses of \$1.3 million for the three months ended March 31, 2010. The increase was due to the expansion of our Hampton, Virginia call center, the additional space resulting from our acquisition of a 62% controlling interest in CCB on March 15, 2010, and other renewals and expansions, as well as increased utility charges.

*Depreciation and Amortization*

Depreciation and amortization expenses were \$3.2 million for the three months ended March 31, 2011, an increase of \$0.6 million or 23.1% compared to depreciation and amortization expenses of \$2.6 million for the three

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months ended March 31, 2010. The increase is mainly due to additional expenses incurred related to the depreciation and amortization of the tangible and intangible assets acquired in the acquisition of a 62% controlling interest in CCB on March 15, 2010. Additional increases are the result of continued capital expenditures on equipment, software and computers related to our growth and systems upgrades.

*Other Operating Expenses*

Other operating expenses were \$2.9 million for the three months ended March 31, 2011, an increase of \$0.6 million or 26.1% compared to other operating expenses of \$2.3 million for the three months ended March 31, 2010. The increase was mainly due to increases in various expenses related to general growth of the company. No individual item represents a significant portion of the overall increase.

**Interest Income**

Interest income was \$0 for the three months ended March 31, 2011, compared to \$36,000 of interest income for the three months ended March 31, 2010. The decrease is the result of the interest earned on the refund received on the overpayment of federal income tax during the three months ended March 31, 2010.

**Interest Expense**

Interest expense was \$2.9 million for the three months ended March 31, 2011, an increase of \$0.7 million compared to interest expense of \$2.2 million for the three months ended March 31, 2010. The increase was mainly due to an increase in our weighted average interest rate, which increased to 3.64% for the three months ended March 31, 2011, as compared to 2.35% for the three months ended March 31, 2010, partially offset by a decrease in our average borrowings under our revolving credit facility for the three months ended March 31, 2011 compared to the same period in 2010.

**Provision for Income Taxes**

Income tax expense was \$16.1 million for the three months ended March 31, 2011, an increase of \$6.6 million, or 69.5%, compared to income tax expense of \$9.5 million for the three months ended March 31, 2010. The increase is mainly due to an increase of 64.0% in income before taxes for the three months ended March 31, 2011, as compared to the same period in 2010, as well as an increase in the effective tax rate to 40.5% for the three months ended March 31, 2011, compared to an effective tax rate of 39.1% for the same period in 2010. The increase in the effective tax rate is primarily attributable to an increase in the state effective rate due to a change in the mix of income apportionment between various states.

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

**FINANCIAL HIGHLIGHTS**

| <i>(dollars in thousands)</i>   | <b>Three Months Ended<br/>March 31,</b> |            | <b>%<br/>Change</b> |
|---|---|------------|---------------------|
|   | 2011                                    | 2010       |                     |
| <b>EARNINGS</b>   |   |            |                     |
| Income recognized on finance receivables, net                         | \$ 95,974                               | \$ 67,951  | 41%                 |
| Fee income  | 15,803                                  | 15,427     | 2%                  |
| Total revenues  | 111,777                                 | 83,378     | 34%                 |
| Operating expenses  | 69,072                                  | 56,943     | 21%                 |
| Income from operations  | 42,705                                  | 26,435     | 62%                 |
| Net interest expense  | 2,867                                   | 2,144      | 34%                 |
| Net income  | 23,709                                  | 14,805     | 60%                 |
| Net income attributable to Portfolio Recovery Associates, Inc.        | 23,121                                  | 14,800     | 56%                 |
| <b>PERIOD-END BALANCES</b>  |   |            |                     |
| Cash and cash equivalents   | \$ 35,443                               | \$ 23,006  | 54%                 |
| Finance receivables, net  | 866,992                                 | 742,484    | 17%                 |
| Goodwill and intangible assets, net                                   | 78,893                                  | 79,071     | 0%                  |
| Total assets  | 1,020,099                               | 882,450    | 16%                 |
| Line of credit  | 290,000                                 | 296,300    | -2%                 |
| Total liabilities   | 489,136                                 | 444,318    | 10%                 |
| Total equity  | 515,710                                 | 422,804    | 22%                 |
| <b>FINANCE RECEIVABLE COLLECTIONS</b>                                 |   |            |                     |
| Cash collections  | \$ 166,717                              | \$ 119,196 | 40%                 |
| Principal amortization without allowance charges                      | 66,703                                  | 44,374     | 50%                 |
| Principal amortization with allowance charges                         | 70,743                                  | 51,245     | 38%                 |
| Principal amortization w/ allowance charges as % of cash collections: |   |            |                     |
| Including fully amortized pools                                       | 42.4%                                   | 43.0%      | -1%                 |
| Excluding fully amortized pools                                       | 45.3%                                   | 47.1%      | -4%                 |
| Estimated remaining collections core                                  | \$ 1,040,140                            | \$ 912,423 | 14%                 |
| Estimated remaining collections bankruptcy                            | 753,130                                 | 623,706    | 21%                 |
| Estimated remaining collections total                                 | 1,793,270                               | 1,536,129  | 17%                 |
| <b>ALLOWANCE FOR FINANCE RECEIVABLES</b>                              |   |            |                     |
| Balance at period-end   | \$ 80,447                               | \$ 58,125  | 38%                 |
| Balance at period-end to net finance receivables                      | 9.28%                                   | 7.83%      | 19%                 |
| Allowance charge  | \$ 4,040                                | \$ 6,870   | -41%                |
| Allowance charge to net finance receivable income                     | 4.21%                                   | 10.11%     | -58%                |
| Allowance charge to cash collections                                  | 2.42%                                   | 5.76%      | -58%                |



**PURCHASES OF FINANCE RECEIVABLES**

|                            |           |           |      |
|----------------------------|-----------|-----------|------|
| Purchase price core        | \$ 61,294 | \$ 31,038 | 97%  |
| Face value core            | 1,008,758 | 593,139   | 70%  |
| Purchase price bankruptcy  | 46,607    | 71,582    | -35% |
| Face value bankruptcy      | 482,941   | 1,298,108 | -63% |
| Purchase price total       | 107,901   | 102,620   | 5%   |
| Face value total           | 1,491,699 | 1,891,247 | -21% |
| Number of portfolios total | 79        | 84        | -6%  |

**PER SHARE DATA**

|   |          |          |     |
|---|----------|----------|-----|
| Net income per common share diluted                   | \$ 1.34  | \$ 0.91  | 47% |
| Weighted average number of shares outstanding diluted | 17,199   | 16,203   | 6%  |
| Closing market price                                  | \$ 85.13 | \$ 54.87 | 55% |

**RATIOS AND OTHER DATA**

|   |            |            |      |
|---|------------|------------|------|
| Return on average equity <sup>(1)</sup>             | 18.25%     | 15.05%     | 21%  |
| Return on revenue <sup>(2)</sup>                    | 21.21%     | 17.76%     | 19%  |
| Operating margin <sup>(3)</sup>                     | 38.21%     | 31.71%     | 21%  |
| Operating expense to cash receipts <sup>(4)</sup>   | 37.84%     | 42.30%     | -11% |
| Debt to equity <sup>(5)</sup>                       | 56.64%     | 70.40%     | -20% |
| Cash collections per collector hour paid:           |            |            |      |
| Total   | \$ 241     | \$ 182     | 33%  |
| Excluding bankruptcy collections                    | \$ 162     | \$ 135     | 20%  |
| Excluding bankruptcy and external legal collections | \$ 125     | \$ 106     | 18%  |
| Number of collectors                                | 1,486      | 1,379      | 8%   |
| Number of employees                                 | 2,482      | 2,329      | 7%   |
| Cash receipts <sup>(4)</sup>                        | \$ 182,520 | \$ 134,623 | 36%  |
| Line of credit unused portion at period end         | 117,500    | 68,700     | 71%  |

**Notes:**

(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

(more)

