

PORTFOLIO RECOVERY ASSOCIATES INC  
Form 10-Q  
May 08, 2014

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, 2014.

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

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Class	Outstanding as of May 1, 2014
Common Stock, \$0.01 par value	50,060,005



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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PORTFOLIO RECOVERY ASSOCIATES, INC.

## CONSOLIDATED BALANCE SHEETS

March 31, 2014 and December 31, 2013

(unaudited)

(Amounts in thousands, except per share amounts)

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 191,819	\$ 162,004
Finance receivables, net	1,253,961	1,239,191
Accounts receivable, net	11,551	12,359
Income taxes receivable	1,015	11,710
Net deferred tax asset	1,369	1,361
Property and equipment, net	35,130	31,541
Goodwill	104,086	103,843
Intangible assets, net	14,714	15,767
Other assets	28,968	23,456
Total assets	\$ 1,642,613	\$ 1,601,232
Liabilities and Equity		
Liabilities:		
Accounts payable	\$ 24,199	\$ 14,819
Accrued expenses and other liabilities	28,351	27,655
Accrued compensation	8,684	27,431
Net deferred tax liability	220,883	210,071
Borrowings	450,278	451,780
Total liabilities	732,395	731,756
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0	—	—
Common stock, par value \$0.01, 60,000 authorized shares, 50,060 issued and outstanding shares at March 31, 2014, and 49,840 issued and outstanding shares at December 31, 2013	501	498
Additional paid-in capital	134,892	135,441
Retained earnings	770,345	729,505
Accumulated other comprehensive income	4,480	4,032
Total stockholders' equity	910,218	869,476
Total liabilities and equity	\$ 1,642,613	\$ 1,601,232

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED INCOME STATEMENTS  
For the three months ended March 31, 2014 and 2013  
(unaudited)  
(Amounts in thousands, except per share amounts)

	Three Months Ended March	
	31, 2014	2013
Revenues:		
Income recognized on finance receivables, net	\$177,970	\$154,792
Fee income	15,952	14,767
Total revenues	193,922	169,559
Operating expenses:		
Compensation and employee services	51,385	44,997
Legal collection fees	10,833	10,529
Legal collection costs	26,533	20,501
Agent fees	1,450	1,609
Outside fees and services	10,791	7,447
Communications	9,154	8,079
Rent and occupancy	2,147	1,687
Depreciation and amortization	3,947	3,366
Other operating expenses	6,092	5,457
Total operating expenses	122,332	103,672
Income from operations	71,590	65,887
Other income and (expense):		
Interest income	1	—
Interest expense	(4,860	) (2,689
Income before income taxes	66,731	63,198
Provision for income taxes	25,891	24,681
Net income	\$40,840	\$38,517
Adjustment for loss attributable to redeemable noncontrolling interest	—	83
Net income attributable to Portfolio Recovery Associates, Inc.	\$40,840	\$38,600
Net income per common share attributable to Portfolio Recovery Associates, Inc.:		
Basic	\$0.82	\$0.76
Diluted	\$0.81	\$0.75
Weighted average number of shares outstanding:		
Basic	49,929	50,811
Diluted	50,363	51,273

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2014 and 2013

(unaudited)

(Amounts in thousands)

	Three Months Ended	
	March 31,	
	2014	2013
Net income	\$40,840	\$38,517
Other comprehensive income:		
Foreign currency translation adjustments	448	(4,418 )
Total other comprehensive income	448	(4,418 )
Comprehensive income	41,288	34,099
Comprehensive loss attributable to noncontrolling interest	—	83
Comprehensive income attributable to Portfolio Recovery Associates, Inc.	\$41,288	\$34,182

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

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

For the three months ended March 31, 2014

(unaudited)

(Amounts in thousands)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital		Comprehensive	Equity
Balance at December 31, 2013	49,840	\$498	\$135,441	\$729,505	\$4,032	\$869,476
Components of comprehensive income:						
Net income attributable to Portfolio Recovery Associates, Inc.	—	—	—	40,840	—	40,840
Foreign currency translation adjustment	—	—	—	—	448	448
Vesting of nonvested shares	220	3	(3	) —	—	—
Amortization of share-based compensation	—	—	2,836	—	—	2,836
Income tax benefit from share-based compensation	—	—	4,115	—	—	4,115
Employee stock relinquished for payment of taxes	—	—	(7,497	) —	—	(7,497
Balance at March 31, 2014	50,060	\$501	\$134,892	\$770,345	\$4,480	\$910,218

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2014 and 2013

(unaudited)

(Amounts in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$40,840	\$38,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	2,836	2,986
Depreciation and amortization	3,947	3,366
Amortization of debt discount	998	—
Deferred tax expense	10,812	529
Changes in operating assets and liabilities:		
Other assets	(5,496	) (2,070
Accounts receivable	821	1,149
Accounts payable	9,361	588
Income taxes	10,695	19,088
Accrued expenses	686	(2,503
Accrued compensation	(26,245	) (3,537
Net cash provided by operating activities	49,255	58,113
Cash flows from investing activities:		
Purchases of property and equipment	(6,416	) (2,466
Acquisition of finance receivables, net of buybacks	(150,087	) (212,389
Collections applied to principal on finance receivables	135,397	120,671
Net cash used in investing activities	(21,106	) (94,184
Cash flows from financing activities:		
Income tax benefit from share-based compensation	4,115	2,207
Proceeds from line of credit	—	95,000
Principal payments on line of credit	—	(50,000
Repurchases of common stock	—	(1,912
Cash paid for purchase of portion of noncontrolling interest	—	(1,150
Distributions paid to noncontrolling interest	—	(51
Principal payments on long-term debt	(2,500	) (1,384
Net cash provided by financing activities	1,615	42,710
Effect of exchange rate on cash	51	(215
Net increase in cash and cash equivalents	29,815	6,424
Cash and cash equivalents, beginning of period	162,004	32,687
Cash and cash equivalents, end of period	\$191,819	\$39,111
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$5,731	\$2,656
Cash paid for income taxes	1,868	2,866
Supplemental disclosure of non-cash information:		
Adjustment of the noncontrolling interest measurement amount	\$—	\$(60
Distributions payable relating to noncontrolling interest	—	2
Purchase of noncontrolling interest	—	9,162
Employee stock relinquished for payment of taxes	(7,497	) (4,002

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





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

## 1. Organization and Business:

Portfolio Recovery Associates, Inc., a Delaware corporation, and its subsidiaries (collectively, the “Company”) is a financial and business service company operating principally in the United States and the United Kingdom. The Company’s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. The Company also services receivables on behalf of clients and provides class action claims settlement recovery services and related payment processing to corporate clients.

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

The following table shows the amount of revenue generated for the three months ended March 31, 2014 and 2013 and long-lived assets held at March 31, 2014 and 2013 by geographical location (amounts in thousands):

	As Of And For The Three Months Ended March 31, 2014		As Of And For The Three Months Ended March 31, 2013	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$191,188	\$32,669	\$166,929	\$23,770
United Kingdom	2,734	2,461	2,630	1,700
Total	\$193,922	\$35,130	\$169,559	\$25,470

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

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s consolidated balance sheet as of March 31, 2014, its consolidated income statements and statements of comprehensive income for the three months ended March 31, 2014 and 2013, its consolidated statement of changes in stockholders’ equity for the three months ended March 31, 2014, and its consolidated statements of cash flows for the three months ended March 31, 2014 and 2013. The consolidated income statements of the Company for the three months ended March 31, 2014 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2013 Annual Report on Form 10-K, filed on February 28, 2014.

## 2. Finance Receivables, net:

Changes in finance receivables, net for the three months ended March 31, 2014 and 2013 were as follows (amounts in thousands):

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	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	
Balance at beginning of period	\$1,239,191	\$1,078,951	
Acquisitions of finance receivables, net of buybacks	150,087	212,389	
Foreign currency translation adjustment	80	(922	)
Cash collections	(313,367	) (275,463	)
Income recognized on finance receivables, net	177,970	154,792	
Cash collections applied to principal	(135,397	) (120,671	)
Balance at end of period	\$1,253,961	\$1,169,747	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

At the time of acquisition, the life of each pool is generally estimated to be between 60 and 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, 2014 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

March 31, 2015	\$440,446
March 31, 2016	338,324
March 31, 2017	251,391
March 31, 2018	166,246
March 31, 2019	53,679
March 31, 2020	3,875
	\$1,253,961

During the three months ended March 31, 2014 and 2013, the Company purchased approximately \$1.91 billion and \$1.85 billion, respectively, in face value of charged-off consumer receivables. At March 31, 2014, the estimated remaining collections ("ERC") on the receivables purchased in the three months ended March 31, 2014 and 2013, were \$235.0 million and \$266.4 million, respectively. At March 31, 2014, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of \$28.3 million; at December 31, 2013, the amount was \$26.1 million.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows. Changes in accretable yield for the three months ended March 31, 2014 and 2013 were as follows (amounts in thousands):

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	\$1,430,067	\$1,239,674
Income recognized on finance receivables, net	(177,970	) (154,792
Additions	106,197	182,505
Net reclassifications from nonaccretable difference	91,636	53,764
Foreign currency translation adjustment	1,071	(4,007
Balance at end of period	\$1,451,001	\$1,317,144

A valuation allowance is recorded for significant decreases in expected cash flows or a change in the expected timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming previous expectations. Factors that may contribute to the recording of valuation allowances include both internal as well as external factors. External factors that may have an impact on the collectability, and subsequently on the overall profitability of purchased pools of defaulted consumer receivables would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors that may have an impact on the collectability, and subsequently the overall profitability of purchased pools of

defaulted consumer receivables, would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relate to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company's collection staff. The following is a summary of activity within the Company's valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three months ended March 31, 2014 and 2013 (amounts in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Core Portfolio	Purchased Bankruptcy Portfolio <sup>(1)</sup> <sup>(2)</sup>	Total	Core Portfolio	Purchased Bankruptcy Portfolio <sup>(1)</sup> <sup>(2)</sup>	Total
Valuation allowance - finance receivables:						
Beginning balance	\$65,626	\$ 25,475	\$91,101	\$74,500	\$ 18,623	\$93,123
Allowance charges	1,387	—	1,387	300	4,660	4,960
Reversal of previous recorded allowance charges	(3,090 )	(250 )	(3,340 )	(2,700 )	(87 )	(2,787 )
Net allowance (reversals)/charges	(1,703 )	(250 )	(1,953 )	(2,400 )	4,573	2,173
Ending balance	\$63,923	\$ 25,225	\$89,148	\$72,100	\$ 23,196	\$95,296
Finance Receivables, net:	\$722,989	\$ 530,972	\$1,253,961	\$598,870	\$ 570,877	\$1,169,747

“Core” accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a (1)bankrupt status upon purchase. For this table, the Core Portfolio also includes accounts purchased in the United Kingdom. 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. Borrowings:

The Company's borrowings consisted of the following as of the dates indicated (in thousands):

	March 31, 2014	December 31, 2013
Line of credit, term loan	\$192,500	\$195,000
Convertible notes	287,500	287,500
Less: Debt discount	(29,722 )	(30,720 )
Total	\$450,278	\$451,780

## Revolving Credit and Term Loan Facility

On December 19, 2012, the Company entered into a credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the “Credit Agreement”). The Credit Agreement was amended and modified during 2013 and the first quarter of 2014. Under the terms of the Credit Agreement as amended and modified, the credit facility includes an aggregate principal amount available of \$628.0 million (subject to the borrowing base and applicable debt covenants), which consists of a \$192.5 million floating rate term loan that amortizes and matures on December 19, 2017 and a \$435.5 million revolving credit facility that matures on December 19, 2017. The term and revolving loans accrue interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (b) Bank of America’s prime rate, and (c) the Eurodollar rate plus 1.00%. The Company’s revolving credit facility includes a \$20 million swingline loan sublimit, a \$20 million letter of credit sublimit and a \$20 million alternative currency equivalent sublimit. The credit facility contains an accordion loan feature that allows the Company to request an increase of up to \$214.5 million in the amount available for borrowing under the facility, whether from existing or new lenders, subject to terms of the Credit Agreement.

On April 1, 2014, the Company entered into a Lender Joinder Agreement and Lender Commitment Agreement (collectively, the “Commitment Increase Agreements”) to exercise this accordion feature. The Commitment Increase Agreements expanded the maximum amount of revolving credit availability under the Credit Agreement by \$214.5 million, elevated the revolving credit commitments of certain lenders and added three new lenders to the Credit Agreement. Giving effect to the \$214.5 million increase in the amount of revolving credit availability pursuant to the Commitment Increase Agreements, the total credit facility under the Credit Agreement now includes an aggregate principal amount of \$842.5 million (subject to compliance with a borrowing base), which consists of (i) a fully-funded \$192.5 million term loan, (ii) a \$630 million domestic revolving credit facility, of which \$630 million is available to be drawn, and (iii) a \$20 million multi-currency revolving credit facility, of which \$20 million is available

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

to be drawn, all of which mature on December 19, 2017. The Credit Agreement is secured by a first priority lien on substantially all of the Company's assets. The Credit Agreement, as amended and modified, contains restrictive covenants and events of default including the following:

• borrowings may not exceed 33% of the ERC of all its eligible asset pools plus 75% of its eligible accounts receivable; the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.0 to 1.0 as of the end of any fiscal quarter;

• consolidated tangible net worth (as defined in the Credit Agreement) must equal or exceed \$455,091,200 plus 50% of positive cumulative consolidated net income for each fiscal quarter beginning with the quarter ended December 31, 2012, plus 50% of the cumulative net proceeds of any equity offering;

• capital expenditures during any fiscal year cannot exceed \$40 million;

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

• stock repurchases during the term of the agreement cannot exceed \$250 million and cannot exceed \$100 million in a single fiscal year;

• investments in loans and/or capital contributions cannot exceed \$950 million to consummate the acquisition of the equity of Aktiv Kapital AS ("Aktiv");

• permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$250 million except for the fiscal year ending December 31, 2014, during which fiscal year permitted acquisitions cannot exceed \$25 million;

• indebtedness in the form of senior, unsecured convertible notes or other unsecured financings cannot exceed \$300 million in the aggregate (without respect to the Company's 3.00% Convertible Senior Notes due 2020);

• 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 line fee of 0.375% per annum, payable quarterly in arrears.