**Table of Contents****FINANCIAL HIGHLIGHTS**

|  | <b>For the Quarter Ended</b> |                 |                  |                |                 |
|--|------------------------------|-----------------|------------------|----------------|-----------------|
|  | <b>March 31</b>              | <b>December</b> | <b>September</b> | <b>June 30</b> | <b>March 31</b> |
| <i>(dollars in thousands)</i>                                  | <b>2011</b>                  | <b>31</b>       | <b>30</b>        | <b>2010</b>    | <b>2010</b>     |
| <b>EARNINGS</b>  |                              |                 |                  |                |                 |
| Income recognized on finance receivables, net                  | \$ 95,974                    | \$ 84,783       | \$ 80,026        | \$ 76,920      | \$ 67,951       |
| Fee income   | 15,803                       | 15,972          | 15,518           | 16,109         | 15,427          |
| Total revenues   | 111,777                      | 100,755         | 95,544           | 93,029         | 83,378          |
| Operating expenses   | 69,072                       | 64,480          | 62,721           | 58,700         | 56,943          |
| Income from operations   | 42,705                       | 36,275          | 32,823           | 34,329         | 26,435          |
| Net interest expense   | 2,867                        | 2,488           | 2,178            | 2,177          | 2,144           |
| Net income   | 23,709                       | 20,631          | 18,757           | 19,678         | 14,805          |
| Net income attributable to Portfolio Recovery Associates, Inc. | 23,121                       | 20,645          | 18,481           | 19,528         | 14,800          |
| <b>PERIOD-END BALANCES</b>                                     |                              |                 |                  |                |                 |
| Cash and cash equivalents                                      | \$ 35,443                    | \$ 41,094       | \$ 20,297        | \$ 18,250      | \$ 23,006       |
| Finance receivables, net                                       | 866,992                      | 831,330         | 807,239          | 775,606        | 742,484         |
| Goodwill and intangible assets, net                            | 78,893                       | 80,144          | 81,610           | 83,090         | 79,071          |
| Total assets   | 1,020,099                    | 995,908         | 947,737          | 915,021        | 882,450         |
| Line of credit   | 290,000                      | 300,000         | 288,500          | 289,500        | 296,300         |
| Total liabilities  | 489,136                      | 490,943         | 464,781          | 451,214        | 444,318         |
| Total equity   | 515,710                      | 490,516         | 468,425          | 448,727        | 422,804         |
| <b>FINANCE RECEIVABLE COLLECTIONS</b>                          |                              |                 |                  |                |                 |
| Cash collections   | \$ 166,717                   | \$ 144,363      | \$ 137,377       | \$ 128,406     | \$ 119,196      |
| Principal amortization without allowance                       | 66,703                       | 54,139          | 50,830           | 45,166         | 44,374          |
| Principal amortization with allowance                          | 70,743                       | 59,580          | 57,351           | 51,486         | 51,245          |
| Principal amortization w/ allowance as % of cash collections:  |                              |                 |                  |                |                 |
| Including fully amortized pools                                | 42.4%                        | 41.3%           | 41.7%            | 40.1%          | 43.0%           |
| Excluding fully amortized pools                                | 45.3%                        | 44.3%           | 44.7%            | 43.5%          | 47.1%           |
| Estimated remaining collections core                           | \$ 1,040,140                 | \$ 974,108      | \$ 934,942       | \$ 929,144     | \$ 912,423      |
| Estimated remaining collections bankruptcy                     | 753,130                      | 749,410         | 734,632          | 682,365        | 623,706         |
| Estimated remaining collections total                          | 1,793,270                    | 1,723,518       | 1,669,574        | 1,611,509      | 1,536,129       |

**ALLOWANCE FOR  
FINANCE RECEIVABLES**

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance at period-end                                | \$ 80,447 | \$ 76,407 | \$ 70,965 | \$ 64,445 | \$ 58,125 |
| Balance at period-end to net<br>finance receivables  | 9.28%     | 9.19%     | 8.79%     | 8.31%     | 7.83%     |
| Allowance charge                                     | \$ 4,040  | \$ 5,442  | \$ 6,520  | \$ 6,320  | \$ 6,870  |
| Allowance charge to net finance<br>receivable income | 4.21%     | 6.42%     | 8.15%     | 8.22%     | 10.11%    |
| Allowance charge to cash<br>collections              | 2.42%     | 3.77%     | 4.75%     | 4.92%     | 5.76%     |

**PURCHASES OF FINANCE  
RECEIVABLES**

|                            |           |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| Purchase price core        | \$ 61,294 | \$ 44,852 | \$ 31,831 | \$ 42,277 | \$ 31,038 |
| Face value core            | 1,008,758 | 1,357,301 | 588,551   | 885,321   | 593,139   |
| Purchase price bankruptcy  | 46,607    | 40,671    | 60,687    | 44,505    | 71,582    |
| Face value bankruptcy      | 482,941   | 511,588   | 788,967   | 781,976   | 1,298,108 |
| Purchase price total       | 107,901   | 85,523    | 92,518    | 86,782    | 102,620   |
| Face value total           | 1,491,699 | 1,868,889 | 1,377,518 | 1,667,297 | 1,891,247 |
| Number of portfolios total | 79        | 75        | 68        | 78        | 84        |

**PER SHARE DATA**

|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Net income per common share<br>diluted                   | \$ 1.34  | \$ 1.20  | \$ 1.08  | \$ 1.14  | \$ 0.91  |
| Weighted average number of<br>shares outstanding diluted | 17,199   | 17,165   | 17,093   | 17,080   | 16,203   |
| Closing market price                                     | \$ 85.13 | \$ 75.20 | \$ 64.66 | \$ 66.78 | \$ 54.87 |

**RATIOS AND OTHER  
DATA**

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Return on average equity <sup>(1)</sup>                | 18.25%     | 17.09%     | 16.04%     | 17.86%     | 15.05%     |
| Return on revenue <sup>(2)</sup>                       | 21.21%     | 20.48%     | 19.63%     | 21.15%     | 17.76%     |
| Operating margin <sup>(3)</sup>                        | 38.21%     | 36.00%     | 34.35%     | 36.90%     | 31.71%     |
| Operating expense to cash<br>receipts <sup>(4)</sup>   | 37.84%     | 40.22%     | 41.02%     | 40.62%     | 42.30%     |
| Debt to equity <sup>(5)</sup>                          | 56.64%     | 61.65%     | 61.80%     | 64.78%     | 70.40%     |
| Cash collections per hour paid:                        |            |            |            |            |            |
| Total  | \$ 241     | \$ 204     | \$ 200     | \$ 188     | \$ 182     |
| Excluding bankruptcy<br>collections                    | \$ 162     | \$ 129     | \$ 127     | \$ 127     | \$ 135     |
| Excluding bankruptcy and<br>external legal collections | \$ 125     | \$ 98      | \$ 97      | \$ 100     | \$ 106     |
| Number of collectors                                   | 1,486      | 1,472      | 1,422      | 1,384      | 1,379      |
| Number of employees                                    | 2,482      | 2,473      | 2,421      | 2,377      | 2,329      |
| Cash receipts <sup>(4)</sup>                           | \$ 182,520 | \$ 160,335 | \$ 152,895 | \$ 144,515 | \$ 134,623 |
|  | 117,500    | 107,500    | 76,500     | 75,500     | 68,700     |

Line of credit unused portion at  
period end

**Notes:**

(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*

**(more)**

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**Table of Contents****Supplemental Performance Data***Owned Portfolio Performance:*

The following tables show certain data related to our owned portfolio. These tables describe the purchase price, cash collections and related multiples. Further, these tables disclose our entire 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 bankruptcy after we purchase them, which continue to be tracked in their corresponding core portfolio.

The purchase price multiples from 2005 through the first quarter of 2011 described in the table below are lower than historical multiples in previous years. This trend is primarily, but not entirely related to pricing competition. When competition increases, and/or supply decreases so that pricing becomes negatively impacted on a relative basis (total lifetime collections in relation to purchase price), yields tend to trend lower.

Additionally, however, the way we initially book newly acquired pools of accounts and how we forecast future estimated collections for any given portfolio of accounts has evolved over the years due to a number of factors including the current economic situation. Since our revenue recognition under ASC 310-30 is driven by both 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 pace. Subsequent to the initial booking, as we gain collection experience and comfort with a pool of accounts, we continuously update ERC. Since our inception, these processes 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 shown relatively steady increases as pools have aged. Thus, all factors being equal in terms of pricing, one would naturally 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.

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 discreet quantity and quality of accounts, and/or by collecting cash at a lower cost structure, we can positively impact the collection to purchase price ratio and operating margins. During 2008 and continuing into 2011, we made significant enhancements in our analytical abilities, management personnel and automated dialing capabilities, all with the intent to collect more cash at lower cost.

**Entire Portfolio (\$ in thousands)**

| Purchase<br>Period | Purchase<br>Price <sup>(1)</sup> | Total<br>Estimated<br>Collections <sup>(2)</sup> | Net<br>Finance<br>Receivable<br>Balance <sup>(3)</sup> | Life to<br>Date<br>Reserve<br>Charges <sup>(4)</sup> | Percentage   |   | Actual<br>Cash<br>Collections<br>Including<br>Cash<br>Sales | Total<br>Estimated<br>Collections<br>Remaining<br>to<br>Purchase <sup>(7)</sup> | Total<br>Estimated<br>Collections<br>to<br>Purchase <sup>(8)</sup> |
|--------------------|----------------------------------|--|--|--|--|---|---|---|--|
|                    |                                  |  |  |  | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Purchase<br>Price <sup>(5)</sup> | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Net<br>Finance<br>Receivable<br>Balance<br>and<br>Reserve<br>Charges <sup>(6)</sup> |   |   |  |
| 1996               | \$ 3,080                         | \$ 10,139  | \$ 0   | \$ 0   | 0%   | 0%  | \$ 10,056   | \$ 83   | 329%   |
| 1997               | \$ 7,685                         | \$ 25,395  | \$ 0   | \$ 0   | 0%   | 0%  | \$ 25,176   | \$ 219  | 330%   |
| 1998               | \$ 11,089                        | \$ 37,039  | \$ 0   | \$ 0   | 0%   | 0%  | \$ 36,719   | \$ 320  | 334%   |

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|       |              |              |            |           |     |      |              |              |      |
|-------|--------------|--------------|------------|-----------|-----|------|--------------|--------------|------|
| 1999  | \$ 18,898    | \$ 68,459    | \$ 0       | \$ 0      | 0%  | 0%   | \$ 67,408    | \$ 1,051     | 362% |
| 2000  | \$ 25,020    | \$ 114,253   | \$ 0       | \$ 0      | 0%  | 0%   | \$ 111,518   | \$ 2,735     | 457% |
| 2001  | \$ 33,481    | \$ 171,854   | \$ 0       | \$ 0      | 0%  | 0%   | \$ 167,820   | \$ 4,034     | 513% |
| 2002  | \$ 42,325    | \$ 191,508   | \$ 0       | \$ 0      | 0%  | 0%   | \$ 186,151   | \$ 5,357     | 452% |
| 2003  | \$ 61,448    | \$ 254,708   | \$ 0       | \$ 0      | 0%  | 0%   | \$ 245,989   | \$ 8,719     | 415% |
| 2004  | \$ 59,177    | \$ 189,433   | \$ 0       | \$ 1,200  | 2%  | 100% | \$ 181,113   | \$ 8,320     | 320% |
| 2005  | \$ 143,171   | \$ 310,185   | \$ 17,951  | \$ 17,272 | 12% | 49%  | \$ 275,712   | \$ 34,473    | 217% |
| 2006  | \$ 107,710   | \$ 217,899   | \$ 23,750  | \$ 19,315 | 18% | 45%  | \$ 174,373   | \$ 43,526    | 202% |
| 2007  | \$ 258,393   | \$ 506,495   | \$ 88,892  | \$ 18,715 | 7%  | 17%  | \$ 354,838   | \$ 151,657   | 196% |
| 2008  | \$ 275,143   | \$ 534,146   | \$ 140,404 | \$ 23,945 | 9%  | 15%  | \$ 294,161   | \$ 239,985   | 194% |
| 2009  | \$ 281,571   | \$ 726,328   | \$ 182,260 | \$ 0      | 0%  | 0%   | \$ 282,049   | \$ 444,279   | 258% |
| 2010  | \$ 360,199   | \$ 776,111   | \$ 306,217 | \$ 0      | 0%  | 0%   | \$ 138,768   | \$ 637,343   | 215% |
| YTD   |              |              |            |           |     |      |              |              |      |
| 2011  | \$ 108,070   | \$ 214,642   | \$ 107,518 | \$ 0      | 0%  | 0%   | \$ 3,473     | \$ 211,169   | 199% |
| Total | \$ 1,796,460 | \$ 4,348,594 | \$ 866,992 | \$ 80,447 | 4%  | 8%   | \$ 2,555,324 | \$ 1,793,270 | 242% |

**Table of Contents****Purchased Bankruptcy Portfolio (\$ in thousands)**

| Purchase<br>Period | Purchase<br>Price <sup>(1)</sup> | Total<br>Estimated<br>Collections <sup>(2)</sup> | Net<br>Finance<br>Receivable<br>Balance <sup>(3)</sup> | Life to<br>Date<br>Reserve<br>Charges <sup>(4)</sup> | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Net<br>Receivable<br>Purchase<br>Price <sup>(5)</sup> | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Net<br>Receivable<br>Reserve<br>Charges <sup>(6)</sup> | Actual<br>Cash<br>Collections<br>Including<br>Cash<br>Sales | Total<br>Estimated<br>Collections<br>Remaining<br>Collections <sup>(7)</sup> | Total<br>Estimated<br>Collections<br>to<br>Purchase<br>Price <sup>(8)</sup> |
|--------------------|----------------------------------|--|--|--|---|--|---|--|---|
|                    |                                  |  |  |  |   |  |   |  |   |
| 1996-2003          | \$ 0                             | \$ 0   | \$ 0   | \$ 0   | 0%  | 0%   | \$ 0  | \$ 0   | 0%  |
| 2004               | \$ 7,468                         | \$ 14,254  | \$ 0   | \$ 1,200   | 16%   | 100%   | \$ 14,195   | \$ 59  | 191%  |
| 2005               | \$ 29,301                        | \$ 43,176  | \$ 152   | \$ 807   | 3%  | 84%  | \$ 42,958   | \$ 218   | 147%  |
| 2006               | \$ 17,648                        | \$ 30,998  | \$ 209   | \$ 1,300   | 7%  | 86%  | \$ 29,460   | \$ 1,538   | 176%  |
| 2007               | \$ 78,552                        | \$ 110,615                                       | \$ 22,144  | \$ 4,010   | 5%  | 15%  | \$ 83,798   | \$ 26,817  | 141%  |
| 2008               | \$ 108,613                       | \$ 182,494                                       | \$ 61,507  | \$ 1,300   | 1%  | 2%   | \$ 96,737   | \$ 85,757  | 168%  |
| 2009               | \$ 156,062                       | \$ 361,033                                       | \$ 117,641   | \$ 0   | 0%  | 0%   | \$ 121,515  | \$ 239,518   | 231%  |
| 2010               | \$ 210,488                       | \$ 387,349                                       | \$ 190,642   | \$ 0   | 0%  | 0%   | \$ 60,446   | \$ 326,903   | 184%  |
| YTD 2011           | \$ 46,606                        | \$ 72,505  | \$ 46,606  | \$ 0   | 0%  | 0%   | \$ 185  | \$ 72,320  | 156%  |
| Total              | \$ 654,738                       | \$ 1,202,424                                     | \$ 438,901   | \$ 8,617   | 1%  | 2%   | \$ 449,294  | \$ 753,130   | 184%  |

**Core Portfolio (\$ in thousands)**

| Purchase<br>Period | Purchase<br>Price <sup>(1)</sup> | Total<br>Estimated<br>Collections <sup>(2)</sup> | Net<br>Finance<br>Receivable<br>Balance <sup>(3)</sup> | Life to<br>Date<br>Reserve<br>Charges <sup>(4)</sup> | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Net<br>Receivable<br>Purchase<br>Price <sup>(5)</sup> | Percentage<br>of<br>Reserve<br>Charges<br>to<br>Net<br>Receivable<br>Reserve<br>Charges <sup>(6)</sup> | Actual<br>Cash<br>Collections<br>Including<br>Cash<br>Sales | Total<br>Estimated<br>Collections<br>Remaining<br>Collections <sup>(7)</sup> | Total<br>Estimated<br>Collections<br>to<br>Purchase<br>Price <sup>(8)</sup> |
|--------------------|----------------------------------|--|--|--|---|--|---|--|---|
|                    |                                  |  |  |  |   |  |   |  |   |
| 1996               | \$ 3,080                         | \$ 10,139  | \$ 0   | \$ 0   | 0%  | 0%   | \$ 10,056   | \$ 83  | 329%  |
| 1997               | \$ 7,685                         | \$ 25,395  | \$ 0   | \$ 0   | 0%  | 0%   | \$ 25,176   | \$ 219   | 330%  |
| 1998               | \$ 11,089                        | \$ 37,039  | \$ 0   | \$ 0   | 0%  | 0%   | \$ 36,719   | \$ 320   | 334%  |
| 1999               | \$ 18,898                        | \$ 68,459  | \$ 0   | \$ 0   | 0%  | 0%   | \$ 67,408   | \$ 1,051   | 362%  |
| 2000               | \$ 25,020                        | \$ 114,253                                       | \$ 0   | \$ 0   | 0%  | 0%   | \$ 111,518  | \$ 2,735   | 457%  |
| 2001               | \$ 33,481                        | \$ 171,854                                       | \$ 0   | \$ 0   | 0%  | 0%   | \$ 167,820  | \$ 4,034   | 513%  |

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|          |              |              |            |           |     |     |              |              |      |
|----------|--------------|--------------|------------|-----------|-----|-----|--------------|--------------|------|
| 2002     | \$ 42,325    | \$ 191,508   | \$ 0       | \$ 0      | 0%  | 0%  | \$ 186,151   | \$ 5,357     | 452% |
| 2003     | \$ 61,448    | \$ 254,708   | \$ 0       | \$ 0      | 0%  | 0%  | \$ 245,989   | \$ 8,719     | 415% |
| 2004     | \$ 51,709    | \$ 175,179   | \$ 0       | \$ 0      | 0%  | 0%  | \$ 166,918   | \$ 8,261     | 339% |
| 2005     | \$ 113,870   | \$ 267,009   | \$ 17,799  | \$ 16,465 | 14% | 48% | \$ 232,754   | \$ 34,255    | 234% |
| 2006     | \$ 90,062    | \$ 186,901   | \$ 23,541  | \$ 18,015 | 20% | 43% | \$ 144,913   | \$ 41,988    | 208% |
| 2007     | \$ 179,841   | \$ 395,880   | \$ 66,748  | \$ 14,705 | 8%  | 18% | \$ 271,040   | \$ 124,840   | 220% |
| 2008     | \$ 166,530   | \$ 351,652   | \$ 78,897  | \$ 22,645 | 14% | 22% | \$ 197,424   | \$ 154,228   | 211% |
| 2009     | \$ 125,509   | \$ 365,295   | \$ 64,619  | \$ 0      | 0%  | 0%  | \$ 160,534   | \$ 204,761   | 291% |
| 2010     | \$ 149,711   | \$ 388,762   | \$ 115,575 | \$ 0      | 0%  | 0%  | \$ 78,322    | \$ 310,440   | 260% |
| YTD 2011 | \$ 61,464    | \$ 142,137   | \$ 60,912  | \$ 0      | 0%  | 0%  | \$ 3,288     | \$ 138,849   | 231% |
| Total    | \$ 1,141,722 | \$ 3,146,170 | \$ 428,091 | \$ 71,830 | 6%  | 14% | \$ 2,106,030 | \$ 1,040,140 | 276% |

- (1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less buybacks.
- (2) Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.
- (3) Net finance receivable balance refers to the purchase price less amortization over the life of the portfolio.
- (4) Life to date reserve charges refers to the total amount of reserve charges incurred on our owned portfolios net of any reversals.
- (5) Percentage of reserve charges to purchase price refers to the total amount of reserve charges incurred on our owned portfolios net of any reversals, divided by the purchase price.
- (6) Percentage of reserve charges to net finance receivable balance and reserve charges refers to the total amount of reserve charges incurred on our owned portfolios net of any reversals, divided by the sum of the net finance receivable balance and the life to date reserve charges.
- (7) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.
- (8) Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.



**Table of Contents**

The following tables shows our net valuation allowances recorded against our investment in finance receivables.