The Company's borrowings on its credit facility at March 31, 2014 consisted of \$192.5 million outstanding on the term loan with an annual interest rate as of March 31, 2014 of 2.65%. At December 31, 2013, the Company's borrowings on its credit facility consisted of \$195.0 million outstanding on the term loan with an annual interest rate as of December 31, 2013 of 2.67%.

Convertible Senior Notes

On August 13, 2013, the Company completed the private offering of \$287.5 million in aggregate principal amount of the Company's 3.00% Convertible Senior Notes due 2020 (the "Notes"). The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between the Company and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are senior unsecured obligations of the Company. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year, beginning on February 1, 2014. Prior to February 1, 2020, the Notes will be convertible only upon the occurrence of specified events. On or after February 1, 2020, the Notes will be convertible at any time. Upon conversion, the Notes may be settled, at the Company's option, in cash, shares of the Company's common stock, or any combination thereof. Holders of the Notes have the right to require the Company to repurchase all or some of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the Indenture). In addition, upon the occurrence of a make-whole fundamental change (as defined in the Indenture), the Company may, under certain circumstances, be required to increase the conversion rate for the Notes converted in connection with such a make-whole fundamental change. The conversion rate for the Notes is initially 15.2172 shares per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$65.72 per share of the Company's common stock, and is subject to adjustment in certain circumstances pursuant to the Indenture. The



Company does not have the right to redeem the Notes prior to maturity. As of March 31, 2014, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

As noted above, upon conversion, holders of the Notes will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. However, the Company's current intent is to settle conversions through combination settlement (i.e., the Notes will be converted into cash up to the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, for the remainder). As a result and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds \$65.72.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

The net proceeds from the sale of the Notes were approximately \$279.3 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by the Company. The Company used \$174.0 million of the net proceeds from this offering to repay the outstanding balance on its revolving credit facility and used \$50.0 million to repurchase shares of its common stock.

The Company determined that the fair value of the Notes at the date of issuance was approximately \$255.3 million, and designated the residual value of approximately \$32.2 million as the equity component. Additionally, the Company allocated approximately \$7.3 million of the \$8.2 million original Notes issuance cost as debt issuance cost and the remaining \$0.9 million as equity issuance cost.

ASC 470-20, Debt with Conversion and Other Options ("ASC 470-20"), requires that, for convertible debt instruments that may be settled fully or partially in cash upon conversion, issuers must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively.

The balances of the liability and equity components of all of the Notes outstanding were as follows as of the dates indicated (in thousands):

	March 31, 2014	December 31, 2013
Liability component - principal amount	\$287,500	\$287,500
Unamortized debt discount	(29,722	) (30,720
Liability component - net carrying amount	257,778	256,780
Equity component	\$31,306	\$31,306

The debt discount is being amortized into interest expense over the remaining life of the Notes using the effective interest rate, which is 4.92%.

Interest expense related to the Notes was as follows for the periods indicated (in thousands):

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest expense - stated coupon rate	\$2,156	\$—
Interest expense - amortization of debt discount	998	—
Total interest expense - convertible notes	\$3,154	\$—

The Company was in compliance with all covenants under its financing arrangements as of March 31, 2014 and December 31, 2013.

The following principal payments are due on the Company's borrowings as of March 31, 2014 for the twelve month periods ending (amounts in thousands):

March 31, 2015	\$11,250
March 31, 2016	16,250
March 31, 2017	25,000
March 31, 2018	140,000
March 31, 2019	—
Thereafter	287,500
Total	\$480,000



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## 4. Property and Equipment, net:

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

	March 31, 2014	December 31, 2013
Software	\$35,673	\$34,108
Computer equipment	19,039	17,072
Furniture and fixtures	9,007	8,616
Equipment	11,545	10,351
Leasehold improvements	11,974	11,147
Building and improvements	7,054	7,026
Land	1,269	1,269
Accumulated depreciation and amortization	(60,431	) (58,048
Property and equipment, net	\$35,130	\$31,541

Depreciation and amortization expense relating to property and equipment for the three months ended March 31, 2014 and 2013, was \$2.8 million and \$2.2 million, respectively.

The Company, in accordance with the guidance of FASB ASC Topic 350-40 "Internal-Use Software" ("ASC 350-40"), capitalizes qualifying computer software costs incurred during the application development stage and amortizes them over their estimated useful life of three to seven years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company's policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software. Capitalizable personnel costs are limited to the time directly spent on such projects. As of March 31, 2014 and December 31, 2013, the Company incurred and capitalized approximately \$10.8 million and \$10.3 million, respectively, of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, at March 31, 2014 and December 31, 2013, approximately \$1.5 million and \$1.7 million, respectively, was for projects that were in the development stage and, therefore are a component of "Other Assets." Once the projects are completed, the costs are transferred to Software and amortized over their estimated useful life. Amortization expense for the three months ended March 31, 2014 and 2013, was approximately \$0.4 million and \$0.3 million, respectively. The remaining unamortized costs relating to internally developed software at March 31, 2014 and December 31, 2013 were approximately \$4.7 million and \$4.4 million, respectively.

## 5. Goodwill and Intangible Assets, net:

In connection with the Company's previous business acquisitions, the Company acquired certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. Pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2013, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2013, 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, 2014 that would indicate a triggering event and thereby necessitate further evaluation of goodwill or other intangible assets. The Company expects to perform its next annual goodwill review during the fourth quarter of 2014.

At March 31, 2014 and December 31, 2013, the carrying value of goodwill was \$104.1 million and \$103.8 million, respectively. The following table represents the changes in goodwill for the three months ended March 31, 2014 and

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2013 (amounts in thousands):

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	\$103,843	\$109,488
Foreign currency translation adjustment	243	(2,576 )
Balance at end of period	\$104,086	\$106,912

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Intangible assets, excluding goodwill, consist of the following at March 31, 2014 and December 31, 2013 (amounts in thousands):

	March 31, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Client and customer relationships	\$40,949	\$27,550	\$40,870	\$26,581
Non-compete agreements	3,896	3,764	3,880	3,723
Trademarks	3,501	2,318	3,491	2,170
Total	\$48,346	\$33,632	\$48,241	\$32,474

Total intangible asset amortization expense for the three months ended March 31, 2014 and 2013 was \$1.1 million and \$1.2 million, respectively. The Company reviews these intangible assets for possible impairment upon the occurrence of a triggering event.

#### 6. Share-Based Compensation:

The Company has an Omnibus Incentive Plan to assist the Company in attracting and retaining selected individuals to serve as employees and directors, who are expected to contribute to the Company's success and to achieve long-term objectives that will benefit stockholders of the Company. The 2013 Omnibus Incentive Plan (the "Plan") was approved by the Company's stockholders at the 2013 Annual Meeting. The Plan enables the Company to award shares of the Company's common stock to select employees and directors, as described in the Plan, not to exceed 5,400,000 shares as authorized by the Plan. The Plan replaced the 2010 Stock Plan.

As of March 31, 2014, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive ("LTI") Program) is estimated to be \$6.2 million with a weighted average remaining life for all nonvested shares of 1.9 years (not including nonvested shares granted under the LTI program). As of March 31, 2014, there are no future compensation costs related to stock options and there are no remaining vested stock options to be exercised.

Total share-based compensation expense was \$2.8 million and \$3.0 million for the three months ended March 31, 2014 and 2013, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense (windfall tax benefits) recognized under the provisions of ASC Topic 718 "Compensation-Stock Compensation" ("ASC 718") are credited to additional paid-in capital in the Company's Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was approximately \$7.5 million and \$4.0 million for the three months ended March 31, 2014 and 2013, respectively.

All share amounts presented in this Note 6 have been adjusted to reflect the three-for-one stock split by means of a stock dividend declared by the Company's board of directors on June 10, 2013.

#### Nonvested Shares

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

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The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2012 through March 31, 2014 (share amounts in thousands):

	Nonvested Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2012	288	\$20.84
Granted	110	37.31
Vested	(143	) 19.75
Cancelled	(29	) 20.57
December 31, 2013	226	29.58
Granted	66	48.22
Vested	(93	) 25.85
Cancelled	(2	) 21.90
March 31, 2014	197	\$37.66

The total grant date fair value of shares vested during the three months ended March 31, 2014 and 2013, was \$2.4 million and \$2.1 million, respectively.

Pursuant to the Plan, the Compensation Committee may grant time-vested and performance based nonvested shares. All shares granted under the LTI program were granted to key employees of the Company. The following summarizes all LTI program share transactions from December 31, 2012 through March 31, 2014 (share amounts in thousands):

	Nonvested LTI Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2012	497	\$21.71
Granted at target level	124	34.59
Adjustments for actual performance	108	17.91
Vested	(279	) 19.10
Cancelled	(16	) 25.01
December 31, 2013	434	25.79
Granted at target level	97	48.09
Adjustments for actual performance	95	25.17
Vested	(225	) 25.17
March 31, 2014	401	\$31.39

The total grant date fair value of shares vested during the three months ended March 31, 2014 and 2013, was \$5.7 million and \$2.6 million, respectively.

At March 31, 2014, total future compensation costs, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately \$9.6 million. The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.4 years at March 31, 2014.

## 7. Income Taxes:

The Company follows the guidance of FASB ASC Topic 740 "Income Taxes" ("ASC 740") as it relates to the provision for income taxes and uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no unrecognized tax benefits at March 31, 2014 and 2013.

The Internal Revenue Service (IRS) examined the Company's tax returns for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years

ended December 31, 2007, 2006 and 2005. The IRS has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income, and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. The Company believes it has sufficient support for the technical merits of its positions and that it is more likely than not these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not required. The Company believes cost recovery to be an acceptable tax revenue recognition method for companies in the bad debt purchasing industry. For



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tax purposes, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any taxable income is recognized. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. On August 26, 2011, the IRS issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006, and 2005. The Company subsequently filed a petition in the United States Tax Court to which the IRS responded on January 12, 2012. If the Company is unsuccessful in the United States Tax Court, it can appeal to the federal Circuit Court of Appeals. Payment of the assessed taxes and interest could have an adverse effect on the Company's financial condition, be material to the Company's results of operations, and possibly require additional financing from other sources. In accordance with the Internal Revenue Code, underpayments of federal tax accrue interest, compounded daily, at the applicable federal short term rate plus three percentage points. An additional two percentage points applies to large corporate underpayments of \$100,000 or more to periods after the applicable date as defined in the Internal Revenue Code. The Company files taxes in multiple state jurisdictions; therefore, any underpayment of state tax will accrue interest in accordance with the respective state statute. On June 30, 2011, the Company was notified by the IRS that the audit period will be expanded to include the tax years ended December 31, 2009 and 2008.

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

ASC 740 requires the recognition of interest if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. No interest or penalties were accrued or reversed in the three months ended March 31, 2014 or 2013.

**8. Earnings per Share:**

Basic earnings per share ("EPS") are computed by dividing net income available to common stockholders of Portfolio Recovery Associates, Inc. by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of the Notes and nonvested share awards, if dilutive. For the Notes, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds \$65.72, which did not occur during the period from which the Notes were issued on August 13, 2013 through March 31, 2014. The Notes were not outstanding during the three months ending March 31, 2013. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The dilutive effect of nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the vesting of nonvested shares would be used to purchase common shares at the average market price for the period. The assumed proceeds include the windfall tax benefit that would be received upon assumed exercise. The following tables provide reconciliation between the computation of basic EPS and diluted EPS for the three months ended March 31, 2014 and 2013 (amounts in thousands, except per share amounts):

For the Three Months Ended March 31,					
2014			2013		
Net Income attributable to Portfolio	Weighted Average	EPS	Net Income attributable to Portfolio	Weighted Average	EPS

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	Recovery Associates, Inc.	Common Shares		Recovery Associates, Inc.	Common Shares	
Basic EPS	\$40,840	49,929	\$0.82	\$38,600	50,811	\$0.76
Dilutive effect of nonvested share awards		434			462	
Diluted EPS	\$40,840	50,363	\$0.81	\$38,600	51,273	\$0.75

All prior year share amounts presented in this Note 8 have been adjusted to reflect the three-for-one stock split by means of a stock dividend declared by the Company's board of directors on June 10, 2013.

There were no antidilutive options outstanding for the three months ended March 31, 2014 and 2013.

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9. Commitments and Contingencies:

Business Acquisitions:

Aktiv Kapital, A.S.

On February 19, 2014, the Company entered into an agreement to acquire the equity of Aktiv for approximately \$880 million and assume approximately \$435 million of Aktiv's debt, resulting in an acquisition of estimated total enterprise value of \$1.3 billion. The transaction is expected to close in the second or third quarter of 2014, upon successful completion of customary closing conditions, including approval of the transaction by applicable competition authorities and our ability to obtain the necessary financing to consummate the transaction.

The Company expects to finance this transaction with a combination of cash, \$170 million of seller financing (which will bear interest at a variable rate equal to LIBOR plus 3.75% per annum and will mature 12 months after the date of issuance), and up to \$650 million from its domestic revolving credit facility (subject to borrowing base restrictions). The Company may choose to use other debt instruments to expand, replace or pay down any of these financing options. The Company anticipates total transaction costs of approximately \$15 million of which \$4.4 million was incurred during the first quarter of 2014.

Pamplona Capital Management, LLP

On January 31, 2014, the Company entered into an agreement to acquire certain operating assets from Pamplona Capital Management, LLP ("PCM"). These assets include PCM's IVA Master Servicing Platform as well as other operating assets associated with PCM's IVA business. The purchase price of these assets is approximately \$5 million and will be paid from the Company's existing cash balances. The transaction is expected to close on July 1, 2014.

Employment Agreements:

The Company has employment agreements, most of which expire on December 31, 2014, with all of its executive officers and with several members of its senior management group. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. At March 31, 2014, the estimated future compensation under these agreements is approximately \$7.5 million. The agreements also contain confidentiality and non-compete provisions.

Leases:

The Company is party to various operating leases with respect to its facilities and equipment. The future minimum lease payments at March 31, 2014 total approximately \$29.7 million.

Forward Flow Agreements:

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at March 31, 2014 is approximately \$198.9 million.

Contingent Purchase Price:

The asset purchase agreement entered into in connection with the acquisition of certain finance receivables and certain operating assets of National Capital Management, LLC ("NCM") in 2012, includes an earn-out provision whereby the sellers are able to earn additional cash consideration for achieving certain cash collection thresholds over a five year period. The maximum amount of earn-out during the period is \$15.0 million. The Company paid the year one earn-out during December 2013 in the amount of \$6.2 million. As of March 31, 2014, the Company has recorded a present value amount for the expected remaining liability of \$4.0 million.

Finance Receivables:

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

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**Litigation:**

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

The Company accrues for potential liability arising from legal proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. This determination is based upon currently available information for those proceedings in which the Company is involved, taking into account the Company's best estimate of such losses for those cases for which such estimates can be made. The Company's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the number of unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the related uncertainty of the potential outcomes of these proceedings. In making determinations of the likely outcome of pending litigation, the Company considers many factors, including, but not limited to, the nature of the claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative mechanisms, the matter's current status and the damages sought or demands made. Accordingly, the Company's estimate will change from time to time, and actual losses could be more than the current estimate.

Subject to the inherent uncertainties involved in such proceedings, the Company believes, based upon its current knowledge and after consultation with counsel, that the legal proceedings currently pending against it, including those that fall outside of the Company's routine legal proceedings, should not, either individually or in the aggregate, have a material adverse impact on the Company's financial condition. However, it is possible in light of the uncertainties involved in such proceedings or due to unexpected future developments, that an unfavorable resolution of a legal proceeding or claim could occur which may be material to the Company's financial condition, results of operations, or cash flows for a particular period.

Excluding the matters described below and other putative class action suits which the Company believes are not material, the high end of the range of potential litigation losses in excess of the amount accrued is estimated by management to be less than \$1,000,000 as of March 31, 2014. Notwithstanding our attempt to estimate a range of possible losses in excess of the amount accrued based on current information, actual future losses may exceed both the Company's accrual and the range of potential litigation losses disclosed above.

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

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

#### Telephone Consumer Protection Act Litigation

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

#### Internal Revenue Service Audit

The IRS examined the Company's tax returns for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years ended December 31, 2007, 2006 and 2005. The IRS

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has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income, and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. The Company believes it has sufficient support for the technical merits of its positions and that it is more likely than not these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not required. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. On August 26, 2011, the IRS issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006, and 2005. The Company subsequently filed a petition in the United States Tax Court to which the IRS responded on January 12, 2012. If the Company is unsuccessful in the United States Tax Court, it can appeal to the federal Circuit Court of Appeals. Refer to Note 7 "Income Taxes" for additional information.

## 10. Fair Value Measurements and Disclosures:

In accordance with the disclosure requirements of FASB ASC Topic 825, "Financial Instruments" ("ASC 825"), the table below summarizes fair value estimates for the Company's financial instruments. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company. The carrying amounts in the table are recorded in the consolidated balance sheet at March 31, 2014 and December 31, 2013, under the indicated captions (amounts in thousands):

	March 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 191,819	\$ 191,819	\$ 162,004	\$ 162,004
Finance receivables, net	1,253,961	1,702,786	1,239,191	1,722,100
Financial liabilities:				
Long-term debt	192,500	192,500	195,000	195,000
Convertible debt	257,778	339,170	256,780	316,857

As of March 31, 2014, and December 31, 2013, the Company did not account for any financial assets or financial liabilities at fair value. As defined by FASB ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also requires the consideration of differing levels of inputs in the determination of fair values. Those levels of input are summarized as follows:

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

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

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

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

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

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

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



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

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

Convertible debt: The Notes are carried at historical cost, adjusted for debt discount. The fair value estimate for these Notes incorporates quoted market prices which were obtained from secondary market broker quotes which were derived from a variety of inputs including client orders, information from their pricing vendors, modeling software, and actual trading prices when they occur. Accordingly, the Company uses level 2 inputs for its fair value estimates.

11. Recent Accounting Pronouncements:

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted and prior periods should not be adjusted. The Company adopted ASU 2013-05 in the first quarter of 2014 which had no material impact on its consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
 Cautionary Statements Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements, including statements regarding overall trends, gross margin trends, operating cost trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The risks, uncertainties and assumptions referred to above may include the following:

- a prolonged economic recovery or a deterioration in the economic or inflationary environment in the United States or the European Union, particularly the United Kingdom, including the interest rate environment, may have an adverse effect on our collections, results of operations, revenue and stock price or on the stability of the financial system as a whole;

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

- our ability to successfully close the Aktiv acquisition and subsequently integrate the Aktiv business;

- our ability to manage risks associated with our international operations, which risks will increase as a result of the Aktiv Acquisition;

- our ability to recognize the anticipated synergies and benefits of the Aktiv acquisition;

- our ability to purchase defaulted consumer receivables at appropriate prices;

- our ability to replace our defaulted consumer receivables with additional receivables portfolios;

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

- our ability to successfully acquire receivables of new asset types;

- our ability to collect sufficient amounts on our defaulted consumer receivables;

- changes in tax laws regarding earnings of our subsidiaries located outside of the United States;

- changes in bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;

- changes in state or federal laws or the administrative practices of various bankruptcy courts, which may impact our ability to collect on our defaulted receivables;

- our ability to collect and enforce our finance receivables may be limited under federal and state laws;

- our ability to employ and retain qualified employees, especially collection personnel, and our senior management team;

- our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;

- the degree, nature, and resources of our competition;

- the possibility that we could incur goodwill or other intangible asset impairment charges;

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

- our ability to comply with existing and new regulations of the collection industry, the failure of which could result in penalties, fines, litigation, damage to our reputation or the suspension or termination of our ability to conduct our business;

- changes in governmental laws and regulations which could increase our costs and liabilities or impact our operations;

- the possibility that new business acquisitions prove unsuccessful or strain or divert our resources;

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

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

- our ability to manage risks associated with our international operations;

- the possibility that compliance with foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions;

the imposition of additional taxes on us;  
changes in interest or exchange rates, which could reduce our net income, and the possibility that future hedging strategies may not be successful, which could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations;  
the possibility that we could incur significant allowance charges on our finance receivables;  
our loss contingency accruals may not be adequate to cover actual losses;  
our ability to manage growth successfully;  
the possibility that we could incur business or technology disruptions or cyber incidents, or not adapt to technological advances;  
the possibility that we or our industry could experience negative publicity or reputational attacks; and  
the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC").

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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 2013 Annual Report on Form 10-K, filed on February 28, 2014.

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

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

### Definitions

We use the following terminology throughout this document:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Overview

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

payment processing to corporate clients.

The Company is headquartered in Norfolk, Virginia, and employs approximately 3,621 team members. The Company's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "PRAA."

On February 19, 2014, we entered into an agreement to acquire the equity of Aktiv Kapital AS ("Aktiv"), a Norway-based company specializing in the acquisition and servicing of non-performing consumer loans throughout Europe and in Canada, for approximately \$880 million, we also agreed to assume approximately \$435 million of Aktiv's corporate debt, resulting in an acquisition of estimated total enterprise value of \$1.3 billion. This acquisition will provide us entry into thirteen new markets,

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providing us additional geographical diversity in portfolio purchasing and collection, and with entry into new growth markets. We expect Aktiv's Chief Executive Officer and his executive team and the more than 400 Aktiv employees to join our workforce upon the closing of the transaction. The transaction is expected to close in the second or third quarter of 2014, upon successful completion of customary closing conditions, including approval of the transaction by applicable financial supervisory or competition authorities and our ability to obtain the necessary financing to consummate the transaction.

We expect to finance this transaction with a combination of cash, \$170 million of seller financing (which will bear interest at a variable rate equal to LIBOR plus 3.75% per annum and will mature 12 months after the date of issuance) and \$650 million from our domestic revolving credit facility. We may choose to use other debt instruments to expand, replace or pay down any of these financing options. We anticipate total transaction costs of approximately \$15 million, which we expect to incur between both the first and second quarters of 2014. During the first quarter of 2014, we incurred approximately \$4.4 million of the total estimated transaction costs of \$15 million. Our total borrowings are projected to be approximately \$1.8 billion after closing the Aktiv acquisition, compared to PRA's total borrowings of \$450 million at March 31, 2014.

A publicly traded company from 1997 until early 2012, Aktiv has developed a mixed in-house and outsourced collection strategy. It maintains in-house servicing platforms in eight markets, and owns portfolios in fifteen markets. Aktiv has more than 20 years of experience and data in a wide variety of consumer asset classes, across an extensive geographic background. Aktiv has acquired more than 2,000 portfolios, with a face value of more than \$38 billion. In 2013, Aktiv collected \$318 million on its portfolios and purchased \$248 million in new portfolios, up from \$222 million in 2012. Aktiv's total assets were approximately \$900 million at December 31, 2013.

Earnings Summary

During the first quarter of 2014, net income attributable to the Company was \$40.8 million, or \$0.81 per diluted share, compared with \$38.6 million, or \$0.75 per diluted share, in the first quarter of 2013. Total revenue was \$193.9 million in the first quarter of 2014, up 14.3% from the first quarter of 2013. Revenues in the first quarter of 2014 consisted of \$178.0 million in income recognized on finance receivables, net of allowance charges, and \$16.0 million in fee income. Income recognized on finance receivables, net of allowance charges, in the first quarter of 2014 increased \$23.2 million, or 15.0%, over the first quarter of 2013, primarily as a result of a significant increase in cash collections. Cash collections, which drives our finance receivable income, were \$313.4 million in the first quarter of 2014, up 13.8%, or \$37.9 million, as compared to the first quarter of 2013. During the first quarter of 2014, we incurred \$2.0 million in net allowance charge reversals, compared with \$2.2 million of net allowance charges in the first quarter of 2013. Our performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of account scoring analytics as it relates to both legal and non-legal collection channels. Additionally, we have continued to develop our internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action and to collect these accounts more efficiently and profitably.

Fee income increased to \$16.0 million in the first quarter of 2014 from \$14.8 million in the first quarter of 2013, primarily due to higher fee income generated by Claims Compensation Bureau, LLC ("CCB") and PRA Government Services, LLC ("PGS"). This was partially offset by lower fee income generated in the first quarter of 2014 by Mackenzie Hall Holdings, Limited, ("PRA UK") and PRA Location Services ("PLS") when compared to the first quarter of 2013.

A summary of how our income was generated during the three months ended March 31, 2014 and 2013 is as follows:

(\$ in thousands)	For the Three Months Ended March 31,	
	2014	2013
Cash collections	\$313,367	\$275,463
Amortization of finance receivables	(137,350	) (118,498

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Net allowance reversals/(charges)	1,953	(2,173	)
Finance receivable income	177,970	154,792	
Fee income	15,952	14,767	
Total revenue	\$ 193,922	\$ 169,559	

Operating expenses were \$122.3 million in the first quarter of 2014, up 17.9% over the first quarter of 2013, due primarily to increases in compensation expense, legal collection costs and outside fees and services. Compensation expense increased primarily as a result of larger staff sizes, increases in incentive compensation paid as a result of collector performance and normal pay increases. Compensation and employee services expenses increased as total employees grew 11.4% to 3,621 as of March 31,

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2014, from 3,250 as of March 31, 2013. Legal collection costs increased from \$20.5 million in the first quarter of 2013 to \$26.5 million in the first quarter of 2014, an increase of \$6.0 million, or 29.4%. This increase was the result of our continued expansion of the accounts brought into the legal collection process. Outside fees and services expenses increased \$3.4 million, or 46.0%, mainly attributable to the transaction costs incurred in the first quarter of 2014 related to the pending Aktiv acquisition.

During the three months ended March 31, 2014, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$1.91 billion at a cost of \$152.7 million. During the three months ended March 31, 2013, we acquired defaulted consumer receivable portfolios with an aggregate face value of \$1.85 billion at a cost of \$214.9 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.

## Results of Operations

The results of operations include the financial results of the Company and all of our subsidiaries.

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

	For the Three Months Ended March 31,		
	2014	2013	
Revenues:			
Income recognized on finance receivables, net	91.8	% 91.3	%
Fee income	8.2	% 8.7	%
Total revenues	100.0	% 100.0	%
Operating expenses:			
Compensation and employee services	26.5	% 26.5	%
Legal collection fees	5.6	% 6.2	%
Legal collection costs	13.7	% 12.1	%
Agent fees	0.7	% 0.9	%
Outside fees and services	5.6	% 4.4	%
Communication expenses	4.7	% 4.8	%
Rent and occupancy	1.1	% 1.0	%
Depreciation and amortization	2.0	% 2.0	%
Other operating expenses	3.1	% 3.2	%
Total operating expenses	63.0	% 61.1	%
Income from operations	37.0	% 38.9	%
Other expense:			
Interest expense	2.5	% 1.6	%
Income before income taxes	34.5	% 37.3	%
Provision for income taxes	13.4	% 14.6	%
Net income	21.1	% 22.7	%
Adjustment for loss attributable to redeemable noncontrolling interest	—	% —	%
Net income attributable to Portfolio Recovery Associates, Inc.	21.1	% 22.6	%





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Three Months Ended March 31, 2014 Compared To Three Months Ended March 31, 2013

Revenues

Total revenues were \$193.9 million for the three months ended March 31, 2014, an increase of \$24.3 million, or 14.3%, compared to total revenues of \$169.6 million for the three months ended March 31, 2013.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$178.0 million for the three months ended March 31, 2014, an increase of \$23.2 million, or 15.0%, compared to income recognized on finance receivables, net of \$154.8 million for the three months ended March 31, 2013. The increase was primarily due to an increase in cash collections on our finance receivables to \$313.4 million for the three months ended March 31, 2014, from \$275.5 million for the three months ended March 31, 2013, an increase of \$37.9 million, or 13.8%. Our finance receivables amortization rate, including net allowance charges, was 43.2% for the three months ended March 31, 2014 compared to 43.8% for the three months ended March 31, 2013.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio's original forecast, future projections of cash flows are generally increased resulting in higher expected revenue and hence increases in accretable yield. During the three months ended March 31, 2014 and 2013, the Company reclassified amounts from nonaccretable difference to accretable yield due primarily to increased cash collection forecasts relating to pools acquired from 2009-2012. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows.

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, 2014, we recorded net allowance charge reversals of \$2.0 million. On our Core portfolios, we recorded net allowance reversals of \$3.1 million on portfolios purchased between 2005 and 2008, offset by net allowance charges of \$0.9 million on portfolios purchased in 2010. On our purchased bankruptcy portfolios, we recorded net allowance charge reversals of \$0.3 million on portfolios primarily purchased in 2007. We also recorded a net allowance charge of \$0.5 million on our UK portfolios purchased in 2012. For the three months ended March 31, 2013, we recorded net allowance charges of \$2.2 million, of which \$4.6 million related to purchased bankruptcy portfolios primarily purchased in 2007 and 2008, offset by reversals of \$2.4 million related to Core portfolios primarily purchased in 2005 and 2008. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our previous expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

Fee Income

Fee income increased to \$16.0 million for the three months ended March 31, 2014, from \$14.8 million for the three months ended March 31, 2013, primarily due to higher fee income generated by CCB and PGS. This was partially

offset by lower fee income generated in the first quarter of 2014 by PRA UK and PLS when compared to the prior year period.