(\$ in thousands)

| Entire Portfolio<br>Allowance Period <sup>(1)</sup> | 1996-2003  | 2004      | 2005       | Purchase<br>Period<br>2006 | 2007       | 2008       | 2009-2011  | Total        | Net<br>Allowance<br>Charge          |
|---|------------|-----------|------------|----------------------------|------------|------------|------------|--------------|-------------------------------------|
|   |            |           |            |                            |            |            |            |              | as<br>%<br>of<br>NFR <sup>(2)</sup> |
| Q1 05   | \$         | \$        | \$         | \$                         | \$         | \$         | \$         | \$           | 0.0%                                |
| Q2 05   |            |           |            |                            |            |            |            |              | 0.0%                                |
| Q3 05   |            |           |            |                            |            |            |            |              | 0.0%                                |
| Q4 05   | 200        |           |            |                            |            |            |            | 200          | 0.1%                                |
| Q1 06   |            |           | 175        |                            |            |            |            | 175          | 0.1%                                |
| Q2 06   | 75         |           | 125        |                            |            |            |            | 200          | 0.1%                                |
| Q3 06   | 200        |           | 75         |                            |            |            |            | 275          | 0.1%                                |
| Q4 06   |            |           | 450        |                            |            |            |            | 450          | 0.2%                                |
| Q1 07   | (245)      |           | 610        |                            |            |            |            | 365          | 0.1%                                |
| Q2 07   | 90         |           |            |                            |            |            |            | 90           | 0.0%                                |
| Q3 07   | 200        | 320       | 660        |                            |            |            |            | 1,180        | 0.4%                                |
| Q4 07   | 190        | 150       | 615        | 340                        |            |            |            | 1,295        | 0.3%                                |
| Q1 08   | 120        | 650       | 910        | 1,105                      |            |            |            | 2,785        | 0.6%                                |
| Q2 08   | 260        | 720       |            | 2,330                      | 650        |            |            | 3,960        | 0.8%                                |
| Q3 08   | (90)       | 60        | 325        | 1,135                      | 2,350      |            |            | 3,780        | 0.7%                                |
| Q4 08   | (400)      | (140)     | 1,805      | 2,600                      | 4,380      | 620        |            | 8,865        | 1.6%                                |
| Q1 09   | (225)      | 35        | 1,150      | 910                        | 2,300      | 2,050      |            | 6,220        | 1.1%                                |
| Q2 09   | (230)      | (220)     | 495        | 765                        | 685        | 2,425      |            | 3,920        | 0.6%                                |
| Q3 09   | (25)       | (190)     | 1,170      | 1,965                      | 340        | 4,750      |            | 8,010        | 1.2%                                |
| Q4 09   | (120)      |           | 1,375      | 1,220                      | 110        | 6,900      |            | 9,485        | 1.4%                                |
| Q1 10   |            |           | 2,795      | 1,175                      | 2,900      |            |            | 6,870        | 0.9%                                |
| Q2 10   |            | (80)      | 1,600      | 2,100                      | 700        | 2,000      |            | 6,320        | 0.8%                                |
| Q3 10   |            | (80)      | 1,650      | 2,050                      | 2,750      | 150        |            | 6,520        | 0.8%                                |
| Q4 10   |            | (10)      | 832        | 1,720                      | 1,150      | 1,750      |            | 5,442        | 0.7%                                |
| Q1 11   |            | (15)      | 455        | (100)                      | 400        | 3,300      |            | 4,040        | 0.5%                                |
| Total   | \$         | \$ 1,200  | \$ 17,272  | \$ 19,315                  | \$ 18,715  | \$ 23,945  | \$         | \$ 80,447    |                                     |
| Portfolio Purchases,<br>net                         | \$ 203,026 | \$ 59,177 | \$ 143,171 | \$ 107,710                 | \$ 258,393 | \$ 275,143 | \$ 749,840 | \$ 1,796,460 |                                     |

(\$ in thousands)

| Purchased Bankruptcy Portfolio<br>Allowance Period <sup>(1)</sup> | 1996-2003 | 2004 | 2005 | Purchase<br>Period<br>2006 | 2007 | 2008 | 2009-2011 | Total | Net<br>Allowance<br>Charge          |
|---|-----------|------|------|----------------------------|------|------|-----------|-------|-------------------------------------|
|   |           |      |      |                            |      |      |           |       | as<br>%<br>of<br>NFR <sup>(2)</sup> |

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|                          |    |          |           |           |           |            |            |            |
|--------------------------|----|----------|-----------|-----------|-----------|------------|------------|------------|
| Q1 05                    | \$ | \$       | \$        | \$        | \$        | \$         | \$         | 0.0%       |
| Q2 05                    |    |          |           |           |           |            |            | 0.0%       |
| Q3 05                    |    |          |           |           |           |            |            | 0.0%       |
| Q4 05                    |    |          |           |           |           |            |            | 0.0%       |
| Q1 06                    |    |          |           |           |           |            |            | 0.0%       |
| Q2 06                    |    |          |           |           |           |            |            | 0.0%       |
| Q3 06                    |    |          |           |           |           |            |            | 0.0%       |
| Q4 06                    |    |          |           |           |           |            |            | 0.0%       |
| Q1 07                    |    |          |           |           |           |            |            | 0.0%       |
| Q2 07                    |    |          |           |           |           |            |            | 0.0%       |
| Q3 07                    |    | 320      | 160       |           |           |            | 480        | 1.3%       |
| Q4 07                    |    | 150      |           | 150       |           |            | 300        | 0.3%       |
| Q1 08                    |    | 530      | 60        | 405       |           |            | 995        | 0.8%       |
| Q2 08                    |    | 15       |           | 450       |           |            | 465        | 0.3%       |
| Q3 08                    |    | 115      |           | 30        |           |            | 145        | 0.1%       |
| Q4 08                    |    | 110      | 315       | 325       |           |            | 750        | 0.4%       |
| Q1 09                    |    | 10       | 100       | 50        |           |            | 160        | 0.1%       |
| Q2 09                    |    | 15       | (5)       |           |           |            | 10         | 0.0%       |
| Q3 09                    |    | 20       | 70        |           |           |            | 90         | 0.0%       |
| Q4 09                    |    |          | 100       | 70        | 110       |            | 280        | 0.1%       |
| Q1 10                    |    |          | 95        | 50        | 1,200     |            | 1,345      | 0.4%       |
| Q2 10                    |    | (30)     | 25        |           |           |            | (5)        | 0.0%       |
| Q3 10                    |    | (30)     |           | (100)     | 600       |            | 470        | 0.1%       |
| Q4 10                    |    | (10)     | (18)      | (30)      | 950       |            | 892        | 0.2%       |
| Q1 11                    |    | (15)     | (95)      | (100)     | 1,150     | 1,300      | 2,240      | 0.5%       |
| Total                    | \$ | \$ 1,200 | \$ 807    | \$ 1,300  | \$ 4,010  | \$ 1,300   | \$ 8,617   |            |
| Portfolio Purchases, net | \$ | \$ 7,468 | \$ 29,301 | \$ 17,648 | \$ 78,552 | \$ 108,613 | \$ 413,156 | \$ 654,738 |

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(\$ in thousands)

| Core Portfolio<br>Allowance Period <sup>(1)</sup> | Purchase<br>Period |           |                  |                  |                  |                  |           | Total            | Net<br>Allowance<br>Charge<br>as<br>%<br>of<br>NFR <sup>(2)</sup> |
|---|--------------------|-----------|------------------|------------------|------------------|------------------|-----------|------------------|---|
|   | 1996-2003          | 2004      | 2005             | 2006             | 2007             | 2008             | 2009-2011 |                  |   |
| Q1 05   | \$                 | \$        | \$               | \$               | \$               | \$               | \$        | \$               | 0.0%  |
| Q2 05   |                    |           |                  |                  |                  |                  |           |                  | 0.0%  |
| Q3 05   |                    |           |                  |                  |                  |                  |           |                  | 0.0%  |
| Q4 05   | 200                |           |                  |                  |                  |                  |           | 200              | 0.1%  |
| Q1 06   |                    |           | 175              |                  |                  |                  |           | 175              | 0.1%  |
| Q2 06   | 75                 |           | 125              |                  |                  |                  |           | 200              | 0.1%  |
| Q3 06   | 200                |           | 75               |                  |                  |                  |           | 275              | 0.2%  |
| Q4 06   |                    |           | 450              |                  |                  |                  |           | 450              | 0.2%  |
| Q1 07   | (245)              |           | 610              |                  |                  |                  |           | 365              | 0.2%  |
| Q2 07   | 90                 |           |                  |                  |                  |                  |           | 90               | 0.0%  |
| Q3 07   | 200                |           | 500              |                  |                  |                  |           | 700              | 0.2%  |
| Q4 07   | 190                |           | 615              | 190              |                  |                  |           | 995              | 0.3%  |
| Q1 08   | 120                | 120       | 850              | 700              |                  |                  |           | 1,790            | 0.5%  |
| Q2 08   | 260                | 705       |                  | 1,880            | 650              |                  |           | 3,495            | 0.9%  |
| Q3 08   | (90)               | (55)      | 325              | 1,105            | 2,350            |                  |           | 3,635            | 1.0%  |
| Q4 08   | (400)              | (250)     | 1,490            | 2,275            | 4,380            | 620              |           | 8,115            | 2.1%  |
| Q1 09   | (225)              | 25        | 1,050            | 860              | 2,300            | 2,050            |           | 6,060            | 1.6%  |
| Q2 09   | (230)              | (235)     | 500              | 765              | 685              | 2,425            |           | 3,910            | 1.0%  |
| Q3 09   | (25)               | (210)     | 1,100            | 1,965            | 340              | 4,750            |           | 7,920            | 2.0%  |
| Q4 09   | (120)              |           | 1,275            | 1,150            |                  | 6,900            |           | 9,205            | 2.3%  |
| Q1 10   |                    |           | 2,700            | 1,125            | 1,700            |                  |           | 5,525            | 1.4%  |
| Q2 10   |                    | (50)      | 1,575            | 2,100            | 700              | 2,000            |           | 6,325            | 1.6%  |
| Q3 10   |                    | (50)      | 1,650            | 2,150            | 2,150            | 150              |           | 6,050            | 1.5%  |
| Q4 10   |                    |           | 850              | 1,750            | 200              | 1,750            |           | 4,550            | 1.1%  |
| Q1 11   |                    |           | 550              |                  | (750)            | 2,000            |           | 1,800            | 0.4%  |
| <b>Total</b>                                      | <b>\$</b>          | <b>\$</b> | <b>\$ 16,465</b> | <b>\$ 18,015</b> | <b>\$ 14,705</b> | <b>\$ 22,645</b> | <b>\$</b> | <b>\$ 71,830</b> |   |

Portfolio Purchases,  
net \$ 203,026 \$ 51,709 \$ 113,870 \$ 90,062 \$ 179,841 \$ 166,530 \$ 336,684 \$ 1,141,722

(1) Allowance period represents the quarter in which we recorded valuation allowances, net of any (reversals).