**Income from Operations**

Income from operations was \$71.6 million for the three months ended March 31, 2014, an increase of \$5.7 million or 8.7% compared to income from operations of \$65.9 million for the three months ended March 31, 2013. Income from operations was 37.0% of total revenue for the three months ended March 31, 2014 compared to 38.9% for the three months ended March 31, 2013.

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### Operating Expenses

Total operating expenses were \$122.3 million for the three months ended March 31, 2014, an increase of \$18.6 million or 17.9% compared to total operating expenses of \$103.7 million for the three months ended March 31, 2013. Total operating expenses were 37.1% of cash receipts for the three months ended March 31, 2014 compared to 35.7% for the three months ended March 31, 2013.

### Compensation and Employee Services

Compensation and employee services expenses were \$51.4 million for the three months ended March 31, 2014, an increase of \$6.4 million, or 14.2%, compared to compensation and employee services expenses of \$45.0 million for the three months ended March 31, 2013. Compensation expense increased primarily as a result of larger staff sizes in addition to increases in incentive compensation and normal pay increases. Compensation and employee services expenses increased as total employees grew 11.4% to 3,621 as of March 31, 2014, from 3,250 as of March 31, 2013. Compensation and employee services expenses as a percentage of cash receipts increased to 15.6% for the three months ended March 31, 2014, from 15.5% of cash receipts for the three months ended March 31, 2013.

### Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party attorney network. Legal collection fees were \$10.8 million for the three months ended March 31, 2014, an increase of \$0.3 million, or 2.9%, compared to legal collection fees of \$10.5 million for the three months ended March 31, 2013. This increase was the result of an increase in cash collections from outside attorneys from \$47.9 million in the three months ended March 31, 2013 to \$51.0 million for the three months ended March 31, 2014, an increase of \$3.1 million, or 6.5%. Legal collection fees for the three months ended March 31, 2014 were 3.3% of cash receipts, compared to 3.6% for the three months ended March 31, 2013.

### Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$26.5 million for the three months ended March 31, 2014, an increase of \$6.0 million, or 29.3%, compared to legal collection costs of \$20.5 million for the three months ended March 31, 2013. Since the beginning of 2012, as a result of the refinement of our internal scoring methodology that expanded our account selections for legal action, we expanded the accounts brought into the legal collection process which resulted in significant initial expenses, which we expect to drive additional future cash collections and revenue. Legal collection costs for the three months ended March 31, 2014 were 8.1% of cash receipts, compared to 7.1% for the three months ended March 31, 2013.

### Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were \$1.5 million and \$1.6 million for the three months ended March 31, 2014 and 2013, respectively.

### Outside Fees and Services

Outside fees and services expenses were \$10.8 million for the three months ended March 31, 2014, an increase of \$3.4 million, or 46.0%, compared to outside fees and services expenses of \$7.4 million for the three months ended March 31, 2013. The increase of \$3.3 million was mainly attributable to the transaction costs incurred in the first quarter of 2014 related to the pending Aktiv acquisition.

### Communication Expenses

Communication expenses were \$9.2 million for the three months ended March 31, 2014, an increase of \$1.1 million, or 13.6%, compared to communications expenses of \$8.1 million for the three months ended March 31, 2013. The increase was primarily due to additional postage expense resulting from an increase in special collection letter campaigns as well as a larger customer base. The remaining increase was attributable to higher telephone expenses. Expenses related to customer mailings were responsible for 52.2%, or \$0.6 million, of this increase, and the remaining 47.8%, or \$0.5 million, was attributable to increases in telephone related charges.

### Rent and Occupancy

Rent and occupancy expenses were \$2.1 million for the three months ended March 31, 2014, an increase of \$0.4 million, or 23.5%, compared to rent and occupancy expenses of \$1.7 million for the three months ended March 31, 2013. The increase



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was primarily due to the additional space leased at our Norfolk headquarters during the second half of 2013 and the additional space leased as a result of the opening of our North Richland Hills, Texas, call center in December of 2013.

**Depreciation and Amortization**  
Depreciation and amortization expenses were \$3.9 million for the three months ended March 31, 2014, an increase of \$0.5 million, or 14.7%, compared to depreciation and amortization expenses of \$3.4 million for the three months ended March 31, 2013. The increase was primarily due to a large investment in capital expenditures resulting from the additional space leased at our Norfolk headquarters during the second half of 2013 and the additional space leased as a result of the opening of our North Richland Hills, Texas, call center in December of 2013.

**Other Operating Expenses**

Other operating expenses were \$6.1 million for the three months ended March 31, 2014, an increase of \$0.6 million, or 10.9%, compared to other operating expenses of \$5.5 million for the three months ended March 31, 2013. Of the \$0.6 million increase, \$0.4 million was due to an increase in repairs and maintenance expenses, \$0.3 million was due to an increase in insurance costs and \$0.3 million was due to an increase in general office expenses. This was partially offset by a \$0.9 million reversal of accrued estimated contingent payments related to a previous acquisition. None of the remaining \$0.5 million increase was attributable to any significant identifiable items.

**Interest Expense**

Interest expense was \$4.9 million and \$2.7 million for the three months ended March 31, 2014 and 2013, respectively. The increase was primarily due to the completion on August 13, 2013, through a private offering of \$287.5 million in aggregate principal amount of the Company's 3.00% Convertible Senior Notes due 2020, offset by a decrease in average borrowings under our variable rate credit facility for the three months ended March 31, 2014 compared to the same prior year period. The average borrowings on our variable rate credit facility were \$195.0 million and \$359.6 million for the three months ended March 31, 2014 and 2013, respectively.

**Provision for Income Taxes**

Provision for income taxes was \$25.9 million for the three months ended March 31, 2014, an increase of \$1.2 million, or 4.9%, compared to provision for income taxes of \$24.7 million for the three months ended March 31, 2013. The increase is primarily due to an increase of 5.5% in income before taxes for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, offset by a decrease in the effective tax rate to 38.8% for the three months ended March 31, 2014, compared to an effective tax rate of 39.1% for the three months ended March 31, 2013. The decrease in the effective tax rate is primarily attributable to state revenue apportionment changes and tax credits.

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

	Three Months Ended			
	March 31,	2013	% Change	
	2014			
<b>EARNINGS (in thousands)</b>				
Income recognized on finance receivables, net	\$177,970	\$154,792	15	%
Fee income	15,952	14,767	8	%
Total revenues	193,922	169,559	14	%
Operating expenses	122,332	103,672	18	%
Income from operations	71,590	65,887	9	%
Net interest expense	4,859	2,689	81	%
Net income	40,840	38,517	6	%
Net income attributable to Portfolio Recovery Associates, Inc.	40,840	38,600	6	%
<b>PERIOD-END BALANCES (in thousands)</b>				
Cash and cash equivalents	\$191,819	\$39,111	390	%
Finance receivables, net	1,253,961	1,169,747	7	%
Goodwill and intangible assets, net	118,800	125,462	(5)	)%
Total assets	1,642,613	1,382,739	19	%
Borrowings	450,278	371,159	21	%
Total liabilities	732,395	621,413	18	%
Total equity	910,218	750,990	21	%
<b>FINANCE RECEIVABLE COLLECTIONS (dollars in thousands)</b>				
Cash collections	\$313,367	\$275,463	14	%
Cash collections on fully amortized pools	16,516	6,345	160	%
Principal amortization without allowance charges	137,350	118,498	16	%
Principal amortization with allowance charges	135,397	120,671	12	%
Principal amortization w/ allowance charges as % of cash collections:				
Including fully amortized pools	43.2	% 43.8	% (1)	)%
Excluding fully amortized pools	45.6	% 44.8	% 2	%
<b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>				
Allowance (reversal)/charge	\$(1,953)	) \$2,173	(190)	)%
Allowance (reversal)/charge to period-end net finance receivables	(0.2)	)% 0.2	% (184)	)%
Allowance (reversal)/charge to net finance receivable income	(1.1)	)% 1.4	% (178)	)%
Allowance (reversal)/charge to cash collections	(0.6)	)% 0.8	% (179)	)%
<b>PURCHASES OF FINANCE RECEIVABLES (dollars in thousands)</b>				
Cash paid - core	\$79,085	\$126,951	(38)	)%
Face value - core	837,036	1,398,960	(40)	)%
Cash paid - bankruptcy	65,501	86,595	(24)	)%
Face value - bankruptcy	557,220	436,508	28	%
Cash paid - other	8,128	1,387	486	%
Face value - other	519,118	18,570	2,695	%
Cash paid - total	152,714	214,933	(29)	)%
Face value - total	1,913,374	1,854,038	3	%
Number of portfolios - total	104	91	14	%

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ESTIMATED REMAINING COLLECTIONS (in thousands)

Estimated remaining collections - core	\$1,891,511	\$1,547,644	22	%
Estimated remaining collections - bankruptcy	788,774	924,520	(15)	)%
Estimated remaining collections - other	24,439	14,739	66	%
Estimated remaining collections - total	2,704,724	2,486,903	9	%

SHARE DATA (7) (share amounts in thousands)

Net income per common share - diluted	\$0.81	\$0.75	8	%
Weighted average number of shares outstanding - diluted	50,363	51,273	(2)	)%
Shares repurchased	—	48	(100)	)%
Average price paid per share repurchased (including acquisitions costs)	\$—	\$39.34	(100)	)%
Closing market price	\$57.86	\$42.31	37	%

RATIOS AND OTHER DATA (dollars in thousands)

Return on average equity (1)	18.2	% 21.1	% (14)	)%
Return on revenue (2)	21.1	% 22.7	% (7)	)%
Return on average assets (3)	10.0	% 11.3	% (12)	)%
Operating margin (4)	36.9	% 38.9	% (5)	)%
Operating expense to cash receipts (5)	37.1	% 35.7	% 4	%
Debt to equity (6)	49.5	% 49.4	% —	%
Number of collectors	2,379	2,159	10	%
Number of full-time equivalent employees	3,621	3,250	11	%
Cash receipts (5)	\$329,319	\$290,230	13	%
Line of credit - unused portion at period end	435,500	228,000	91	%

(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 annualized net income divided by average assets for the period

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

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

(6) For purposes of this ratio, "debt" equals borrowings

(7) Share data has been adjusted to reflect the three-for-one stock split by means of a stock dividend which was declared on June 10, 2013 and paid August 1, 2013



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	Quarter Ended					
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	
<b>EARNINGS (in thousands)</b>						
Income recognized on finance receivables, net	\$ 177,970	\$ 168,728	\$ 171,456	\$ 168,570	\$ 154,792	
Fee income	15,952	16,125	26,306	14,391	14,767	
Total revenues	193,922	184,853	197,762	182,961	169,559	
Operating expenses	122,332	106,503	118,294	109,135	103,672	
Income from operations	71,590	78,350	79,468	73,826	65,887	
Net interest expense	4,859	4,860	3,995	2,923	2,689	
Net income	40,840	45,777	49,211	43,414	38,517	
Net income attributable to Portfolio Recovery Associates, Inc.	40,840	45,777	47,338	43,599	38,600	
<b>PERIOD-END BALANCES (in thousands)</b>						
Cash and cash equivalents	\$ 191,819	\$ 162,004	\$ 108,705	\$ 43,459	\$ 39,111	
Finance receivables, net	1,253,961	1,239,191	1,256,822	1,236,859	1,169,747	
Goodwill and intangible assets, net	118,800	119,610	119,636	124,349	125,462	
Total assets	1,642,613	1,601,232	1,547,985	1,457,246	1,382,739	
Borrowings	450,278	451,780	452,229	413,774	371,159	
Total liabilities	732,395	731,756	721,001	655,012	621,413	
Total equity	910,218	869,476	816,647	791,898	750,990	
<b>FINANCE RECEIVABLE COLLECTIONS (dollars in thousands)</b>						
Cash collections	\$ 313,367	\$ 278,926	\$ 291,651	\$ 296,397	\$ 275,463	
Cash collections on fully amortized pools	16,516	9,801	8,762	10,612	6,345	
Principal amortization without allowance charges	137,350	110,626	122,776	129,012	118,498	
Principal amortization with allowance charges	135,397	110,197	120,195	127,827	120,671	
Principal amortization w/ allowance charges as % of cash collections:						
Including fully amortized pools	43.2	% 39.5	% 41.2	% 43.1	% 43.8	%
Excluding fully amortized pools	45.6	% 40.9	% 42.5	% 44.7	% 44.8	%
<b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>						
Allowance (reversal)/charge	\$(1,953 )	\$(429 )	\$(2,581 )	\$(1,185 )	\$ 2,173	
Allowance (reversal)/charge to period-end net finance receivables	(0.2 )	%—	% (0.2 )	%(0.1 )	%)0.2	%
Allowance (reversal)/charge to net finance receivable income	(1.1 )	%(0.3 )	%(1.5 )	%(0.7 )	%)1.4	%
Allowance (reversal)/charge to cash collections	(0.6 )	%(0.2 )	%(0.9 )	%(0.4 )	%)0.8	%

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PURCHASES OF FINANCE

RECEIVABLES (dollars in thousands)

Cash paid - core	\$79,085	\$65,759	\$89,044	\$113,314	\$126,951
Face value - core	837,036	774,543	1,352,877	1,178,229	1,398,960
Cash paid - bankruptcy	65,501	31,987	41,794	82,273	86,595
Face value - bankruptcy	557,220	235,064	215,957	1,926,515	436,508
Cash paid - other	8,128	1,763	11,037	4,881	1,387
Face value - other	519,118	22,493	218,528	81,852	18,570
Cash paid - total	152,714	99,509	141,875	200,468	214,933
Face value - total	1,913,374	1,032,100	1,787,362	3,186,596	1,854,038
Number of portfolios - total	104	83	79	94	91

ESTIMATED REMAINING

COLLECTIONS (in thousands)

Estimated remaining collections - core	\$1,891,511	\$1,824,132	\$1,762,369	\$1,694,262	\$1,547,644
Estimated remaining collections - bankruptcy	788,774	822,988	877,722	925,223	924,520
Estimated remaining collections - other	24,439	22,150	32,272	16,744	14,739
Estimated remaining collections - total	2,704,724	2,669,270	2,672,363	2,636,229	2,486,903

SHARE DATA (7) (share amounts in thousands)

Net income per common share - diluted	\$0.81	\$0.91	\$0.93	\$0.85	\$0.75
Weighted average number of shares outstanding - diluted	50,363	50,375	50,660	51,183	51,273
Shares repurchased	—	—	989	166	48
Average price paid per share repurchased (including acquisitions costs)	\$—	\$—	\$50.55	39.82	\$39.34
Closing market price	\$57.86	\$52.84	\$59.93	\$51.21	\$42.31

RATIOS AND OTHER DATA (dollars in thousands)

Return on average equity (1)	18.2	% 21.5	% 23.5	% 22.5	% 21.1	%
Return on revenue (2)	21.1	% 24.8	% 24.9	% 23.7	% 22.7	%
Return on average assets (3)	10.0	% 11.5	% 12.5	% 12.1	% 11.3	%
Operating margin (4)	36.9	% 42.4	% 40.2	% 40.4	% 38.9	%
Operating expense to cash receipts (5)	37.1	% 36.1	% 37.2	% 35.1	% 35.7	%
Debt to equity (6)	49.5	% 52.0	% 55.4	% 52.3	% 49.4	%
Number of collectors	2,379	2,313	2,054	2,190	2,159	
Number of full-time equivalent employees	3,621	3,543	3,223	3,362	3,250	
Cash receipts (5)	\$329,319	\$295,051	\$317,957	\$310,788	\$290,230	
Line of credit - unused portion at period end	435,500	435,500	435,500	184,000	228,000	

(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 annualized net income divided by average assets for the period

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

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

(6) For purposes of this ratio, "debt" equals borrowings

(7) Share data has been adjusted to reflect the three-for-one stock split by means of a stock dividend which was declared on June 10, 2013 and paid August 1, 2013



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Supplemental Performance Data

Domestic Finance Receivables Portfolio Performance:

The following tables show certain data related to our domestic finance receivables portfolio. These tables describe the purchase price, actual cash collections and future estimates of cash collections, income recognized on finance receivables (gross and net of allowance charges), principal amortization, allowance charges, net finance receivable balances, and the ratio of total estimated collections to purchase price (which we refer to as purchase price multiple). Further, these tables disclose our entire domestic portfolio, as well as its subsets: the portfolio of purchased bankrupt accounts and our Core portfolio. The accounts represented in the purchased bankruptcy tables are those portfolios of accounts that were bankrupt at the time of purchase. This contrasts with accounts that file for bankruptcy after we purchase them, which continue to be tracked in their corresponding Core portfolio. Core customers sometimes file for bankruptcy protection subsequent to our purchase of the related Core portfolio. When this occurs, we adjust our collection practices accordingly to comply with bankruptcy procedures; however, for accounting purposes, these accounts remain in the related Core portfolio. Conversely, bankrupt accounts may be dismissed voluntarily or involuntarily subsequent to our purchase of the related bankrupt portfolio. Dismissal occurs when the terms of the bankruptcy are not met by the petitioner. When this occurs, we are typically free to pursue collection outside of bankruptcy procedures; however, for accounting purposes, these accounts remain in the related bankruptcy pool. Our United Kingdom and Canadian portfolios are not significant and are therefore not included in these tables. Purchase price multiples can vary over time due to a variety of factors including pricing competition, supply levels, age of the receivables purchased, and changes in our operational efficiency. For example, increased pricing competition during the 2005 to 2008 period negatively impacted purchase price multiples of our Core portfolio compared to prior years. During the 2009 to 2010 period, for example, pricing disruptions occurred as a result of the economic downturn. This created unique and advantageous purchasing opportunities, particularly within the bankruptcy receivables market, relative to the prior four years.

When competition increases and/or supply decreases, pricing often becomes negatively impacted relative to expected collections, and yields tend to trend lower. The opposite tends to occur when competition decreases and/or supply increases.

Purchase price multiples can also vary among types of finance receivables. For example, we incur lower collection costs on our bankruptcy portfolio compared with our Core portfolio. This allows us in general to pay more for a bankruptcy portfolio, experience lower purchase price multiples, and yet generate similar internal rates of return when compared with a Core portfolio.

Within a given portfolio type, to the extent that lower purchase price multiples are the 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) and lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to increase. Profitability within given Core portfolio types may also be impacted by the age and quality of the receivables, which impact the cost to collect those accounts.

The numbers presented in the following tables represent gross cash collections and do not reflect any costs to collect; therefore, they may not represent relative profitability. We continue to make enhancements to our analytical abilities, with the intent to collect more cash at a lower cost. To the extent we can improve our collection operations by collecting additional cash from a discrete quantity and quality of accounts, and/or by collecting cash at a lower cost structure, we can positively impact profitability.

Additionally, purchase price multiples can vary among periods due to our implementation of required accounting standards. Revenue recognition under ASC 310-30 is driven by estimates of total collections as well as the timing of those collections. We record new portfolio purchases using a higher confidence level for both estimated collection amounts and timing. Subsequent to the initial booking, as we gain collection experience and confidence with a pool of accounts, we continuously update ERC. These processes, along with the aforementioned operational enhancements, have tended to cause the ratio of ERC to purchase price for any given year of buying to gradually increase over time. As a result, our estimate of total collections to purchase price has generally, but not always, increased as pools have aged. Thus, all factors being equal in terms of pricing, one would typically tend to see a higher collection to purchase

price ratio from a pool of accounts that was six years from purchase than say a pool that was just two years from purchase.

Due to all the factors described above, readers should be cautious when making comparisons of purchase price multiples among periods and between types of receivables.

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## Domestic Portfolio Data – Life-to-Date

## Entire Domestic Portfolio

(\$ in thousands)	Inception through March 31, 2014					As of March 31, 2014				
	Purchase Period	Purchase Price	Actual Cash Collections Including Sales	Income Recognized on Finance Receivables	Principal Amortization <sup>(1)</sup>	Allowance Charges	Income Recognized on Finance Receivables Net <sup>(1)</sup>	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections
1996	\$3,080	\$10,211	\$7,131	\$3,080	\$—	\$7,131	\$—	\$16	\$10,227	332%
1997	7,685	25,521	17,836	7,685	—	17,836	—	79	25,600	333%
1998	11,089	37,384	26,295	11,089	—	26,295	—	197	37,581	339%
1999	18,898	69,433	50,535	18,898	—	50,535	—	403	69,836	370%
2000	25,020	116,918	91,898	25,020	—	91,898	—	1,760	118,678	474%
2001	33,481	176,364	142,883	33,481	—	142,883	—	2,572	178,936	534%
2002	42,325	199,228	156,903	42,325	—	156,903	—	4,751	203,979	482%
2003	61,447	266,348	204,901	61,447	—	204,901	—	7,371	273,719	445%
2004	59,176	199,213	141,237	57,976	1,200	140,037	—	7,081	206,294	349%
2005	143,167	313,029	185,556	127,473	9,970	175,586	5,725	15,047	328,076	229%
2006	107,667	210,205	128,312	81,893	19,895	108,417	5,878	12,553	222,758	207%
2007	258,367	484,621	265,795	218,826	20,445	245,350	19,091	42,356	526,977	204%
2008	275,121	480,864	264,486	216,378	34,145	230,341	24,564	52,757	533,621	194%
2009	281,333	776,617	518,026	258,591	—	518,026	22,742	135,913	912,530	324%
2010	357,810	786,876	498,374	288,502	1,215	497,159	68,117	261,134	1,048,010	293%
2011	392,929	606,679	356,180	250,499	—	356,180	142,431	412,152	1,018,831	259%
2012	508,683	419,298	210,043	209,255	—	210,043	299,429	598,999	1,018,297	200%
2013	627,917	235,921	116,569	119,352	—	116,569	508,564	897,259	1,133,180	180%
YTD 2014	144,899	10,167	3,617	6,550	—	3,617	138,336	227,885	238,052	164%
Total	\$3,360,094	\$5,424,897	\$3,386,577	\$2,038,320	\$86,870	\$3,299,707	\$1,234,877	\$2,680,285	\$8,105,182	241%

(1) For purposes of the this table, income recognized on finance receivables also includes approximately \$1.7 million in gains on sales of finance receivables acquired between 1996 and 2001 and sold between 1999 and 2002.

## Purchased Bankruptcy Portfolio

(\$ in thousands)	Inception through March 31, 2014					As of March 31, 2014				
	Purchase Period	Purchase Price	Actual Cash Collections Including Sales	Income Recognized on Finance Receivables	Principal Amortization	Allowance Charges	Income Recognized on Finance Receivables Net	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections
1996-2003	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	—%
2004	7,468	14,520	8,252	6,268	1,200	7,052	—	60	14,580	195%
2005	29,301	43,673	14,782	28,891	395	14,387	16	101	43,774	149%
2006	17,627	31,659	14,860	16,799	780	14,080	47	298	31,957	181%
2007	78,526	104,337	35,632	68,705	9,600	26,032	221	1,840	106,177	135%
2008	108,586	164,846	71,324	93,522	13,250	58,074	1,814	3,995	168,841	155%
2009	156,030	425,189	275,612	149,577	—	275,612	6,453	46,061	471,250	302%
2010	209,164	417,853	246,609	171,244	—	246,609	37,920	102,111	519,964	249%
2011	181,897	185,643	81,058	104,585	—	81,058	77,312	124,454	310,097	170%
2012	252,383	145,384	49,771	95,613	—	49,771	156,771	201,944	347,328	138%

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2013	234,193	71,823	22,530	49,293	—	22,530	184,899	232,266	304,089	130%
YTD										
2014	65,501	6,022	712	5,310	—	712	60,192	75,644	81,666	125%
Total	\$1,340,676	\$1,610,949	\$821,142	\$789,807	\$25,225	\$795,917	\$525,645	\$788,774	\$2,399,723	179%

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## Core Portfolio

Purchase Period	Purchase Price	Inception through March 31, 2014				As of March 31, 2014				
		Actual Cash Collections Including Sales	Income Recognized on Finance Receivables (1)	Principal Amortization	Allowance Charges	Income Recognized on Finance Receivables, Net (1)	Net Finance Receivable Balance	Estimated Remaining Collections	Total Estimated Collections	Total Estimated Collections to Purchase Price
1996	\$3,080	\$10,211	\$7,131	\$3,080	\$—	\$7,131	\$—	\$16	\$10,227	332%
1997	7,685	25,521	17,836	7,685	—	17,836	—	79	25,600	333%
1998	11,089	37,384	26,295	11,089	—	26,295	—	197	37,581	339%
1999	18,898	69,433	50,535	18,898	—	50,535	—	403	69,836	370%
2000	25,020	116,918	91,898	25,020	—	91,898	—	1,760	118,678	474%
2001	33,481	176,364	142,883	33,481	—	142,883	—	2,572	178,936	534%
2002	42,325	199,228	156,903	42,325	—	156,903	—	4,751	203,979	482%
2003	61,447	266,348	204,901	61,447	—	204,901	—	7,371	273,719	445%
2004	51,708	184,693	132,985	51,708	—	132,985	—	7,021	191,714	371%
2005	113,866	269,356	170,774	98,582	9,575	161,199	5,709	14,946	284,302	250%
2006	90,040	178,546	113,452	65,094	19,115	94,337	5,831	12,255	190,801	212%
2007	179,841	380,284	230,163	150,121	10,845	219,318	18,870	40,516	420,800	234%
2008	166,535	316,018	193,162	122,856	20,895	172,267	22,750	48,762	364,780	219%
2009	125,303	351,428	242,414	109,014	—	242,414	16,289	89,852	441,280	352%
2010	148,646	369,023	251,765	117,258	1,215	250,550	30,197	159,023	528,046	355%
2011	211,032	421,036	275,122	145,914	—	275,122	65,119	287,698	708,734	336%
2012	256,300	273,914	160,272	113,642	—	160,272	142,658	397,055	670,969	262%
2013	393,724	164,098	94,039	70,059	—	94,039	323,665	664,993	829,091	211%
YTD 2014	79,398	4,145	2,905	1,240	—	2,905	78,144	152,241	156,386	197%
Total	\$2,019,418	\$3,813,948	\$2,565,435	\$1,248,513	\$61,645	\$2,503,790	\$709,232	\$1,891,511	\$5,705,459	283%

(1) For purposes of the this table, income recognized on finance receivables also includes approximately \$1.7 million in gains on sales of finance receivables acquired between 1996 and 2001 and sold between 1999 and 2002.