(2) NFR refers to total net finance receivables as of the end of the allowance period presented.

The following graph shows the purchase price of our owned portfolios by year and includes the year to date acquisition amount for the three months ended March 31, 2011. The purchase price number represents the cash paid to the seller, plus certain capitalized costs, less buybacks.

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As shown in the above chart, the composition of our 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 during the period from 2007 through the first quarter of 2011.

Our ability to profitably purchase and liquidate pools of bankrupt accounts provides diversity to our distressed asset acquisition business. Although we generally buy bankrupt assets from many of the same consumer lenders from whom we acquire Core customer accounts, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of pools 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 the first quarter of 2011, bankruptcy buying represented 43% of our total 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 2.5-3.0x 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 to be in the 1.4-2.0x range generally. 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 1) we purchase primarily accounts that represent unsecured claims in bankruptcy, and 2) 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 in 2009 through the first quarter of 2011, we would expect to experience a delay in cash collections compared with Core charged-off accounts.

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 excludes any proceeds from cash sales of finance receivables, demonstrates our ability to realize significant multi-year cash collection streams on our owned portfolios.

**Cash Collections By Year, By Year of Purchase Entire Portfolio**

| Purchase Year | Cash Collection Period |           |           |            |            |            |            |            |            |            |            |              |
|---------------|------------------------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
|               | 1996-2000              | 2001      | 2002      | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011         |
| 3,080         | \$ 7,295               | \$ 730    | \$ 496    | \$ 398     | \$ 285     | \$ 210     | \$ 237     | \$ 102     | \$ 83      | \$ 78      | \$ 68      | \$ 68        |
| 7,685         | 15,138                 | 2,630     | 1,829     | 1,324      | 1,022      | 860        | 597        | 437        | 346        | 215        | 216        | 216          |
| 11,089        | 16,981                 | 5,152     | 3,948     | 2,797      | 2,200      | 1,811      | 1,415      | 882        | 616        | 397        | 382        | 382          |
| 18,898        | 18,207                 | 12,090    | 9,598     | 7,336      | 5,615      | 4,352      | 3,032      | 2,243      | 1,533      | 1,328      | 1,139      | 1,139        |
| 25,020        | 6,894                  | 19,498    | 19,478    | 16,628     | 14,098     | 10,924     | 8,067      | 5,202      | 3,604      | 3,198      | 2,782      | 2,782        |
| 33,481        |                        | 13,048    | 28,831    | 28,003     | 26,717     | 22,639     | 16,048     | 10,011     | 6,164      | 5,299      | 4,422      | 4,422        |
| 42,325        |                        |           | 15,073    | 36,258     | 35,742     | 32,497     | 24,729     | 16,527     | 9,772      | 7,444      | 6,375      | 6,375        |
| 61,448        |                        |           |           | 24,308     | 49,706     | 52,640     | 43,728     | 30,695     | 18,818     | 13,135     | 10,422     | 10,422       |
| 59,177        |                        |           |           |            | 18,019     | 46,475     | 40,424     | 30,750     | 19,339     | 13,677     | 9,944      | 9,944        |
| 43,171        |                        |           |           |            |            | 18,968     | 75,145     | 69,862     | 49,576     | 33,366     | 23,733     | 23,733       |
| 107,710       |                        |           |           |            |            |            | 22,971     | 53,192     | 40,560     | 29,749     | 22,494     | 22,494       |
| 258,393       |                        |           |           |            |            |            |            | 42,263     | 115,011    | 94,805     | 83,059     | 83,059       |
| 275,143       |                        |           |           |            |            |            |            |            | 61,277     | 107,974    | 100,337    | 100,337      |
| 281,571       |                        |           |           |            |            |            |            |            |            | 57,338     | 177,407    | 177,407      |
| 360,199       |                        |           |           |            |            |            |            |            |            |            | 86,562     | 86,562       |
| 108,070       |                        |           |           |            |            |            |            |            |            |            |            |              |
| 796,460       | \$ 64,515              | \$ 53,148 | \$ 79,253 | \$ 117,052 | \$ 153,404 | \$ 191,376 | \$ 236,393 | \$ 262,166 | \$ 326,699 | \$ 368,003 | \$ 529,342 | \$ 1,000,000 |

**Cash Collections By Year, By Year of Purchase Purchased Bankruptcy Portfolio**

| Purchase Year | Cash Collection Period |      |      |      |        |          |           |           |           |           |            |              |
|---------------|------------------------|------|------|------|--------|----------|-----------|-----------|-----------|-----------|------------|--------------|
|               | 1996-2000              | 2001 | 2002 | 2003 | 2004   | 2005     | 2006      | 2007      | 2008      | 2009      | 2010       | 2011         |
| 7,468         | \$                     | \$   | \$   | \$   | \$ 743 | \$ 4,554 | \$ 3,956  | \$ 2,777  | \$ 1,455  | \$ 496    | \$ 164     | \$ 164       |
| 29,301        |                        |      |      |      |        | 3,777    | 15,500    | 11,934    | 6,845     | 3,318     | 1,382      | 1,382        |
| 17,648        |                        |      |      |      |        |          | 5,608     | 9,455     | 6,522     | 4,398     | 2,972      | 2,972        |
| 78,552        |                        |      |      |      |        |          |           | 2,850     | 27,972    | 25,630    | 22,829     | 22,829       |
| 108,613       |                        |      |      |      |        |          |           |           | 14,024    | 35,894    | 37,974     | 37,974       |
| 156,062       |                        |      |      |      |        |          |           |           |           | 16,635    | 81,780     | 81,780       |
| 210,488       |                        |      |      |      |        |          |           |           |           |           | 39,486     | 39,486       |
| 46,606        |                        |      |      |      |        |          |           |           |           |           |            |              |
| 554,738       | \$                     | \$   | \$   | \$   | \$ 743 | \$ 8,331 | \$ 25,064 | \$ 27,016 | \$ 56,818 | \$ 86,371 | \$ 186,587 | \$ 1,000,000 |

**Cash Collections By Year, By Year of Purchase Core Portfolio**

| Purchase<br>Price | Cash Collection<br>Period |           |           |            |            |            |            |            |            |            |            |              |
|-------------------|---------------------------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
|                   | 1996-2000                 | 2001      | 2002      | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011         |
| 3,080             | \$ 7,295                  | \$ 730    | \$ 496    | \$ 398     | \$ 285     | \$ 210     | \$ 237     | \$ 102     | \$ 83      | \$ 78      | \$ 68      | \$ 216       |
| 7,685             | 15,138                    | 2,630     | 1,829     | 1,324      | 1,022      | 860        | 597        | 437        | 346        | 215        | 216        |              |
| 11,089            | 16,981                    | 5,152     | 3,948     | 2,797      | 2,200      | 1,811      | 1,415      | 882        | 616        | 397        | 382        |              |
| 18,898            | 18,207                    | 12,090    | 9,598     | 7,336      | 5,615      | 4,352      | 3,032      | 2,243      | 1,533      | 1,328      | 1,139      |              |
| 25,020            | 6,894                     | 19,498    | 19,478    | 16,628     | 14,098     | 10,924     | 8,067      | 5,202      | 3,604      | 3,198      | 2,782      |              |
| 33,481            |                           | 13,048    | 28,831    | 28,003     | 26,717     | 22,639     | 16,048     | 10,011     | 6,164      | 5,299      | 4,422      |              |
| 42,325            |                           |           | 15,073    | 36,258     | 35,742     | 32,497     | 24,729     | 16,527     | 9,772      | 7,444      | 6,375      |              |
| 61,448            |                           |           |           | 24,308     | 49,706     | 52,640     | 43,728     | 30,695     | 18,818     | 13,135     | 10,422     |              |
| 51,709            |                           |           |           |            | 17,276     | 41,921     | 36,468     | 27,973     | 17,884     | 13,181     | 9,780      |              |
| 13,870            |                           |           |           |            |            | 15,191     | 59,645     | 57,928     | 42,731     | 30,048     | 22,351     |              |
| 90,062            |                           |           |           |            |            |            | 17,363     | 43,737     | 34,038     | 25,351     | 19,522     |              |
| 79,841            |                           |           |           |            |            |            |            | 39,413     | 87,039     | 69,175     | 60,230     |              |
| 66,530            |                           |           |           |            |            |            |            |            | 47,253     | 72,080     | 62,363     |              |
| 25,509            |                           |           |           |            |            |            |            |            |            | 40,703     | 95,627     |              |
| 49,711            |                           |           |           |            |            |            |            |            |            |            | 47,076     |              |
| 61,464            |                           |           |           |            |            |            |            |            |            |            |            |              |
| 41,722            | \$ 64,515                 | \$ 53,148 | \$ 79,253 | \$ 117,052 | \$ 152,661 | \$ 183,045 | \$ 211,329 | \$ 235,150 | \$ 269,881 | \$ 281,632 | \$ 342,755 | \$ 1,000,000 |

When we acquire a new pool of finance receivables, our estimates typically result in a 72 - 96 month projection of cash collections. 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.