## Domestic Portfolio Data – Current Quarter

## Entire Domestic Portfolio

Purchase Period	Purchase Price	Quarter Ended March 31, 2014				As of March 31, 2014				
		Actual Cash Collections Including Sales	Income Recognized on Finance Receivables	Principal Amortization	Allowance Charges	Income Recognized on Finance Receivables, Net	Net Finance Receivable Balance	Estimated Remaining Collections	Total Estimated Collections	Total Estimated Collections to Purchase Price
1996	\$3,080	\$3	\$3	\$—	\$—	\$3	\$—	\$16	\$10,227	332%
1997	7,685	15	15	—	—	15	—	79	25,600	333%
1998	11,089	33	33	—	—	33	—	197	37,581	339%
1999	18,898	78	78	—	—	78	—	403	69,836	370%
2000	25,020	253	253	—	—	253	—	1,760	118,678	474%
2001	33,481	457	457	—	—	457	—	2,572	178,936	534%
2002	42,325	751	751	—	—	751	—	4,751	203,979	482%
2003	61,447	1,143	1,143	—	—	1,143	—	7,371	273,719	445%
2004	59,176	937	937	—	—	937	—	7,081	206,294	349%



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2005	143,167	1,927	980	947	(785	)1,765	5,725	15,047	328,076	229%
2006	107,667	1,754	834	920	(820	)1,654	5,878	12,553	222,758	207%
2007	258,367	5,809	3,248	2,561	(235	)3,483	19,091	42,356	526,977	204%
2008	275,121	7,169	3,478	3,691	(1,500	)4,978	24,564	52,757	533,621	194%
2009	281,333	30,634	23,232	7,402	—	23,232	22,742	135,913	912,530	324%
2010	357,810	43,637	32,815	10,822	890	31,925	68,117	261,134	1,048,010	293%
2011	392,929	52,989	35,171	17,818	—	35,171	142,431	412,152	1,018,831	259%
2012	508,683	67,810	33,954	33,856	—	33,954	299,429	598,999	1,018,297	200%
2013	627,917	81,779	34,275	47,504	—	34,275	508,564	897,259	1,133,180	180%
YTD 2014	144,899	10,167	3,617	6,550	—	3,617	138,336	227,885	238,052	164%
Total	\$3,360,094	\$307,345	\$175,274	\$132,071	\$(2,450)	\$177,724	\$1,234,877	\$2,680,285	\$8,105,182	241%

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## Purchased Bankruptcy Portfolio

		Quarter Ended March 31, 2014					As of March 31, 2014			
(\$ in thousands)		Actual	Income			Income				
Purchase	Purchase	Cash	Recognized	Principal	Allowance	Recognized	Net Finance	Estimated	Total	Total Estimated
Period	Price	Collection	on	Amortization	Charges	Finance	Receivable	Remaining	Estimated	Collections to
		Including	Cash			Receivables,	Balance	Collections	Collections	Purchase Price
		Sales	Receivables			Net				
1996-2003	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	—%
2004	7,468	28	28	—	—	28	—	60	14,580	195%
2005	29,301	32	16	16	(15)	31	16	101	43,774	149%
2006	17,627	94	69	25	(20)	89	47	298	31,957	181%
2007	78,526	206	74	132	(215)	289	221	1,840	106,177	135%
2008	108,586	658	143	515	—	143	1,814	3,995	168,841	155%
2009	156,030	20,381	14,933	5,448	—	14,933	6,453	46,061	471,250	302%
2010	209,164	27,131	19,022	8,109	—	19,022	37,920	102,111	519,964	249%
2011	181,897	21,294	9,159	12,135	—	9,159	77,312	124,454	310,097	170%
2012	252,383	24,386	6,917	17,469	—	6,917	156,771	201,944	347,328	138%
2013	234,193	19,295	5,767	13,528	—	5,767	184,899	232,266	304,089	130%
YTD 2014	65,501	6,022	712	5,310	—	712	60,192	75,644	81,666	125%
Total	\$1,340,676	\$119,527	\$56,840	\$62,687	\$(250)	\$57,090	\$525,645	\$788,774	\$2,399,723	179%

## Core Portfolio

		Quarter Ended March 31, 2014					As of March 31, 2014			
(\$ in thousands)		Actual	Income			Income				
Purchase	Purchase	Cash	Recognized	Principal	Allowance	Recognized	Net Finance	Estimated	Total	Total Estimated
Period	Price	Collection	on	Amortization	Charges	Finance	Receivable	Remaining	Estimated	Collections to
		Including	Cash			Receivables,	Balance	Collections	Collections	Purchase Price
		Sales	Receivables			Net				
1996	\$3,080	\$3	\$3	\$—	\$—	\$3	\$—	\$16	\$10,227	332%
1997	7,685	15	15	—	—	15	—	79	25,600	333%
1998	11,089	33	33	—	—	33	—	197	37,581	339%
1999	18,898	78	78	—	—	78	—	403	69,836	370%
2000	25,020	253	253	—	—	253	—	1,760	118,678	474%
2001	33,481	457	457	—	—	457	—	2,572	178,936	534%
2002	42,325	751	751	—	—	751	—	4,751	203,979	482%
2003	61,447	1,143	1,143	—	—	1,143	—	7,371	273,719	445%
2004	51,708	909	909	—	—	909	—	7,021	191,714	371%
2005	113,866	1,895	964	931	(770)	1,734	5,709	14,946	284,302	250%
2006	90,040	1,660	765	895	(800)	1,565	5,831	12,255	190,801	212%
2007	179,841	5,603	3,174	2,429	(20)	3,194	18,870	40,516	420,800	234%
2008	166,535	6,511	3,335	3,176	(1,500)	4,835	22,750	48,762	364,780	219%
2009	125,303	10,253	8,299	1,954	—	8,299	16,289	89,852	441,280	352%
2010	148,646	16,506	13,793	2,713	890	12,903	30,197	159,023	528,046	355%
2011	211,032	31,695	26,012	5,683	—	26,012	65,119	287,698	708,734	336%
2012	256,300	43,424	27,037	16,387	—	27,037	142,658	397,055	670,969	262%
2013	393,724	62,484	28,508	33,976	—	28,508	323,665	664,993	829,091	211%
YTD 2014	79,398	4,145	2,905	1,240	—	2,905	78,144	152,241	156,386	197%

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Total \$2,019,418 \$187,818 \$118,434 \$69,384 \$(2,200) \$120,634 \$709,232 \$1,891,511 \$5,705,459 283%

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The following graph shows the purchase price of our domestic portfolios by year for the last ten years. The purchase price number represents the cash paid to the seller, plus certain capitalized costs, less buybacks.

As shown in the above chart, the composition of our domestic purchased portfolios shifted in favor of bankrupt accounts in 2009 and 2010, before returning to equilibrium with Core in 2011 and 2012. In 2013 and the first quarter of 2014, Core purchases exceeded those of bankrupt accounts. We began buying bankrupt accounts during 2004 and slowly increased the volume of accounts we acquired through 2006 as we tested our models, refined our processes and validated our operating assumptions. After observing a high level of modeling confidence in our early purchases, we began increasing our level of purchases more dramatically commencing in 2007.

Our ability to profitably purchase and liquidate pools of bankrupt accounts provides diversity to our distressed asset acquisition business. Although we generally buy bankrupt portfolios from many of the same consumer lenders from whom we acquire Core customer portfolios, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of portfolios purchased in the bankrupt and Core markets may differ over time. We have found periods when bankrupt accounts were more profitable and other times when Core accounts were more profitable. From 2004 through 2008, our bankruptcy buying fluctuated between 13% and 39% of our total portfolio purchasing. In 2009, for the first time in our history, bankruptcy purchasing exceeded that of our Core buying, at 55% of total portfolio purchasing and during 2010 this percentage increased to 59%. This occurred as severe dislocations in the financial markets, coupled with legislative uncertainty, caused pricing in the bankruptcy market to decline substantially, thereby driving our strategy to make advantageous bankruptcy portfolio acquisitions during this period. For 2011, 2012, our bankruptcy buying leveled off and represented 48% and 50% of our total domestic portfolio purchasing and in 2013 and the first quarter of 2014, it declined to 38% and 45%, respectively, of our total domestic portfolio purchasing.

In order to collect our Core portfolios, we generally need to employ relatively higher amounts of labor and incur additional collection costs to generate each dollar of cash collections as compared with bankruptcy portfolios. In order to achieve acceptable levels of net return on investment (after direct expenses), we are generally targeting a total cash collections to purchase price multiple in the 1.75-3.0x range. On the other hand, bankrupt accounts generate the majority of cash collections through the efforts of the U.S. bankruptcy courts and trustees. 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, court fees associated with the filing of ownership claim transfers and general administrative costs for monitoring the progress of each account through the bankruptcy process. As a result, overall collection costs are much lower for us when liquidating a pool of bankrupt accounts as compared to a pool of Core accounts, but conversely the price we pay for bankrupt accounts is generally higher than Core accounts. We generally target similar returns on investment (measured after direct expenses) for bankrupt and Core portfolios at any given point in the market cycles. However, because of the lower related collection costs, we can pay more for bankrupt portfolios, which causes the estimated total cash collections to purchase price multiples of bankrupt pools generally to be in the 1.2-2.0x range. In summary, compared to a similar investment in 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, less direct expenses, similar operating income, and a higher operating margin.

In addition, collections on younger, newly filed bankrupt accounts tend to be of a lower magnitude in the earlier months when compared to Core charge-off accounts. This lower level of early period collections is due to the fact that we primarily purchase portfolios of accounts that represent unsecured claims in bankruptcy, and these unsecured claims are scheduled to begin

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paying out after payment of the secured and priority claims. As a result of the administrative processes regarding payout priorities within the court-administered bankruptcy plans, unsecured creditors do not generally begin receiving meaningful collections on unsecured claims until 12 to 18 months after the bankruptcy filing date. Therefore, to the extent that we purchase portfolios with more recent bankruptcy filing dates, as we did to a significant extent commencing in 2009, we would expect to experience a delay in cash collections compared with Core charged-off portfolios.

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

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

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

(in thousands)

Purchase Period	Purchase Price	Cash Collection Period										YTD 2014	Total
		1996-2005	2006	2007	2008	2009	2010	2011	2012	2013			
1996	\$3,080	\$9,414	\$237	\$102	\$83	\$78	\$68	\$100	\$39	\$24	\$3	\$10,167	\$10,167
1997	7,685	22,803	597	437	346	215	216	187	112	84	15	25,011	25,011
1998	11,089	32,889	1,415	882	616	397	382	332	241	173	33	37,360	37,360
1999	18,898	57,198	3,032	2,243	1,533	1,328	1,139	997	709	483	78	68,740	68,740
2000	25,020	87,520	8,067	5,202	3,604	3,198	2,782	2,554	1,927	1,349	253	116,400	116,400
2001	33,481	119,238	16,048	10,011	6,164	5,299	4,422	3,791	3,104	2,339	457	170,800	170,800
2002	42,325	119,570	24,729	16,527	9,772	7,444	6,375	5,844	4,768	3,433	751	199,200	199,200
2003	61,447	126,654	43,728	30,695	18,818	13,135	10,422	8,945	7,477	5,331	1,143	266,300	266,300
2004	59,176	64,494	40,424	30,750	19,339	13,677	9,944	8,522	6,604	4,522	937	199,200	199,200
2005	143,167	18,968	75,145	69,862	49,576	33,366	23,733	17,234	13,302	9,916	1,927	313,000	313,000
2006	107,667	—	22,971	53,192	40,560	29,749	22,494	18,190	12,560	8,735	1,754	210,200	210,200
2007	258,367	—	—	42,263	115,011	94,805	83,059	67,088	47,136	29,450	5,809	484,600	484,600
2008	275,121	—	—	—	61,277	107,974	100,337	89,344	71,806	42,957	7,169	480,800	480,800
2009	281,333	—	—	—	—	57,338	177,407	187,119	177,273	146,846	30,634	776,600	776,600
2010	357,810	—	—	—	—	—	86,562	218,053	234,893	203,731	43,637	786,800	786,800
2011	392,929	—	—	—	—	—	—	77,190	240,840	235,660	52,989	606,600	606,600
2012	508,683	—	—	—	—	—	—	—	74,289	277,199	67,810	419,200	419,200
2013	627,917	—	—	—	—	—	—	—	—	154,142	81,779	235,900	235,900
YTD 2014	144,899	—	—	—	—	—	—	—	—	—	—	10,167	10,167
Total	\$3,360,094	\$658,748	\$236,393	\$262,166	\$326,699	\$368,003	\$529,342	\$705,490	\$897,080	\$1,126,374	\$307,345	\$5,410,000	\$5,410,000

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

(in thousands)

Purchase Period	Purchase Price	Cash Collection Period										YTD 2014	Total
		1996-2005	2006	2007	2008	2009	2010	2011	2012	2013			
2004	\$7,468	5,297	3,956	2,777	1,455	496	164	149	108	90	28	\$14,520	\$14,520
2005	29,301	3,777	15,500	11,934	6,845	3,318	1,382	466	250	169	32	43,673	43,673
2006	17,627	—	5,608	9,455	6,522	4,398	2,972	1,526	665	419	94	31,659	31,659
2007	78,526	—	—	2,850	27,972	25,630	22,829	16,093	7,551	1,206	206	104,337	104,337

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2008	108,586	—	—	—	14,024	35,894	37,974	35,690	28,956	11,650	658	164,846
2009	156,030	—	—	—	—	16,635	81,780	102,780	107,888	95,725	20,381	425,189
2010	209,164	—	—	—	—	—	39,486	104,499	125,020	121,717	27,131	417,853
2011	181,897	—	—	—	—	—	—	15,218	66,379	82,752	21,294	185,643
2012	252,383	—	—	—	—	—	—	—	17,388	103,610	24,386	145,384
2013	234,193	—	—	—	—	—	—	—	—	52,528	19,295	71,823
YTD 2014	65,501										6,022	6,022
Total	\$1,340,676	\$9,074	\$25,064	\$27,016	\$56,818	\$86,371	\$186,587	\$276,421	\$354,205	\$469,866	\$119,527	\$1,610,949

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

(in thousands)

Purchase Period	Purchase Price	Cash Collection Period										YTD 2014	Total
		1996-2002	2006	2007	2008	2009	2010	2011	2012	2013			
1996	\$3,080	\$9,414	\$237	\$102	\$83	\$78	\$68	\$100	\$39	\$24	\$3	\$10,148	
1997	7,685	22,803	597	437	346	215	216	187	112	84	15	25,012	
1998	11,089	32,889	1,415	882	616	397	382	332	241	173	33	37,360	
1999	18,898	57,198	3,032	2,243	1,533	1,328	1,139	997	709	483	78	68,740	
2000	25,020	87,520	8,067	5,202	3,604	3,198	2,782	2,554	1,927	1,349	253	116,456	
2001	33,481	119,238	16,048	10,011	6,164	5,299	4,422	3,791	3,104	2,339	457	170,873	
2002	42,325	119,570	24,729	16,527	9,772	7,444	6,375	5,844	4,768	3,433	751	199,213	
2003	61,447	126,654	43,728	30,695	18,818	13,135	10,422	8,945	7,477	5,331	1,143	266,348	
2004	51,708	59,197	36,468	27,973	17,884	13,181	9,780	8,373	6,496	4,432	909	184,693	
2005	113,866	15,191	59,645	57,928	42,731	30,048	22,351	16,768	13,052	9,747	1,895	269,356	
2006	90,040	—	17,363	43,737	34,038	25,351	19,522	16,664	11,895	8,316	1,660	178,546	
2007	179,841	—	—	39,413	87,039	69,175	60,230	50,995	39,585	28,244	5,603	380,284	
2008	166,535	—	—	—	47,253	72,080	62,363	53,654	42,850	31,307	6,511	316,018	
2009	125,303	—	—	—	—	40,703	95,627	84,339	69,385	51,121	10,253	351,428	
2010	148,646	—	—	—	—	—	47,076	113,554	109,873	82,014	16,506	369,023	
2011	211,032	—	—	—	—	—	—	61,972	174,461	152,908	31,695	421,036	
2012	256,300	—	—	—	—	—	—	—	56,901	173,589	43,424	273,914	
2013	393,724	—	—	—	—	—	—	—	—	101,614	62,484	164,098	
YTD 2014	79,398	—	—	—	—	—	—	—	—	—	4,145	4,145	
Total	\$2,019,418	\$649,674	\$211,329	\$235,150	\$269,881	\$281,632	\$342,755	\$429,069	\$542,875	\$656,508	\$187,818	\$3,806,	

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

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Primarily as a result of the downturn in the economy, the decline in the availability of consumer credit, our efforts to help customers establish reasonable payment plans, and improvements in our collections capabilities which have allowed us to profitably collect on accounts with lower balances or lower quality, the average payment size has decreased over the past several years. However, due to improved scoring and segmentation, together with enhanced productivity, we have been able to realize increased amounts of cash collections by generating enough incremental payments to overcome the decrease in payment size. The decreasing average payment size trend moderated during 2012, and the average payment size was stable during 2013 and the first quarter of 2014.