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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, our 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 generate increased amounts of cash collections by generating enough incremental payments to overcome the decrease in payment size.

*Owned Portfolio Personnel Performance:*

We measure the productivity of each collector each month, breaking results into groups of similarly tenured collectors. The following tables display various productivity measures that we track.

**Number of Collectors by Tenure**

|           |             |             | <b>One year +<sup>(1)</sup></b>         |             |             |             |
|-----------|-------------|-------------|---|-------------|-------------|-------------|
|           | <b>2006</b> | <b>2007</b> | <b>2008</b>                             | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| <b>Q1</b> | 331         | 340         | 314                                     | 488         | 690         | 830         |
| <b>Q2</b> | 342         | 360         | 348                                     | 587         | 711         |             |
| <b>Q3</b> | 324         | 397         | 410                                     | 604         | 742         |             |
| <b>Q4</b> | 340         | 327         | 452                                     | 638         | 771         |             |
|           |             |             | <b>Less than one year<sup>(2)</sup></b> |             |             |             |
|           | <b>2006</b> | <b>2007</b> | <b>2008</b>                             | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| <b>Q1</b> | 360         | 435         | 688                                     | 621         | 686         | 644         |
| <b>Q2</b> | 372         | 481         | 744                                     | 612         | 681         |             |
| <b>Q3</b> | 402         | 475         | 631                                     | 585         | 642         |             |
| <b>Q4</b> | 375         | 553         | 739                                     | 676         | 731         |             |
|           |             | 36          |   |             |             |             |

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|    | 2006 | 2007 | Total <sup>(2)</sup> |       | 2010  | 2011  |
|----|------|------|----------------------|-------|-------|-------|
|    |      |      | 2008                 | 2009  |       |       |
| Q1 | 691  | 775  | 1,002                | 1,109 | 1,376 | 1,474 |
| Q2 | 714  | 841  | 1,092                | 1,199 | 1,392 |       |
| Q3 | 726  | 872  | 1,041                | 1,189 | 1,384 |       |
| Q4 | 715  | 880  | 1,191                | 1,314 | 1,502 |       |

(1) Calculated based on actual employees (collectors) with one year of service or more.

(2) Calculated using total hours worked by all collectors, including those in training, to produce a full time equivalent FTE.

The tables below contain our past five years of collector productivity metrics as defined by calendar quarter.

**QTD Cash Collections per Hour Paid<sup>(1)</sup>**

|    | Total cash collections |        |        |        |        |        |
|----|------------------------|--------|--------|--------|--------|--------|
|    | 2006                   | 2007   | 2008   | 2009   | 2010   | 2011   |
| Q1 | \$ 152                 | \$ 156 | \$ 133 | \$ 147 | \$ 182 | \$ 241 |
| Q2 | \$ 146                 | \$ 142 | \$ 136 | \$ 143 | \$ 188 |        |
| Q3 | \$ 145                 | \$ 131 | \$ 134 | \$ 144 | \$ 200 |        |
| Q4 | \$ 142                 | \$ 119 | \$ 123 | \$ 148 | \$ 204 |        |

|    | Non-legal cash collections <sup>(2)</sup> |        |       |        |        |        |
|----|---|--------|-------|--------|--------|--------|
|    | 2006                                      | 2007   | 2008  | 2009   | 2010   | 2011   |
| Q1 | \$ 106                                    | \$ 108 | \$ 96 | \$ 118 | \$ 154 | \$ 204 |
| Q2 | \$ 99                                     | \$ 96  | \$ 99 | \$ 116 | \$ 160 |        |
| Q3 | \$ 98                                     | \$ 88  | \$ 99 | \$ 119 | \$ 170 |        |
| Q4 | \$ 94                                     | \$ 80  | \$ 94 | \$ 123 | \$ 174 |        |

|    | Non-bankruptcy cash collections <sup>(3)</sup> |        |        |        |        |        |
|----|--|--------|--------|--------|--------|--------|
|    | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
| Q1 | \$ 141   | \$ 141 | \$ 116 | \$ 120 | \$ 135 | \$ 162 |
| Q2 | \$ 132   | \$ 129 | \$ 115 | \$ 114 | \$ 127 |        |
| Q3 | \$ 129   | \$ 120 | \$ 110 | \$ 111 | \$ 127 |        |
| Q4 | \$ 127   | \$ 107 | \$ 98  | \$ 109 | \$ 129 |        |

|    | Non-legal/non-bankruptcy cash collections <sup>(4)</sup> |       |       |       |        |        |
|----|--|-------|-------|-------|--------|--------|
|    | 2006   | 2007  | 2008  | 2009  | 2010   | 2011   |
| Q1 | \$ 95  | \$ 92 | \$ 79 | \$ 90 | \$ 106 | \$ 125 |
| Q2 | \$ 85  | \$ 83 | \$ 78 | \$ 87 | \$ 100 |        |
| Q3 | \$ 82  | \$ 76 | \$ 76 | \$ 87 | \$ 97  |        |
| Q4 | \$ 80  | \$ 68 | \$ 69 | \$ 84 | \$ 98  |        |

(1)



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

- (2) Represents total cash collections less external legal cash collections.
- (3) Represents total cash collections less purchased bankruptcy cash collections from trustee-administered accounts.
- (4) Represents total cash collections less external legal cash collections and less purchased bankruptcy cash collections from trustee-administered accounts.

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Cash collections have substantially exceeded revenue in each quarter since our formation. The following chart illustrates the consistent 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.

**Quarterly Cash Collections <sup>(1)</sup>**

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

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

| <b>Cash Collection Source (\$ in thousands)</b> | <b>Q12011</b>     | <b>Q42010</b>     | <b>Q32010</b>     | <b>Q22010</b>     | <b>Q12010</b>     | <b>Q42009</b>    | <b>Q32009</b>    | <b>Q22009</b>    |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|
| Call Center & Other Collections                 | \$ 67,377         | \$ 53,775         | \$ 51,711         | \$ 54,477         | \$ 56,987         | \$ 45,365        | \$ 48,590        | \$ 50,052        |
| External Legal Collections                      | 25,378            | 21,446            | 20,217            | 18,819            | 18,276            | 15,496           | 15,330           | 16,527           |
| Internal Legal Collections                      | 15,598            | 12,841            | 12,130            | 11,362            | 10,714            | 7,570            | 6,196            | 4,263            |
| Purchased Bankruptcy Collections                | 58,364            | 56,301            | 53,319            | 43,748            | 33,219            | 26,855           | 22,251           | 19,637           |
| <b>Total Cash Collections</b>                   | <b>\$ 166,717</b> | <b>\$ 144,363</b> | <b>\$ 137,377</b> | <b>\$ 128,406</b> | <b>\$ 119,196</b> | <b>\$ 95,286</b> | <b>\$ 92,367</b> | <b>\$ 90,479</b> |

*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).

|   | <b>Three Months Ended March 31, 2011</b> | <b>Three Months Ended March 31, 2010</b> |
|---|--|--|
| Balance at beginning of period  | \$ 831,330                               | \$ 693,462                               |
| Acquisitions of finance receivables <sup>(1)</sup>                          | 106,405                                  | 100,266                                  |
| Cash collections applied to principal on finance receivables <sup>(2)</sup> | (70,743)                                 | (51,244)                                 |
| Balance at end of period  | \$ 866,992                               | \$ 742,484                               |
| Estimated Remaining Collections ( ERC <sup>(3)</sup> )                      | \$ 1,793,270                             | \$ 1,536,129                             |

(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.

(3) Estimated Remaining Collections refers to the sum of all future projected cash collections on our owned portfolios.

*Portfolios by Type and Geography*

The following table categorizes our life to date portfolio purchases as of March 31, 2011, into the major asset types represented (amounts in thousands):

| <b>Asset Type</b> | <b>No. of Accounts</b> | <b>%</b> | <b>Life to Date Purchased</b> |          | <b>Original Purchase Price</b> |          |
|-------------------|------------------------|----------|-------------------------------|----------|--------------------------------|----------|
|                   |                        |          | <b>(1)</b>                    | <b>%</b> | <b>(2)</b>                     | <b>%</b> |

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|                               |               |             |           |                   |             |           |                  |             |
|-------------------------------|---------------|-------------|-----------|-------------------|-------------|-----------|------------------|-------------|
| Major Credit Cards            | 14,641        | 59%         | \$        | 39,862,721        | 71%         | \$        | 1,443,107        | 79%         |
| Consumer Finance              | 5,311         | 21          |           | 6,467,291         | 11          |           | 120,549          | 7           |
| Private Label Credit<br>Cards | 4,267         | 18          |           | 6,015,736         | 11          |           | 228,748          | 12          |
| Auto Deficiency               | 591           | 2           |           | 3,981,676         | 7           |           | 43,790           | 2           |
| <b>Total:</b>                 | <b>24,810</b> | <b>100%</b> | <b>\$</b> | <b>56,327,424</b> | <b>100%</b> | <b>\$</b> | <b>1,836,194</b> | <b>100%</b> |

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

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The following table summarizes our life to date portfolio purchases as of March 31, 2011, into the delinquency categories represented (amounts in thousands).

| Account Type        | No. of<br>Accounts | %           | Life to Date<br>Purchased |             | Original<br>Purchase |             |
|---------------------|--------------------|-------------|---------------------------|-------------|----------------------|-------------|
|                     |                    |             | Face Value <sup>(1)</sup> | %           | Price <sup>(2)</sup> | %           |
| Fresh               | 1,584              | 6%          | \$ 4,635,394              | 8%          | \$ 412,808           | 22%         |
| Primary             | 3,908              | 16          | 6,835,474                 | 12          | 329,382              | 18          |
| Secondary           | 4,025              | 16          | 6,547,586                 | 12          | 228,010              | 12          |
| Tertiary            | 3,973              | 16          | 5,249,031                 | 9           | 72,609               | 4           |
| Bankruptcy Trustees | 3,610              | 15          | 16,169,242                | 29          | 684,444              | 37          |
| Other               | 7,710              | 31          | 16,890,697                | 30          | 108,941              | 7           |
| <b>Total:</b>       | <b>24,810</b>      | <b>100%</b> | <b>\$ 56,327,424</b>      | <b>100%</b> | <b>\$ 1,836,194</b>  | <b>100%</b> |

(1) The 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) The 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.

The following table summarizes our life to date portfolio purchases as of March 31, 2011, by geographic location (amounts in thousands):

| Geographic Distribution | No. of<br>Accounts | %   | Life to Date<br>Purchased<br>Face |     | Original<br>Purchase |     |
|-------------------------|--------------------|-----|-----------------------------------|-----|----------------------|-----|
|                         |                    |     | Value <sup>(1)</sup>              | %   | Price <sup>(2)</sup> | %   |
| California              | 2,577              | 10% | \$ 7,288,466                      | 13% | \$ 227,919           | 12% |
| Texas                   | 3,872              | 16  | 6,471,095                         | 11  | 168,870              | 9   |
| Florida                 | 1,958              | 8   | 5,393,486                         | 10  | 165,560              | 9   |
| New York                | 1,458              | 6   | 3,451,723                         | 6   | 104,144              | 6   |
| Pennsylvania            | 863                | 3   | 2,099,127                         | 4   | 69,751               | 4   |
| North Carolina          | 893                | 4   | 2,003,653                         | 4   | 62,717               | 3   |
| Illinois                | 965                | 4   | 1,970,815                         | 3   | 69,787               | 4   |
| Ohio                    | 860                | 3   | 1,956,885                         | 3   | 76,046               | 4   |
| Georgia                 | 787                | 3   | 1,837,047                         | 3   | 72,167               | 4   |
| New Jersey              | 577                | 2   | 1,585,970                         | 3   | 52,900               | 3   |
| Michigan                | 657                | 3   | 1,520,633                         | 3   | 56,517               | 3   |
| Virginia                | 671                | 3   | 1,205,559                         | 2   | 43,550               | 2   |
| Tennessee               | 522                | 2   | 1,170,450                         | 2   | 44,728               | 2   |

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|                      |               |             |                      |             |                     |             |
|----------------------|---------------|-------------|----------------------|-------------|---------------------|-------------|
| Arizona              | 428           | 2           | 1,183,894            | 2           | 37,138              | 2           |
| Massachusetts        | 436           | 2           | 1,067,776            | 2           | 34,126              | 2           |
| South Carolina       | 431           | 2           | 990,390              | 2           | 29,718              | 2           |
| Other <sup>(3)</sup> | 6,855         | 27          | 15,130,455           | 27          | 520,556             | 29          |
| <b>Total:</b>        | <b>24,810</b> | <b>100%</b> | <b>\$ 56,327,424</b> | <b>100%</b> | <b>\$ 1,836,194</b> | <b>100%</b> |

(1) The 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) The 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.

### **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, purchases of property and equipment and working capital to support our growth.

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As of March 31, 2011, cash and cash equivalents totaled \$35.4 million, as compared to \$41.1 million at December 31, 2010. Total debt outstanding on our \$407.5 million line of credit was \$290.0 million as of March 31, 2011, which represents availability of \$117.5 million.

We have in place forward flow commitments for the purchase of defaulted consumer receivables over the next 12 months of approximately \$148.9 million as of March 31, 2011. 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 would 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 are cognizant of the market fundamentals in the debt purchase and company acquisition market which, because of significant supply and tight capital availability, could cause increased buying opportunities to arise. Accordingly, 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 of 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. In addition, due to these opportunities, we closed on a new and expanded syndicated loan during the fourth quarter of 2010. The new credit agreement increased our credit availability to \$407.5 million. Refer to the Borrowings section below for additional information on the line of credit.

With the acquisition of a controlling interest in CCB, we have the right to call 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. The total maximum amount we would have to pay for the noncontrolling interest in CCB in any scenario is \$22.8 million.

We file income taxes using the cost recovery method for tax revenue recognition. We were notified on June 21, 2007 that we were being examined by the Internal Revenue Service 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. On April 22, 2009, we filed a formal protest of the findings contained in the examination report prepared by the IRS. We believe we have sufficient support for the technical merits of our positions and that it is more-likely-than-not that these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. If we are unsuccessful in our appeal we can either not pay the assessment and file a petition in Tax Court or pay the assessed tax and interest and file a refund suit in US District Court. If we are unsuccessful after taking either of these two actions, we would be required to pay the related deferred taxes and any potential interest, possibly requiring additional financing from other sources. On April 6, 2011, we were notified verbally by the IRS that the audit period will be expanded to include the tax years ended December 31, 2009 and 2008.

In forming our tax positions, we consider inputs based on industry practice, tax advice from professionals and drawing similarities of our facts and circumstances to those in established case law (most notably as it relates to revenue recognition, *Underhill* and *Liftin*). These tax positions deal not only with revenue recognition, but also with general tax compliance, including sales and use, franchise, gross receipts, payroll, property and income tax issues, including our tax base and apportionment factors.

A diverse group of companies participate in our industry including distressed debt purchasers, Wall Street hedge funds, small private collection companies and other such investment firms. These participants are diverse in their structure, processes, and profitability. We base our primary tax revenue recognition policy on the nature of the assets that we acquire. We therefore file income tax returns using the cost recovery method for tax revenue recognition as it relates to our debt purchasing business.

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





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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 \$43.3 million and \$27.5 million for the three months ended March 31, 2011 and 2010, 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 mostly to an increase in net income to \$23.7 million for the three months ended March 31, 2011, from \$14.8 million for the three months ended March 31, 2010. The remaining changes were due to net changes in other accounts related to our operating activities.

Our investing activities used cash of \$37.8 million and \$73.3 million during the three months ended March 31, 2011 and 2010, 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 decrease was due to cash payments for business acquisitions totaling \$22.6 million during the three months ended March 31, 2010, as compared to \$0 during the three months ended March 31, 2011, as well as an increase in acquisitions of finance receivables, which increased from \$100.3 million for the three months ended March 31, 2010 to \$106.4 million for the three months ended March 31, 2011, partially offset by an increase in collections applied to principal on finance receivables from \$51.2 million for the three months ended March 31, 2010 to \$70.7 million for the three months ended March 31, 2011.

Our financing activities used cash of \$11.1 million and provided cash of \$48.5 million during the three months ended March 31, 2011 and 2010, respectively. Cash is provided by draws on our line of credit, proceeds from equity offerings, proceeds from debt financing and stock option exercises. Cash used in financing activities is primarily driven by payments on our line of credit and principal payments on long-term debt. The majority of the decrease was due to cash proceeds received from our \$75.5 million equity offering during the three months ended March 31, 2010, compared to \$0 during the three months ended March 31, 2011, as well as \$10.0 million in net repayments on our line of credit during the three months ended March 31, 2011, compared to \$23.0 million during the same period in 2010.

Cash paid for interest was \$2.7 million and \$2.2 million for the three months ended March 31, 2011 and 2010, respectively. Interest was paid on our line of credit, long-term debt and our interest rate swap agreement. The increase was mainly due to an increase in our weighted average interest rate which increased to 3.64% for the three months ended March 31, 2011, as compared to 2.35% for the three months ended March 31, 2010 partially offset by a decrease in our average borrowings under our revolving credit facility for the three months ended March 31, 2011 compared to the same period in 2010.

*Borrowings*

On December 20, 2010, 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 \$407.5 million, consisting of a \$50 million fixed rate loan that matures on May 4, 2012, which was transferred from our then existing credit agreement, and a \$357.5 million revolving credit facility that matures on December 20, 2014. The revolving credit facility will be automatically increased by \$50 million upon the maturity and repayment of the fixed rate loan. The fixed rate loan bears interest at a rate of 6.8% per annum, payable monthly in arrears. The revolving loans accrue interest, at our option, at either the base rate plus 1.75% per annum or the Eurodollar rate (as defined) for the applicable term plus 2.75% per annum. 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 million swingline loan sublimit and a \$20 million letter of credit sublimit. It also contains an accordion loan feature that allows us to request an increase of up to \$142.5 million in the amount available for borrowing under the revolving credit facility, whether from existing or new lenders, subject to the 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 include the following:



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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 \$309,452,000 plus 50% of positive consolidated net income for each fiscal quarter beginning December 31, 2010, plus 50% of the net proceeds of any equity offering;

capital expenditures during any fiscal year cannot exceed \$20 million;

cash dividends and distributions during any fiscal year cannot exceed \$20 million;

stock repurchases during the term of the agreement cannot exceed \$100 million;

permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$100 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.

At March 31, 2011, all of our borrowings under our revolving credit facility consisted of 30-day Eurodollar rate loans and base rate loans with a weighted average annual interest rate equal to 3.10%.