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

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

## Seasonality

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

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

## Cash Collection

Source (\$ in thousands)	Q12014	Q42013	Q32013	Q22013	Q12013	Q42012	Q32012	Q22012
Call Center and Other Collections	\$97,736	\$84,375	\$89,512	\$90,229	\$89,037	\$72,624	\$72,394	\$73,582
External Legal Collections	50,990	46,066	48,274	50,131	47,910	41,521	39,913	41,464
Internal Legal Collections	43,939	34,101	33,288	30,365	29,283	23,968	25,650	25,361
Bankruptcy Court Trustee Payments	120,702	114,384	120,577	125,672	109,233	91,098	91,095	92,018
Total Cash Collections	\$313,367	\$278,926	\$291,651	\$296,397	\$275,463	\$229,211	\$229,052	\$232,425



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## Rollforward of Net Finance Receivables

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

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of year	\$1,239,191	\$1,078,951
Acquisitions of finance receivables <sup>(1)</sup>	150,087	212,389
Foreign currency translation adjustment	80	(922 )
Cash collections applied to principal on finance receivables <sup>(2)</sup>	(135,397 )	(120,671 )
Balance at end of period	\$1,253,961	\$1,169,747
Estimated Remaining Collections	\$2,704,274	\$2,486,903

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

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

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

The following table categorizes our life to date domestic portfolio purchases as of March 31, 2014, into the major asset types represented (amounts in thousands):

Account Type	No. of Accounts	%	Face Value <sup>(1)</sup>	%	Original Purchase Price <sup>(2)</sup>	%
Major Credit Cards	19,220	55	% \$54,375,091	69	% \$2,294,576	67
Consumer Finance	6,704	19	8,662,030	11	149,220	4
Private Label Credit Cards	8,418	24	11,446,685	14	856,010	25
Auto Deficiency	669	2	4,743,406	6	141,624	4
Total	35,011	100	% \$79,227,212	100	% \$3,441,430	100

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

(2) "Original Purchase Price" represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables and has not been reduced by any adjustments, including payments and buybacks.

The following table summarizes our life to date domestic portfolio purchases as of March 31, 2014, into the delinquency categories represented (amounts in thousands).

Account Type	No. of Accounts	%	Face Value <sup>(1)</sup>	%	Original Purchase Price <sup>(2)</sup>	%
Fresh	3,375	10	% \$7,965,408	10	% \$866,279	25
Primary	4,814	14	9,193,673	12	504,570	15
Secondary	6,302	18	9,346,529	12	395,334	11
Tertiary	4,321	12	6,321,309	8	105,806	3
Bankruptcy Trustees	5,595	16	23,054,136	29	1,403,635	41
Other	10,604	30	23,346,157	29	165,806	5
Total	35,011	100	% \$79,227,212	100	% \$3,441,430	100

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

(2) "Original Purchase Price" represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables and has not been reduced by any adjustments, including payments and buybacks.



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We 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 domestic portfolio purchases as of March 31, 2014, by geographic location (amounts in thousands):

Geographic Distribution	No. of Accounts		Face Value <sup>(1)</sup>		Original Purchase Price <sup>(2)</sup>		
		%		%		%	%
California	3,777	11	% \$10,486,895	13	% \$ 434,197	13	%
Texas	4,862	14	8,560,640	11	298,005	9	
Florida	2,789	8	7,466,473	9	306,508	9	
New York	1,979	6	4,634,669	6	178,355	5	
Ohio	1,637	5	2,977,400	4	143,251	4	
Pennsylvania	1,256	4	2,881,721	4	123,527	4	
Illinois	1,327	4	2,837,952	4	136,042	4	
North Carolina	1,259	4	2,782,437	4	119,931	3	
Georgia	1,150	3	2,618,798	3	136,028	4	
Michigan	938	3	2,176,547	3	103,878	3	
New Jersey	817	2	2,142,912	3	96,623	3	
Arizona	640	2	1,723,415	2	74,295	2	
Virginia	924	3	1,672,537	2	80,097	2	
Tennessee	753	2	1,646,478	2	81,246	2	
Massachusetts	598	2	1,451,393	2	61,112	2	
Indiana	641	2	1,425,072	2	75,700	2	
Other <sup>(3)</sup>	9,664	25	21,741,873	26	992,635	29	
Total	35,011	100	% \$79,227,212	100	% \$ 3,441,430	100	%

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

(2) "Original Purchase Price" represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables and has not been reduced by any adjustments, including payments and buybacks.

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

## Collections Productivity

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

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

	Core cash collections <sup>(1)</sup>				
	2014	2013 <sup>(5)</sup>	2012	2011	2010
Q1	\$223	\$193	\$166	\$162	\$135
Q2	—	190	169	154	127
Q3	—	191	171	152	127
Q4	—	190	150	137	129

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	Total cash collections <sup>(2)</sup>				
	2014	2013 <sup>(5)</sup>	2012	2011	2010
Q1	\$337	\$304	\$258	\$241	\$182
Q2	—	315	275	243	188
Q3	—	310	279	249	200
Q4	—	308	245	228	204
	Non-legal cash collections <sup>(3)</sup>				
	2014	2013 <sup>(5)</sup>	2012	2011	2010
Q1	\$282	\$251	\$216	\$204	\$154
Q2	—	261	225	205	160
Q3	—	259	230	212	170
Q4	—	256	200	194	174
	Non-legal/non-bankruptcy cash collections <sup>(4)</sup>				
	2014	2013 <sup>(5)</sup>	2012	2011	2010
Q1	\$167	\$140	\$125	\$125	\$106
Q2	—	137	120	116	100
Q3	—	140	122	115	97
Q4	—	138	105	103	98

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

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

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

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

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

(5) Due to a change in our calculation methodology, figures for the first and second quarter of 2013 have been revised to conform to current period presentation.

### Liquidity and Capital Resources

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

As of March 31, 2014, cash and cash equivalents totaled \$191.8 million, compared to \$162.0 million at December 31, 2013. We had no debt outstanding on the revolving portion of our credit facility which represents availability of \$435.5 million (subject to the borrowing base and applicable debt covenants). In addition, at March 31, 2014 we had \$192.5 million outstanding on the floating rate term loan portion of our credit facility.

We have in place forward flow commitments for the purchase of defaulted consumer receivables over the next twelve months of approximately \$198.9 million as of March 31, 2014. 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 facility will be sufficient to finance our operations, planned capital expenditures, the aforementioned forward flow commitments, and additional, normal-course portfolio purchasing during the next twelve months. Business acquisitions or higher than normal levels of portfolio purchasing could require additional financing from other sources. We continue to prepare to finance

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our announced acquisition of Aktiv with a combination of cash, \$170 million of seller financing, and \$650 million from our domestic revolving credit facility. We may choose to use other debt instruments to expand, replace, or pay down any of these financing options.

For domestic income tax purposes, we recognize revenue using the cost recovery method with respect to our debt purchasing business. The Internal Revenue Service (“IRS”) has audited and issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006 and 2005. It has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income, and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. We have filed a petition in the United States Tax Court and believe we have sufficient support for the technical merits of our positions. If we are unsuccessful in the United States Tax Court, we can appeal to the federal Circuit Court of Appeals. If judicial appeals prove unsuccessful, we may ultimately be required to pay the related deferred taxes, and possibly interest and penalties, which may require additional financing from other sources. In accordance with the Internal Revenue Code, underpayments of federal tax accrue interest, compounded daily, at the applicable federal short term rate plus three percentage points. An additional two percentage points applies to large corporate underpayments of \$100,000 or more to periods after the applicable date as defined in the Internal Revenue Code. Deferred taxes related to this item were \$219.1 million at March 31, 2014.

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

Our operating activities provided cash of \$49.3 million and \$58.1 million for the three months ended March 31, 2014 and 2013, 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 decrease was due in part to a decrease in accrued compensation as well as net changes in other accounts related to our operating activities partially offset by an increase in deferred tax expense as well as an increase in net income to \$40.8 million for the three months ended March 31, 2014, from \$38.5 million for the three months ended March 31, 2013.

Our investing activities used cash of \$21.1 million and \$94.2 million during the three months ended March 31, 2014 and 2013, 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 and purchases of property and equipment. The majority of the decrease was due to a decrease in acquisitions of finance receivables, from \$212.4 million for the three months ended March 31, 2013 to \$150.1 million for the three months ended March 31, 2014, partially offset by an increase in collections applied to principal on finance receivables from \$120.7 million for the three months ended March 31, 2013 to \$135.4 million for the three months ended March 31, 2014.

Our financing activities provided cash of \$1.6 million and \$42.7 million during the three months ended March 31, 2014 and 2013, respectively. Cash is primarily provided by draws on our line of credit. Cash used in financing activities is primarily driven by principal payments on our line of credit, principal payments on long-term debt and repurchases of our common stock. The decrease was due primarily due to changes in the net borrowings on our credit facility. We had net borrowings on our credit facility of \$45.0 million during the three months ended March 31, 2013 compared to net borrowings of \$0 during the three months ended March 31, 2014.

Cash paid for interest was \$5.7 million and \$2.7 million for the three months ended March 31, 2014 and 2013, respectively. Interest was paid on our revolving credit facility, long-term debt and convertible debt. Cash paid for income taxes was \$1.9 million and \$2.9 million for the three months ended March 31, 2014 and 2013, respectively.

**Borrowings**

On December 19, 2012, we entered into a credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the “Credit Agreement”). The Credit Agreement was amended and modified during 2013 and the first quarter of 2014. Under the terms of the Credit Agreement, as amended and modified, the credit facility includes an aggregate principal amount available of \$628.0 million (subject to the borrowing base and applicable debt covenants), which consists of a \$192.5 million floating rate term loan that amortizes and matures on

December 19, 2017 and a \$435.5 million revolving credit facility that matures on December 19, 2017. Our revolving credit facility includes a \$20.0 million swingline loan sublimit, a \$20.0 million letter of credit sublimit and a \$20.0 million alternative currency equivalent sublimit. It also contains an accordion loan feature that allows us to request an increase of up to \$214.5 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.

On April 1, 2014, we entered into a Lender Joinder Agreement and Lender Commitment Agreement (collectively, the “Commitment Increase Agreements”) to exercise this accordion feature. The Commitment Increase Agreements expanded the maximum amount of revolving credit availability under the Credit Agreement by \$214.5 million, elevated the revolving credit

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commitments of certain lenders and added three new lenders to the Credit Agreement. Given effect to the \$214.5 million increase in the amount of revolving credit availability pursuant to the Commitment Increase Agreements, the total credit facility under the Credit Agreement now includes an aggregate principal amount of \$842.5 million (subject to compliance with a borrowing base), which consists of (i) a fully-funded \$192.5 million term loan, (ii) a \$630 million domestic revolving credit facility, of which \$630 million is available to be drawn, and (iii) a \$20 million multi-currency revolving credit facility, all of which is available to be drawn. The facilities all mature on December 19, 2017. The Credit Agreement is secured by a first priority lien on substantially all of our assets.

Borrowings outstanding on our credit facility at March 31, 2014 consisted of \$192.5 million outstanding on the term loan with an annual interest rate as of March 31, 2014 of 2.65%. The revolving credit facility also bears an unused line fee of 0.375% per annum, payable quarterly in arrears.

On August 13, 2013, we completed the private offering of \$287.5 million in aggregate principal amount of our 3.00% Convertible Senior Notes due 2020 (the "Notes"). The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between us and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are senior unsecured obligations of the Company. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year, beginning as of February 1, 2014.

We were in compliance with all covenants of our credit facilities and the Indenture as of March 31, 2014 and December 31, 2013.

Undistributed Earnings of Foreign Subsidiaries

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

Stockholders' Equity

Stockholders' equity was \$910.2 million at March 31, 2014 and \$869.5 million at December 31, 2013. The increase was primarily attributable to \$40.8 million in net income attributable to PRA during the three months ended March 31, 2014.

Contractual Obligations

Our contractual obligations as of March 31, 2014 were as follows (amounts in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating Leases	\$29,704	\$6,645	\$11,654	\$7,731	\$3,674
Line of Credit <sup>(1)</sup>	6,143	1,652	3,266	1,225	—
Long-term Debt <sup>(2)</sup>	557,533	25,445	70,246	161,404	300,438
Purchase Commitments <sup>(3)</sup>	220,427	218,036	2,178	213	—
Employment Agreements	7,517	7,517	—	—	—
Total	\$821,324	\$259,295	\$87,344	\$170,573	\$304,112

(1) This amount includes estimated unused line fees due on the line of credit and assumes that the balance on the line of credit remains constant from the March 31, 2014 balance of \$0.0 million.

(2) This amount includes scheduled interest and principal payments on our term loan and our convertible debt.

(3) This amount includes the maximum remaining amount to be purchased under forward flow contracts for the purchase of charged-off consumer debt in the amount of approximately \$198.9 million.

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, as amended (the "Exchange Act").





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Recent Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted and prior periods should not be adjusted. We adopted ASU 2013-02 in the first quarter of 2014 which had no material impact on our consolidated financial statements.

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### Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements of our 2013 Annual Report on Form 10-K filed on February 28, 2014. Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets, and liabilities.

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

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

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

### Revenue Recognition - Finance Receivables

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

Each static pool is recorded at cost, which may include certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, payments applied to principal and loss provision. Once a static pool is established for a calendar quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30, utilizing the interest method, initially freezes the yield, estimated when the accounts are purchased, as the basis for subsequent impairment testing. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using our proprietary collection models. Income on finance receivables is accrued quarterly based on each static pool's effective yield. Significant increases in expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over a pool's remaining life. Any increase to the yield then becomes the new benchmark for impairment testing. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and is shown as a reduction in revenue in the consolidated income statements with a

corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheets. Cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as principal amortization). Likewise, cash flows that are less than the interest accrual will accrete the carrying balance. Generally, we do not record accretion in the first six to twelve months of the estimated life of the pool; accordingly, we utilize either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Under the cost recovery method, no revenue is recognized until we have fully collected the cost of the pool, 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 also use the cost recovery method when collections on a particular pool of accounts cannot be reasonably estimated.