We had \$290.0 million and \$300.0 million of borrowings outstanding on our credit facility as of March 31, 2011 and December 31, 2010, respectively, of which \$50 million represented borrowings under the non-revolving fixed rate loan at both dates.

We were in compliance with all covenants of our credit facility as of March 31, 2011 and December 31, 2010.

**Stockholders' Equity**

Stockholders' equity was \$515.7 at March 31, 2011 and \$490.5 million at December 31, 2010. The increase was primarily attributable to \$23.1 million in net income during the first quarter of 2011.

**Contractual Obligations**

Our contractual obligations as of March 31, 2011 were as follows (amounts in thousands):

| Contractual Obligations                            | Total      | Payments due by period |             |             |                   |
|--|------------|------------------------|-------------|-------------|-------------------|
|  |            | Less than 1 year       | 1 - 3 years | 4 - 5 years | More than 5 years |
| Operating Leases                                   | \$ 22,496  | \$ 4,288               | \$ 8,359    | \$ 6,468    | \$ 3,381          |
| Line of Credit <sup>(1)</sup>                      | 344,597    | 11,973                 | 28,471      | 304,153     |                   |
| Long-term Debt                                     | 2,511      | 1,283                  | 1,228       |             |                   |
| Purchase Commitments <sup>(2)</sup> <sup>(3)</sup> | 174,786    | 151,901                | 15,285      | 7,600       |                   |
| Employment Agreements                              | 9,951      | 8,282                  | 1,207       | 462         |                   |
| Total  | \$ 554,341 | \$ 177,727             | \$ 54,550   | \$ 318,683  | \$ 3,381          |



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- (1) To the extent that a balance is outstanding on our line of credit, the revolving portion (\$240 million) would be due in December 2014 and the non-revolving fixed rate sub-limit portion (\$50 million) would be due in May 2012. Upon maturity of the fixed rate portion, the revolving credit facility will be automatically increased by \$50 million. Therefore, for purposes of this table and the related interest calculations, the assumed maturity of the fixed rate sublimit is the same as the existing revolving portion or December 2014. This amount also includes estimated interest and unused line fees due on the line of credit for both the fixed rate and variable rate components. This estimate also assumes that the balance on the line of credit remains constant from the March 31, 2011 balance of \$290.0 million and the balance is paid in full at its respective maturity.
- (2) 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 \$148.9 million.
- (3) This amount includes the maximum remaining purchase price of \$22.8 million to 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 December 2010, the FASB issued ASU 2010-28, Intangibles-Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A) . ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors, including the examples provided in ASC paragraph 350-20-35-30, in determining whether an interim goodwill impairment test between annual test dates is necessary. ASU 2010-28 allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. We adopted ASU 2010-28 on January 1, 2011 which had no material effect on our consolidated financial statements.

There were no recently issued accounting pronouncements that required disclosure.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and our discussion and analysis of our financial condition and results of operations require our management to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Management believes our critical accounting policies and estimates are those related to revenue recognition, valuation of acquired intangibles and goodwill, and income taxes. Management believes these policies to be critical because they are both important to the portrayal of our financial condition and results, and because they require management to make judgments and estimates about matters that are inherently uncertain. Our senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of our Board of Directors.

#### *Revenue Recognition*

We acquire accounts that have experienced deterioration of credit quality between origination and our acquisition of the accounts. The amount paid for an account reflects our determination that it is probable we will be unable to collect all amounts due according to the account's contractual terms. At acquisition, we review each account 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 account's contractual terms. If both conditions exist, we 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 for each acquired portfolio and subsequently aggregated pools of accounts. 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) based on our proprietary acquisition models. The remaining amount, representing the excess of the account'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 account or pool (accretable yield).

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We account for our investment in finance receivables under the guidance of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). 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 includes 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 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. ASC 310-30, utilizing the interest method, initially freezes the yield, estimated when the accounts are purchased as the basis for subsequent impairment testing. Significant increases in expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over a portfolio'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. Income on finance receivables is accrued quarterly based on each static pool's effective yield. 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 finance receivable 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. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using our proprietary collection models. 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. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. 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 portfolios. Under the cost recovery method, no revenue is recognized until we have fully collected the cost of the portfolio, 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 for all acquired accounts subject to ASC 310-30 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). 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 accounting pool watching for trends, actual performance versus projections and curve shape, sometimes re-forecasting future cash flows utilizing our statistical models. The review process is primarily performed by our finance staff; however, our operational and statistical staffs may also be involved depending upon actual cash flow results achieved. To the extent there is overperformance, we will either increase the yield or release the allowance and consider increasing future cash projections, if persuasive evidence indicates that the overperformance is considered to be a significant betterment. If the overperformance is considered more of an acceleration of cash flows (a timing difference), the Company will adjust estimated future cash flows downward which effectively extends the amortization period, or take no action at all if the amortization period is reasonable and falls within the pool's expected economic life. In either case, yield may or may not be increased due to the time value of money (accelerated cash collections). 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.

We utilize the provisions of ASC Topic 605-45, Principal Agent Considerations ( ASC 605-45 ), to account for revenues from our fee for service subsidiaries. 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, who controls vendor selection, who establishes pricing and who



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remains the primary obligor on the transaction. Each of these factors was considered to determine the correct method of recognizing revenue from our subsidiaries.

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 Legal and agency fees and costs for these pass-through items. We also incur fees to release liens on the repossessed collateral. These lien-release fees are netted in the line Legal and agency fees and costs.

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 we conduct an audit, 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 receive the related settlement payment. Under SEC Staff Accounting Bulletin 104, ( SAB 104 ), we have determined 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, we record our fee on a net basis as revenue and include it 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.

*Valuation of Acquired Intangibles and Goodwill*

In accordance with ASC Topic 350, Intangibles Goodwill and Other ( ASC 350 ), we are required to perform a review of goodwill 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. 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.

We believe that, at March 31, 2011, there were no indicators of potential impairment of goodwill or other intangible assets. Therefore, no early review of goodwill for impairment was performed. However, changes in various circumstances including changes in our market capitalization, changes in our forecasts and changes in our internal business structure could cause one of our reporting units to be valued differently thereby causing an impairment of goodwill. Additionally, in response to changes in our industry and changes in global or regional economic conditions, we may strategically realign our resources and consider restructuring, disposing or otherwise exiting businesses, which could result in an impairment of some or all of our identifiable intangibles or goodwill. There were no such plans in place at March 31, 2011.

*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



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expected future tax consequences of temporary differences between the financial reporting and tax bases 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 guidance also 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. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. 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 50 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.

Effective with our 2002 tax filings, we adopted 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 and results in the reduction of current taxable income as, for tax purposes, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

We believe it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. 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. Similarly, 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. In addition, 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**

Our exposure to market risk relates primarily to interest rate risk on our variable rate line of credit. The average borrowings on our variable rate line of credit were \$249.6 million and \$259.7 million for the three months ended March 31, 2011 and 2010, respectively. Assuming a 200 basis point increase in interest rates, interest expense would have increased by \$1.2 million and \$1.3 million for the three months ended March 31, 2011 and 2010, respectively. At March 31, 2011 and December 31, 2010, we had \$240.0 million and \$250.0 million, respectively, of variable rate debt outstanding on our credit line. We do not have any other variable rate debt outstanding at March 31, 2011. Significant increases in future interest rates on the variable rate line of credit could lead to a material decrease in future earnings, assuming all other factors remained constant.

**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



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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, 2011, 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, 2011 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. While it is not expected that these or any other legal proceedings or claims in which we are involved will, either individually or in the aggregate, have a material adverse impact on our results of operations, liquidity or financial condition, it is possible that, due to unexpected future developments, an unfavorable resolution of a legal proceeding or claim could occur which may be material to our results of operations for a particular period. The matters described below fall outside of the normal parameters of our routine legal proceedings.

The Attorney General for the State of Missouri filed a purported enforcement action against the Company in 2009 that seeks relief for Missouri customers that have allegedly been injured as a result of certain of our collection practices. We have vehemently denied any wrongdoing herein and in 2010, the complaint was dismissed with prejudice. In April 2011, the Missouri Court of Appeals Eastern District affirmed the prior dismissal. The State of Missouri has since asked the appellate court for a rehearing on the matter, or alternatively to have the matter transferred to the Missouri Supreme Court. Based on the foregoing, it is not possible at this time to estimate the possible loss, if any.

We have recently been named as defendant in the following five putative class action cases, each of which alleges that we violated the Telephone Consumer Protection Act ( TCPA ) by calling consumers' cellular phones without their prior express consent: *Allen v. Portfolio Recovery Associates, Inc.*, Case No. 10-cv-2658, instituted in the United States District Court for the Southern District of California on December 23, 2010; *Meyer v. Portfolio Recovery Associates, LLC*, Case No. 37-2011-00083047, instituted in the Superior Court of California, San Diego County on January 3, 2011; *Frydman v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-524, instituted in the United States District Court for the Northern District of Illinois on January 31, 2011; *Bartlett v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-0624, instituted in the United States District Court for the Northern District of Georgia on March 1, 2011; and *Harvey v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-00582, instituted in the United States District Court for the Middle District of Florida on April 8, 2011. Each of the complaints seeks monetary damages under the TCPA, injunctive relief and other relief, including attorney fees. Two of these actions, *Allen* and *Frydman* purport to have been brought on behalf of a national class of plaintiffs. We have filed a Motion to Dismiss *Frydman*, which is currently pending, and the complaint in *Allen* has not yet been served on us. We intend to vigorously defend against the allegations in each of these cases. It is not possible at this time to estimate the possible loss, if any.

**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 2010 Annual Report on Form 10-K filed on February 25, 2011, 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**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

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**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.

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**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 5, 2011

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

Date: May 5, 2011

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)

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