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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.

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

We implement the accounting for income recognized on finance receivables under ASC 310-30 as follows. We create each accounting pool using our projections of estimated cash flows and expected economic life. We then compute the effective yield that fully amortizes the pool over a reasonable expectation of its economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, we balance those results to the data contained in our proprietary models to ensure accuracy, then review each pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), regularly re-forecasting future cash flows utilizing our statistical models. The review process is primarily performed by our finance staff; however, our operational and statistical staff is also involved, providing updated statistical input and cash projections to the finance staff. If there is a significant increase in expected cash flows, we will recognize the effect of the increase prospectively through an increase in yield. If a valuation allowance had been previously recognized for that pool, the allowance is reversed before recording any prospective yield adjustments. If the over performance is considered more of an acceleration of cash flows (a timing difference), we will: a) adjust estimated future cash flows downward which effectively extends the amortization period to fall within a reasonable expectation of the pool's economic life, b) adjust future cash flow projections as noted previously coupled with an increase in yield in order for the amortization period to fall within a reasonable expectation of the pool's economic life, or c) take no action at all if the amortization period falls within a reasonable expectation of the pool's expected economic life. To the extent there is underperformance, 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.

## Valuation of Acquired Intangibles and Goodwill

In accordance with ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350"), we amortize intangible assets over their estimated useful lives. Goodwill, pursuant to ASC 350, is not amortized but rather is reviewed for impairment annually or earlier if indicators of potential impairment exist. The review of goodwill for potential impairment is highly subjective and requires that: (1) goodwill is allocated to various reporting units of our business to which it relates; and (2) we estimate the fair value of those reporting units to which the goodwill relates and then determine the book value of those reporting units. During the review, we also consider qualitative factors that may have an impact on the final assessment regarding potential impairment. If the estimated fair value of reporting units with allocated goodwill is determined to be less than their book value, we are required to estimate the fair value of all identifiable assets and liabilities of those reporting units in a manner similar to a purchase price allocation for an acquired business.

This may require independent valuation of certain unrecognized assets. Once this process is complete, the amount of goodwill impairment, if any, can be determined.

## Income Taxes

We follow the guidance of FASB ASC Topic 740 "Income Taxes" ("ASC 740") as it relates to the provision for income taxes and uncertainty in income taxes. Accordingly, we record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for

operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The evaluation of a tax position in accordance with the guidance is a two-step process. The first step is recognition: the enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

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

For domestic income tax purposes, we recognize revenue using the cost recovery method with respect to our debt purchasing business. We believe cost recovery to be an acceptable method for companies in the bad debt purchasing industry. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

We are subject to interest rate risk from outstanding borrowings on our variable rate credit facility. We assess this interest rate risk by estimating the increase in interest expense that would occur due to an increase in short-term interest rates. The average borrowings on our variable rate credit facility were \$195.0 million and \$359.6 million for the three months ended March 31, 2014 and 2013, respectively. Assuming a 200 basis point increase in interest rates, for example, interest expense would have increased by \$1.0 million and \$1.8 million for the three months ended March 31, 2014 and 2013, respectively, resulting in a decrease in income before income taxes of 1.4% and 2.8%, respectively. As of March 31, 2014 and December 31, 2013, we had \$192.5 million and \$195.0 million, respectively, of variable rate debt outstanding on our credit facility. We did not have any other variable rate debt outstanding as of March 31, 2014. We had no interest rate hedging programs in place for the three months ended March 31, 2014 and 2013. Significant increases in future interest rates on our variable rate credit facility could lead to a material decrease in future earnings assuming all other factors remained constant.

Currency Exchange Risk

We are subject to currency exchange risk from our UK subsidiary, PRA UK. It conducts business in the Pound Sterling, but we report our financial results in U.S. dollars. Significant fluctuations in exchange rates between the U.S. dollar and the Pound Sterling may adversely affect our net income. We may or may not implement a hedging program related to currency exchange rate fluctuation. In the three months ended March 31, 2014 and 2013, PRA UK revenues were 1.4% and 1.6% of consolidated revenues, respectively. We had no currency exchange risk hedging programs in place for the three months ended March 31, 2014 or 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial and Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, controls may become inadequate because of changes in conditions and the degree of compliance with the policies or procedures may deteriorate. We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial and Administrative Officer have concluded that, as of March 31, 2014, 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, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

No legal proceedings were commenced during the period covered by this report that the Company believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations and cash



flows. Refer to Note 9 “Commitments and Contingencies” of our Consolidated Financial Statements for material developments with respect to legal proceedings previously disclosed with respect to prior periods.

#### Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors listed under Part I, Item 1A of our 2013 Annual Report on Form 10-K filed on February 28, 2014, together with all other information included herein 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.

Our potential acquisition of Aktiv exposes us to risks which could harm our business, operating results, and financial condition.

On February 19, 2014, we entered into an agreement pursuant to which we are to acquire the equity of Aktiv. The announcement and pendency of the Aktiv acquisition could cause disruptions in and create uncertainty surrounding our business. In addition, we have incurred, and will continue to incur, significant costs in connection with the Aktiv acquisition and we have diverted, and will continue to divert, significant management resources in an effort to complete the Aktiv acquisition. This could have a negative impact on our ability to manage our existing operations or pursue alternative strategic transactions, which could have a negative effect on our business, results of operations and financial condition.

The Aktiv acquisition is expected to close in the second or third quarter of 2014 upon successful completion of customary closing conditions, including approval of the Aktiv acquisition by applicable competition authorities and our ability to obtain the necessary financing to consummate the Aktiv acquisition. No assurances can be given that we will be able to close the Aktiv acquisition on the terms and conditions contemplated by the Aktiv agreement in accordance with the anticipated timing, or at all. If the Aktiv acquisition is not consummated, investors could react negatively and could become concerned about our growth prospects over the next several years, which could negatively impact the price of our common stock.

We expect to finance the Aktiv acquisition with a combination of cash, seller financing and funding from our domestic revolving credit facility. Additionally, we have agreed to assume Aktiv's current corporate debt.

As a result of the financing of the Aktiv acquisition, we expect our debt to increase significantly, both in terms of the total amount of our borrowings and as a percentage of the equity of the combined company. This increase in our indebtedness could increase our vulnerability to general adverse economic and industry conditions, make it more difficult for us to satisfy obligations with respect to our indebtedness, require us to dedicate a substantial portion of our cash flow from operations to service payments on our debt, limit our flexibility to react to changes in our business and the industry in which we operate, place us at a competitive disadvantage with our competitors that have less debt and limit our ability to borrow additional funds.

Other than our existing UK business, PRA UK, which we acquired in 2012, we have limited operating experience in international markets. If consummated, the international nature of the Aktiv acquisition expands the risks and uncertainties described elsewhere in this section, including the following:

- changes in local political, economic, social and labor conditions in Europe and Canada;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the United States;
- currency exchange rate fluctuations and our ability to manage these fluctuations through a foreign exchange risk management program;
- different employee/employer relationships, laws and regulations and existence of employment tribunals;
- laws and regulations imposed by foreign governments, including those relating to governing data security, sharing and transfer;
- potentially adverse tax consequences resulting from changes in tax laws in the foreign jurisdictions in which we operate;
- logistical, communications and other challenges caused by distance and cultural and language differences, making it harder to do business in certain jurisdictions; and
- risks related to crimes, strikes, riots, civil disturbances, terrorist attacks and wars in a variety of new geographical locations.

Any one of these factors could have an adverse effect on our business, results of operations and financial condition.



If we do not successfully integrate Aktiv into our business operations, our business could be adversely affected. Upon the close of the Aktiv acquisition, we will need to successfully integrate the operations of Aktiv with our business operations. Integrating the operations of Aktiv with that of our own will be a complex and time-consuming process. Prior to the Aktiv acquisition, Aktiv operated independently, with its own business, corporate culture, locations, employees and systems. There may be substantial difficulties, costs and delays involved in any integration of the business of Aktiv with that of our own. These may include:

- distracting management from day-to-day operations;
- potential incompatibility of corporate cultures;
- an inability to achieve synergies as planned;
- changes in the combined business due to potential divestitures or other requirements imposed by antitrust regulators;
- costs and delays in implementing common systems and procedures; and
- increased difficulties in managing our business due to the addition of international locations.

Many of these risks may be accentuated because the vast majority of Aktiv's operations, employees and customers are located outside of the United States. Any one or all of these factors may increase operating costs or lower anticipated financial performance. Many of these factors are also outside of our control. Achieving anticipated synergies and the potential benefits underlying our reasons for the Aktiv Acquisition will depend on successful integration of the businesses. The failure to integrate the business operations of Aktiv successfully could have a material adverse effect on our business, financial condition and results of operations.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations, which will be expanded as a result of the Aktiv acquisition, could increase our cost of doing business in international jurisdictions.

Although we currently have international operations, upon the consummation of the Aktiv acquisition, we will operate on an expanded international basis with additional offices or activities in a number of new jurisdictions throughout Europe. We will face increased exposure to risks inherent in conducting business internationally, including compliance with complex foreign and U.S. laws and regulations that apply to our international operations, which could increase our cost of doing business in international jurisdictions. These laws and regulations include anti-corruption laws such as the Foreign Corrupt Practices Act ("FCPA"), the UK Bribery Act of 2010 and other local laws prohibiting corrupt payments to governmental officials, and those related to taxation. The FCPA and similar antibribery laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. The U.K. Bribery Act of 2010 prohibits certain entities from making improper payments to governmental officials and to commercial entities. Given the high level of complexity of these laws, there is a risk that we may inadvertently breach certain provisions of these laws, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. Violations of these laws and regulations could result in fines and penalties; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also adversely affect our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Although we have implemented, and, with respect to new jurisdictions we will enter as a result of the Aktiv acquisition, will implement, policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies.

Exchange rate fluctuations could adversely affect our results of operations and financial position.

Because we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. This exposure is likely to increase as a result of the Aktiv acquisition, as a larger portion of our operating expenses will likely be incurred in non-U.S. dollar currencies. As a result, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our net income. We may or may not implement a hedging program related to currency exchange rate fluctuations. Additionally, if implemented, such hedging programs could expose us to additional risks that could adversely affect our financial condition and results of operations.

We will incur significant transaction, integration and restructuring costs in connection with the Aktiv acquisition.

We will incur significant transaction costs related to the Aktiv acquisition. In addition, the combined business will incur integration and restructuring costs following the completion of the Aktiv acquisition as we integrate the Aktiv businesses with our businesses. Although we expect that the realization of benefits and efficiencies related to the integration of the businesses may offset these costs over time, no assurances can be made that this net benefit will be achieved in the near term, or at all, which could adversely affect our financial condition and results of operations.

A write-off of a significant portion of the goodwill recorded in connection with the Aktiv acquisition would negatively affect the combined company's financial results.

We expect to record a significant amount of goodwill as a result of the Aktiv acquisition. On at least an annual basis, we assess whether there has been an impairment in the value of goodwill. If the carrying value of goodwill exceeds its estimated fair value, impairment is deemed to have occurred, and the carrying value of goodwill is written down to fair value. Under current accounting rules, this would result in a charge to the combined company's operating earnings. Accordingly, any determination requiring the write-off of a significant portion of goodwill recorded in connection with the Aktiv acquisition would negatively affect our results of operations.

The Aktiv acquisition may not close as anticipated.

While we expect that the Aktiv acquisition will close during the second or third quarter of 2014, the closing of the Aktiv acquisition may not occur when anticipated, if at all. The closing of the Aktiv acquisition is subject to, among other things, financial supervisory authority and antitrust approval, certain third-party consents being obtained, the absence of a material adverse change to the assets, liabilities, results of operations or financial condition of Aktiv and its subsidiaries, taken as a whole, and the parties' compliance with other requirements contained in the Agreement. A delay in the closing of the Aktiv acquisition or a failure to consummate the Aktiv acquisition may inhibit our ability to execute our business plan.

Upon the close of the Aktiv acquisition, we may have exposure to additional tax liabilities.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Changes in tax laws or tax rulings may have a significant adverse impact on our effective tax rate. Recent proposals by the current U.S. administration for fundamental U.S. international tax reform, including without limitation provisions that would limit the ability of U.S. multinationals to defer U.S. taxes on foreign income, if enacted, could have a significant adverse impact on our effective tax rate following the Aktiv acquisition.

Prior to the Aktiv acquisition, Aktiv has been a privately-held company and its new obligations of being a part of a public company may require significant resources and management attention.

Upon consummation of the Aktiv acquisition, Aktiv and its subsidiaries will become subsidiaries of our consolidated company and will need to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the SEC and the Public Company Accounting Oversight Board. We will need to ensure that Aktiv establishes and maintains effective disclosure controls as well as internal controls and procedures for financial reporting, and such compliance efforts may be costly and may divert the attention of management.

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

None.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

None.

Item 6. Exhibits

- 10.1 Deed of Novation, Amendment and Restatement, dated May 5, 2014, by and between Geveran Trading Co. Ltd and Portfolio Recovery Associates, Inc., PRA Holding IV, LLC and Tekagel Invest 742 AS.
- 10.2 Novated, Amended and Restated Sale and Purchase Agreement, dated May 5, 2014, for the Sale and Purchase of Aktiv Kapital AS.  
Second Amendment, entered into as of February 19, 2014, to Credit Agreement dated as of December 19, 2012 by and among the Company, the domestic wholly-owned subsidiaries of the Company as guarantors, Bank of America, N.A. as administrative agent, swing line lender, and l/c issuer, Wells Fargo Bank, N.A. and SunTrust Bank as co-syndication agents, KeyBank, National Association, as documentation agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, and SunTrust Robinson Humphrey, Inc. as joint lead arrangers and joint book managers, and the lenders named therein. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on March 20, 2014).
- 10.3
- 31.1 Section 302 Certifications of Chief Executive Officer.
- 31.2 Section 302 Certifications of Chief Financial and Administrative Officer.
- 32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial and Administrative Officer.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
(Registrant)

Date: May 8, 2014

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

Date: May 8, 2014

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)